



The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Hotels and Properties Ltd

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	A-	A2	Stable	Maintain	-
27-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Maintain	-
23-Jun-2017	A-	A2	Stable	Maintain	-
30-Dec-2016	A-	A2	Stable	Maintain	-
31-Dec-2015	A-	A2	Stable	Maintain	-
31-Dec-2014	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Nishat Group, through Nishat Hotels & Properties Limited, has set up a project comprising a state of the art shopping mall, a luxury hotel and banquet halls. The ratings reflect the Company's association with Nishat Group, one of the leading business conglomerates of Pakistan, and expected group support. With the mall operating at full capacity, the Company's main focus is now on increasing occupancy rates from hotel operations which has resulted in better performance of the Company. Here, expansion and change in management are expected to have positive results. Although the Company maintains profitable operations, it has yet to completely turn around and generate a positive bottom-line. Financial profile remains stretched due to high leveraging, large repayments and weak coverages. Adequate financing facilities provide some cushion to meet payments in a timely manner. Increase in borrowings and rising interest rates would further suppress coverages, exerting pressure on the Company. Ratings take comfort from demonstrated group support. Going forward Company is looking to merge with Nishat (Gulberg) Hotels and Properties Limited (Nishat Residency) which will in turn result in increased topline in coming years.

Increasing cashflows from hotel operations and operating the mall at optimal capacity are imperative. Timely arrangement of financing to repay obligations is crucial. Any significant deterioration in this and/or margins leading to lower cashflows will have a negative impact on ratings. Meanwhile, given sizable leveraging and debt obligations, group support remains critical for the ratings.

Disclosure

Name of Rated Entity	Nishat Hotels and Properties Ltd
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 Hotels & Retail Industry(May-19)
Rating Analysts	Fahad Iqbal fahad.iqbal@pacra.com +92-42-35869504

Profile

Legal Structure Nishat Hotels & Properties Limited ("Nishat Hotels," the Company) was incorporated on October, 2007, as a public unlisted company.

Background The Company previously used to own and operate all hotels and real estate projects that come under Nishat Group. Initially, it used to own and operate The Nishat Hotel in Gulberg, Lahore. However post 2013, after the demerger of all of its hotels into separate entities the Company now only manages the property located on Abdul Haque Road, Johar Town, Lahore.

Operations The Company is headquartered in Lahore and employs ~ 1,083 employees (FY19). The Company's real estate project, more commonly referred to as The Nishat Emporium, spans across an area of 15 acres. The property comprises a five star hotel with ~198 rooms, a shopping mall consisting ~190 shops, a food court catering 30 international and local chains, a multiplex cinema and 6 banquet halls with a combined capacity to cater to 5,000 people.

Ownership

Ownership Structure The Company is a part of Nishat Group. Major shareholding rests with Mansha Family (~90%) through Mian Hassan Mansha (~22%), Mian Raza Mansha (~22%), Mian, Umer Mansha (~22%) and associated companies (~25%). Remaining shareholding (~10%) is held by Allied Bank.

Stability Ownership structure of the Company is seen as stable as no ownership changes are expected. Documented succession planning will be considered positive.

Business Acumen Nishat Group is a premier business house of Pakistan. The Group has been operating for more than sixty years and is considered to be at par with multinationals operating in Pakistan.

Financial Strength With a substantial asset base, Nishat Group is one of the most distinguished business groups in Pakistan. The emergence of Nishat Group as a conglomerate spans over sixty years with business ventures in textile, cement, power, dairy, hotel, agriculture, aviation, and financial sectors.

Governance

Board Structure The Company's board of directors comprises seven members including the Chairman, Chief Executive and five non-executive directors. Representation is dominated by Mansha Family, with four representatives belonging to the family, whereas, the remaining three are executives from associated companies. However, the Company lacks representation of independent members. Though they are not required but their inclusion will be considered positive.

Members' Profile Mr. Mian Raza Mansha acts as the Chairman of the Board. He holds a bachelor's degree from the University of Pennsylvania. Moreover, he has more than 21 years of experience relating to banking, textile, cement and insurance, in addition to hospitality. Board members have strong profiles and specialize in banking, power, textile and cement, in addition to hospitality.

Board Effectiveness The board has formed an audit committee for effective oversight. It implements strict policies and procedures to ensure proper reporting and professionalism. Board meetings are properly organized with minutes being captured formally.

Financial Transparency A.F. Ferguson Chartered Accountants & Co., classified in category 'A' by the SBP and having a satisfactory QCR rating, are the external auditors of the Company. They have given an unqualified opinion on the financial statements for the year ending June 2019.

Management

Organizational Structure The Company's organizational structure is based on three departments, namely, finance, coordination, and leasing. The coordination department overlooks the project department while IT and internal audit fall under the purview of the Finance Department. All department heads report directly to the CEO of the Company.

Management Team With an overall experience spanning over seventeen years, Mr. Hasan Mansha is the Chief Executive Officer of the Company. He is supported by Mr. Aqib Zulfiqar who recently joined as a Chief Financial Officer of the company. Mr. Aqib is a Fellow member of ICAP and brings with him an experience of 23 years.

Effectiveness The Company has department wise management meetings in place on day to day basis and the management accounts are discussed among senior management to review monthly activity.

MIS The Company has deployed Oracle as its enterprise resource planning system. Reports are submitted to senior management on daily, weekly and monthly basis. They include information relating to revenues, project cost, marketing and receivables.

Control Environment The internal audit department forms an integral part of the Company to ensure efficiency in reporting and standard operating procedures. The department probes business procedures for any potential weaknesses and failures. Various tests and analysis are run by the department to identify any discrepancies and to review the accuracy of transactions. Upon conclusion of the department's assessment, a report summarizing its findings is submitted to the Board of Directors, and other stakeholders.

Business Risk

Industry Dynamics Pakistan's hotel industry has experienced a booming trend amid a growing economy owing to CPEC and improving security situation. It is estimated that hotel occupancy rates may reach up to 80% in the coming years. Tourism and travel contributes ~7% to total GDP of Pakistan and 6% to employment. With entrance of Nishat Group in the hospitality industry and significant developments undertaken by brands like Hyatt and Movenpick, an increase in supply of the hotel rooms is expected in near future. However in recent times, the occupancy rate showed a declining trend in the country. Nishat is first of its kind in Pakistan to have a high end shopping mall along with the 5 star hotel.

Relative Position Currently in Lahore, Nishat Hotel faces major competition from Packages mall with Nishat having an advantage of a five star hotel along with the mall. Going forward, local corporates and international chains are expected to penetrate the market.

Revenues Revenue generation is fairly concentrated as the major portion emanates from rental income (FY19: 45%), which it receives from its mall, followed by proceeds from service and management charges (FY19: 25%). During FY19, the Company posted revenues worth ~PKR 4,233mln, an increase of ~12% over the corresponding period. Growth can be seen as an impact of increased service and management charges and room, banquet charges During 1QFY20 the revenues grew by ~9%.

Margins The company witnessed an increase in gross profit margin, which came up to ~41% in FY19 (FY18: ~39%). Similarly the operating profit margins also improved during the year clocking in at ~29% at FY19 (FY18: ~27%). The company's finance cost increased in FY19: ~PKR 1,795mln (FY18: ~1,176mln). However the impact of finance cost was nullified due to revaluation gain of ~PKR 2bln on Investment property. During 1QFY20 the Company's bottomline booked a loss of ~PKR 275mln but going forward, margins and profitability are expected to improve as lease agreements with higher increments are to be realized in the coming year.

Sustainability Nishat Hotel is planning to convert all of its debt into term finance certificate (TFC). After the issuance of this instrument, leveraging and coverage of the company is expected to improve. Going forward the Company is planning to merge with Nishat (Gulberg) Hotels and Properties Limited which will in turn result in better performance in coming years.

Financial Risk

Working Capital During FY19, net working capital days stood at 11 days (FY18: 8 days). However, the Company bears a negative impact of excess short-term borrowings which have been utilized for capital expenditure.

Coverages Increased FCFO can be seen as an effect of high revenues during the year. At FY19, FCFO, grew by ~17% and stood at ~PKR 1,845mln (FY18: ~PKR 1,531) on the back of increased revenues. However, despite improved cash flows the Company maintained weak coverages due to a surge in financial charges. In 1QFY20 as both interest and debt coverage further dropped. Going forward, coverages are expected to come under further stress amid high interest rate environment. After the issuance of TFC the coverages are expected to improve due to grace period of TFC.

Capitalization The Company has an aggressive capital structure with a debt-to-equity ratio of ~49% in FY19. Majority of the debt taken up is long-term in nature, representing ~69% of total debt. The debt to equity ratio is lower than before due to retrospective restatement of financial statement after the adjustment of revaluation of land is made. However, after the issuance of TFC the leverage is expected to improve.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Nishat Hotels and Properties Limited Hotel & Retail Industry	Sep-19 3M	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	18,637	18,911	14,617	15,017
2 Investments	15,989	15,989	13,686	13,023
3 Related Party Exposure	1	1	104	1
4 Current Assets	2,390	2,171	2,808	2,100
a Inventories	-	-	-	-
b Trade Receivables	267	248	228	154
5 Total Assets	37,018	37,072	31,215	30,141
6 Current Liabilities	881	511	682	591
a Trade Payables	134	92	104	120
7 Borrowings	16,621	17,498	18,092	16,806
8 Related Party Exposure	738	18	-	-
9 Non-Current Liabilities	965	957	298	317
10 Net Assets	17,812	18,087	12,143	12,427
11 Shareholders' Equity	17,812	18,087	12,143	12,427

B INCOME STATEMENT

1 Sales	1,153	4,233	3,736	2,467
a Cost of Good Sold	(758)	(2,493)	(2,257)	(1,698)
2 Gross Profit	395	1,740	1,479	769
a Operating Expenses	(86)	(512)	(461)	(596)
3 Operating Profit	309	1,229	1,017	173
a Non Operating Income or (Expense)	6	2,178	246	19
4 Profit or (Loss) before Interest and Tax	314	3,407	1,264	192
a Total Finance Cost	(589)	(1,795)	(1,176)	(581)
b Taxation	-	(236)	(371)	171
6 Net Income Or (Loss)	(275)	1,376	(284)	(218)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	543	1,845	1,531	758
b Net Cash from Operating Activities before Working Capital Changes	189	81	384	(276)
c Changes in Working Capital	85	(55)	(519)	(482)
1 Net Cash provided by Operating Activities	275	26	(135)	(758)
2 Net Cash (Used in) or Available From Investing Activities	(10)	(430)	(1,117)	(3,738)
3 Net Cash (Used in) or Available From Financing Activities	(166)	(203)	1,257	4,751
4 Net Cash generated or (Used) during the period	99	(607)	5	255

D RATIO ANALYSIS

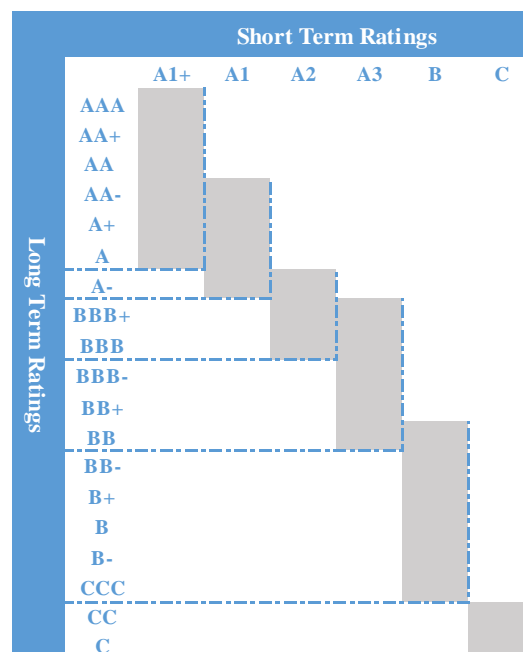
1 Performance				
a Sales Growth (for the period)	8.9%	13.3%	51.5%	--
b Gross Profit Margin	34.2%	41.1%	39.6%	31.2%
c Net Profit Margin	-23.9%	32.5%	-7.6%	-8.9%
d Cash Conversion Efficiency (EBITDA/Sales)	52.0%	52.3%	51.4%	40.0%
e Return on Equity (ROE)	-6.1%	9.1%	-2.3%	-1.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	20	21	19	23
b Net Working Capital (Average Days)	11	12	8	5
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.7	4.2	4.1	3.6
3 Coverages				
a EBITDA / Finance Cost	1.0	1.3	1.7	1.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.2	0.3	0.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-112.8	189.4	40.5	82.4
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	49.3%	49.2%	59.8%	57.5%
b Interest or Markup Payable (Days)	71.3	45.0	73.3	135.9
c Average Borrowing Rate	13.3%	9.9%	6.5%	3.4%

#	Notes
A1	Non-Current Assets include Property, Plant and Equipment (~PKR 19bln) and Investment Property (~PKR 16bln) as at FY19
A2	Investments represent (Investment Property) of Nishat Hotels and Properties Limited

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+	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.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	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.		
CC			
C			
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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- (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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- (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)
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- (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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