RATING REPORT

Javedan Corporation Limited

REPORT DATE:
July 27, 2023

RATING ANALYST:
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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	*July 27, 2023*		*March 28, 2022*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in June 1961	**External auditors:** M/s. Yousuf Adil & Company, Chartered Accountants and EY Ford Rhodes, Karachi.
Public Limited Company	**Chairman:** Mr. Arif Habib
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Samad A. Habib
Arif Habib Equity (Pvt) Limited- 28.7% Arif Habib- 9.07% AKD Securities Limited- 11.2%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria
Corporates (May 2023) **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**
VIS Rating scale (2023) **https://docs.vis.com.pk/docs/VISRatingScales.pdf**
Real Estate Developers (October 2019) **https://docs.vis.com.pk/docs/RentalREITs)-201910.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

Profile of Chairman

Mr. Arif Habib is the Chief Executive of Arif Habib Corporation Limited, the holding company of Arif Habib Group. He is also the Chairman of Fatima Fertilizer Company Limited, Aisha Steel Mills Limited, Javedan Corporation Limited (the owner of Naya Nazimabad) and Sachal Wind Power. Mr. Arif Habib remained the elected President/Chairman of Pakistan Stock Exchange (formerly Karachi Stock Exchange) for 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 joined Arif Habib Limited in2004, and built up his experience in sales, marketing and corporate activities working his way up through various executive positions. 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.

RATING RATIONALE

Javedan Corporation Limited ('JCL' or 'the Company') has launched a housing scheme by the name of "Naya Nazimabad" (NN) in 2011, 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 economic strata. The project is divided in three phases.

The assigned rating incorporates implicit support of the Company's major sponsor i.e. the Arif Habib Group. Assessment of business risk profile takes into account strong brand name developed over the years, strategic location of the project and security features and amenities offered. Business risk profile draws support from the sizeable land available with the Company, which has significant value.

Key Rating Rationale:

Business Update: The entire Naya Nazimabad (NN) project is bifurcated into three phases:

Phase I comprises of residential units spread over 500 acres of land (Block A, B, C, D, M, and N). Developmental works of Phase 1 have been completed by end-Mar'23. The entire possession of Blocks A to D has been handed over while possession of block M & N is being processed in lots, with complete transfer expected to conclude by end-Dec'23. During the period under review, developmental works for phase 1 were completed.

- **Phase II** which spread across 120 acres, encompasses construction of apartment projects, subsequently converted into REIT schemes. The first apartment project, Globe Residency Apartments, launched in Nov'21 and subsequently transferred to REIT scheme in Mar'22 under the name of Globe Residency REIT (GRR). GRR includes 9 towers and over 1300 apartments. GRR is the first developmental REIT Scheme in the country which was listed at Pakistan Stock Exchange (PSX) in Dec'22. During FY22, JCL disposed off GRR at par value generating liquidity for the company. The Company had offered 10% units of GRR, through offer for sale, to the public, 5% units were offered to real estate consultants and 85% units of GRR were offered to existing shareholders of JCL. Other REITs include Signature REIT (40% owned by JCL) and Naya Nazimabad (NN) entirely owned by JCL.

  In addition to this, Phase II also comprises other amenities including construction of Gymkhana, Jamia Masjid, fly-over, from Sakhi Hassan to Naya Nazimabad (NN), Al-Habib Medical Center and play grounds. The construction of flyover is currently underway with around 70% physical progress as of now. The same is expected to be completed in the around six months period. The second phase of NN Jamia Masjid has been completed recently. The civil work of NN Gymkhana has been completed, and the work on internal finishing and sports facilities is underway. It is expected to be completed in first quarter FY24 and will be opened to general public in four months period. Meanwhile, the membership application of gymkhana has already been commenced. The Hospital's construction is under progress, while the Al-Habib medical centre has been initially launched with capacity of 100 beds. Moreover, the Company has also commenced the work on full scale tertiary level hospital with

Financial Snapshot
Tier-1 Equity: 9M'FY23: Rs. 14.8b; FY22: Rs. 10.96b; FY21: Rs. 9.4b; FY20: Rs. 8.98b

Total Assets: 9M'FY23: Rs. 38.9b; FY22: Rs. 33.3b; FY21: Rs. 28.0b; FY20: Rs. 26.2b

Profit after tax 9M'FY23: Rs. 4.4b; FY22: Rs. 1.5b; FY21: Rs. 331m; FY20: Rs. 237

capacity of 500 beds. The design has been finalized and the construction is going on as per the timelines.

- **Phase III** of the project, comprises construction of both the vertical structures for commercial purpose and residential plots; the developmental mode for the phase has yet to be decided.

Significant growth in top-line and profitability during the review period: During FY22, topline exhibited multifold growth, with net sales amounting to Rs. 4.3b (FY21: Rs. 1.04b), largely led by sale to Global Residency REIT, comprising around three-fourth of the total sales. Gross margins decreased to 55.6% (FY21: 74.7%) primarily due to the nature of sales mix, with increased proportion of reacquired land characterized by higher acquisition cost vis-à-vis selling prices. Additionally, there were some sale of leftover bungalows in Block B entailing relatively suppressed selling prices as compared to open plots. During the same period, the Company incurred expenditure amounting Rs. 404.3m (FY21: Rs. nil) on the flyover. Administrative expenses remained largely rationalized with inflationary pressure. Other income was recorded higher at Rs. 356.5m (FY21: Rs. 150.8m) primarily due to increase in transfer fees from plot and bungalows coupled with re-measurement gain on investment properties. The investment properties comprised of various properties having aggregated area of 366,851 square yards (FY21: 366,851 Sq. yards) as of Dec'22, situated at Deh Mangopir and other locations in Karachi. Finance cost increased to Rs. 120.5m (FY21: Rs. 107.2m) in line with higher average borrowings and markup rates. Accounting for taxation, the company generated net profit of Rs. 1.5b (FY21: Rs. 331.2m) with improvement in net margins to 34.7% (FY21: 31.6%) largely on the back of higher gross profitability and increase in other income.

During 9M'FY23, net sales augmented to Rs. 9.7b (9M'FY22: Rs. 3.6b), which majorly emanated from sales of NN apartment REIT amounting to Rs. 5.8b and sale of Meezan centre REIT amounting to Rs. 1.3b. Additionally, sale of residential plots and bungalows from Phase I amounted to Rs. 1.06b and Rs. 330.7m, respectively. Gross margins improved to 60.5% (9M'FY22: 48.8%). Operating expenses have increased in line with inflationary pressure and scale of operations. During 9M'22 cost incurred on Flyover amounted to Rs. 880.8m (9M'FY22: 358.7m). Finance cost increased substantially to Rs. 315.9m (9M'22: Rs. 39.8m) in line with higher average borrowings and markup rates. Other income was recorded notably higher at Rs. 316.8m compared to SPLY, mainly due to increase in markup on loan from Arif Habib Limited (AHL-related party). Resultantly, net profit was recorded higher at Rs. 4.4b (9M'FY22: Rs. 351.4m).

Liquidity profile underpinned by adequate recovery ratios to support financial obligations: Being a real estate development entity, traditional cash flow coverage indicators are inadequate to capture JCL's debt repayment capacity, as reflected by the DSCR consistently trending below 1x. Despite notable improvement in net profitability funds from operations were recorded lower compared to preceding year due to adjustment of non-cash consideration from Globe Residency REIT. Recovery rates for sales are considered satisfactory, according to the management, recovery rate of apartments stand currently at 88%. Additionally, going into REIT mode of development has improved the cash flow position of the Company.

Development properties, comprising land and inclusive of development charges incurred during the period, amounted to Rs. 18.6b (FY22: Rs. 19.5b; FY21: Rs. 18.9b) at end-9M'FY23. The land under development properties having an area of 425.55 acres has been mortgaged/pledged with various financial institutions against financing facilities obtained.

Trade debts increased to Rs. 4.73b (FY22: Rs. 1.04b; FY21: Rs. 267.9m) by end-Mar'23, mainly on account of higher outstanding receivables against NN Apartment REIT, Signature Residency REIT, against development charges, and GRR. Out of the total outstanding value ~98% of receivables were not yet due as of end-Mar'23. As per the management these receivables will become due by end-Dec'23 and timely recovery of these is considered imperative from ratings perspective. Loans and Advances stood higher at Rs. 2.7b (FY22: Rs. 1.55b; FY21: Rs. 293.4m), primarily due to loans made to related party (AHL) amounted to Rs. 1.55b (FY22: Rs. 800m; FY21: nil) to finance its working capital needs while the rest largely pertained to unsecured advances made to suppliers and contractors and advances paid for purchase of properties. The related party loans are repayable on demand and carries markup at the rate of 3 MK+1.75% per annum. Trade Deposits, prepayments, and other receivables increased to Rs. 515.0m (FY22: Rs. 335.6m; FY21: Rs. 198.0m) and largely included receivables due from related parties, mainly Naya Nazimabad (NN) Maintenance Company. Short-term Investments, including term deposit receipts stood at Rs. 13.0m (FY22: Rs. 13.0m; FY21: Rs. 1.3b) at end-9M'FY23. During FY22 the Company disposed off equity investments worth Rs. 1.2b recognized at fair value through profit & loss.

Trade and other payables augmented to Rs. 2.0b (FY22: Rs. 706.6m; FY21: Rs. 962.5m) majorly due to amount of Rs. 1.1b submitted by other consortium members to JCL for payment to Sapphire Bay Islamic Development REIT (SBIDR). JCL, leading a consortium of members, won 1,000 acres of land for developmental purposes in bidding process of SBIDR by Ravi Urban Development Authority (RUDA). Currently the company is in process of acquiring the land. Contract liabilities amounted to Rs. 753.9m (FY22: Rs. 1.1b; FY21: Rs. 2.1b) in line with decrease in value of advances from customers and liability against performance obligation. Current ratio has remained sizable (9M'23: 2.80x; FY22: 3.84x; FY21: 4.07x) on a timeline basis. Maintaining adequate recovery ratios to meet financial obligations is considered imperative from the rating perspective.

Manageable leverage indicators: Tier-1 equity augmented to 14.8b (FY22: Rs. 10.7; FY21: 9.4b) on the back of internal capital generation in 9M'FY23. The company also paid interim dividend @ 40% on ordinary shares amounting to Rs. 1.5b during the ongoing year. As of Mar'23, around three-fourth of the debt mix comprised long-term financing (FY22: 84%; FY21: 87%). Long-term financing (inc. current maturity) stood at Rs.9.56b (FY22: Rs. 9.65b; FY21: Rs. 5.9b) at end-9M'23. These facilities are majorly obtained for the completion of under construction projects.

The Company has issued privately placed sukuk certificates aggregating to Rs. 3.0b, having face value of Rs. 100,000/-each to eligible institutions/investors for a period of 8 years (inclusive of 2 years grace period) to make payment of commercial land purchased in 2018. These carry markup at the rate of 6M KIBOR plus 1.75% per annum and redeemable in 12 equal installments starting from April 04, 2021 till October 04, 2026. The facility is secured by equitable mortgage charge over land worth Rs. 4.29b against 49 plots located at Tapo Mangopir, Karachi and other assets (i.e., standby letter of credits, collection account and sponsors support agreement). The outstanding value of the Sukuk stood at Rs. 1.99b (FY22: Rs. 2.24b; FY21: Rs. 2.73b) at end-9M'FY23.

Short term borrowings have increased to Rs. 3.4b (FY22: Rs.1 .8b; FY21: 0.9b) by end-9M'FY23. These also include Rs. 1.2b obtained from related parties to finance working capital and project requirements. Out of the total related party loan Rs. 179.6m is interest free and repayable on demand, while the remaining related party loans are priced at 3MK + 1.8% p.a. The rest of the short-term facilities are obtained as secured running finance lines under mark-up arrangements and Musharaka facilities from various banks. Despite increase in debt levels, leverage indicators have remained at quite comfortable level on account of growth in equity base. Gearing and debt leverage stood at 0.88x (FY22: 1.05x; FY21:0.72x) and 1.13x (FY22: 1.27x; FY21: 1.08x), respectively, by end-9M'FY23.

Sound Corporate governance framework with effective internal controls. At present Board of Directors (BoD) comprises nine members including Chairman of the Board and CEO. There are three independent directors, five non-executive directors and one executive director, including a female representation on the Board. Two Board level committees namely, Board Audit Committee (BAC) and HR & Remuneration Committee are being chaired by the Mr. Abdullah Ghaffar and Mr. Javed Kureishi, respectively. Detailed examinations are carried out by the internal audit function which reviews adherence to internal control processes as well as compliance of procedures and reports its findings to the Board of Audit Committee.

As per corporate governance best practices majority HR & Remuneration and audit committee are being chaired by independent members. The audit committee meets every quarter to discuss internal controls while the HR & Remuneration Committee meets annually to review board compensation and HR policies and practices. Financial statements are audited by EY Ford Rhodes and Reanda Haroon Zakaria & Company, Chartered Accountants, which are classified in 'Category A' and 'Category B' respectively of SBP's Panel of Auditors.

Javedan Corporation Limited **Appendix I**

FINANCIAL SUMMARY

(Amounts in PKR millions)

BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9M'FY23**
Property, Plant & Equipment	5,938	6,225	6,925	6,940
Investment Properties	568	631	720	720
Long Term Investment	10	10	1,510	3,048
Advance against issuance of Units	-	-	-	1,473
Trade Debts	494	268	1,040	4,736
Development Properties	18,360	18,911	19,499	18,627
Loans and advances	600	293	1,554	2,665
Deposits, prepayments and other receivables	73	198	336	515
Short Term Investment	38	1,297	13	13
Cash & Bank Balances	60	153	1,646	123
Other Assets	15	14	17	15
Total Assets	**26,155**	**27,999**	**33,261**	**38,874**
Deferred Liabilities	57	51	100	154
Trade and Other Payables	331	962	707	1,995
Long Term Debt	4,069	5,897	9,654	9,562
Short Term Debt	899	905	1,833	3,434
Total Debt	**4,968**	**6,802**	**11,487**	**12,996**
Accrued mark-up	177	92	191	400
Advance from customers/Contract Liabilities	2,888	2,092	1,091	754
Advance against sale of investment properties	83	48	177	179
Taxation - net	121	94	148	139
Other liabilities	5	5	5	5
Total Liabilities	**8,632**	**10,147**	**13,906**	**16,623**
Total Equity (Excluding revaluation surplus)	**8,979**	**9,390**	**10,961**	**14,771**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**9M'FY23**
Net Sales	1,643	1,047	4,343	9,746
Gross Profit	935	782	2,415	5,899
Finance Cost	208	107	121	316
Other Income	121	151	356	317
Profit Before Tax	409	370	1,756	4,568
Profit After Tax	237	331	1,505	4,419
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**9M'FY23**
Gross Margin (%)	56.9%	74.7%	55.6%	60.5%
Net Margin (%)	14.4%	31.6%	34.7%	45.3%
Current Ratio (x)	3.94	4.07	3.84	2.80
FFO	111	217	184	1,592
FFO to Total Debt (%)	0.02	0.03	0.02	0.12*
FFO to Long Term Debt (%)	0.03	0.04	0.02	0.17*
Current Ratio (x)	3.9	4.1	3.8	2.8
Debt Servicing Coverage Ratio (x)	0.9	0.6	0.1	0.9
Gearing (x)	0.55	0.72	1.05	0.88
Leverage (x)	0.96	1.08	1.27	1.13
ROAA (%)	0.9%	1.2%	4.9%	12.3%*
ROAE (%)	2.7%	3.6%	14.8%	34.4%*

**Annualized*

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-July-23	A+	A-1	Stable	Reaffirmed
28-March-22	A+	A-1	Stable	Reaffirmed
21-December-20	A+	A-1	Stable	Reaffirmed
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-July-23	AA-		Reaffirmed
28-March-22	AA-		Reaffirmed
21-December-20	AA-		Reaffirmed
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.
- Sponsor Support Agreement

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.

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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Adnan	Finance Manager	May 26, 2023
Mr. Muneer Gader	Chief Financial Officer	May 26, 2023