The Pakistan Credit Rating Agency Limited

PAKISTAN STATE OIL COMPANY LIMITED

	NEW [APR-16]	PREVIOUS [MAY-15]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Positive	Stable

REPORT CONTENTS

APRIL 2016

Profile

- With a network of 3,565 retail outlets and ~55% market share as of end-Mar16, Pakistan State Oil Company Limited (PSO) is the largest Oil Marketing Company (OMC) in the country.
- PSO is primarily engaged in storage, distribution, marketing and import of petroleum and related products.
- The company also has vested interest in the downstream oil and gas sector. PSO has investments in two pipelines of the country i.e. PAPCO (12%) and Asia Petroleum Limited (49%).

Ownership

- The company is 22% owned by GoP, 16% by NIT, and 3% by PSOCL Emp. Empowerment Trust. The other major shareholders comprise Financial Institutions, and General Public. GoP exercise its control through direct and indirect holding in PSO.

Governance

- Five member board of directors including the MD; MD designated as executive director
- The board was reinstated in Oct'15. All directors are nominated by Government of Pakistan.

Management & Controls

- The company has a well-defined organizational structure with clear segregation of responsibilities.
- To oversee the management of the company, PSO has constituted three committees comprising various members of the management team. Each committee is headed by the Managing Director as the chairman.

Business Risk

- During 9MFY16, the trend largely remains the same. Despite the increase in volumes, PSO's market share continued to decline (9MFY16: 55.0%, FY15: 56.8%). The market share of White Oil stood at 46% while share of black oil stood at 69%.
- During 9MFY16, the company's revenues stood at PKR 489bln as against PKR 682bln in 9MFY16, posting a decline of 28%. This was mainly due to a sizeable decline of ~34% in the international oil prices and meager growth of ~3% in the sales volume.
- The gross profit during 9MFY16 remained largely at the same level (9MFY16: PKR 13.5bln; 9MFY15: PKR 13.6bln) due to stability in the quantum of inventory losses.
- The company draw comfort from hefty inflow in the form of other income, during the year other income were PKR 6.9bln (9MFY15: PKR 9.3bln), the decline was mainly due less receipt of interest from power sector (9MFY16: PKR 1.6bln; 9MFY15: PKR 3.9bln).
- Company successfully managed to keep operating cost at the previous level but decline in finance cost due to accommodative monetary policy provided additional support to the bottom line of the company.
- Net margin of the company surged by 41% (9MFY16: PKR 4.6bln; 9MFY15: PKR 3.2bln).

Financial Risk

- During 9MFY16, PSO surging level of receivables softened and witnessed a dip of ~4% (9MFY16: PKR 173bln; FY15: PKR 181bln). PKR 155bln are stuck up receivables.
- PSO finances its working capital through short term borrowings, PKR 100bln is utilized as on end-Mar'16.
- Coverages during 9MFY16 improved significantly backed by lower crude oil prices that led to fewer requirements of cash to fund working capital needs.
- The company's capital structure stood at 54% at end-Mar'15 (Jun15: 54%). The trend in leveraging remains volatile as the company's entire debt remains short-term financing facilities for managing liquidity needs.

Rating Rationale

The ratings reflect the strong ownership structure of the company, with controlling interest vested in the Government of Pakistan (GoP), and high propensity of state support in distressed situations, considering the strategic nature of the company. With its leading status in the OMC sector, PSO retains pivotal position in the energy supply chain of the country, supplemented by an extensive distribution network, largest storage capacity, and improved support structure. The company has diversified into LNG, which started supporting its revenue stream and working capital associated with LNG operation is managed carefully. The company has sustained its operations based on cash transactions with few strategic customers beyond the stuck-up receivables. Meanwhile, comfort can be drawn from stability in short term leverage emanating from decrease in the magnitude of circular debt issue and restoration of governance structure.

Key Rating Drivers

The "Positive" outlook captures the sustainability in operations of the company, management team in place and concerted efforts to settle the circular debt. Timely materialization of the effort is essential. Meanwhile, financial and business metrics need to remain aligned with the current risk profile of the company. Upholding the governance framework including independence of management is important.

PKR mln

Pakistan State Oil Limited

BALANCE SHEET	31-Mar-16	30-Jun-15	30-Jun-14	30-Jun-13
	9MFY16	Annual	Annual	Annual
Non-Current Assets	**17,119**	**14,878**	**12,848**	**8,699**
Investments (Incl. associates)	**3,837**	**3,371**	**2,782**	**2,114**
Equity	3,837	3,371	2,782	2,114
Debt	-	-	-	-
Current Assets	**249,925**	**275,749**	**313,514**	**224,356**
Inventory	44,388	58,492	86,297	106,089
Trade Receivables	172,663	180,778	175,386	76,596
Others	32,875	36,478	51,831	41,671
Total Assets	**317,552**	**341,307**	**372,151**	**281,308**
Debt	**100,190**	**102,076**	**92,321**	**17,270**
Short-term	100,190	102,076	92,321	17,270
Long-term (Inlc. Current Maturity of long-term debt)	-	-	-	-
Other shortterm liabilities	124,262	148,601	196,025	198,423
Other Longterm Liabilities	8,796	8,321	5,184	3,728
Shareholder's Equity	**84,305**	**82,310**	**78,621**	**61,888**
Total Liabilities & Equity	**317,552**	**341,307**	**372,151**	**281,308**
INCOME STATEMENT				
Turnover	**488,587**	**913,094**	**1,187,639**	**1,100,122**
Gross Profit	13,503	23,579	36,824	36,509
Other Income	6,393	10,891	16,169	498
Financial Charges	(5,015)	(11,017)	(9,544)	(7,591)
Net Income	**4,594**	**6,936**	**21,818**	**12,558**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,563	1,594	13,013	17,826
Net Cash changes in Working Capital	880	(28,053)	(81,880)	63,904
Net Cash from Operating Activities	1,849	(23,864)	(56,690)	80,087
Net Cash from InvestingActivities	(883)	(2,221)	(1,396)	(46,750)
Net Cash from Financing Activities	(3,461)	7,790	73,465	(29,734)
Ratio Analysis				
Performance				
Turnover Growth	-28.4%	-23.1%	8.0%	7.4%
Gross Margin	2.8%	2.6%	3.1%	3.3%
Net Margin	0.9%	0.8%	1.8%	1.1%
ROE	7.0%	8.1%	31.6%	18.2%
Coverages				
Interest Coverage (FCFO/Gross Interest)	0.3	0.1	1.4	2.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.3	0.1	1.4	2.3
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.4	0.2	1.4	2.4
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.0	0.0	0.0	0.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	66.0	40.9	31.9	30.5
Capital Structure (Total Debt/Total Debt+Equity)	54.3%	55.4%	54.0%	21.8%

The Pakistan Credit Rating Agency Limited

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

Name of Entity — Pakistan State Oil Limited
Sector — Oil Marketing Company
Type of Relationship — Solicited

Purpose of the Rating — Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
14-May-15	AA	A1+	Stable	Downgrade
15-Jan-14	AA+	A1+	Positive	Maintain
30-Mar-12	AA+	A1+	Stable	Maintain
13-Jan-11	AA+	A1+	Stable	Maintain
22-Jan-10	AA+	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology — Corporate Rating Methodology

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Rating Team Statement

Rating Procedure
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Probability of Default (PD)

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