



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.