ZOOM MARKETING OILS (PRIVATE) LIMITED

Chairman and Chief Executive: Mr. Sheharyar Arshad

Analysts:
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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	6MFY25M
Net Sales	21,532.86	25,490.71	13,550.69
Profit Before Tax	180.23	640.69	110.62
Profit After Tax	115.11	382.91	-122.78
Paid up Capital	1,100.00	1,100.00	1,100.00
Equity (excl. Revaluation Surplus)	1,255.77	1,638.68	1,515.92
Total Debt	1,613.42	710.62	1,105.72
Leverage (x)	2.54	2.47	2.92
Gearing (x)	1.28	0.43	0.73
Funds From Operations (FFO)	-38.75	427.64	143.03
FFO/Total Debt (x)	-0.02	0.60	0.26
Net Margin (%)	1%	2%	-1%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	BBB-	A3	BBB-	A3
RATING OUTLOOK/ WATCH	Positive		Positive	
RATING ACTION	Reaffirmed		Maintained	
RATING DATE	April 17, 2025		February 27, 2024	

RATING RATIONALE

The reaffirmation of the ratings recognizes the improved leverage profile of the Company. However, the same remains constrained by overall demand which is reflected in fluctuating profitability. The positive outlook is based in the Company's expansion plans which are designed to increase customer off take. The Company operates in a high-risk industry marked by regulatory constraints and macroeconomic exposure.

COMPANY PROFILE

Zoom Marketing Oils (Pvt.) Limited (ZMOPL or the Company) 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 around 33,000 metric tons in Punjab, distributed across two locations:

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

The Company is in the process of establishing an additional storage facility with a capacity of 6,000 metric tons in Daulatpur, aimed at expanding its operational footprint in Sindh. Currently, ZMOPL operates a retail network of 200 fuel outlets, primarily concentrated in Punjab, of which 20 are directly managed by the Company and the rest are franchisee. Based on the existing storage capacity, regulatory approvals have been obtained for up to 442 retail sites. Management has indicated plans to increase the number of operational retail outlets to 250 by end-2025.

Revenue generation includes dealership charges collected from fuel stations. In the lubricants segment, the Company has launched its proprietary brand, "Thrill Lubricant," alongside its existing "Zoom Oil" brand. The blending operations for the lubricant product line have been outsourced to Orient Oils (Pvt.) Limited. Previously, the Company held exclusive marketing and distribution rights for Lotus International, a Polish lubricant brand; however, due to the assessed lack of commercial viability, the arrangement was discontinued in favor of launching an in-house product line.

GOVERNANCE

ZMOPL is led by Chairman and CEO Mr. Sheharyar Arshad. The Company's governance structure is characterized by significant family ownership, with Ms. Rubina Arshad holding 34.24%, while both Mr. Sheharyar Arshad and Mr. Umer Arshad each owning 32.88%. The Board of Directors is chaired by Mr. Sheharyar Arshad, who oversees strategic decisions and company operations. The board consists of three directors with 1 female representative. The Company shares its operating management with its sister concern, Zoom Petroleum (Pvt) Ltd.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's oil and gas marketing sector is assessed as high, reflecting significant exposure to regulatory oversight, market competition, and macroeconomic volatility. The sector operates within a heavily regulated environment, with pricing and profit margins for several major products subject to government policies. Additionally, challenges such as currency depreciation, and fluctuations in international oil prices further elevate the risk profile.

The sector's demand is closely linked to the country's economic performance, making it susceptible to cyclical fluctuations. For instance, according to data released by the Oil Companies Advisory Council (OCAC), the industry's overall sales volume declined by 8% year-on-year (YoY) in FY24, marking the lowest level in the past decade. The contraction in sales was primarily driven by reduced demand for petroleum products due to higher sales prices, subdued economic activity, a decline in automobile sales, and lower demand for furnace oil (FO) as the government shifted reliance toward alternative energy sources for electricity generation. Such sensitivity to economic cycles underscores the sector's vulnerability to demand fluctuations.

Moreover, the sector's performance is closely tied to fluctuations in international oil prices, exposing companies to risks associated with global energy markets. Volatility in crude oil prices can impact the cost structures and profitability of OMCs, especially when coupled with currency depreciation. For example, in FY2023, the Pakistani rupee experienced significant depreciation against major currencies, exacerbating the cost of imported petroleum products and squeezing margins for Oil Marketing Companies (OMCs). Such energy price sensitivity necessitates robust risk management strategies to mitigate potential financial impacts.

The oil and gas marketing sector in Pakistan is subject to extensive regulatory oversight, particularly concerning pricing mechanisms. The Oil and Gas Regulatory Authority (OGRA) administers a formula-based pricing mechanism for key fuels, effectively capping what OMCs can charge for petrol and high-speed diesel. Retail prices are reviewed and adjusted fortnightly based on international oil price movements, exchange rates, and government taxes, with fixed margins allowed for OMCs and dealers. This regime ensures price uniformity and shields end-consumers from extreme volatility, but it also means OMCs have limited control over their gross margins. Any lag in price adjustments can result in inventory losses for OMCs, especially when global prices fall, and domestic prices are subsequently reduced. Conversely, inventory gains are possible in rising price scenarios; however, overall, pricing control adds an element of uncertainty and limits margin flexibility.

The sector is characterized by high capital intensity, requiring substantial investments in infrastructure such as storage facilities, transportation networks, and retail outlets. Establishing and maintaining this infrastructure necessitates significant capital outlay, which can strain financial flexibility, especially during periods of economic downturn or reduced profitability. Additionally, the need for continuous capital outlay, including periodic technological upgrades (such as improved fuel dispensing and payment systems), contributes to the sector's elevated risk profile.

FINANCIAL RISK

Assigned ratings also take into account the financial risk profile of the Company. Profitability trends remained mixed during the period, with an increase in overall volumes and average fuel prices supporting gross revenue. Despite margin compression from inventory losses, margins were sustained due to an upward revision in allowed OMC margins. Net profitability remained positive for the fiscal year but turned negative in the subsequent half-year due to higher tax expenses and increased borrowings. Capital structure indicators reflected a decline in gearing during the year following receipt of dues from an associated party, though short-term borrowing requirements increased subsequently due to working capital needs. Liquidity indicators improved modestly but remained below benchmark levels. Coverage indicators showed improvement in the fiscal year under review, supported by operational cash flows, although some weakening was noted thereafter due to increased financial obligations and equity erosion.

Capital Structure

The decline in short-term borrowings during FY24 was attributed to the receipt of outstanding dues amounting to PKR 818 million from an associated party. Despite this, a significant working capital gap persisted due to an increase in inventory, advances, deposits, and other receivables. This gap was offset by higher trade and other payables, as reflected in an increase in the payable cycle to 28 days (FY23: 7 days). As a result, the leverage ratio remained largely unchanged at 2.47x (FY23: 2.54x), while gearing declined to 0.43x (FY23: 1.28x).

In 1HFY25, the working capital requirement continued to rise, as evident from an increase in the inventory and receivable cycles to 29 days (FY23: 18 days) and 10 days (FY23: 7 days), respectively, reflecting a cumulative increase of 14 days. Although the payable cycle also increased, the rise was limited to 9 days, resulting in a residual working capital gap, which was met through additional short-term borrowings. As a result of the same and equity erosion due to reported net loss, gearing and leverage increased to 0.73x and 2.92x, respectively.

Profitability

Sales volumes recorded mixed trends, with growth in high-speed diesel offsetting a decline in motor spirit offtake as part of a deliberate strategy to change sales mix. During FY24, the Company's total sales volumes increased by approximately 4%, despite a contraction in motor spirit (MOGAS) offtake attributable to elevated retail prices, which continued to weigh on consumer demand. While industry-wide MOGAS volumes declined by approximately 4%, the Company recorded a sharper contraction of 29%, despite the continued expansion of its retail network. High-speed diesel (HSD) emerged as the primary contributor to sales volumes, comprising 55% of the total volume mix (FY23: 34%). The limited growth in volumes was offset by a 14% increase in average fuel prices, resulting in an 18% rise in gross revenues during FY24.

Gross margins remained relatively stable at 3.70% in FY24 (FY23: 3.99%) and 3.53% in 1HFY25. The slight decline was mainly attributable to inventory losses resulting from a downward adjustment in fuel prices following an earlier peak at PKR 332.42 per liter in September 2023. Although average fuel prices during the year remained higher on a year-on-year basis, the average cost per unit sold increased by 14.9%, while the average sales price rose by 14.3%. Margin retention was supported by an increase in OMC margins to PKR 7.87/liter (FY23: PKR 5.50/liter).

Net margins improved to 1.50% in FY24 (FY23: 0.53%), primarily due to a reduction in short-term borrowings, which contributed to lower financial charges. However, in 1HFY25, net margins turned negative at -0.91%, due to an increase in short-term borrowings and higher tax expenses. The rise in taxation was primarily linked to the recognition of deferred tax liabilities, following the realization of accounting profits.

Liquidity and Coverage

The coverage profile stabilized at adequate levels in 1HFY25, with the debt service coverage ratio (DSCR) at 1.14x, subsequent to a peak of 1.66x in FY24. The improvement in DSCR was supported by sufficient cash flow generation from operations, after reporting a coverage gap in FY23, when DSCR stood at 0.53x. Meanwhile, the liquidity profile improved, with the current ratio increasing to 0.98x (2023: 0.83x) in FY24 and remaining largely stable at 0.96x in 1FY25, though it continued to remain below the benchmark level of 1.00x.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Zoom Marketing Oils (Private) 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				
	17-04-2025	**BBB-**	**A3**	**Positive**	**Reaffirmed**
	27-02-2024	BBB-	A3	Positive	Maintained
	12-12-2022	BBB-	A3	Stable	Reaffirmed
	03-06-2021	BBB-	A3	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. Sheheryar Arshad	Chairman/CEO	
	2	Mr. Noman Sattar	CFO	26-Mar-2025
	3	Mr. Ali Hussain	Accounts Manager	