

**GRADING (JUNE 2009)**  
**TRICON DEVELOPERS (TD)**

|                   | Initial |
|-------------------|---------|
| Developer Grading | DG3     |

**FINANCIAL DATA**  
**PKR (mln)**

|                                  | 31-Mar-09* | 30-Jun-08 |
|----------------------------------|------------|-----------|
| Total Assets                     | 3,413      | 3,035     |
| Adj. Equity **                   | 1,475      | 1,475     |
| Advances from Customers          | 774        | 405       |
| Total Debt / Total Debt + Equity | 39%        | 41%       |

\*9 months unaudited accounts

\*\* includes revaluation surplus on investment properties

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**GRADING RATIONALE AND KEY DRIVERS**

- The grading indicates good overall execution capacity of the developer. The ability to deliver within specified time and as per terms is considered good. The grading incorporates the challenging operating environment, which could impact sales and ensuing cash flows, and the limited market recognition of the developer. At the same time, the grading recognizes the low leveraged structure of TD and its diversified project portfolio.
- The grading is dependent on the management's proactiveness and effectiveness in completing the projects within the stipulated timeframe and budgeted costs. Meanwhile, consistent cash flow generation and strengthening of the internal systems and controls, through deliberation and documentation of policies in line with expanding operations and associated complexities, would remain critical for the grading.

**ASSESSMENT**

- The real estate sector in Pakistan 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 – could further stress the domestic demand.
- With three projects underway, TD is targeting different market segments with distinct demand drivers, allowing Tricon to diversify its revenue base. Capital Towers is the only project structured as a JV with the land owner while the rest are owned by Tricon.

| Project Description     | Location         | Project Launch | Completion Date | Estimated Cost | Cost Incurred | Sales (%) | Completion (%) |
|-------------------------|------------------|----------------|-----------------|----------------|---------------|-----------|----------------|
| Tricon Corporate Centre | Gulberg, Lahore  | 2006           | June 2010       | 1,796          | 1,195         | 72        | 70             |
| Capital Tower           | Davis Rd, Lahore | 2007           | June 2010       | 150            | 80            | -         | 30             |
| Tricon Village          | Canal Rd, Lahore | Jul 2006       | As per sales    | 1,764          | 854           | 44        | 48             |

- The business model of Tricon is based on the complete outsourcing of construction related activities, while the feasibility analysis, development planning and sales function are retained in-house. It also provides project management and sales services to other developers at mutually agreed profit-sharing terms. Available land is segregated for the project and commercial due diligence is carried out to ascertain eventual profitability. Significant soft-sales are finalized before project launch. Once a project is finalized, dedicated departments monitor the commercial and residential projects separately. Management relies on close contact with construction partners. The GMs of the respective sectors hold weekly on-site meetings, where representatives of all parties engaged in construction works are present. Contractors / consultants who have worked with TD in the past and delivered as per terms, are given a priority when selecting future contractors. TD short-lists its contractors based on their tender proposals and assessing their track record for previous such assignments. It may also engage an outsider to assist in finalizing contractors for a particular project. Management oversees and coordinates its activities periodically. However, the Management Information System (MIS) for managing operational activities requires further strengthening.
- TD has a low leveraged capital structure (FY08: 41%; 3QFY09: 39%), and as such, has considerable room for obtaining debt as bridge financing. TD also carries five major properties as investments, with market value of PKR 3,340mln, lending support to its balance sheet. The detailed feasibility analysis and soft-sales before public launch of projects, support overall project financing. 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 (largely cost of construction) through customer advances against sales. Customers payments are mostly on-time, with a small portion of residential customers (around 8%) overdue.

**PROFILE**

- Tricon Developers (TD) operates under an Association of Persons status, and its ownership lies with the sponsors of New Age Group and Habib Rafiq Group. TD has three stakeholders: Mr. Asif Kamal (45%) of New Age Group, Mr. Zahid Rafiq (45%) from Habib Rafiq Group and Mr. Ahmad Khalil (10%), an independent entrepreneur. Management is contemplating conversion into a limited liability company, and subsequently, into a listed public company.
- Mr. Asif Kamal is the CEO and he is supported by five qualified and experienced departmental heads. The management style at Tricon is hands-on and decision-making remains concentrated at the top level.