RATING REPORT

Javedan Corporation Limited

REPORT DATE:
March 28, 2022

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	*March 28, 2022*		*December 21, 2020*	
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 (with stake 10% or more):	**CEO:** Mr. Samad A. Habib
Arif Habib Equity (Pvt) Limited- 29% Mr. Haji Abdul Ghani- 12% Arif Habib Corporation Limited- 10%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria
Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf
Real Estate Developers (October 2019) https://docs.vis.com.pk/docs/RentalREITs)-201910.pdf

Javedan Corporation Limited

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 Pakistan Limited. He has served as a Member of the Privatization

RATING RATIONALE

Javedan Corporation Limited ('JCL' or 'the Company') has launched a housing scheme by the name of "Naya Nazimabad" (NN), 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 bifurcated in three phases.

<u>Business Update:</u>

Sales & Profitability

Table 1: P&L Extract

	FY20	FY21	H1'FY22
Sales	1,643	1,047	28
Gross Profit	935	782	10
Profit before Tax	409	370	(119)
Profit after Tax	237	331	(279)
Gross Margin	**56.9%**	**74.7%**	**36.7%**
Net Margin	**14.4%**	**31.6%**	**-992.9%**

- Net revenue during FY21 witnessed a decline of 36% YoY contributed by both drop in plots and bungalows sales of 34% and 50% vis-à-vis SPLY.

- Given delay in launch of Phase II, offtake was dismal in H1'FY22. Nevertheless, with launch of Phase II residential projects in November 2021 revenues are likely to post growth in H2'FY22. Company has launched Globe Residency Apartment and has offered 850 apartments in market, of which 625 apartments have already been booked. Additional launches are planned for Q3 & Q4 FY22.

- The apartment project has been launched under REIT model hence sale of land will be recorded in books of Company in next quarter and subsequently the Company shall realize profit from sale of apartment project in form of dividend income from REIT over project life.

- Given forecasted increase in revenues, the average RoA and RoE is expected to come at 17.1% and 28.1% during FY22-FY24. (FY21: 1.6% and 3.6%).

Debt Service Capacity

- Being a real estate development entity, traditional cashflow coverage indicators fail to capture JCL's debt repayment capacity, as reflected by the FSCR consistently trending below 1x. During the period under review, the DSCR came under further stress, given slowdown in offtake and delay in launch pf Phase II.

- Nevertheless, the Company has sizable liquid assets available on the balance sheet for debt servicing. With launch if Phase II in November 2021, the liquid assets are estimated to be notably higher as of report date.

- As of December 2021, the liquid assets available on the balance sheet cover 70% of the debt service requirement.

Table 2: Coverage Indicators

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.

	FY19	FY20	FY21	HY'FY22
Current Maturity	382	345	480	821*
Interest Cost	118	208	107	25
FFO	139	111	217	(235)
Liquid Assets	57	98	1,449	726
FFO to Total Debt (%)	2.6%	2.2%	3.2%	-5.3%*
FFO to LT Debt (%)	3.6%	2.7%	3.7%	-5.7%*
Debt Service Coverage Ratio (DSCR) (x)	0.8	0.8	0.6	0.6
*** for FY22**				

Liquidity & Capitalization

Table 3: Balance Sheet Extract

	Jun'20	Jun'21	Dec'21
Non-current assets	6,531	6,880	7,229
Development properties	18,360	18,911	20,846
Other current assets	1,167	759	1,157
Cash & ST Investments	98	1,449	726
Total Assets	**26,155**	**27,999**	**29,958**
LT Debt (Inc. current maturity)	4,069	5,897	8,300
ST Debt	899	905	599
Total Liabilities	**8,632**	**10,147**	**12,386**
Total Equity (Exc. Surplus on reval.)	**8,979**	**9,390**	**9,113**
Leverage	**0.96**	**1.08**	**1.36**
Gearing	**0.55**	**0.72**	**0.98**

- Equity (net of surplus) grew at a CAGR of 5% during the last 3-year period (FY19-21). However, given marginal net loss after tax of Rs. 279m in H1'FY22, equity growth remained flat in H1'FY22.

- The Company mobilized further long-term debt on its balance sheet during the year FY21 in order to finance NN Residential Apartment Project and to support ongoing infrastructure development of NN Housing Scheme.

- Consequently, the capitalization indicators were elevated wherein gearing and leverage are now standing at 0.98x and 1.36x as at December' 2022.

- Going forward, the capitalization indicators are expected to remain elevated in FY22, as the Company is planning to take further long-term debt to finance its ongoing and upcoming projects. However these are projected to remain aligned with assigned rating threshold.

Key Rating Rationale

Ratings underpinned by strong sponsor profile

The assigned rating incorporates implicit support of the Company's major sponsor i.e. the Arif Habib Group. Arif Habib Corporation, the holding company of Arif Habib Group, is one of the leading business groups of Pakistan having businesses in diversified sectors including Fertilizers, Financial Services, Construction Materials, Industrial Metals, Dairy Farming, Energy and others. Arif Habib Corporation has total assets of more than Rs. 51b as at September 2022.

Business risk profile derives impetus from healthy sector outlook and strategic location of the project

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 on offer. Business risk profile draws support from the sizeable land available with the Company, which has significant value. The incentives provided by the government for the construction sector, both in terms of construction and concessionary credit for home purchases bode well for the JCL.

Adequate financial risk profile with the expectation of strong cash inflows from ongoing and upcoming projects

Financial risk profile is strong as evident from manageable capitalization structure, hidden reserves on balance sheet and sound liquidity profile. The expected proceeds from ongoing and upcoming projects are sufficient for meeting debt servicing, overheads and other costs. Nevertheless, timely launch of projects is considered important from a ratings purview, which VIS will continue to track on an ongoing basis.

Javedan Corporation Limited **Appendix I**

FINANCIAL SUMMARY

(Amounts in PKR millions)

BALANCE SHEET	FY18	FY19	FY20	FY21	H1'FY22
Fixed Assets	1,817	5,464	5,938	6,225	6,562
Investment Properties	-	55	568	631	631
Long Term Investment	-	-	10	10	-
Development Properties	17,190	17,915	18,360	18,911	20,846
Trade Debts	1,470	789	494	268	281
Short Term Investment	-	-	38	1,297	125
Cash & Bank Balances	106	57	60	153	601
Total Assets	20,840	25,283	26,155	27,999	29,958
Trade and Other Payables	2,110	521	331	962	826
Long Term Debt	1,248	3,909	4,069	5,897	8,300
Short Term Debt	2,366	1,486	899	905	599
Total Debt	3,614	5,394	4,968	6,802	8,900
Paid-Up Capital	2,671	2,885	3,174	3,174	3,809
Total Equity (Excluding revaluation surplus)	8,033	8,609	8,979	9,390	9,113

INCOME STATEMENT	FY18	FY19	FY20	FY21	H1'FY21	H1'FY22
Net Sales	2,479	1,899	1,643	1,047	546	28
Gross Profit	1,380	1,126	935	782	435	10
Profit Before Tax	1,101	696	409	370	174	(119)
Profit After Tax	704	580	237	331	128	(279)

RATIO ANALYSIS	FY18	FY19	FY20	FY21	H1'FY22
Gross Margin (%)	55.7%	59.3%	56.9%	74.7%	36.7%
Net Margin (%)	28.4%	30.5%	14.4%	31.6%	-992.9%
Trade debts/Sales*	59%	42%	30%	26%	250%
FFO	913	139	111	217	(235)
FFO to Total Debt (%)*	25.3%	2.6%	2.2%	3.2%	-10.6%
FFO to Long Term Debt (%)	73.1%	3.6%	2.7%	3.7%	-11.3%
Current Ratio (x)	3.1	4.5	3.9	4.1	4.5
Debt Servicing Coverage Ratio (x)*	1.81	0.8	0.8	0.6	(1.1)
Gearing (x)	0.45	0.63	0.55	0.72	0.98
Leverage (x)	0.87	0.93	0.96	1.08	1.36
ROAA (%)*	4.5%	3.0%	1.2%	1.6%	-1.3%
ROAE (%)*	12.1%	7.0%	2.7%	3.6%	-3.0%

**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				
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			
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**: Mr. Muneer Gader; **Designation**: Chief Financial Officer; **Date**: January 12, 2022