The Pakistan Credit Rating Agency Limited

NISHAT HOTEL & PROPERTIES LIMITED

	NEW [DEC-16]	PREVIOUS [DEC-15]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

REPORT CONTENTS

DECEMBER 2016

Profile

- Nishat Hotels & Properties Limited (NHPL), established in 2007, is a fully owned subsidiary of Nishat Hospitality (Pvt.) Limited. Initially, the company managed all the hotels owned and operated by Nishat Group – NG, in Pakistan.
- Mansha Family collectively owns majority (90%) of shares of the company through various individuals. The remaining shareholding rests with Allied Bank Limited.

Governance & Management

- NHPL's seven member board of directors (BoD) is dominated by Nishat Group. The board comprises four representatives of Mansha Family while the other three are executives from various group concerns. The company follows structured corporate stature. Board meetings are held in line with agenda and proper board meetings are recorded and implemented.
- The company operates through three departments namely: a) Finance, b) Coordination, and c) Leasing. The Coordination department overlooks the Project Department while the IT and Internal Audit falls under the Finance Department.

The Project

- Sprawled across an area of 15 acres and at a revised cost of ~PKR 25bln, the Emporium comprises a twelve storey five star hotel with ~200 rooms, a shopping mall of 140 shops, a food court catering 30 international and local chains, a multiplex cinema of 9 screens, 6 banquet halls with a combined capacity of 5,000 people and a parking space of 2,000 cars.
- The Mall is divided into three segments: (i) Mall, (ii) Banquet and (iii) Hotel. The Mall segment including the fun factory and cinemas are completed and operational during November 2016. The completion of the hotel and banquet segment is at an advanced stage. The management plans to start the operations of the both the segments during 2HFY17. Overall the project completion is at ~97%.

Revenues

- The mall's revenue stream for FY17 was projected to be ~PKR 1.9bln. Due to the delay in agreements and handing over of the shops the estimated revenue stream for FY17 is PKR 1.4bln. Lease rentals through top 5 retails clients would contribute ~22%. The average lease tenure of major retail clients spans to 5 years minimum contract which provides comfort in mitigating vacancy risk. During 1QFY17, with a total revenue of PKR 447mln, the company realized a profit of PKR 230mln.
- At a targeted average annual occupancy rate of 60% and room capacity of ~200 rooms, the hotel is expected to generate PKR 491mln in its first full year of operations. As the brand name develops over time, a rise in occupancy rate is expected to bid well for NHPL.
- At an annual occupancy rate of 70% and a net income of PKR 180 per head, NHPL eyes revenue of ~PKR 700mln in its first full; year of operations from the banquet halls. Since these banquet halls will be used for weddings, the income remains exposed to the seasonality risk.

Cashflows & Coverages

- NHPL's cash outflow represents debt repayments of ~PKR 2.7bln in FY17, out of which PKR 1.9bln is the principal amount and 0.8bln is the mark-up. With the delay in the operations of the hotel and banquet segments, the company's current revenue generation from the mall segment would fall short for the planned repayments.
- The company tends to avail further loan facilities from the consortium of banks in order to cover potential shortcomings in loan payments

Capital Structure

- The estimated revised total project cost is ~PKR 25bln as against the previous target of PKR22bln. The project is financed with PKR 14.4bln of debt component and PKR 9.6bln through equity injection. The company has arranged an additional financing facility of PKR 1.4bln alongwith a right issue of PKR1.6bln to meet the increase in project cost.
- The company has entered into a syndicated arrangement with the consortium of banks to raise additional debt to meet the upcoming loan repayments in the next two years. The company's overall leveraging will remain at the same level for the next two years and will reduce going forward.

RATING RATIONALE

Nishat Group, through NHPL, has set up a multi-purpose commercial complex (Nishat Emporium), comprising a state of art shopping mall, a luxury hotel, and banquet halls. The ratings reflects the successful launch of the mall segment during CY16. Certain modifications and expansion in original design led to some completion delays in the banquet & hotel segment, planned to be inaugurated during 1HCY17. Emporium, while primarily catering to the demand of sprawling population in the neighborhood, is attracting footfall from other parts of the Lahore being the first such facility. With 95% occupancy of the mall segment, the major chunk of revenue is expected to emanate through lease rentals during FY17. The project is being funded with a mix of debt (60%) and equity (40%); the absolute amount of debt has increased. The volumes of secured rentals alongwith the management's plans to reprocure debt would cover the upcoming debt repayments, resulting in a maintained leveraging for the project. Sustained flow of rentals from the mall segment alongwith incremental flow from banquet and hotel segment would provide support to NHPL's cashflows, in turn, its coverages

KEY RATING DRIVERS

Given sizeable leveraging, the financial risk profile of the company must be effectively managed. Sponsor association, sponsor's substantial stake position provides solace to the ratings. While the group has the advantage of managing hotel business, the company needs to develop & maintain requisite HR skill-set for managing such complex.

INDUSTRY SNAPSHOT

After the commissioning of Fortress Square in Lahore in 2014, the city tasted its first mega mall, though still not on the scale of the aforementioned grandeurs in Islamabad and Karachi. Initiatives are being taken by various groups to capture the room available for growth in the mall management in the city. Beside Nishat Emporium, Packages Mall is planning to operate by 1QCY17. Going forward, Lahore's retail industry would face significant boom in retail sector synergized through E-retailing & overall family experience for the shoppers.

PKR mln

Nishat Hotels & Properties Limited

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	3MFY17	Annual	Annual	Annual
Non-Current Assets	**12,430**	**11,397**	**12,701**	**6,757**
Current Assets	**2,677**	**2,414**	**2,728**	**541**
Inventory	-	-	-	-
Trade Receivables	-	-	-	-
Others	2,677	2,414	2,728	541
Total Assets	**23,652**	**22,429**	**15,430**	**7,300**
Debt	**13,348**	**12,284**	**7,111**	**1,533**
Short-term	-	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	13,348	12,284	7,111	1,533
Other shortterm liabilities	429	545	394	178
Other Longterm Liabilities	210	164	-	62
Shareholder's Equity	**9,665**	**9,436**	**7,926**	**5,527**
Total Liabilities & Equity	**23,652**	**22,429**	**15,430**	**7,300**
INCOME STATEMENT				
Turnover	**447**	**-**	**-**	**-**
Gross Profit	308	-	-	-
Other Income	4	10	8	3
Financial Charges	(0)	(2)	(2)	(0)
Net Income	**230**	**(89)**	**(48)**	**(38)**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	271	(290)	(210)	18
Net Cash changes in Working Capital	(354)	(369)	(426)	(131)
Net Cash from Operating Activities	(83)	(1,194)	(666)	(114)
Net Cash from InvestingActivities	(1,033)	(6,534)	(5,895)	(4,093)
Net Cash from Financing Activities	1,081	6,528	8,023	4,335
Ratio Analysis				
Coverages				
Interest Coverage (FCFO/Gross Interest)	-6304.1	119.4	-113.5	42.2
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.6	-0.1	-113.5	42.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.6	-0.1	-113.5	42.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interes	12.3	-42.8	-33.6	87.7
Capital Structure (Total Debt/Total Debt+Equity)	58.0%	56.6%	47.3%	21.7%

STANDARD RATING SCALE & DEFINITIONS

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 Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
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-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant 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	**High default 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 Ratings

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issues in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Regulatory and Supplementary Disclosure

Name of Issuer	Nishat Hotels & Properties Limited
Sector	Hospitality
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Dec-16	A-	A2	Stable	Maintain
31-Dec-15	A-	A2	Stable	Maintain
31-Dec-14	A-	A2	Stable	Initial

Related Criteria and Research

Rating Methodology — Corporate Rating Methodology

Rating Analysts

Mohsin Naseer
mohsin.naseer@pacra.com
(92-42-35869504)

Rai Umar
rai.umar@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping
PACRA maintains principle of integrity in seeking rating business.
PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public 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.

Conflict of Interest
PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them
The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
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 ii) fee mandate - signed with the payer, which can be different from the entity
PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition
None of the information in this document may 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 written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

Probability of Default (PD)

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