



The Pakistan Credit Rating Agency Limited

Rating Report

Sonya Travels (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2020	BBB	A2	Developing	Maintain	YES
17-Sep-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings take into account emergent challenges arising from subdued outlook of air travel industry in the wake of the coronavirus outbreak. There has been a significant dip in air passenger air traffic. The revival is also taking place gradually. Lately, the Kingdom of Saudi Arabia has restricted the Hajj to residents of the country. The unknown depth and duration of the outbreak's impact will significantly weigh on all players in the air travel industry. Hence the ratings are assigned Watch with outlook developing. Sonya Travel derives revenues primarily from two business segments, wherein which it procures tickets in bulk and then undertake sales, and secondly through the sale of tickets on a day to day basis. The company earns profitability based on the airlines' commission and incentives and also heightened margins on bulk procurement. These revenue streams have been severely affected, as health concerns from the host countries along with economic recession will reduce the demand going forward. The financial structure is adequate however times are hard which may stress the financial profile. The leverage is high in comparison to the equity base and funded and non-funded leverage indicators. The downward adjustment in the interest rates would add cushion.

The ratings are dependent on Sonya's ability to sustain its business and financial profile. The prolonged duration in the subdued volumes can add strain to the financial risk profile. Profitability margins also need to revived, post business resumption. Financial discipline including coverages and governance is considered essential.

Disclosure

Name of Rated Entity	Sonya Travels (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Hotel & Retail Industry(Jun-20)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure Sonya Travels is a private limited company. It was incorporated in February 1993

Background Sonya Travels has a history of more than decades of having business in the fields of Air Travel and Tourism. In the year 2018, the company enjoyed the privilege of entertaining more than half a million tourists to and from various parts of the world.

Operations Sonya Travels is one of the largest Air travels, Tours and Umrah company having more than 12 branches nationwide. The company also has footings in UAE and KSA.

Ownership

Ownership Structure Sonya Travels is mainly owned by Mr. Tariq Rahim and Mr. Ali Rahim, each of them having 49.99% shareholding.

Stability The shareholding structure stayed the same since its inception

Business Acumen Sonya Travel is a part of the Southern Travels Network, comprising 10 companies, 27 locations and 300 staff members

Financial Strength The company derives financial strength from Southern Travels Network

Governance

Board Structure The board comprises of six members namely Mr. Ali Rahim, Mr. Tariq Rahim, Mr. Izfal Chaudhry, Ms. Sarosh Rahim, Ms. Kishwar Tariq Rahim and Ms. Fozia Asharf.

Members' Profile Ms. Sarosh Rahim is the CEO of the company. She is an Executive Director at Sonya Travel. The board members are mostly family members and group executives.

Board Effectiveness The Chairman of the board receives monthly reporting. Board meetings are held on regular basis.

Financial Transparency Zia Masood Kiani & Co. are the auditors for the company. They issued an unmodified report on the FY19 Financial Statements. The audit firm neither meets the QCR requirement nor is on the list of a panel of auditors provided by State Bank of Pakistan

Management

Organizational Structure The company has a well-defined organizational structure and different operational activities are properly segregated and managed through different departments. The different departmental heads report to the group CEO who directs reports to the Chairperson. The company has an independent audit department led by VP Audit reporting directly to the Chairperson

Management Team Ms. Sarosh Rahim is the CEO of the company. Mr. Zamir Ahmad looks after Sonya Travels. He is a veteran businessman Professional & Entrepreneur with Finance background, having over 20 years of extensive working experience in Business Management, Team Leadership & Management, Travel Airlines & Aviation, Banking, Finance & Accounts, and Operation Management. He directly reports to the head of the company

Effectiveness The management team has been involved with the company for a significant time

MIS Different MIS reports are produced on daily, weekly and fortnightly basis

Control Environment Sonya travels has implemented the various modules in order to implement the sound of internal control: Sales, Receivables, Lease Management, Payables, Treasury and Payroll.

Business Risk

Industry Dynamics The outlook of air travel industry is subdued in the wake of the COVID-19 outbreak. There has been a significant dip in air passenger air traffic. Coupled with Saudi Arabia's decision to halt Umrah and limitation of Hajj to Saudi residents, travel agents have had a major setback. The wide ranging travel restrictions have affected the revenue stream of the players. Looking forward, customers may be cautious about travel plans after the crisis, leading to low volumes.

Relative Position Sonya Travels is currently one of the largest Air Travel, Tours and Umrah company with 12 branches in all major cities of Pakistan.

Revenues During the year FY19, the company posted a top line of PKR 304mln registering a growth of 4% YoY. The income from commission comprised 67% of the total revenue following by service charges (31%) and Umrah income (2%). The Service charges segments experienced an impressive gain of YoY. The service charges income rose to PKR 95mln from PKR 15mln declining by a massive 533%

Margins The gross margin of the company dropped by 2% to 55% in FY19 (FY18: 58%, FY17: 48%) on account of poor cost control. The company's margins had been constantly on the rise in prior years but in FY19 it seems to lose its momentum (FY18: 57% FY17: 48% FY16: 38%).

Sustainability The rising cost of borrowing also had an impact on the bottom line of the company, the company had to experience a decline in the net profit. The net profit at FY19 was PKR 64mln declining by 10% (FY18 PKR 71mln, FY17: PKR32mln , FY16: PKR10mln).

Financial Risk

Working Capital During FY19, the company has a high Net Working Capital amidst the huge advance payment deposits to the airlines. The company has been experiencing a constant decline in net working capital for the past three years (FY18: 162days FY17: 195days, FY16: 141days). This is due to Sonya Travel's business model whereby the company procures tickets in bulk

Coverages During the year FY19, Sonya Travels had coverages at 1.8x declining twice the time as compared to 3.6x. The increase in the borrowing rate is the core reason for the reduction of the company.

Capitalization Sonya Travels capital structure comprises of debt and equity. The company is leveraged with the debt/equity ratio of 48% at FY 19 (FY18: 43%, FY17: 62%). The debt comprises of short and very small long term debt. The company also avails guarantee from one of the insurance companies (United Insurance company of Pakistan) of PKR 350mn to IATA.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Sonya Travels (pvt.) Ltd Hotel and Retail Industry	Jun-19 12M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	142	140	112	120
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,091	808	912	685
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	605	385	468	360
5 Total Assets	1,233	947	1,024	805
6 Current Liabilities	458	347	308	311
<i>a Trade Payables</i>	433	312	281	291
7 Borrowings	370	260	446	256
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	404	340	269	238
11 Shareholders' Equity	404	340	269	238
B INCOME STATEMENT				
1 Sales	304	292	239	178
<i>a Cost of Good Sold</i>	(137)	(123)	(124)	(111)
2 Gross Profit	167	168	115	67
<i>a Operating Expenses</i>	(34)	(36)	(28)	(21)
3 Operating Profit	133	132	87	46
<i>a Non Operating Income or (Expense)</i>	11	7	2	6
4 Profit or (Loss) before Interest and Tax	144	139	89	52
<i>a Total Finance Cost</i>	(54)	(33)	(30)	(22)
<i>b Taxation</i>	(25)	(36)	(27)	(20)
6 Net Income Or (Loss)	64	71	32	10
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	65	91	59	31
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	65	91	59	31
<i>c Changes in Working Capital</i>	(139)	163	-	-
1 Net Cash provided by Operating Activities	(75)	254	59	31
2 Net Cash (Used in) or Available From Investing Activities	96	(211)	-	-
3 Net Cash (Used in) or Available From Financing Activities	-	-	-	-
4 Net Cash generated or (Used) during the period	22	43	59	31
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	4.1%	22.2%	34.4%	--
<i>b Gross Profit Margin</i>	55.0%	57.7%	48.2%	37.5%
<i>c Net Profit Margin</i>	21.1%	24.3%	13.3%	5.7%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	33.1%	40.4%	24.6%	17.2%
<i>e Return on Equity (ROE)</i>	17.3%	23.2%	12.5%	4.3%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	595	534	633	739
<i>b Net Working Capital (Average Days)</i>	147	162	195	141
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	2.4	2.3	3.0	2.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.8	3.6	1.9	1.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.2	0.4	0.1	0.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	35.8	4.5	15.8	28.6
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	47.8%	43.3%	62.4%	51.8%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Average Borrowing Rate</i>	17.3%	9.2%	8.7%	8.4%

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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