RATING REPORT

Avari Hotels (Pvt.) Limited

REPORT DATE:
August 31, 2016

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Bank Loan Rating	A(blr*)	A
Rating Outlook	Stable	Stable
Rating Date	*Aug 31, 2016*	*Nov 24, 2014*

** blr notation has been applied to facility ratings from October 5, 2015*

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

Avari Hotels (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Avari Hotels (Pvt.) Limited (AHL) is a private limited company, incorporated in 1968. The company is engaged in provision of hospitality services. Shareholding of AHL is primarily vested with Avari Family

Avari Hotels (Pvt.) Limited (AHL) owns and operates two five star hotel properties in Pakistan, namely 'Avari Towers Karachi' (AT) and 'Avari Lahore' (AL). AHL also caters to mid-tier clientele through boutique hotels established under the brand name of Avari Xpress (AX). At present, Avari Xpress is located at three leased properties in Islamabad. In addition, AHL also owns separate commercial complexes known as Avari Plaza-Karachi (APK) and Avari Plaza-Lahore (APL) which are used as rental office spaces. The company also has international presence as it manages a 178 room four-star hotel facility, named 'Avari Dubai' along with an apartment hotel, 'Avari Suites – Al Barsha' comprising 78 suites, both located in United Arab Emirates.

- **Operations:** Average occupancy level at AT, AL and AX declined during the outgoing year. This can be attributed to deliberate strategy on the part of management to target higher income clientele, which is also reflected in the form of higher average room rates at AT and AX. As a result of this strategy, increase in room rentals offset the impact of lower occupancy levels.

- **Profitability:** Sales and services revenue of AHL have increased on a timeline basis. Despite decline in occupancy levels, revenue of AHL increased on the back of higher average room rents charged to customers and enhanced revenue stream from other services in FY15. Moreover, overall revenues of the company also grew given higher number of operational days of AX. Bottom-line was supported by growth in top-line along with better control over expenses.

- **Liquidity and Capitalization:** Equity (excluding surplus on revaluation of fixed assets) depicted considerable increase on the back of internal profit generation. Moreover, surplus on revaluation of property, plant and equipment represents a sizeable proportion of the total equity base. However, capital structure of the company continues to remain highly leveraged with almost two-thirds of total capital employed financed through debt. This is also reflected in high debt leverage and gearing indicators (based on equity excluding surplus on revaluation of assets) which stood at 3.3x and 1.9x, respectively at end-December 2015. Liquid assets of the company depicted sizeable increase on the back higher cash and bank balances, which amounted to Rs. 153.2m (HY15: 63.3m) at end-HY16. Funds generated from operation (FFO) experienced reduction on timeline basis, due to imposition of higher tax rate on properties owned by AHL. Given the current debt levels and stepped up repayments starting from October 2016, leverage indicators are expected to remain on the higher side in the coming few years. However, planned expansion of AX with an addition of over 400 rooms is expected to supplement revenue and ease the burden on cash flows going forward.

- **Security structure of the facility**: AHL acquired a facility amounting to Rs. 1.5b partially expanding AX properties, while the remaining proportion was utilized for refurbishment of Avari Hotels Karachi and retiring previously issued PPTFC by AHL. As per its structure, a cash flow capture mechanism has been incorporated to entrap revenues of AX properties for the purpose of principal repayment of this facility; it is to be repaid in 5 annual installments starting December 2016. The assigned rating also draws comfort from assignment of office rent receivable from one of the largest client of AT, in case of any shortfall in repayment during the life of the facility.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Avari Hotels (Pvt.) Limited
Sector	Hospitality (Miscellaneous)
Type of Relationship	Solicited
Purpose of Rating	Bank Loan Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: BLR				
08/31/2016	A	-	Stable	Reaffirmed
11/24/2014	A	-	Stable	Final
10/29/2014	A	-	Stable	Preliminary

Facility Structure	Syndicated diminishing musharaka and conventional financing facility was acquired in October 2014, amounting to Rs. 1.0b and Rs. 0.5b respectively at a mark-up rate of 1 year KIBOR plus 2.5% and a tenor of 5 years. The facility is secured by a first pari passu floating charge over Avari Hotel Karachi with a 25% margin. Principal repayments are to be made in five annual stepped up installments which will begin from December 2016.
Statement by the Rating Team	JCR-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	JCR-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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