Press Release

JCR-VIS Assigns Initial Ratings to Hi-Tech Lubricants Limited

Karachi, February 22, 2018: JCR-VIS Credit Rating Company Limited has assigned initial entity ratings of 'A/A-1' (Single A/A-One) to Hi-Tech Lubricants Limited (HTL). Outlook on the assigned ratings is 'Stable'.

The assigned ratings to HTL incorporate the company's position in the lubricant industry, moderate business risk, low financial risk and strong corporate governance infrastructure. HTL is the fourth largest player in the country's lubricant industry and sells almost all of its lubricants under the brand name 'ZIC'. The company's state of the art blending plant was completed in August'2016 and it has improved price competitiveness by reducing cost. HTL is also in process of diversifying in the OMC business and expects to start commercial operations in the first half of 2018. With regards to the OMC project, progress has been noted in the areas of storage infrastructure while over 80 MoUs have been signed for opening of fuel stations. JCR-VIS believes that the company's brand strength and recognition in lubricant business will facilitate HTL in establishing its footprint in the OMC business.

Pakistan's lubricant oils market demand is dominated by the transport segment with over four-fifth share, followed by industrial and then power sector. Going forward, significant growth in sales of heavy commercial vehicles, motor cycles, passenger cars and tractors is expected to bode well for volumetric off-take. Despite growing demand, JCR-VIS expects margins to witness pressure due to competition for market share. In the backdrop of rupee depreciation, margins of industry players are also expected to witness pressure unless cost increases are passed on to customers.

Assessment of financial risk profile incorporates the company's growing profitability, conservative leveraging profile and healthy cash flows in relation to outstanding obligations. Volumetric sales of the company have grown at a Compounded Annual Growth Rate (CAGR) of 10.5% over the last 5 years (2012-2017). Going forward, increase in sales volume is projected to be higher than historical CAGR based on favorable demand outlook and improved price competitiveness in the diesel and motor cycle oil category. EBITDA margins are also projected to be maintained despite increasing competition and rupee depreciation on account of impact of various costs saving initiatives, higher proportion of blended plant in product mix and planned increase in prices. Given the volumetric growth in sales, profitability is projected to depict strong double digit growth over the rating horizon.

Going forward, debt servicing coverage ratio is projected to remain adequate (even after accounting for long term debt for OMC project) under realistic stress test scenarios. Even after accounting for debt planned to be raised for funding OMC project and higher borrowing to fund working capital requirement, gearing is projected to remain below 1(x) over the rating horizon. Given the increased competitive landscape of the OMC sector with aggressive capex plans of existing (significant storage capacities coming online of Hascol, APL and PSO over the next two years) and new OMCs (Admore), progress against planned initiatives and projected financial targets will be an important rating driver, going forward.

For further information on this rating announcement, please contact the undersigned (Ext: 207) or Mr. Javed Callea (Ext: 201) at 35311861-70 (10 lines) or fax to 35311873.

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Applicable Rating Criteria: Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf