The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Hotels and Properties Ltd

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jun-2024	A	A1	Stable	Upgrade	-
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	-

Rating Rationale and Key Rating Drivers

Nishat Hotels & Properties Limited (NHPL or the Company) holds a prominent position in Pakistan's hospitality and real estate sectors. Under the brand name of Nishat Emporium, the Company owns and manages a shopping mall, alongside a hotel and banquet halls operating under the brand “Nishat Hotel”. In 2020, NHPL ventured into residential development with their 'Nishat Residences' brand, featuring a project comprising 77 luxury apartments. The ratings take comfort from the Company’s association with Nishat Group, one of the leading business conglomerates in Pakistan. According to the “World Tourism Barometer” published by the World Tourism Organization, Pakistan experienced a 92% growth in foreign visitors in the first nine months of 2023, indicating a positive trend compared to pre-pandemic levels. Pakistan's hotel and retail industry is experiencing growth due to factors like rising consumer spending, urbanization, and improved infrastructure. This has led to domestic and international hotel chains expanding their properties to meet the growing demand for quality accommodations in luxury, business, and budget segments. Aligned with prevailing trends in the hospitality industry, the Company's performance indicators, including occupancy levels, average daily room rates, and utilization of banquet halls, demonstrated improvements during 9MFY24, leading to a ~20% increase in revenue. Going forward newly developed revenue streams within this segment will further supplement the revenue growth. On the Emporium Mall front, the Company successfully attained full occupancy, leasing out all rentable areas, and achieved ~12% revenue growth. Similarly, under the brand of Nishat Residencies, ~ 57 apartments have been sold which is considered a significant milestone. The Company has benefited from a strong governing board, and operations draw support from skilled and professional management. The financial risk profile of the Company is considered adequate with comfortable coverages, cash flows, and working capital cycle. Capital structure is moderately leveraged where borrowings are comprised of long-term only.

The ratings are dependent upon the sustainability of operations amid changing business environment and inflationary pressures, and consistent improvement in all segments of revenue & margins. Cash flows from the sale of apartments are vital to improve the debt coverage. Consistency in the performance indicators as illustrated in the financial projections, will continue to be paramount.

Disclosure	
Name of Rated Entity	Nishat Hotels and Properties Ltd
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-24)
Related Research	Sector Study | Hotel & Retail Industry(Jun-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

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.

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, automotive 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, 2023.

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 over 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 Pakistan's service sector, which encompasses the hotel industry, is a significant contributor to the national GDP, exceeding the combined size of agriculture and industry by approximately 1.5 times. This sector has exhibited consistent growth, currently accounting for roughly 58% of GDP. The hotel industry is intricately linked to tourism performance. Pakistan's tourism sector has witnessed positive developments, with nearly 100,000 foreign visitors recorded in 2023. Fluctuations in tourism can directly impact hotel industry performance. The industry is undergoing a transformation, with established luxury chains like PC (Pearl Continental) and Avari venturing into the budget segment through new brands like Hotel One and Avari Xpress, respectively. This trend indicates increasing competition within the market, driven by a growing number of local and international hotel brands.

Relative Position Nishat Emporium Mall enjoys a leading position amongst Pakistan's shopping malls, attracting significant foot traffic and potentially benefiting the co-located Nishat Hotel. In Lahore, Nishat Hotel benefits from its integrated location within a major shopping mall, offering a distinct advantage compared to competitor Packages Mall. Going forward, hotel competitors' downturn has created more opportunities for NHPL to penetrate the market.

Revenues The company's revenue increased to PKR 7.6 billion in FY23, reflecting a year-on-year growth from PKR 6.2 billion in FY22. In 9MFY24, the hotel specific revenue has increased as a result of higher ADR, offsetting the impact of lower room occupancy.

Margins The company's profitability metrics have exhibited improvement, with gross margin increasing to 48.2% in FY23 (FY22: 44.5%) and operating margin rising to 38.7% in FY23 (FY22: 34.2%). However, finance costs have grown significantly, rising from PKR 1.47 billion in FY22 to PKR 2.41 billion in FY23. Net profit for FY23 reached PKR 2.2 billion, a substantial increase compared to PKR 850 million in FY22. This demonstrates the company's improved financial performance. As of 9MFY24, the company maintains gross and net margins of 49.1% and 8.1%, 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 The company has achieved significant improvements in working capital management. Gross working capital days have decreased to 90 days in FY23 (from 132 days in FY22), and net working capital days have also improved to 81 days (FY22: 118 days). This translates into enhanced liquidity. The positive trend in working capital efficiency has continued into 9MFY24, with gross and net working capital cycles further reduced to 71 days and 62 days, respectively.

Coverages The company's FCFO has exhibited positive growth, reaching PKR 3,353 million in FY23 (compared to PKR 2,791 million in FY22). As a result of the FCFO improvement, the interest coverage ratio has declined moderately to 1.4x in FY23 (FY22: 1.9x, FY21: 2.0x). While the ratio remains above 1.0x, further monitoring is warranted. During 9MFY24, the Company's FCFO stood at PKR 3,042mln, keeping the interest coverage ratio stood at 1.5x.

Capitalization Nishat Hotels' total borrowings declined to PKR 12.35 billion in FY23 compared to PKR 13.61 billion in FY22. This decrease reflects a commitment to debt reduction. The company's leverage ratio improved to 31.1% in FY23 compared to 36.2% in FY22, indicating a strengthening capital structure. The trend continued at the end of 9MFY24 with a leverage ratio of 29.3%. In Nishat Hotels' debt portfolio, 100% of the debt is long-term. This focus on long-term financing provides greater financial stability.

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Financial Summary
PKR mln

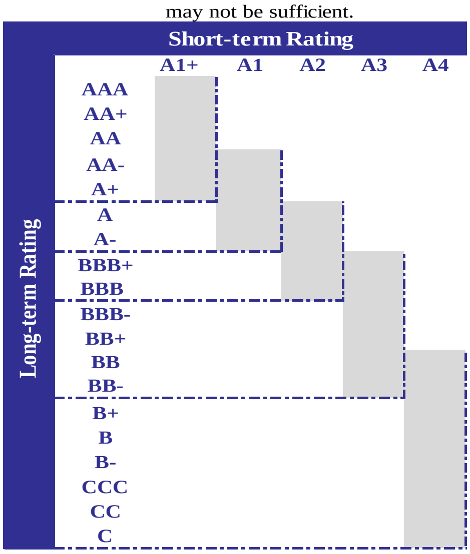
Nishat Hotels & Properties Limited	Mar-24	Jun-23	Jun-22	Jun-21
Hotel & Retail Industry	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	18,191	18,703	17,417	17,709
2 Investments	19,451	19,451	17,583	17,126
3 Related Party Exposure	1	5	2	1
4 Current Assets	5,539	4,333	4,381	5,430
a Inventories	*1,208*	*1,347*	*1,744*	*2,151*
b Trade Receivables	*348*	*304*	*336*	*207*
5 Total Assets	43,183	42,493	39,383	40,266
6 Current Liabilities	1,872	908	804	878
a Trade Payables	*235*	*186*	*164*	*296*
7 Borrowings	11,599	12,353	13,606	14,319
8 Related Party Exposure	(0)	30	-	1,465
9 Non-Current Liabilities	1,768	1,732	994	673
10 Net Assets	27,944	27,469	23,978	22,931
11 Shareholders' Equity	27,944	27,469	23,978	22,931
B INCOME STATEMENT				
1 Sales	6,161	7,580	6,156	6,095
a Cost of Good Sold	*(3,146)*	*(3,927)*	*(3,415)*	*(4,019)*
2 Gross Profit	3,014	3,653	2,742	2,076
a Operating Expenses	(577)	(717)	(636)	(424)
3 Operating Profit	2,437	2,936	2,106	1,652
a Non Operating Income or (Expense)	*136*	*1,864*	*454*	*657*
4 Profit or (Loss) before Interest and Tax	2,573	4,800	2,560	2,309
a Total Finance Cost	*(2,099)*	*(2,415)*	*(1,467)*	*(1,286)*
b Taxation	*(149)*	*(182)*	*(242)*	*282*
6 Net Income Or (Loss)	326	2,203	850	1,305
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,011*	*3,353*	*2,791*	*2,456*
b Net Cash from Operating Activities before Working Capital C	*1,553*	*986*	*1,350*	*810*
c Changes in Working Capital	*166*	*671*	*304*	*(529)*
1 Net Cash provided by Operating Activities	1,719	1,658	1,654	281
2 Net Cash (Used in) or Available From Investing Activities	(85)	(423)	(259)	(168)
3 Net Cash (Used in) or Available From Financing Activities	(774)	(834)	(122)	741
4 Net Cash generated or (Used) during the period	860	401	1,274	854
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	8.4%	23.1%	1.0%	57.3%
b Gross Profit Margin	48.9%	48.2%	44.5%	34.1%
c Net Profit Margin	5.3%	29.1%	13.8%	21.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	51.6%	53.1%	50.3%	31.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Tot*	1.6%	8.6%	3.6%	6.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	71	90	132	306
b Net Working Capital (Average Days)	62	81	118	288
c Current Ratio (Current Assets / Current Liabilities)	3.0	4.8	5.4	6.2
3 Coverages				
a EBITDA / Finance Cost	1.5	1.6	2.1	2.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.9	1.2	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	9.4	12.6	9.7	12.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	29.3%	31.1%	36.2%	40.8%
b Interest or Markup Payable (Days)	94.3	11.7	13.9	14.3
c Entity Average Borrowing Rate	22.5%	18.0%	9.6%	7.8%

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.

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

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(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)

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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)
(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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