

RATING REPORT

Avari Hotels (Pvt.) Limited

REPORT DATE:

June 16th, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Bank Loan Rating	AA (blr)	AA (blr)
Rating Date	June 16, 2023	May 30, 2022
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in 1968	External auditors: Kreston Hyder Bhimji & Co.
Private Limited Company	Chairman of the Board: Mr. Dinshaw B. Avari
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Dinshaw B. Avari
<i>Beach Luxury Hotel Limited – 85%</i>	
<i>Avari International Hotels – 12%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Rating Criteria – Bank Loan (November 2018)

<https://docs.vis.com.pk/docs/BLR112018.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Avari Hotels (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Avari Hotels (Pvt.) Limited (AHL) was incorporated as a private limited company in 1968. Later, AHL was converted into a public limited and then re-converted into a private limited entity in 2016. Holding company of AHL is Beach Luxury Holdings (Private) Limited. The Company is engaged in provision of hospitality services. Shareholding of AHL is primarily vested with Avari Family.

Avari Hotels (Pvt.) Limited (AHL) is engaged in the hospitality sector for more than five decades. AHL owns and manages two five-star hotel properties in Pakistan, namely ‘Avari Towers Karachi’ (AT) and ‘Avari Lahore’ (AL). Avari Towers Karachi is a 225-room property which began operations in 1985. Avari Lahore commenced operations in 1978 and has a room count of 186. In order to cater to the mid-tier clientele, The Company also manages boutique hotels under the brand name Avari Xpress (AX) in Islamabad, Multan, Faisalabad, Lahore and Avari Boutique Multan; the properties for these hotels have been acquired under lease contracts. AX has a total of 425 rooms at end-June’22.

Instrument rating draws support from the facility structure.

AHL mobilized the facility to the tune of Rs. 4.3b from two banks, Meezan Bank Limited and Industrial & Commercial Bank of China Limited. The facility was disbursed in October 2019. All principal and markup payments are being serviced by one of AHL’s tenant, Unilever Pakistan Limited (Unilever). The facility is secured against a tripartite agreement (lenders, AHL and Unilever) which provides an undertaking from Unilever to pay principal and markup payment on the facility against rent payable in lieu of advance rent they would have ordinarily paid. The facility is additionally secured by a charge on assets of AHL and personal guarantee of sponsors.

Remaining tenor of each facility is 4 years with markup and principal payable in annual installments. First payment was made in May 2020 and the last payment will be due in May 2027. All markup and principal payments are made directly by Unilever into an account with the agent bank; this account is under lien with irrevocable instructions to retire debt as payments become due. This is expected to be replenished in the current month for the full yearly payment amount.

Principal payments are in correspondence with the agreed upon rental rate, which will be escalated by 10% every year. In accordance with the lease deed between AHL and Unilever, at the end of 10 years, the lease will be renewed automatically unless Unilever gives a minimum months’ notice before expiry of the existing term. Additionally, in case Unilever operations are sold or transferred, the new purchaser / transferee will continue the same obligations as defined in the original lease deed along with the existing conditions. In case Unilever plans to sub lease a portion of its leased property, the agreement specifies that there will be no effect on this financing arrangement and all covenants defined will continue to remain Unilever’s responsibility till the expiry of the lease agreement.

Brief on Performance of Avari Hotels Limited

Topline showed significant recovery on account of improved occupancy and increased room charges in the outgoing year. Occupancy rate sustained growth momentum in 1HFY23.

Avari Hotels (Pvt.) Limited (AHL) reported significant recovery in financial performance in FY22. AHL's net sales increased by 90.76% from PKR 1,980.8mln in FY21 to PKR 3,776.0mln in FY22. This increase in sales is primarily attributed to an increase in occupancy levels across all of AHL's facilities, with a 65% occupancy rate in FY22, compared to 41.66% in FY21. The occupancy rate was even higher at 66.3% in 1HFY23, amid exacerbating economic challenges in the period under review. Avari Towers Karachi reported occupancy rate of 73.99% in FY22, compared to 55.16% in FY21, which improved further to 76.07% in 1HFY23. While Avari Lahore occupancy level was at 70.9% in 1HFY23, 60% in FY22 from 32.64% in FY21, whereas occupancy at Avari Xpress was 54% in 1HFY23, 61% in FY22 against 37.15% in FY21. The occupancy levels surged as travel, corporate meetings and conferences resumed post-Covid-19 and demand in industry began recovering.

AHL's gross margin increased from 9.6% in FY21 to 32.5% in FY22, almost on par with pre-pandemic levels, as the Company managed to forward increase costs of service onto the customers amid increased demand. Average daily rates in FY22 stood at PKR 11,648 in FY22 against PKR 9,193 in FY21. Ultimately, it also resulted in improvement in AHL's net margins to 3.4% in FY22 from -37.3% in FY21, despite increasing finance burden from surging interest rates in the country. With recovery in profitability the Company's Debt Service Coverage ratio also recovered to 0.61x in FY22 from 0.001x in FY21, although still remaining at a concerning level.

Avari's liquidity profile has continued to improve over the years as indicated by the current ratio of 1.9x, up from 1.7x and 1.0x in FY21 and FY20, respectively. Similarly, AHL's debt profile has also shown slight improvement over the previous year as well in FY22. However, the Company has borrowed PKR 500 million in debt, for the purpose of renovating its Lahore facility, which is likely to put pressure on gearing and leverage ratios for the medium-term.

AHL's financial performance in FY22 saw significant improvement, primarily due to the increase in occupancy rates and higher average rates. AHL's balance sheet numbers remained steady with slight improvement in its liquidity and leverage profile. However, the country's volatile economic situation will be a challenge and planned renovations will constrain the debt profile for AHL in the medium term.

FINANCIAL SUMMARY				(amounts in PKRmln)		
BALANCE SHEET	FY20A	FY21A	FY22A	FY23P	FY24P	FY25P
Property, Plant and Equipment	22,642.4	18,036.8	17,969.0	17,964.7	18,375.4	18,700.1
Investments	0.1	0.1	0.0	0.0	0.0	0.0
Long Term Deposits	37.8	633.2	32.3	284.4	284.4	284.4
Stock-in-Trade	15.7	15.8	33.1	86.8	106.8	136.8
Stores and spares	48.2	39.4	33.7	0.0	0.0	0.0
Trade Debts	106.7	150.6	315.9	429.6	499.2	583.7
Cash & Bank Balances	1,092.7	381.2	493.5	429.7	378.8	335.3
Total Assets	25,118.9	24,557.1	24,368.2	24,482.5	24,882.0	25,227.6
Rent Received in Advance	463.3	662.5	603.5	687.5	831.6	1,303.6
Deferred Liabilities	819.9	450.0	450.0	450.0	450.0	450.0
Trade and Other Payables	786.7	1,455.0	1,392.2	1,982.7	2,128.3	2,442.8
Long Term Debt (*incl. current maturity)	4,464.1	4,405.4	4,269.2	3,596.1	3,521.7	2,674.3
Short Term Debt	774.9	774.9	764.2	764.2	764.2	764.2
Total Debt	5,239.0	5,180.3	5,033.4	4,360.3	4,286.0	3,438.5
Total Liabilities	7,785.8	7,965.9	7,649.1	7,544.3	7,734.5	7,648.5
Equity (*excl. surplus on revaluation of assets)	2,538.6	1,796.6	1,924.6	2,143.0	2,352.2	2,783.8
Total Equity	17,333.1	16,591.2	16,719.1	16,938.3	17,147.4	17,579.0
Paid up Capital	747.3	747.3	747.3	747.3	747.3	747.3
INCOME STATEMENT						
	FY20	FY21	FY22	FY23	FY24P	FY25P
Net Sales	2,311.4	1,980.8	3,776.0	4,565.7	5,304.9	6,202.7
Gross Profit	657.3	191.1	1,228.6	1,590.5	1,693.0	2,025.5
Operating Profit	469.1	-122.7	808.5	1,014.9	776.0	981.9
Profit Before Tax	40.1	-618.7	226.6	120.8	209.2	431.6
Profit After Tax	5.4	-742.0	127.9	120.8	209.2	431.6
RATIO ANALYSIS						
	FY20	FY21	FY22	FY23	FY24P	FY25P
Gross Margin (%)	28.4%	9.6%	32.5%	34.8%	31.9%	32.7%
Net Margin (%)	0.2%	-37.5%	3.4%	2.6%	3.9%	7.0%
Net Working Capital	92.4	2336.6	2969.6	2792.0	2482.1	1978.9
Current Ratio (x)	1.0	1.7	1.9	1.8	1.7	1.5
Funds from Operations (FFO)	(87.80)	(530.38)	408.00	122.01	211.26	435.90
FFO to Total Debt (%)	-1.7%	-10.2%	8.1%	2.8%	4.9%	12.7%
FFO to Long Term Debt (%)	-2.0%	-12.0%	9.6%	3.4%	6.0%	16.3%
Debt Servicing Coverage Ratio (x)	0.3	0.001	0.606	0.1	0.3	0.5
Leverage(x)	3.1	4.4	4.0	3.5	3.3	2.7
Gearing(x)	2.1	2.9	2.6	2.0	1.8	1.2
(Stock in Trade + Trade Debts)/ Short Term Borrowings (%)	15.8%	21.5%	45.7%	67.6%	79.3%	94.3%
ROAA (%)	0.02%	-2.99%	0.52%	0.49%	0.85%	1.72%
ROAE (%)*	0.2%	-34.2%	6.9%	5.9%	9.3%	16.8%

REGULATORY DISCLOSURES

Appendix II

Name of Rated Entity	Avari Hotels (Pvt.) Limited				
Sector	Hospitality (Miscellaneous)				
Type of Relationship	Solicited				
Purpose of Rating	Instrument Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: BLR</u>				
	06/16/2023	AA (blr)	-	Stable	Reaffirmed
	05/30/2022	AA (blr)	-	Stable	Reaffirmed
	06/09/2021	AA (blr)	-	Stable	Reaffirmed
	04/10/2020	AA (blr)	-	Stable	Final
	09/17/2018	AA (blr)	-	Stable	Preliminary
Facility Structure	Islamic Musharaka amounting Rs. 2b and conventional syndicated financing amounting to Rs. 2.3b, was acquired in October 2019, at a mark-up rate of KIBOR plus 1% and a tenor of 8 years. The issue is secured by a first pari passu floating charge over Avari Hotel Karachi with a 25% margin. Principal repayments are to be made in eight-annual stepped-up installments which will begin from May 2020.				
Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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Due Diligence Meetings Conducted	Name		Designation	Meeting Date	
	1	Mr. Saeed Ahmed Patel	Chief Financial Officer	May 18, 2023	