# RATING REPORT

# Javedan Corporation Limited

**REPORT DATE:**
October 09, 2024

**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 |
| **Outlook/Rating Watch** | Stable | | Stable | |
| **Sukuk 1 Rating** | AA- | | AA- | |
| **Sukuk 1 Outlook/Rating Watch** | Stable | | Stable | |
| **Rating Action** | Reaffirmed | | Reaffirmed | |
| ***Rating Date*** | *October 09, 2024* | | *July 27, 2023* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in June 1961** | **External Auditors:** M/s. Yousuf Adil, Chartered Accountants; and Reanda Haroon Zakaria Aamir Salman Rizwan and Co., Chartered Accountants. |
| **Public Limited Company** | **Chairman:** Mr. Arif Habib |
| **Key Shareholders (with stake 10% or more):** | **CEO:** Mr. Samad A. Habib |
| Arif Habib Corporation Limited – 35.3%<br>Abdul Ghani – 11.9% | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria** |
| **Corporates**<br>https://docs.vis.com.pk/docs/CorporateMethodology.pdf |
| **Construction Industry**<br>https://docs.vis.com.pk/Methodologies%202024/CONSTRUCTION-INDUSTRY-RATING-CRITERIA.pdf |
| **Rating the Issue**<br>https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf |
| **VIS Rating scale**<br>https://docs.vis.com.pk/docs/VISRatingScales.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 Chairman of Arif Habib Group and 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, Sachal Wind Power and Arif Habib Dolmen REIT Management Limited. Mr. Arif Habib remained the elected President/Chairman of Pakistan 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 in 2004, 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

The assigned rating incorporates support from JCL's sponsor, the Arif Habib Group. JCL's business risk profile reflects its exposure to the cyclical nature of the real estate and construction industries, which are influenced by economic and political factors, fluctuations in purchasing power, volatility in raw material prices, and competitive pressures. The assessment also considers the Company's well-established brand and its sizeable land holdings.

The Company's financial risk profile is dependent upon revenues which are primarily driven by land sales. Revenue growth was notable in FY23, particularly through Real Estate Investment Trust (REIT) structures, but has normalized in FY24. Margins have improved due to rising property values. However, moving forward, sustaining revenue and margins amidst evolving market conditions will be key rating drivers.

Capitalization levels remain manageable, depicting equity growth and a reduction in leverage, on account of internal profit generation. Liquidity management remains important due to inherent volatility in real estate cash flows. Thus, maintaining adequate debt servicing coverage will be important going forward. Ratings remain underpinned on achievement of management outlook regarding growth, continued support of sponsors for debt service coverage, if needed, retention of profitability and availability of working capital lines as planned.

**<u>Company Profile:</u>**

Javedan Corporation Limited was incorporated in Pakistan on June 08, 1961, as a public limited company under the repealed Companies Act, 1913 (now Companies Act, 2017) and is listed on Pakistan Stock Exchange Limited. The registered office of the Company is located at Arif Habib Centre, 23, M.T Khan Road, Karachi. The Company has ceased its cement business since July 01, 2010 and the management has developed business diversification strategy for utilizing the Company's land having area of 1,367 acres for developing a housing scheme, "Naya Nazimabad", that includes bungalows, open plots, flat sites and commercial sites.

**<u>Operational Performance:</u>**

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

- **Phase I** encompasses residential units across 500 acres of land, divided into Blocks A, B, C, D, M, and N. The development work for this phase was completed by the end of Mar'23. Possession of units in Blocks A through M has already been handed over. The possession process for Block N is underway, with the transfer being conducted in phases. The complete transfer of Block N is anticipated to be finalized by the end of Jun'25.

- **Phase II** spans 120 acres and focuses on the construction of apartment projects, which may later convert into Real Estate Investment Trust (REIT) schemes. The first such project, Globe Residency Apartments, was launched in Nov'21 and subsequently transitioned into a REIT scheme named Globe Residency REIT (GRR) in Mar'22. GRR comprises nine towers with over 1,300 apartments. During FY23, JCL divested its interest in GRR through an Offer for Sale on the PSX. Later JCL bought ~6.6% units of GRR from secondary market as of Jun'23.

As part of its strategic direction, JCL has initiated several mixed-use development projects under the REIT model. This includes the introduction of the "Signature Tower" project, now transferred into the "Signature Residency REIT." Additionally, several land parcels have been successfully sold to REITs, attracting investment from both JCL and external investors. These REITs include the Naya Nazimabad Apartment REIT, Rahat Residency REIT, and Meezan Centre Apartment REIT. In terms of retail and amenities, Phase II has seen the handover of the first retail in Naya Nazimabad under Rahat I, which is expected to become operational soon.

- **Phase III** of the project, spanning 745 acres, comprises construction of both the vertical structures for commercial purpose and residential plots; the developmental mode for the phase has yet to be decided.

The NN project also includes the construction of a Gymkhana, Jamia Masjid, a flyover from Sakhi Hassan to Naya Nazimabad (NN), the Al-Habib Medical Center, and playgrounds. The flyover is complete and is fully operational as of Jun'24. The NN Gymkhana and Jamia Masjid have already begun operations, with the masjid fully completed and Gymkhana membership applications open.

**Auditors' Report:**

The FY23 financial statements were audited by two firms: Yousuf Adil, categorized as 'Category A' on the SBP's Panel of Auditors, and Reanda Haroon Zakaria & Company, Chartered Accountants, categorized as 'Category B'. The auditors issued an unqualified opinion on the financial statements. Same auditors have been reappointed for FY24.

**Business Risk Profile:**

**Real Estate Industry**

The real estate sector encompasses the buying, selling, development, management, and financing of land, buildings, and properties. It also includes companies offering real estate related services and REITs. The real estate industry's business risk profile is assessed as high due to its highly cyclical nature interconnected with the country's fluctuating economic and political situation and purchasing power in the market. The sector also faces capsizing of revenues owing to low investments.

In FY23, Pakistan's real estate sector contributed approximately 4.2% to the GDP. The sector's market size was estimated at approximately Rs. 3.4t, reflecting a year-over-year (YoY) growth of 9.1%. The sector's growth rate accelerated to 10.1% in FY24, with the market size expanding to around Rs. 3.7t. Consequently, the sector's contribution to the national GDP increased to 5.9%. Despite the sector's growth, economic indicators reveal challenges in consumer purchasing power. During FY23, Pakistan's GDP per capita decreased by 12.1%, falling to USD 1,551 from USD 1,765 in FY22. In FY24, there was a recovery, with GDP per capita increasing by 6.6% to USD 1,680. [1] However, this figure remains below the FY22 level, suggesting that purchasing power has not fully rebounded and continues to impact housing demand. Looking ahead, the sector is expected to gain momentum as inflation levels ease and the policy rate declines.

**Construction Industry**

The construction industry is a broad sector that encompasses the planning, design, construction, maintenance, and operation of physical facilities. It involves the building, repairing, renovating, and maintaining infrastructure such as roads, bridges, airports, and buildings. The construction industry is heavily reliant on two primary raw materials: cement and steel. This dependency exposes the sector to significant price risks, particularly as the cost of these materials continues to rise. In addition to raw material price volatility, the sector is also vulnerable to cost overruns driven by inflationary pressures, which can further strain financial stability and project budgets.

The steel industry faces several challenges, including high energy costs, reliance on imported raw materials, and competition from substandard products due to insufficient regulation. The industry also struggles with the threat of dumped imported products, which undermines local production. Additionally, sluggish demand from complementary industries such as automobiles, electrical equipment, and heavy machinery has resulted in low utilization rates, particularly for flat steel.

The cement industry in Pakistan has also been impacted by various challenges. Government fiscal constraints and limited foreign aid have delayed rehabilitation efforts in flood-affected areas, leading to a slowdown in the overall construction sector. Moreover, economic slowdowns in global markets have reduced cement exports to key destinations such as Sri Lanka and Bangladesh, both of which are experiencing foreign exchange crises. The rising costs of construction materials have further compounded the difficulties faced by the cement industry.

In FY23, Pakistan's construction sector contributed approximately 2.7% to the national GDP, with a market size estimated at Rs. 2.2t. This reflected a year-over-year growth of 18.1%. The sector's growth rate accelerated to 23.0% in FY24, with the market size expanding to around Rs. 2.7t, though its contribution to GDP remained steady at 2.7%. Looking ahead, the sector's performance is likely to remain rangebound.

**Sponsors Experience and Financial Strength**

The assigned ratings continue to derive strength from JCL's sponsor profile. JCL is part of the Arif Habib Group, an industrial and financial conglomerate in Pakistan. Arif Habib Corporation Limited (AHCL) has sizeable shareholding in many different companies operating in diverse sectors such as fertilizers, securities & commodities brokerage, corporate advisory, asset management, cement, steel, wind power and real estate development sectors. Financial strength of AHCL is signified by its net worth of Rs. 24.7b as at Mar'24 (Jun'23: Rs. 20.5b).

[1] Economic Survey 2023-2024

**Governance framework**

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.

| Name | Position |
|---|---|
| **Mr. Arif Habib – Chairman** | Chairman |
| **Mr. Muhammad Kashif** | Non-Executive Director |
| **Mr. Muhammad Ejaz** | Non-Executive Director |
| **Mr. Abdul Qadir Sultan** | Non-Executive Director |
| **Ms. Darakshan Zohaib** | Non-Executive Director |
| **Mr. Alamgir Sheikh** | Independent Director |
| **Mr. Abdullah Ghaffar** | Independent Director |
| **Mr. Javed Kureishi** | Independent Director |
| **Mr. Samad A. Habib** | CEO |

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 Committee 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. The Board has duly complied with the Directors' Training Program requirement and the criteria as prescribed in the Listed Companies Corporate Governance Regulations, 2019.

## Financial Risk Profile

**Profitability**

During FY23, the Company experienced significant growth, with net sales reaching Rs. 16.8b (FY22: Rs. 5.0b). This growth was primarily driven by increase in plot sales, mainly under REIT arrangements, with participation from both the Company and other investors. Key sales were to Gymkhana Apartment REIT of Rs. 3.7b from, Park View Apartment REIT of Rs. 2.3b from, Signature Residency REIT of Rs. 817.6m. The REIT projects have resulted in gains for the Company on the sale of land, as well as positioned the Company for future revenues in the form of dividends. Gross margins slightly decreased to 53.7% (FY22: 55.6%).

During the same period, marketing and selling expenses tripled, rising to Rs. 92.6m (FY22: Rs. 32.9m) in line with higher sales. The Company also incurred significant expenses of Rs. 1.2b (FY22: Rs. 404.3m) related to the flyover project. Administrative expenses, amounting to Rs. 481.4m (FY22: Rs. 457.6m), remained largely aligned with inflation.

Finance costs (net) increased significantly during the year, reaching Rs. 336.7m (FY22: Rs. 67.7m), driven by elevated benchmark rates and higher average borrowings during the year. Other income increased to Rs. 379.1m (FY22: Rs. 303.4m) primarily due to re-measurement gain on investments designated at FVTPL. Other notable expenses included an allowance for expected credit losses of Rs. 283.9m (FY22: Nil). Nevertheless, on account of higher revenues, the Company recorded a sizeable increase in profitability in FY23, standing at Rs. 6.7b (FY22: Rs. 1.5b). Margins were also recorded higher at 40.1% (FY22: 30.1%) on the back of higher revenues.

During FY24, net sales normalized to Rs. 4.2b in line with macroeconomic conditions and pressures in the real estate sector. Nevertheless, the Company continued to offload the remaining inventory of residential plots and booked land sale of Rs. 1.3b to Meezan Center REIT. Gross margins increased to 59.5%. Marketing and selling expenses were halved, consistent with lower sales during the period. During FY24, the cost incurred on Flyover reduced to Rs. 729.2m, as a major portion of the flyover was constructed last year. Administrative expenses remained aligned with inflation, with costs rising to Rs. 550.2m. Finance costs (net) decreased to Rs. 166.1m, due to reduced average borrowings. Profitability in FY24 was largely supported by remeasurement gains on investments of Rs. 805.7m. The Profit after Tax was recorded at Rs. 1.7b, with net margins stable at 40.4%.

**Investment portfolio**

As a part of its strategy, the Company has sold parcel of lands to REITs and retained part ownership in the same. Consequently, long term investment portfolio of the Company has increased to Rs. 6.5b (Jun'23: Rs. 2.4b, Jun'22: Rs. 1.5b) at the end of Jun'24, representing investments in Naya Nazimabad Apartment REIT, Signature Residency REIT, and Sapphire Bay Islamic Development REIT.

**Liquidity profile**

Trade debts decreased to Rs. 1.1b (Jun'23: Rs. 10.7b; Jun'22: Rs. 1.0b) as at Jun'24. The spike in trade debts as of Jun'23 was due to higher receivables from different related party REIT projects, totaling Rs. 9.8b. Following recoveries from these related parties, trade debts decreased, with Rs. 487.2m still outstanding from related parties at Jun'24. Aging profile remains adequate while recovery rates rangebound around 80%.

As a real estate development entity, traditional coverage indicators do not fully capture debt repayment capacity. Timely collection of receivables against planned expenditures remains imperative in real estate projects. Historically, the gap between inflows and outflows has been managed through borrowings, however in FY24 collections remained strong. Going forward, the cushion available between cash inflows and outflows for FY25 remains sensitive to timely sales and collection. Ratings remain underpinned on sponsor support for future debt servicing requirements. Additionally, achievement of projected plans as well as retention of profits will remain important for enhancing liquidity profile of the Company.

**Capitalization:**

JCL's Equity has demonstrated a 5-year CAGR of 8.0%, with its total equity clocking in at Rs. 25.3b (Jun'23: Rs. 25.9b; Jun'22: Rs. 19.4b) as of Jun'24. The notable increase in equity, as of Jun'23, was as a result of higher profitability in FY23. However, total equity was lower as of Jun'24, on account of dividend payouts in FY24.

The debt profile of the Company comprises of 78.9% long-term debt and 21.1% short-term debt. Long-term financing (inc. current maturity) stood at Rs.7.1b (Jun'23: Rs. 9.0b; Jun'22: Rs. 9.7b) at end-Jun'24. These facilities are majorly obtained for the completion of under construction projects. Short-term borrowings decreased to Rs. 1.9b (Jun'23: Rs. 4.1b; Jun'22: Rs. 1.8b). These borrowings include Rs. 380.5m obtained from related parties to finance working capital and project requirements.

Gearing and leverage indicators depict a declining trend on a timeline basis largely due to equity growth combined with reduction in debt levels. Gearing and debt leverage stood at 0.54x (FY23: 0.76x; FY22: 1.05x) and 0.90x (FY23: 0.99x; FY22: 1.27x), respectively, by end-FY24. Continued improvement in the same will remain important.

**Javedan Corporation Limited** **Appendix I**

| FINANCIAL SUMMARY | | | | (Amounts in PKR millions) |
|---|---|---|---|---|
| BALANCE SHEET | 30-Jun-21 | 30-Jun-22 | 30-Jun-23 | 30-Jun-24 |
| Property, Plant & Equipment | 6,225 | 6,925 | 8,755 | 9,784 |
| Investment Properties | 631 | 720 | 553 | 603 |
| Long Term Investment | 10 | 1,510 | 2,423 | 6,521 |
| Advance against issuance of Units | - | - | 2,136 | 974 |
| Trade Debts | 268 | 1,040 | 10,697 | 1,142 |
| Development Properties | 18,911 | 19,499 | 15,280 | 17,495 |
| Loans and advances | 293 | 1,554 | 832 | 1,058 |
| Deposits, prepayments and other receivables | 198 | 336 | 397 | 790 |
| Short Term Investment | 1,297 | 13 | 1,714 | 1,708 |
| Cash & Bank Balances | 153 | 1,646 | 82 | 228 |
| Other Assets | 14 | 17 | 15 | 11 |
| Total Assets | 27,999 | 33,261 | 42,883 | 40,314 |
| Deferred Liabilities | 51 | 100 | 119 | 439 |
| Trade and Other Payables | 962 | 707 | 2,523 | 4,243 |
| Long Term Debt | 5,897 | 9,654 | 8,974 | 7,092 |
| Short Term Debt | 905 | 1,833 | 4,081 | 1,893 |
| Total Debt | 6,802 | 11,487 | 13,055 | 8,985 |
| Accrued mark-up | 92 | 191 | 448 | 613 |
| Advance from customers/Contract Liabilities | 2,092 | 1,091 | 634 | 476 |
| Advance against sale of investment properties | 48 | 177 | - | - |
| Taxation - net | 94 | 148 | 175 | 208 |
| Other liabilities | 5 | 5 | 7 | 11 |
| Total Liabilities | 10,147 | 13,906 | 16,961 | 14,975 |
| Total Equity (Excluding revaluation surplus) | 9,390 | 10,961 | 17,104 | 16,589 |
| | | | | |
| INCOME STATEMENT | FY21 | FY22 | FY23 | FY24 |
| Net Sales | 1,047 | 5,010 | 16,827 | 4,215 |
| Gross Profit | 782 | 2,415 | 9,033 | 2,507 |
| Finance Cost (Net) | 107 | 68 | 337 | 166 |
| Other Income | 151 | 304 | 379 | 1,173 |
| Profit Before Tax | 370 | 1,756 | 6,967 | 2,148 |
| Profit After Tax | 331 | 1,505 | 6,742 | 1,704 |
| | | | | |
| RATIO ANALYSIS | FY21 | FY22 | FY23 | FY24 |
| Gross Margin (%) | 74.7% | 48.2% | 53.7% | 59.5% |
| Net Margin (%) | 31.6% | 30.1% | 40.1% | 40.4% |
| Current Ratio (x) | 4.07 | 3.84 | 2.84 | 2.11 |
| FFO | 217 | 184 | 7,195 | 999 |
| FFO to Total Debt (%) | 3.2% | 1.6% | 55.1% | 11.1% |
| FFO to Long Term Debt (%) | 3.7% | 1.9% | 80.2% | 14.1% |
| Debt Servicing Coverage Ratio (x) | 0.34 | 0.09 | 2.44 | 0.30 |
| Gearing (x) | 0.72 | 1.05 | 0.76 | 0.54 |
| Leverage (x) | 1.08 | 1.27 | 0.99 | 0.90 |
| ROAA (%) | 1.2% | 4.9% | 17.7% | 4.1% |
| ROAE (%) | 3.6% | 14.8% | 48.1% | 10.1% |

| **REGULATORY DISCLOSURES** | **Appendix II** |
|---|---|
| **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** | | | | |
| 09-October-24 | A+ | A-1 | Stable | Reaffirmed |
| 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** | | | |
| 09-October-24 | AA- | Stable | Reaffirmed |
| 27-July-23 | AA- | Stable | Reaffirmed |
| 28-March-22 | AA- | Stable | Reaffirmed |
| 21-December-20 | AA- | Stable | Reaffirmed |
| 27-August-19 | AA- | Stable | Final |
| 04-April-18 | AA- | Stable | 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.

**Disclaimer**

Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. 

**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Muneer Gader | CFO | 15th Aug 2024 |