

RATING REPORT

Vision Developers (Private) Limited

REPORT DATE:

December 18, 2019

RATING ANALYST:

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Rating Category	Latest Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	December 17, 2019	

COMPANY INFORMATION

Incorporated in July 2003	External auditors: Baker Tilly Mehmood Idrees Qamar, Chartered Accountants
Private Limited Company	CEO:
Key Shareholders (with stake 5% or more):	Chairman: Mr. Abdul Aleem Khan
<i>Mr. Abdul Aleem Khan- 95%</i> <i>Mrs. Kiran Aleem Khan- 5%</i>	

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/backupsqvis/docs/RealEstate%20Methodology%20201708.pdf>

Vision Developers (Private) Limited

**OVERVIEW
OF THE
INSTITUTION**

RATING RATIONALE

Vision Developers (Private) Limited (VDPL), incorporated in 2003 is a part of Vision Group of Companies that deals in major real estate projects in Pakistan owned largely by Mr. Aleem Khan and his family. The group possesses expertise of more than two decades in the real estate sector.

Group Structure

Vision Developers (Private) Limited (VDPL) was incorporated in 2003 and is a part of Vision Group of Companies that deals in real estate projects in Pakistan. The Company is owned by Mr. Aleem Khan and his family. The group possesses expertise of more than two decades in the real estate sector. Leading projects undertaken by the vision group are as follows:

- Park View Villas (Multan Road, Lahore)
- Park View City (Islamabad—Park View Enclave)
- Park View Corporate Sector (Mall Road Lahore)
- Park View Signature Apartments (Gulberg, Lahore)
- Park View Icon Karachi (II Chundrigar Road)
- The National School
- Abdul Aleem Khan Foundation

Companies in the Vision Group comprise the following:

- Vision Developers (Private) Limited (VDPL) — Development and sale of Park View Villas, Lahore.
- Park View Enclave (Private) Limited — Development and sale of Park View City project Islamabad.
- Classic Developers (Pvt.) Limited (CDPL) — Involved in real estate business
- Cinestar (SMC) Private Limited (CPL) — Operates a Cinema chain across Pakistan and is owned by a family member of Mr. Aleem Khan.
- Vision Builders (Private) Limited (VBPL) — Involved in real estate business.
- WE Farms (Private) Limited (WFPL) — Involved in real estate business.

Park View Villas Project, Lahore (VDPL)

VDPL is in the process of development of “Park View Villas” (PVV) which was launched in 2010. PVV is situated on main Multan Road Lahore 3 km from Thokar Niaz Baig Motorway Interchange, and 10km before Bahria Town Lahore. EME-DHA Society, Lahore is situated across the project while River Ravi is located on the other side. Core activities of VDPL include acquisition and development of land, and converting and selling the same as commercial and residential plots.

Total planned area for the project is estimated at 15,282 Kanal, out of which 4,500 Kanal has already been acquired, infrastructure development work on which is under progress. Total saleable area is expected to clock in around 52% of the available space which equals 7,932 Kanal. Till October end-2019, the company has sold residential and commercial plots covering an area of 3,241 Kanal. The society is partially habitated (1,200 houses constructed since inception) with construction of remaining houses underway. Acquisition of remaining land and development of the entire society is targeted to be completed over the next 4 years.

Description	Lahore project
	(Area in Kanal)
Total project land	15,282
Already acquired	4,500
To be acquired	10,782
Total saleable area	7,932
Already sold	3,241
To be sold	4,691
Already developed	3,275
To be developed	12,007

Business Risk

Location- Location of the project is considered essential when taking into account the saleability aspect of the project. PVV is situated on main Multan Road Lahore 3 km from Thokar Niaz Baig Motorway Interchange, and 10km before Bahria Town Lahore. EME-DHA Society, Lahore is situated across the project while River Ravi is located on the other side providing the project a location in proximity to the Lahore main city.

Amenities- The project provides a wide range of amenities to its residents. Amenities play a major role while choosing a property and enhance the desirability of real estate. Quality of amenities planned and in place is expected to bode well for future sales. Amenities on offer include:

1. Water Supply
2. Sewerage
3. Street Lights
4. Road
5. Electricity (underground)
6. Gas
7. Security
8. Hospital
9. Mosque
10. Club House
11. Cinema
12. School
13. Water Lake
14. Graveyard

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. Given track record of sales undertaken and infrastructure development completed on the acquired land, execution risk is considered manageable.

Target Market & affordability- As per management, the target market is the middle and lower middle class segment of the society. The project primarily comprises sales of small 5 Marla plots (around three fourth of total plots sold) which increases affordability of the target market customers.

Regulatory Approval- Delays in regulatory approvals for planned expansion may impact pace of work vis-à-vis projections and remains a risk to cash flows.

Financial RiskAssumptions for Financial Projections

Key assumptions for the projected financials include the following:

- Number of plots projected to be sold is assumed to be constant over the next three years. Achievement of projected plot sales remains important from a ratings perspective.
- Sales prices have been assumed to be increased by 25%
- The company has budgeted to receive 25% of the sales revenue upfront as down payment.
- The remaining 75% is expected to be received over a time period of 2 years.
- 60% of the monthly installment will be received immediately while the remaining 40% being credited after 1 year.
- The company plans to focus on sale of residential plots in the first three years of projections after which sale of commercial plots is planned to be undertaken given the value appreciation expected of commercial land once residential plots have been sold.

- Development and Land Costs have also been assumed to increase significantly.

Adequate liquidity profile with debt servicing cushion projected to increase over the rating horizon

Liquidity profile of the company is considered sufficient to service outstanding debt obligations. On a consolidated basis, total projected inflows from Lahore and Islamabad projects, PPTFC, and recoverable development charges in the next four years are expected to be 1.1(x), 1.6(x), 2.3(x) and 9.8(x), respectively of total projected outflows (including debt payments to be paid, development charges and administrative and marketing expenses) to be incurred.

Improving topline and healthy margins

Sales revenue of the company has been increasing at a CAGR of around 61% over the past two years on account of higher plots sold and increasing sales prices. The Company is in the process of further land acquisition. Post-acquisition, VDPL projects sales revenue to witness significant growth over the rating horizon. Consequently, in view of future projected revenue from sales of additional plots, profitability is expected to improve, going forward.

Leveraged Capital Structure

Given elevated debt levels, leverage and gearing indicators were reported on the higher side at end-June'19. However, the same is projected to decline going forward in view of debt repayments and growing equity base led by projected improvement in profitability profile.

Corporate Governance

VDPL has been making concerted efforts to improve the overall corporate governance framework. The external auditors, Baker Tilly Mehmood Idrees Qamar, Chartered Accountants, are in the SBP's A category panel of auditors while EY has been hired to conduct an overall assessment of internal controls at the organization and suggest areas to strengthen the same. Besides strengthening internal control environment, improvements in board composition and oversight are also planned.

Vision Developers (Private) Limited
Appendix I

Vision Developers (Pvt) Limited <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY17	FY18	FY19
Paid Up Capital	100	100	100
Total Equity (Including loan from directors)	1,497	1,897	2,651
<u>INCOME STATEMENT</u>			
Net Sales	1,871	2,470	4,854
Profit Before Tax	270	447	1,077
Profit After Tax	257	400	753
<u>RATIO ANALYSIS</u>			
FFO	211	380	1,293
Current Ratio (x)	1.9	2.0	2.3
Gearing (x)	0.57	0.95	1.83

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	Vision Developers (Private) Limited					
Sector	Construction					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	Dec-17-2019	A-	A-2	Stable	Initial	
Instrument Structure	NA					
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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