The Pakistan Credit Rating Agency Limited

Rating Report

Tourism Promotion Services (Pakistan) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jan-2024	AA	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Tourism Promotion Services (Pakistan) Limited (TPSP), manages and operates Serena Hotels across Pakistan including the flagship Islamabad Serena Hotel. The Company, a key player in Pakistan's hospitality sector, positioned as a market leader, benefits from consumer spending and urban development. The Serena brand ensures quality, comfort and service delivery, resulting in higher market share under Rooms, Food and Beverages and Spa / Health Club. TPSP is a Company with financially solid and moderately leveraged capital structure.

Focused on expansion, TPSP plans new hotels and upgrades, with a commitment to environmental sustainability. Due to macroeconomic factors and industry competition, the Company’s rating depends on operational sustainability, occupancy, profitability, and effective financial risk management.

Disclosure

Name of Rated Entity	Tourism Promotion Services (Pakistan) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Hotel & Retail Industry(Jun-23)
Rating Analysts	Ali Arslan Malik | Ali.Arslan@pacra.com | +92-42-35869504

Profile

Legal Structure Tourism Promotion Services (Pakistan) Limited (TPSP) was stablished on March 19, 1969, as an unlisted public limited company. TPSP's business activities are primarily focused on developing and operating hotels and leisure facilities, alongside other tourism-related ventures. Additionally, the Company owns properties that are utilized for rental purposes. The registered office is situated at the Islamabad Serena Hotel, located in the Khayaban-e-Suhrawardy area of G-5/1 in Islamabad.

Background TPSP owns and operates a network of nine hotels throughout Pakistan under Serena brand name.

Operations TPS has established itself as one of the world's leading hospitality brands offering quality accommodation, unique holiday and conference solutions, cultural heritage and adventure tourism.

Ownership

Ownership Structure TPSP is a subsidiary of AKFED which holds 95.47% shareholding in TPSP. Industrial Promotion Services holds 3.2% and remaining shareholding of 1.33% equally between President of Pakistan and Pakistan Tourism Development Corporation.

Stability TPSP established in 1969 and with it growth trajectory ensuring the stability of its sponsors and importance of the Company to the group.

Business Acumen The sponsors has presence in various sector of economy and possess a significant expertise in the hotel industry.

Financial Strength The financial muscles of the sponsors are considered strong.

Governance

Board Structure The Company's board of directors comprises seven members including the Chairman and Chief Executive.

Members' Profile The chairman and others members of the board have long association with TPSP and all the members have relevant expertise to provide strategic guidance to TPSP.

Board Effectiveness The board of TPSP has established various committees, including the Human Resource and Remuneration Committee, Audit Committee, Risk Management & Corporate Governance Committee.

Financial Transparency KPMG Taseer Hadi & Co. Chartered Accountants are the external auditors of the Company. They have given an unqualified opinion on the financial statements for the year ending December 2022.

Management

Organizational Structure The organizational structure of TPSP is segmented into various departments, including finance, HR, and purchasing. The heads of all these departments directly report to the CEO of the Company.

Management Team Mr. Aziz Boolani, possessing over thirty years of extensive experience, currently holds the position of Chief Executive Officer at the Company, a role he has been dedicated to for more than twenty-three years. Mr. Syed Naveed Abbas currently served as the Chief Financial Officer (CFO) of the Company .

Effectiveness Various tests and analysis are run by the departments 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.

MIS The Company has taken a significant strategic step by deploying Oracle as its (PMS) system, enabled the organization to generate comprehensive reports on a daily, weekly, and monthly basis, providing senior management with crucial insights into key performance indicators. Management is now developing Central Reservation System and Oracle Central Information System.

Control Environment The internal audit department forms an integral part of the Company to ensure efficiency in reporting and standard operating procedures.

Business Risk

Industry Dynamics In FY23, the contribution of travel and tourism to Pakistan's Gross Domestic Product (GDP) rose to approximately 1.5%, up from 1.4% in FY22. Pakistan ranks among the top nations worldwide in terms of international tourism receipts. Despite the hike in average rents in FY23, reflecting the impact of inflation, the tourism industry in Pakistan continues to grow. This growth is evident in the increasing proportion of the accommodation and food services sector in the country's GDP for both FY22 and FY23.

Relative Position Serena Hotel is one of the leading 5-star brands in the country having 9 hotels in different cities of Pakistan with ~961 rooms.

Revenues The Company's revenue streams are derived from four key segments: (i) Rooms, (ii) Food & Beverages, (iii) Rental Income and (iv) Ancillary Services. The largest share of revenue is generated from room sales, followed by food and beverages and rental income. During the 9MCY23, the Company's total revenue amounted to PKR 9.9 billion, compared to PKR 11.6 billion in CY22 and PKR 8.7 billion in CY21.

Margins In 9MCY23, the Company achieved a GP margin of 57%, amounting to PKR 5.7 billion, compared to 59% in CY22 and 59.7% in CY21. The Operating Margin for 9MCY23 was recorded at 32.6%, showing an increase from 30.5% in CY22 but a decrease from 34% in CY21. However, the Company experienced a decline in Net Profit, which was 20.4% in 9MCY23, down from 25% in CY22 and significantly lower than 31% in CY21. This decrease in net profit is attributed to a substantial 72% rise in finance costs, reaching PKR 1.2bln in 9MCY23, compared to just PKR 0.35 billion in CY22 mainly due to new projects.

Sustainability TPSP is highly attentive to the concerns of local communities, especially in terms of preserving their traditions, culture, and future growth. Committed to environmental sustainability, the Company is vigorously involved in multiple green initiatives to minimize its carbon footprint.

Financial Risk

Working Capital The needs of the Company are primarily influenced by its accounts receivable, as its business model doesn't necessitate holding inventory. Historically, the Company has successfully managed its working capital by effectively overseeing its receivables and payables. This has resulted in the company maintaining stable gross working capital days, which were 26 days for 9MCY22, compared to 24 days for the CY22 and 26 days in CY21. The net working capital days have also displayed consistency, registering at 17 days for 9MCY23, closely mirroring the 16 days in CY22 and 17 days in CY21. This consistency has contributed to improved liquidity for the Company.

Coverages During 9MCY23, the Company's Free Cash Flow from Operations (FCFO) was reported at PKR 3.24 billion. Its Interest Coverage ratio was 2.8 times, indicating the Company's capability to fulfill its financial commitments. The FCFO saw a notable increase of 33% compared to CY22, where it was PKR 2.4 billion. However, the coverage ratio exhibited a declining pattern due to higher finance costs incurred during 9MFY23, with previous years' ratios being 4.1 times in CY22 and 3.8 times in CY21.

Capitalization The Company maintains a balanced capital structure, evidenced by a debt-to-equity ratio of approximately 33% as of 9MCY23. A significant portion of its debt, about 65%, is categorized as long-term. This includes long-term loans, specifically Term Finance loans from UBL and Askari Bank, which were obtained for expansion and upgrade projects at Hunza, Sost, and Peshawar Serena locations. In CY22, the Company's leverage ratio was recorded at 35%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Tourism Promotion Services (Pakistan) Limited	Sep-23	Dec-22	Dec-21	Dec-20
Hotel & Retail Industry	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	12,397	10,522	5,763	5,079
2 Investments	14,467	13,725	9,273	8,294
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,479	1,512	1,252	797
a Inventories	*179*	*146*	*122*	*92*
b Trade Receivables	*963*	*562*	*524*	*340*
5 Total Assets	29,343	25,758	16,289	14,171
6 Current Liabilities	4,499	2,888	2,547	1,723
a Trade Payables	*401*	*248*	*207*	*166*
7 Borrowings	7,467	7,520	1,014	1,529
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,618	1,207	831	1,088
10 Net Assets	15,760	14,144	11,897	9,830
11 Shareholders' Equity	15,760	14,144	11,897	9,830
B INCOME STATEMENT				
1 Sales	9,898	10,290	7,708	4,869
a Cost of Good Sold	*(4,242)*	*(4,222)*	*(3,104)*	*(2,134)*
2 Gross Profit	5,656	6,068	4,604	2,735
a Operating Expenses	(2,432)	(2,928)	(1,994)	(1,481)
3 Operating Profit	3,224	3,140	2,610	1,254
a Non Operating Income or (Expense)	*1,527*	*1,144*	*661*	*1,165*
4 Profit or (Loss) before Interest and Tax	4,751	4,284	3,271	2,419
a Total Finance Cost	*(1,250)*	*(354)*	*(164)*	*(235)*
b Taxation	*(1,481)*	*(1,357)*	*(732)*	*(490)*
6 Net Income Or (Loss)	2,020	2,574	2,375	1,694
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,240*	*2,435*	*2,383*	*1,025*
b Net Cash from Operating Activities before Working Capital Changes	*2,187*	*2,250*	*2,287*	*868*
c Changes in Working Capital	*(507)*	*170*	*76*	*428*
1 Net Cash provided by Operating Activities	1,680	2,420	2,363	1,297
2 Net Cash (Used in) or Available From Investing Activities	(1,569)	(5,856)	(1,348)	(1,380)
3 Net Cash (Used in) or Available From Financing Activities	2,081	1,866	(830)	(175)
4 Net Cash generated or (Used) during the period	2,192	(1,570)	185	(259)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	28.3%	33.5%	58.3%	N/A
b Gross Profit Margin	57.1%	59.0%	59.7%	56.2%
c Net Profit Margin	20.4%	25.0%	30.8%	34.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	27.6%	25.3%	31.9%	29.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	18.0%	19.8%	21.9%	17.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	26	24	26	32
b Net Working Capital (Average Days)	17	16	17	20
c Current Ratio (Current Assets / Current Liabilities)	0.6	0.5	0.5	0.5
3 Coverages				
a EBITDA / Finance Cost	3.8	13.6	27.0	12.3
b FCFO / Finance Cost+CMLTB+Excess STB	3.0	4.1	3.8	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	1.4	0.3	1.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.1%	34.7%	7.9%	13.5%
b Interest or Markup Payable (Days)	66.8	141.0	41.6	19.2
c Entity Average Borrowing Rate	18.4%	6.8%	9.6%	9.0%

Corporate Rating Criteria

Scale

Credit Rating

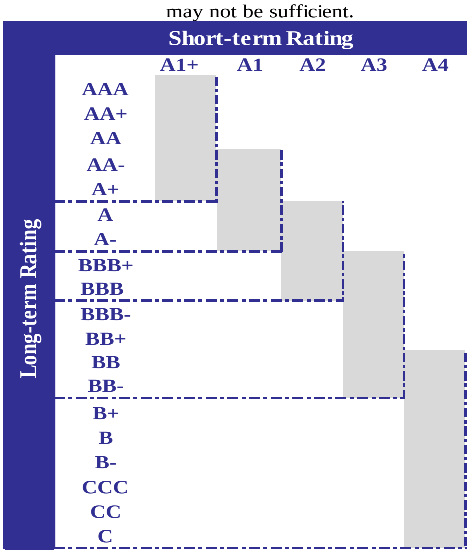
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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