RATING REPORT

Hi-Tech Lubricants Limited (HTL)

REPORT DATE:
April 21, 2020

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Rating Outlook	Rating Watch-Negative		Stable	
Rating Date	*April 21, '20*		*September 20,'19*	

COMPANY INFORMATION

Incorporated in 1997	**External auditors:** M/s Riaz Ahmed & Co., Chartered Accountants
	Chairman of the Board: Mr. Shaukat Hassan
Public Limited Company	**Chief Executive Officer:** Mr. Hassan Tahir
Key Shareholders (with stake 5% or more):	
Shaukat Hassan & family – 31.1%	
Tahir Azam & family – 31.1%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: *Industrial Corporates (May 2019)*
https://www.vis.com.pk/kc-meth.aspx

Hi-Tech Lubricants Limited

OVERVIEW OF THE INSTITUTION

Hi-Tech Lubricants Limited (HTL) was initially formed as a partnership firm in March, 1997. In 2011, the firm was converted into a private limited company by the name of Hi-Tech Lubricants (Pvt.) Limited and subsequently converted into a public unlisted company in the same year. In 2016, the company was listed on the Pakistan Stock Exchange (PSX).

Primary activity of HTL involves trading of lubricants imported from SK Lubricants, South Korea in Pakistan under the brand name 'ZIC'. Registered office of the company is located at 1-A Danepur Road, GOR-1, and Lahore.

The company association with SK Lubricants, South Korea extends since 1997. The arrangement is for a period of 2 years and is extendable for another 2 years.

RATING RATIONALE

HTL has been in the business of lubricants for around two decades. HTL sells almost all of its lubricants under the brand name 'ZIC'. The company has also invested in a wholly owned subsidiary, Hi-Tech Blending (Pvt.) Limited (HTBL) to set up a state of the art blending plant which was completed in August'2016. The plant has the facility of blending, producing its own bottles/caps and filling lines for lubricant bulk import. Blending capacity of the plant is 30,000 MT per annum, whereas filling capacity of the plant is 90 bottles per minute. Process of manufacturing bottles and filling lubricants is almost entirely automated.

HTL's product portfolio includes diesel, gasoline and motor cycle engine oil. Product portfolio also caters to Underhoods (industrial oils, greases, hydraulics, gear oils, brake fluids and coolants). These products are further classified into two segments i.e. top-tier (synthetic) and mid-tier (semi-synthetic) segment. Company's entire sales are made through distributors (over 150 distributors) with limited institutional sales.

Oil Marketing Business (OMC)

The Company has also diversified in the oil marketing business with 11 operational HTL Fuel Stations and target of 20 in Punjab by 2020. OGRA has also granted permission to HTL to proceed with applying NOCs for opening of 35 HTL Fuel Stations with retail sales only expected to commence with completion of requisite storage infrastructure.

Coronavirus Impact

With the prevailing uncertainty due to coronavirus outbreak, prolonged lockdown, and overall contraction in demand, it is expected that sales volumes and cash flows of lubricant and oil marketing players will be significantly impacted. Status of the assigned rating is therefore uncertain, as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch Status'. Given the demand compression emerging from the continued lockdown situation and low quantum of cash flow from operations, ratings are being placed on 'Negative' outlook. Comfort is drawn from HTL's low leveraged capital structure and absence of long-term debt on balance sheet which alongwith recent decline in interest rate (resulting in reduction in financial charges) is expected to support financial profile. Ratings remain dependent on maintaining market position, improving cash flow profile while maintaining low leveraged capital structure. VIS will closely monitor and will accordingly take action to resolve the outlook status.

Hi-Tech Lubricants Limited Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Dec 31, 2019**
Fixed Assets	948.0	1,386.3	1,583.9	1,561.7
Short Term Investments	1,081.1	917.4	882.5	838.4
Stock-in-Trade	1,505.3	961.2	802.0	732.1
Trade Debts	179.6	236.9	1,189.4	86.6
Cash & Bank Balances	75.1	471.6	158.9	47.3
Total Assets	5,881.1	5,522.3	6,116.0	5,196.2
Trade and Other Payables	804.0	614.0	739.1	455.6
Long Term Debt *(*incl. current maturity)*	122.8	155.1	99.4	68.2
Short-term Debt	1,190.0	707.6	1,974.9	1,464.0
Paid-up Capital	1,160.0	1,160.0	1,160.0	1,160.0
Total Equity	3,744.3	3,892.7	3,226.8	3,012.7
INCOME STATEMENT	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Dec 31, 2019**
Net Sales	7,488.9	9,253.6	9,431.2	2,076.6
Gross Profit	1,774.4	1,928.3	1,294.4	433.8
Operating Profit/ (Loss)	1,067.2	959.1	37.7	(66.6)
Profit Before Tax	1,031.4	876.5	(197.3)	(163.1)
Profit After Tax	727.0	554.4	(434.8)	(185.1)
RATIO ANALYSIS	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Dec 31, 2019**
Gross margin (%)	23.7	20.8	13.7	20.9
FFO	752.7	612.1	(495.3)	(165.9)
FFO to Total Debt (x)	0.61	0.71	(0.24)	(0.11)
FFO to Long-term Debt (x)	6.13	3.95	(4.98)	(2.43)
Debt Leverage (x)	0.57	0.42	0.90	0.72
Gearing (x)	0.33	0.22	0.64	0.51
Current Ratio (x)	1.7	1.8	1.1	0.97
DSCR (x)	25.0	7.9	(1.6)	0.2
ROAA (%)	14.7	9.7	-7.5	-6.5
ROAE (%)	20.5	14.5	-12.2	-11.9

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Hi-Tech Lubricants Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
Probability of Default	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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Due Diligence Meetings Conducted	N/A

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Apr 21, 2020	A	A-2	Rating Watch -Negative	Maintained
Sep 12, 2019	A	A-2	Stable	Downgrade
Feb 22, 2018	A	A-1	Stable	Initial