

## RATING REPORT

## Javedan Corporation Limited

**REPORT DATE:**

December 18, 2020

**RATING ANALYST:**

Muhammad Ibad

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Sukuk 1	AA-		AA-	
Rating Date	December 18, 2020		August 27, 2019	
Rating Outlook	Stable		Stable	

## COMPANY INFORMATION

Incorporated in June 1961	<b>External auditors:</b> M/s. Reanda Haroon Zakaria & Company, Chartered Accountants and EY Ford Rhodes, Karachi.
Public Limited Company	<b>Chairman:</b> Mr. Arif Habib
Key Shareholders as on June 30, 2020 (with stake 5% or more):	<b>CEO:</b> Mr. Samad A. Habib
Local General Public- 15.73% Arif Habib Equity (Pvt) Limited- 28.68% Mr. Abdul Ghani- 14.84% Arif Habib Corporation Limited- 7.45% Mr. Shunaid Qureshi- 5.87% Summit Bank Limited- 6.06% Mr. Arif Habib- 5.76%	

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria**

Industrial Corporates (May 2019)

<http://vis.com.pk/kc-meth.aspx>

Real Estate Developers (August 2017)

<http://vis.com.pk/kc-meth.aspx>

## Javedan Corporation Limited

## OVERVIEW OF THE INSTITUTION

## RATING RATIONALE

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 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**

Starting off with a career at Arif Habib Corporation Limited; Samad built up his experience in sales, marketing and corporate activities working his way up through various executive positions. Joining Arif Habib

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-June 2020, infrastructure development works of Blocks A-D in Phase I has been completed and development work in Block M and on other projects is ongoing.

**Key rating drivers:****Sales momentum partly impacted by Covid-19 outbreak and heavy rainfall**

1HFY20 saw some recovery from macroeconomic slowdown with gradual building in sales momentum. However, the 2HFY20 was disrupted due to Covid-19 outbreak which is still ongoing. As a result, gains made in 1HFY20 were dissipated. The planned launch of Commercial Project in March 2020 has been deferred to FY 20-21. Prior to launch of Commercial Project and end of FY21, the Company will resort to selling existing unsold units, or undertake launch of other residential units, in order to generate cash inflow.

**Development work has continued at a satisfactory pace**

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Installation of individual KE meter in the first phase commenced in Block B. Further, approval of gas connection has also been received from SSGC. For ICT an agreement has been reached with Optix (Private) Limited for provision of triple play services to the residents. The infrastructure work for the same has already begun and the provision of this service will facilitate the residents. Education, Health, Sports, leisure and other amenities are developing and gradually becoming operational. Around 700 families have already been settled and hundreds of houses are under construction and awaiting approval for construction in Naya Nazimabad.

Naya Nazimabad Gymkhana (NNG) comprising club house facility and eight floor services suites is under construction. Civil work has been completed and finishing work has commenced, which will be completed in sub-phases. The club house will include state of the art indoor and outdoor sports facilities, restaurants and other facilities for its members.

Medical Centre and School are complete and has commenced operations. Medical Centre will provide 24/7 emergency services, pharmacy, radiology services, consultant clinics lab and other facilities for facilitation of residents of Naya Nazimabad.

Limited in 2004, he led the company as Chairman and Chief Executive playing a key role in the strategic direction of the company where he specialized in capital market operations and corporate finance building achieving a range of significant IPOs and private placements.

In 2011 he moved to Javedan Corporation Limited as a part of the driving force behind the transformation of the dilapidated cement plant to a living community. At Naya Nazimabad, Samad Habib has contributed to making a positive impact on society providing a quality lifestyle to the middle class of the city. His dedication and optimism is set to further transform the area with the largest commercial precinct development in the city presently under planning.

#### **Flooding in parts of Naya Nazimabad during Heavy Monsoon Rainfall.**

During August-September 2020, Karachi witnessed heavy rainfall which caused widespread flooding in the city. Similarly, parts of Naya Nazimabad were also impacted by the flooding. However management is keen to resolve the issue and is taking necessary steps for the purpose.

#### **Launch of Commercial Project planned in 4QFY21**

The planned launch of Commercial Project in March 2020 has been deferred to 4QFY21. The management plans to sell the units within 6 months of the launch. An extensive marketing campaign has been planned for the launch and the Company has executed MOUs with leading banks to provide Long Term mortgage financing for its apartment project from initial booking of apartment. (This will be a unique product). Management expects 4QFY21 and subsequent months to be an important period for the Company.

#### **Financial risk profile has remained satisfactory**

Equity base amounted to Rs. 8.9b (FY19: Rs. 8.6b) at end-FY20. Capital structure draws support from moderate leverage indicators with gearing reported at 0.55x (FY19: 0.63x) at end-June 2020. Proceeds from Phase I, Phase II and commercial (proceeds from potential investors) have largely remained sufficient for meeting debt servicing, development costs and overheads. The principal repayment due in April 2020 has been deferred till April 2021. For FY21, funding requirement has reduced significantly with deferment of principal repayment and reduction of interest rates. Launch of Commercial Project in 4QFY21 will strengthen cash flows for future development work.

<b>FINANCIAL SUMMARY</b>		<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	
Fixed Assets	1,817	5,464	5,938	
Development Properties	17,190	17,915	18,360	
Trade Debts	1,470	789	494	
Cash & Bank Balances	106	57	60	
<b>Total Assets</b>	<b>20,840</b>	<b>25,283</b>	<b>26,155</b>	
Trade and Other Payables	2,110	521	326	
Long Term Debt	1,248	3,909	4,069	
Short Term Debt	2,366	1,486	899	
<b>Total Debt</b>	<b>3,614</b>	<b>5,394</b>	<b>4,968</b>	
Paid up Capital	2,671	2,885	3,173	
<b>Total Equity (Excluding revaluation surplus)</b>	<b>8,033</b>	<b>8,609</b>	<b>8,979</b>	
<b><u>INCOME STATEMENT</u></b>				
Net Sales	2,479	1,899	1,643	
Gross Profit	1,380	1,126	935	
Profit before Tax	1,100	696	409	
Profit After Tax	704	580	237	
<b><u>RATIO ANALYSIS</u></b>				
Gross Margin (%)	55.7%	59.3%	56.9%	
Net Margin	28.4%	30.5%	14.4%	
Trade debts/Sales	59%	31%	23%	
Current Ratio (x)	3.1	4.5	4	
Gearing (x)	0.45	0.63	0.55	
Leverage (x)	0.87	0.93	0.95	
ROAA (%)	4%	3%	1%	
ROAE (%)	12%	7%	3%	

## 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](http://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](http://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](http://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				
<b>Name of Rated Entity</b>	Javedan Corporation Limited					
<b>Sector</b>	Construction					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity & Sukuk Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b><u>RATING TYPE: ENTITY</u></b>					
	18-December-20	A+	A-1	Stable	Reaffirmed	
	27-August-19	A+	A-1	Stable	Reaffirmed	
	04-April-18	A+	A-1	Stable	Initial	
	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>		
	<b><u>RATING TYPE: SUKUK</u></b>					
	18-December-20	AA-		Reaffirmed		
	27-August-19	AA-		Finalized		
	04-April-18	AA-		Preliminary		
<b>Instrument Structure</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• Lien over Collection Account, Debt Payment Account, Disbursement Account opened for the facility</li> <li>• 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.</li> <li>• 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.</li> <li>• Sponsor Support Agreement</li> </ul>					
<b>Statement by the Rating Team</b>	<p>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.</p>					
<b>Due diligence meeting with</b>	Muneer Gader – Chief Financial Officer on 13 November 2020					
<b>Probability of Default</b>	<p>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.</p>					

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