

AL GHURAIR GIGA PAKISTAN (PVT.) LIMITED (AGGPPL)

RATINGS (JUNE 2008)

AL GHURAIR GIGA PAKISTAN
(PRIVATE) LIMITED

Entity	New
Long Term	A
Short Term	A1

FINANCIAL DATA

PKR (mln)

	31-Mar-08*	30-Jun-07
Total Assets	7561.4	5322.1
Equity	769.1	862.9
Net Income	(479.8)	(385.8)
Net Debt / Equity**	42.3%	43.4%
Customer receipt	2559.4	1758.2

*Based on nine months results.

**Equity including subordinated loan from the parent.

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the company's association with established UAE groups – Al Ghurair and Giga, wherein the latter has its roots in Pakistan and is actively engaged in operations of AGGPPL. Although AGGPPL is exposed to volatile nature of cashflows in real estate development business, the parentage provides it financial flexibility. At the same time, the ratings recognize the robust project management framework developed by the company.
- These ratings are dependent on successful launch of various phases of the company's ongoing projects, in turn ensuring timely generation of cashflows to fund the development costs. Meanwhile, the continuing support from sponsors would remain critical. However, any material delays in organizational restructuring both at AGGPPL and Giga group, and/or failure to attract customers for its projects would have negative implications for ratings.

ASSESSMENT

- AGGPPL has acquired 649 kanals land from Defence Housing Authority, Islamabad along the GT Road to develop multiple commercial and residential properties. The company is currently working on two projects – Gold Crest, a residential project comprising seventeen high-rise towers with all supporting facilities, while World Trade centre is a commercial project comprising five high-rise office towers and shopping mall, and a five star hotel tower. These two projects will be executed in a phased manner and launch of different towers would be timed in accordance with demand to ensure maximum bookings at intended prices. To date, three towers of Gold Crest and one tower of World Trade centre including shopping mall has been launched with above 75% booking achieved to date. The management is targeting to complete the first phase of these projects (seven towers of residential project and world trade centre) by 2010. However, given current economic slowdown, large size of the company's project, and lack of empirical data to establish demand for such facilities, the management's ability to achieve intended bookings remains to be seen. Moreover, though the company has done some basic market studies to identify and establish the demand, its sale/marketing function requires further strengthening. Notably, the management has recently started reorganizing this area. Nevertheless, the independent nature of towers, particularly in the housing complex, within the overall design, provides the management the flexibility to adjust the launch according to demand.
- The company supervises the projects through in house teams and actual execution and monitoring is outsourced to other organizations with established standing in respective fields. The construction activity for both residential and commercial project has been outsourced to two established Malaysian companies whereas specialized engineering consultancy firms are providing monitoring services to the company. The company has in place an active project monitoring system and well-organized team ensuring desired quality and completion of projects within allowable costs and specified time line.
- AGGPPL's capital structure is supported by subordinate loan from sponsors. The leveraging of the company, after considering the quasi equity debt, remained low (end March-08: 42%). Going forward, the company's borrowings would be a function of timing of cashflows from sale of properties. However, the management does not intend to increase the same beyond 100%.
- The company recognizes revenue, as a policy, on delivery basis. Because of this policy, the company's reported revenues would depict a volatile pattern, with periods in which no properties are handed over reporting subdued profitability.
- The company's business model required significant capital investment at the beginning to procure land (cost: PKR 988mln) and fund pre-launch development costs of its under-construction projects. Although cashflows of most developers ease out after launch of the project, in the form of advance payment and ongoing installments by buyers provide ample support towards overall requirements, it is not the case for AGGPPL. This is because a) the project launched to date is a modest portion of the total project utilizing only a portion of the acquired land, and b) the payment pattern agreed with the buyer (ranging between 3 to 6 years) extends significantly beyond the targeted project completion date (around 2 years) necessitating need for borrowings to bridge this gap. As a consequence, AGGPPL's cashflows would remain under stress. However, this pressure is expected to subside with gradual launch of remaining four towers each in ongoing residential and commercial projects planned for the first phase.

PROFILE

- Al Ghurair Giga Pakistan (Private) Limited (AGGPPL) was incorporated on 22nd October 2004. The company is principally engaged in developing and sale of real estate properties particularly residential and commercial. Al Ghurair Giga Corporation Limited (AGGCL) – established in UAE, is parent company of AGGPPL holding around 98% shareholding. AGGCL is jointly owned by key individuals of both groups: Al Ghurair Group and the Giga Group. It is the first project of Al Ghurair group in collaboration with Giga group in Pakistan.
- The Board of directors of AGGPPL comprises four members. Mr. Haji Muhammad Amin Giga – the CEO of the company has played an active role in group's entry in construction and development business. Giga group has recently taken certain initiatives and is developing a centralized team to oversee the group's diversified operations. This, while strengthening the governance, is expected to improve quality of monitoring and decision-making.