RATING REPORT

Taj Gasoline (Private) Limited

REPORT DATE:
May 24, 2023

RATING ANALYST:
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk

RATING DETAILS		
Rating Category	**Initial Ratings**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*May 24, 2023*	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** Grant Thornton Anjum Rahman
Private Limited Company	**Group Chief Executive Officer:** Mr. Muhammad Aslam Shaikh
Key Shareholders (with stake 10% or more):	
Mr. Muhammad Aslam Shaikh ~90%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Taj Gasoline (Private) Limited

OVERVIEW OF THE INSTITUTION

Taj Gasoline (Private) Limited was incorporated in Pakistan in 2016, as a private limited company. The Company operates as an Oil Marketing Company with 61 sites largely in the province of Sindh.

Profile of the Chairman:

The group is chaired and headed by Mr. Muhammad Aslam whose family has been associated with the downstream oil business for years. He is the founder member of Taj Corporation and has more than 20 years hands on experience in the oil industry.

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RATING RATIONALE

Corporate Profile

Incorporated in 2016 as a private limited company, Taj Gasoline is an Oil Marketing Company (OMC) involved in the business of procurement, storage, marketing and sale of petroleum and related products. The Company forms part of the Taj Group which has been in the downstream oil business for six decades and over the years have expanded into the automobile dealership business with Indus Motor Company Limited by the name of Toyota Sukkur Motor, hospitality business with restaurants operating under Royal Taj, Piatto and YELO in addition to running one hotel under Hotel One-(PC) banner. The Group is headed by Mr. Muhammad Aslam Shaikh who is the major shareholder in Taj Gasoline being the founding member of OMC. He has over 20 years' experience in the downstream oil sector.

The Company's first storage facility at Shikarpur has a capacity of 13,300 metric tons, which caters to Southern region. With the provisional OMC license extended till Dec 2023 by Oil and Gas Regulatory Authority (OGRA), the Company is in the process of completing infrastructure milestones including depots and installations as per the license requirements. Most recently, they have been granted the license to operate in Punjab as 4,280 metric ton storage facility in Habibabad is now operational. The Company is setting up additional storage unit in Daulatpur (4,280 metric ton) in Sindh and Taru Jabba (5,780 metric ton) in KPK. To date, the Company is operating 61 sites (including 7 company owned company operated) mainly in the Sindh region with plans to grow them to 100 across Punjab and Sindh over the next few years.

Sector Dynamics & Competitive landscape

Pakistan relies significantly on imports to meet the demand of its energy products. During FY22, the country's consumption rose by 14.9% to 23.1mn MT of petroleum products (FY21: ~20.1mn MT). The reliance on imported POL products has noted increase as a result of dwindling domestic oil reserves and a lack of new discoveries. Currently, there are 35 registered OMCs of which 5 are listed companies. Some of the leading OMCs in Pakistan include Pakistan State Oil (PSO), Shell Pakistan, Total Parco, Attock Petroleum, and Hascol Petroleum.

While Pakistan's OMC sector has experienced significant growth in recent years, driven by rising demand for energy due to the country's growing population and expanding economy, in the current year sales have been notably down largely due to ongoing slowdown in economic activity amidst high interest rates and record floods together with considerably lower auto sale. In addition, lower demand from power sector, declining agri activity and elevated prices of MS and HSD has also contributed to reduced utilization. OMC sales for Mar-2023 recorded a decline of 39% on a YoY basis.

OMC Industry Sales

'000 MT	Dec-22	Jan-23	Feb-23	Mar-23	YoY	MoM	9MFY23	YoY
PSO	626	704	598	536	-44%	-10%	6,483	-20%
APL	121	140	114	113	-30%	-1%	1,196	-21%
SHEL	110	115	105	89	-38%	-15%	987	-23%
HASCOL	26	26	27	43	236%	60%	256	8%
Others	452	458	372	326	-41%	-12%	3,877	-24%
Industry	**1,335**	**1,443**	**1,216**	**1,107**	**-39%**	**-9%**	**12,799**	**-21%**

Source: OCAC, OGRA

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, exposing the industry to high regulatory risk, which can reflect sizably on sector margins and profitability. Pricing mechanism encompasses fixed OMC and Dealer Margin of Rs. 6 per liter and Rs. 7 per liter respectively over the Ex Depot-Price, which is based on ex-refinery price (calculated on fortnightly average platts on weighted average exchange rate) plus Petroleum Levey and Inland Freight Equalization Margin (IFEM). More recently in December 2022, the Economic Coordination Committee (ECC) approved revised pricing guidelines whereby PSO's weighted average premium shall be applied for HSD price computation and any higher premium paid by importing OMC, OGRA shall take into consideration for adjustment in the IFEM. This mechanism is expected to protect margin price volatility over the long term.

Key Rating Drivers

Ratings incorporate high business risk.

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. While currency fluctuation is adjustable in pricing, it only takes effect over time. In addition, the industry remains highly regulated, which also exposes the Company to significant regulatory risk. With few larger players dominating the OMC market, competitive forces remain high, more so, amidst falling volumes.

Ratings incorporate strong volumetric growth relative to industry.

Despite the industry recording a decline in volumetric sales in the current year, TGPL has been able to continue the growth momentum with volume sales recording 8% growth. In FY22 also, the industry noted an 11% YoY growth in sales volume (FY21: 15%), while Taj Gasoline witnessed a significant growth rate of 56% in FY22 (FY21: 533%).

in M.Tons

Year	Industry		TGPL	
	Total	Growth	Total	Growth
19-20	**13,948,697**		**19,779**	
20-21	**15,971,392**	15%	**105,516**	433%
21-22	**17,798,829**	11%	**164,172**	56%
22-23 (8M)	**9,460,145**	-20%	**118,044**	8%

Together with sales volume increase and higher fuel prices, revenue was noted higher at Rs. 30b mark in FY22 (FY21: Rs. 16b). With the Company planning to increase their presence in Punjab after obtaining the license, they expect revenues to cross Rs. 60b in FY23. However, given the current macroeconomic situation, we consider the targeted growth plans may slow down.

Ratings reflect low and volatile margins.

The Company's gross margin increased to 8% in FY22 (FY21: 5%) before falling slightly to 5% in HY23, on account of rising commodity prices and currency depreciation. The Company's operating margins also show an increase from 3.1% in FY21 to 6.6% in FY22, before falling to 4% in HY23, Operating costs rose significantly to Rs. 460 m (FY21: 297m) in regards to inflationary pressure, growth and expansion . Net margins have historically remained low. For HY23, net margins were recorded at 1% (FY22: 1% and FY21: 2%), reflecting volatility across margins. Projected net margins are expected to stay around the same levels, going forward.

Favorable gearing.

Albeit a relatively small equity base of Rs. 2.2b, capitalization profile remains favorable with low gearing recorded at 0.10x in HY23 (FY22: 0.25x). Growth has been primarily equity financed with the last injection of Rs 500m in HY23. Keeping account of management's conservative financial management strategy towards borrowings from financial institutions and the expansion in the pipeline, we expect gearing to remain within reasonable levels.

Adequate liquidity and cash flow coverage.

Liquidity profile remains adequate with current ratio around 1x and favorable cash conversion cycle. Collection cycle is relatively short with around 3 days. Supplier payment terms on imports go up till 30 days and 2-3 weeks or local procurement. Aging profile is considered sound. Cash flow coverage from Funds from Operations (FFO) also remains high and debt servicing at 1.3x at the end of FY22.

Adequate Corporate Governance and IT framework.

The organizational structure commensurate with the size of the Company. Management team consists of industry experienced professionals with well-defined roles and delegation of powers. However, there is room for improvement in corporate governance infrastructure. At present, the Board Chairman and CEO position is held by the same individual. The Company also remains exposed to key man risk.

Overall scope and functioning of internal audit, operations and IT function is considered adequate. Retail fuel stations are equipped with live ERP systems which provides operational efficiencies. Backups are taken on and off site.

Taj Gasoline (Private) Limited — Appendix I

Financial Statement					*(Amount in Million)*
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**HY23**
Property, Plant & Equipment	445	476	744	1,376	1,471
Intangible assets	1	10	9	9	9
Stock in Trade	80	1,081	1,417	5,378	3,662
Trade Debts	0	222	48	322	901
Cash & Bank Balances	2	139	65	89	876
Other Assets	62	163	753	2,529	1,710
Total Assets	**590**	**2,091**	**3,035**	**9,704**	**8,629**
Trade and Other Payables	72	1,192	1,755	7,622	5,868
ST Borrowings	0	33	361	371	227
LT Borrowings	0	0	0	0	0
Deferred Liabilities	0	11	25	0	0
Other Liabilities	0	103	121	234	280
Total Liabilities	**72**	**1,339**	**2,262**	**8,227**	**6,375**
Issued, Subs, and Paid-Up Capital	250	250	250	1,000	1,000
Equity	**518**	**752**	**773**	**1,477**	**2,253**
INCOME STATEMENT					
Net Sales	410	3,236	11,530	30,204	25,915
Gross Profit	36	109	608	2,382	1,368
Operating Profit	14	26	352	2,002	1,146
Profit Before Tax	14	21	295	348	306
Profit After Tax	9	-8	213	155	189
FFO	10	25	327	541	151
RATIO ANALYSIS					
Gross Margin (%)	8.8%	3.4%	5.3%	7.9%	5.3%
Net Margin (%)	2.3%	-0.3%	1.8%	0.5%	0.7%
FFO to Total Debt	NA	0.75	0.91	1.46	1.33
Debt Servicing Coverage Ratio (x)	2.90	3.90	4.81	1.32	0.88
ROAA (%)	1.6%	-0.6%	8.3%	2.4%	4.1%
ROAE (%)	1.8%	-1.3%	27.9%	13.8%	20.2%
Gearing (x)	0.00	0.04	0.47	0.25	0.10
Leverage (x)	0.14	1.78	2.93	5.57	2.83
Current Ratio	1.97	1.21	1.02	1.01	1.13
Inventory + Receivables/Short-term Borrowings	NA	39.67	4.06	15.35	20.11

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Taj Gasoline (Pvt) Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	<table><tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr><tr><td colspan="5">RATING TYPE: Entity</td></tr><tr><td>May 24, 2023</td><td>A-</td><td>A-2</td><td>Stable</td><td>Initial</td></tr></table>
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 Meeting Conducted	<table><tr><th>Name</th><th>Designation</th><th>Date</th></tr><tr><td>Mr. Kashif Lawai</td><td>Chief Financial Officer</td><td rowspan="3">March 21, 2023</td></tr><tr><td>Mr. Yasir Alam</td><td>Financial Controller</td></tr><tr><td>Mr. Muhammad Bilal</td><td>Financial Analyst</td></tr></table>