



## Rating Action

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## Applicable Criteria and Related Research

- Refining Sector Viewpoint | Sep-15
- Corporate Rating Methodology

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## PACRA MAINTAINS RATINGS OF PAKISTAN REFINERY LIMITED

The Pakistan Credit Rating Agency (PACRA) has maintained the long term and short term entity ratings of Pakistan Refinery Limited (PRL) at 'A-' (Single A Minus) and 'A2' (A Two) respectively. The rating of TFC I of PKR3,000mln and TFC II of PKR1,000mln have been maintained at 'A' (Single A). The ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect the strength of the business profile of PRL emanating from its sustainable operational history, strong demand of its products and its strategic importance in the domestic context. The design of PRL's plant offers relatively limited flexibility; in turn, low margin and high exposure to volatile dynamics of international crude oil and refinery product pricing. However, with the successful commissioning of Isomerization plant, the company experienced volumetric growth in high-margin products which boosted profitability. The incremental cashflows are adequate considering size of the related debt obligations. In addition, the stability in oil prices may supplement the profitability and hence cashflows.

The ratings could be impacted by prolonged constrain in refining margins and/or adverse changes in the existing regulatory framework leading to depressed core cashflows.

### About the Company:

Pakistan Refinery Limited (PRL), having refinery capacity of 2.1mln tons per annum, is operational since Oct'62. Majority shareholding in PRL is held by Shell Petroleum Company Limited, UK, (30%) Pakistan State Oil Company Limited (22.5%), HASCOL (14%) and Chevron (7.5%). During the year, Shell has decided to reduce its shareholding in PRL. PSO showed its intention to acquire the same. The transaction is in the process of regulatory approvals. Upon completion of the transaction, PSO would be the biggest shareholder of PRL. PRL's DHDS project is still pending (GOP latest extension is till June'17). Given pending change in ownership, clarity as to timeline and funding mix would emerge later. The company is also looking for capacity expansion opportunities.

The company has eleven member board (including the CEO) - six class B directors representing sponsoring companies (currently three from PSO, two from Shell and one from Chevron) and four class A directors representing other shareholders.

### About the Debt Instruments

PRL, issued two TFCs during FY13. TFC I (outstanding at end Mar-16 PKR 1,732mln), carrying fixed profit rate of 10.55%, has a tenor of 3 years and will be due for maturity in Dec'16. TFC II (outstanding at end Mar-16 PKR 244mln), carrying fixed profit rate of 10.75%, has a tenor of 5 years and will be due for maturity in Dec'18. Although principal repayment is at maturity, these instruments carry perpetual Put option. The TFCs are secured by way of Hypothecation of a) Stocks and Receivables and b) Fixed Assets.

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.