RATING REFLECTIONS
JCR-VIS Credit Rating Company Limited
NATIONAL EXCELLENCE, INTERNATIONAL REACH
April, 2010

Eden Housing Limited (TFCs 1 & 2)

In December 2007, JCR-VIS issued an 'A' rating (Single A) with 'Stable' outlook to the TFCs of Eden Housing Limited (EHL) which were to be issued in three tranches of Rs. 1.5 billion, Rs. 0.75 billion and Rs. 0.75 billion, respectively. Finally these TFCs were issued as two instruments of Rs. 1.63b (TFC-1) and Rs. 730m (TFC-II). The assigned ratings had taken into account the group's history of successful projects with an established uptake in the Punjab market.

These TFCs had been issued to raise funds for launch of new projects. Associated cash flows from new projects, in addition to existing ones, were critical to JCR-VIS' analysis. Despite significant sensitization of projections, and using conservative estimates, EHL was in a comfortable position to pay redemptions as they became due. While some delay was built into JCR-VIS' projections, actual delay in projects was considerably larger than could have been reasonably expected. The disruption in cash flows was caused by the following factors, which were extraordinarily severe during 2008 and 2009:

TABLE - I	Rating History	
Rating Actions	TFC 1 Rs. 1.63b	TFC 2 Rs. 730m
Dec. 12, 2007	A (Preliminary)	A (Preliminary)
May 29, 2008	A (Final)	A (Final)
Oct. 22, 2009	A/Rating Watch - Negative	A/Rating Watch - Negative
Nov. 6, 2009	BBB+/Negative	BBB+/Negative
Jan. 27, 2010	D	CC/Negative
Apr. 21, 2010	-	D

- A liquidity crisis in the financial sector, depressed the availability of credit for buyers and a general recession following steep inflation also affected consumer buying power. Further, given the value erosion in other markets like stock markets and real estate and with severely shaken confidence in markets, investors' ability to take on new investments was compromised. Projects were therefore delayed beyond ordinary expectations.
- For the same reasons, EHL extended payment terms of the persons who had done the bookings from 3-5 yrs to 5-10 yrs, which as is quite obvious translates into reducing expected cash flows by a minimum of 50%. To JCR-VIS' knowledge, this was done without intimation to trustee, investors or the rating agency.
- Interest rates increased from 10% in December 2007 to 15.7% in December 2008. While any rating agency incorporates the potential of interest rate increases in its futuristic analysis, a 57% increase in a single year, is beyond any sensitization.

As a result EHL's cash flows in 2009, which should have increased on account of new projects, were actually lower than actual figures in prior periods.

Furthermore, the rating announcement clearly stipulates that ratings incorporate benefit of a security structure that in case of EHL also included cash routing mechanisms. These were not monitored by the trustee, nor any action stipulated by investors, all of whom are in possession of trust deeds and can exercise their right to monitor the financial structures backing instruments that they have invested in.

While rating agencies do incorporate the effect of unforeseen circumstances up to a reasonable extent, however, severe crisis, particularly immediately following the launch of these projects proved even conservative estimates, incorrect.

All said, EHL had launched projects subsequently and continued to pay its dues, albeit in a delayed manner.

JCR-VIS Credit Rating Company Limited
www.jcrvis.com.pk
KARACHI: VIS House - 128/C, 25th Lane Off Khayaban-e-Ittehad, Phase VII, D. H. A. | Tel: (+92-21) 35311861-70, Fax: (+92-21) 35311872-73
LAHORE: VIS House - 61-A/1, Street # 17, Cavalry Ground | Tel: (+92-42) 36610681-83, Fax: (+92-42) 36610684