RATING REPORT

Elite Estates (Private) Limited

REPORT DATE:
June 25, 2018

RATING ANALYSTS:
Maimoon Rasheed
maimoon@jcrvis.com.pk

Maham Qasim
maham.qasim@jcrvis.com.pk

RATING DETAILS		
Rating Category	**Entity Ratings**	
	Long-term	**Short – term**
Entity	BBB- (blr)	-
Rating Outlook	-	
Rating Date	*June 12, 2018*	

COMPANY INFORMATION	
Incorporated in 2007	**External auditors:** KPMG Taseer Hadi & Co
Private Limited Company	**Chairman of the Board:** Mr. Naguib Onsi Naguib Sawiris
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Tarek Ahmed Nehad Hamdy
Global Real Estate Development Limited : 42.41%	
Gemimi Technologies Limited : 17.59%	
Saif Holdings Limited: 37.06%	

APPLICABLE METHODOLOGY

JCR-VIS Entity Rating Criteria: Applicable Rating Criterion: Bank Loan Ratings (December 2011)
http://jcrvis.com.pk/docs/BankLoanRatings.pdf

Real Estate Developers (August 2017)
http://jcrvis.com.pk/docs/RealEstate%20Methodology%20201708.pdf

Elite Estates (Private) Limited (EEPL)

OVERVIEW OF THE INSTITUTION

Elite Estates (Private) Limited (EEPL) was incorporated as a private limited company in February 2007 under Companies Ordinance 1984. The company is involved in developing residential and commercial projects in Islamabad and across the country.

Chairman: Mr. Sawiris is the Chairman of the Board of Weather Investments II and also serves as the Executive Chairman of Orascom Telecom Media and Technology Holding S.A.E. (OTMT). At international and regional levels, Mr. Sawiris serves on a number of Boards, Committees and Councils including the Advisory Committee to the NYSE Board of Directors, the Supreme Council for Sciences and Technology in Egypt and the Arab Thought Foundation.

CEO: Mr. Hamdy has held a number of executive positions such as General Manager of Schreder Lighting-Belgium, Managing Director of Technolite France and Managing Director for IMS, a subsidiary of the M.A.Kharafi Group.
For the past ten years, he has been working closely with various subsidiaries of the M.A. Kharafi Group, specialized in the development of infrastructure projects.

RATING RATIONALE

The rating assigned to Elite Estates (Pvt) Limited (EEPL) draw comfort from the sound sponsors' profile coupled with relevant expertise in the industry. The rating also derive strength from complete acquisition of development land for the entire project. However, the ratings remain constrained on account of relatively high business risk emanating from delay in project launch thereby leading to heightened risk of completion.

Rating Drivers:

Sponsor Profile: The sponsors have considerable experience in infrastructure projects and are considered to be financially sound.

Business Risk: While the management is forecasting consistently increasing revenue receipts from the sale of residential and commercial plots, actual demand realization along with relevant cash flows are yet to be seen. The company has achieved financial close; however the official launch of the project 'Eighteen' has experienced delay of around six months. Soft launch of the project took place in Dec'17 while the full-scale launch was completed by end-march'18. Currently, price risk is largely curtailed on account of fixed auction value decided for the residential segment. On the other hand, take off of the project is highly dependent on customer's market perception about the project which in turn is contingent upon the success of marketing campaigns and project completion according to the timeline. Therefore, failure to instill brand value can lead to shortfall in the projected revenues on account of decrease in projected volumetric sale. Moreover, decline in the sale of residential units can lead to dampened demand of the commercial segment hence; adversely impacting EEPL's debt repayment capacity.

Costs Overrun Risk: As per the indicative term-sheet, risk associated with changes in prices of raw materials shall be borne by the company. As per business model, changes in the prices of major components including steel, cement and labor can have major impact on the overall costs of the project. Presently, the management has incorporated a modest contingency buffer of around 1.5% in the financial model in order to mitigate cost overrun risk.

Project Cost and Capital Structure: Total Project cost (including impact of inflation and devaluation) is estimated at Rs. 48.7b. The project's land was acquired through sponsor's equity of Rs. 1.7b and advance received from Jazz amounting Rs. 1.1b. Meanwhile, the remaining cost is to be funded through debt and advance receipts from the sale of initially residential segment. EEPL has secured syndicated long-term financing amounting to Rs. 3.0b which is expected to be fully drawn by end-FY18. The facility carries a markup rate of 6M-KIBOR plus 2.2% and will be repaid semiannually over a period of 5 years including a grace period of 2 years with principal repayment beginning in FY20. The company is unlikely to experience pressure on liquidity and debt service coverage if the projected sale timelines materialize. Moreover, cushion in debt servicing is expected to remain sizeable even after sensitizing for lower revenues.

Financing Risk: As per the indicative term-sheet, risk associated with changes in prices of raw materials shall be borne by the company. As per business model, changes in the prices of major components including steel, cement and labor can have major impact on the overall costs of the project. Presently, the management has incorporated a modest contingency buffer of around 1.5% in the financial model in order to mitigate cost overrun risk. In addition, EEPL's funding arrangement entails that any subsequent changes in the financing costs would be incurred by the company.

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure I

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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					Annexure II
Name of Rated Entity	Elite Estate (Private) Limited				
Sector	Real Estate				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	12-06-2018	BBB- (blr)			Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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.				
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