RATING REPORT

Javedan Corporation Limited

REPORT DATE:
April 04, 2018

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	**Short-term**
Entity	A+	A-1
Sukuk 1	AA-	
Rating Outlook	Stable	
Rating Date	*April 04, 2018*	

COMPANY INFORMATION

Incorporated in June 1961	External auditors: **M/s. Reanda Haroon Zakaria & Company, Chartered Accountants and EY Ford Rhodes, Karachi.**
Public Limited Company	Chairman of the Board: **Mr. Mr. Arif Habib**
	Chief Executive Officer: **Mr. Samad A. Habib**

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria:
Industrial Corporates (May 2016) *http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf*
http://jcrvis.com.pk/docs/RealEstate%20Methodology%20201708.pdf

Javedan Corporation Limited

RATING RATIONALE

Javedan Corporation Limited (JCL) is in the process of development of "Naya Nazimabad" (NN) project. Majority of the shares in JCL are owned by the Arif Habib Group which is the group's largest and flagship real estate project. NN is located at Manghopir, Karachi. It adjoins Nazimabad, North Nazimabad and North Karachi.

JCL is in the process of development of "Naya Nazimabad" (NN) project. NN is a housing scheme targeting the progressive middle class segment of the society which is spread over 1,366 acres of land. The project includes bungalows, open plots, flat and commercial sites, apartments, malls, shopping centers etc. The first phase of NN was launched in the year 2011 spread over 513 acres of land and subsequently launched 78 acres in 2015. Major portion of inventory of Phase-1 and Phase-1A has been sold while the management plans to launch the Commercial Area of approx. 60 acres during the 3rd quarter of the ongoing calendar year. The Commercial Area will have flat sites commercial sites including retail markets, shopping malls and entertainment facilities.

NN Project provides a wide range of amenities to its residents. Amenities play a major role while choosing a property and enhance the desirability of real estate. Quality of amenities planned and in place is expected to bode well for future sales. Amenities on offer include:

- Mini Mart
- Jama Masjid
- Football Ground
- Naya Nazimabad Gymkhana
- Parks and Green Areas
- Naya Nazimabad Lawai Stadium
- Horse Riding Club
- Naya Nazimabad Hospital
- Naya Nazimabad School
- Naya Nazimabad Vocational Center
- Corner Commercial
- Lal Gate –School, Satellite Clinic & Retail
- Wedding Hall

Business Risk:

Location: Location of the project is considered essential when taking into account the saleability aspect of the project. The project is located within the city which is 2 KM away from Sakhi Hasan, North Nazimabad. Comprehensive access improvement plan through broadening of roads and building of an overhead bridge are in place while commencement of Green Line and Orange Line buses in the city may further improve connectivity. Law and order situation of the area has improved considerably over the last few years; however weakening in the same remains a risk. Adjacent areas also include a few shanty towns.

Land Bank: Assessment of business risk draws significant support from the sizeable land bank available with the Company. Incorporating a significant discount from current market prices, value of land (Phase 2) which can be readily sold with limited expenditure is over Rs. 50b. Commercial development is expected to further enhance the value of this land.

Execution Risk: JCR-VIS assess execution risk associated with each project based on present stage of completion, level of bookings, pace of sales over the project tenure and advances collected from customers. With 85% of the development expenditure incurred and 88% saleable area sold, execution risk for phase-1 is considered negligible. While execution risk for commercial area development continues to remain sizeable, comfort is drawn from timely completion of phase 1 and significant brand name that the project has developed.

Brand Name: The company has successfully managed to develop its brand name from the time of inception through strong marketing strategies. This is projected to bode well for future sales.

OVERVIEW OF THE INSTITUTION

Javedan Corporation Limited (JCL) was incorporated in 1961, as a public limited company under Companies Act, 1913 (Now Companies Ordinance, 1984) and is listed on Pakistan Stock Exchange Limited. Initially, the business was set-up with the primary objective of manufacturing cement; however during FY10, the company ceased its cement operations. The company has since embarked upon the development of "Naya Nazimabad" (NN) – a developmental project.

Profile of Chairman

Mr. Arif Habib is also the Chairman of various other companies of the Arif Habib Group. Mr. Arif serves as the Chief Executive of Arif Habib Corporation Limited. Mr. Arif Habib has held the position of the President of Karachi Stock Exchange six times in the past and was a Founding Member and Chairman of the Central Depository Company of Pakistan Limited. He has served as a Member of the Privatization Commission, Board of Investment, Tariff Reforms Commission and Securities & Exchange Ordinance Review Committee.

Profile of CEO

Mr. Samad A. Habib has more than 15 years of experience, including 9 years of working in the financial services industry. He began his career with Arif Habib Corporation Limited (the holding company of Arif Habib Group) and has served the company in various executive positions Mr. Samad A. Habib holds a

Master's degree in Business Administration.

Financial Snapshot
Equity: June 2017: Rs. 4,080.8m, June 2016: Rs. 2,581.8m

Net Profit: June 2017: Rs. 1095.3 m, June 2016: Rs. 695.6m

Target Market: As per management, the target market is the progressive middle class society of the city with focus towards residents within 12km of the project. However, given the significant increase in prices and further upsurge expected in the same, purchasing power of the target market may be impacted.

Competition: While risk of competition from launch of new and existing housing project remains, NN will have a competitive edge due to amenities on offer for its residents. Moreover, risk of over-supply is low given the significant deficit of housing units in the city.

Demand for office Space: One of the factors JCR-VIS uses to evaluate the value of a commercial land is the demand for office space. JCR-VIS expects demand for office space to remain low for the area; however, management has allocated limited office space in the project. However, market risks associated with commercial real estate properties (5 flat sites) tend to be higher on account of larger ticket size per transaction.

Financial Risk
JCL is in the process of acquisition of land for commercial development. Project land has an estimated value of Rs. 6billion; around 50% of the same will be financed through a Sukuk issue while the remaining 50% has already been raised through a rights issue.

Capital Structure: Financial risk profile of the project draws support from low leveraged capital structure with gearing reported at 0.4(x) at end-June'2017. Accounting for funds raised through rights issue, profitability for FY18 and additional debt planned for acquisition of commercial land, gearing is expected to remain at similar levels by end-FY18 and projected to decline subsequently.

Liquidity and Cash flows: Total receivables to be collected from phase-1 of the project (expected to be collected in the ongoing calendar year) is estimated to be around Rs. 3.5b which is over 2(x) of total outflows (including debt payments to be paid, development charges and administrative and marketing expenses) to be incurred over the next one year. Historical track record of monthly collection over the last one year also demonstrates adequacy of cash flows for meeting outflow requirements.

Cash flow requirements for funding of development and construction expenditure of commercial area of the project is planned to be met through booking receipts. In this regard, timely launch of planned projects and matching of booking receipts with expenditure planned to be incurred and debt payment obligations will be important rating drivers. Under realistic assumptions regarding sale price, total cash flows budgeted over the life of the project is Rs. 127b. Sensitizing for legal restriction on G+ 6 constructions, revenues and IRR of the commercial project declines to Rs. 103.2b. Timely completion of key milestone of the commercial project without any significant cost and time overruns while maintaining healthy sales velocity and collection efficiency, as projected, will remain critical to avoid cash flow mismatches and will be the key rating sensitivities going forward. Comfort is drawn from sizeable land bank available with the company which can be sold after incurring only limited marketing expense.

Sukuk: Additional debt of Rs. 3billion is planned to be raised through a Sukuk issue. The tenor of the debt will be 8 years inclusive of a grace period of 2 years. The Sukuk will be secured through a Sukuk service account into which required funds amounting to one-third of the upcoming semi-annual installment (profit and principal) should be deposited on the 15th day of every month starting from the 4th month so that at-least 7 days prior to due date the balance in the Sukuk Service account is equal to the total semi-annual installment (profit and principal). Security structure also entails irrevocable, unconditional, first demand Bank Guarantee and/or SBLC issued by a financial institution (having at least AA rating) in favour of the Investment Agent.

Javedan Corporation Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Property, plant and equipment	1,627	1,607	1,546
Total Non-current Assets	2,029	2,382	2,215
Trade Debts	2,437	1,447	3,119
Development Properties	9,783	9,143	7,962
Cash & Bank Balances	25	34	113
Total Current Assets	12,414	11,084	11,909
Total Assets	14,443	13,466	14,124
Long term borrowings	1,189	1,122	967
Short term borrowings	214	736	2,289
Current maturity of Long term Finance	432	451	902
Total Debt	1,835	2,310	4,157
Total Liabilities	4,214	4,530	5,379
INCOME STATEMENT	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Net Sales	2,468	1,228	1,261
Gross profit	1,872	935	836
Operating Profit	1,535	733	668
Profit After Tax	1,095	696	801
RATIO ANALYSIS	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Gross Margin (%)	76%	76%	66%
FFO to Total Debt	0.8	0.0	0.1
Debt Leverage	1.0	1.8	2.4
ROAA (%)	33	29	59
ROAE (%)	8	5	6

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.

'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	Javedan Corporation Limited
Sector	Construction
Type of Relationship	Solicited
Purpose of Rating	Entity & Sukuk Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
04-April-18	A+	A-1	Stable	Initial

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK			
04-April-18	AA-		Preliminary

Instrument Structure

The tenor of the debt will be 8 years inclusive of a grace period of 2 years. The Sukuk will be secured through a Sukuk service account into which required funds amounting to one-third of the upcoming semi-annual installment (profit and principal) should be deposited on the 15th day of every month starting from the 4th month so that at-least 7 days prior to due date the balance in the Sukuk Service account is equal to the total semi-annual installment (profit and principal). Security structure also entails:

- Lein over Debt Payment Account, Disbursement Account opened for the facility
- Irrevocable, unconditional, first demand Bank Guarantee and/or SBLC issued by a financial institution (having at least AA rating) in favour of the Investment Agent.
- Initially during Grace Period, SBLC (Profit Payment SBLC) amounting to Rs. 200m shall be submitted to secure any shortfall in the profit payment against upcoming semi-annual profit payment. Later the profit payment SBLC shall be replaced by SBLC of amount equal to one upcoming semi-annual installment (profit and principal) three months prior to end of Grace Period. The SBLC mechanism shall be for the entire tenor of the facility.

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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