



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pakistan Services Limited | Sukuk | Mar-18

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jul-2023	BBB	-	Negative	Downgrade	Yes
15-Mar-2023	A-	-	Negative	Downgrade	Yes
24-Mar-2022	A	-	Developing	Maintain	Yes
24-Mar-2021	A	-	Negative	Maintain	Yes
24-Mar-2020	A	-	Negative	Downgrade	Yes
20-Nov-2019	AA-	-	Developing	Maintain	Yes
21-May-2019	AA-	-	Stable	Maintain	-
19-Nov-2018	AA-	-	Stable	Maintain	-
29-Mar-2018	AA-	-	Stable	Initial	-
26-Oct-2017	AA-	-	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

Pakistan Services Limited's (The Company) has a leading position in the hospitality industry. Ever since the pandemic Covid-19, the hotel sector has been under pressure. Furthermore, the slowdown in domestic activity, coupled with hyperinflation, low foreign reserves, a depreciating currency and a high-interest rate environment impacted the sector's performance. Given the above facts, the operational cashflows did not improve to make repayments. In full cognizance of the situation, the Company was pursuing a sale plan of its fixed assets, primarily properties. The management was hopeful to complete the sale transaction however, were not able to dispose of some big assets as targeted. Over the last couple of months, the management started to face material uncertainty around the company's operations, as disclosed in the recently published financial statements for six months ended on 31st Dec'22. This led to the revision and adjustment of ratings on 15-Mar-23. Thereafter, the management has represented that they have expressed intention to settle the debt while aligning the financial obligations with the operational realities and successfully managed to repay a principal and interest which was due on 31st Dec'22.

In continuation of the management's efforts, on Jun'23 as per the consent of the lenders, all long-term loans have been restructured where principal repayments along with markup due at end Mar'23, Jun'23, and Sep'23 are deferred till Dec'23. As per the revised agreements i) The Managing co-owner undertakes that it shall utilize excess cash/EBITDA during the financial year to satisfy the payments obligation on pro-rata basis ii) The Sponsor guaranteed amounting PKR 7.66bln with respect to deferred payments-2023 and iii) The Managing co-owner undertake that any shortfall in the proceeds from the disposal of the sale assets/properties to be disposed off or in the case where the sale assets/properties are not sold off shall be in the first instance be paid by the managing Co-owner from his own resources or procure additional funding from the sponsor and iv) the managing co-owner undertakes to open and maintain an escrow account within 45 days from the date of execution of this second supplemental for pro-rata distribution of proceeds from the disposal of sale assets. Hence the debt obligations falling due in Dec'23 are linked with sale of properties while remaining liabilities will be aligned with the emerging pattern of future cash flows. Rating would remain dependent on the effective implementation of the envisaged strategy.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Services Limited   Sukuk   Mar-18
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Debt Instrument Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22)
<b>Related Research</b>	Sector Study   Hotel & Retail Industry(Jun-23)
<b>Rating Analysts</b>	Muhammad Atif Chaudhry   Atif.Chaudhry@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** Pakistan Services Limited (the Company) is a public limited company, quoted on the Pakistan Stock Exchange. The Company was incorporated in 1958 by the Government of Pakistan and Pakistan International Airlines, with four hotels in Karachi, Lahore, Rawalpindi and Peshawar. The hotels were managed by InterContinental Hotels & Resorts up until 1985, after which they took an exit from Pakistan. Subsequently, Hashoo Group successfully bid for the hotels in the same year and commenced operations under the brand 'Pearl Continental Hotels' Pakistan Services Limited (PSL) operates six luxury hotels with 1,394 total rooms in all major cities i.e. Karachi, Lahore, Rawalpindi, Bhurban, Muzafarabad and Malam Jabba under 'Pearl Continental'.

**Ownership** Majority stake in Pakistan Services Limited is owned & controlled by foreign companies. The remaining shareholding is held through local associated companies and directors. Ownership structure of the Company is stable as there is limited free-float and no ownership changes are expected. Hashoo Group was established in 1960 by Sadruddin Hashwani, Chairman of the Group. The Group penetrated the hospitality industry by setting up its first hotel in 1978 and the second in 1981 under the brand 'Holiday Inn'. In the following years, the Group acquired Pakistan Services Limited and gained franchise rights for Marriott Hotels by Marriott International. The sponsor has considerable expertise in hospitality sector. The Company's financial strength is derived from the support of its Group. The Group has business ventures spread across various industries, both, locally and internationally. The Group activities encompass hospitality, oil & gas exploration and production, information technology, minerals, pharmaceuticals, real estate and commodity trading. In addition to operating Pearl Continental through Pakistan Services Limited, the Group operates two Marriott Hotels (Islamabad and Karachi) and one property of Pearl Continental located in Gwadar.

**Governance** The Company's Board comprises nine members. Three are Executive Directors, three are Non-Executive Directors and four are Independent Directors. Mr. Sadruddin Hashwani, Chairman of the board, possesses more than four decades of experience in the hospitality sector. Other Board members also have well-diversified and extensive profiles. They include professional accountants, lawyers and experienced individuals from the hospitality industry. The board has formed four committees namely; i) Audit Committee ii) Human Resource Committee iii) Nomination Committee and iv) Risk management Committee to comply with the corporate governance code. During the FY22, four board meetings were held in which the attendance of the board members remained adequate. The Company maintains board meeting minutes in a proper manner. KPMG Taseer Hadi & Co. is the external auditor of the Company. The auditor has given an unqualified opinion with an emphasis on the matter paragraph describing material uncertainty related to going concern on the financial statements for year ended June 30th, 2022. In the half-year review (Dec-22) the same emphasis related to material uncertainty related to going concern is included in the auditor's report.

**Management** The Company has a well-defined organizational structure. The highest level of authority lies with the Chief Executive who is aided by the Vice Chairman. Mr. Murtaza Hashwani is the CEO of the Company. He is a graduate of Santa Monica University, USA, and carries the experience of over 2 decades managing hospitality, oil & gas, and pharmaceutical sectors. Mr. Tahir Mahmood, has replaced Mr. Javed Iqbal as the Company's CFO, is an experienced professional having associated with Hashoo group for the last 14 years. Other members of the management tier are all seasoned professionals with relevant experience. In order to ensure efficient operations, the Company relies on constructing and implementing strict budgets. Moreover, to devise future strategies while evaluating current performance, various reports on a frequent basis are submitted to the top management. The Company has implemented 'Opera', an integrated, cloud-based, management system designed specifically for the hospitality industry by Oracle. 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** Ever since the pandemic of Covid-19, the hotels and hospitality sector is in pressure, where occupancy levels became a challenge, high levels of inflation, rising fuel prices, and a drop in disposable income became a threat to the industry. By virtue, the hotel sector is related to the tourism sector, hence changes in the tourism sector can reflect the variations in the performance of the hotel industry. The total share of travel and tourism to Pakistan's GDP has declined significantly. On the flip side, domestic and international visitor spending has also dropped by ~29% and 23% respectively. Recently, 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 PC Legacy and Avari Xpress, respectively. Additionally, the startups like Roomph and Lets Home, that help people find quality lodging services with a unique experience, is also a step towards the uphill of the sector. Pakistan Services Limited, operating under the brand 'Pearl Continental', is the leading 5-star brand in the country with 1,394 rooms, accompanied by Serena Hotels, Avari Hotels, and Marriott Hotels, respectively. The Company generates its revenue from four sources, namely, rooms (largest contributor), food & beverage, other related services, and shop license fee. During 9MFY23, revenue recorded at PKR ~10,509m and in FY22, Company posted revenues worth PKR ~11,988m (FY21: PKR 6,941m). However, improvement in occupancy rates is expected in future. During 9MFY23, GP margins remained at ~42%, in FY22 (41.4%) as compare to FY21: 31.6%. The Company recorded a net profit of PKR ~372m in 9MFY23 and PKR ~609m during FY22. Previously, Management was optimistic regarding sizeable repayment of long-term debt through sale of its fixed assets, mainly properties. But that transaction was not materialized due to current macroeconomic challenges. Now material uncertainty related to the going concern assumption exists which is disclosed in the latest financial results of IHFY23 and management of the company also acknowledges this fact. However, management expressed their willingness to settle the longterm debt, while aligning the financial obligations with operational realities. A detailed restructuring plan is also under discussion with all lenders.

**Financial Risk** Net working capital days in 9MFY23 recorded at ~1 day though during FY22, the Company was able to maintain a strong position on its working capital management with a net working capital cycle at -8 days (FY21: -28days). Materialization of initiatives to improve cashflows is critical for the Company. During 9MFY23, the Company's free cashflows from operations reached to PKR ~2,184m (FY22: 3,072m). The interest coverage ratio reached to 1.6x (FY22: 2.6x) and debt coverage ratio to 0.2x in 9MFY23 (FY22: 0.4x) mainly due to the classification of all long-term liability in the current maturity of long-term debt and higher finance cost. Total borrowings during 9MFY23 clocked in at PKR ~13,757m (FY22: 15,887m). Leveraging ratio during 9MFY23 clocked in at ~23% (FY22: ~26%).

## Instrument Rating Considerations

**About The Instrument** PSL issued an unlisted, secured, long-term, PP Sukuk amounting to PKR 7,000m. Under the Regulator's Relief Package amid COVID-19, the Company availed deferment of the outstanding principal amount of PKR 6.6m. Consequently, the tenor has been extended to two and a half years. Till Dec'22, seventeen interest payments amounting to ~PKR 2,982m and principal amounting ~PKR 1,183m have been paid by the Company. The instrument is secured by an Equitable mortgage on land & building of PC - Lahore with 25% margin.

**Relative Seniority/Subordination Of Instrument** The claims of the Sukuk holders will rank superior to the claims of ordinary shareholders.

**Credit Enhancement** The Sukuk is secured by way of a first parri passu Hypothecation charge over the present and future fixed asset of the PC Lahore with 25% margin



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

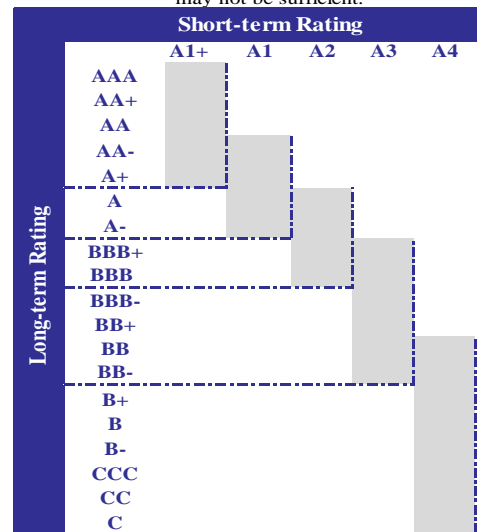
Pakistan Services Limited Hospitality	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	51,866	51,090	41,004	43,773
2 Investments	1,220	1,833	1,288	4,686
3 Related Party Exposure	2,912	2,913	4,374	2,404
4 Current Assets	8,810	10,224	8,363	4,646
a Inventories	484	147	89	69
b Trade Receivables	1,075	781	405	195
5 Total Assets	64,808	66,060	55,029	55,509
6 Current Liabilities	4,368	4,105	2,532	2,559
a Trade Payables	1,403	1,042	886	945
7 Borrowings	13,757	15,887	17,227	16,974
8 Related Party Exposure	-	24	36	45
9 Non-Current Liabilities	1,157	890	725	1,005
10 Net Assets	45,526	45,154	34,510	34,925
11 Shareholders' Equity	45,526	45,154	34,510	34,925
<b>B INCOME STATEMENT</b>				
1 Sales	10,509	11,988	6,941	8,130
a Cost of Good Sold	(6,114)	(7,026)	(4,745)	(5,439)
2 Gross Profit	4,395	4,962	2,196	2,691
a Operating Expenses	(2,784)	(2,899)	(1,988)	(2,901)
3 Operating Profit	1,611	2,064	208	(210)
a Non Operating Income or (Expense)	320	(58)	440	95
4 Profit or (Loss) before Interest and Tax	1,931	2,005	649	(116)
a Total Finance Cost	(1,385)	(1,378)	(1,226)	(1,728)
b Taxation	(174)	(18)	181	99
6 Net Income Or (Loss)	372	609	(396)	(1,744)
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	2,184	3,072	1,342	895
b Net Cash from Operating Activities before Working Capital Changes	374	877	857	(1,053)
c Changes in Working Capital	585	(90)	(368)	930
1 Net Cash provided by Operating Activities	959	786	489	(123)
2 Net Cash (Used in) or Available From Investing Activities	1,423	427	67	(79)
3 Net Cash (Used in) or Available From Financing Activities	(1,757)	(707)	(622)	(1,023)
4 Net Cash generated or (Used) during the period	624	507	(66)	(1,225)
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	16.9%	72.7%	-14.6%	-19.8%
b Gross Profit Margin	41.8%	41.4%	31.6%	33.1%
c Net Profit Margin	3.5%	5.1%	-5.7%	-21.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	26.4%	24.9%	14.0%	22.5%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	1.1%	1.5%	-1.1%	-5.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	32	22	20	20
b Net Working Capital (Average Days)	1	-8	-28	-12
c Current Ratio (Current Assets / Current Liabilities)	2.0	2.5	3.3	1.8
3 Coverages				
a EBITDA / Finance Cost	1.8	2.8	1.6	0.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	0.5	0.3	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	11.2	7.3	47.4	-19.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.2%	26.1%	33.3%	32.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	12.1%	7.2%	6.0%	12.6%

### 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

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(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)

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