RATING REPORT

Shaheen Freight Services

REPORT DATE:
July 27, 2020

RATING ANALYSTS:

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RATING DETAILS		
	Indicative Rating	
Rating Category	Long-term	Short-term
Entity	BBB+	A-2
Rating Date	*July 27, 2020*	
Rating Outlook	Stable	
Rating Action	*Initial*	

COMPANY INFORMATION	
Established in 1994	**External auditors:** Maqsood & Co. Chartered Accountants
Partnership firm	**Chief Executive Officer:** Mr. Malik Sher Khan
Key Shareholders (with stake 5% or more):	
Mr. Malik Jahan Khan – 40%	
Mr. Malik Sher Khan – 40%	
Mr. Naseer Ahmed Khan – 20%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Industrial Corporates (May 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Shaheen Freight Services

OVERVIEW OF THE INSTITUTION

Shaheen Freight Services (SFS) is a partnership firm founded in 1994. Financial statements for FY19 have been audited by Maqsood & Co. Chartered Accountants.

RATING RATIONALE

Shaheen Freight Services (SFS) is engaged in provision of logistics, distribution and storage services across Pakistan and Afghanistan. Following services are offered by the company to its customers:

- Transportation of rigs
- Transportation of liquid cargo
- Movement of projects and bulk cargo
- Container storage facilities
- Transportation of empty containers
- Bonded cargo
- Custom clearance
- Filling stations and fuel delivery

Head office of SFS is located in Clifton Karachi, while the company has also branches in Port Qasim (Karachi), Islamabad, Faisalabad, Bhalwal (Sargodha district), Sukkur, Khas Kheli (District Badin), Lahore, Peshawar, Chaman, Rahim Yar Khan, and Kabul. Container storage facilities of the company are based in Faisalabad, Islamabad, Lahore and Bhalwal. The company owns the following technical and operative resources to execute operations for the clients:

Resources	Details
Primovers	425 units
Standard Flat Bed, Low Bed, Multiaxle & Trolleys	490 units
Cranes	27 equipment (Capacity from 20 to 100 tons)
Lifters and Wheel Loaders	9 equipment

The company is a partnership firm with shareholding vested with the following three individuals:

Shareholders	% shareholding
Mr. Malik Jahan Khan	40%
Mr. Malik Sher Khan	40%
Mr. Naseer Ahmed Khan	20%

Key Rating Drivers:

Healthy growth in historical income, coupled with increasing margins has translated to improvement in profitability profile on a timeline basis

Income of the company has grown at a CAGR of 11.1% in the period from end-FY16 to end-FY19. Growth in income was a function of increase in client base and volumetric growth in business. Client base of the company can be segregated into five broad sectors: crude oil and material movements, citrus movements, shipping line/ terminal movements, other freight services intercity and intracity & diesel petroleum filling. Crude oil and material movements constitutes the largest segment; overall sectoral diversification is considered adequate.

According to management, both gross and net margins have depicted improvement in the period from FY16 to FY19 primarily on account of decrease in repair and maintenance expenses due to replacement of older fleet. Higher fleet related expenses resulted in decrease in net margins in Q3'FY20. With the onset of COVID-19 pandemic and resulting slowdown in economic activity, sales of the company have been impacted in Q4'FY20. Although, the company has managed to add new clients to its overall portfolio during the ongoing year, future outlook on sales and profitability is largely dependent upon pace of economic recovery. Nevertheless, having a diversified client base which includes customers with stable demand pattern partly provides comfort to the overall risk profile of the company.

Equity base has registered increase on a timeline basis due to profit retention; leverage indicators remain at manageable level

Capital base of the company has grown at a CAGR of 15.7% during the period from end-FY16 to end-FY19. Growth in equity base has been facilitated by profit retention. Total debt of the company was reported at Rs. 1.1b at end-FY19 (FY18: Rs. 1.0b; FY17: Rs. 820.1m; FY16: Rs. 513.7m). Debt of the company primarily comprises liabilities against assets subject to finance lease acquired for fleet financing. With sizeable equity base, gearing and leverage ratios have remained at manageable level of 0.28x (FY18: 0.31x; FY17: 0.29x; FY16: 0.20x) and 0.39x (FY18: 0.46x; FY17: 0.43x; FY16: 0.27x), respectively. Going forward, leverage indicators are expected to remain at existing levels as the management does not has any major capex plans.

Liquidity profile is considered adequate in the light of healthy coverage ratios

With growth in profitability, FFO has also increased in the period from FY16 to FY19. Increase in FFO was greater than increase witnessed in quantum of debt; hence, FFO in relation to total debt was reported higher on timeline basis. Debt service coverage ratio has also remained sound. Stock in trade and trade debts provide adequate coverage for short term borrowings. Current ratio of the company has remained considerably over 1(x) over the last three years.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix I

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 II

Name of Rated Entity	Shaheen Freight Services
Sector	Distribution
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27/07/2020	BBB+	A-2	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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Due Diligence Meetings Conducted

S.No	Name	Designation	Date
1	M. Kashif Shafiq	Senior Manager Finance	July 10, 2020