

**GRADING (SEPTEMBER 2009)  
EDEN DEVELOPERS (PRIVATE)  
LIMITED (EDPL)**

	NEW	PREVIOUS
Developer Grading	DG3	DG2*

\*PACRA changed the nomenclature of Developer Grading from PE to DG in 2008

**FINANCIAL DATA  
PKR (mln)**

	30-Jun-09*	30-Jun-08
Total Assets	5,871	5,846
Advances from Customers	1,574	1,305
Equity	2,345	2,356
Turnover	1,703	1,799
Net Income	7	25

\*Based on unaudited accounts

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**GRADING RATIONALE AND KEY DRIVERS**

- The grading indicates good overall execution capacity of the developer. The downward grading adjustment reflects the challenging operating environment, which has impacted sales of new projects and exerted pressure on the ensuing cash flows and the financial profile of the company. At the same time, the grading recognizes the sponsors decision to curtail the scope of operations of the company towards completion of existing projects and realize other assets. This may impact the quality of currently robust project management systems, going forward.
- The grading is dependent on management's effectiveness at completing the projects in a timely manner and within projected costs. Meanwhile, consistent cash flow generation, from sale of projects and various investment properties, and effective utilization of cash flows from different projects would remain critical for the grading.

**ASSESSMENT**

- The real estate sector in Pakistan, despite its inherent cyclicity, witnessed substantial growth in recent years. However, the global financial crisis has led to a price meltdown in the real estate industry in developed economies and the effects of these events, though to a lesser extent, have impacted the local industry. Furthermore, the challenging environment in Pakistan – highlighted by security concerns, slowdown in GDP growth, low consumer confidence and limited credit expansion – further stressed domestic demand.
- Eden Developers enjoys a good reputation with its target audience of first-time home buyers. However, the brand name 'Eden' is currently being shared between Eden Developers, the joint company of the two main sponsors, and independently-run real estate businesses of these sponsors. These three distinct users of "Eden" brand have different capacity 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 and cause concerns regarding the timely delivery of certain projects.
- With two projects underway, Eden Developers is involved in sales of residential and commercial plots (Eden City) and finished houses (Eden Palace Homes). All projects target the middle income segment of first-time home buyers. Following table depicts the status of its projects.

Project Description	Location	Project Launch	Completion Date	Estimated Cost	Cost Incurred	Sales (%)	Completion (%)
Eden City	Lahore Airport	2008	As per sales	1,544	573	80	30
Eden Palace Villas	Raiwind Rd.	2009	June 2010	2,418	1,916	90	80

- The business model of EDPL is based on retention of land, development planning and sales functions. This allows the company to maintain control over various aspects of project development. Majority of the construction activity is retained in-house, with external partners supplying skilled labor. EDPL procures land from time to time for future development projects and to seek capital gains. The purchase is mostly financed from equity. The design elements of the project, including differentiating sales features, are finalized first while the development and construction planning is relegated to the PCC (Project Coordination & Control Cell). Project management system is centralized at head office with the PCC, which employs project managers, architects and engineers for central planning and monitoring. Based on the feedback received for each project, the PCC compiles a work-in-progress report on a bi-weekly basis, outlining the construction works achieved and cumulative development progress on site. Meanwhile, the marketing department runs its activities independently from construction works. It is also responsible for follow ups with delinquent customers for clearance of dues. IT support is available for all the departments, yet a centralized MIS system for integrated reporting and project management is absent, which could potentially compromise efficiency.
- EDPL has historically maintained a moderately leveraged capital structure (50-50 debt-equity division), with the debt component reducing to 45% in Jun-09. However, short-term debt constitutes majority (around 81%) of total debt, creating a significant maturity mismatch. EDPL's financial liabilities were planned in relation to the installment payments by buyers. With the recent sales slowdown, the projects may face delays due to pressure on cash flows. Further, proper segregation of project related cash flows remain critical to avoid potential drag on a particular project. Installment payments for Eden's projects are progressing as per schedule with delays remaining within acceptable limits (8-10%).

**PROFILE**

- Eden Developers (EDPL) is part of Eden Group, which operates three entities in the real estate sector (Eden Developers, Eden Builders and Eden Housing). It is sponsored by two brothers: Dr. Muhammad Amjad and Mr. Muhammad Arshad with almost equal shareholding (50%). EDPL has completed 18 projects since its inception in 1981, with most projects located in Lahore city.
- The BoD retains overall control of EDPL with Dr. Amjad as its Chairman. He has extensive experience of project management, finance and administration. He is supported by the CEO, Mr. Arshad, and a qualified management team.