RATING REPORT

Elite Estates (Private) Limited

REPORT DATE:
June 25, 2020

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Entity Ratings**	
	Long-term	**Short – term**
Entity	BBB+ (blr)	BBB- (blr)
Rating Outlook	-	-
Rating Date	*June 25, 2020*	*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
Elite Development Holding: 78.41%	
Saif Holdings Limited: 20.00%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Applicable Rating Criterion: Bank Loan Ratings (November 2018)
Real Estate Developers (August 2017)
https://www.vis.com.pk/kc-meth.aspx

Elite Estates (Private) Limited (EEPL)

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. Quality of amenities planned and in place is expected to bode well for future sales. Business risk profile draws support from the sizeable land bank available with the Company, which has significant value coupled with revenue collection started from the sale of both residential and commercial units. 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. The ratings will remain dependent on timely completion of the project without any significant cost and time overruns while maintaining healthy sales velocity and collection efficiency, as projected, will remain critical to avoid cash flow mismatches.

Rating Drivers:

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

Business Risk: Soft launch of the project took place in Dec'17 while the full-scale launch was completed by end-march'18, experiencing a delay of six months. Given the delay in the launch of the project coupled with deferred revenue recognition criterion applied on real estate projects, the revenue receipts received are projected to materialize in FY22. Partially, price risk was largely curtailed on account of fixed auction value decided for the residential segment. However, the business model of company has changed slightly from the proposed plan; initially the management planned to sell the residential units to build up a cemented demand for the commercial unit in order to reap better prices; however now the management has started sale of both simultaneously. During FY18, the company received an advance payment of Rs. 1.1b from Jazz in lieu of sale of a commercial property. Likewise during the period under review, EEPL sold two commercial properties to China Gezhouba Group Overseas Investment Co. Limited amounting to Rs. 1.2b. Moreover, the company also sold two other properties collectively amounting to Rs. 1.6b to commercial investors during FY19.

Owing to successful marketing campaigns and strategic positioning of the project in the capital city, the company was successful in establishing a footprint ensuring sound customer's market perception. Hence the takeoff of the company's sales was relatively in sync with the projected targets; however owing to delay in the construction of the residential complexes the cash flow realization of the company has witnessed delays. As per the business model, the company plans to sell constructed units, so according to the accounting standard the advances received from the customers as per the sale plan cannot be recognized as cash inflows until the asset is transferred to the end customers. If the accounting standard was to be negated the company has received Rs. 5.9b in cash from customers. The installment plan is in place whereby 15% advance is received once the sale deed is signed; meanwhile the remaining 85% is to be received in four years in equal quarterly installments. As per the management, given the corporate and high net worth individuals based clientele more than 90% of the customers are paying on time. Below is the snapshot of the update on the sale and collection of the project at end-Dec'19:

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.

Property Type	Inventory					Collections	
	Open for Sale Nos.	Sold Nos.	Remaining Nos.	Rem. %	Sales Value PKR (Million)	Amount PKR (Million)	% age
0.5 Kanal	180	179	1	1%	6,657	**5,199**	**23.24%**
1 Kanal	62	38	24	39%	2,833		
2 Kanal	44	22	22	50%	3,043		
4 Kanal	23	7	16	70%	1,551		
8 Kanal	10	7	3	30%	2,634		
Studio	47	47	0	0%	563		
1 Bed	53	53	0	0%	857		
2 Bed	21	21	0	0%	536		
3 Bed	36	15	21	58%	521		
5 Bed	4	1	3	75%	80		
Commercial	7	7	0	0%	3,095		
Total	**487**	**397**	**90**	**20.89%**	**22,371**		

The sale of three bed apartment was slightly delayed given the launch of the apartment project was first made Dubai in April'18, then in London, United Kingdom in June'18 and finally in Pakistan in Oct'18. Given the demand patterns of ex-pats, the sale of one and two bed apartments was profound as compared to three bed apartments. However, since the launch of the apartment unit in Pakistan, the sale of larger sized apartments has picked pace.

Costs Overrun Risk: As per the indicative term-sheet, risk associated with changes in prices of raw materials are borne by the company. As per business model, changes in the prices of major components including steel, cement and labor 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. As per the construction statistics, 400 villas have been contracted, out of which grey structure of 165 has been almost completed. Further, grey structure of two six-storey apartment buildings is also in the finishing stage. .

Project Cost: The total project cost has increased sizably since the initial projected figures of Rs. 48.7b to Rs. 141.0b owing to increase in direct construction cost, infrastructure development & project design and operating costs. The revised project cost estimate is based on a detailed construction plan and engineering design as compared to the preliminary basis for cost estimation. The increase in the direct construction cost from original estimate of Rs. 28b to Rs. 118b was a combination of increase in the project's sellable area from approximately 0.5 M sqm to 1.1 M sqm, introduction of new elements which have a higher construction cost per unit but also return higher sale margins such as high value residentials & serviced apartments and variation in project inventory mix to increase the proportion of commercial office blocks which have a higher construction cost per unit but also return higher sale margins. Further, an approximate 40% currency devaluation impacted the project cost estimate between the first half of FY17 and the end of FY18.

The increase in the infrastructure development and design cost to Rs. 30b from Rs. 15b was an outcome of doubled habitation scale of the project, represented by the increase in sellable area from 512,823 sq. m to 1,082,620 sq. m, the infrastructure costs have risen largely in line for enabling and maintaining high-quality sustainable living for all inhabitants. Expansion of the project masterplan and construction design in line with the strategic expansion of the project have also contributed materially to the development cost of the project.

In addition, the increase in operating costs to Rs. 42b from Rs. 5.0b was a result of change in the management style of the project by the sponsors. The sponsors originally envisaged the project to be operated and managed in a centralized manner; however in line with challenges presented by the evolving commercial landscape in the local real estate market and Pakistan's economic volatilities, the sponsors re-asserted their commitment to the project by deciding to invest in a full-scale dedicated management team in Pakistan having considerable experience of real estate developments in multiple highly dynamic international markets. Other major increases from the original estimate in project operating costs, are due to the following:

a) Change in sales and marketing strategy to expand Eighteen's appeal to customers all across Pakistan beyond Islamabad
b) An aggressive commission structure whereby the cost of penetrating overseas Pakistani markets is going to require higher incentivization for commercial partners
c) Consequent to all of the above, increases in borrowing costs of capital

Financing Risk & Capital Structure: As per the term-sheet of the existing syndicated loan of Rs. 3.0b, risk associated with changes in prices of raw materials are 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. 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 first installment is expected to be made by end-Mach'20.

During FY19, in line with exponential increase in project cost coupled with delay in recognition of revenues, EEPL's management has decided to issue syndicated Islamic finance facility/ privately placed sukuk amounting to Rs. 2.0b inclusive of a green shoe option of up to Rs. 500m. The tenor of the facility is four years with one year grace period from first drawdown. The availability period of the facility is up to twelve months from the date of signing of the transaction documents; any sum un-drawn under the facility on expiry of the availability period will stand cancelled. The sukuk will be redeemed six equal semi-annual installments with the profit locked at 6M-Kibor +220 bps per annum. The first instalment will fall due at the end of 18Th month from the first drawdown date. The security structure involves first charge over specific fixed assets (project land) coupled with Rs. 3.1b equitable mortgage with 35% margin. In addition, the charge includes first pari passu hypothecation charge on all present and future movable current and fixed assets of EEPL with 35% margin. The sponsors will be responsible to fund all expenses and capital costs necessary for achieving completion of the project over and above the agreed project development budget at financial close. In addition, a debt payment account (DPA) will be maintained throughout the tenor of the facility whereby one-sixth of the next installment due will be deposited on monthly basis by the company. Moreover, a debt service reserve account (DSRA) will also be maintained whereby the sponsors will find the required DSRA with an amount equivalent to first repayment, three months prior to the date of first repayment. The DSRA will be replenished with the amount so utilized in case of any shortfall under the DPA account.

As per the management, the sponsors plan to inject additional equity of Rs. 1.6b out of which Rs. 900m has already been ploughed in. The shareholding is largely expected to remain the same, with slight dilution of stake of the local sponsors. However, despite injection of equity the exiting syndicated loan facility's first installment is expected to be paid from advances received from customers. In line with lag in the timelines of receiving and recognition of revenues the company might face virtual liquidity stress and pressure on debt service coverage if the construction timeline is not adhered.

Elite Estates (Private) Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY18 (A)**	**FY19 (A)**	**FY20 (P)**	**FY21 (P)**	**FY22 (P)**
Non-Current Assets	464	485	199	265	342
Development Properties	4,521	8,726	22,445	41,030	35,964
Advance Tax	21	26	-	-	-
Advance and deposits	249	321	-	-	-
Cash & Bank Balance	144	293	1,924	2,411	5,519
Total Assets	5,717	9,921	24,568	43,706	41,825
Long Term Borrowings	2,970	3,129	5,000	4,250	3,500
Short Term Borrowings	-	397	-	-	
Advance against sales	3,005	9,603	30,315	53,862	60,900
Staff related benefits	75	81	-	-	-
Trade creditors	523	1,417	119	1,072	1,581
Markup on long term borrowing	94	147	153	148	143
Total Liabilities	6,666	14,749	35,585	59,331	66,124
Paid Up Capital	2,246	2,246	3,287	4,446	4,446
Total Equity	(949)	(4,828)	(11,017)	(15,625)	(24,999)
INCOME STATEMENT					
Revenue Receipts	-	-	-	-	24,686
Administrative Expenses	1,433	1,553	2,160	2,154	2,160
Marketing & Selling Expenses	950	297	2,154	2,263	4,888
Other Expenses	30	19	530	706	952
Other Income	8	11			
Profit/ (Loss) After Tax	(2,405)	(1,853)	(5,487)	(5,766)	(8,674)
Net cash flow	394	293	(1,892)	487	3,108
FFO	(2,331)	(1,693)	-	-	-
RATIO ANALYSIS					
FFO to Total Debt (x)	-	-	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-	-	-

Gearing (x)	-	-	-	-	-
Debt Leverage (x)	-	-	-	-	-

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	Elite Estate (Private) Limited
Sector	Real Estate
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Instrument Structure	N/A
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
25-06-2020	BBB+ (blr)			Upgrade
12-06-2018	BBB- (blr)			Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Zafar Sheikh	Deputy CFO	20th Feb'20
Sheikh Samad	Manager Finance	20th Feb'20
Imran Sheikh	Manager Finance	20th Feb'20