

Pakistan Refinery Limited

OVERVIEW (November 22, 2012) : The downstream sector player, Pakistan Refinery Limited, was incorporated as a public limited company more than 50 years ago; it is listed on the two stock exchanges, KSE and LSE. The hydro-skimming refinery designed with the ability to process local and imported crude, is located in Karachi. PRL has two refineries where the total designed capacity has been expanded from one million tons to 2.1 million tons of crude oil annually. With a capacity of 47,000 barrels of oil per day, Pakistan Refinery Limited processes petroleum products like high speed diesel, furnace oil, jet fuels, kerosene, and motor gasoline. Besides being a supplier to the domestic market, Pakistan Refinery Limited also supplies to Pakistan defence forces. **FY12 Highlights** There are no doubts over the challenging nature of FY12 for the economy. The downstream sector including the refinery segment was laden with rupee depreciation, shrinking margins and the circular debt pressures, amongst other setbacks. One of them has been the controversial minimum tax-on-turnover regime that the companies have been dejected about. During FY12, Pakistan Refinery Limited contributed Rs 24 billion through direct and indirect taxes and 156 million dollars through the exports of Naphtha products. Compared to FY11, the company's contribution through taxes has been 24 percent greater, while exports have been more or less stable. Another highlight of the fiscal year was the change in the pricing mechanism of petroleum products to fortnightly from monthly basis. Average prices for Arab Light blend were 4109.55 a barrel in FY12 compared to 93.29 dollars per barrel in FY11.

Revenues and Profits FY12 During FY12, the Pakistan Refinery Limited surpassed the 100 billion mark the first time in its history, and it was able to bag sales revenue worth Rs 127 billion which is a vigorous 32 percent increases year-on-year. However, due to substantial increase in international petroleum product prices and the depreciating rupee, the sales growth was analogously accompanied by a 34 percent YoY increase in the cost of sales. Oil and condensate consumption corresponds to around 99 percent of cost of sales. However, the hefty top line growth could not travel down to the bottom line and the company witnessed a big sink in its annual earnings for FY12. Where Pakistan Refinery Limited made Rs 224 million profits during FY11, all the gains plunged into the red zone during FY12 with loss after tax of Rs 1616 million. While cost of sales ate away most of the growth in receipts, the remaining damage was done by the finance cost, rupee depreciation, and poor refining margins and last but not the least the minimum turnover tax burden. Finance cost escalated by more than seven times during FY12 compared to similar period last year due to significant exchange loss of 9.47 percent YoY and mark-up expense on loan facilities the refinery has taken up. The refinery had been following a cost control regime and fiscal year 2012 was no different. Had it not been for the cost optimisation, the losses would have swelled further. Its pursuit of cost cutting, the company was able to reduce its distribution and other operating costs markedly, while the growth of 17 percent YoY in administrative costs in such environment is meager.

Liquidity

Pakistan Refinery Limited does not have any long-term borrowings and has taken refuge in short-term financing for working capital requirements. The company's long-term solvency and going concern came under scrutiny by the auditors as the refinery had Rs 2.59 billion accumulated losses as at June 30, 2012. This has resulted in negative equity of Rs 2.23 billion.

Moreover, Pakistan Refinery Limited's current liabilities also exceed its current assets further strengthening the uncertainty. However, in light of better international refining margins, a better price mechanism and planned upgrading efforts like isomerisation unit, the company believes it will continue to as a going concern. Nevertheless, a caveat for the refinery is the recent squabble over weekly and fortnightly pricing mechanism and diverting back to the monthly one.

1QFY13 Progress

FY13 started off pretty well for Pakistan Refinery Limited as compared to 1QFY12. This was primarily due to improved refining margins. The refinery processed 4,431 metric tons per day during 1QFY13 against 4,561 metric tons per day in the corresponding quarter last year. And Pakistan Refinery Limited's profits during this period went from a meager Rs 24 million in 1QFY12 to Rs 767 million during 1QFY13.

Future Plans & Outlook

The company is looking forward to its installation of isomerisation unit which will enhance the production of motor gasoline in the country. For the company, it will help the company appease the profitability squeeze that it is facing. Additionally, the company also intends another refinery upgradation process which will help the company produce Euro II specs high speed diesel. On the industry front, the gross refining margins, a success factor for refineries, have finally improved during the first quarter of FY13. Where stable rupee translating into lower exchange losses, is likely to lift the bottom line, gain in the international oil is expected to bring inventory gains for the refineries. Hence, analysts have been gushing about higher gross refining margins during 1QFY13. The circular debt is expected to remain a factor in times to come and keep the cash flow position particularly of the downstream sector under constraint. Recent improvement in the gross refining margins (GRM) call for attention to this sector, but one must not forget their volatile nature.

===== Pakistan Refinery Limited									
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FY12			===== PROFITABILITY						
			Gross margin			-0.82% 2.51%		0.70% Operating	
margin	-1.04%	0.97%	0.67%	Net margin			-3.88% -0.23%		-1.27%
----- LIQUIDITY -----									
ratio	0.88	0.92	0.89	Quick ratio			0.57 0.45		0.63
----- ASSET UTILISATION									
			Debtor turnover			5.02 7.39		8.29 Creditor	
turnover	2.90	4.10	4.82	Inventory turnover			10.18 11.85		14.96 Total assets
turnover	2.48	3.86	3.72	Fixed assets turnover			13.69 22.13		28.50
----- MARKET -----									
			Price earning ratio			(0.92) 12.58		(1.24)	
(85.01)			6.40 (46.16)						
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Source: Company accounts [Copyright Business Recorder, 2012](#)