

## RATING REPORT

## Zoom Petroleum (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	7 <sup>th</sup> June'21	

## COMPANY INFORMATION

Incorporated in 2005	External Auditors: PKF F.R.A.N.T.S. Chartered Accountants
Private Limited Company	CEO: Mr. Arshad Mahmood
<b>Key Shareholders (More than 5%):</b>	
Mr. Arshad Mehmood – 36.4%	
Mr. Muhammad Afzal – 12.7%	
Mr. Muhammad Ashraf – 11.1%	
Mr. Nazar Hussain – 11.0%	
Mr. Tahir Arif – 10.6%	
Mr. Meher Shahid – 10.2%	
Mr. Zahid Mehmood – 8.0%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

## Zoom Petroleum (Pvt.) Limited

## OVERVIEW OF THE INSTITUTION

## RATING RATIONALE

Zoom Petroleum (Pvt.) Limited was incorporate in 2005 under the Companies Act, 2017. The company is principally engaged in the procurement, storage and marketing of petroleum related products.

**Profile of the CEO**

Mr. Arshad Mahmood serves as the Chief Executive Officer. He has over 25 years of experience in the downstream sector of the oil industry. He has played instrumental role in strategic development of the organization through securing various commercial contracts, infrastructure development, retail network expansion and strengthening the supply chain functions.

**Financial Snapshot**

**Total Equity:** end-HY21: Rs. 405m; end-FY20: Rs. 272m; end-FY19: Rs.373m; end-FY18: Rs. 275m

**Assets:** end-HY21: Rs. 1.9b; end-FY20: Rs. 1.0b; end-FY19: Rs. 1.6b; end-FY18: Rs. 1.4b

**Profit After Tax:** HY21: Rs. 133.2m; end-FY20: (Rs.100.8); FY19: Rs. 97.4m; FY18: Rs. 90.7m

**Rating Rationale**

The ratings assigned to Zoom Petroleum (Pvt.) Limited (ZPPL) take into account the company's presence in petroleum industry along with reasonable experience of the group and the management team in the relevant sector. Ratings reflect weakening in industry dynamics owing to sizable volatility present coupled with ZPPL'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 determination of final retail prices by government authorities has also 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 during COVID reflected by depressed margins and profitability indicators resulting in weakening of liquidity position as evident from negative coverages during FY20.

The ongoing year marked improvement in the operational performance of the company supported by positive momentum in earnings, improved margins and rescued profitability and liquidity metrics. With zero reliance on long-term debt, company's cash flows in terms of long-term obligations remained significant; gearing is the lowest amongst peers. However, debt leverage 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 Storage:**

ZPPL as an OMC has been in the business of trading of petroleum products for around fifteen years. ZPPL is part of Mehar Group of Companies, a renowned name in the oil and marketing community which is currently being recognized under the brand name 'Zoom'. Zoom is an energy resource which deals in purchasing, storing and selling of petroleum products such as Super Plus, Diesel, Ultra Furnace Oil, Kerosene Oil and lubricants. The group, established in 1936, comprises different entities dealing in petroleum products.

ZPPL deals in sale and marketing of MS (Motor Spirit) and HSD (High Speed Diesel). MS (petrol) is the largest revenue driver as the product constitutes around 70% of total sales. The company currently has 43 outlets in the major cities of Punjab; as per the management they would gradually increase geographical outreach during the rating horizon. ZPPL's operating license granted by OGRA expired in Dec'20; the company has applied for further extension / grant of permanent license which is pending for approval. As per the management, the license is expected to be renewed / permanent within 2-3 months. The company has its own storage facilities in Pattoki and Gujrawala of 1300 MT and 495 MT

respectively. The storage capacity is expected to be enhanced to 4000 MT during the rating horizon. Given, the current storage capacity is not sufficient to cater to entire inventory requirement, the company stores its stock with Fauji Oil Terminal (FITL), Hascol Terminals Limited (HTL) Karachi and Be Energy Limited, against which ZPPL has to pay hospitality charges of Rs.0.4/liter. The total hospitality charges were recorded at Rs. 21.2m in FY20.

**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 exhibited downward trajectory; margins took a hit as they turned negative during COVID:**

ZPPL's sales took a sizable plunge declining by around 40% to Rs. 5.0b during FY20 in comparison to Rs. 8.2b in the preceding year primarily as an outcome of considerable dip in volumetric sales owing to halt of transportation industry amid ongoing pandemic. 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 company imports around 60-70% of its petroleum products; given import hedging is not allowed for the aforementioned product mix so the company is exposed to significant exchange rate movements like the whole 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 are determined by equilibrium of demand and supply forces causing a significant price differential impacting the margins. The company's margins declined to negative 0.5% during FY20 (FY19: 1.9%) owing to timing mismatch in

purchases stemming from depressed demand of petroleum products resulting in slash of business volumes; subsequently, the company could not take advantage of reduced global oil prices for procurement as ban on import was imposed by government.

The operating expenses decreased to Rs. 61.5m (FY19: Rs. Rs. 78.1m) during FY20 primarily owing to decline in employee related expenses coupled with low fee & subscription cost incurred; the decline in operating expenses is in sync with reduced business volumes. The fee & subscription cost was recorded at Rs. 7.5m (FY19: Rs. 18.7m) in FY20; the same includes OGRA fees and OCAC fees. Selling and distribution expenses also showcased a significant decrease from Rs. 52.1m in FY19 to Rs. 16.9m in the previous year on account of reduced carriage and freight expense owing to dampened scale of operations during FY20. Other expenses were curtailed at Rs. 0.5m (FY19: Rs. 22.3m) due to stable forex scenario as no exchange loss was recorded for FY20. In addition, the decline in other expenses was also a function of no provision for credit losses made for rental income receivable in FY20 as opposed to Rs. 10.6m booked in FY19. On the contrary, other income also reduced to Rs. 14.7m (FY19: Rs. 120.8m) as a result of no gain on disposal of assets or reversal of provision of doubtful debts booked during the outgoing year; the same aggregated to Rs. 105.9m for FY19. Further, finance cost increased to Rs. 44.7m (FY19: 20.6m) in line with increased average benchmark rates during FY20 despite streamlined utilization of short-term borrowings. As a combined impact of reduction in scale of operations, depressed margins and increase in financial expense, ZPPL recorded loss of Rs. 100.8m during FY20 as compared to positive bottom line of Rs. 97.4m in the previous year.

The profitability indicators of the company exhibited positive trajectory in HY21 with the company reporting profit of Rs. 133.2m from a topline of Rs. 3.7b owing to improvement in margins to 4.1%. The 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 were maintained at prior year's level at Rs. 32.9m during HY21 despite increase in sales. Selling and distribution expenses were also curtailed at Rs. 3.6m on account of reduced freight expense during the ongoing year. In addition, finance cost declined as an outcome of reduced utilization of short-term funding along with sizable cut in the policy rate by SBP to rescue dampened economic activity amid ongoing pandemic. Going forward, the management expects the company to close the current year at Rs. 7.4b with margins expected at 4.7%. 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 the last two fiscal years ended but the situation is projected to improve going forward on account of improvement in profitability indicators:** Liquidity profile of the company remained weak during FY20 on account of incurrance of loss as funds flow from operations (FFO) were negative. This has been due to the decrease in cash flows from operating activities in line with sizable dip in revenues along with negative margins. Subsequently, FFO to total debt turned negative in FY20. However,

a turnaround in the liquidity position was witnessed during HY21 as FFO was reported at Rs. 99.0m in line with improvement in scale of operations coupled with rescued margins. Subsequently, FFO to total debt was comfortable at 1.22x at end-HYFY21. In line with negative FFO, debt servicing coverage ratio (DSCR) was negative during FY20; however, the same stood at healthy 6.6x at end-HY21 on account of zero reliance of the company on long-term borrowing.

Stock in trade was recorded relatively lower by end-HY21 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 45% of the company's inventory was held by third parties; stock in trade constituted 66% of petrol and 34% of HSD 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 adequate with less than 1% of receivables falling due within over six months bracket at end-HYFY21. At end-FY20, around 44% 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 sound as no amount was 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. 1.5b (FY19: Rs. 1.3b). Furthermore, the company booked a provision for expected credit losses amounting to Rs.0.8m during the FY20.

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. 302.3m (FY20: 101.8 m; FY19:31.9m) at end-HYFY21; the amount is an interest free temporary financial support availed from related parties. As a result, ZPPL's current ratio improved to 1.02x (FY20: 0.77x; FY19: 0.99x) at end-HYFY21. The company's current ratio is projected to increase to 1.2x 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 limit available (funded and non-funded) from a commercial bank amounting to Rs. 1.4b out of which Rs. 237.4m remained unutilized at end-FY20. Given increase in profitability, liquidity position is projected to improve further, going forward.

**Conservative capital structure; long-term debt free balance sheet:** The equity base of the company took sizable hit during the outgoing year owing to net loss reported; however, the situation improved during HY21 as a result of positive bottom line. The company's balance sheet is free of long-term debt since end-FY19; the conservative capital structure has contributed to low gearing recorded at 0.4x (FY20: 0.7x; FY19: 1.2x) at end-HY21. The management currently has no plan of obtaining long-term borrowings so no change is expected in capital structure during the rating horizon. Future long-term funding requirements, if any, are projected to be met by internally generated funds. In addition, short-term borrowings also declined on a timeline basis in line with higher credit period negotiated with suppliers coupled with interest free loan procured from related parties.

Given the company's import dependent business model, there is short-term unfunded exposure on the books; bank guarantees on behalf of ZPPL in favor of various suppliers of petroleum products amounted to Rs. 740.0m (FY19:Rs. 740.0m) at end-FY20. However owing to sizable trade payables, the leverage increased to 3.7x (FY20: 2.7x; FY19: 3.4x) at end-HY21. With successful continuation of shift in business model entailing low working capital requirement along with reinstatement of positive momentum in revenues aiding equity augmentation, leverage indicators are expected to improve going forward.

**Zoom Petroleum (Pvt.) Limited**
**Annexure I**

(Rs. in million)

<b>BALANCE SHEET</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>Dec 31, 2020</b>
<b>Non-Current Assets</b>	389.3	393.3	392.2	381.8
<b>Stock-in-Trade</b>	318.2	665.8	270.9	504.1
<b>Trade Debts</b>	106.6	85.8	12.7	714.2
<b>Advances, payments and other receivables</b>	216.5	470.5	273.2	306.1
<b>Cash &amp; Bank Balances</b>	10.6	14.4	5.9	8.0
<b>Total Assets</b>	1,041.1	1,629.9	1,040.4	1,914.1
<b>Trade and Other Payables</b>	465.1	734.1	396.1	1,006.9
<b>Due to related parties</b>	87.8	31.9	101.8	302.3
<b>Short Term Borrowings</b>	73.7	440.6	192.7	162.3
<b>Long Term Borrowings (Inc. current maturity)</b>	114.7	-	-	-
<b>Total Debt</b>	118.4	440.6	192.7	162.3
<b>Total Liabilities</b>	765.7	1,257.0	738.4	1,509.0
<b>Paid Up Capital</b>	257.7	257.7	257.7	257.7
<b>Tier 1/Total Equity</b>	275.4	372.8	272.0	405.2
<b>INCOME STATEMENT</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>Dec 31, 2020</b>
<b>Net Sales</b>	3,449.7	8,198.6	4,967.9	3,680.1
<b>Gross Profit</b>	168.6	153.2	(25.0)	149.9
<b>Profit/(Loss) Before Tax</b>	111.3	100.8	(133.9)	161.1
<b>Profit/(Loss) After Tax</b>	90.7	97.4	(100.8)	133.2
<b>FFO</b>	122.0	10.9	(146.0)	99.0
<b>RATIO ANALYSIS</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>Dec 31, 2020</b>
<b>Gross Margin (%)</b>	4.9	1.9	(0.5)	4.1
<b>Current Ratio (x)</b>	1.0	0.99	0.77	1.02
<b>FFO to Total Debt (x)</b>	0.65	0.02	(0.76)	1.22
<b>FFO to Long Term Debt (x)</b>	1.1	-	-	-
<b>Debt Service Coverage Ratio (x)</b>	36.6	1.71	(2.28)	6.62
<b>ROAA (%)</b>	12.0	7.3	(7.6)	18.2
<b>ROAE (%)</b>	39.4	30.1	(31.3)	78.7
<b>Gearing (x)</b>	0.68	1.18	0.71	0.40
<b>Debt Leverage (x)</b>	2.78	3.37	2.71	3.72
<b>Stock+ Trade debts/ Short-term Borrowings (x)</b>	5.76	1.71	1.47	7.51

**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](http://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](http://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](http://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			
<b>Name of Rated Entity</b>	Zoom Petroleum (Private) Limited				
<b>Sector</b>	OMC				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	07-06-2021	BBB-	A-3	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. Arshad Mehar	CEO	12-Mar-2021	
	2	Mr. Numan Sattar	CFO	12-Mar-2021	