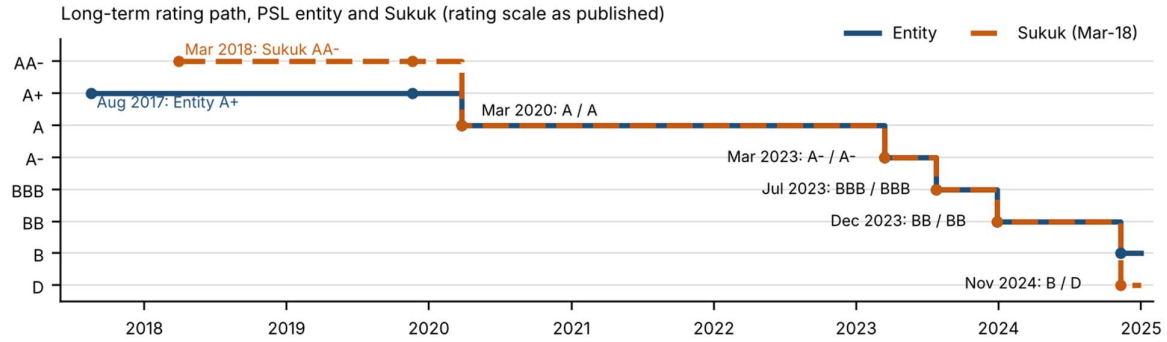
# Pakistan Services Limited: from A+ and AA- to B and D

Entity rating A+ (Aug 2017) to B (Nov 2024). Sukuk (Mar-18) rating AA- (Mar 2018) to D (Oct 2024).

## 1. The original case

PACRA assigned Pakistan Services Limited (PSL) an initial entity rating of A+/A1 on 18 August 2017 and a preliminary AA- to its proposed PKR 7bln privately placed Sukuk on 26 October 2017, and after issuance of Sukuk, subsequently assigned initial ratings on 29 March 2018. The ratings reflected the leading position of the Pearl Continental brand and its presence in six cities, the association with Hashoo Group (89.15% control), PC Lahore contributing ~45% of revenue, improving occupancies and rates, and a low leveraged capital structure expected to stay comfortable after the Sukuk. The Sukuk carried one notch of uplift over the entity because PSL intended to maintain a Debt Payment Account (DPA) and a liquidity cushion in its short-term lines equal to the upcoming instalment, alongside an equitable mortgage over PC Lahore with a 25% margin and profit at 6M-KIBOR plus 100bps. The Press releases captured the prominent areas from the start: management of coverages amid rising debt, timely completion of the Multan and Mirpur hotels, and, from Nov 2018, liquid investments and margins. Pressure on coverages and liquidity was visible by May 2019.




## 2. Rating actions: published rationale and additional information

| Date | Entity | Sukuk | Published rationale (PACRA press release) | Additional Information |
|---|---|---|---|---|
| **18 Aug 2017** | **A+ / A1**<br>Initial<br>Stable | Not applicable | Leading position of the PC brand with presence in six cities. Association with Hashoo Group (2,500+ rooms, 20 properties). Growth in occupancies and ADRs, PC Lahore (600+ rooms) ~45% of revenue. Low leveraged capital structure, expected to rise after the Sukuk but remain comfortable. Management of coverages amid rising debt and timely completion of new properties, noted as crucial. | **9MFY17**: Non-Current Assets: PKR 37.6Bln. Total Assets: PKR 42Bln. Equity: PKR 32.2Bln. Total Debt: PKR 6Bln. Sales: PKR 7.5Bln. Net Profit: PKR 1.1Bln. GP% 45.6 & N.P% 25%. EBITDA: PKR 1.78Bln. Coverage (EBITDA/Gross Interest) 7.6x. |
| **26 Oct 2017** | Not applicable | **AA-**<br>Preliminary<br>Stable | Same franchise and group strengths as the entity. Multan and Mirpur hotels under construction, partly financed by the Sukuk. PSL intends to maintain a DPA and a cushion in short-term lines equal to the upcoming instalment, which provides further comfort. Coverage management and timely completion of new properties remain crucial. | Proceeds of the issue will be utilized for PSL's ongoing and future projects as well as for renovation of existing properties. |
| **29 Mar 2018** | **A+ / A1**<br>Maintain<br>Stable | **AA-**<br>Initial<br>Stable | Entity: rationale unchanged from the initial press release, with debt-driven expansion expected to raise leveraging to a comfortable level (entity press release). Sukuk: initial rating on the same basis, with the DPA, short-term cushion and the PC Lahore mortgage supporting the notch above the entity (Sukuk press release). | First Sukuk tranche of PKR 2,333mln drawn in Mar 2018. In order to capitalize on the increasing demand in the hospitality sector, PSL targets sizeable investments in expansion and development of new properties in both high-end and mid-tier segments. |
| **19 Nov 2018** | **A+ / A1**<br>Maintain<br>Stable | **AA-**<br>Maintain<br>Stable | Strong position as market leader with Hashoo Group association. Growth with stable margins amid improving security and CPEC. Political conditions pressured profitability and coverages in 3MFY19. Modest leveraging, with sufficient liquid investments and cash for FY19. Ratings tied to new projects, margins and coverages, and liquid investments. | Second Sukuk tranche of PKR 1,362mln drawn in Jul 2018. Issue size PKR 7,000mln including a PKR 2,000mln green-shoe. |
| **21 May 2019** | **A+ / A1**<br>Maintain<br>Stable | **AA-**<br>Maintain<br>Stable | Market leader with Hashoo Group association. Geopolitical conditions and slower domestic activity hurt revenue and profitability through 9MFY19. Modest leveraging and a large asset base, but higher borrowings and rising rates put coverages under pressure. Management intended to sell non-core properties to supplement liquidity, and maintaining the liquidity cushion was important. | 9MFY19 loss of PKR ~401mln as finance cost rose ~98% to ~PKR 1bln. Total coverage 0.6x (FY18: 1.0x), CMLTD PKR 2.5bln, leveraging 30%. Maintained after PSL gave a formal undertaking to hold cash and bank balances of at least PKR 1,500mln (~PKR 2,600mln at Mar 2019) and to sell investment properties if they fell. Model-driven A, assigned A+. |
| **20 Nov 2019** | **A+ / A1**<br>Maintain<br>Developing, Watch | **AA-**<br>Maintain<br>Developing, Watch | Market leader with modest leveraging and a large asset base. FY19 loss, with high finance cost and low cash flows leaving coverages weak. Management intended to sell properties to meet sizeable repayments. Sponsor support track record cited. Rating Watch (Developing) pending the sales. | FY19 net loss of PKR ~863mln. FY20 debt service of ~PKR 5bln (CMLTD ~3.3bln, interest ~1.6bln) against expected FCFO of ~PKR 1.6bln, to be bridged by property and aircraft sales. Both ratings placed on Watch ahead of the 23 Nov 2019 board meeting. |

| COVID-19 Outbreak | | | | |
|---|---|---|---|---|
| **24 Mar 2020** | **A / A1**<br>**Downgrade from A+**<br>Negative, Watch | **A**<br>**Downgrade from AA-**<br>Negative, Watch | Geopolitical conditions, slower activity and the Covid-19 outbreak and travel restrictions hit revenue, with margins expected to deteriorate despite a better 1HFY20. Modest leveraging and a large asset base, but higher finance cost and low cash flows left coverages weak. Property sales planned to meet sizeable repayments, but buyers were stepped back. Sponsor financial support described as imperative. | DPA not credited for the first principal instalment (interest part-paid, ~PKR 509mln). Occupancy in single digits. 1HFY20 interest cover 1.5x, debt cover 0.4x. Entity assigned A against model-driven A-, on expected asset sales and SBP deferment. Sukuk lowered two notches to entity level because the DPA was not fully maintained. |
| **24 Mar 2021** | **A / A1**<br>Maintain<br>Negative, Watch | **A**<br>Maintain<br>Negative, Watch | Industry improving under SOPs, with limited profit in 2QFY21 but low occupancy and rates. Deferment of long-term debt aligned cash flows and payables, and non-core asset sales would add liquidity. Leveraging against a large asset base with weak coverages, and sponsor support is imperative. Removal of the auditors' going-concern uncertainty is seen as important. | Lenders approved deferment of the remaining long-term loans (PKR 4.27bln of HBL and BOP deferred two years earlier). 1HFY21 interest cover 1.2x (FY20: 0.5x), FCFO PKR 676mln, leveraging ~33.2%. Hotel One, Mall Road sold for PKR 500mln, with PKR 3.2bln of properties held for sale at Dec 2020. Model and assigned rating both A. Sukuk held at entity level as the DPA could not be funded in time. |
| **24 Mar 2022** | **A / A1**<br>Maintain<br>Developing, Watch | **A**<br>Maintain<br>Developing, Watch | Leading hospitality position and post-Covid rebound, with a return to profit in 1HFY22. Occupancy and room rates up. Cash flows aligned with debt repayments after the earlier deferment, with disposal proceeds expected. Leverage against a large asset base noted, sponsor support described as imperative, and removal of the auditors' going-concern uncertainty seen as important (entity release; Sukuk release to be inserted). | Sukuk principal deferment continued from Sep 2021 to Jun 2022. US Consulate building classified as held for sale, with a PKR 400mln advance received. |
| **15 Mar 2023** | **A- / A2**<br>**Downgrade from A**<br>Negative, Watch | **A-**<br>**Downgrade from A**<br>Negative, Watch | Regulatory Covid relief had helped, and fixed assets were being sold to meet repayments, but some large assets were not sold as planned. Political instability, high interest rates and inflation led management to disclose material uncertainty in its latest accounts. Settlement with lenders linked mainly to property sales, with success stated as crucial for ratings. | PKR 9.6bln of PKR 11.26bln long-term debt classified as current. US Consulate building sale (~PKR 5bln) cancelled and PKR 400mln advance refunded. Current liabilities exceeded current assets by ~PKR 11.4bln. Interest cover 1.3x, debt cover 0.2x. Struggling with short-term obligations, reliance on asset sales, no significant sponsor support. |
| **25 Jul 2023** | **BBB / A3**<br>**Downgrade from A-**<br>Negative, Watch | **BBB**<br>**Downgrade from A-**<br>Negative, Watch | Principal and interest due Dec 2022 was repaid. In June 2023 lenders deferred the Mar, Jun and Sep 2023 instalments to Dec 2023, including the PKR 7,000mln Sukuk. 9MFY23 revenue was ~PKR 10.5bln, but coverages were weak and cash flows insufficient (entity release; Sukuk release to be inserted). | The restructuring signals distress and no material advancement in the process of sale related to the non-core assets. |
| **29 Dec 2023** | **BB / A4**<br>**Downgrade from BBB**<br>Negative, Watch | **BB**<br>**Downgrade from BBB**<br>Negative, Watch | Cash flows had not improved enough for timely repayment, and auditors flagged material uncertainty on going concern. The second supplemental Musharaka agreement required sale of identified assets by 15 Dec 2023, failing which the sponsor guarantee became enforceable. The sale was not completed. PACRA stated that this casts significant doubt on repayment capacity. | Condition to repay PKR 5.5bln by 15 Dec 2023 breached, sponsor guarantee unfunded, no lender extension communicated. |
| **28 Jun 2024** | **BB / A4**<br>Maintain<br>Negative, Watch | **BB**<br>Maintain<br>Negative, Watch | One identified property was sold and proceeds were applied to debt due through Dec 2023. Restructuring of the remaining loans was under negotiation. The Mar 2024 quarter payment was expected from internal cash flows before end of June 2024. PC Multan, held for sale, had no substantial buyer progress. Change of CEO after the period end (entity release; Sukuk release to be inserted). | US Consulate building sold in Mar 2024 for ~PKR 3.7bln, of which ~PKR 2.7bln settled principal due 31 Dec 2023. PC Multan held for sale at ~PKR 6.4bln. |
| **Oct to Nov 2024** | **B / A4**<br>**Downgrade from BB**<br>Negative, Watch | **D**<br>**Default from BB**<br>No outlook | Covid deferments gave relief, but highly leveraged firms struggled as rates and inflation rose. PSL sold non-core assets and repaid a considerable part of its debt, but the first restructuring phase stalled on asset sales. Sukuk to D on delayed restructuring and non-payment, with strong recovery prospects on many times asset cover. Entity to B on high credit risk. | Mar, Jun and Sep 2024 payments overdue. A Sukuk participant served a default notice. Current liabilities exceeded current assets by ~PKR 10.1bln (Jun 2024). |
| **8 Nov 2025** | **B / A4**<br>Maintain<br>Negative, Watch | **-** | Uneven sector recovery and continued mismatch between cash flows and debt service. Of PKR ~15.3bln facilities, PKR ~8.5bln principal and ~10.4bln interest repaid (PKR ~18.9bln), with ~6.8bln outstanding including the PKR ~4.5bln Sukuk. Restructuring through Bridge Factor not concluded, asset sales pending, going-concern uncertainty continuing. | 9MFY25 revenue ~PKR 12.9bln, up ~14.7%, with net profit of ~PKR 929mln. |
| **6 Nov 2026** | **B / A4**<br>Maintain<br>Negative, Watch | **-** | Large asset base, but ratings constrained by a prolonged debt burden, liquidity pressure and dependence on restructuring. Rating Watch reflects unresolved restructuring talks and pending divestments. Going-concern uncertainty remains critical. A PSX notice of 3 Nov 2026 reports a change in shareholding. | Debt and asset figures repeat the 9MFY25 position. Latest financials not published. |

## 3. How the position deteriorated

**Liquidity dependence on asset sales (2019 to 2022).** In November 2019 management planned to meet ~PKR 5bln of FY20 obligations through sale of Karachi land (book value ~PKR 2.8bln, market value ~PKR 4bln), an aircraft (~PKR 750 to 800mln) and other properties, and indicated that no restructuring was planned. By March 2020 neither the land nor the

aircraft sale had closed. The Sukuk was extended under the SBP Covid relief deferment of PKR 6.6bln, and by September 2022 PSL had paid Sukuk interest of ~PKR 2.7bln and principal of ~PKR 929mln. Revenue recovered to PKR 11,988mln in FY22, with a net profit of ~PKR 609mln, but the dependence on asset sales remained.

**Debt reclassification (Dec 2022 to Mar 2023).** The buyer of the US Consulate building withdrew, and PSL asked lenders to reschedule principal of PKR ~11.2bln and deferred markup of PKR ~0.7bln, with a twelve-month waiver. PACRA identified the reclassification from the half-year accounts; it had not been raised by management beforehand. PACRA advised settling the December 2022 dues so that no default was reported to ECIB, and PSL did so. Both ratings moved to A- with a Negative outlook.

**Deferment and the missed condition (2023).** Lenders deferred the Mar, Jun and Sep 2023 instalments to December 2023. The second supplemental Musharaka agreement required sale of identified assets and repayment of PKR 5.5bln by 15 December 2023, failing which the trustee could enforce the sponsor guarantee. By the 26 December 2023 committee, no asset had been sold and no sponsor funds had been provided. PSL later reported payments of ~PKR 5.5bln for the deferred quarters (principal ~2.6bln, markup ~2.9bln) from property sales and internal sources.

**Payment default (2024).** The March 2024 Sukuk instalment of PKR 624mln went unpaid because the Sukuk agent did not approve use of the PKR 628mln held with it, and the June and September 2024 instalments followed. PSL appointed Bridge Factor as financial adviser. Its reprofiling proposal sets the Sukuk at PKR ~3.2bln after settling overdue amounts, over five years with a two-year grace period and a waterfall over PC Lahore cash flows, funded by the sale of PC Multan (~PKR 3bln) and Jubilee Insurance shares (~PKR 251mln). With a default notice served by one participant, the Sukuk moved to D on 31 October 2024 and the entity to B.

> **Debt service record.** Against long-term facilities of PKR ~15.3bln availed, PSL repaid PKR ~8.2bln of principal and PKR ~10.4bln of interest, a total of PKR ~18.6bln. Principal of PKR ~7.1bln remained outstanding at Oct 2024, of which the Sukuk was PKR ~4.5bln. PC Lahore, the Sukuk security, was valued at ~PKR 27bln and non-current assets stood at PKR ~57.7bln. The D rating therefore records a payment default, not an expectation of loss; recovery prospects were assessed as strong.

## 4. Why the entity is rated B while the Sukuk is D

**The two ratings measure different things.** The D on the Sukuk records a documented event: the Mar, Jun and Sep 2024 instalments were overdue and one participant served a default notice. The entity rating assesses PSL's overall capacity to meet all of its obligations. Of the PKR ~1.46bln overdue across the long-term facilities at Sep 2024, PKR ~1.2bln (~82%) sat in the Sukuk, and PACRA held the entity at B on two supporting factors.

**Asset coverage.** Non-current assets were PKR ~55.5bln at 9MFY25 (March 2025) against outstanding principal of PKR ~6.8bln, or ~8x. The hotels securing the long-term facilities were valued at PKR ~56.5bln against PKR ~7.2bln of debt at Jun 2024, and PC Lahore alone, the Sukuk security, was valued at ~PKR 27bln against PKR ~4.5bln outstanding.

**Operations and lender engagement.** The entity reflected the resoluteness and ability to repay the financial obligations, and demonstrated forthcomingness and constructive engagement with the lenders to restructure and repay the financial obligations. Operations were not interrupted. Revenue rose ~13% to PKR 15bln in FY24 and ~14.7% to PKR ~12.9bln in 9MFY25, with net profit of PKR 425mln in FY24 and ~929mln in 9MFY25. Future ratings depend on the restructuring, sufficient liquidity, and resolution of the going-concern matter.

## 5. What the record shows

It took 4 years and 8 months for the Sukuk rating to deteriorate from its first downgrade in March 2020 to 'D' (Default) in November 2024. Accordingly, the initial downgrade in March 2020 represented a first warning signal of financial risk deterioration, providing the market with an indication of the issuer's weakening financial position well ahead of the eventual default. The original ratings rested on asset coverage and sponsor association, and the liquidity bridge was expected to come from asset sales. Sale timelines slipped in 2019, 2022 and 2023, which converted a cash flow mismatch into default despite asset cover of several times the Sukuk outstanding. PACRA acted each time a stated condition was missed: the DPA in March 2020, the debt reclassification in March 2023, the 15 December 2023 condition, and the overdue payments of 2024. The entity rating stands at B/A4 with a Negative outlook, maintained on 8 November 2025 and 6 November 2026. By November 2025 PSL had repaid PKR ~8.5bln of principal and PKR ~10.4bln of interest, with PKR ~6.8bln outstanding.