VIS
Credit Rating Company Limited

RATING REPORT

AVARI HOTELS (PVT.) LIMITED

Chief Executive: Mr. Dinshaw B. Avari

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY22A	FY23A	FY24A
Net Sales	3,776.04	4,797.36	5,693.40
Profit Before Tax	226.59	182.17	232.30
Profit After Tax	127.93	122.25	161.13
Paid up Capital	747.26	747.26	747.26
Equity (excl. Revaluation Surplus)	1,924.57	2,046.82	2,207.96
Total Debt	5,702.38	4,962.93	3,887.93
Leverage (x)	3.97	3.54	3.36
Gearing (x)	2.96	2.42	1.76
Funds From Operations (FFO)	408.00	221.07	303.19
FFO/Total Debt (x)	0.07	0.04	0.08
Net Margin (%)	3.39%	2.55%	2.83%

**Annualized, if required*
A - Actual Accounts
M -

RATING DETAILS

RATINGS CATEGORY	LATEST RATING	PREVIOUS RATING
	Long-term	Long-term
BANK LOAN RATING	AA (blr)	AA (blr)
RATING OUTLOOK/ WATCH	Stable	Stable
RATING ACTION	Reaffirmed	Reaffirmed
RATING DATE	August 01, 2025	August 08, 2024

RATING RATIONALE

The reaffirmation of the bank loan rating at 'AA blr' reflects the continued external support provided by Unilever Pakistan Limited, which remains the primary obligor for all principal and markup payments on the facility extended to Avari Hotels (Pvt.) Limited (AHPL). The tripartite agreement among AHPL, Unilever, and the lenders ensures that debt servicing is undertaken directly by Unilever through an account maintained with the agent bank, with irrevocable instructions for payment execution. The facility structure incorporates protections through lien arrangements, a charge on AHPL's assets, and a sponsor guarantee.

While AHPL's operational performance has reflected fluctuations in occupancy and margins, the debt servicing remains insulated from these trends due to the structure of the financing arrangement. The rating remains underpinned by the creditworthiness and contractual commitment of Unilever, which continues to support the timely repayment of the facility until its maturity.

COMPANY PROFILE & UPDATE.

AHPL owns and manages two five-star hotel properties in Pakistan—Avari Towers Karachi (225 rooms; operational since 1985) and Avari Lahore (186 rooms; operational since 1978). To cater to the mid-tier market segment, the Company also operates boutique hotels under the 'Avari Xpress' brand in Islamabad, Multan, Faisalabad, Lahore, and Gilgit, as well as Avari Boutique Multan. These properties have been acquired under lease arrangements, with a total room count of 525 as of end-June 2024. The Company is principally owned by the Avari family through its holding company, Beach Luxury Holdings (Private) Limited.

AHPL's topline increased by 19% in FY24, primarily attributable to higher average room rates, while occupancy declined to 62% (FY23: 66%). Gross margins recorded a slight decline to 28.41% (FY23: 29.45%), mainly due to inflationary pressure on operating costs. Net margins were recorded at 2.83% (FY23: 2.55%), supported by a reduction in interest expense during the period, primarily on account of a decrease in overall debt levels.

Despite a marginal increase in Funds from Operations (FFO) in FY24, the Debt Service Coverage Ratio (DSCR) declined to 0.62x (FY23: 0.72x), primarily due to an increase in the current portion of long-term debt. Current portion of long-term debt has increased due to utilization of a new long-term facility. Nevertheless, addition of this new facility was lower than the maturity of older debt. The capitalization indicators reflected an improved position in FY24, with the gearing ratio recorded at 1.78x (FY23: 2.42x) and the leverage ratio at 3.36x (FY23: 3.54x), supported by scheduled debt repayments and an increase in the equity base through profit retention. The liquidity profile also strengthened, with the current ratio improving to 1.68x (FY23: 0.35x).

In FY25, the Company's topline increased by 16%, primarily attributable to a rise in average room rates, following a pricing strategy that emphasized rate enhancement over occupancy levels. Consequently, overall occupancy declined to 59% (FY24: 62%). The effect of the revised pricing approach was partially offset by demand arising from large-scale events, including the Champions Trophy and Pakistan Super League (PSL), which supported occupancy at Avari Lahore, where a higher number of matches were held. Occupancy at this location remained stable at 63% (FY24: 62%).

Occupancy at Avari Towers Karachi was supported by a large religious congregation in July 2024, with the occupancy rate recorded at 66% (FY24: 69%). In contrast, Avari Express reported a decline in occupancy to 49% (FY24: 55%). The opening of new hotel properties in Skardu and Gujranwala in June 2024 and June 2025, respectively, along with the planned development of an additional Avari Express facility in Phase 8, Karachi—targeted towards meeting demand from the executive segment—is expected to have an impact on the company's revenue generation and occupancy metrics over the medium term. The magnitude and timing of the impact will remain dependent on project execution, demand realization, and broader macroeconomic conditions.

Going forward, in the absence of one-off revenue-supporting events during FY26, the Company's profitability is expected to face pressure, particularly amid the upward revision in room rates and charges for ancillary services. However, sustained domestic travel activity, potential reductions in benchmark interest rates, and relative macroeconomic stability may contribute to maintaining occupancy levels and support profitability.

BANK LOAN RATING

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 facility is maturing in May 2027, with markup and principal payable in annual installments. 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 (2 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.

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Avari Hotels (Pvt.) Limited
Sector	Hospitality (Miscellaneous)
Type of Relationship	Solicited
Purpose of Rating	Bank Loan Ratings
Rating History	see table below
Instrument Structure	N/A
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 Meeting Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Rating Outlook/Watch	Rating Action
08-01-2025	**AA (blr)**	**Stable**	**Reaffirmed**
08-08-2024	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

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Xerxes Byram Avari	Director	16th July 2025
Mr. Saeed Ahmed Patel	CFO	