RATING REPORT

Sania Enterprises (SE)

REPORT DATE:
September 02, 2019

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

COMPANY INFORMATION		
Incorporated in 2000	**External auditors:**	Ghazi & Company Chartered Accountants
Proprietorship		
Ownership:	**Chief Executive:**	Khawaja Faisal Shahzad
Khawaja Faisal Shahzad – 100%		

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Sania Enterprises (SE)

OVERVIEW OF THE INSTITUTION

Sania Enterprises was incorporated in 2000 as a Proprietorship concern of Khawaja Faisal Shahzad. Registered office of the firm is in Multan.

Profile of Proprietor & CEO

Khawaja Faisal Shahzad is proprietor and Chief Executive of the firm. He has over 15 years' of experience managing the affairs of the firm.

RATING RATIONALE

Sania Enterprises (SE) was incorporated in 2000 as a Proprietorship concern providing transportation services to commuters in Pakistan. The firm is a part of one of the biggest groups involved in transportation services for commuters in the country. The firm operates around 15 bus terminals in various cities and owns a fleet of more than 80 buses & Hi-Roof vans.

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

SE mainly provides intra city transportation services to commuters in various cities. In addition to that, the firm also takes advantage of its existing fleet to provide parcel delivery services. The company also provides premium bus services to customers which include complimentary snacks, audio and videos services during travel. The firm usually utilizes long term loans to purchase new vehicles and retires it within 3 years. The firm has the practice of replacing each vehicle after 5 years with new ones. Seat utilization on all routes has remained above 70% during the last 3 years.

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

During FY18, SE reported net revenue of Rs. 1.14b (FY17: Rs. 879m; FY16: Rs. 607m), driven largely by increase in number of passengers. Gross margins of the firm which stood stable at 9.0% (FY17: 9.0%, FY16: 11.5%) during FY18. Operating expenses during FY18 stood at Rs. 19m (FY17: Rs. 19m, FY16: Rs. 18m). The finance cost of the firm increased to Rs. 14m (FY17: Rs. 9m, FY16: Rs. 1m) during FY18 on account of increase in average utilization of long term borrowings under financial lease. The firm was able to generate net profit of Rs. 56m (FY17: Rs. 41m, FY16: Rs. 45m) while net profit margin stood at 4.9% (FY17: 4.7%, FY16: 7.5%). Revenue is projected to increase by 10% during FY19, given higher number of customers along with fuel price adjustment in tickets.

The company carried out CAPEX of Rs. 132m during FY18 (FY17: Rs. 42m, FY16: Rs. 65m) mainly related to purchase of fleet of buses & Hi-Roof vans. SE follows the practice of financing working capital requirements from internal cash flows of the company, thereby no short term borrowings were utilized by the firm. Trade receivables continues to remain modest at Rs. 11m (FY17: Rs. 10m, FY16: Rs. 20m) as tickets are mostly sold on a cash basis. Advances & deposits of Rs. 29m (FY17: Rs. 27m, FY16: Rs. 24m) mainly comprises advance rent for the bus terminals.

Adequate coverages and liquidity

Funds from operations (FFO) increased to Rs. 116m (FY17: Rs. 87m, FY16: Rs. 72m) in line with improvement in revenue & profit during FY18. Overall borrowing increased to Rs. 191m (FY17: Rs. 80m, FY16: Rs. 51m) by end-FY18 as firm purchased new buses funded from finance lease. Hence, FFO to total debt decreased to 0.61x (FY17: 1.08x, FY16: 1.40x). The debt service coverage ratio remained adequate at 2.85x (FY17: 3.28x, FY16: 4.25x). The current ratio stood lower at 1.03x (FY17: 1.66x, FY16: 4.64x) mainly on account of increase in current portion of long-term financial liabilities.

Acceptable leverage indicators

Total equity base decreased to Rs. 100m by end-FY18 (FY17: Rs. 134m; FY16: Rs. 175m) as the proprietor made drawings of Rs. 81.6m & Rs. 90.1m during FY17 & FY18, respectively. The drawings exceeded profit generated by the firm. Debt leverage and gearing increased to 2.04x (FY17: 0.73x, FY16: 0.30x) and 1.91x (FY17: 0.60x, FY16: 0.29x) respectively on account of accumulation of long term borrowing during FY18.

ERP System & Audit

The firm is using internally developed software for booking & sales of tickets at all terminals which is also connected with head office 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 external auditor of the company is "Ghazi & Company – Chartered Accountants" which carries out audit on an annual basis.

Sania Enterprises **Appendix I**

FINANCIAL SUMMARY

(Amounts in PKR millions)

BALANCE SHEET	30-Jun-16	30-Jun-17	30-Jun-18
Non-Current Assets	152	149	220
Stock in Trade	-	-	-
Stores & Spares	30	24	19
Trade Debts	20	10	11
Advances and Deposits	24	27	29
Cash & Bank Balances	2	23	25
Total Assets	228	232	304
Trade and Other Payables	1	17	13
Short Term Borrowings	-	-	-
Long Term Liabilities subject to Financial Lease	51	80	191
Total Interest Bearing Debt	51	80	191
Other Liabilities	1	-	-
Total Liabilities	53	97	204
Sponsors Loan	-	-	-
Tier 1 Equity (Inc. sponsors loan)	175	134	100
Revaluation Reserves	-	-	-
Total Equity including Revaluation Reserves	175	134	100
INCOME STATEMENT			
Net Sales	607	879	1,143
Gross Profit	70	79	103
Finance Cost	1	9	14
Net Profit	45	41	56
RATIO ANALYSIS			
Gross Margin (%)	11.5	9.0	9.0
Net Margin (%)	7.5	4.7	4.9
Current Ratio (x)	4.64	1.66	1.03
Net Working Capital	60	33	3
Debt Leverage (x)	0.30	0.73	2.04
Gearing (x)	0.29	0.60	1.91
FFO	72	87	116
FFO to Total Debt (x)	1.40	1.08	0.61
FFO to Long Term Debt (x)	1.40	1.08	0.61
Debt Servicing Coverage Ratio (x)	4.25	3.28	2.85
Inventory + Receivables/Short-term Borrowings (x)	-	-	-
ROAA (%)	19.8	8.9	10.5
ROAE (%)	25.8	13.2	24.0

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	Sania Enterprises
Sector	Transportation
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	(see table below)

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

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.
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