



The Pakistan Credit Rating Agency Limited

## Rating Report

### Imperium Hospitality (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Mar-2024	BBB+	A2	Stable	Upgrade	-
13-Mar-2023	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Imperium Hospitality (Private) Limited ('IHPL' or 'the Company') is principally committed towards the development of real estate ventures. Presently, the Company is solely involved in its first high rise real estate project, namely Imperium Tower. IHPL aims to pioneer a state-of-the-art corporate tower facility that is expected to become a landmark in the Lahore's skyline. The ratings reflect Company's emerging position in real estate sector of Pakistan underpinned by good sponsor's profile – Monnoo Group of Industries. The group holds long-lived presence in diversified sectors of economy including textile, real estate, power, & agriculture. Considering current macroeconomic challenges; inflationary pressure, hiked interest rates, & rising cost of materials specifically steel and cement have led to a slowdown in the real estate industry. However, the government has taken several initiatives to boost the real estate sector, like the introduction of tax incentives, infrastructure development, & the establishment of regulatory bodies to oversee the sector. Imperium Tower occupies ~341,351 square feet of construction and consists of two distinct sections: Block A and Block B. Each block boasts four basement levels, a ground floor, and eighteen floors above ground. Marking a key milestone, Block A of Imperium Tower has been successfully completed and handed over to FFC (Fauji Fertilizer Company Limited), giving them full ownership of all associated rights and interests including proportionate right in property 49.74% equivalent to 3 Kanal, 14 Marlas of land and 169,790 square feet of constructed area. This transaction generated ~ PKR 3.7bln in revenue for the company during the 6MFY24. Block B of Imperium Tower is currently in the final stages of completion, undergoing meticulous finishing touches. It is anticipated to be fully ready and operational by April 2024, marking the culmination of an impressive development journey. Upon completion, IHPL will begin renting office space within this section. As the tower's construction has been a significant investment for the Company, requiring substantial financial resources, expertise, & project management skills. From the start of the project to execution and management; IHPL has outsourced a qualified team of professionals, comprised of a design development company, an architecture firm, independent project managers, construction consultants, & contractors to secure smooth flow of operations and timely completion. To facilitate the development and construction of the tower, the sponsors directly contributed PKR 1,314mln, which is a positive sign as outlined in the project's funding strategy.

The financial risk profile of the Company is demonstrated by its improved leveraging position which stood at ~60% by the end Dec-23 (June-23: ~85%). The ratings are dependent on the IHPL's capacity to repay its borrowings through successful rental income generation from Block B.

#### Disclosure

<b>Name of Rated Entity</b>	Imperium Hospitality (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Real Estate(May-23)
<b>Rating Analysts</b>	Sohail Ahmed Qureshi   sohail.ahmed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Imperium Hospitality (Pvt.) Limited (IHPL' or 'the Company') is a private limited entity incorporated in Pakistan on July 12th, 2016 under the Companies Ordinance, 1984 (now the Companies Act, 2017).

**Background** The Monnoo family shifted to East Pakistan and set up five Spinning mill operations, 3 in west Pakistan and 2 in east Pakistan. Since then, the 'Monnoo Group' stands out as a pioneer industrial name that has always played its role in the growth of the economy. The core business of group was international product recognition in Textiles and in Agriculture products. Later, the group decided to enter into real estate investment and property development through launching a housing venture "Dream Gardens." In 2019, IHPL formally commenced its operations to develop and build Lahore's first green sustainable certified LEED tower.

**Operations** The principal activity of IHPL is to act as Developers and Builders and to lay out, construct, maintain, re-model, market, purchase, sell, or do any other work in connection with any infrastructure including apartments, homes, plazas, multi-storied flats, business offices, shops, markets, residential & commercial towers/buildings. Currently, the Company is engaged in the development, building & construction of Imperium Tower in Gulberg, Lahore. It is a perfectly designed corporate tower comprising of 4 levels of basement, ground plus 18 floors.

## Ownership

**Ownership Structure** It is exclusively owned by the sponsoring family through a group company, Kaiser Shahzada (Private) Limited (~99.998%) whereas, remaining minor stake (~0.002) resides equally with Mr. Sheraz Jehangir Monnoo, Mr. Danish Kaiser Monnoo, and Mr. Shahbaz Alam Monnoo.

**Stability** The Company's ownership structure seems stable as no major change in the shareholding structure is expected in near future. However, defined and streamlined shareholding pattern among family members along with formal line of succession can add strength.

**Business Acumen** The Monnoo Family (Sponsors of the Group), is considered to have strong business acumen. The group has been operating in Pakistan for a number of decades now and expanded its presence by venturing into different industries.

**Financial Strength** Monnoo Group has investments in diversified sectors of the economy; including textile, power, real estate, and agriculture. Thus, boding well for Sponsors' ability to provide financial support, if need arises.

## Governance

**Board Structure** The Company's board comprises three members, including CEO – Mr. Sheraz Jehangir Monnoo and two executive directors – Mr. Danish Kaiser Monnoo & Mr. Shahbaz Alam Monnoo. There are no independent directors on the board. It is dominated by the sponsoring-family, raising concern on lack of challenge posed on the management, therefore hampering effective governance.

**Members' Profile** All the members involved in the business are experienced individuals. They carry related industry exposure of several years. Mr. Sheraz Jehangir Monnoo (MD & CEO) is a seasoned business professional and holds 20+ years of experience.

**Board Effectiveness** There is as such no board committee. All the members also have director positions in the group company which inhabits the room for impartial oversight.

**Financial Transparency** M/S. Mushtaq & Co., Chartered Accountants (SBP Category 'B' auditor), is the external auditor of the Company. The auditors expressed an unqualified audit opinion on the Company's financial statements for the year ending June 30, 2023.

## Management

**Organizational Structure** A simplified organizational structure exists in the Company. The functions reporting to the CEO are bifurcated into five broad areas which comprise: i) Operations, ii) Finance, iii) Sales, iv) Consultants, and v). In-house Engineers.

**Management Team** Mr. Sheraz Jehangir Monnoo, the CEO, is associated with the group since its inception. He holds a bachelor's degree from University of Boston, USA. He is supported by a team of qualified individuals equipped with relevant industry exposure. The other key member in the Company is Mr. Muhammad Shahbaz who holds CFO position.

**Effectiveness** With the support of an experienced team of professionals, IHPL is building up the business strengths and increasing its foot print in real estate industry of Pakistan. Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives.

**MIS** The Company is presently using Oracle based ERP solution having multiple operational modules to keep track of daily and monthly reports required by the management.

**Control Environment** To ensure operational efficiency and appraisal of internal controls, the Company has an in-house team of engineers along with outsourced design development team, project managers, construction consultants, and contractors.

## Business Risk

**Industry Dynamics** The demand for real estate projects increases with rising population and economic growth. Pakistan is the 5th populous country in the world and also has one of the fastest growing population, indicating potential higher demand. Urbanization in the country has also increased in recent years. The conclusion of the construction relief package means that developers and builders will see a decline in near-term profitability due to the payment of higher taxes. On the flip side, an increase in budget allocation to housing and infrastructure projects during FY23 is a likely indicator of an increase in supply and growth in the real estate development sector. However, negative macro indicators like inflation, policy hikes, depletion of country's FX reserves, rising input costs, and contractionary monetary & fiscal policies will increase the cost of construction. On the other hand, rupee devaluations have been associated with increased inflow in real estate from overseas Pakistan in the past.

**Relative Position** Since Imperium Hospitality (Private) Limited is new to the real estate sector with 'Imperium Tower' being its first project, the Company is presently developing its brand image within the real estate sector of Pakistan. IHPL has shown positive progress towards its project and thus customers have shown interest which is evident from the sale of Block A of tower to M/S Fauji Fertilizer Company Limited (FFC).

**Revenues** Block A of Imperium Tower has been successfully completed and handed over to FFC (Fauji Fertilizer Company Limited), giving them full ownership of all associated rights and interests. This transaction generated ~ PKR 3.7bln in revenue for the company during the 6MFY24. It's noteworthy that the revenue from rental operations, specifically from Tower B, is anticipated to significantly bolster the company's top-line figures in the upcoming months.

**Margins** As the Company is not yet operating in its core business, margins shall be materialized in near future with completion of current project.

**Sustainability** The seller (Imperium Hospitality Limited) sold the building Tower- Block A (including all rights, title and interest therein and proportionate interest of 49.74% (3 Kanal 14 Marla's 169,789 sq.ft) in the property. And clear of all charges, mortgages, claims, assignments or other kinds of encumbrances of whatsoever nature on 14th October 2023. However, the company plans to begin renting out spaces in Tower B upon the project's full completion. According to projections, all necessary work is expected to be finished by March 2024, after which the spaces in Tower B will be made available for rent.

## Financial Risk

**Working Capital** Imperium Hospitality (Private) Limited relies on internal funds generation, interest free loan from sponsors, and long-term borrowings (LTBs) for its working capital management. During FY23, the quantum of LTBs stood at PKR 475mln which is 95% of the total debt book.

**Coverages** During FY23, the company's FCFO recorded at negative ~PKR 59mln. With the increase in projected revenues over the coming years, EBITDA will also increase at a stable rate. Consequently, stagnant in finance costs & enriched FCFO shall result in better coverages position of the Company.

**Capitalization** The Company has high percentage of leverage in its capital structure. Leveraging ratio stands at ~60.5% during end of 6MFY24 (FY22: ~85.3%) with equity base recorded at PKR 1,222mln and total borrowings at PKR 554mln.



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Imperium Hospitality (Private) Limited Real Estate	Jun-23 12M	Jun-22 12M	Jun-21 12M
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**A BALANCE SHEET**

1 Non-Current Assets	14	16	911
2 Investments	2,099	1,596	-
3 Related Party Exposure	-	-	-
4 Current Assets	2,545	1,723	828
<i>a Inventories</i>	2,078	1,407	793
<i>b Trade Receivables</i>	-	-	-
<b>5 Total Assets</b>	<b>4,658</b>	<b>3,335</b>	<b>1,739</b>
6 Current Liabilities	2,684	2,274	972
<i>a Trade Payables</i>	39	38	39
7 Borrowings	633	404	150
8 Related Party Exposure	1,046	300	208
9 Non-Current Liabilities	5	3	2
<b>10 Net Assets</b>	<b>290</b>	<b>353</b>	<b>408</b>
<b>11 Shareholders' Equity</b>	<b>290</b>	<b>353</b>	<b>408</b>

**B INCOME STATEMENT**

1 Sales	-	-	-
<i>a Cost of Good Sold</i>	-	-	-
<b>2 Gross Profit</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>a Operating Expenses</i>	(48)	(36)	(34)
<b>3 Operating Profit</b>	<b>(48)</b>	<b>(36)</b>	<b>(34)</b>
<i>a Non Operating Income or (Expense)</i>	6	3	2
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>(41)</b>	<b>(33)</b>	<b>(32)</b>
<i>a Total Finance Cost</i>	(2)	(1)	(7)
<i>b Taxation</i>	(21)	(20)	(28)
<b>6 Net Income Or (Loss)</b>	<b>(64)</b>	<b>(55)</b>	<b>(68)</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	(59)	(66)	(22)
<i>b Net Cash from Operating Activities before Working Capital</i>	(68)	(67)	(28)
<i>c Changes in Working Capital</i>	(322)	525	(16)
<b>1 Net Cash provided by Operating Activities</b>	<b>(390)</b>	<b>458</b>	<b>(44)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(483)</b>	<b>(691)</b>	<b>(366)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>975</b>	<b>342</b>	<b>338</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>103</b>	<b>109</b>	<b>(73)</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	N/A	N/A	N/A
<i>c Net Profit Margin</i>	N/A	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working C</i>	N/A	N/A	N/A
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (T</i>	-19.9%	-14.3%	-15.4%
<b>2 Working Capital Management</b>			
<i>a Gross Working Capital (Average Days)</i>	N/A	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	0.9	0.8	0.9
<b>3 Coverages</b>			
<i>a EBITDA / Finance Cost</i>	-58.3	-33.5	-4.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-0.2	-0.1	-0.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi</i>	-29.9	-18.8	-17.2
<b>4 Capital Structure</b>			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equit</i>	85.0%	66.6%	46.7%
<i>b Interest or Markup Payable (Days)</i>	11949.9	2874.0	44.2
<i>c Entity Average Borrowing Rate</i>	0.1%	0.2%	1.9%

### 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+	<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	
BBB-	
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	
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	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	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

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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)

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- (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)
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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)

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- (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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