



RATING (MARCH 2011)

EDEN BUILDERS LIMITED (EBL)

	NEW	PREVIOUS
<i>SUKUK</i>	A	A*
	PKR465mln	PKR2,000mln

*The rating has been placed on Rating Watch.

FINANCIAL DATA

PKR (mln)

	FY10	FY09	FY08
Total Assets	4,469	3,744	2,738
Equity	1,847	1,392	1,089
Total Loans	1,241	1,519	1,080
Net Interest Cover	1.4	2.3	2.0
Current Ratio	1.9	2.3	2.7
Debt/ Equity (%)	67.2	109.1	99.1

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects EBL's sound business strategy and effective project management systems and controls. Meanwhile, the ratings also incorporate the stringent covenants linked with the disbursement of the *Sukuk* proceeds and the strong underlying security structure of the *Sukuk*.
- The rating has been placed on 'Rating Watch' due to the delay in Eden Value Homes Extension (EVH-Ext) project launch and the ensuing cash flows, narrowing the time for reserve build-up. The timely launch of the project and its ability to generate adequate sales, while remaining within predefined cost and time parameters, would remain critical for the rating. Moreover, the rating would be under pressure if the remaining amount of the *Sukuk* is drawn down without launching the project or change in *Sukuk* terms, leaving inadequate room for the build-up of the repayment ability.

SUKUK STRUCTURE

- In order to provide financing for its upcoming project, EVH-Ext, EBL issued a rated, privately placed *Sukuk* in September 2008. The project, located close to Thokar Niaz Baig in Lahore and adjacent to Eden Value Homes, an ongoing project of EBL, was to be launched in October 2009, but has been delayed for a few months. The targeted land area of the project is 1,500 *Kanals*, around 55% of which would be utilized for housing units, while the rest would be for roads, parks, and other amenities. The total number of housing units would be above 4,800, with each covering an area of 2.5 *Marlas* to 10 *Marlas*.
- The *Sukuk* is for a tenor of five and a half years (with one and a half year grace period) and carries profit at the rate of KIBOR plus 230bps. The proceeds of the proposed *Sukuk* issue would be received in multiple installments by EBL within one year from the first disbursement (made in September 2008) and would be primarily utilized for acquiring land, developing it and constructing Eden Value Homes Extension (EVH- Ext) units. Currently, PKR 480mln have been drawn down. Negotiations are underway to extend the drawdown period till end-'09, while the drawdown period has lapsed on 8th September, 2009. The principal would be repaid in 16 equal quarterly installments, beginning April-2010.
- Originally, it was proposed that the structure of the said arrangement should be based upon the Diminishing *Musharakah*, an Islamic mode of financing. Each *Sukuk* disbursement was intended to be released after the establishment of specific and exclusive charge on the land for the proposed project and other specific land (300 *Kanals*) in favor of the *Sukuk* trustee with a 25% reserve fund may be applied for the payment of the last installment. However, due to non-fulfillment of this clause, the facility has been capped at PKR 465mln, and, has been subsequently used to purchase 400 canals near Ferozepur Road, Lahore. Moreover, the revised repayment schedule involves composite quarterly payments of PKR 32mln. Due to insufficient cash flows, the revised debt obligations will now be met through a non-interest bearing loan extended by the directors to the company.
- The directors of EBL have provided personal guarantees for redemption of the *Sukuk*.
- During the tenor of the *Sukuk*, the debt equity ratio of the company is not allowed to exceed 75:25. In case this condition is breached, the sponsors undertake to inject additional equity in the company to maintain the debt level within the agreed parameter. Additionally, till the launch of EVH-Ext, EBL has provided specific and exclusive charge in favor of the *Sukuk* on approximately 300 *Kanals* of land (with a forced sale value of PKR 182mln) procured for the already launched Eden Value Homes.
- The repayment of the *Sukuk* remains contingent upon the timely and successful launch and sale of the project. Considering the economic downturn in the country and the pressure on the real estate industry, it remains a challenging proposition. Any impediment in sale of properties due to developmental delays or unsuitable market conditions would impact the repayment pattern. In this regard, the initial launch and sales are even more critical because of the upcoming principal payment in April 2010. However, comfort can be drawn from the success of the company's two ongoing projects (Eden Lifestyle Homes at Lake City and Eden Value Homes) and strong installment payment pattern.

1. PROFILE

- Eden – established franchise in real estate

1.1 Eden Builders Limited (EBL), though a newly established company, is part of the Eden Group and carries the heritage of the brand “Eden”, a well-known name in Lahore’s real estate development business for more than two decades. The group has rich experience in the construction of housing units, mainly targeted to meet the residential demand of the middle income segment, and is a renowned name in Lahore’s real estate sector. This scenario offered Eden an opportunity to increase the outreach and productivity of the group by setting up new companies in addition to its flagship company, Eden Developers (Pvt.) Limited (EDPL). In this regard, the two sponsors have set up completely independent entities: Eden Builders and Eden Housing. These companies are working on different projects that can be of analogous nature, but at different locations to achieve higher productivity and benefit from growing demand. These three different users of the “Eden” brand have different capacities to deliver, which enhances the risk of brand dilution and market disenchantment. The brand equity has also suffered because of the announcement and subsequent cancellation of housing schemes by group companies.

1.2 EBL, through its wholly owned subsidiaries and other group companies, carries out various project activities, including land acquisition, development, construction and sale of real estate projects. The role of EBL mainly encompasses the designing, management and supervision of different real estate projects, along with their financing arrangements.

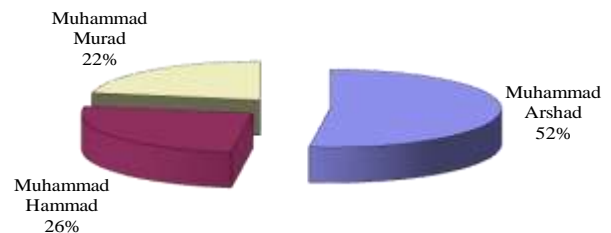
1.3 EBL, a family owned business, is sponsored by its Chief Executive Officer, Mr. Muhammad Arshad, and his sons, Mr. Muhammad Hammad Arshad and Mr. Muhammad Murad Arshad. The combined wealth of the sponsors exceeds PKR 3,700mln (inclusive of their stake in EBL and EDPL), which lends financial strength to the company.

1.4 Mr. Muhammad Arshad, the Chief Executive of EBL, is an architect by profession and highly qualified in the fields of construction, engineering, and architecture. He is an associate member of the Institute of Architects, Pakistan (IAP) and a registered life member of the Pakistan Council of Architects & Town Planners (PCATP) and has enjoyed top positions in the said associations. He is also the CEO of EDPL.

1.5 The overall control of EBL vests in the Board of Directors, which is solely composed of the shareholders – Mr. Muhammad Arshad, Mr. Muhammad Hammad Arshad, and Mr. Murad Arshad. Mr. Hammad Arshad, a foreign qualified IT professional, worked in the main group company, EDPL, at a managerial position for about two years before he joined EBL. Currently, he is working as the Planning and Development Director at EBL. Due to the current composition of the BoD, the key shareholders can exert influence over the company’s affairs, which could potentially compromise independence and transparency. Going forward, strengthening the governance framework and upholding high governance standards would remain critical.

1.6 The organizational structure of the company is divided into two main functional areas: i) Planning and Development; and ii) Project Management. These two areas are then sub-divided into various departments and supported by the Internal Audit, Quality Assurance and Architectural Workshop functions. The main sub-divisions of the Planning and Development department, which is headed by a Director, are Finance, Human Resoure, Land and Legal, Management Information

Shareholding Pattern - as at end FY09



Systems, Purchases and Customer Service. The Planning and Development and Project Management heads, along with those of the support functions, report directly to the CEO. Going forward, the management’s ability to successfully manage planned growth and accordingly strengthen the organizational structure and human resource base remains critical.

2. PROJECTS

- Two residential projects underway

2.1 EBL, is currently working on two projects in Lahore, Eden Value Homes and Eden Lifestyle Homes, which is a joint venture with Lake City Holdings (Pvt.) Limited. It also has one completed project to its credit, namely, Eden Point.

2.2 Eden Point, located at Bedian Road, Lahore, aimed to sell small plots of 5, 7 and 10 marlas only. Around 370 out of 450 plots have been sold and the remaining will be treated as development surcharge. The payments for this project will be fully realized by 2014.

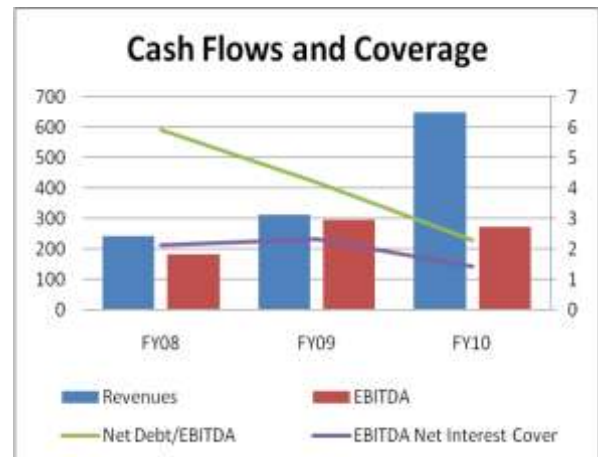
2.3 Eden Value Homes, located at Thokar Niaz Baig, Multan Road, Lahore, was launched in September 2007. The project covers an area of more than 750 *Kanals* and offers more than 2,100 housing units. More than 50% of the land is to be allocated to residential units, while the rest is to be utilized for infrastructure and related amenities. Currently, the development and construction works are in progress. The majority of the project (94%) has been sold and the company is targeting delivery in June 2010.

2.4 Lake City Holdings (Pvt.) Limited (LCH), a private limited company incorporated in 2004, is principally engaged in the acquisition, development and sale of real estate. The company launched its first mega residential project – Lake City – spanning over 12,500 *Kanals* on the outskirts of Lahore in 2005. The project is planned around an eighteen-hole golf course, which is the first of its kind in the country. LCH’s focus is to develop an upscale residential scheme with modern facilities. The Lake City project is mainly divided into two Phases – Bella Vista and Bella Verde. Bella Vista is spread over 7,000 *Kanals*, around 50% of which is saleable property. With its rich experience of constructing townhouses and villas, Eden Builders has formed a joint venture with LCH for the development of villas and townhouses covering an area of around 1,500 *Kanals* in Bella Vista. To date, EBL has launched around 500 units, whereas around 470 units have been sold. The first batch of these is planned to be delivered by end-2009.

3. FINANCIAL RISKS

- Lendings to subsidiary companies
- EBL’s cashflows linked with the cashflows of project executing company

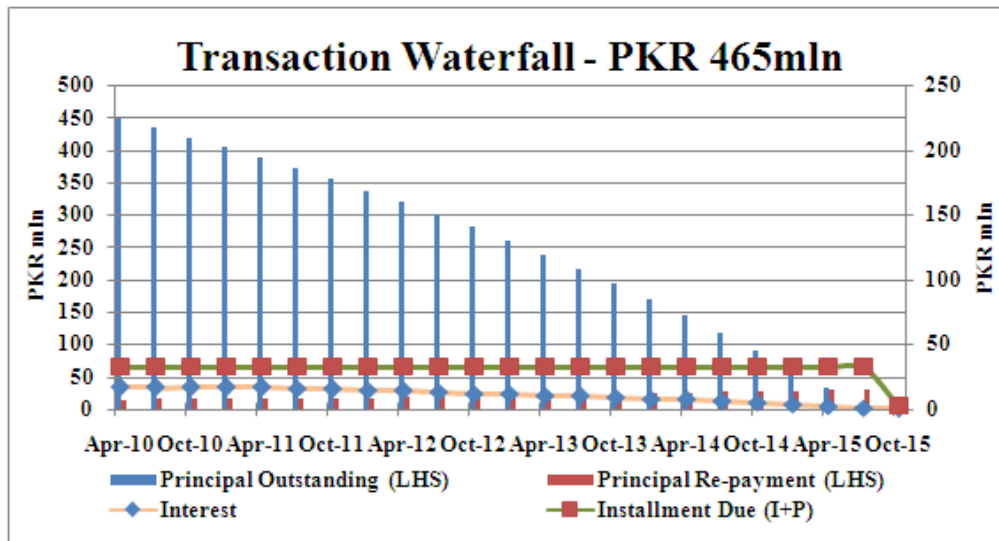
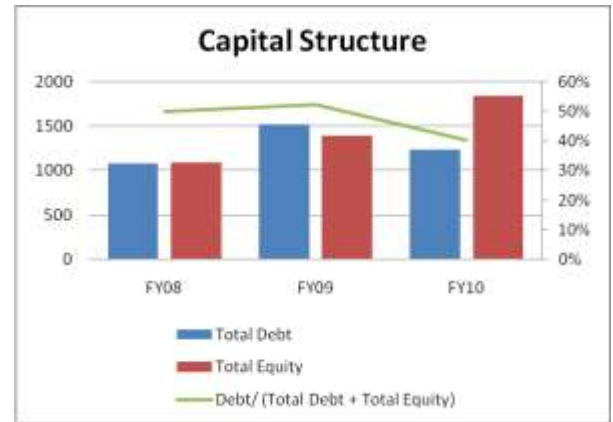
3.1 Once a project idea is developed, EBL arranges financing for the entire planned project and provides loans to the group companies involved in the project, which are repaid in a phased manner as the project progresses. Thus, the cash flows of the company remain under stress the project initiation stage because of initial development activities. EBL’s cash flows are linked with the cash flows of the project executing company, therefore, any delay in customer receipts, affecting the repayment capacity of the group company, could, in turn, affect EBL’s cash flows and, eventually, its capacity to meet financial obligations. However, at this stage when Block A of EVH is about 80% and Lifestyle Homes is



at

about 88% complete, only 11.7% and 8.4% of the revenue remains receivable respectively. On the flip side, about 48% of the cost for EVH, and, 23% for LCH remains to be incurred. This may lead to potentially strained cash flows in the medium term.

3.2 The company’s leveraging was increasing over the years when new projects were being commenced by the management. As of present, when the project delivery dates are nearing, the gearing has gone down to pre-FY07 levels.



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