RATING REPORT

FM Express (FME)

REPORT DATE:
September 02, 2019

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB	A-3
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*August 28, '19*	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** Ghazi & Company Chartered Accountants
Proprietorship	
Ownership:	**Chief Executive :** Mr. Khawaja Farrukh Akbar
Mr. Khawaja Farrukh Akbar – 100%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)

https://www.vis.com.pk/kc-meth.aspx

FM Express (FME)

OVERVIEW OF THE INSTITUTION

FM Express was incorporated in 2001 as a Proprietorship concern of Mr. Khawaja Farrukh Akbar. Registered office of the firm is in Multan.

Profile of Proprietor & CEO

Mr. Khawaja Farrukh Akbar is proprietor and Chief Executive of the firm. He has over 12 years' of experience managing the affairs of the firm.

RATING RATIONALE

FM Express (FME) was incorporated in 2001 as a Proprietorship concern primarily engaged in the business of transportation services in Pakistan. The firm is one of the biggest transporters in Pakistan which provides transportation services to almost all major cities. The firm operates around 25 bus terminals in various cities and owns fleet of more than 350 buses & Hi-Roof vans.

Services – focused on providing premium transportation services to general public in several cities

FME mainly provides intra city transportation services to commuters in all major cities. The firm also provides parcel delivery services to customers from its existing fleets & terminals. The firm is the biggest transporter in North region of Pakistan. In order to remain competitive with other major transporters like Daewoo, Niazi Express, etc. the company also provides premium bus services to customers which include complimentary snacks, audio and videos services in the buses and terminals. The firm normally uses combination of equity and long term loan to purchase new vehicles and repays the loan within 3 years. However, the firm then replaces each vehicle after 5 years with new state of the art transport in order to provide premium services and remain top tier transporter. Seat utilization on all routes remained above 80% during the last 3 years. The firm even operates one or two vehicles per hours on routes which have high customer flow. The firm considers that there is no major threat to their business from other transporters because of their niche since the firm keeps on replacing its old vehicles with new ones while continuously improving services to customers.

Revenue growth emanating from increase in volumetric sales – Trade debts remains negligible on account of sales primarily on cash

During FY18, the firm reported net revenue of Rs. 1.95b (FY17: Rs. 1.77b; FY16: Rs. 1.61b), driven largely by increase in volumetric revenue. Gross margins of the frim decreased to 10.8% (FY17: 12.9%, FY16: 12.9%) during FY18 on account of higher wages & depreciation charges albeit decrease in cost of fuel as a percentage of Cost of Sales. The operating expenses of the firm increased to Rs. 64m (FY17: Rs. 60m, FY16: Rs. 50m) in FY18 on account of higher salaries. The finance cost of the firm also increased and stood at Rs. 81m (FY17: Rs. 62m, FY16: Rs. 10m) during FY18 due to higher average utilization of long term borrowing. Given the lower gross margins and higher finance cost, the firm generated net profit of Rs. 56m (FY17: Rs. 98m, FY16: Rs. 137m) while net profit margin stood modest at 2.9% (FY17: 5.5%, FY16: 8.5%). Given the increase in fuel price during FY19 and projected higher number of passengers & routes, revenue is projected around Rs. 2.1b during FY19 which is 7.7% growth on an annualized basis.

The firm carried out CAPEX of Rs. 660.9m during FY18 (FY17: Rs. 575.6m, FY16: Rs. 6.1m) mainly related to purchase of new buses and Hi-Roof vans. The firm finances purchase of new vehicles with long term loan of 3 years along with equity while working capital requirements are financed from internal cash flows of the company due to which there is no short term loan utilized by the firm. Trade receivables of the company continues to remain modest at Rs. 17m (FY17: Rs. 34m, FY16: Rs. 49m) as tickets are mostly sold on a cash basis. Advances & deposits increased to Rs. 71m (FY17: Rs. 60m, FY16: Rs. 30m) mainly on account of advance rent to the landlords of the bus terminals.

Adequate coverages and liquidity

Despite decrease in profits, funds from operations (FFO) increased to Rs. 375m (FY17: Rs. 328m, FY16: Rs. 284m) on account of higher depreciation expense during FY18. Borrowings, all long-term, remained at Rs. 642m (FY17: Rs. 647m, FY16: Rs. 196m) at end-FY18. FFO to total debt improved to 0.58x (FY17: 0.51x, FY16: 1.48x). The debt service coverage ratio stood healthy at 2.07x (FY17: 2.57x, FY16: 7.36x). The current ratio stood lower at 0.77x (FY17: 0.86x, FY16: 2.43x) in the absence of any stock and modest level of trade debts.

Acceptable leverage indicators

Total equity base stood higher at Rs. 907m by end-FY18 (FY17: Rs. 466m; FY16: Rs. 565m) on the back of capital injection of Rs. 384m by the proprietor of the firm during FY18. Previously, the proprietor had drawn an amount of Rs. 196m & Rs. 292m during FY17 & FY16, respectively. Given liabilities comprised mainly long-term borrowings, debt leverage & gearing indicators are about the same that declined to 0.71x (FY17: 1.39x, FY16: 0.35x) by end-FY18 mainly on account of capital injection and profit retention during FY18.

ERP System & Audit

The firm is using internally developed software for booking & sales of tickets at all terminals which are also connected with head office in order to generate daily sales report across all terminals. These reports are used by the internal audit department to carry out cash audit on a daily basis. The internal audit department comprises 7 personnel stationed at the head office. The external auditor of the company is "Ghazi & Company" which carries out audit on an annual basis.

FM Express Appendix I

FINANCIAL SUMMARY

(Amounts in PKR millions)

BALANCE SHEET	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**
Non-Current Assets	617	960	1,302
Stock in Trade	-	-	-
Stores & Spares	57	51	91
Trade Debts	49	34	17
Advances and Deposits	30	60	71
Cash & Bank Balances	8	12	72
Total Assets	761	1,117	1,553
Trade and Other Payables	3	4	4
Short Term Borrowings	-	-	-
Long Term Liabilities subject to Financial Lease	191	647	642
Total Interest Bearing Debt	191	647	642
Other Liabilities	2	-	-
Total Liabilities	196	651	646
New Equity Injection	-	-	384
Tier 1 Equity	565	466	907
Revaluation Reserves	-	-	-
Total Equity including Revaluation Reserves	565	466	907
INCOME STATEMENT			
Net Sales	1,612	1,773	1,950
Gross Profit	207	228	210
Finance Cost	10	62	81
Net Profit	137	98	56
RATIO ANALYSIS			
Gross Margin (%)	12.9	12.9	10.8
Net Margin (%)	8.5	5.5	2.9
Current Ratio (x)	2.43	0.86	0.77
Net Working Capital	85	(25)	(75)
Debt Leverage (x)	0.35	1.39	0.71
Gearing (x)	0.34	1.39	0.71
FFO	284	328	375
FFO to Total Debt (x)	1.48	0.51	0.58
FFO to Long Term Debt (x)	1.48	0.51	0.58
Debt Servicing Coverage Ratio (x)	7.36	2.57	2.07
Inventory + Receivables/Short-term Borrowings (x)	-	-	-
ROAA (%)	18.0	5.2	2.1
ROAE (%)	24.3	9.5	4.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	FM Express
Sector	Transportation
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
08/28/2019	BBB	A-3	Stable	Initial