

DEVELOPER GRADING (MAY 2010)
TRICON DEVELOPERS LIMITED
(TDL)

	NEW	PREVIOUS
Developer Grading	DG3	DG3
Outlook	Positive	–

FINANCIAL DATA
PKR (mln)

	Jan-10*	Jun-09	Jun-08
Total Assets	3,196	3,202	3,035
Equity	1,780	1,779	1,500
Advances from Customers	121	205	405
Debt/ (Debt + Equity)	33%	35%	41%

*Based on 7 months unaudited results

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GRADING RATIONALE AND KEY DRIVERS

- The grading reflects the recent corporatization and other measures taken by the management to strengthen the company's project management systems and controls. The grading also incorporates the proposed listing of the company on the stock exchange through initial public offering, which is expected to enhance governance standards and strengthen TDL's financial profile. Considering these trends, the outlook on the grading is positive.
- The management's ability to complete the ongoing projects within the revised time frame and budgeted costs would be crucial. In this regard, consistent cash flow generation – amidst current economic situation – and further strengthening of overall system and controls, would remain critical for the grading.

ASSESSMENT

- Real estate sector in Pakistan grew impressively in the last few years, in line with the benign economic environment, but has come under pressure lately. Various socio-economic factors, coupled with high cost of borrowing and limited credit expansion, have significantly impacted the demand. Moreover, the uncertainty regarding the depth of economic slowdown, worsening law and order situation and the recent drive of Lahore Development Authority (LDA) to strictly enforce construction bye-laws and actions against non-compliant projects have dampened investor confidence.
- TDL, a real estate developer operating in Lahore, focuses on two distinct market segments, residential and commercial. TDL's projects enjoy the distinction of targeting different demand drivers. The residential projects cater to both the upper and middle tiers of home buyers and the commercial towers target medium to high end enterprises. TDL is currently near completion on two projects, one commercial tower – Tricon Corporate Center – and a residential housing project – Tricon Village.

Project Description	Location	Project Launch	Completion Date	Estimated Cost (PKR mln)	Cost Incurred (PKR mln)	Sales (%)	Completion (%)
Tricon Corporate Centre	Gulberg, Lahore	2006	Dec 2010	2,100	1,612	72	92
Tricon Village	Canal Rd, Lahore	2006	As per sales (Delivery started in Nov 09)	1,796	1,404	55	68

- The latest progress report compiled by the project manager shows that the construction costs are within budgetary limits, and the development work is as per the revised planned milestones. Tricon Corporate Centre has been delayed due to certain regulatory approvals – High Rise Commission – and resultant delivery date has been extended to December 2010. As for the housing projects, infrastructure works and grey structures have been completed while finishing works and installation of various fixtures is proceeding in batches. The housing project largely remains on target.
- TDL has several other projects in the pipeline, which would be launched in a phased manner in commensuration with market demand. These include a residential housing society and various multipurpose buildings comprising retail outlets, office space, and apartments. The land for some of these projects has been acquired.
- The business model of TDL is based on the complete outsourcing of construction related activities, while the feasibility analysis, development planning, and sales function are retained in-house. The company also provides project management and sales services to other developers at mutually agreed profit-sharing terms. With dedicated departments to look after both commercial and residential projects, headed by GMs, the management relies on close contact with the construction partners. During the year, TDL has appointed project managers under respective general managers to further strengthen its project monitoring function. The GMs of the respective departments hold weekly on-site meetings with the staff where representatives of all the project partners are present. TDL has appointed Adnan Asdar & Associates (AAA), a reputable project management firm, as advisor to assist the management in tender flotation, contract finalization and other technical specifications to better streamline the processes. TDL has an adequate IT infrastructure in place, but it lacks sophisticated monitoring and control mechanism. In this regard, the management is planning to implement MS Project for project monitoring.
- TDL has a low leveraged capital structure with sizable equity from sponsors, providing sufficient room for obtaining additional debt as bridge financing for its projects. TDL currently carries three major properties as investments, with a total market value of PKR 1,577mln as at end-Jan10, which forms a significant portion of the total assets (around 50%). Meanwhile, the cash flows of ongoing projects are segregated to avoid potential drag on a single project. The land acquisition is equity financed and the management tries to meet its working capital requirements through customer advances against sales. Customer's payments are mostly on-time, with a small portion of residential customers overdue.
- TDL is planning an initial public offering, with a total issue size of PKR 750 mln, which would strengthen the financial profile of the company and would be utilized for development of new-projects.

PROFILE

- Tricon Developers Limited, previously operating under an Association of Persons status, has recently (Feb 2010) been converted into a Limited Liability Company. TDL currently has three stakeholders: Mr. Asif Kamal (45%), Mr. Zahid Rafiq (45%), and Mr. Ahmad Khalil (10%).
- Mr. Asif Kamal, the CEO, is supported by five qualified and experienced departmental heads. The management style at TDL is hands-on and decision-making remains concentrated at the top level.