RATING REPORT

Zoom Marketing Oils (Private) Limited

REPORT DATE:
June 07, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB-	A-3
Rating Outlook	Stable	
Rating Date	*7th June'21*	

COMPANY INFORMATION	
Incorporated in 2015	External Auditors: PKF F.R.A.N.T.S
Private Limited Company	Chairman of the Board/CEO: Mr. Sheharyar Arshad
Key Shareholders (More than 5%):	
Ms. Rubina Arshad – 46.6%	
Mr. Sheharyar Arshad – 25.9%	
Mr. Umer Arshad – 27.5%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) https://www.vis.com.pk/kc-meth.aspx

Zoom Marketing Oils (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Zoom Marketing Oils (Pvt.) Limited was incorporated on June 09, 2015 as Private Limited Company. The Company deals in sale and marketing of HSD (High Speed Diesel), PMG (Premier Motor Gasoline), lubricants and other POL products. ZMOPL has capability to procure oil from local refineries as well as through imports.

Profile of the CEO

Mr. Sheharyar Arshad serves as the Chief Executive Officer. He is currently overseeing the retail network expansion project and transformation of the Company. He holds a graduate degree in Business Management and Economics from University of Miami, Florida, USA.

Financial Snapshot

Total Equity: end-HY21: Rs. 614m; end-FY20: Rs. 210m; end-FY19: Rs.194.8m; end-FY18: Rs. 331.7m

Assets: end-HY21: Rs. 2.5b; end-FY20: Rs. 2.1b; end-FY19: Rs. 1.4b; end-FY18: Rs. 1.0b

Profit After Tax: HY21: Rs. 132.8m; end-FY20: Rs.(91.8m); FY19: Rs. (136.8m); FY18: Rs.(6.8m)

RATING RATIONALE

Rating Rationale

The ratings assigned to Zoom Marketing Oils (Pvt.) Limited (ZMOPL) take into account the company's presence in petroleum industry, diversified product range and reasonable experience of management team in the relevant industry. Ratings reflect weakening in industry dynamics owing to sizable volatility present coupled with ZMOPL's import based model leading to increased market risk; both factors have an impact on the business risk profile of the company. Further, sector's high regulatory risk involving the determination of final retail prices by government authorities has been incorporated in the assigned rating. In the short to medium-term the demand driven risk is slightly escalated on account of ongoing pandemic as automobile industry has been one of the hardest hit sectors. Ratings factor in weak financial risk profile reflected by depressed margins and profitability indicators resulting in weakening of liquidity position as evident from negative coverages during FY20.

The ongoing year (FY21) marked improvement in the operational performance of the company supported by positive momentum in earnings, improved margins and rescued profitability and liquidity metrics. With minimal reliance on long-term debt, company's cash flows in terms of long-term obligations remained significant along with scaled back gearing to manageable levels. However, debt leverage still remains on a higher side owing to substantial payables and short-term funding present. Key risk to performance in FY22 will be from successive waves of the corona virus pandemic although the same is considered manageable given lockdown is being relaxed and vaccine roll out has initiated. The ratings are dependent on industry's performance, improvement of company's market position, maintenance of margins and leverage indicators, realization of projected targets coupled with evolution of sector dynamics post ongoing pandemic.

Licensing requirements and storages: Zoom Marketing (ZMOPL) as an OMC has been in the business of trading of petroleum products for around four years. The company deals in sale and marketing of HSD (High Speed Diesel) and PMG (Premier Motor Gasoline), lubricants and other POL products. ZMOPL procures oil both from local refineries and through imports; local suppliers include PARCO, BYCO and Attock Refinery etc. while imports are made from Vitol Bahrain and Noir Energy Dubai,UAE. The company is in the process of expanding its retail network to improve market penetration; one storage depot of 3,200 MT has already been developed at Tehsil Pattoki, District Kasur.

Given, the current storage capacity is not sufficient to cater entire inventory requirement, therefore, around 15% of stock was kept under hospitality arrangements with Fauji Oil Termianl,(FTTL), Hascol Terminal Limited (HTL) Karachi and Be Energy Limited against which ZMOPL had to pay hospitality charges of. Rs.0.4/liter. The total hospitality charges amounted to Rs. 28.4m in FY20. The company's additional storage of around 30,000 MT at Machike Punjab is under construction which is expected to be completed within a period of

4 months; the same will help in avoiding the service cost paid along with generation of hospitality income going forward. In addition the management plans to construct a storage of 10,000 MT capacity in the province of Sindh at Daulatpur which is expected to be completed within a time span of 6 to 8 months. In this regard, land has already been acquired and necessary regulatory approvals are underway. Further as per the management, the company is committed to construct a storage terminal in the province of Khyberpakhtukwa (KPK). The company currently has 55 outlets in the major cities of Punjab and plans to add 15 more stations to close the ongoing year with 70 outlets. The company currently has petrol stations in Punjab province only & is committed to diversify by expanding its geographical base to other provinces and is targeted to add 500 more sites in coming years. Moreover, ZMOPL also has the sole marketing and distribution rights of Lotus International, a Polish brand dealing in sale of lubricants. ZMOPL's operating license granted by OGRA expired in Aug'20; the company has applied for further extension / grant of permanent license which is pending for approval. As per management, the license is expected to be renewed/ permanent within 2-3 months.

Industry and Business Dynamics; COVID-19 has considerably impacted transportation industry: The top five players, namely PSO, Shell, Total Parco, Attock, Hascol account for about 70% of the petroleum sector. The major consumption of the oil and petroleum products has been by transportation (78%), power (11%), industry (7%), government (2%), households (0.3%) and then agriculture (0.1%). Given transportation segment is the largest consumer of the petroleum products, offtake of the sector strongly correlates with the transportation activity which was adversely impacted by the onslaught of COVID-19. In Pakistan, OMCs operate under the Ministry of Petroleum & Natural Resources (MP&R) and OGRA. The prices of petroleum products are regulated by the aforementioned authorities so the industry faces high regulatory risk which can reflect sizably on sector margins and profitability; the prices are correlated with the price of oil in the Middle Eastern market. This correlation makes the profitability of the petroleum sector in Pakistan highly dependent on the international factors. By mid-April'20, countries with complete lock down faced 25% decline in their energy demand per week and countries with partial lock down faced 18% decline in energy demand per week according to British Petroleum statistics. During 1QCY20, global energy consumption fell by 3.8%.

Over the last ten years, Pakistan has been facing energy crisis in terms of supply and demand gap. The net profit margin tilted negative at 3.3% for OMCs in Pakistan for FY19 owing to overall dampened economic activity. Pakistan has sizable reliance on thermal energy generation with a share of 59%; meanwhile, almost 50% of overall energy generation is oil based. Lately, due to drop in international oil prices amid COVID in line with conflict between OPEC and NON-OPEC producers, the operational performance of OMCs has weakened. The cycle is however, going back to normal as the lockdown restrictions have been lifted and oil prices have gained stability in the international market.

Profitability metrics exhibited upward trajectory; margins increased during the period under review despite COVID: The onslaught of COVID-19 pandemic towards end-3QFY20 brought the transportation sector almost to a standstill, hence escalating the revenue depression for small companies in comparison to already established market

leaders. The company's net sales increased by around 19% to Rs. 5.2b during FY20, in comparison to Rs. 4.4b in the preceding year primarily as an outcome of increase in volumetric sales and the overall stability of the exchange rates. The company has some revenue diversification as petrol comprise almost three-fourth of the total revenue; meanwhile high speed diesel (HSD) constitutes the remaining. The lubricant segment has not picked pace yet contributing only less than 1% of sales; however, the same has the potential to serve significant revenue diversification going forward. The company imports around 80% of its petroleum products; given import hedging is not allowed for the aforementioned product mix, ZMOPL is exposed to significant exchange rate movements just like the entire OMC sector. OGRA sets final retail price at which the petroleum products are sold in the local market; however, the purchase price in the global market is determined by equilibrium of demand and supply forces causing a significant price differential impacting the margins. Therefore, the relative stable forex position reflected positively on gross margins of the company; the same improved to 1.0% in FY20 as compared to negative in the prior year.

The operating expenses were largely rationalized as they remained at prior year's level of Rs. 81.1m (FY19: 81.2m) in spite of growth in business revenues in FY20. The decline was mainly manifested in rent, power and fee & subscription expenses although staff related expenses and depreciation were recorded on a higher side. On the other hand, selling and distribution cost increased to Rs. 39.1m (FY19: Rs. 30.4m) owing to higher depreciation charge as a result of application of IFRS-16 that requires depreciation expenses to be charged on right of use assets as well. The other expenses declined to Rs. 12.9m (FY19: Rs. 16.4m) owing to lower exchange rate losses recorded given relatively reduced unfavorable forex movements. On the contrary, other income also reduced to Rs. 26.1m (FY19: Rs. 35.6m) as a result of lower dealers joining fee received during FY20. Given sizable increase in commercial borrowings on account of capacity enhancements and higher utilization of short-term funding, the finance cost increased significantly to Rs. 72.9m (FY19: Rs. 4.2m) during the outgoing year. As a combined impact of improvement in scale of operations, recovery of margins and streamlined operating expenses and rationalized finance cost, the quantum of loss was recorded lower at 91.8m (FY19: (Rs. 136.8m)) during FY20.

The profitability indicators of the company exhibited positive trajectory in HY21 with the company reporting profit of Rs. 132.8m from a topline of Rs. 3.0b owing to improvement in margins to 6.5%. The noteworthy improvement in margins was a function of plunge in oil prices as U.S. crude nose-dived into negative territory and Brent dropped below $20/ barrel, amid COVID-19 pandemic and a price war between oil giants Saudi Arabia and Russia. In addition, operating expenses have been further rationalized and were reported lower at Rs. 39.0m during HY21. Finance cost also declined primarily as an outcome of reduction in benchmark rates during the review period. Going forward, the management expects the company to close the current year at Rs.7.0b with margins expected at 3.5%; the revenue has been scaled down from the projected figure of Rs. 8.4 shared initially. The expected volumetric growth in sales is projected to bode well for profitability over the rating horizon. The management plans to add more retail outlets that will be operated by the company on its own along with some franchised based outlets; the same is expected to have a positive impact on profitability as the franchisee margin would be eliminated.

Liquidity profile remained weak in FY20 but the situation is projected to improve going forward on account of improvement in profitability indicators: : Liquidity profile of the company could not present a stable position during FY20 on account of incurrence of net loss, although the quantum of loss declined considerably, given funds flow from operations (FFO) was still negative. However, a turnaround in the liquidity position was witnessed during HY21 as FFO was reported at Rs. 147.0m in line with improvement in scale of operations along with improvement in margins. Subsequently, FFO to total debt and FFO to long-term debt stood at 0.61x and 65.3x at end-HY21. In line with negative FFO, debt servicing coverage ratio (DSCR) was negative during FY20; however, the same stood at healthy 4.6x at end-HY21.

Stock in trade was recorded lower by end-HY20 as the company was meeting its inventory demand through precise sale projections in order to lower the cost associated with holding higher inventory levels. Around 16% of the company's inventory was held by third parties; stock in trade constituted 78% of petrol, 12% of HSD and around 10% of lubricants at end-FY20. Advances, prepayments and other receivables stood lower mainly on account of recovery of income tax from the government coupled with reduced bank margin against letters of credit. Trade debts were recorded higher during the period under review in line with increased scale of operations; however the profile of receivables was satisfactory with less than 5% of receivables falling due within over six months bracket at end-HY21. At end-FY20, around 27% of the overdue receivables pertained to related parties, two petrol stations owned by the sponsors of the company. The aging of receivables due from related parties was adequate as only 1% of receivables were overdue for more than three months. The aggregate maximum outstanding balance receivable from related parties at any time in FY20 by reference to month end balances was recorded at Rs. 1.0b (FY19: Rs. 430.6m). Furthermore, the company booked a provision for expected credit losses amounting to Rs. 2.4m during the outgoing year.

Trade payables were recorded higher on timeline basis, majority of them pertained advances received from customers and import bills payable. In addition, the company has procured funds from related parties amounting to Rs. 385.1m (FY20: 665.2m; FY19: 253.6m) at end-HY21; the amount is an interest fee temporary financial support availed from related parties. As a result, ZMOPL's current ratio remained at 0.77x (FY20: 0.554x; FY19: 0.55x) at end-HYFY21. The company's current ratio is projected to increase to 0.87x by end-FY21 in line with growth in current assets including stock in trade due to forecasted increase in sales. The short-term financing requirements include internally generated profits and financing available from a commercial bank amounting to Rs. 1.2b out of which Rs. 318.0m was unutilized at end-FY20. Capex amounting to Rs. 57.3m was made during FY20, which majorly encompasses investment in fuel dispensers, filling stations signages and motor vehicles as part of ongoing distribution channel expansion. Given increase in profitability, liquidity position is projected to improve further, going forward.

Leveraged Capital Structure: The equity base of the company took a slight dent during the outgoing year owing to net loss reported during FY20; however, the situation improved during HY21 as a result of positive bottom line. There has been a sizable tilt in the debt

matrix of the company as the long-term debt now constitutes only less than 1% of the total credit procured at end-HYFY21 as compared to 27% at end-FY20. Given sizable reduction in the long-term funding, gearing and leverage indicators have improved on a timeline basis. Going forward, the company plans to add 30,000 MT of storage at Machike with total capital expenditure projected at Rs. 1.2b; out of the total capex ZOMPL plans to obtain long-term loan to the tune of Rs. 400m while the remaining will be financed through further equity by sponsors and internally generated funds. With successful continuation of shift in business model entailing low working capital requirement along with reinstatement of positive momentum in revenues aiding equity augmentation; the same is expected to largely offset the impact of incremental long-term borrowing procurement, therefore the leverage indicators are expected to increase only marginally at end-FY22. The company also plans to explore other avenues for equity injection including initial public offering (IPO); however the timeline for the same has not yet been finalized.

Zoom Marketing Oils (Pvt.) Limited — Annexure I

(Rs. in million)

BALANCE SHEET	June 30, 2018	June 30, 2019	June 30, 2020	Dec 31, 2020
Non-Current Assets	469.0	718.3	1,181.7	1,133.6
Stock-in-Trade	308.6	79.3	247.6	220.1
Trade Debts	36.5	138.8	358.8	443.7
Advances, prepayments and other receivable	178.8	371.4	213.2	168.0
Cash & Bank Balances	0.9	22.4	6.9	13.2
Total Assets	1,030.9	1,361.1	2,109.0	2,541.9
Non-Current Liabilities	1.5	6.5	214.3	96.2
Trade and Other Payables	561.7	424.9	365.6	935.0
Short Term Borrowings	10.6	371.0	573.2	476.2
Long Term Borrowings	0.0	7.9	214.9	4.5
Total Debt	10.6	378.9	788.0	480.7
Total Liabilities	699.3	1,166.3	1899.0	1,927.9
Paid Up Capital	347.0	347.0	454.0	725.0
Tier 1/Total Equity	331.7	194.8	210.0	614.0
INCOME STATEMENT	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**	**Dec 31, 2020**
Net Sales	666.6	4,412.2	5,240.5	3,025.8
Gross Profit	(8.0)	(113.3)	51.7	195.7
Operating Profit/(Loss)	7.0	205.6	(55.2)	174.8
Profit Before Tax	7.0	(209.8)	(128.1)	155.6
Profit After Tax	(6.8)	(136.8)	(91.8)	132.8
FFO	20.6	(190.3)	(53.7)	147.0
RATIO ANALYSIS	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**	**Dec 31, 2020**
Gross Margin (%)	(1.2)	(2.7)	1.0	6.5
Current Ratio (x)	0.81	0.55	0.55	0.77
FFO to Total Debt (x)	1.94	(0.50)	(0.07)	0.61
FFO to Long Term Debt (x)	-	(24.1)	(0.25)	65.3
Debt Service Coverage Ratio (x)	446.50	(70.43)	(0.28)	4.63
ROAA (%)	(0.5)	(11.4)	(5.3)	11.4
ROAE (%)	(1.6)	(52.0)	(45.4)	64.4
Gearing (x)	0.03	1.94	3.75	0.78
Debt Leverage (x)	2.11	5.99	9.04	3.14
Stock+ Trade debts/ Short-term Borrowings (x)	32.5	0.59	1.06	1.39

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Zoom Marketing Oils (Pvt.) Limited (ZMOPL)				
Sector	OMC				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	07-06-2021	BBB-	A-3	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.				
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. Sheharyar Arshad	CEO	12-Mar-2021	
	2	Mr. Numan Sattar	CFO	12-Mar-2021	