RATING REPORT

Hi-Tech Lubricants Limited

REPORT DATE:
December 30, 2024

RATING ANALYST:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Stable		Stable	
Rating Date	*December 30, 2024*		*January 18, 2024*	
Rating Action	*Reaffirmed*		*Downgrade*	

COMPANY INFORMATION

Incorporated in 1997	**External auditors:** M/s Riaz Ahmed & Co., Chartered Accountants
Listed Public Limited Company	**Chief Executive Officer:** Mr. Hassan Tahir
Key Shareholders:	**Chairman:** Mr. Shaukat Hassan
Directors and their families – 70.54%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Hi-Tech Lubricants Limited

OVERVIEW OF THE INSTITUTION

Hi-Tech Lubricants Limited (HTL) was established as a partnership firm in March 1997 and reconstituted as Hi-Tech Lubricants (Pvt.) Limited, a private limited company, in 2011. The entity transitioned to a public unlisted company later in the same year and was listed on the Pakistan Stock Exchange in 2016. HTL primarily engages in the production and distribution of lubricants and petroleum products. Since January 2020, it has operated as an OMC under the HTL Fuel Stations brand, importing lubricants from SK Lubricants, South Korea, under the ZIC brand. The registered office is situated in Lahore.

RATING RATIONALE

Company Profile

Hi-Tech Lubricants Limited ("HTL" or "the Company") operates in Pakistan's lubricants and petroleum sectors, primarily through its ZIC-branded products sourced from SK Enmove Co., Ltd., a South Korean manufacturer. Established as the exclusive distributor of ZIC lubricants in Pakistan, HTL has expanded its presence over the years, supplying synthetic and semi-synthetic lubricants for automotive and industrial uses. The Company distributes products domestically via handlers and distributors.

HTL also manages a wholly owned subsidiary, Hi-Tech Blending (Private) Limited (HTBL), which commenced blending operations in 2016. HTBL's blending facility facilitates the production of lubricants from imported bulk materials, which are then packaged locally. Additionally, HTBL produces bottles, cans, and caps for its products, enhancing operational efficiency.

In its pursuit of portfolio diversification, HTBL launched a polymer segment to produce polymer-based products for external customers. HTL further extended its operations by establishing HTL Express Centers in 2017, providing vehicle maintenance services at 13 sites, with plans to expand these centers to 22 by 2025.

In January 2020, HTL entered the petroleum sector, operating as an Oil Marketing Company (OMC) under the HTL Fuel Stations brand. Presently, the Company operates 55 HTL Fuel Stations 40 in Punjab and 15 in Khyber Pakhtunkhwa (KPK) province. Setting up of more fuel stations is planned in both provinces. Revenue of OMC increased by 98% due to this expansion.

Industry Review

In FY24, Pakistan's oil marketing sector faced significant challenges, marked by a notable decline in petroleum product sales. Total sales dropped by 8% year-on-year (YoY) to 15.28 million tons, the lowest since FY06. This downturn was attributed to economic pressures, elevated fuel prices, and competition from smuggled fuel. Despite these challenges, June 2024 saw a temporary recovery, with sales reaching 1.45 million tons, the highest in 19 months, primarily due to reductions in petrol and diesel prices. However, the overall annual performance remained subdued, reflecting the sector's struggle to maintain momentum amid economic headwinds.

Conversely, the lubricant industry demonstrated resilience during FY24. Despite facing inflation, import restrictions, and a downturn in automotive sales, the sector achieved 3% growth. Pakistan State Oil (PSO) notably outperformed the market, recording a 9.7% increase in lubricant sales and capturing a 26.9% market share—a 1.6% rise from the previous year. However, smaller players in the market continued to struggle during the period.

Key Rating Drivers

Business Risk Profile

Sector Risk; Oil Marketing Companies: High

The business risk profile for the OMC sector in Pakistan is assessed as High, reflecting exposure to regulatory oversight, market competition, and macroeconomic volatility. The sector operates in a regulated environment, with pricing and profit margins governed by government policies. Additionally, challenges stemming from currency depreciation, liquidity constraints, and fluctuations in international oil prices elevate the risk profile.

The sector's operational dynamics are shaped by the import-dependent nature of fuel products, exposing OMCs to exchange rate risks and delays in payments under the government's pricing and subsidy mechanisms. Moreover, competition among OMCs in terms of infrastructure investments and market share requires significant capital outlay, which can strain financial flexibility.

Sector Risk; Lubricants: Medium

The business risk profile for Pakistan's lubricant sector is assessed as medium, influenced by stable demand drivers, competitive market dynamics, and exposure to economic fluctuations. The sector benefits from consistent demand across automotive and industrial applications; however, it faces challenges related to raw material costs, currency volatility, and regulatory considerations.

Demand for lubricants is closely linked to the performance of the automotive and industrial sectors. While the automotive industry has shown growth, economic uncertainties and inflationary pressures may affect vehicle sales and, consequently, lubricant consumption. Industrial demand remains steady, though it is susceptible to broader economic conditions.

The market is characterized by the presence of both multinational corporations and local manufacturers, leading to competitive pricing and innovation pressures. Additionally, the prevalence of counterfeit products poses reputational risks and impacts market share for legitimate producers.

The sector relies heavily on imported base oils and additives, making it vulnerable to exchange rate fluctuations and global supply chain disruptions. Regulatory policies, including environmental standards and taxation, also play a significant role in shaping operational frameworks and profitability.

Financial Risk Profile

Profitability

During FY24, the Company reported a 54.6% increase in revenue, driven by a 98% growth in sales revenue from the OMC segment, attributed to higher volumes. However, the gross profit margin declined to 6.02% (FY23: 10.22%) due to the lower-margin nature of OMC products and higher duties on imported finished goods affecting the lubricant segment. Local blending of lubricants, initiated in 1QFY25 with 30% blending achieved, is projected to reach 100% by FY25-end, contributing to improved gross margins of 8.56% in 1QFY25. Despite the lower FY24 gross margins, the net margin improved to 0.46% (FY23: -0.60%), supported by higher dividend income from HTBL, further increasing to 1.17% in 1QFY25. Going forward margins are expected to be supported by increasing local blending of the Company's lubricant products.

Capitalization

The Company's capitalization profile remained manageable, with a mixed trend observed in key metrics. The gearing ratio improved to 0.62x in FY24 (FY23: 0.66x) due to reduced short-term borrowings. Conversely, the leverage ratio increased to 1.29x (FY23: 0.93x) as cashflows were managed through credit lines. In 1QFY25, the gearing ratio rose to 0.68x owing to higher short-term borrowings, while the leverage ratio declined to 1.09x, reflecting a shift in reliance from payables management to borrowings for working capital requirements.

Liquidity

The Company has historically exhibited a constrained liquidity profile, with a four-year average current ratio of 0.96x. Liquidity pressure primarily arises from financial support extended to its subsidiary, HTBL. In FY24, the current ratio improved to 0.88x (FY23: 0.86x) before marginally declining to 0.87x in 1QFY25, as the Company extended further support to its subsidiary.

Coverage

The Company maintained a healthy debt service coverage ratio (DSCR) of 1.67x over the past four years but experienced a decline to 0.36x in FY23. In FY24, DSCR recovered to 1.09x due to increased FFO supported by higher dividends from the subsidiary, HTBL, and further improved to 1.47x in 1QFY25, reflecting enhanced profitability.

Hi-Tech Lubricants Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	1QFY25M
Property, plant and equipment	2,589.50	2,771.81	2,813.05
Right-of-use Assets	605.12	591.49	561.72
Stock-in-trade	1,102.92	1,789.24	1,429.15
Trade debts	159.24	1,019.80	582.09
Short-term Investments	222.58	222.72	217.93
Cash & Bank Balances	239.41	352.42	71.91
Other Assets	1,172.25	961.75	1,436.96
Total Assets	7,395.00	9,010.43	8,413.72
Creditors	532.41	1,939.87	1,178.25
Long-term Debt (incl. current portion)	659.38	662.31	625.49
Short-Term Borrowings	1,851.56	1,777.19	2,100.31
Total Debt	2,510.94	2,439.50	2,725.80
Other Liabilities	528.73	692.69	489.50
Total Liabilities	3,572.08	5,072.06	4,393.55
Paid up Capital	1,392.05	1,392.04	1,392.05
Revenue Reserve	232.35	343.76	2,628.12
Equity (excl. Revaluation Surplus)	3,822.94	3,938.36	4,020.17

Income Statement (PKR Millions)	FY23A	FY24A	1QFY25M
Net Sales	15,531.69	24,016.48	6,988.84
Gross Profit	1,586.71	1,444.66	598.35
Operating Profit	293.44	706.44	231.09
Finance Costs	474.62	544.05	136.55
Profit Before Tax	-181.18	162.39	94.54
Profit After Tax	-93.41	111.40	81.79

Ratio Analysis	FY23A	FY24A	1QFY25M
Gross Margin (%)	10.22%	6.02%	8.56%
Operating Margin (%)	1.89%	2.94%	3.31%
Net Margin (%)	-0.60%	0.46%	1.17%
Funds from Operation (FFO) (PKR Millions)	-206.95	201.07	117.27
FFO to Total Debt* (%)	N/A	8.24%	17.21%
FFO to Long Term Debt* (%)	N/A	30.36%	74.99%
Gearing (x)	0.66	0.62	0.68
Leverage (x)	0.93	1.29	1.09
Debt Servicing Coverage Ratio* (x)	0.36	1.09	1.47
Current Ratio (x)	0.86	0.88	0.87
(Stock in trade + trade debts) / STD (x)	0.68	1.58	0.96
Return on Average Assets* (%)	N/A	1.36%	3.76%
Return on Average Equity* (%)	N/A	2.87%	8.22%
Cash Conversion Cycle (days)	18.52	12.35	11.17

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

Hi-Tech Lubricants Limited

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Hi-Tech Lubricants Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
30-12-2024	A-	A2	Stable	Reaffirmed
18-01-2024	A-	A2	Stable	Downgrade
28-11-2022	A	A2	Stable	Maintained
03-12-2021	A	A2	Positive	Maintained
30-12-2020	A	A2	Stable	Maintained
21-04-2020	A	A2	Rating Watch – Negative	Maintained
12-09-2019	A	A2	Stable	Downgrade
22-02-2018	A	A1	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted	

S.No	Name	Designation	Date
1	Mr. Hisham Iqbal	Senior Manager Financials	4th Dec 2024
2	Mr. Hamza Iqbal	Manager - Financials	