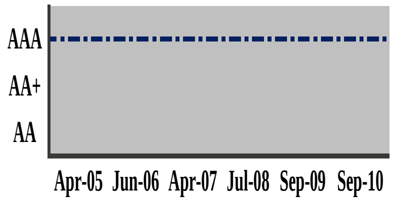
RATINGS (OCTOBER 2010)
NATIONAL REFINERY LIMITED

ENTITY	NEW	PREVIOUS
Long Term	AAA	AAA
Short Term	A1+	A1+

LT RATING HISTORY



FINANCIAL DATA
PKR (mln)

	FY10	FY09	FY08
Total Assets	51,639	42,345	46,605
Equity	19,637	17,353	17,419
Turnover	110,186	109,578	239,386
Net Income	3,285	1,533	6,007
Gross Margin	5.8%	4.8%	8.3%
ROE	16.7%	8.8%	41.8%
EBIDTA	4,410	2,174	8,431

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect NRL's robust financial profile supported by a debt-free capital structure and healthy liquidity, which has allowed the company to withstand the prevailing inter-corporate debt issue in the oil and gas chain. The ratings also incorporate NRL's low business risk, stemming from its relatively stable margins and dominant position in the profitable lube segment. At the same time, the company enjoys synergic advantages as part of an integrated oil group – Attock Group.
- The ratings could be negatively impacted by external factors such as unfavorable movements in international oil prices and adverse regulatory changes, leading to prolonged downturn in refining margins. The company's ability to maintain its leading position in the lube segment, thus, sustaining profitability, and effectively manage circular debt issue to avoid stress on cash flows remain important for the ratings. Meanwhile, any weakening of governance framework could impact ratings.

ASSESSMENT

- The refining industry in Pakistan, with a total capacity of 13 mln tpa, has come under pressure in recent years due to thin refining margins and volatility in international oil prices. The problem has been further aggravated by the ongoing circular debt issue, which has constrained the liquidity of the sector. NRL, with a capacity of 2.7 mln tpa, constitutes around one fifth of the country's refining capacity. In addition to being the second largest refinery in Pakistan, it is the only domestic refinery with oil, lube and BTX operations. This flexibility allows the company to alter its product portfolio in line with changing demand patterns and protects the company, to some extent, from fluctuations in refining margins. Moreover, the company enjoys a virtual monopoly in the lucrative lube segment. Prices in this segment are aligned with international prices to keep products competitive against imports. Similarly, the prices of fuel products are determined based on the principle of import parity pricing, which equates the landed cost of the product if it were to be imported.
- In the past, more than 50% of NRL's product mix comprised HSD and furnace oil. However, lately the company has diverted its production towards Mogas, as a result of rise in its demand, and other high-margin products like LBOs, while reducing the production of furnace oil owing to non-payment of dues by oil marketing companies.
- During FY10, the company recorded lower throughput (FY10: 84% ; FY09: 93%) as a result of scheduled turnaround activities and circular debt issue, which prompted NRL to curtail production. However, despite lower production the company maintained its topline due to higher product prices. While the fuel segment remained in losses, the magnitude lessened significantly on YoY basis on the back of a narrowing negative gap between product and crude oil prices (PAT_{fuel} FY10: PKR -707mln ; FY09: PKR -2,699mln). Although margins in lube segment declined on a comparative basis due to hike in reduce crude prices, NRL increased the proportion of LBO in overall sales. Meanwhile, lower exchange loss (FY10: PKR 226mln; 3QFY09: 2,278mln), the relative stabilization of PKR/USD exchange rate and higher interest income augmented profitability significantly. The company has not accrued interest on its receivables or payables. Despite the fact that the company has a net payables position, it would benefit from a net interest income if the GoP decides to allow interest when settling inter- corporate debt. This is due to the fact that a major portion of the payables (to GoP) is exempted from interest charges. Moreover, the company charges high rates on overdue receivables from OMCs (13-14%).
- NRL has implemented an integrated Enterprise Resource Planning (ERP) software, SAP, for operations pertaining to finance, sales and distribution, material management, plant maintenance, and human resource management. Meanwhile, Oil movement and purchase are recorded on Excel sheets. In order to optimize its refining capacity and improve efficiency, several projects have been undertaken by the company. These include; de-bottlenecking to increase the capacity and yield of distillates for the Lube segment, installation of a product metering system at Keamari Terminal and implementation of a Radar Gauging System. Additionally, the company is working towards the desulphurization of HSD in order to meet Euro II/III standards.
- NRL enjoys favorable credit terms with its suppliers, domestic in particular, allowing the company to manage its working capital effectively. Therefore, during FY10, despite facing circular debt crisis, the liquidity and cashflow position of the company improved substantially. Meanwhile, the company continues to enjoy strong risk absorption capacity due to its debt-free capital structure.

PROFILE

- NRL, incorporated in 1963, was privatized in 2005. The Attock Group (AG) acquired the majority stake (51%) in NRL through its group companies – Pakistan Oilfields Limited (25%), Attock Refinery Limited (25%) and Attock Petroleum Limited (1%). Islamic Development Bank, Jeddah and NIT are other significant shareholders with 15% and 11% stake, respectively. The BoD has strong presence of AG's representatives. The CEO , Mr. Shuaib A. Malik, is a seasoned professional in the oil business. Attock Group, an integrated business group in the country's oil chain, has presence in all segments of the industry from exploration to marketing.
- NRL has three refineries – Fuel Refinery, Lube I Refinery and Lube II Refinery – and a BTX plant. All production facilities are located at the Korangi refinery site, Karachi.