RATING REPORT

Oil Industries Pakistan Limited

REPORT DATE:
November 21, 2024
RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	A-/A2	A-/A2
Rating Date	*November 21, 2024*	*August 31, 2023*
Rating Outlook/Watch	*Stable*	*Stable*
Rating Action	Reaffirmed	Initial

COMPANY INFORMATION

Incorporated in 1976

Public Limited Company (Unlisted)

Key Shareholders (with stake 5% or more):
- Mrs. Adeeba Basit – 20.01%
- Mr. Muhammad Yousuf – 20.00%
- Mr. Muhammad Asif Sheikh – 19.05%
- Mrs. Shabana Rashid – 15.00%
- Mr. Muhammad Waleed Asif – 12.00%
- Mr. Muhammad Shaiq Basit Shaikh – 5.00%
- Mr. Danish Basit – 5.00%

External Auditors: BDO Ebrahim & Co, Chartered Accountants

Chairman & Chief Executive Officer: Mr. Muhammad Asif Sheikh

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial 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

Oil Industries Pakistan Limited

OVERVIEW OF THE INSTITUTION

Oil Industries Pakistan Limited (OIP) started its business operations in 1976 under the brand name "Target". The Company's head office and factory are located in Karachi.

RATING RATIONALE

Company Profile

Oil Industries Pakistan Limited ("OIPL" or "the Company"), founded on November 20, 1976, under the "TARGET" brand, transitioned to a Public Limited (Unlisted) entity on October 28, 2021. The Company is engaged in the manufacturing, blending, and sale of lubricating oils, as well as the procurement and distribution of petroleum products.

OIP's registered office, located in Karachi, functions as its administrative headquarters. The manufacturing facility, situated in the Korangi Industrial Area, Karachi, supports production and blending operations. Additionally, a petroleum storage facility in District Sahiwal, Punjab, with a 5,000-metric-ton capacity, enables the storage and regional distribution of petroleum products.

Plans for expansion include a new storage facility in Daulatpur, Sindh, with an initial 5,000-metric-ton capacity and potential scalability to 8,000 metric tons. The Company also operates branch offices in Lahore and Multan to support distribution and broaden market access.

Operational Performance

Lubricant Segment: The Lubricant Segment has been OIP's staple business since inception. Products include a wide range of industrial and retail machine oils being sold under the brand name of 'TARGET'. Majority of the sales under this segment pertain to engine oil for motor vehicles and bikes sold through a retail distribution network. The Company is one of very few companies involved in the sale of transformer oil used in power plants. As per management, OIP has a market share of ~80% in this segment. OIP is also involved in the sale of machine oil for industrial consumers.

Capacity and Production (In Litres)	FY23	FY24
Capacity	38,500,000	38,500,000
Production	12,000,600	10,510,847
Capacity Utilization (%)	**31.2%**	**27.3%**

In FY24, production in the Lubricants segment fell to 10.51 million (FY23: 12 million) due to weaker demand, driven by reduced industrial activity amid unstable macroeconomic conditions. As a result, capacity utilization declined to 27.3% (FY23: 31.2%).

OMC Segment: The Company recorded first revenues from this segment in FY20. Products in this segment include Premium Motor Gasoline (PMG) and High-Speed Diesel (HSD), with revenue distribution between the 2 products being in almost equal proportions.

These petroleum products are sold through 51 retail petrol stations situated in Punjab and fed through OIP's storage facility located in Sahiwal, which has capacity to support up to 80 petrol stations. Accordingly, the Company is in process of setting up 27 more stations in Punjab. The Company's OMC license is presently restricted to Punjab only.

Additionally, OIP's storage facility in Daulatpur (Sindh) is under construction, which will feature a capacity of 5,000MTs; given additional space available, the management plans to eventually expand its capacity to 8,000 MTs. Once construction is completed, management will move forward with license acquisition from OGRA, for opening petrol stations in Sindh. To fund the expansion plans, the management is planning to raise funding through capital markets. A planned IPO is in the pipeline, however, the timing of the same remains uncertain.

Industry Review

In FY24, Pakistan's oil marketing sector faced significant challenges, marked by a notable decline in petroleum product sales. Total sales dropped by 8% year-on-year (YoY) to 15.28 million tons, the lowest since FY06. This downturn was attributed to economic pressures, elevated fuel prices, and competition from smuggled fuel. Despite these challenges, June 2024 saw a temporary recovery, with sales reaching 1.45 million tons, the highest in 19 months, primarily due to reductions in petrol and diesel prices. However, the overall annual performance remained subdued, reflecting the sector's struggle to maintain momentum amid economic headwinds.

Conversely, the lubricant industry demonstrated resilience during FY24. Despite facing inflation, import restrictions, and a downturn in automotive sales, the sector achieved 3% growth. Pakistan State Oil (PSO) notably outperformed the market, recording a 9.7% increase in lubricant sales and capturing a 26.9% market share—a 1.6% rise from the previous year. However, smaller players in the market continued to struggle during the period.

Key Rating Drivers

Business Risk Profile

Sector Risk; Oil Marketing Companies: High

The business risk profile for the OMC sector in Pakistan is assessed as High, reflecting exposure to regulatory oversight, market competition, and macroeconomic volatility. The sector operates in a regulated environment, with pricing and profit margins governed by government policies. Additionally, challenges stemming from currency depreciation, liquidity constraints, and fluctuations in international oil prices elevate the risk profile.

The sector's operational dynamics are shaped by the import-dependent nature of fuel products, exposing OMCs to exchange rate risks and delays in payments under the government's pricing and subsidy mechanisms. Moreover, competition among OMCs in terms of infrastructure investments and market share requires significant capital outlay, which can strain financial flexibility.

Sector Risk; Lubricants: Medium

The business risk profile for Pakistan's lubricant sector is assessed as medium, influenced by stable demand drivers, competitive market dynamics, and exposure to economic fluctuations. The sector benefits from consistent demand across automotive and industrial applications; however, it faces challenges related to raw material costs, currency volatility, and regulatory considerations.

Demand for lubricants is closely linked to the performance of the automotive and industrial sectors. While the automotive industry has shown growth, economic uncertainties and inflationary pressures may affect vehicle sales and, consequently, lubricant consumption. Industrial demand remains steady, though it is susceptible to broader economic conditions.

The market is characterized by the presence of both multinational corporations and local manufacturers, leading to competitive pricing and innovation pressures. Additionally, the prevalence of counterfeit products poses reputational risks and impacts market share for legitimate producers.

The sector relies heavily on imported base oils and additives, making it vulnerable to exchange rate fluctuations and global supply chain disruptions. Regulatory policies, including environmental standards and taxation, also play a significant role in shaping operational frameworks and profitability.

Market Positioning & Operational Track Record

The ratings incorporate OIP's 4 decades long operational track record in the lubricant manufacturing segment. Over the years, the Company has established prominent market positioning, particularly in the transformer oil and retail engine oil segments. Furthermore, OIP's sponsor family is closely engaged in the management and has historically retained all profits posted by the Company.

Segment diversification.

Having strong diversification in the lubricant segment, OIP's business risk profile compares favorably with other OMC entities. While growing OMC business segment may tilt the risk profile towards OMC segment, the lube business will continue to provide margin during the rating horizon. With OMC segment growing, overall risk profile may tilt towards OMC segment, however, the core lube business will continue to support the business risk profile of the Company.

Operational status as an unlisted entity.

OIP's assigned rating incorporates its operational status as an unlisted entity. The eventual listing of the Company will be viewed positively from a ratings purview.

Financial Risk Profile

Profitability Profile

In FY24, the Company's revenue increased by 22.44%, primarily due to higher sales of petroleum products segments. Sales in the petroleum products segment rose by 32.3%, while lubricant sales increased by 11.32%. Consequently, the contribution of the OMC segment to total revenue increased to 59.18% (FY23: 54.89%). The growth in the OMC segment was supported by the expansion of the Company's fuel station network to 51 stations (FY23: 37). However, lower margins in the OMC segment resulted in a decline in gross margins to 7.25% (FY23: 8.32%).

Capitalization Profile

The Company's capitalization metrics demonstrated an improvement, with the gearing ratio reducing to 0.23x (FY23: 0.42x) and the leverage ratio declining to 0.71x (FY23: 1.05x). This change primarily reflects an increase in the equity base driven by profit retention and a reduction in short-term debt utilization. The reduction in short-term debt utilization was supported by sufficient operational cash generation to meet OIPL's working capital requirements during the year.

Liquidity and Coverage Profile

The Company has maintained a stable liquidity profile over the past five years, with an average current ratio of 1.51x. In FY24, the current ratio increased to 1.99x (FY23: 1.51x), supported by cash generation from operations that contributed to an improved liquidity position. The short-term debt coverage ratio, averaging 2.70x over the same period, also rose to 4.75x in FY24 (FY23: 2.97x), primarily due to reduced short-term borrowings and higher stock-in-trade levels.

The five-year average debt service coverage ratio (DSCR) stood at 3.33x. However, the DSCR for FY24 decreased slightly to 2.80x (FY23: 2.88x) as a result of higher financial charges. Despite the decline, the DSCR remains at a comfortable level.

Oil Industries Pakistan Limited — Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	1,448.00	1,774.75	1,732.56
Right-of-use Assets	58.00	41.40	78.44
Intangible Assets	3.00	2.73	2.46
Stock-in-trade	714.00	863.65	1,066.52
Trade debts	497.00	884.29	642.22
Cash & Bank Balances	25.00	32.63	34.48
Other Assets	257.00	116.13	65.05
Total Assets	3,002.00	3,715.58	3,621.73
Creditors	306.00	448.40	314.67
Long-term Debt (incl. current portion)	65.00	54.01	54.06
Short-Term Borrowings	668.00	588.70	359.43
Total Debt	733.00	642.71	413.49
Other Liabilities	100.00	491.89	530.80
Total Liabilities	1,139.00	1,583.00	1,258.96
Paid up Capital	0.00	1,000.00	1,000.00
Revenue Reserve	732.00	513.57	770.22
Other Equity (excl. Revaluation Surplus)	528.00	0.00	0.00
Equity (excl. Revaluation Surplus)	1,260.00	1,513.57	1,770.22

Income Statement (PKR Millions)	FY22A	FY23A	FY24A
Net Sales	8,687.00	9,949.63	12,182.15
Gross Profit	744.00	827.96	883.26
Operating Profit	390.00	470.06	518.99
Finance Costs	73.00	136.39	148.82
Profit Before Tax	317.00	333.67	370.17
Profit After Tax	223.00	233.57	230.19

Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	8.56%	8.32%	7.25%
Operating Margin (%)	4.49%	4.72%	4.26%
Net Margin (%)	2.57%	2.35%	1.89%
Funds from Operation (FFO) (PKR Millions)	339.00	342.26	341.96
FFO to Total Debt* (%)	46.25%	53.25%	82.70%
FFO to Long Term Debt* (%)	521.54%	633.70%	632.56%
Gearing (x)	0.58	0.42	0.23
Leverage (x)	0.90	1.05	0.71
Debt Servicing Coverage Ratio* (x)	3.71	2.74	2.75
Current Ratio (x)	1.41	1.51	1.99
(Stock in trade + trade debts) / STD (x)	1.81	2.97	4.75
Return on Average Assets* (%)	8.39%	6.95%	6.27%
Return on Average Equity* (%)	19.35%	16.84%	14.02%
Cash Conversion Cycle (days)	31.55	41.81	41.72

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Oil Industries Pakistan
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
21-11-2024	**A-**	**A2**	**Stable**	**Reaffirmed**
31-08-2023	A-	A2	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
Mr. Nadeem Khan	Chief Financial Officer	November 14, 2024
Mr. Danish Basit Shaikh	Director	