

## RATING REPORT

### Sania Enterprises (SE)

**REPORT DATE:**

May 19, 2020

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	BBB-	A-3	BBB-	A-3
<b>Rating Outlook</b>	Rating Watch – Negative		Stable	
<b>Rating Action</b>	Maintained		Initial	
<b>Rating Date</b>	19 <sup>th</sup> May'20		28 <sup>th</sup> Aug'19	

**COMPANY INFORMATION**

<b>Incorporated in 2000</b>	<b>External auditors:</b> Ghazi & Company Chartered Accountants
<b>Proprietorship</b>	
<b>Ownership:</b> Khawaja Faisal Shahzad – 100%	<b>Chief Executive:</b> Khawaja Faisal Shahzad

**APPLICABLE METHODOLOGY**

VIS Entity Rating Criteria: Corporates (May 2019)

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

**Sania Enterprises (SE)**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Sania Enterprises was incorporated in 2000 as a Proprietorship concern of Khawaja Faisal Shahzad. Registered office of the firm is in Multan.</p>	<p>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 &amp; Hi-Roof vans.</p> <p>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.</p>
<p><b>Profile of Proprietor &amp; CEO</b>                      Khawaja Faisal Shahzad is proprietor and Chief Executive of the firm. He has over 15 years’ of experience managing the affairs of the firm.</p>	<p>Increase in revenue in the past years has largely been the function of growth in passenger occupancy ratio. Gross margins were depressed due to higher fuel costs, though administrative expenses remained largely stable. Finance cost increased on a timeline basis due to elevated utilization of finance lease to fund the capex requirements. Trade receivables continues to remain modest as tickets are mostly sold on a cash basis. With the decreasing equity base due to capital drawings by the owner, gearing and leverage ratios were recorded higher.</p> <p>The revision in rating outlook reflects prevailing uncertainty in transportation sector due to closure of all motorways and public transport in view of coronavirus outbreak and following lockdown. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a ‘Rating Watch’ status. As the SE is entirely dependent on intra-city transportation for revenue and cash flow generation to retire its financial obligations, ratings are being placed on ‘Negative’ outlook. Nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.</p>

**Sania Enterprises**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
<i>(Amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>30-Jun-16</b>	<b>30-Jun-17</b>	<b>30-Jun-18</b>
<b>Non-Current Assets</b>	152	149	220
<b>Cash &amp; Bank Balances</b>	2	23	25
<b>Total Assets</b>	228	232	304
<b>Long Term Liabilities subject to Financial Lease</b>	51	80	191
<b>Total Liabilities</b>	53	97	204
<b>Tier 1 Equity (Inc. sponsors loan)</b>	175	134	100
<b>INCOME STATEMENT</b>			
<b>Net Sales</b>	607	879	1,143
<b>Gross Profit</b>	70	79	103
<b>Finance Cost</b>	1	9	14
<b>Profit Before Tax</b>	50	51	70
<b>Net Profit</b>	45	41	56
<b>RATIO ANALYSIS</b>			
<b>Gross Margin (%)</b>	11.5	9.0	9.0
<b>Net Margin (%)</b>	7.5	4.7	4.9
<b>Current Ratio (x)</b>	4.64	1.66	1.03
<b>Debt Leverage (x)</b>	0.30	0.73	2.04
<b>Gearing (x)</b>	0.29	0.60	1.91
<b>FFO</b>	72	87	116
<b>FFO to Total Debt (x)</b>	1.40	1.08	0.61
<b>Debt Servicing Coverage Ratio (x)</b>	4.25	3.28	2.85

**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](http://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](http://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](http://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			
<b>Name of Rated Entity</b>	Sania Enterprises				
<b>Sector</b>	Transportation				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	05/19/2020	BBB-	A-3	Rating Watch – Negative	Maintained
	08/28/2019	BBB-	A-3	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		