

RATING REPORT

Avari Hotels (Pvt.) Limited

REPORT DATE:

August 08, 2024

RATING

ANALYSTS:

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| RATING DETAILS | | |
|-----------------------------|-----------------|-----------------|
| | Latest Rating | Previous Rating |
| Rating Category | Long-term | Long-term |
| Bank Loan Rating | AA (blr) | AA (blr) |
| Rating Date | August 08, 2024 | June 16, 2023 |
| Rating Outlook/Rating Watch | Stable | Stable |
| 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 – Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf |
| VIS Rating Criteria – Bank Loan Rating https://docs.vis.com.pk/Methodologies%202024/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 (AHPL) was incorporated as a private limited company in 1968. Later, AHPL was converted into a public limited and then re-converted into a private limited entity in 2016. Holding company of AHPL is Beach Luxury Holdings (Private) Limited. The Company is engaged in provision of hospitality services. Shareholding of AHPL is primarily vested with Avari Family.

Avari Hotels (Pvt.) Limited (AHPL) is engaged in the hospitality sector for more than five decades. AHPL 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 and Gilgit; the properties for these hotels have been acquired under lease contracts. AX has a total of 525 rooms at end-June’24.

Instrument rating draws support from the facility structure.

AHPL mobilized the facility to the tune of PKR 4.3b from two banks, Meezan Bank Limited and Industrial & Commercial Bank of China Limited. The facility was disbursed in October 2019. One of AHPL’s tenant, Unilever Pakistan Limited (Unilever), is servicing all principal and markup payments. The facility is secured against a tripartite agreement (lenders, AHPL 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 AHPL and personal guarantee of sponsors.

The remaining tenor of each facility is 2 years and 9 months with markup and principal payable in annual installments. The 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.

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 AHPL and Unilever, at the end of 10 years, 3 years and 9 months years remaining, 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 until the expiry of the lease agreement.

Brief on Performance of Avari Hotels (Pvt.) Limited

Revenue growth normalized to 27% in FY23 after a 90% surge in FY22, which was driven by a resurgence in travel and tourism post-COVID. With an occupancy rate stabilizing at 66% (FY22: 65%, FY21: 42%), growth during FY23 was primarily due to increased room rates, occupancy rates slightly declined to 62% in FY24. Specific properties such as Avari Towers Karachi and Avari Lahore reported occupancy rates of 69% (FY23: 76%, FY22: 74%, FY21: 55%) and 62% (FY23: 71%, FY22: 60%, FY21: 33%), respectively, in FY24. Avari Xpress facilities recorded an occupancy rate of 55% (FY23: 54%, FY22: 61%, FY21: 37%) in the same period. In FY25 occupancy rates are expected to benefit from events such as the Champions Trophy, Pakistan Super League (PSL), and increased propensity of local travel among Pakistanis due to expensive international travel. Moreover, a major religious congregation held in July 2024 will also support occupancy rates and the topline in FY25 as well. Gross margin contracted to 29.45% in FY23 (FY22: 32.54%) due to persistent inflationary pressure, and net margins also decreased to 2.55% (FY22: 3.39%) under the influence of higher interest rates. Despite constrained Funds from Operations (FFO), the Debt Service Coverage Ratio (DSCR) remained stable due to a lower current portion of long-term debt. The liquidity profile showed signs of weakening as capital expenditure reduced the cash balance, affecting current assets while current liabilities remained mostly unchanged. The capitalization profile of AHPL improved in FY23, with gearing and leverage ratios improving to 2.42x (FY22: 2.96x) and 3.54x (FY22: 3.97x), respectively, due to timely debt repayment and an increase in the equity base from profit retention. Ongoing renovations at Avari Lahore are not expected to add pressure to capitalization metrics, as per management.

| REGULATORY DISCLOSURES | | | | | Appendix I |
|---|---|----------------------------|-------------------------|------------------------------------|------------------------------|
| Name of Rated Entity | Avari Hotels (Pvt.) Limited | | | | |
| Sector | Hospitality (Miscellaneous) | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Bank Laon Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook/Rating Watch | Rating Action |
| | <u>RATING TYPE: BLR</u> | | | | |
| | 08/8/2024 | AA (blr) | - | Stable | Reaffirmed |
| | 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. | | | | |
| Probability of Default | VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. | | | | |
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| Due Diligence Meetings Conducted | Name | | Designation | | Meeting Date |
| | 1 | Mr. Saeed Ahmed Patel | Chief Financial Officer | | July 30 th , 2024 |