



Rating Action

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Applicable Criteria and Related Research

- Refining Sector Viewpoint | Oct-16
- Corporate Rating Methodology

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PACRA MAINTAINS ENTITY RATINGS OF ATTOCK REFINERY LIMITED

The Pakistan Credit Rating Agency (PACRA) has maintained the long term and short term entity ratings of Attock Refinery Limited (ARL) at 'AA' (Double A) and 'A1+' (A One Plus) respectively. The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect ARL's very strong risk absorption capacity emanating from sizable equity base. ARL's core business remains exposed to the vicissitude of international crude oil and refined product margins. Herein, ARL's product slate with large contribution of high margin products provides comfort. At the same time, ARL's strategic investments and sizable bank placements continue to provide risk absorption capacity and a stable source of income. The ratings also encapsulate ARL's sizable debt for ongoing projects. There has been some delays in the commissioning of projects (ISOM & Pre-flash); hence it is crucial to complete the projects at the earliest. The company has completed DHDS and now benefiting from incremental HSD price. The company can comfortably make few of initial principal repayments from available resources. Subsequently incremental cash-flows would supplement the financial profile. The company's association with the country's only integrated oil group - Attock Group (AG), low leveraged - remains a source of comfort for the ratings.

The ratings remain dependent on ARL's ability to effectively shield its business profile from volatility in international oil prices. ARL's financial profile, in turn, its ratings, could be negatively impacted from further delay in completion of projects leading to mismatch in projected cash inflows and debt repayments, persistent downturn in refining margins, or un-expected drop in dividend stream. The continuity of deemed duty is crucial.

About the Company: ARL's refining capacity of 43,000 bpd represents ~10% of the country's overall refining capacity. AG retains the majority stake (63%), in turn, management control in ARL. ARL's Board of Directors comprises seven members. Out of these six are representatives of AG - family - while the remaining one is independent director. The Chairman of the BoD, Mr. Shuaib A. Malik, is also CEO of Attock Oil Group. Mr. Adil Khattak, the CEO, has extensive experience in the petroleum sector. During July 2015, he has been re-appointed as CEO of the company till Dec-16. He is supported by an experienced management team which has demonstrated stability over time.

ARL has undertaken projects a) Pre-Flash Unit - to enhance refining capacity by 10,400bpd. b) Isomerization Unit - to enhance production of PMG; c) The Diesel Hydro Desulphurization(DHDS) - to reduce sulphur content in diesel d) Expansion of existing captive power plant by 18 Mega Watt. The cost of these projects is ~USD251mln. The company faced logistic issues arising due to multiple reasons beyond the control of the Company. Resultantly, the projects could not be commissioned at the timeline of Jun-16. (DHDS) project has been commissioned during July-16 and pre-commissioning activities for rest of the units are underway.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.