# RATING REPORT

# Avari Hotels (Pvt.) Limited

**REPORT DATE:**
March 28, 2018

**RATING ANALYSTS:**
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| RATING DETAILS | | |
|---|---|---|
| | Latest Rating | Previous Rating |
| Rating Category | Long-term | Long-term |
| Bank Loan Rating | A(blr) | A(blr) |
| Rating Outlook | Stable | Stable |
| Rating Date | *Mar 28, 2018* | *Aug 31, 2016* |

| 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%* | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| ***Applicable Rating Criteria: Industrial Corporates (May 2016)*** <br> ***http://www.jcrvis.com.pk/kc-meth.aspx*** |

# Avari Hotels (Pvt.) Limited

## OVERVIEW OF THE INSTITUTION

*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.*

## RATING RATIONALE

Avari Hotels (Pvt.) Limited (AHL) owns and manages two five star hotel properties in Pakistan, namely 'Avari Towers Karachi' (AT) and 'Avari Lahore' (AL) along with management of Avari Xpress (AX), boutique hotels for the mid-tier clientele. Moreover, 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 manages a hotel and apartment hotel based on management agreements internationally. A 178 room four-star hotel facility, named 'Avari Dubai' along with an apartment hotel, 'Avari Suites – Al Barsha' comprising 78 suites are both located in United Arab Emirates.

**Key Rating Drivers:**

**Occupancy Levels and Room Rentals:** With higher tourism business during the year, occupancy levels of AHL improved in line with industry dynamics. Moreover, room rentals of these facilities also increased on the back of higher demand. AHL has made concerted efforts in order to improve business volumes emanating from corporate clients by increasing presence in main cities of Pakistan.

**Growth Prospects:** During 2017, AX leased properties were shut down in Islamabad. Alternatively, the company is developing a full-fledged 100 room hotel in Islamabad which is expected to open in March 2018. Similar to the model for AX, the property will also be leased while management will lie with AHL. Given the improving law and order situation, the company has also opened new AX facilities at Multan and Faisalabad. In addition to this, a new 210 room hotel and apartment hotel are also being developed in Lahore which will be launched in 2018.

**Profitability:** Despite shut down of existing AX facilities in Islamabad, the company was able to grow its revenue base to Rs. 2.6 (FY16: Rs. 2.5b) in FY17. While revenue base is largely contributed by room rentals, core revenues of the company also include proceeds from food and beverages on a timeline basis. Gross margins of AHL have remained intact at 40.8% during FY17. As a result, bottom-line of the company also improved to Rs. 290.6m (FY16: Rs. 274.2m) and was supported by growth in top-line along with better control over expenses during FY17.

**Capital Structure:** On account of internal capital generation, equity base (excluding surplus on revaluation of fixed assets) depicted a noticeable increase to Rs. 2.2b (FY16: Rs. 1.9b) at end-FY17. Moreover, surplus on revaluation of property, plant and equipment continues to represent a sizeable proportion of the total equity base. Nonetheless, more than two-thirds of total capital employed is financed through debt resulting in a highly leveraged capital structure. Debt leverage and gearing were reported at 2.8x and 1.8x respectively at end June 30, 2017. Despite higher debt levels, Funds from Operations (FFO) to total debt remained unchanged at 0.08x on the back of higher FFO levels. Going forward, debt repayment is expected to be supported by revenues from additional rooms to be brought online from March 2018 onwards. Moreover, rental income from its clients of AT are also expected to provide liquidity cushion for debt repayment.

**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 AT and retiring previously issued PPTFC by AHL. Principal repayment of this instrument is to be repaid in 4 annual installments starting December 2016; a total of 2 have been paid to date. 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.

## Avari Hotels (Pvt.) Limited — Appendix I

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | |
|---|---|---|---|
| **BALANCE SHEET** | **June 30, 2017** | **June 30, 2016** | **June 30, 2015** |
| **Fixed Assets** | 21,383.9 | 21,207.6 | 21,093.9 |
| **Investments** | 0.1 | 0.1 | 0.1 |
| **Stock-in-Trade** | 19.3 | 14.6 | 19.3 |
| **Stores and spares** | 27.6 | 26.0 | 35.8 |
| **Trade Debts** | 596.5 | 144.5 | 131.0 |
| **Cash & Bank Balances** | 96.5 | 313.7 | 130.4 |
| **Total Assets** | 23,311.1 | 22,677.2 | 22,240.3 |
| **Trade and Other Payables** | 379.0 | 340.8 | 451.4 |
| **Total Debt** ***(*incl. current maturity)*** | 3,911.2 | 3,550.1 | 3,077.4 |
| **Tier-I equity** ***(*excl. surplus on revaluation of assets)*** | 2,221.4 | 1,930.7 | 1,656.5 |
| **Total Equity** | 17,102.7 | 16,812.1 | 16,537.9 |
| | | | |
| **INCOME STATEMENT** | **June 30, 2017** | **June 30, 2016** | **June 30, 2015** |
| **Net Sales** | 2,587.0 | 2,454.4 | 2,086.5 |
| **Gross Profit** | 1,055.7 | 1,005.0 | 784.8 |
| **Operating Profit** | 770.0 | 701.3 | 564.0 |
| **Profit After Tax** | 290.6 | 274.2 | 230.2 |
| | | | |
| **RATIO ANALYSIS** | **June 30, 2017** | **June 30, 2016** | **June 30, 2015** |
| **Gross Margin (%)** | 40.8 | 40.9 | 37.6 |
| **Net Working Capital** | 19.8 | 10.0 | 64.5 |
| **FFO to Total Debt (x)** | 0.08 | 0.08 | 0.1 |
| **FFO to Long Term Debt (x)** | 0.1 | 0.1 | 0.1 |
| **Debt Servicing Coverage Ratio (x)*** | 1.0 | 1.8 | 2.6 |
| **Debt Leverage(x)*** | 2.8 | 3.0 | 3.4 |
| **Gearing(x)*** | 1.8 | 1.8 | 1.9 |
| **ROAA (%)** | 1.3 | 1.2 | 1.1 |
| **ROAE (%)*** | 14.0 | 15.3 | 14.9 |

** Based on Tier-I equity*

# 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** | | | | |
| 03/28/2018 | A | - | Stable | Reaffirmed |
| 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 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 five annual stepped up installments which began 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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