The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Services Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Nov-2024	B	A4	Negative	Downgrade	Yes
28-Jun-2024	BB	A4	Negative	Maintain	Yes
29-Dec-2023	BB	A4	Negative	Downgrade	Yes
25-Jul-2023	BBB	A3	Negative	Downgrade	Yes
15-Mar-2023	A-	A2	Negative	Downgrade	Yes
24-Mar-2022	A	A1	Developing	Maintain	Yes
24-Mar-2021	A	A1	Negative	Maintain	Yes
24-Mar-2020	A	A1	Negative	Downgrade	Yes
20-Nov-2019	A+	A1	Developing	Maintain	Yes
21-May-2019	A+	A1	Stable	Maintain	-
19-Nov-2018	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The COVID-19 pandemic caused severe global disruptions in the hospitality sector, leading to a prolonged recovery. Companies struggled to manage fixed overheads and service debts amid reduced revenues. Although regulatory loan deferments provided temporary relief, businesses with high debt levels continued to face challenges as restrictions eased. Rising interest rates and inflation further strained cash flows, impacting their ability to meet financial obligations post-deferments. Pakistan Services Limited (PSL) was significantly affected, struggling for nearly two years to keep up with its debt despite a substantial asset base. To manage its debts, PSL sold several non-core key 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 of PKR 4.5bln. PSL's non-current assets, valued at PKR 57.7bln, provide 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. PACRA has already placed the Sukuk Instrument rating at "D". Given the complexity of restructuring, PSL has engaged Bridge Factor as a financial advisor and is negotiating with banks for a resolution, including clearing overdue payments through planned sales of PC-Multan and investment shares. Management states that the sales are nearing completion, and down payments will cover overdue amounts, with remaining debt aligned to future cash flows. PACRA downgraded PSL's rating to “BBB” in July 2023 and then to “BB” in December 2023. PACRA is now adjusting the entity's rating to “B”, citing high credit risk. The recovery prospects are strong due to significant asset coverage over the outstanding amount. PACRA will monitor and update ratings once the new structure is in place. In FY24, the Company’s revenue grew by 13% to PKR 15bln, driven by improved occupancy and room rates. Margins strengthened, yielding 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, 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.

Disclosure

Name of Rated Entity	Pakistan Services Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Hotel & Lodging(Jun-24)
Rating Analysts	Kanwal Ejaz | kanwal.ejaz@pacra.com | +92-42-35869504

Profile

Legal Structure Pakistan Services Limited ("PSL" or "the Company") is a public limited Company, quoted on the Pakistan Stock Exchange (PSX).

Background The Company was established in 1958 by the Government of Pakistan and Pakistan International Airlines, initially operating four hotels in Karachi, Lahore, Rawalpindi, and Peshawar. Managed by InterContinental Hotels & Resorts until 1985, the management was then taken over by Hashoo Group, which rebranded the hotels as Pearl Continental Hotels.

Operations The Company is principally engaged in the hospitality business and owns and manages the nine luxury hotels located in Karachi, Lahore, Rawalpindi, Bhurban, Muzaffarabad, Hunza, Gwadar, Murree, and Malam Jabba. Collectively, these nine hotels offer around ~1,701 rooms.

Ownership

Ownership Structure Sponsors, directors, and CEO cumulatively hold ~1.6% directly and ~32% through associated Companies. Banks, DFIs, Insurance Companies, Mudarbas, and mutual funds cumulatively hold ~5%. Foreign Companies collectively hold ~55%, (each of these having less than ~10% and there exists no consortium between these Companies), hence, these foreign Companies cannot exercise control over PSL. The remaining ~6.4% shares are held by the general public.

Stability Hashoo Group owns a significant portion of PSL’s shares, and foreign investment adds a further layer of stability. However, the current free float is around ~75%, which may pose a potential takeover risk.

Business Acumen Hashoo Group started its hospitality journey in 1978, followed by a second hotel in 1981 under the 'Holiday Inn' brand. Their commitment to quality service, strategic joint ventures, and operational efficiency has established their strong local and international reputation.

Financial Strength While the sponsors have faced challenges in providing direct financial support during the current crisis, however, their diversified business portfolio reflects their long-term commitment to sustainability. The Group operates across multiple industries, both locally and internationally, including hospitality, oil and gas exploration, information technology, minerals, pharmaceuticals, real estate, and commodity trading.

Governance

Board Structure The board of the Company complies with the code of corporate governance and is composed of ten members. Three are Executive Directors, four are Non-Executive Directors and three are Independent Directors.

Members’ Profile Board of Directors (BoD) consists of seasoned professionals from the hospitality industry. Chairman Mr. Sadruddin Hashwani has over four decades of experience. Independent directors are industry experts, while executive directors bring in-depth knowledge. Non-executive directors offer independent perspectives for sound decision-making.

Board Effectiveness The board has four key committees including; 1) Audit, 2) Human Resource, 3) Nomination, and 4) Risk Management which align with the Corporate Governance Code. In FY24, the Board held three meetings with adequate attendance. Meeting minutes are well-documented to ensure transparency and support robust governance.

Financial Transparency KPMG Taseer Hadi & Co., a QCR-rated firm in category "A" of the SBP, is the Company's external auditor. They issued an unqualified opinion on the financial statements for the year ending June 30, 2024. However, the auditors drew attention to the existence of material uncertainity related to going conern which states that, as of FY24, the Company's current liabilities exceed its current assets by PKR ~10.11bn. Auditors also mentioned about the breaches in long-term borrowing agreements and non-compliance with some covenants.

Management

Organizational Structure PSL has a clear organizational structure led by the CEO, who provides strategic direction and holds the highest decision-making authority. Key departments support the organization, with Heads of Departments (HODs) reporting directly to the CEO. All key positions are filled, ensuring stability and effectiveness.

Management Team Mr. Bastien Paul Emile Blanc, with over 20 years of hospitality experience, has recently become CEO, succeeding Mr. Murtaza Hashwani. Supported by a highly qualified team, including Mr. Tahir Mahmood, CFO, who has been with Hashoo Group for over 13 years, he ensures strong leadership and operational continuity.

Effectiveness The effectiveness of management can be enhanced through the formation of specialized management committees to strengthen oversight and improve the execution of day-to-day operations. Currently, management struggles with plan implementation and performance targets. Better forecasting and proactive strategies are needed. Structured decision-making and performance monitoring frameworks will further strengthen management's ability to meet objectives.

MIS The Company has implemented an integrated, cloud-based, management system designed specifically for the hospitality industry.

Control Environment The Company has formed an efficient internal audit department, which reports to the Audit Committee of the board. The department works primarily in three dimensions i) Assurance, ii) Consulting, and (iii) Investigation.

Business Risk

Industry Dynamics The hospitality industry is expected to grow at a CAGR of over 6.56% from 2024 to 2029, driven by increased tourism and investment. Digital platforms like Booking.com have improved access to quality lodging. The sector has shown resilience, with ~28.6% rise in international tourism receipts and a ~115% surge in foreign tourist arrivals in CY23, indicating a strong post-COVID recovery. Northern destinations like Swat, Gilgit, Hunza, and Kashmir have significantly contributed to this growth.

Relative Position PSL, under the PC Hotels brand, is a key player in Pakistan's hospitality sector. Known for quality, PC Hotels competes with Serena, Marriott, Avari, and Hilton. It stands out due to its strategic locations in major urban and tourist spots, serving both domestic and international travelers.

Revenues The Company derives its revenue from four primary sources: rooms (the largest contributor), food and beverage, other related services, and shop license fees. During FY24, the Company achieved a revenue growth of ~13.4%, reaching PKR ~15,045mln, compared to PKR ~13,262mln in FY23. The growth can be attributed to several factors: an increase in average occupancy rates to ~75% in FY24 from ~57% in FY23, higher average daily rates, and a general recovery in the market.

Margins The Company's gross margin rose to ~39.4% in FY24, compared to ~37.9% in FY23. This improvement is mainly attributed to higher ADR and efficient management of operations. The Company reported a net profit of PKR ~425mln in FY24, marking a significant turnaround from the net loss of PKR ~218mln in FY23. This increase in net profit is largely attributed to re-measurement of investments to fair value in FY24.

Sustainability 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 a total long-term facility of PKR 15.3bln, the Company has repaid PKR 18.6bln in principal and interest to date. As of FY24, the book value of non-current assets was recorded at ~PKR 57.7bln providing multiple times 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. 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.

Financial Risk

Working Capital During FY24, the Company successfully maintained a strong position in its working capital management, achieving a negative net working capital cycle of -12 days, compared to -8 days in FY23. Materialization of initiatives to improve cashflows is critical for the Company, in order to eliminate asset-liability mismatch.

Coverages During FY24, Company’s free cashflows from operations improved to PKR ~3,446mln (FY23: PKR ~2,047). The interest coverage ratio improved to ~1.5x in FY24 from ~1.2x in FY23, indicating some improvement in operational cash flows.

Capitalization The Company's debt book primarily consists of short-term borrowings, amounting to PKR ~9,992mln as of FY24. This shift is due to the reclassification of long-term borrowings to the current portion in FY23 following restructuring arrangements. Total borrowings during FY24 were PKR ~10,388mln, compared to PKR ~14,053mln in FY23. The gearing ratio for FY24 was recorded at ~19%, down from ~24% in FY23.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Pakistan Services Limited Hospitality	Jun-24 12M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	56,012	47,853	51,090	41,004
2 Investments	1,485	1,216	1,833	1,288
3 Related Party Exposure	1,627	1,770	2,913	4,374
4 Current Assets	3,145	13,902	10,224	8,363
a Inventories	*289*	*306*	*147*	*89*
b Trade Receivables	*880*	*940*	*781*	*405*
5 Total Assets	62,269	64,742	66,060	55,029
6 Current Liabilities	4,545	4,566	4,105	2,532
a Trade Payables	*1,675*	*1,712*	*1,042*	*886*
7 Borrowings	10,388	14,053	15,887	17,227
8 Related Party Exposure	135	65	24	36
9 Non-Current Liabilities	1,306	1,119	890	725
10 Net Assets	45,895	44,939	45,154	34,510
11 Shareholders' Equity	45,895	44,939	45,154	34,510
B INCOME STATEMENT				
1 Sales	15,045	13,262	11,988	6,941
a Cost of Good Sold	*(9,122)*	*(8,235)*	*(7,026)*	*(4,745)*
2 Gross Profit	5,923	5,027	4,962	2,196
a Operating Expenses	(4,080)	(3,850)	(2,899)	(1,988)
3 Operating Profit	1,843	1,177	2,064	208
a Non Operating Income or (Expense)	*1,190*	*816*	*(58)*	*440*
4 Profit or (Loss) before Interest and Tax	3,033	1,992	2,005	649
a Total Finance Cost	*(2,464)*	*(1,925)*	*(1,378)*	*(1,226)*
b Taxation	*(144)*	*(286)*	*(18)*	*181*
6 Net Income Or (Loss)	425	(218)	609	(396)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,446*	*2,047*	*3,072*	*1,342*
b Net Cash from Operating Activities before Working Capital Changes	*133*	*(397)*	*877*	*857*
c Changes in Working Capital	*256*	*494*	*(90)*	*(368)*
1 Net Cash provided by Operating Activities	389	97	786	489
2 Net Cash (Used in) or Available From Investing Activities	3,045	1,756	427	67
3 Net Cash (Used in) or Available From Financing Activities	(3,584)	(1,243)	(707)	(622)
4 Net Cash generated or (Used) during the period	(150)	610	507	(66)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	13.4%	10.6%	72.7%	-14.6%
b Gross Profit Margin	39.4%	37.9%	41.4%	31.6%
c Net Profit Margin	2.8%	-1.6%	5.1%	-5.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	24.6%	19.2%	24.9%	14.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	0.9%	-0.5%	1.5%	-1.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	29	30	22	20
b Net Working Capital (Average Days)	-12	-8	-8	-28
c Current Ratio (Current Assets / Current Liabilities)	0.7	3.0	2.5	3.3
3 Coverages				
a EBITDA / Finance Cost	1.5	1.5	2.8	1.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.2	0.5	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	8.8	43.8	7.3	47.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	18.7%	23.9%	26.1%	33.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	17.1%	11.8%	7.2%	6.0%

Credit Rating

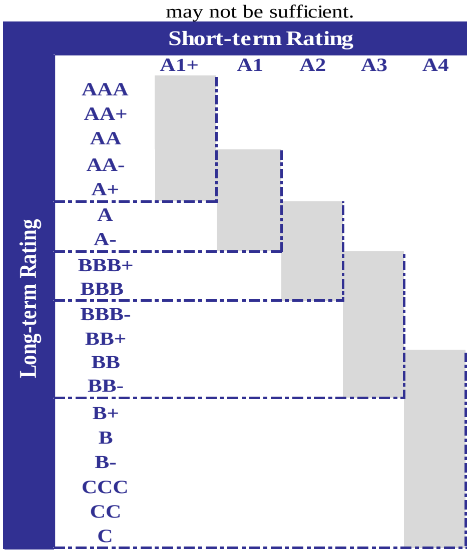
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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)
Proprietary Information