The Pakistan Credit Rating Agency Limited

BYCO OIL PAKISTAN LIMITED

INSTRUMENT RATING

Sukuk Issue (OTC Listed)	INITIAL [JAN-17]
Sukuk (*PKR 3,120mln*)	AAA
Outlook:	Stable

REPORT CONTENTS

JANUARY 2017

Sukuk Structure

- The proposed over-the-counter listed Sukuk of PKR 3,120mln carries Unconditional and Irrevocable Credit Guarantee from a multilateral guarantor – GuarantCo. Limited; guarantee would cover 100% of issue amount (principal)
- The Issuer – Byco Oil Pakistan Limited (BOPL) – would maintain a 'Debt Service Reserve Account' (DSRA) under lien of the Security Trustee whereby the installments (Principal+Profit) shall be made available prior to due date
- BOPL will ensure that (a) an amount equivalent to two upcoming Rental payments (profit only) is maintained in the DSRA at all times during the tenor of the Sukuk Issue, and (b) each Redemption amount (principal) is deposited in the DSRA 55 days prior to the relevant Redemption Date
- In case BOPL is unable to fund the installment on the funding date, a 30days cure period will be given to BOPL and GuarantCo. will be informed
- If DSRA is not replenished in the stipulated time, the trustee will call the guarantee to settle the total outstanding principal amount within 15days
- In any case, GuarantCo. would ensure that requisite amount is filled in DSRA not later than 5 business days before the due date. Meanwhile, profit portion would be settled through already held rental payment
- Furthermore, in case of a temporary liquidity constraint, the issuer may request GuarantCo. for support. If GuarantCo. decides to fill the shortfall, the payment has to be made to DSRA by no later than 5 business days before the relevant date; however, GuarantCo. is not bound to fulfill the request
- In case GuarantCo. does not decide to pay, the above mechanism will remain applicable

Guarantor's Profile

- GuarantCo. Limited was incorporated in Mauritius in Aug'05 with the mandate to support infrastructure projects in low income countries via guarantee provisions and development of local financial debt markets
- GuarantCo's shareholding comprises five highly rated sovereigns; United Kingdom (AA), Switzerland (AAA), Sweden (AAA), and Australia (AAA) own 70%, 13%, 5% and 1%, respectively, through Private Infrastructure Development Group (PIDG), and Netherlands (AAA) owns 11% through Nederlandse Financierings (FMO)
- PIDG, with consolidated strength of eight members, is a donor Financed Trust, while FMO is a Dutch development bank
- GuarantCo. enjoys 'AAA' ratings issued by PACRA in Jan'16, 'AA-' and 'A1' by Fitch and Moody's, respectively, in Jul'16, and 'AAA' by Bloomfield Investment in Jun'16
- The company has a strong liquidity profile with robust capitalization

BOPL's Profile

- Byco Oil Pakistan Limited (BOPL), incorporated in Apr06, is engaged in oil refining business
- Total capacity of 120,000bpd - ~30% of the country's refining capacity
- The company's operations are at halt since Oct15 due to heater catching fire. BOPL is financially stressed, therefore, timely recommencement of operations (expected by May17) is considered important
- BOPL is 100% owned by Byco Industries Incorporated – a joint venture between Byco Busient Incorporated (Byco Group Company) and Abraaj Mauritius Oil & Gas Limited (Abraaj Group Company) with 60% and 40% stake, respectively
- Byco Group is in the process of merging its subsidiaries comprising refinery, OMC, and terminal operations to generate synergies. Post-merger, Byco will be the first company to have its own liquid port
- The group has made efforts to improve supply chain management through better inventory management and renegotiation of credit terms with suppliers and customers

RATING RATIONALE

The rating reflects Unconditional and Irrevocable Credit Guarantee available to Sukuk holders from a multilateral guarantor - GuarantCo. Limited, rated AAA (Jan'16) by PACRA. The guarantee would be covering 100% of issue amount (principal). The issuer would maintain a 'Debt Service Reserve Account' (DSRA) under lien of the Security Trustee whereby the installments (Principal plus Profit) shall be made available prior to due date. The issuer will ensure that (a) an amount equivalent to two upcoming Rental payments (profit only) is maintained in the DSRA at all times during the tenor of the Sukuk Issue, and (b) each Redemption amount (principal), is deposited in the DSRA 55 days prior to the relevant Redemption Date.

In case the issuer is unable to fund the installment on the funding date, a 30 days cure period will be given to the issuer. Simultaneously, the guarantor will be informed. If DSRA is not replenished in the stipulated time, the trustee will call the guarantee to settle the total outstanding principal amount. In any case, the guarantor would ensure that requisite amount is filled in DSRA not later than 5 business days before the due date. Meanwhile, profit would be settled through already held Rental Payment.

Sukuk Terms	
Tenor	5yrs including 2yrs grace period
Profit Rate	3M Kibor + 105bps
Profit Payment	Quarterly in arrears
Principal Redemption	12 equal quarterly instalments in arrears

PKR mln

Byco Oil Pakistan Limited

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	3M	Annual	Annual	Annual
Non-Current Assets	**54,868**	**54,750**	**54,495**	**49,932**
Investments (Incl. associates)	**7,905**	**7,905**	**7,905**	**7,905**
Equity	7,905	7,905	7,905	7,905
Debt	-	-	-	-
Investment property	-	-	-	-
Current Assets	**2,898**	**1,307**	**5,355**	**1,656**
Inventory	1,674	336	2,887	1,100
Trade Receivables	-	-	1,377	-
Others	1,224	971	1,091	556
Total Assets	**65,671**	**63,962**	**67,755**	**59,494**
Debt	**13,024**	**11,759**	**15,670**	**17,581**
Short-term	5,976	4,147	7,141	1,587
Long-term (Incl. Current Maturity of long-term debt)	7,048	7,613	8,529	15,993
Other shortterm liabilities	19,153	18,692	15,090	10,047
Other Longterm Liabilities	6,163	6,155	7,715	2,585
Shareholder's Equity	**27,331**	**27,356**	**29,281**	**29,281**
Total Liabilities & Equity	**65,671**	**63,962**	**67,755**	**59,494**
INCOME STATEMENT				
Turnover	**5,110**	**45,151**	**2,815**	**-**
Gross Profit	(476)	(1,784)	40	-
Net Other Income	562	(252)	40	52
Financial Charges	(75)	(663)	(34)	(0)
Net Income	**(25)**	**(2,934)**	**(28)**	**(14)**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	351	(562)	54	(14)
Net Cash changes in Working Capital	2,300	7,381	1,229	4,074
Net Cash from Operating Activities	2,622	6,024	52	3,316
Net Cash from InvestingActivities	(414)	(1,831)	(2,826)	(3,108)
Net Cash from Financing Activities	(2,073)	(4,425)	3,038	(18)
Ratio Analysis				
Coverages				
Interest Coverage (FCFO/Gross Interest)	4.7	-0.8	1.6	-93.7
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.1	0.0	0.0	0.0
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.1	0.0	0.0	0.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	37.6	-33.7	2042.9	-2196.7
Capital Structure (Total Debt/Total Debt+Equity)	48.0%	46.7%	51.3%	43.5%

STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk**. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.
CCC CC C	**Very high credit risk**. "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Issuer Byco Oil Pakistan Limited
Sector Refinery
Type of Relationship Solicited

Purpose of the Rating: Independent Risk Assessment

Rating History

Notification Date	Rating	Action
9-Jan-17	AAA	Initial
22-Jul-16	AAA	Preliminary

Instrument Details

Nature of Instrument	Size of Issue	Tenor	Redemption	Security
Sukuk (OTC-listed)	PKR 3,120mln	5 years	12 equal quarterly installments in arrears starting after two years grace period	Unconditional and Irrevocable guarantee by GuarantCo Limited covering 100% of issue amount. Ranking charge on all present and future fixed assets of the company with 25% margin

Related Criteria and Research

Methodology: Debt Instrument Rating Methodology

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP
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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;
Prohibition

Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past.