RATING REPORT

Javedan Corporation Limited

REPORT DATE:
September 17, 2019

RATING ANALYST:
Talha Iqbal
talha.iqbal@vis.com.pk

Asfia Aziz
asfia.aziz@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long -term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Sukuk 1	AA-		AA-	
Rating Date	*August 27, 2019*		*April 04, 2018*	
Rating Outlook	Stable		Stable	

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:** Mr. Arif Habib
Key Shareholders as on June 30, 2018 (with stake 5% or more):	**CEO:** Mr. Samad A. Habib
Local General Public- 36.69% *Arif Habib Equity (Pvt) Limited- 28.69%* *Mr. Abdul Ghani- 13.79%* *Arif Habib Corporation Limited- 9.33%* *Mr. Shunaid Qureshi- 7.67%* *Summit Bank Limited- 6.06%* *Mr. Arif Habib- 5.76%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf
Real Estate Developers (August 2017)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/RealEstate%20Methodology%20201708.pdf

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 then 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

RATING RATIONALE

Javedan Corporation Limited (JCL) has launched a housing scheme by the name "Naya Nazimabad" (NN). Naya Nazimabad is situated at Manghopir, Karachi. It adjoins Nazimabad, North Nazimabad and North Karachi.

The project is spread over 1,366 acres and the target market are middle and upper middle class segment of the society. The project is bifurcated in three phases. Phase I comprises residential units spread over 500 acres of land (Block A, B, C, D, M, and N). At end-March 2019, infrastructure development work of Blocks A-D in Phase I have been completed and infrastructure works on Block M & N is ongoing. The company has sold majority of plots in phase-1 while possession of a substantial number of plots and bungalows has been handed over to the customers. A portion of area in Phase II comprising (Block K, L and P) was launched during .2nd half of the financial year ended 30th June 2019. The company also plans to launch a portion of the Commercial Area during the first half of the ongoing fiscal year. The Commercial Area will have flat & commercial sites including retail markets.

NN Project provides a wide array of amenities to its customers. Quality of amenities planned and in place is expected to bode well for future sales. The cricket stadium, mosque and parks are fully operational and work on Naya Nazimabad Gymkhana is underway which is expected to be completed in 2020. Naya Nazimabad School and Clinic shall be operational in 1st quarter and 2nd quarter of the ongoing financial year respectively. With reference to basic necessities, JCL has entered into an agreement with K-Electric Limited and principal approval by SSGC has been granted for provision of electricity and gas respectively. Utility providers will directly provide facilities to residents of NN in the ongoing year. Other developments activities ongoing/planned by the Federal Government include reconstruction of Manghopir road, laying of 66" diameter MS pipeline, and completion of K4 water transmission line which shall further improve water availability in the vicinity of NN.

Rating drivers

Location: The project is located within the city which is 1 mile away from Sakhi Hasan Chowrangi, 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. Besides sizeable land bank available in Phase 2, the company also expects significant revenues from sales of commercial site over the rating horizon.

Execution Risk: 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. Execution risk for Phase I is considered negligible Execution risk with regards to commercial area development would continue to be tracked in future reviews.

Target Market: As per management, the target market is the progressive middle and upper middle class society of the city. However, given the significant increase in prices the target market may continue to evolve in future.

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 and successful delivery of Phase 1.

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 16 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: March 2019: Rs. 8,411m, June 2018: Rs. 8,033m

Net Profit: 9MFY19: Rs. 443 m, June 2018: Rs. 704m

Moreover, risk of over-supply is low given the significant deficit of housing units in the city.

Financial Risk

Sales and Profitability: During FY18, the company recorded sales revenue of Rs. 2.5b out of which Rs. 916m comprises sale of bungalows. The margins on sale of these were recorded on the lower side, given higher material and labor costs. Given the delay in launch of the commercial area project, the company launched Block K&L in Phase II in 3QFY19 to strengthen revenue streams. Consequently, the company recorded sales revenue of Rs. 1.35b during 9MFY19. The company plans to launch a portion of the Commercial Area during the first half of the ongoing fiscal year which is projected to bode well for JCL's revenues and profitability.

Capital Structure: JCL has acquired land for commercial development worth Rs. 6b one –half of which was financed through issuance of right shares and the remaining through issuance of Sukuk. Capital structure draws support from low leverage indicators with gearing reported at 0.64(x) (FY18: 0.45(x)) at end-March 2019. Going forward, gearing and leverage levels is expected to improve due to higher projected profitability which will strengthen equity base while net debt repayments are projected to reduce outstanding debt.

Liquidity and Cash flows: Total projected inflow from Phase I, Phase II, and Commercial site (expected to be collected in the ongoing fiscal year) is estimated to be around Rs. 9.4b which is higher than expected outflows of Rs. 9b (including debt payments to be paid, development charges and administrative and marketing expenses) to be incurred over the next one year. Besides launch of commercial area, sales of plots in phase-2 will constitute the bulk of the cash flows over the rating horizon. Materialization of projected cash flows remains dependent on timely launch of the commercial area. Excess cash generation is expected to enhance over the rating horizon being largely contingent on materialization of proceeds from sale of commercial sites.

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. 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 Structure
The company issued Rs. 2.993b Sukuk on October 04, 2018. The tenor of Sukuk will be 8 years inclusive of a grace period of 2 years while profit payment on the same is on semi-annual basis. The pricing is 6 month KIBOR+175bps. The purpose of issuance of Sukuk was to finance the acquisition of commercial land.

Security structure also entails:
- Lien over Collection Account, 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 favor 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.
- Sponsor Support Agreement

Javedan Corporation Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**9MFY19***
Fixed Assets	1,608	1,627	1,817	2,051
Development Properties	9,143	9,783	17,190	18,906
Trade Debts	1,447	2,437	1,470	1,042
Cash & Bank Balances	34	25	106	35
Total Assets	13,466	14,441	20,840	22,269
Trade and Other Payables	841	609	2,110	540
Long Term Debt	1,575	1,622	1,248	4,019
Short Term Debt	735	213	2,366	1,399
Total Debt	2,310	1,835	3,614	5,418
Total Equity (Excluding revaluation surplus)	1,667	3,629	8,033	8,411
INCOME STATEMENT				
Net Sales	1,228	2,468	2,479	1,355
Gross Profit	935	1,872	1,380	804
Profit After Tax	696	990	704	443
RATIO ANALYSIS				
Gross Margin (%)	76.1%	75.9%	55.7%	59.4%
Net Margin	56.7%	40.1%	28.4%	32.7%
Trade debts/Sales	118%	99%	59%	58%
FFO	108	1,383	913	227
FFO to Total Debt (%)	5%	75%	25%	6%
FFO to Long Term Debt (%)	7%	85%	73%	8%
Current Ratio (x)	2.6	3.6	3.1	4.5
Debt Servicing Coverage Ratio (x)	NA	2.4	1.8	0.9
Gearing (x)	1.39	0.51	0.45	0.64
Leverage (x)	3.27	1.28	0.87	0.97
Dividend Payout Ratio (%)		34%	2%	0%
ROAA (%)	NA	7%	4%	3%
ROAE (%)	NA	37%	12%	7%

** Ratios Annualized*

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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				
27-August-19	A+	A-1	Stable	Reaffirmed
04-April-18	A+	A-1	Stable	Initial

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK			
27-August-19	AA-		Reaffirmed
04-April-18	AA-		Preliminary

Instrument Structure

The tenor of the debt will be 8 years inclusive of a grace period of 2 years while profit payment on the same is 6 month KIBOR+175bps. Security structure also entails:

- Lien over Collection Account, 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 favor 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.
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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.

Disclaimer