RATING REPORT

Park View Enclave (Private) Limited

REPORT DATE:
November 12, 2019

RATING ANALYST:

Talha Iqbal
talha.iqbal@vis.com.pk

Asfia Aziz
asfia.aziz@vis.com.pk

Rating Category	Latest Rating	
	Long-term	Short-term
Entity	A	A-2
Rating Outlook Entity	Stable	
Sukuk-1	AA-	
Rating Outlook TFC/Sukuk	Preliminary	
Rating Date	October 23, 2019	

COMPANY INFORMATION	
Incorporated in March 2012	**External auditors:** Baker Tilly Mehmood Idrees Qamar, Chartered Accountants
Private Limited Company	**CEO:** Omer Farooq Mannan
Key Shareholders (with stake 5% or more):	
Mr. Abdul Aleem Khan- 95% *Mrs. Kiran Aleem Khan- 5%*	

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/backupsqlvis/docs/RealEstate%20Methodology%20201708.pdf

Park View Enclave (Private) Limited

OVERVIEW OF THE INSTITUTION

Park View Enclave (Private) Limited (PVEPL), incorporated in 2012 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.

RATING RATIONALE

Group Structure

Park View Enclave (Private) Limited (PVEPL), incorporated in 2012 and is a part of Vision Group of Companies that deals in real estate projects in Pakistan and is owned largely by Mr. Aleem Khan and his family. The group possesses experience of more than two decades in the real estate sector. Leading projects undertaken by the vision group are as follows:

- Park View City (Islamabad—Park View Enclave)
- Park View Villas (Multan Road, Lahore)
- 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:

- Park View Enclave (Private) Limited — Development and sale of Park View City project Islamabad.
- Vision Developers (Private) Limited (VDPL) — Development and sale of Park View Villas, Lahore.
- 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.
- K&B Developers (KBD) — Involved in real estate business.
- Vision Builders (Private) Limited (VBPL) — Involved in real estate business.
- WE Farms (Private) Limited (WFPL) — Involved in real estate business.

Park View City Project, Islamabad (PVEPL)

PVEPL is in the process of development of "Park View City" (PVC) project at Mouza Malote Zone 4B, Islamabad. Shareholding of PVEPL is held by Mr. Aleem Khan and his family. PVC adjoins Botanical Gardens and CDA's agro-farming project with sales of residential plots launched in June 2018. Core activities of the company include acquisition and development of land, and converting and selling the same as commercial and residential plots in Islamabad.

Total planned area for the project is estimated at 9,487 Kanal, out of which 4,274 Kanal has already been acquired, infrastructure development work on which is under progress. Total saleable area is expected to clock in around 47.2% of the available space which equals 4,708 Kanal. Till August end-2019, the company has sold residential plots accumulating 1,086 Kanal. Consequently, the company still has a sizeable portion of acquired land that can be sold.

Description	Islamabad project (Area in Kanal)
Total project land	9,487
Already acquired	4,274
To be acquired	5,213
Total saleable area	4,708
Already sold	1,086
To be sold	3,622
Already developed	1,800
To be developed	7,687

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 the company 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 August end-2019, the company has sold residential and commercial plots covering an area of 3,090 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	3,090
To be sold	4,842
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. Geographically, PVEPL is located in Zone 4B of Islamabad which lies 44 minutes away from Islamabad airport. Connectivity roads to the main road have been constructed for improved access to the gated community which is expected to improve marketability of the project. Within the city location of PVV and connectivity to major interchanges and roads is a competitive advantage.

Amenities- Both 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

Land Bank- Assessment of business risk draws significant support from the sizeable land bank available with the Company and the sponsors. Incorporating residential prices, value of unsold land amounts to Rs. 13.8b. Commercial development is expected to further enhance the value of this land.

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. Both projects primarily comprise 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 Risk

Assumptions for Financial Projections

Key assumptions for the projected financials include the following:

- Number of plots sold under Islamabad project are:

FY19	Year 1	Year 2	Year 3
2,981	2,706	2,958	252

- Number of plots to be sold under Lahore project are:

Till FY19	Year 1	Year 2	Year 3
10,135	9,671	9,671	9,671

- Sales prices have been assumed to increase by 25%
- The company is liable 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 Cost assumptions for both projects are:

Islamabad Project		
	Current	**Projections**
Land purchased/to be purchased	4,273 Kanal	5,213 Kanal
Average land cost per Kanal	Rs. 2.1m	Rs. 2.9m (Increase of 37%)
Land developed/to be developed	1,800 Kanal	7,687 Kanal
Average development cost per Kanal	Rs. 1.6m	Rs. 1.25m (Decline of 20% as previous land was developed on hilly area which had a higher development cost.)
Lahore Project		
	Current	**Projections**
Land purchased/to be purchased	4,500 Kanal	10,782 Kanal
Average land cost per Kanal	Rs. 1.4m	Rs. 2.5m (Increase of 84%)
Land developed/to be developed	3,275 Kanal	12,007 Kanal
Average development cost per Kanal	Rs. 0.6m	Rs. 1m (Increase of 57%)

Strong liquidity and cash flows
At end-August'19, outstanding receivables from Lahore and Islamabad project stood at Rs. 5.2b and Rs. 10.5b, respectively which are expected to be collected over next 2 years. Historical track record of monthly collection over the last one year demonstrates adequacy of cash flows for meeting outflow requirements. Cushion in cash flows is projected to increase significantly over the rating horizon.

Total projected inflows from Lahore and Islamabad projects, PPTFC, and recoverable development charges are expected to clock in at Rs. 40.6b, Rs. 46.9b, Rs. 67.5b and Rs. 58.7b in the next four years respectively, which are 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. Meeting projected targets is considered essential from a ratings perspective.

Consolidated Projections- Total	Sep-Aug'20	Sep-Aug'21	Sep-Aug'22	Sep-Aug'22
Park View Villas – Lahore	16,122,141,023	21,520,475,508	34,449,561,808	34,120,520,116
Park View City – Islamabad	14,567,504,896	22,365,211,034	22,184,421,235	18,694,101,318
Development charges recoverable - Lahore	-	-	8,004,666,667	4,002,333,333
Development charges recoverable - Islamabad	3,000,000,000	3,202,916,667	3,202,916,667	3,202,916,667
PPTFC	7,000,000,000	-	-	-
Total inflow	**40,689,645,919**	**47,088,603,209**	**67,841,566,377**	**58,976,368,954**
Principal and markup of all debt	8,747,971,310	6,131,524,818	8,998,125,751	4,875,286,391
Development expenses	7,205,250,000	7,205,250,000	7,205,250,000	-
Land Buying	19,255,062,500	14,352,000,000	11,676,925,000	-
Operating expenses	1,488,889,167	1,762,111,458	1,568,658,854	1,144,744,280
Total outflow	**36,697,172,977**	**29,450,886,276**	**29,448,959,605**	**6,020,030,671**
Opening cash	-	3,992,472,942	21,630,189,884	59,433,745,143
Net Cash Flow	**3,992,472,942**	**21,630,189,875**	**60,022,796,656**	**112,390,083,426**

Healthy margins and cash flows. Debt servicing cushion projected to increase over the rating horizon

PVEPL reported sales revenue of Rs. 17.1b during FY19. Gross margins were recorded at 58.1% during the outgoing year. The company reported a net profit after tax of Rs. 9.5b during FY19. In view of future projected revenue from sales of additional acquired land, profitability is expected to improve, going forward.

Low leveraged capital structure

Financial risk profile of the project draws support from low leveraged capital structure with no debt on the books at end-June 2019. Leverage (total liabilities to equity) was reported at 0.52 (x) at end-FY19. While remaining within manageable levels, gearing and leverage indicators are expected to witness an increase given planned debt issuance for acquisition of additional land.

Sukuk Structure

PVEPL is in the process of acquisition of land for further residential and commercial development. Principal amount of the Sukuk is **Rs. 7 billion** (inclusive of green shoe option of **Rs. 4 billion**) and will have a tenor of 4 years inclusive of a grace period of 1.5 years. The debt shall be exclusively utilized for development and expansion of Park View's real estate projects. The assigned ratings to the Sukuk incorporate structural features of the Sukuk. The instrument will be secured and serviced through the following mechanism:

- Receivables from existing (aggregating to Rs. 15.7 billion) and future sales from PVEPL and PVV to be deposited in a specified Project Monitoring Account (PMA). Financing Service Reserve Account 'FSRA' will be funded on a monthly basis in equal proportion equivalent to the next payment obligation (Principal and Profit payment).
- Mortgage on Prime Properties (outside the project having approximate market valuation of Rs. 3.7 billion) and land owned by the issuer and other companies of the sponsor aggregating to Rs. 43.1 billion
- Pledge of shares of the following 4 companies - a) Park View Enclave (Pvt.) Limited, b) Union Green (Pvt.) Limited, c) Raja Green (Pvt.) Limited; and d) Luxury Green (Pvt.) Limited
- Personal Guarantees of sponsors.

Information Technology at PVEPL

The company's IT infrastructure comprises an in-house ERP system based on two modules i.e. sales and financials. Both modules are integrated with each other. Sales module provides full information on all aspects of sales ranging from registration number, plot number, down payment, installment received and installments due. The system is also employed with a Customer Relationship Management (CRM) tool that provides complete information regarding every customer. The financial module helps in tracking expenses, revenue streams, cash flows, taxes and receipts.

Hardware installed include the following:

1- Dell Servers with redundant backup
2- Router
3- Network switches
4- NVR (Network Video Recorders) for CCTV
5- UPS for un intercepted power supply
6- In-house Hardware repairing / maintenance

Network infrastructure entails the following:

1- All offices are connected via fiber or dedicated internet / data connectivity
2- VPN is developed to secure network in all cities and offices in the city
3- Separate WiFi network isolated from main network for mobile users with bandwidth limited.
4- Redundant internet connectivity via Fiber / Wireless (Fail Safe)
5- CCTV Cameras network for Monitoring / security of the society at Lahore and Islamabad

A weak political and regulatory structure in the country may have implications with regards to approvals and resultantly projected sales. The industry has been faced with significant interruptions in the past, threat of which remains. Similar disruptions, if they occur, may bear adversely on PVEPL's earnings.

Corporate Governance

PVEPL has been making concerted efforts to improve the overall corporate governance framework at the organization. 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. Planned improvements on corporate governance framework that will be undertaken include:

- Conversion of the Company from a Private limited Company to a Public Unlisted Company
- Improve board composition through increasing board size and inclusion of independent directors
- Constitute of board committees (Board Audit headed by independent and a HR & Strategy Committee)
- Outsourcing the company's internal audit function

Ratings remain dependent on undertaking planned improvements in corporate governance framework.

Park View Enclave (Private) Limited Appendix I

Park View Enclave *(amounts in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20P**	**FY21P**
Fixed Assets	211	285	257	231
Development Properties	4,588	2,375	3,139	637
Trade Debts	-	9,917	20,627	41,819
Cash & Bank Balances	25	231	772	12,103
Total Assets	5,757	14,430	25,798	55,737
Trade and Other Payables	5,900	4,944	853	4,448
Long Term Debt	-	-	7,000	7,000
Short Term Debt	-	-	-	-
Total Debt	-	-	7,000	7,000
Paid Up Capital	5	5	5	5
Total Equity	(143)	9,486	14,609	35,609
INCOME STATEMENT				
Net Sales	-	17,118	21,812	42,128
Gross Profit	-	9,947	9,710	28,351
Profit Before Tax	(88)	9,544	11,148	29,577
Profit After Tax	(88)	9,544	7,915	21,000
RATIO ANALYSIS				
Gross Margin (%)	NA	58.1%	44.5%	67.3%
Trade debts/Sales	NA	58%	94.6%	99%
FFO	(75)	9,686	4,841	21,935
CFO	323	350	(6,459)	11,330
FFO to Total Debt (%)	NA	NA	69%	313%
FFO to Long Term Debt (%)	NA	NA	69%	313%
Current Ratio (x)	0.9	2.8	6.1	3.5
Debt Servicing Coverage Ratio (x)	NA	NA	6.1	18.4
Gearing (x)	-	-	0.48	0.20
Leverage (x)	(41.16)	0.52	0.29	0.45
ROAA (%)	-2%	95%	39%	52%
ROAE (%)	89%	204%	66%	84%

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	Park View Enclave (Private) Limited
Sector	Construction
Type of Relationship	Solicited
Purpose of Rating	Entity & PPTFC Rating
Rating History	see tables below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Oct-23-2019	A	A-2	Stable	Initial

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: Sukuk-1			
Oct-23-2019	AA-	Stable	Preliminary

Instrument Structure	Principal amount of the Sukuk is Rs. 7 billion (inclusive of green shoe option of Rs. 4 billion) and will have a tenor of 4 years inclusive of a grace period of 1.5 years.
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.