RATING REPORT

Zoom Petroleum (Private) Limited

REPORT DATE:
February 28, 2024

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 Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*February 28, 2024*		*December 12, 2022*	

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
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 Petroleum (Pvt.) Limited

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 Limited was incorporate in 2005 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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.

RATING RATIONALE

Zoom Petroleum (Pvt.) Limited (ZPPL) as an Oil Marketing Company (OMC), has been in the business of trading of petroleum products for more than fifteen years. It 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 66% of total sales. The Company currently has 43 outlets in the major cities of Punjab, including 8 Company operated. The Company has no plans of expansion of retail outlets over the rating horizon.

The Company has been granted a provisional license up to December 31, 2023 by Oil and Gas Regulatory Authority (OGRA). The same has been extended to December 2025.

The Company has cumulative storage capacity of 1,795 MT in Kasur and Gujranwala.

Storage Capacity	FY22	FY23
Pattoki Depot Distt, Kasur	1,300	1,300
Machikay Depot, Gujranwala	495	495

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.

Key Rating Drivers

Business risk profile stands elevated

The business risk profile of ZPPL 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%.

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**

Notable decline in volumes

Notable decline in volumes was noted whereby MOGAS and HSD dipped by 59% and 38% respectively. The revenue decline was somewhat offset by the price increase. Nevertheless, overall revenues declined by 15% to Rs. 11.3b.

	FY22			FY23		
Products	**Qty (Ltr)**	**Avg Rate**	**Value**	**Qty (Ltr)**	**Avg Rate**	**Value**
MOGAS	80,728,843	129.57	10,459,795,523	32,893,094	227.26	7,631,442,924
High Speed Diesel	23,101,000	126.87	2,930,865,390	14,302,034	252.39	3,678,956,244
HOBC	13,000	125.64	1,633,334			
Total Net Sales	***103,842,843***		***13,392,294,247***	***47,195,128***		***11,310,399,168***

In the current year, revenues continue to remain constrained with four months sales recorded at Rs 3.59b. The decline in volumes is in line with demand slowdown for petroleum products on account of higher prices, auto sector slowdown and sluggish industrial activity. We expect volume pressures to continue in the ongoing year.

Margins depict improvement in the current year.

As a result of increase in OMC's margins to Rs. 7.87/liter by the Government in the last calendar quarter, margins of the Company reflect an improving trend in FY23 and a significant uptick in the first four months of FY24. In FY23, while gross margins improved slightly to 5%, higher financial charges significantly impacted the bottom line profitability. The Company recorded a net loss of -Rs. 302m (FY22: -Rs. 22.8m) in FY23. In 4MFY24, however, gross margins recorded notable improvement to 8.5% on margin improvement and inventory gains. Net margins in FY23 were also impacted by exchange losses on inventory purchases. However, the Company has shifted a large part of its purchases to local refineries, which has reduced the lead time as well as exposure to foreign currency exposure. About 74% of oil purchases were made from PARCO and Attock Refinery, while the remaining were from VITOL.

Liquidity metrics under pressure

Liquidity metrics including current ratio (FY23: 0.77x) and short-term borrowing coverage (FY23: 0.58x) remained under pressure mainly due to losses, resulting in balance sheet mismatch. The Company improved its collections reflective in lower collection days (FY22: 45 days; FY23: 28 days), which supported its operating cash flow needs. In addition, due to shift to local purchasing, cash flow requirements with respect to outstanding payables also reduced. However, excess operating cash flow was used to repay related party loans extended earlier for working capital support. At the end of first four months of FY24, liquidity metrics do depict improvement because of better profitability. Sustenance of the same in the wake of subdued demand will remain a challenge.

Elevated capitalization levels

Capitalization indicators in FY23 worsened due to erosion in equity base resulting from losses, despite overall borrowings coming down. Debt profile of the Company consists of 43% of short-term bank debt while remaining is interest bearing related party debt. No long-term debt obligations are on the books. Gearing and leverage ratios in FY23 were recorded at 11.08x and 14x respectively. However, post year-end due to improved profitability in the first four months of FY24, the Company has repaid short-term loans to related party. Overall, gearing and leverage metrics therefore depict improvement to 1.88x and 6.1x respectively, on account of lower debt and improved equity base. Further improvement in capitalization level on a sustained basis will remain important for ratings.

REGULATORY DISCLOSURES	Appendix I
Name of Rated Entity	Zoom Petroleum (Private) Limited
Sector	OMC
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28-02-2024	BBB-	A-3	Stable	Reaffirmed
12-12-2022	BBB-	A-3	Stable	Reaffirmed
07-06-2021	BBB-	A-3	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Numan Sattar	CFO	11-Jan-2024
2	Mr. Sohail Abid	Manager Accounts	11-Jan-2024