RATING REPORT

Zoom Petroleum (Private) Limited

REPORT DATE:

December 12, 2022

RATING ANALYSTS:

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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	BBB-	A-3	BBB-	A-3
Rating Date	*December 12, 2022*		*June 7, 2021*	
Rating Action	Reaffirmed		Initial	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 2005	External Auditors: PKF F.R.A.N.T.S. Chartered Accountants
Private Limited Company	CEO: Mr. Arshad Mahmood
Key Shareholders (More than 5%):	
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 (August 2021)   *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

OVERVIEW OF THE INSTITUTION

Zoom Petroleum (Pvt.) Limited was incorporate in 2005 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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-FY22: Rs. 432.8m; end-FY21: Rs. 381.2m; end-FY20: Rs. 272m

Assets: end-FY22: Rs. 4.1b; FY21: Rs. 2.9b; end-FY20: Rs. 1.0b

Profit After Tax: FY22: Rs. 51.7m; FY21: Rs. 109.1m; end-FY20: Rs. (100.8)m

RATING RATIONALE

Zoom Petroleum (Pvt.) Limited (ZPPL) is an emerging Oil Marketing Company (OMC), primarily involved in sales and marketing of High Speed Diesel (HSD) and Premier Motor Gasoline (PMG). The ratings incorporate higher business risk for the industry players, largely emanating from operating on moderate level of fixed commission and significant exposure to foreign exchange movements from sizeable dependence of OMCs on imports. The financial risk of the sector is relatively higher as the companies have to rely heavily on short-term borrowings to meet their working capital requirements.

During FY22, the company posted healthy growth in topline on account of increase in average prices and volumetric sale of its key products. The gross margins improved slightly as the government provided price differential claim (PDC) to OMCs and refineries in order to subsidize for the cost to keep fuel prices unchanged. However, the net profitability and margins remained thin owing to sizeable forex losses. Resultantly, overall cash flow position remained under stress. The company has relatively shorter working capital cycle compared to industry median. Gearing has increased notably due to elevated short-term bank borrowings and markup bearing related party loans, leading to limited risk absorption capacity. The management expects improvement in profitability in view of certain government initiatives despite some slowdown in demand ensuing from recent floods and political instability during the ongoing year. The implementation of higher OMC margin as approved by Economic Coordination Committee (ECC) is expected to bode well for the entire industry. The ratings will remain dependent on improvement in sector dynamics, capitalization and liquidity profile along with achieving projected sales.

Key rating Drivers

Industry and business dynamics: The oil marketing companies (OMCs) market Petroleum, Oil and Lubricants (POL) products through their respective retail outlets. As per latest report by OGRA, OMCs in Pakistan have 9,978 retail outlets spread across the country. OMC-wise, Pakistan State Oil (PSO) has the largest number of retail outlets i.e., 3,158 (31.65%), followed by Askari Oil 905 (9.07%), Total Parco Pakistan Limited (TPPL) 788 (7.90%), Shell 748 (7.50%), GO 730 (7.32%) and Attock Petroleum Limited (APL) 657 (6.58%). Region-wise, retail outlets are concentrated in Punjab (64.89%), Sindh (22.19%), Khyber Pakhtunkhwa 10.08% and Baluchistan 1.78%. The top five players, namely PSO, Shell, Total Parco, Attock, Hascol account for about 70% of the petroleum sector.

Due to positive correlation with GDP growth, the consumption of petroleum products also increased with the overall economic growth during the last two outgoing years. Motor Spirit (MS) and High Speed Diesel (HSD) accounts for more than 80% of OMCs sales. Historically, Residual Fuel Oil (RFO) was the highest consumed product, with a share of ~37% in FY17, however, the same has declined at a CAGR of around 24% from 2017 to 2021 primarily as a result of Govt.'s decision to reduce its usage as a fuel for power plants. The major consumption of the oil and petroleum products has been led by transportation (78%), power (11%), industry (7%), government (2%), households (0.3%) and then agriculture (0.1%). Pakistan's indigenous oil production meets only about one-fifth of the country's current oil needs and the rest is met through high-cost imports. In Pakistan, crude oil processing infrastructure is underdeveloped as there are only 6 refineries in operation. On average around 8.6m MT of crude oil is imported every year. In FY21, local POL production clocked at ~11.3m MT (FY20: ~9.4m MT), of which ~10m MT (FY20: 8.3m MT) were energy related POL products while the rest were non-energy products. The import of POL products during FY21 was recorded at around 14m MT vis-à-vis 11m MT, witnessing a growth of 28.7% YoY. POL import bill amounted to Rs. 822b (FY20: Rs. 745b), representing ~9.1% (FY20: 10.6%) share in total imports.

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.

The latest data released by Oil Companies Advisory Council (OCAC) shows that sales across the board for Motor Spirit (MS), High Speed Diesel (HSD) and Fuel Oil (FO) have declined significantly during 1QFY23. For critical fuels, the aggregate decline in sales for the entire industry has been 23% YoY. Sales of MS cumulatively for the whole industry have declined by 21% YoY. Similarly, the sales of HSD and FO have also declined by 30% and 23%, respectively. The decline in sales volume is attributable to multiple factors including, flood impacting the transportation industry, especially in Sindh. Destruction of crops and agricultural infrastructure has mainly affected the sale of HSD. Increased rains have uplifted the demand for hydel power generation, which leads to weaker furnace oil demand as witnessed in the month of September. Going forward, the POL demand in the country is expected to remain weak due to high prices and affordability amidst ongoing political uncertainty, high inflation and economic slowdown.

Licensing requirements and storages: During the outgoing year, OGRA extended the provisional license of ZPPL upto December 31, 2022. The company has cumulative storage capacity of 1,795 MT in Kasur and Gujranwala.

Storage Capacity	**FY20**	**FY21**	**FY22**
Pattoki Depot Distt. Kasur	1,300	1,300	1,300
Machikay Depot-Gujranwala	495	495	495

Property, plant and equipment stood at Rs. 220.8m (FY21: Rs. 257.6m) as no significant additions were made during the outgoing year. The addition of 4,000 MT storage capacity has currently been shelved. Given, the current storage capacity is not sufficient to cater to entire inventory requirement, the company stores its stock with Fauji Oil Terminal and Distribution Company Ltd. (FOTCO), Hascol Terminals Limited (HTL) and Be Energy Limited (BEL), against which ZPPL has to pay hospitality charges. During FY22, the same were recorded higher at Rs. 103.9m (FY21: Rs. 35.3m) in line with increase in inventory levels and uptick in rate to Rs.0.5/liter (FY21: Rs. 0.37/liter). At present, ZPPL has 43 retail outlets, including 8 company operated petrol stations while no further expansion in retail network is intended during the ongoing year.

Notable growth in topline with improvement in gross margins while net margins declined mainly due to forex losses: During FY22, net sales almost doubled to Rs. 13.4b (FY21: Rs. 7.6b) on the back of increase in average rates coupled with volumetric growth of key products. Motor Gasoline (Mogas) constituted 78% (FY: 72%) of the sales mix while proportion of HSD stood at 22% (FY21: 27%). Average rates of Mogas increased by ~57% while that of HSD increased by ~40% vis-à-vis last year. In terms of quantity, Mogas sales increased by around 22% and HSD sales increased by around 2%. Sale of High-Octane Blending Component (HOBC) remained very limited. Average sales tax as a proportion of gross sales was reported lower at 4% (FY21: 15%) as the Govt. omitted tax levy for some period due to higher fuel prices.

	FY21			**FY22**		
Products	**QTY (Ltr.)**	**Average Rate**	**Value**	**QTY (Ltr.)**	**Average Rate**	**Value**
MOGAS	66,214,000	82.35	5,452,793,267	80,728,843	129.57	10,459,795,523
High Speed Diesel	22,668,000	90.44	2,050,029,750	23,101,000	126.87	2,930,865,390
HOBC	602,000	87.87	52,895,834	13,000	125.64	1,633,334
Total Sales	**89,484,000**		**7,555,718,850**	**103,842,843**		**13,392,294,247**

During FY22, the company reported higher gross profits of Rs. 701.2m (FY21: Rs. 250.6m) with increase in gross margins to 5.2% (FY21: 3.3%). The margins improved as the Govt. subsidized the

OMCs in the form of price differential claim (PDC) to OMCs and refineries to pay for the cost of keeping the fuel prices unchanged during five days in Nov'21 and for certain intervals of days during Mar to Jun'22. ZPPL received Rs. 850.6m in lieu of PDC, which accounted for 6.4% of the net sales. Direct expenses increased to Rs. 119.2m (FY21: Rs. 52.7m) due to higher hospitality charges. Selling and distribution expenses amounted to Rs. 5.4m (FY21: Rs. 5.7m). Administrative expenses also remained largely stable at Rs. 98.5m (FY21: Rs. 104.0m) during FY22. Other income decreased to Rs. 18.3m (FY21: Rs. 51.6m) due to absence of gain on disposal of fixed assets. However, other expenses inflated to Rs. 466.9m (FY21: Rs. 15.3m) as the company booked foreign exchange losses to the tune of Rs. 461.5m (FY21: Nil). The company was able to meet around 37% (FY21: 40%) of the fuel inventory requirements through local refineries while the rest was imported from Vitol, Bahrain and Noir Energy, Dubai, UAE. Finance cost also increased to Rs. 80.6m (FY21: Rs. 35.0m) due to higher average markup rates and borrowings during the outgoing year. Resultantly, accounting for taxation, net profits declined to Rs. 51.7m (FY21: Rs. 109.1m) along with a dip in net margin to 0.4% (FY21: 1.4%).

Despite some slowdown in demand witnessed in the ongoing year, the management expects some improvements in profitability indicators in view of certain government initiatives and economic factors. The ECC has approved the increase in OMCs margin by ~63% to Rs. 6/liter from Rs. 3.68/Liter on both retail fuels, i.e., MS and HSD. International oil prices are on bearish trend due to demand slowdown and FED's aggressive tightening. This has brought ex-refinery prices of MS and HSD down by 15% and 8%, respectively in Sep'22 from their peak in Jul'22. The implementation date of the revised margins has not been announced yet, however, it is expected that further reduction in crude oil prices will provide the Govt. a cushion to execute this. The Govt. has also decided to increase the dealer margin to Rs. 7/liter on both MS and HSD during July. Meanwhile, in line with commitment to the International Monetary Fund (IMF) the petroleum levy on petrol and HOBC has been raised to Rs50 per liter in an effort to boost revenue receipts. However, the general sales tax on the petroleum products has been kept at zero. The turnover tax rate has also been reduced to 0.5% from previous rate of 0.75%, in the current year budget. The management is also making efforts to increase the proportion of fuel from local refineries to decrease its currency risk exposure.

Cash flow position remained stressed while favorable net operating cycle reflected sales efficiency of the company: The funds from operations (FFO) were reported lower at Rs. 8.1m (FY21: 98.6m) as a result of lower profitability and higher income tax deductions vis-à-vis last year. Resultantly FFO to total borrowings declined to 0.01x (FY21: 0.19x). Meanwhile debt service coverage remained adequate as the company has no contractual long-term repayments to make.

Stock in trade amounted to Rs. 301.3m (FY21: 328.3m), which comprised 53% of Petrol (motor spirit) (FY21: 75%) and 47% HSD (FY21: 24%). Stock in trade held by third parties, including Zoom Marketing Machike, PARCO, Gas & Oil Pakistan Limited and in transit material accounted for 64% (FY21: 61%) of the total inventory. OMCs have to maintain an inventory of 20 days as per OGRA requirement, however, given hike in cost associated with holding inventories and forex losses, the requirement has been slightly relaxed for small and emerging companies. Trade debts stood at Rs. 1.7b (Fy21: Rs. 1.65b) at end-FY22. These include an amount of Rs. 639.6m (FY21: Rs. 527.7m) from associated undertaking (Mehar Petroleum). Aging of receivables with associated undertakings is satisfactory given 83.6% of the receivables were not past due at the reporting date while 8.8% fall under 3 months, 7.4% were due for less than 6 months. The receivables from related and outside parties, both after usually settled after a maximum of 35 days. Advances, prepayments and other receivables increased to Rs. 1.5b (FY21: Rs. 494.7m) mainly due to increase in bank margin against LCs and Guarantees to Rs. 1.1b (FY21: Rs. 257.7m) and Inland Freight Equalization Margin (IFEM) receivable. Trade and other payables stood at Rs. 1.5b (FY21: Rs. 1.4b) which largely comprised import bills payable amounting Rs. 1.15b (FY21: Rs. 1.16b) and trade creditors amounting Rs. 261.9m (FY21: 190.6m). Current ratio and short-term borrowing coverage ratio were just equal to 1. The net operating cycle remained manageable (FY22: 15 days; FY21: 13 days) on a timeline basis and relatively lower than the industry median.

High leveraged capital structure: The core equity increased to Rs. 432.8m (FY21: Rs. 381.2m) on account of profit retention. The debt profile of the company entirely comprised short-term borrowings to fund its working capital requirements. Short-term financing from banks stood at Rs.

699.9m (FY21: Rs. 509.1m) at end-FY22. These majorly comprised foreign currency import finance to meet its foreign currency payment requirements for LCs. This facility for imports can be allowed only from the date of actual execution of import payments in foreign currency by creating a currency loan against the importer. The import finance arrangement carried markup at the effective rates ranging from 2.00% to 4.5% per annum during the year. The company also meet its working capital requirements through provision of temporary financial support from its associated company, Zoom Marketing Oils (Pvt.) Limited. The amount due to related parties stood higher at Rs. 1.4b (FY21: Rs. 514.3m); interest has been charged at 3M KIBOR plus 2%. Due to elevated debt levels (including related party loans), gearing increased to 4.68x (FY21: 2.68x) by end-FY22. Similarly, debt leverage increased to 8.52x (FY21: 6.55x). Going forward, the company does not intend to mobilize any additional long-term borrowing in the medium term, as per management. Therefore, capitalization indicators may improve slightly in line with positive changes in the industry dynamics and growth in equity base.

Zoom Petroleum (Pvt.) Limited (in million Rs.)			Annexure I
BALANCE SHEET	**FY20**	**FY21**	**FY22**
Property, Plant and Equipment	258	238	221
Deferred Taxation	134	158	242
Stock-in-Trade	271	328	301
Trade Debts	13	1,654	1,701
Advances, payments and other receivables	274	495	1,533
Cash & Bank Balances	6	3	14
Other Assets	55	-	109
Total Assets	**1,010**	**2,876**	**4,120**
Trade and Other Payables	396	1,403	1,478
Related Party Short-Term Loans	102	514	1,373
Short Term Borrowings	193	509	700
Long Term Borrowings (Inc. current maturity)	-	-	-
Total Debt	294	1,023	2,027
Total Liabilities	**738**	**2,495**	**3,687**
Paid-Up Capital	258	258	258
Tier 1/Total Equity	**272**	**381**	**433**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**
Net Sales	4,968	7,556	13,379
Gross Profit	(25)	251	701
Operating Profit	(103)	141	597
Other Expenses	1	15	467
Other Income	15	52	18
Finance Cost	45	35	81
Profit/(Loss) Before Tax	(134)	142	68
Profit/(Loss) After Tax	(101)	109	52
FFO	(146)	99	8
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**
Gross Margin (%)	-	3.3	5.2
Net Margin (%)	-	1.4	0.4
Current Ratio (x)	0.84	1.00	0.99
FFO to Total Debt (x)*	n.m.	0.19	0.00
FFO to Long Term Debt (x)	-	-	-
Debt Service Coverage Ratio (x)	n.m.	3.73	1.14
ROAA (%)	n.m.	5.6	1.5
ROAE (%)	n.m.	33.4	12.7
Gearing (x)*	1.08	2.68	4.68
Debt Leverage (x)	2.71	6.55	8.52
Stock+ Trade debts/ Short-term Borrowings (x)*	0.99	1.94	0.99
Net Operating Cycle (Days)	1	13	15

**Including markup-bearing related party short-term loans*

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 Petroleum (Private) Limited
Sector	OMC
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-12-2022	BBB-	A-3	Stable	Reaffirmed
07-06-2022	BBB-	A-3	Stable	Initial

Due Diligence Meetings Conducted:

	Name	Designation	Date
1.	Mr. Arshad Mahmood	CEO	14-Nov-2022
2.	Mr. Irfan Hussain	COO	14-Nov-2022
3.	Mr. Numan Sattar	GM Finance	14-Nov-2022