Date
dd-mm-yy

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Applicable Criteria

- Methodology | Rating Modifiers | Apr-24
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-24
- Methodology | Debt Instrument Rating | Oct-24

Related Research

- Sector Study | Hotel & Lodging | Jun-24

PACRA Revises the Rating of Pakistan Services Limited | Sukuk |Mar-18

Rating Type	Debt Instrument	
	Current dd-mm-yy	Previous (28-Jun-24)
Action	Default	Maintain
Long Term	D	BB
Short Term	-	A4
Outlook	-	Negative
Rating Watch	-	Yes

The hospitality sector experienced severe global impacts as the COVID-19 pandemic spread. It took a significant amount of time for the sector to return to normalcy, facing multiple challenges in meeting fixed overheads and fulfilling debt obligations during this period. Regulators provided essential support by allowing the deferment of loans, a crucial step for many companies. However, firms with high leverage continued to struggle even after COVID-19 restrictions were lifted. The combination of higher interest rates and rising inflation dampened net profit margins, making cash flows insufficient to cover increased interest expenses and loan repayments once the deferred period ended. Pakistan Services Limited (PSL) faced significant challenges during this time. For nearly two years, the Company struggled to keep up with its debt obligations despite having a substantial asset base. To manage its debts, PSL sold non-core assets, successfully retiring a considerable portion of its debt and accrued interest. Out of total long-term facilities of PKR 15.3bln PKR 8.2bln has been repaid along with interest payments of PKR 10.4bln totaling, PKR 18.6bln. The current outstanding principal against availed facilities stands at PKR 7.1bln, which includes a Sukuk instrument. The Privately Placed Sukuk instrument had an issue size of PKR 7bln, secured by an equitable mortgage on the land and building of PC- Lahore, with a 25% margin for lenders. As of the third quarter of FY24, the outstanding amount of the Sukuk instrument is PKR 4.5bln. The current market value of the underlying asset i.e. PC-Lahore is estimated at PKR 27bln, providing substantial coverage. Recognizing the mismatch in cash flows, management initiated a two-phase debt restructuring plan. The first phase met with successive challenges in offloading the designated assets to raise the requisite cash flows. Due to certain circumstances resulting inability to access the cash balance held in a commercial bank, the Company could not make the Sukuk payments as well. As of now, both principal and interest payments are overdue. Given the complexity of the restructuring, PSL has engaged Bridge Factor as a financial advisor. They are currently in discussions with banks, hoping for an amicable resolution in the ongoing quarter. A precondition for restructuring is the clearance of overdue payments. Management is actively working to generate cash through the sale of another property, PC-Multan, and a sale of investment in a listed company. The management has indicated that this sale transaction is at an advanced stage; with the down payment, a significant portion of the overdue amount will be settled, and the remainder will be restructured in line with the Company's cash flows. PACRA has been monitoring the Company's performance and provided a series of updates. In July 2023, it downgraded the Sukuk rating to "BBB" with a negative outlook and rating watch. Subsequently, the Sukuk rating was lowered to "BB" in December 2023. Due to delays in the much-anticipated restructuring and non-payment, PACRA is adjusting the Sukuk rating to "D," indicating that obligations are currently in default. The recovery prospects are strong, given many times asset coverage against the outstanding amount. The planned restructuring involves ring-fencing and assignment of PC Lahore cash flows, such that Sukuk holders are paid first.

PACRA will continue to monitor developments and update the ratings once the new structure is in place. During FY24, the Company's revenue increased by ~13% reaching PKR 15bln, driven by slight improvements in occupancy and average daily room rates. Margins improved across all levels, resulting in a net profit of PKR 425mln, compared to a net loss of PKR 219mln in FY23.

Going forward, ratings will depend on the successful restructuring of the long-term debt and Sukuk instrument, sufficient liquidity for timely repayment of obligations, and improved coverage. Additionally, resolving the material uncertainty regarding the Company's going concern status, as documented by external auditors, is considered important.

About the Entity

Pakistan Services Limited was established in 1958 and is quoted on the Pakistan Stock Exchange. It owns and operates Pearl Continental Hotels – the largest hotel chain in the country with 1,701 rooms. Mr. Sadruddin Hashwani is the Chairman of the board. Subsequent to the period ending March 24, Mr. Murtaza Hashwani resigned from the position of CEO, and Mr. Bastien Paul was appointed as the CEO by the board of directors. He has more than two decades of experience within the hospitality industry.

About the Instrument

The instrument is secured by an equitable mortgage on land & building of PC - Lahore with a 25% margin, and carries a markup of 6M-KIBOR plus 100bps.

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