RATING REPORT

Yaqeen Developers Limited

REPORT DATE:
June 03, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Ratings**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*June 03, 2021*	

COMPANY INFORMATION	
Incorporated in 2016	External auditors: Aslam Malik & Co. Chartered Accountants.
Public (Unquoted) Limited Company	CEO: Mr. Nadeem Amjad Chairman: Mr. Rizwan Ahmed
Key Shareholders (with stake 5% or more):	
Mr. Rizwan Ahmed – 32% Mr. Nadeem Amjad – 32% Mr. Muhammad Naeem – 12% Mr. Naveed Amjad – 12% Mr. Ateeq-ur-Rehman – 12%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) ***https://www.vis.com.pk/kc-meth.aspx***

Yaqeen Developers Limited

OVERVIEW OF THE INSTITUTION

Yaqeen Developers Limited (YDL) was incorporated in 2016 as a private limited company under the repealed Companies Ordinance 1984 (now the Companies Act, 2017). Subsequently, YDL was converted into public unlisted company in December 2020. The principal objective of the company is to carryout real estate development projects. The registered head office of YDL is 588, Q Block Johar Town, Lahore.

Profile of CEO
Mr. Nadeem Amjad is founder and president of Citi Group. He also serves as the Board Chairman at Citi Pharma Limited. Mr. Nadeem holds an MBA degree.

Profile of Chairman
Mr. Rizwan Ahmed is CEO of Citi Pharma Limited. Previously, he had served as member of the board of management at Pakistan Drugs Testing and Research Center and member of the expert panel at Ministry of Health for inspection of bioequivalence center. Mr. Rizwan holds LLB and LLM degrees.

RATING RATIONALE

Yaqeen Developers Limited (YDL) is a part of Citi Group of Companies which owns business interests in pharmaceutical, real estate, consumer products, consumer electronics, and information technology services sectors. YDL was incorporated in December 2016 with the aim to carryout real estate development projects. Currently, entire shareholding of YDL is vested with five brothers of the sponsoring family namely Mr. Rizwan Ahmed, Mr. Nadeem Amjad, Mr. Muhammad Naeem, Mr. Naveed Amjad, and Mr. Ateeq-ur-Rehman. The process of converting directors and associated companies' loan into equity has also been initiated. YDL has seven board members including four members of the sponsoring family. Profile of the board is attached as annexure II to the report.

Group Profile
Foundation of Citi Group was laid with the establishment of Citi Group Investment Holdings Limited (CGI) in Hong Kong in August 2020 when the sponsoring family started cell phones trading business in China, Middle East, and Africa. In 2006, the company setup its own cellphone manufacturing facility in Shenzhen and developed its brand Citifone with Asia and Middle East being the primary markets. However, with investments properties in Hong Kong, Dubai and Pakistan, real estate is major business segment of CGI since 2007. Shareholding of CGI is equally vested with Mr. Nadeem Amjad, Mr. Rizwan Ahmed, and Mr. Attique-ur-Rehman. Head office of CGI is located at Flat LA, 15/F, Tower 1, L Wing (Banff), The Capitol Lohas Park, Tseung Kwan O, N.T. Hong Kong.

Citi Group entered the pharmaceutical business by acquiring defunct Askari Pharma which was renamed as Citi Pharma Limited (CPL) and resumed its operations in 2013. CPL is an Active Pharmaceutical Ingredients (API) manufacturing company, with Paracetamol, Asprin, and Ibuprofen, being its major products. During FY20, CPL recorded net revenue of Rs. 3.5b (FY19: Rs. 2.6b), profit after tax of Rs. 146m (FY19: Rs. 28m), and equity base of Rs. 983m (FY19: Rs. 838m). Shareholding of CPL is currently vested with the sponsoring family; however, Initial Public Offering of CPL is under process. Other group companies include Citi Innovations (Pvt.) Limited (consumer electronics), Wisdom Works (Pvt.) Limited (IT services), Citi International Mining 8 (Pvt.) Limited (mining & extraction), G7 Connect (Pvt.) Limited (IT services), and Citi Essentials (Pvt.) Limited (FMCG – bottled water).

Business Risk
Project Location
YDL is currently working on two real estate development projects namely Mayfare Mangial in Fateh Jang, near Islamabad, and Lahore Tower. Location of both projects is considered crucial when considering the demand and marketability aspects. Mayfare Mangial project is located at Fateh Jang (NH-80), near Islamabad International Airport, and connects to other areas through well-developed road network. Land for Lahore Tower project is being acquired adjacent to Bahria Town, Lahore. While both projects face considerable risk of competition from existing and new affordable housing/residential apartment projects, comprehensive development plans, including hospitals, educational institutions, recreational spots, and commercial areas, are in place to attract customers. As per the management, the company is targeting progressive middle-class society which is expected to derive growth in housing demand from 11.4m units in 2020 to 17.2m units in 2025.

Execution Risk
VIS assesses execution risk associated with each project based on present stage of competition, level of bookings, pace of sales over the project tenure, and advances collected from customers. Since both projects are still in the initial stages of development, project execution risk is considered on the higher side. Mayfare Mangial project map has been approved by Tehsil Municipal Administration (TMA) and the company is in process of getting approval for utility services such as electricity, water, gas, and telephone from relevant authorities. Meanwhile, land acquisition for Lahore tower project is underway. The ratings draw comfort from the fact that the proceeds from collection of advances, subsequent

installments, and sukuk issuance will be parked in an escrow account and will only be utilized for the development and construction of Mayfare Mangial and Lahore Tower.

Demand Risk

A significant demand risk is also present in both projects, though the company intends to mitigate it through advance customer bookings. However, the realization of advance bookings is highly dependent on customers' market perception that is contingent upon the effectiveness of marketing campaigns and project completion as per the stipulated timelines. To mitigate the risk of shortfall in projected cash inflows, the company has allocated marketing budget for both projects till FY26. The projects will be marketed on digital media and social media platforms in collaboration with Zameen.pk and Star Marketing (Pvt.) Limited.

Project Cost

The company has already acquired 1,700 kanal land in Fateh Jang for Mayfare Mangial project from sponsors' equity. Out of that, 424 kanal is planned to be utilized in the first phase of development whereby YDL will construct 500 affordable villas of 5-marla with a constructed area of 1,700sqft and 300 villas of 10-marla (constructed area: 3,000sqft) along with some commercial area. Project cost is estimated at Rs. 6.2b, including land acquisition cost, admin/marketing, and construction cost. Remaining land of 1,276 kanal will remain on YDL's balance sheet as an investment property and will be utilized for future projects.

YDL is also in process of acquiring 25 kanal land near Bahria Town, Lahore. The land will be utilized for the construction of 9-floor tower having 461 residential apartments ranging from 900sqft to 1,500sqft. Project cost is estimated at Rs. 2.9b, including land acquisition cost, admin/marketing cost, and construction cost.

Increase in the prices of major raw materials including cement, steel, bitumen, and fuel for construction and machinery is an inherent risk associated with the real estate development projects. Project cost estimates already incorporate a contingency buffer of around 10% for input cost escalation; however, any increase in major raw materials beyond that buffer level would have major impact on costs of both projects.

Capital structure and project financing

Project financing comprises a mix of equity, debt, and proceeds from advance bookings. At end-FY20, YDL had paid-up capital of Rs. 5m, share deposit money of Rs. 254.5m pertaining to CPL, long-term loan of Rs. 710.8m from Citi Investment Group, and short-term loan of Rs. 162.3m from the directors. The management plans to complete the stock split of existing 500,000 shares into 5m shares of Rs. 10 each and convert loan from directors and group companies into equity.

The management also plans to raise Rs. 300m from initial public offering (IPO) during FY22. Cash flows position is projected to be supported by the issuance of a hybrid Sukuk of Rs. 1,500m, out of which Rs. 750m will be repaid in 3 years with a grace period of 1 year (repayments will start in 2023 and end in 2025) and 75m shares will be issued against the remaining convertible portion of Rs. 750m during 2024. Sukuk proceeds will be allocated in a proportion of 70% to Mayfare project for construction work and 30% to Tower project.

Yaqeen Developers Limited Annexure I

Financial Summary (*Amount in Million)*		
BALANCE SHEET	**FY19**	**FY20**
Capital Work in Progress (Inc. Land)	789	870
Advances, deposits, prepayments	367	387
Cash and Bank Balance	4	15
Total Assets	1,160	1,271
Trade and Other Payables	272	303
Accrued Markup	26	52
Long-term Loan	**685**	**711**
Total Liabilities	**983**	**962**
Total Equity (Inc. Director Loan and Share Deposit Money)	178	205
Paid-Up Capital	5	5
INCOME STATEMENT	**FY19**	**FY20**
Net Sales	-	-
Gross Profit	**-**	-
Finance Cost	27	27
(Loss)/Profit Before Tax	(161)	(56)
(Loss)/Profit After Tax	(161)	(56)
FFO	(139)	(4)
RATIO ANALYSIS	**FY19**	**FY20**
Gross Margin (%)	-	-
Net Margin (%)	-	-
FFO to Total Debt	-	-
Debt Servicing Coverage Ratio (x)	-	-
Gearing (x)	3.85	3.47
Debt Leverage (x)	5.52	4.69

Yaqeen Developers Limited Annexure II

1- Mr. Nadeem Amjad (CEO)

Mr. Nadeem Amjad is the founder and president of Citi Group of Companies. He also serves as the Board Chairman at Citi Pharma Limited. Mr. Nadeem holds an MBA degree.

2- Mr. Rizwan Ahmad (Chairman)

Mr. Rizwan Ahmed is a seasoned professional with diversified work experience. He is also currently the CEO of Citi Pharma Limited. Previously, he had served as member of the board of management at Pakistan Drugs Testing and Research Center and member of the expert panel at Ministry of Health for inspection of bioequivalence center. Mr. Rizwan holds LLB and LLM degrees.

3- Mr. Amir Zia (Director Finance)

Mr. Amir Zia serves as the Finance Director at YDL. He is CIMA qualified and is an experienced finance professional having exposure in strategic planning, industry analysis, financial/economic analysis and project evaluation and management, treasury management and international trade and finance. His work experience also includes financial and non-financial reporting, tax management, stock/fixed income security analysis & trading, financial restructuring, financial engineering and corporate affairs. Over the span of his career, Mr. Amir has worked on financial management of various projects across paper & board, lead acid battery, alloy wheels, pharmaceuticals, chemical & trading, poultry, and power sectors.

4- Mrs. Ayesha Nadeem (Director)

Mrs. Ayesha Nadeem is an MBBS by profession and has been associated with CPL since 2013. She is currently a member of Board of Directors at CPL.

5- Mrs. Saira Aslam (Director)

Mrs. Saira Aslam is an MBA and is working as a Director at CPL. Previously, she served as Financial Consultant to CPL.

6- Dr. Zameer Ul Hassan Shah (Director)

Dr. Zameer ul Hassan shah holds PhD and is involved in pharmaceutical industry for more than a decade. He is currently working as a Director of Operations at CPL, overseeing the smooth operations of the company. Previously, he was associated with Global Pharmaceutical as General Manager Productions for more than 7 years.

7- Muhammad Naeem (Director)

Mr. Muhammad Naeem is the Director at CPL. He has more than 25 years of experience in retail sector, covering mostly electronic items and mobile phones. He is currently heading Citi Trading Corporation, a sister concern of CPL.

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure III

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 IV
Name of Rated Entity	Yaqeen Developers Limited
Sector	Construction and Real Estate
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see below
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				
03-06-2021	BBB	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Amir Zia	Director Finance	March 08, 2021