The Pakistan Credit Rating Agency Limited

PAKISTAN NATIONAL SHIPPING CORPORATION
RATING REPORT

	PROPOSED [DEC 17]	PREVIOUS [FEB 17]
LONG TERM	AA	AA
SHORT TERM	A1+	A1+
OUTLOOK	STABLE	STABLE
ACTION	MAINTAIN	UPGRADE

REPORT CONTENTS

DECEMBER 2017

Profile & Ownership

- PNSC Group, with a fleet of nine vessels, is engaged in the business of shipping, charter of vessels, transportation of cargo and real estate.
- The Group constitutes PNSC holding company, its nineteen subsidiaries and an associate concern.
- Incorporated in 1979, as a result of merger of National Shipping Corporation and Pakistan Shipping Corporation.
- Listed on Pakistan Stock Exchange.
- Majority (86.09%) owned by Government of Pakistan (GOP) through the Ministry of Ports and Shipping.

Governance

- Board comprises seven members; five GoP nominees and two independent directors.
- The CEO, a GoP nominee, is vested with the authority of Chairman as per the governing Shipping Ordinance.
- For better governance and oversight of the company the board has formed three committees i) Audit Committee ii) Human Resource & Remuneration Committee and iii) Commercial Committee.
- Governance quality bode well owing to diversified experience and technical stature of board members.

Management

- The CEO, Mr. Rizwan Ahmed, joined PNSC in Dec17. He has worked on various key positions in the federal and provincial governments. He brings with him vast professional experience in administration, finances, management, human resource, law enforcement and public procurement.
- A tall organizational structure with a professional management team supported by ten committees.
- Experienced management with long association with PNSC.

Business and Operational Risk

- Strong technology infrastructure - employs SAP based ERP system and an international satellite system, Purple Finder, to track vessels.
- Remains in close co-ordination with Pakistan Navy, NATO and Combined Task Force for risky voyages.

Performance

- Liquid cargo dominates the topline (~60%) followed by Slot Charter (31%) and Bulk Cargo (9%).
- During FY17, overall revenues witnessed modest decline primarily on account of decline in liquid business with refineries. (FY17: 12,286mln; FY16: 12,368mln).
- PNSC has signed Contract of Affreightment with four refineries. Share of revenue from refineries decreased during the year (FY17: 30%, FY16: 35%).
- Despite slight decrease in revenue and increased depreciation expense overall company's margins remained intact on the back (Gross margin: FY17: 28.1%, FY16: 28.3%).
- Reduction in finance cost also helped PNSC in registering higher net income (1QFY18: PKR 653mln, FY17: PKR 2,476mln, FY16: 2,323mln).
- Going forward, PNSC is planning to add two new vessels into its fleet alongwith two ferries. These vessels will be financed through debt to equity ratio of 90:10.

Financial Risk

- PNSC's working capital needs originate mainly from demurrage expenses receivable from the clients. Majority of the demurrage expenses are of PSO. The company meets working capital needs from internal cash flow generation.
- FCFO – a function of EBITDA – remained strong (FY17: 3,796mln, FY16: 3,505mln).
- Due to long term debt repayment, coverages improved (Interest Coverage: FY17: 11.5x, FY16: 6.3x, FY15: 3.9x Debt Coverage: FY17: 2.5x FY16: 2x, FY15: 1.1x).
- The company paid dividend of PKR 260mln during FY17 (FY16: PKR 196mln).
- PNSC has a low leveraged capital structure (end - Sep17: 11.2%). Further loan to expand fleet size would increase leveraging; though likely to remain in comfortable range.

RATING RATIONALE

The ratings reflect PNSC's strong ownership - majority owned by Government of Pakistan - and its strategic significance as the country's flag carrier. On a stand-alone basis, PNSC's business profile has gained significant strength in recent years as exhibited by continuous improvement in business margins on account of efficient fleet utilization, better pricing strategy, and cost management measures taken by the management. The company is currently catering increasing business volumes through chartered-hire vessels. Considering the volatility in margins, the company aims to increase its own fleet size by acquiring two vessels – Aframax and Long-range I. The expansion also includes acquisition of two ferries. These expansions are expected to result in improved revenue base and higher margins, in turn, further fortification in business profile of the company. The acquisition of new vessels would be majorly financed through debt; thus higher leveraging. This would burden the financial profile; however, improving cash flows from existing business coupled with expectation of additional high margin business to be catered by new vessels is likely to generate commensurate cashflows to support debt service coverages. This, along-with on-balance sheet liquidity, supports overall risk profile of the company. Government's decision to cut furnace oil imports can have seasonal impact on the company's revenues, though annual revenues are expected to remain intact.

KEY RATING DRIVERS

The ratings are dependent on the Corporation's ability to generate envisaged cash flows post-expansion. Meanwhile, proactive management of financial profile while improving coverages remains important.

PKR mln

Pakistan National Shipping Corporation Limited

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	3M	Annual	Annual	Annual
Non-Current Assets A	**22,922**	**23,242**	**24,300**	**25,276**
Investments (Incl. associates) B	**2,728**	**2,721**	**2,244**	**1,822**
Equity	2,727	2,721	2,242	1,821
Debt	-	-	-	-
Other Non-Current Assets	1	1	1	1
Current Assets C	**12,058**	**11,690**	**9,996**	**9,173**
Trade Receivables	2,979	2,725	1,960	2,282
Others	9,079	8,965	8,036	6,891
Total Assets (A+B+C)	**37,707**	**37,652**	**36,537**	**36,270**
Debt	**3,854**	**4,154**	**5,352**	**7,450**
Short-term	-	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	3,854	4,154	5,352	7,450
Other shortterm liabilities	2,737	3,061	2,991	2,562
Other Longterm Liabilities	619	592	613	852
Shareholder's Equity	**30,497**	**29,845**	**27,582**	**25,407**
Total Liabilities & Equity	**37,707**	**37,652**	**36,537**	**36,270**
INCOME STATEMENT				
Turnover	**3,118**	**12,286**	**12,368**	**15,381**
Gross Profit	884	3,455	3,491	3,111
Other Income	161	985	509	810
Financial Charges	(70)	(330)	(559)	(670)
Net Income	**653**	**2,477**	**2,323**	**2,116**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,057	3,796	3,505	2,601
Net Cash changes in Working Capital	(458)	(970)	662	123
Net Cash from Operating Activities	529	2,502	3,618	2,084
Net Cash from Investing Activities	(216)	(319)	(2,066)	(2,528)
Net Cash from Financing Activities	(303)	(1,471)	(2,365)	1,404
Net Cash generated during the period	10	712	(812)	960
Ratio Analysis				
Performance				
Turnover Growth	-14.3%	-0.7%	-19.6%	-1.3%
Gross Margin	28.3%	28.1%	28.2%	20.2%
Net Margin	20.9%	20.2%	18.8%	13.8%
ROE	8.7%	8.5%	8.5%	8.8%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.8	2.5	2.0	1.1
Interest Coverage (x) (FCFO/Gross Interest)	15.0	11.5	6.3	3.9
Debt Payback-Years (Total Lt.Debt (excluding Covered Short Term Borrowings) / FC	1.0	1.2	1.8	3.9
Liquidity				
Short-term Total Leverage (Net Current Assets - STB) / Current Assets	64%	60%	51%	64%
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	47	50	50	33
Capital Structure (Total Debt/Total Debt+Equity)	11.2%	12.2%	16.3%	22.7%

CREDIT RATING
SCALE & 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 and in 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.** Substantial 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.

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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, the 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, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Name of Issuer Pakistan National Shipping Corporation Limited
Sector Shipping
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
13-Feb-17	AA	A1+	Stable	Upgrade
16-Feb-16	AA-	A1+	Stable	Maintain
17-Feb-15	AA-	A1+	Stable	Maintain
17-Jan-14	AA-	A1+	Stable	Maintain
16-May-13	AA-	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology: Corporate Rating Methodology
Research: Shipping Sector - Viewpoint | Feb-17

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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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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