RATING REPORT

Hascol Petroleum Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	A+	A-1
Sukuk 1	AA		AA-	
Rating Outlook	Stable		Stable	
Rating Date	*Nov 1, 2017*		*Nov 2, 2016*	

COMPANY INFORMATION

Incorporated in March 2001	External auditors: **Grant Thornton Anjum Rahman & Co. Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Mumtaz Hasan Khan**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Saleem Butt**
Vitol Dubai Limited – 25%	
Fossil Energy (Private) Limited – 10.45%	
Marshal Gas (Pvt) Limited – 7.31%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria:
Oil & Gas Industry (November 2016) http://www.jcrvis.com.pk/docs/Meth-OilGas201611.pdf
Industrial Corporates (May 2016) http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Hascol Petroleum Limited

RATING RATIONALE

Hascol Petroleum Limited (HPL) continued its growth momentum during FY17 and has become the second largest OMC based on sales volume during July-September 2017. Volumetric increase in sales has significantly outpaced industry growth, with off-take increasing by 43.9% (FY16: 29.6%) vis-à-vis industry growth of 10.9% (FY16: 3.5%). Resultantly, market share of HPL has consistently grown over the last few years and increased to 8.5% (FY16: 6.7%; FY15: 5.5%) in FY17. In July-September 2017, HPL's volumes further augmented by 52% vis-à-vis 9% growth in sector off-take resulting in increase in market share to over 10%.

Motor Spirits (MS), High Speed Diesel (HSD) and Furnace Oil (FO) represent bulk sales of HPL. Composition of sales mix has shifted towards high margin retail fuels (MS and HSD) with the same representing 73.3% (FY16: 68.8%; FY15: 60%; FY14: 56.7%) of overall sales in 1HFY17. In a bid to diversify revenue streams and enhance earnings, the company has embarked on a product diversification strategy entailing focus on lubricants, aviation fuel, Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and bitumen. Supply Chain infrastructure is also being enhanced through addition of Volvo trucks to the company's own fleet.

Business Risk:

- Sizeable capex planned by the largest Oil Marketing Companies (OMCs) in the country and other existing players is expected to intensify competition among existing players while threat from new entrants is expected to emerge over the medium term as storage at strategically important locations & port and retail outlet expansion will take time to materialize for new OMCs.
- Going forward, ongoing LNG/coal substitution is likely to have a negative impact on FO off-take though MS/HSD volumes are expected to continue to grow backed by increase in car sales, rising income levels and low product prices.
- Regulatory risk may surface in event of sharp rise in taxes on petroleum imports to curtail the country's rising current account deficit. Currency depreciation may also trigger a rise in prices and exert pressure on volumes; although impact is expected to remain limited.

Storage & Infrastructure: In tandem with business plan, there has been an uptick in pace of storage capacity (increased by 27.2% in 2016) and retail footprint expansion. Going forward, significant new capacities are projected to come online over the next two years while retail foot print expansion is also expected to pick pace and remains a key focus area.

Profitability: While operating profit increased notably by 61% in 2016, bottom line growth was constrained by rise in effective tax rate. Going forward, HPL's earnings are expected to remain strong on the back of uptick in volumetric sales, upward revisions in CPI-linked margins and normalization of tax rate, as long as inventory losses remain limited.

Liquidity: Liquidity profile is considered sound on account of positive working capital cycle and healthy cash flows in relation to outstanding obligations. However, some increase in trade debts has been witnessed in line with change in sales mix towards commercial sales. With increase expected in industrial/commercial sales, receivables are expected to remain on the higher side, going forward.

Capitalization & Funding: High dividend payout and sizeable debt funded capex has resulted in restrained equity growth and rise in gearing levels. For 2017, management has budgeted capex of Rs. 4.2b comprising expansion of retail network and storage facilities and will be funded through a mix of debt and equity. The company has recently announced 20% rights issue which will facilitate in maintaining leverage indicators at manageable levels. Gearing levels are projected to decline from 1.81(x) at end-June'2017 to 1(x) post completion of rights issue.

Corporate Governance & Management: During ongoing year, Mr. Saleem Butt was appointed as Chief Executive Officer (CEO) in place of Mr Mumtaz Hasan Khan. Thus, position of CEO and Chairman has been segregated in line with best practices. During FY17, HR department has completed initiatives such as job description, job analysis, organogram and redesign of performance management system. In order to enhance safety protocols, management envisages implementation of a Health, Safety, Security & Environmental (HSSE) management system.

OVERVIEW OF THE INSTITUTION

Hascol Petroleum Limited (HPL) was incorporated in March, 2001 under the Companies Ordinance, 1984. Primary business activities involve procurement, storage and marketing of petroleum & related products. The company is listed on Pakistan Stock Exchange (PSX) and its head office is located in Karachi.

Profile of Chairman
Mr. Mumtaz Hasan Khan has over 47 years of experience in the oil industry. He started his career from Burmah Shell Oil Storage and Distribution Company where he served for almost 13 years. In 1980, he started his own oil trading company (Hascombe Limited) in London. He is also on the Board of Pakistan Refinery Limited (PRL) and Chairman of Hascol Terminals Limited (HTL).

Profile of CEO
Mr. Saleem Butt possesses 25 years of diverse work experience in the OMC sector. He has been associated with HPL for over 8 years. Previously, he has worked with Shell Pakistan Limited and Emaar Properties in various leadership roles. Mr. Butt is fellow member of the Institute of Chartered Accountants of Pakistan (ICAP).

Financial Snapshot
Adjusted Equity: June 2017: Rs. 4,755.7m, December 2016: Rs. 4,337.2m

Net Profit: June 2017: Rs. 790.6m, June 2016: Rs. 612m

Hascol Petroleum Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	June 30, 2017	December 31, 2016	December 31, 2015
Fixed Assets	10,512.4	8,688.9	6,279.5
Stock-in-Trade	11,988.4	16,477.7	8,470.0
Trade Debts	11,673.9	7,871.3	4,263.6
Cash & Bank Balances	11,416.8	7,821.1	4,071.5
Total Assets	50,826.3	44,650.0	26,619.1
Trade and Other Payables	36,007.2	29,822.8	17,419.7
Long Term Debt	5,831.7	5,510.7	2,831.9
Short Term Debt	2,758.1	3,889.6	1,413.1
Adjusted Equity	4,755.7	4,337.2	3,844.4
INCOME STATEMENT	**June 30, 2017**	**December 31, 2016**	**December 31, 2015**
Sales-Net of Sales Tax	77,530.6	99,508.2	76,773.9
Gross Profit	3,049.9	4,707.8	2,839.0
Operating Profit	1,714.6	2,627.2	1,629.8
Profit After Tax	790.6	1,215.6	1,133.2
RATIO ANALYSIS	**June 30, 2017**	**December 31, 2016**	**December 31, 2015**
Gross Margin (%)	3.9%	4.7%	3.7%
Net Working Capital	(2,480.2)	(1,324.7)	(2,319.7)
FFO to Total Debt (x)	0.23	0.19	0.26
FFO to Long Term Debt (x)	0.34	0.33	0.39
Gearing (x)	1.81	2.17	1.10
Debt Leverage (x)	9.24	8.89	5.42
Debt Servicing Coverage Ratio (x)	2.15	2.41	1.92
ROAA (%)	3.3%	3.4%	5.4%
ROAE (%)	34.8%	29.7%	34.2%

* For debt and its ratios, commitments have been accounted for.

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Hascol Petroleum Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity & Sukuk Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
1-Nov-17	AA-	A-1	Stable	Upgrade
02-Nov-16	A+	A-1	Stable	Reaffirmed
07-Jul-15	A+	A-1	Stable	Reaffirmed
31-Mar-14	A+	A-1	Stable	Upgrade
28-Jun-13	A-	A-2	Stable	Reaffirmed
28-Dec-12	A-	A-2	Stable	Initial

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK			
1-Nov-17	AA	Stable	Upgrade
02-Nov-16	AA-	Stable	Reaffirmed
08-Jan-16	AA-	Stable	Final
06-Nov-15	AA-	Stable	Preliminary

Instrument Structure	Sukuk of Rs. 2.0b carries profit rate of 3months KIBOR plus 1.5% per annum that is payable quarterly. Security structure of the Sukuk entails formation of a debt payment mechanism to progressively retain upcoming installment in an escrow account. Security structure also includes first pari passu charge over specific depots and retail outlets of the company inclusive of a margin of 25%.
Statement by the Rating Team	JCR-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	JCR-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.
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