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Applicable Criteria

- Methodology | Corporate Ratings | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

Related Research

- Sector Study | Refineries | Nov-20

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PACRA Maintains Entity Ratings of Pakistan Refinery Limited | Rating Watch

Rating Type	Entity	
	Current (09-Jun-21)	Previous (09-Jun-20)
Action	Maintain	Maintain
Long Term	A-	A-
Short Term	A2	A2
Outlook	Stable	Stable
Rating Watch	Yes	Yes

The ratings are reflective of the resilient business profile of Pakistan Refinery Limited (PRL) emanating from its sustainable operational history and its strategic importance in the domestic context. PRL'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. PRL's margins, specifically impacted, due to non-installation of DHDS Unit needed to produce Euro-II compliant Diesel. The country's refinery sector has been going through significant challenges for an extended period, majorly pertaining to up-gradation of the refining complexes. In order to cater the issues, Working Group constituted by the Government, comprising of the Government officials and representative of refineries, had finalized a draft Refining Policy which envisages certain fiscal and tariff concessions to the refining sector which are likely to improve financial condition of the refineries enabling up-gradation of plants. However the final approval of the Refinery Policy and its actual financial impact is yet to be seen. During the period under review economic activities stabilized after COVID's second wave, which results in improved oil demand along with pricing implications minimizing pressures on refining margins. Also the company through improvement in PoL prices and cutting down operating costs reported a net profit of PKR 536mln in Mar21 quarter against a loss of PKR 5,086mln in SPLY, taking the total net profit for 9MFY21 to ~PKR 621mln (9MFY20: -6,770mln). The economic conditions are expected to show an uptick trend, going forward, as global prices move towards a stabilized trajectory and demand takes a gradual uptick, on account COVID vaccination drive initiated worldwide. However, uncertainty still prevails as to the timeliness of complete restoration and recovery of losses that the Industry has absorbed. Financial risk profile is exhibiting to be in a manageable position as the company's leveraging has improved due to injection of equity through issuance of 315mln right shares (i.e. PKR 3.15bln), subscribed by PSO. However maintaining a moderate leveraging structure will remain critical for the ratings. Pakistan State Oil (PSO) holds a majority ownership share (64.0%) in PRL, as at End-9MFY21. The purpose of the investment is backward integration which allows PSO a more assured source of supply. Strategic oversight and financial strength of the parent company and resultant benefits in value chain mechanics, is considered positive for PRL.
The ratings are dependent upon the company's aptness to cope up with the adversities impacting its risk profile. Improved performance indicators, including reversal of equity losses and sanguine financial discipline, are imperative to the ratings. Meanwhile, the ratings are placed under "Watch" to reflect the need to oversee the risk profile of the company, going forward.

About the Entity
PRL is a public company incorporated in Pakistan in 1960. The refinery is situated at Korangi. PRL, having refinery capacity of 2.1mln tons per annum, came fully online in Oct'62. PRL, a hydroskimming refinery, is designed to process various imported and local crude oil to meet the strategic and domestic fuel requirements of the country. The company has an eleven member Board of Directors (including the CEO). Board comprises six non-executive, four independent and one executive board member. Mr. Zahid Mir, the Managing Director and CEO of PRL, is a petroleum engineer by profession and has a Masters degree in Business Administration. He is supported by a team of qualified and competent individuals.