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Applicable Criteria

- Methodology | Corporate Ratings | Jun-19

Related Research

- Sector Study | Refineries | Nov-19

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PACRA Maintains Entity Ratings of Attock Refinery Limited

Rating Type	Entity	
	Current (28-Nov-19)	Previous (30-May-19)
Action	Maintain	Maintain
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable
Rating Watch	-	-

The ratings reflect ARL's robust risk absorption capacity emanating from its sizable equity base. ARL's core business remains exposed to the vicissitudes in international crude oil and products prices, which in turn, steer the gross refining margins (GRMs) of the company. During FY19, volatile oil prices coupled with a sharp rupee depreciation emerged as one of the key challenges to ARL and the Refinery Sector as a whole. Resultantly, overall refinery margins remained under pressure hampering the profitability of the sector. Another major issue encountered was the declining demand of Furnace Oil (FO), as the Government took steps to shift power sector needs to alternate fuels like LNG and coal. The recent trend, however, is reflecting a revival, as is evident from a stabler rupee. This is expected to augur well for the company. The PMG and crude oil negative delta, which also played a role, has now reversed. ARL's topline takes benefit of its value-added products; post installation of DHDS and isomerization plant, the company is continuously enjoying benefits in sales volume as well as price. Free cashflows from operations, and in turn, coverages, have improved in 3MFY20, as compared to the prior year. ARL's strategic investments and sizable bank placements, continue to contribute in the form of dividend and interest income. It provides support to the risk profile of the company and remains a stable source of recurring non-core income. The Company's association with the country's only integrated oil group - Attock Group (AG) - demonstrates to be a source of comfort to the ratings.

The ratings remain dependent on ARL's ability to effectively shield its business profile from external vulnerabilities. Upholding of comforting factors, including income flow from other sources, remains imperative. Meanwhile, continuity of deemed duty on diesel is also crucial.

About the Entity

Attock Refinery Limited (ARL) is principally engaged in the refining of crude oil. The company primarily produces LPG, premium motor gasoline, jet fuels, kerosene, high-speed diesel, light diesel oil, furnace fuel oil, mineral turpentine oil, jute batching oil, solvent oil and various grades of bitumen. AG, through Attock Oil Company (~61%) and its group company Attock Petroleum Limited (~APL) (2%) retains the majority stake (~63%), and management control in ARL. Other major shareholders comprise a) Individuals (~22%), b) Banks and other Financial Institutions (~7%), c) Mutual funds (~1%), d) Foreign Investors (~0.4%), e) Joint Stock Companies (~2%), and Others (~4%). ARL's Board of Directors comprises seven members. Board consists of five non-executive members and two independent non-executive directors. The Chairman of the BoD, Mr. Shuaib A. Malik, is also the CEO of Attock Oil Group. A. F. Ferguson & Co. Chartered Accountants, the auditor of the company, have expressed an unqualified opinion on ARL's financial statements for FY19. Because of its listing status, financial transparency is considered strong as the company has to comply with the disclosures requirements of the regulators. Mr. Adil Khattak, the CEO, has extensive experience in the petroleum sector. He is supported by an experienced management team which has demonstrated stability over time. During FY17, ARL completed the following projects; a) Pre-Flash Unit - to enhance refining capacity by 10,400 bpd; b) Isomerization Unit - to enhance the production of PMG; c) The Diesel Hydro Desulphurization (DHDS) - to reduce Sulphur content in diesel and d) Expansion of existing captive power plant by 18 Mega Watts.

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.