The Pakistan Credit Rating Agency Limited

# NISHAT HOTEL & PROPERTIES LIMITED
# RATING REPORT

| | NEW [DEC-17] | PREVIOUS [JUN-16] |
|---|---|---|
| Long-Term | A- | A- |
| Short-Term | A2 | A2 |
| Outlook | Stable | Stable |

**REPORT CONTENTS**



DECEMBER 2017

## Profile

- Nishat Hotels & Properties Limited (NHPL), established in 2007, is a fully owned subsidiary of Nishat Hospitality (Pvt.) Limited. Initially, the company manages 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 26bln, the Emporium comprises a twelve storey five star hotel with ~198 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. Hotel and banquet segment started operations in April 2017.

## Revenues

- During FY17, NHPL booked revenue of PKR 2,467mln but registered net loss of PKR 218mln, but in 1QFY18 NHPL profitability improved and it booked profit of 97mln. ~80% of revenue is derived through mall and other revenue comes from Playland, hotel and banquet etc.
- NHPL's hotel and banquet halls opened its door for public in Apr17. It earned PKR ~10mln in FY17 after opening and PKR ~54mln in 1QFY18. With first full year of operation the company expects to generate more revenue from rooms and services.

## Cashflows & Coverages

- Since Mall has become operational, company is witnessing improvement in cashflows in every quarter. The project has generated FCFO of 789mln in FY17 and 589mln just in 1QFY18 providing breather to coverages (FCFO/Gross interest + CMLTD: 1QFY18; 2.1x, FY17; 1.7x).
- The company expects to generate FCFO of ~5bln in its first full year of operation (FY18), which will provide it enough coverage to meet its financial obligations.
- The company has availed short term finance of PKR 2,913mln as at end Sep17 to meet its working capital needs.

## Capital Structure

- The estimated revised total project cost is ~PKR 26bln 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 along with a right issue of PKR 1.6bln 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 is also in the process of rescheduling its long term debt repayments.
- The company's leveraging increased on the back of new long term loan and short term borrowing facility. (D/D+E: 1QFY18: 64.8%, FY17: 64.9% FY16: 56.6%).

## RATING RATIONALE

Nishat Group, through Nishat Hotels & Properties Limited, has set up project including 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 in FY17. Certain modifications and expansion in original design led to some completion delays in the banquet & hotel segment, which were eventually inaugurated in April17. Emporium, while primarily catering to the demand of from sprawling population in the neighbourhood, is also attracting footfall from other parts of the Lahore. With the mall segment being 100% occupied along with an increasing footfall, the major chunk of revenue is expected to emanate through lease rentals during FY18. As the brand name develops and occupancy rate increase, revenue from hotel and banquet segment will grow. The project is being funded with a mix of debt (60%) and equity (40%); the absolute amount of debt has increased. The company has recently procured short term loan from its associated company for meeting its working capital needs and to timely meet its financial obligations. However, the debt levels are projected to decline beginning FY19. Sustained flow of rentals from the mall segment along with incremental flow from banquet and hotel segment would provide support to the NHPL's cashflows, in turn, its coverages.

## KEY RATING DRIVERS

Going forward, given sizeable leveraging, the financial risk profile of the company must be effectively managed. However, sponsor's substantial equity 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.

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Financials (Summary)

*PKR mln*

## Nishat Hotels & Properties Limited

| BALANCE SHEET | 30-Sep-17 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 |
|---|---|---|---|---|
| | 3M | Annual | Annual | Annual |
| **Non-Current Assets** | **15,354** | **15,017** | **11,395** | **12,701** |
| **Current Assets** | **2,297** | **2,100** | **2,414** | **2,728** |
| Inventory | - | - | - | - |
| Trade Receivables | 205 | 154 | - | - |
| Others | 2,092 | 1,946 | 2,414 | 2,728 |
| **Total Assets** | **27,321** | **26,931** | **22,427** | **15,430** |
| | | | | |
| **Debt** | **17,136** | **17,020** | **12,284** | **7,111** |
| Short-term | 2,913 | 2,489 | - | - |
| Long-term (Inlc. Current Maturity of long-term debt) | 14,223 | 14,531 | 12,284 | 7,111 |
| Other shortterm liabilities | 528 | 366 | 545 | 394 |
| Other Longterm Liabilities | 344 | 329 | 164 | - |
| **Shareholder's Equity** | **9,313** | **9,217** | **9,435** | **7,926** |
| **Total Liabilities & Equity** | **27,321** | **26,931** | **22,428** | **15,430** |
| | | | | |
| **INCOME STATEMENT** | | | | |
| **Turnover** | **840** | **2,467** | **-** | **-** |
| Gross Profit | 613 | 769 | - | - |
| Other Income | 9 | 19 | 10 | 8 |
| Financial Charges | (280) | (581) | (2) | (2) |
| **Net Income** | **97** | **(218)** | **(91)** | **(48)** |
| | | | | |
| **Cashflow Statement** | | | | |
| Free Cashflow from Operations (FCFO) | 579 | 789 | (290) | (210) |
| Net Cash changes in Working Capital | (350) | (482) | (369) | (426) |
| Net Cash from Operating Activities | (52) | (758) | (1,194) | (666) |
| Net Cash from InvestingActivities | (511) | (3,738) | (6,534) | (5,895) |
| Net Cash from Financing Activities | 519 | 4,751 | 6,528 | 8,023 |
| | | | | |
| **Ratio Analysis** | | | | |
| **Coverages** | | | | |
| Interest Coverage (FCFO/Gross Interest) | 2.1 | -1.4 | 119.4 | -113.5 |
| Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB) | 2.1 | 0.3 | -0.1 | -113.5 |
| Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB) | 2.1 | 0.3 | -0.1 | -113.5 |
| Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest | 4.1 | 10.6 | -42.8 | -33.6 |
| **Capital Structure** (Total Debt/Total Debt+Equity) | 64.8% | 64.9% | 22.2% | 47.3% |

# CREDIT 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. |
| **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 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.

**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

## 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-Jun-16 | A- | A2 | Stable | Maintain |
| 31-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

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Rating Team Statement

**Rating Procedure**
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