



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Nishat Hotels and Properties Ltd**

**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
16-Jun-2023	A-	A2	Positive	Maintain	-
24-Jun-2022	A-	A2	Stable	Maintain	-
25-Jun-2021	A-	A2	Stable	Maintain	Yes
27-Jun-2020	A-	A2	Stable	Maintain	Yes
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	-

**Rating Rationale and Key Rating Drivers**

Nishat Hotels & Properties Limited ('NHPL' or 'the Company') primarily owns, manages, and operates a shopping mall, hotel, and banquet halls under the name of 'Nishat Emporium' and 'Nishat Hotel'. The Company also operates in the real estate business under the name of 'Nishat Residences' that mainly comprise of residential apartments. NHPL's ratings reflect a prominent business profile and a solid brand name in the hospitality and real estate segments. The Company has set up multiple projects comprising state-of-the-art infrastructures. The ratings take comfort from the Company's association with Nishat Group, one of the leading business conglomerates in Pakistan. Over the years, Pakistan's hotel and retail industry has witnessed growth and transformation, driven by various factors such as increasing consumer spending, a growing middle class, urbanization, and improved infrastructure. These dynamics have created new opportunities and challenges for businesses operating in the sector. Both domestic and international hotel chains have recognized the potential of Pakistan's hospitality sector. Major hotel brands are entering the market or expanding their existing properties to cater to the rising demand for quality accommodations, including luxury, business, and budget segments. Accordingly, the Company is also able to achieve operational sustainability. Further, the hotel occupancy rates and average daily room rates have shown considerable improvements which translated into better financial performance. Commercial and business activities in Emporium Mall have also shown a rising trend and achieved splendid footfall during period under review, showing positive indication. In the real estate business segment, sales of apartments in the Nishat residences are striding. The Company has benefited from a strong governing board, and operations draw support from skilled and professional management. Financial risk profile of the Company is considered adequate with comfortable coverages, cash flows, and working capital cycle. Capital structure is leveraged where borrowings are mainly comprised of long-term borrowings.

The ratings are dependent upon the sustainability of operations amid changing business environment, and improvement in revenues & margins. The Sponsor's support and future cash flows from the sale of apartments are vital. At the same time, management of financial risk, particularly debt coverages, remain important, also consistency in the performance indicators will have a positive impact on the ratings.

**Disclosure**

<b>Name of Rated Entity</b>	Nishat Hotels and Properties Ltd
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Hotel & Retail Industry(Jun-22)
<b>Rating Analysts</b>	Iqra Toqeer   iqra.toqeer@pacra.com   +92-42-35869504



# Hotel & Retail Industry

The Pakistan Credit Rating Agency Limited

## Profile

**Legal Structure** Nishat Hotels & Properties Limited ('NHPL' or 'the Company') was incorporated in October 2007, as a public unlisted company.

**Background** The Company owns and operates hotel and real estate projects that come under the Nishat Group. Post-2013, the Company demerged into separate entities and until recently, the Company was only managing one property located on Abdul Haque Road, Johar Town, Lahore. During Sep'20, Nishat (Gulberg) Hotel and Properties Limited ("Nishat Residences") was merged with NHPL.

**Operations** The principal activity of the Company is to own, manage, establish and operate shopping mall, hotels and banquet halls, located at Abdul Haque Road, Johar Town, Lahore, which is operating under the name and style of 'Nishat Emporium' and 'Nishat Hotel'. The complex is spread over 15 acres of land comprising 11 levels, housing, 198 hotel rooms, banquet halls, a shopping mall with a food court, cinemas, stores, health and leisure zones etc. Post-merger, the Company is dealing in residential apartments (Nishat Residences) as well, comprising 77 apartments (incl. 4 penthouses).

## Ownership

**Ownership Structure** The Company is a part of Nishat Group. Major shareholding rests with sponsoring family; Mansha Family (67.44%) and Security General Insurance Co. Ltd (17.94%), D.G Khan Cement Co. Ltd (8.55%) & Nishat Mills Ltd (6.08%).

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

**Business Acumen** Group is a premier business house in 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** 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. The sponsors of the Company are strong and will support if the Company needs financial assistance.

## Governance

**Board Structure** The Company's board of directors comprises seven members including the chairman, one executive director 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 two decades 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 of the Company for the year ending June, 2022.

## Management

**Organizational Structure** The Company's organizational structure mainly consists; finance, operations, leasing and admin departments. Overall department heads report directly to the CEO of the Company.

**Management Team** With an overall experience spanning over 2 decades, Mr. Hasan Mansha is the Chief Executive Officer of the Company. He is supported by Mr. Muhammad Ali Pervaiz who serves as the Chief Financial Officer of the Company. Mr. Ali is a fellow member of ICAP and brings with him an experience of 25 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 a 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 analyses 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 stakeholders.

## Business Risk

**Industry Dynamics** Since the industry falls under the Services sector; it is imperative to note its performance. For Pakistan, the size of the sector is at least ~1.5 times that of the combined agriculture and industry sector and is seeing steady but continuous growth over the years; currently constituting to almost ~58% of the GDP. By virtue, the hotel sector is related to the tourism sector. Hence, changes in the tourism sector can reflect the variations in performance of the hotel & lodging industry. Further, the industry has embarked on a revolution of sorts where even the luxury hotels like PC and Avari are entering the budgeted hotel market with different brands like Hotel One and Avari Xpress, respectively. As evident by the increasing number of local and international brand hotels the market is effectively competitive. However, there are a few dominant market players.

**Relative Position** Currently, in Lahore, NHPL faces major competition from Packages mall with the Company having an advantage of a five-star hotel along with the mall. As a hotel, Pearl Continental and Avari are major competitors in Lahore. Going forward, local corporates and international chains are expected to penetrate the market.

**Revenues** Revenues of the Company stood at PKR 6.2bln during FY22 (FY21: PKR 6.1bln). Mall footfall and occupancy rates have improved in FY22. During 9MFY23, the revenues of the Company stood at PKR 5.6bln.

**Margins** The margins have shown recovery at both gross (FY22: 44.5%, FY21: 34%) and operating levels (FY22: 34.2%, FY21: 27.1%). Finance cost has increased from PKR 1.28bln in FY21 to PKR 1.47bln in FY22. Net profit for FY22 amounted to PKR 850mln as compared to PKR 1.3bln in FY21. The Company's gross and net margins stood at 49.4% and 11.7% at end Mar'23, respectively.

**Sustainability** The macroeconomic instability is creating various challenges for hospitality businesses in Pakistan. However, the management is vigilant and actively evaluate the future earnings prospects based upon budgets and financial projections.

## Financial Risk

**Working Capital** During FY22 the Company's gross working capital days decreased to 132 days as compared to 162 days in FY21. Similarly, net working capital days are also reduced to 118 days in FY22 (FY21:144 days) which has translated into better liquidity. At end of 9MFY23, the Company's gross and net working capital cycle further reduced to 98 days and 86 days, respectively.

**Coverages** The Company's FCFO stood at PKR 2,791mln in FY22 (FY21: PKR 2,456mln). As a result, the interest cover ratio stood at 1.9x in FY22 (FY21: 2.0x, FY20: 0.8x). During 9MFY23, the Company's FCFO has been recorded at PKR 2,678mln, keeping the interest coverage and core coverage ratios stand at 1.7x and 1.2x, respectively.

**Capitalization** In FY22, total borrowings of the company stood at PKR 13,606mln (out of which PKR 12,350mln are long-term loans) as compared to PKR 15,784mln in FY21. Leverage position of the Company stood at 36.2% in FY22 (FY21: 41%). At end of 9MFY23, the Company's total borrowings stood at PKR 13,139mln, out of which PKR 12,347mln is constituted to long-term debt. Leverage ratio stood at 34.8% at end Mar'23. .



Nishat Hotels & Properties Limited Hotel & Retail Industry	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	17,007	17,417	17,709	18,058
2 Investments	17,587	17,583	17,126	16,422
3 Related Party Exposure	2	2	1	18
4 Current Assets	5,758	4,381	5,430	5,346
<i>a Inventories</i>	1,536	1,744	2,151	2,665
<i>b Trade Receivables</i>	371	336	207	386
5 Total Assets	40,354	39,383	40,266	39,844
6 Current Liabilities	1,502	804	878	2,962
<i>a Trade Payables</i>	303	164	296	308
7 Borrowings	13,139	13,606	14,319	14,559
8 Related Party Exposure	-	-	1,465	1,503
9 Non-Current Liabilities	1,084	994	673	635
10 Net Assets	24,629	23,978	22,931	20,185
11 Shareholders' Equity	24,629	23,978	22,931	20,185
<b>B INCOME STATEMENT</b>				
1 Sales	5,579	6,156	6,095	3,874
<i>a Cost of Good Sold</i>	(2,821)	(3,415)	(4,019)	(2,588)
2 Gross Profit	2,758	2,742	2,076	1,286
<i>a Operating Expenses</i>	(507)	(636)	(424)	(473)
3 Operating Profit	2,251	2,106	1,652	813
<i>a Non Operating Income or (Expense)</i>	50	454	657	398
4 Profit or (Loss) before Interest and Tax	2,300	2,560	2,309	1,211
<i>a Total Finance Cost</i>	(1,649)	(1,467)	(1,286)	(2,241)
<i>b Taxation</i>	-	(242)	282	238
6 Net Income Or (Loss)	652	850	1,305	(791)
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	2,678	2,791	2,456	1,745
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,612	1,350	810	(94)
<i>c Changes in Working Capital</i>	320	304	(529)	(30)
1 Net Cash provided by Operating Activities	1,932	1,654	281	(124)
2 Net Cash (Used in) or Available From Investing Activities	(283)	(259)	(168)	(105)
3 Net Cash (Used in) or Available From Financing Activities	(64)	(122)	741	2,234
4 Net Cash generated or (Used) during the period	1,586	1,274	854	2,005
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	20.8%	1.0%	57.3%	-8.5%
<i>b Gross Profit Margin</i>	49.4%	44.5%	34.1%	33.2%
<i>c Net Profit Margin</i>	11.7%	13.8%	21.4%	-20.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	53.7%	50.3%	31.6%	44.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	3.6%	3.6%	6.1%	-4.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	98	132	162	281
<i>b Net Working Capital (Average Days)</i>	86	118	144	262
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.8	5.4	6.2	1.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.9	2.1	2.2	0.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.2	1.2	1.8	0.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	9.2	9.7	12.2	-31.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	34.8%	36.2%	40.8%	44.3%
<i>b Interest or Markup Payable (Days)</i>	108.1	13.9	14.3	65.7
<i>c Entity Average Borrowing Rate</i>	15.6%	9.6%	7.8%	12.8%

### 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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-	
BB+	
BB	<b>Moderate risk.</b> 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-	
B+	
B	<b>High credit risk.</b> 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-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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 | 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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent