Hascol Petroleum Limited

Chairman & CEO: Mr. Mumtaz Hassan Khan

July 01, 2014

Analysts: Sobia Maqbool, CFA
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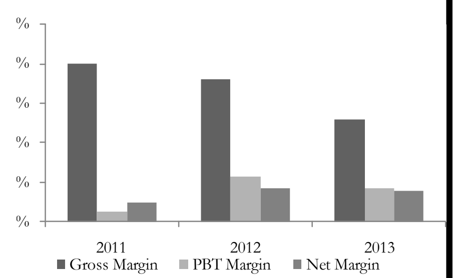
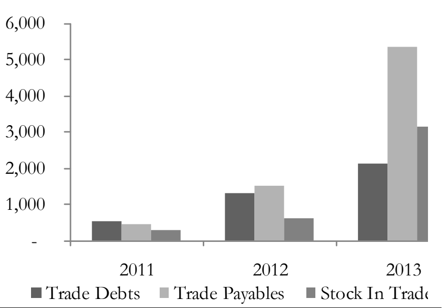
Category	Latest	Previous
Entity	A+/A-1	A-/A-2
	Mar 31, '14	*June 28, '13*
Outlook	Stable	Stable
	Mar 31, '14	*June 28, '13*

Key Financial Trends





(Rs. in Miillion)	2011	2012	2013
Net Sales	17,070	25,930	49,820
Net Profit	82	218	392
Equty	440	660	1,085
Total Debt	559	893	997
Debt Leverage (x)	4.3	5.2	7.3
FFO	85	281	473
FFO/Total Debt (x)	0.15	0.32	0.48
ROAE	27.6%	28.8%	31.3%
ROAA	3.8%	6.4%	5.7%

Rating Rationale

The upgrade of ratings assigned to Hascol Petroleum Limited (HPL) takes into account the improvement in both financial and business risk profile of the company. The company has raised Rs. 1b during the book building process while another Rs. 400m is expected to be generated during the Initial Public Offering (IPO); the amount of IPO is underwritten. Following the completion of IPO, equity of the company is estimated at Rs. 2.5b (2013: Rs. 1.1b). Strengthened balance sheet footing, post IPO, is expected to enhance availability of Letter of Credit (LC) facilities from financial institutions, which is considered important in view of the expansion in business operations.

Development of requisite infrastructure and an integrated supply chain network will be a competitive advantage for HPL vis-à-vis third party marketers. The business plan of HPL envisages storage facilities at strategic locations, keeping in view discharge points of White Oil Pipeline (WOP) and Mahmood Kot-Faisalabad-Machike (MFM) pipeline. In addition to the storage facility at Shikarpur, another one at Machike is proposed to come online as early as April 2014 while a third one in Mehmood Kot is also planned. Timely completion of storage facilities is considered critical to achieve growth targets and is a requisite for issue of permanent OMC license by the regulator. Following the completion of Machike facility, HPL owned storage capacity is estimated at 13,500 MT. In addition to owned facilities, the company also has third party hospitality arrangements in place. Total storage capacity (owned and leased) is estimated at 64,950 MT (2012: 27,700 MT) once the Machike facility comes online.

Given considerable increase in sales volumes, market share of HPL has strengthened across all major products during FY13. Aggregate market share is estimated at 2.8% for 2013 which is projected to be enhanced to 5% by 2015. With higher volumetric sales, net sales of the company increased to Rs. 49.8b during FY13 (2012: Rs. 25.9b) against the target of Rs. 42.1b. Total volumetric sales were higher at 549,062MT in 2013 as compared to 304,166MT in the previous year. In terms of sales revenue, HSFO continues to generate largest proportion at around 45%, followed by HSD (37%) and PMG (16%). Share of lubricants sales continues to be low at around 1%. While gross margins were lower at 2.6% (2012: 3.6%), higher volumetric sales translated into improved bottom line results. On the back of volumetric growth, profitability is projected to increase in coming years; meanwhile, enhanced focus on lubricants is likely to contribute positively to the company's margins. The company intends to establish its own blending facility within the next two years. In addition to this, retail outlet network of the company expanded to 210 at end-2013 (2012: 183) and additional 40 retail outlets will be opened during the ongoing year.

Given higher volumetric sales, Funds from Operations (FFO) of the company improved to Rs. 473.4m during 2013 (2012: Rs. 281.2m) while FFO to total debt improved to 0.48x (2012: 0.32x). Liquidity profile of the company is considered satisfactory. Credit period available from the upstream oil refineries is higher than the credit period offered to downstream customers. This allows the company to effectively manage its cash flows. While trade debts in relation to net sales have increased marginally in the last two years, they are considered lower in comparison to large OMCs which have been affected by the circular debt crisis in the energy sector. If the existing credit terms on sales and payables persist, need for on-balance sheet financing is expected to remain on the lower side.

With the deployment of JD Edwards, IT infrastructure of the company has strengthened. The centralized database provides real time data of product movement to the management for each individual storage facility. This allows structured information for management decision making and reduces turnaround time. Management team of HPL comprises seasoned professionals carrying years of experience in the oil and gas sector.

Overview of the Institution

HPL is an Oil Marketing Company (OMC) involved in the selling, distribution and storage of petroleum products alongwith blending and marketing of foreign branded lubricants "FUCHS". Financial statements for FY13 were audited by M/s Grant Thornton, Anjum Asim Shahid Rehman, Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
31-Mar-14	A+	Stable	A-1	Upgrade
28-Jun-13	A-	Stable	A-2	Reaffirmed
28-Dec-12	A-	Stable	A-2	Initial