

RATING REPORT

Taj Gasoline (Private) Limited

REPORT DATE:

Aug 20, 2024

RATING ANALYST:

Zainab Imran

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RATING DETAILS

Rating Category	Current Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A-	A-2
Rating Date	Aug 20, 2024		May 24, 2023	
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Upgrade		Initial	

COMPANY INFORMATION

Incorporated in 2016

External auditors: Grant Thornton Anjum Rahman

Private Limited Company

Group Chairman: Mr. Muhammad Aslam Shaikh

Key Shareholders (with stake 10% or more):

Chief Executive Officer: Mr. Muhammad Aslam Shaikh

Mr. Mubammad Aslam Shaikh ~90%

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria:

Corporate Rating Methodology

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Taj Gasoline (Private) Limited

OVERVIEW OF THE INSTITUTION

Taj Gasoline Private Limited (TGPL) was incorporated in Pakistan in 2016, as a private limited Company. The Company operates as an Oil Marketing Company with 70+ 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.

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 five decades and over the years have expanded into the Hospitality business with restaurants operating under Royal Taj, Piatto, Soda Shoda and YELO in addition to running one hotel under Hotel One-(PC) banner. In FY23, the Company successfully launched its first station in Punjab and obtained an OMC license in the province. In FY25, the Company plans to introduce "Automan," a comprehensive vehicle maintenance solution. Additionally, the Company is set to launch its own lube brand.

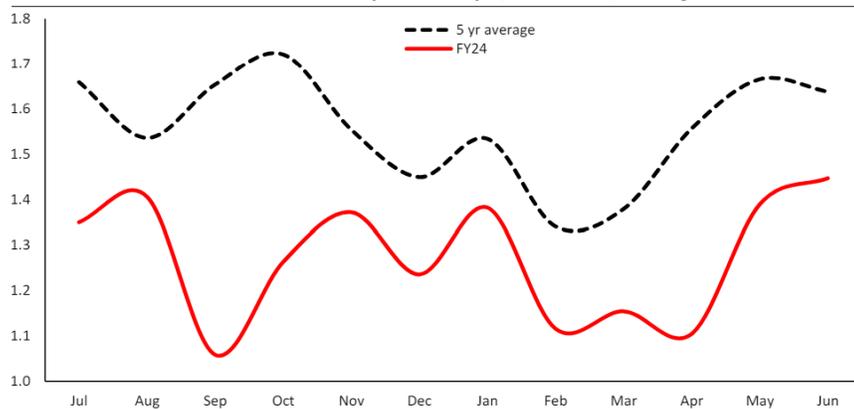
The Group is headed by Mr. Muhammad Aslam Shaikh who is the major shareholder (90%) in Taj Gasoline being the founding member of OMC. He has over 20 years' experience in the downstream oil sector.

Industry update

In Pakistan, OMCs operate under the Ministry of Petroleum & Natural Resources (MP&R) and OGRA. The oil and gas sector in Pakistan is highly cyclical, influenced by international oil prices, regulatory changes, and rupee stability. Pakistan's OMC market comprises 39 players out of them 5 are listed OMCs with the major market share comprises of Pakistan State Oil (PSO) holding ~50% market share

In FY24 petroleum sales declined by 8% year-over-year, dropping to 15.3 million tons, lowest in many years. This decline is attributed to (1) a slowdown in domestic demand and economic activity due to record inflation and high interest rates, (2) elevated prices of MS and HSD, (3) decreased power generation using Furnace Oil.

FY24 sales volumes remained below previous 5yr (FY19-FY23) average



Source: OCAC, Foundation Research, Jul 2024

Product-wise Motor Spirit (MS) / High Speed Diesel (HSD) sales at 7.1/6.3 million tons, were down 4% and 2% YoY, respectively, due to slowdown in economic activity amid record inflation and high interest rates, sustained high MS/HSD retail prices (averaging Rs281.6/284.7 per liter, respectively, in FY24), In the black oil segment, Furnace Oil (FO) sales were at 1.0 million tons in FY24, down 49% YoY, reflecting lower offtake by power producers and a higher proportion of RLNG, gas, coal, nuclear, and hydel generation.

However, month over month, June 2024 reflects an increase of 4%. After observing a decline for the past 2 years, volumes are expected to increase in FY25 on expected economic activity pick up although prices are expected to remain elevated.

Key Rating Drivers:

Ratings incorporate high business risk

Ratings incorporates high to medium business risk profile of the OMC segment, characterized by high cyclical, strong regulatory oversight and low pricing power. The industry remains dominated by a few large players. Competitive forces for the smaller players remain high.

Ratings reflect increased storage capacity

Location	Storage Capacity (M. Tons)		
	FY23	FY24	FY25 (P)
Shikarpur	13,300	13,300	16,600
Habibabad	4,280	4,280	4,280
Azakhel			5,780
Daulatpur			1,540
Total	17,580	17,580	28,200

During FY23 & 24, the storage capacity of the Company's depots remained unchanged; however, the Company purchased land to expand storage capacities in KPK & Sindh. In addition to increasing capacity at Shikarpur depot, the Company plans on adding storage capacities at Azakhel and Daulatpur, which is expected to take the storage capacity to 28, 200 M.Ton. These are expected to be operational in the first half of 2025.

Volumetric growth supported by expansion in outlets

Despite the industry recording a decline in volumetric sales in FY23 (26%) and FY24 (8%), TGPL has been able to continue the growth momentum with net volume sales recording 11% (FY22: 55%) growth in FY23 and 42% in FY24. This growth has been on account of expansion of outlets which have grown year over year. Consequently, market share has increased from 0.73% to 1.09% in FY23 and at 1.70% in FY24 end.

		FY21	FY22	FY23	FY24
Mogas (MS)	Industry	12%	8%	-17%	-4%
	TGPL	448%	83%	16%	35%
High Speed Diesel (HSD)	Industry	17%	15%	-28%	-2%
	TGPL	422%	33%	4%	51%
Total Sales	Industry	18%	16%	-26%	-8%
	TGPL	433%	55%	11%	44%

The Company is focusing on expanding its sites, primarily in Punjab and to a lesser extent in KPK, with 75 sites currently operational. Looking ahead, the Company plans to aggressively expand, with a goal of exceeding total outlets by 100 plus at the end of FY25.

Margins remain fairly stable

While gross margins depict a decline in FY23 and FY24, it may be noted that if we adjust the margins for exchange gains/losses, which are recovered in pricing as per the pricing formula, margins have remained stable. The pricing formula adjusts for the volatility in exchange rates however with a lag. Nevertheless, margins remain vulnerable to inventory losses.

Capitalization profile supported by equity injection

The capitalization profile remained favorable with low gearing, reported at 0.40x at the end of FY24 (FY23: 0.46x; FY22: 0.40x), despite increase in total borrowings from Rs. 371 million in FY22 to Rs. 610 million at end FY24. Growth has been primarily equity-financed, with an injection of Rs. 500 million in FY23 and enhancement in related party support. Leverage also depicts an improving trend, reducing to (FY22: 5.57x, FY23: 4.12x) 2.02x at end FY24 supported by increase in equity base.

Liquidity depicts improvement, coverages remain strong

The liquidity profile depicts improvement on a timeline basis with current ratio improving to 1.2x at the end of FY24 and a favorable cash conversion cycle. The coverage profile remains sound with Funds from Operations to Total Debt and to Total Long term debt at comfortable levels together with Debt service coverage ratio at 5x (FY22: 5.78x, FY23: 3.03x) during FY24.

Taj Gasoline Private Limited

Appendix I

Financial Summary			
Balance Sheet (PKR Millions)	FY22A	FY23A	FY24M
Property, plant and equipment	1,375.70	1,561.65	1,966.25
Stock-in-trade	5,378.30	5,283.45	4,632.57
Trade debts	322.40	239.77	759.73
Cash & Bank Balances	89.50	112.18	551.24
Other Assets	2,538.20	2,160.24	1,287.65
Total Assets	9,704.10	9,357.29	9,197.44
Creditors	7,055.66	6,167.05	4,846.05
Long-term Debt (incl. current portion)	222.70	397.49	609.18
Short-Term Borrowings	371.50	439.50	610.10
Total Debt	594.20	836.99	1,219.28
Other Liabilities	11.30	526.22	87.02
Total Liabilities	8,227.40	7,530.26	6,152.34
Paid up Capital	1,000.00	1,000.00	1,000.00
Equity (excl. Revaluation Surplus)	1,476.70	1,827.03	3,045.10
Income Statement (PKR Millions)	FY22A	FY23A	FY24M
Net Sales	30,203.95	56,091.45	90,045.71
Gross Profit	2,381.95	3,176.69	2,364.50
Operating Profit	349.65	818.25	1,747.34
Finance Costs	82.10	209.30	300.05
Profit Before Tax	348.25	608.95	1,447.30
Profit After Tax	155.45	304.88	1,037.15
Ratio Analysis	FY22A	FY23A	FY24M
Gross Margin (%)	7.89%	5.66%	2.63%
Operating Margin (%)	1.16%	1.46%	1.94%
Net Margin (%)	0.51%	0.54%	1.15%
Funds from Operation (FFO) (PKR Millions)	539.35	562.32	1,270.84
FFO to Total Debt* (%)	90.77%	67.18%	104.23%
FFO to Long Term Debt* (%)	242.19%	141.47%	208.62%
Gearing (x)	0.40	0.46	0.40
Adjusted Gearing(x)**	0.27	0.26	0.20
Leverage (x)	5.57	4.12	2.02
Debt Servicing Coverage Ratio* (x)	5.78	3.03	5.00
Current Ratio (x)	1.01	1.03	1.20
(Stock in trade + trade debts) / STD (x)	14.49	11.67	8.84
Return on Average Assets* (%)	2.44%	3.20%	11.18%
Return on Average Equity* (%)	13.82%	18.46%	42.57%
Cash Conversion Cycle (days)	-11.87	-9.09	-0.80
*Annualized, if required			
**Excluding lease liability			
A - Actual Accounts			
P - Projected Accounts			
M - Management Accounts			

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook/ Rating Watch	Rating Action
	<u>RATING TYPE: Entity</u>				
	20/08/2024	A	A-2	Stable	Upgrade
	24/05/2023	A-	A-2	Stable	Initial
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	Name	Designation	Date		
	Mr. Kashif Lawai	Group CFO	May 31, 2024		
	Mr. Hamza Paracha	CFO			
	Mr. Muhammad Bilal	Financial Analyst	July 3, 2024		
	Mr. Hafiz Shoaib	Finance Manager			
Mr. Hamza Paracha	CFO				