

RATING REPORT

Zoom Marketing Oils (Private) Limited

REPORT DATE:

February 27, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB-	A-3	BBB-	A-3
Rating Date	February 27, 2024		December 12, 2022	
Rating Action	Maintained		Reaffirmed	
Rating Outlook	Positive		Stable	

COMPANY INFORMATION

Incorporated in 2015	External Auditors: PKF F.R.A.N.T. S Chartered Accountants
Private Limited Company	Chairman of the Board/CEO: Mr. Sheharyar Arshad
Key Shareholders (More than 5%):	
Ms. Rubina Arshad – 34.24%	
Mr. Sheharyar Arshad – 32.88%	
Mr. Umer Arshad – 32.88%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: 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>

Zoom Marketing Oils (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Zoom Marketing Oils (Pvt.) Limited was incorporated on June 09, 2015 as Private Limited Company under the repealed Companies Ordinance, 1984 (now the Companies Act 2017). The Company is principally engaged in the procurement, storage and marketing of the petroleum related products. The registered office of the company is located at Ground Floor, 6-A/1, off M.M. Alam Road, Gulberg III, Lahore.

RATING RATIONALE

Zoom Marketing Oils (Pvt.) Limited (ZMOPL) was incorporated in Pakistan on January 9, 2015 as a private limited company in Lahore. The Company is principally engaged in procurement, storage and marketing of petroleum related products namely High Speed Diesel (HSD), Premier Motor Gasoline (PMG), and various lubricants.

The Company operates under the license granted by Oil and Gas Regulatory Authority (OGRA). Currently, the company boasts a cumulative storage capacity of 30,769 metric tons in Punjab, distributed across two locations:

- Pattoki Depot, District Kasur: 3,200 metric tons
- Machikay Depot, District Sheikhpura: 27,569 metric tons

The Company is in the process of setting up additional storage of 3,000 metric tons in Daulatpur to expand their presence in Sindh. Presently, ZMOPL operates a network of 140 retail outlets, mostly in Punjab region out of which 15 are company-managed stations. Under the present storage capacity, the Company has approvals for 442 sites. By year end 2024, management plans to extend the retail sites to 250. The company generates revenue from dealership charges collected from its proprietary fuel stations. Additionally, ZMOPL holds exclusive marketing and distribution rights for Lotus International, a Polish brand specializing in lubricant sales. ZMOPL has introduced its own product line packaged in drums, branded as 'Zoom Oil,' targeting the underexplored lower-end market segment.

Rating Drivers:

Business risk profile stands elevated

The business risk profile of ZMOPL is categorized as high due to its susceptibility to macroeconomic conditions and exposure to foreign exchange fluctuations. Pakistan's petroleum product sales have seen a year-on-year decline. This decline was attributed to sluggish industrial activity, reduced local transport fuel consumption, weak auto sales, and high product prices. Additionally, a sharp appreciation in prices and smuggling of petroleum products from Iran, coupled with a scarcity of foreign exchange for importing raw materials, led factories to reduce their operations. Consequently, petroleum product consumption fell from 22.36 million metric tons in FY2022 to 16.2 million metric tons in FY2023. The decline has continued in the first of FY24, with volumes declining by 15%.

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.

Industry Sales (MT)				
	FY20	FY21	FY22	FY23
Furnace Oil (FO)	2,368,100	3,239,200	4,261,900	2,319,538
High Speed Diesel (HSD)	6,633,200	7,794,900	8,919,100	6,366,118
Motor Spirit (MS)	7,509,700	8,513,100	9,158,200	7,563,674
Total	16,511,000	19,547,200	22,339,200	16,249,330

Volume decline offset by price increase

Products	QTY (Ltr. In M))	FY22		FY23		
		Average Rate	Value (Rs. In M)	QTY (Ltr.)	Average Rate	Value
MOGAS	107.2	130.65	14,016.4	58.8	229	13,515.8
High Speed Diesel	36.3	120.55	4,377.4	30.5	248.9	7,611.2
HOBC	0.099	159.21	15.7	0.232	264.9	61.4
Lubricant			19.8			59.7
Others						288.7
Total Sales	143.6		18,429.4	89.53		21,537.0

Similar to the industry, ZMOPL experienced a decline in volumes. While industry wide MOGAS sales decreased by 17% in FY23, ZMOPL's MOGAS sales dropped by 45%, although retail outlets expanded. HSD volumes also decreased. However, rising product prices contributed to an overall increase in revenues despite the decline in volumes. The pressure on volume sales is anticipated to persist in the current macroeconomic environment.

Operating profitability marred by FX losses

Currency volatility continued to impact operating profitability with FX losses of Rs 712m booked against imported fuel. During FY23, currency devaluation was recorded at 39%. In addition, inflationary pressures also kept administrative costs high. Consequently, the Company reported operating losses of Rs. 127m (FY22: -Rs. 96m) in FY23. To mitigate this, the Company has shifted purchases to local refineries. Currently, about 95% of fuel is being procured locally. We expect margins to improve as reflective in the first four month of FY24.

Net profitability of the Company was supported by other income primarily arising from markup on related party advances. Net profits in FY23 were recorded at Rs. 115m (FY22: Rs. 138m).

Margin uptick to fuel profitability

With the Government increasing the OMC margins from Rs. 5.5 per liter in June 2023 to Rs. 7.87 per liter starting October 2023, we expect margins to improve across the board. In addition, with the expansion of retail outlets, volume additions are expected to improve operational efficiencies and in turn profit margins. During FY23, gross margins hovered around 4%.

Liquidity metrics and debt coverages remain under pressure

Liquidity metrics remained constrained with current ratio further deteriorating to 0.8x at the end of FY23, reflective of a balance sheet mismatch. Subsequently, the Company has re-profiled a portion of short-term debt into long term to correct the mismatch. Consequently, current ratio improved to 1x at end of four month FY24. Liquidity profile is however, supported by positive cash conversion cycle. On account of operating losses, Funds from operations (FFO) remained constrained and coverage including FFO to Long term debt and Debt service Coverage ratio (0.8x) remained under pressure. Recovery of advances to associated concerns will remain important for augmenting liquidity of the Company.

Capitalization profile depicts improvement

Capitalization indicators depict improvement on account of capital injection of Rs. 100m as well as streamlining of working capital facilities. Part repayment of related party advances was directed towards reduction in working capital facilities which facilitated improvement in gearing and leverage ratios which were recorded at 1.28x (FY22: 2.05x) and 2.54x (FY22: 5.23x) respectively. The first four months of FY24 further saw improvement in gearing to 1.2x. Maintaining low gearing and leverage levels remains important for financial risk profile of the Company.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Zoom Marketing Oils (Pvt.) Limited				
Sector	Oil Marketing Company				
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				
	27-02-2024	BBB-	A-3	Positive	Maintained
	12-12-2022	BBB-	A-3	Stable	Reaffirmed
	03-06-2021	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.				
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Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. Numan Sattar	CFO	11-Jan-2024	
	2	Mr. Sohail Abid	Manager Accounts		