



EDEN DEVELOPERS (PVT) LIMITED

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(FEBRUARY 2007)

DEVELOPER GRADING PE2

FINANCIAL DATA

Amounts in PKR million

	30-06-06	30-06-05
Operating Profit	326.27	245.8
Net Income	34.19	61.5
Total Assets	6,832.2	7,155.8
Equity	2,309.0	2,274.5
Total Debt/ Equity (%)	106.8%	92.6%

ANALYSTS

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GRADING

A PE2 grading has been maintained for Eden Developers (Pvt) Limited, indicating strong project execution capacity. The prospects of execution of real estate projects as per plan, and the ability to transfer ownership as per terms, are highly promising.

BACKGROUND AND BUSINESS

- Eden Developers (Pvt.) Limited (EDPL), is a renowned name in Lahore's real estate sector since 1981, the time, it was incorporated. The company has been principally engaged in the construction and execution of affordable housing projects, commercial buildings and land development. Twelve housing, and three commercial projects, have been completed while a housing and a land development projects are currently in progress. The focus of the company has remained on residential needs of a growing middle class by building high quality houses at affordable prices, and at the same time providing the business community with modern and contemporary commercial buildings. Going forward, the company plans to also focus on housing projects for the lower middle income segment. While this is likely to affect the company's margins, the negative impact of this is expected to be offset by increased volumes.
- EDPL is sponsored by two brothers, Dr. Muhammad Amjad and Muhammad Arshad. They have set up two new independent companies Eden Builders (Pvt.) Limited and Eden Housing (Pvt.) Limited in which there are no cross holdings. Dr. Amjad heads Eden Housing (Pvt.) Limited where as Eden Builders (Pvt.) Limited is headed by M. Arshad. All three companies would be working on different projects that can be of analogous nature but on different locations.
- During FY06, Eden Developer (Pvt.) Limited did not launch any new project and focused on reviving the Eden City Project and timely completion of Eden Palace Villas. The deadline for completion of Eden Palace Villas is December 2007 but the management is targeting to start gradual completion from February 2007. Eden City, meanwhile, had been halted due to issues with the Cantonment Board, but EDPL has got the NOC for development and intends to complete the project within 2007. Land swaps have taken place with adjacent societies creating a wide-ranging block for Eden City and a modified plan has been submitted for approval to the authorities. Delays in projects can usually be attributed to factors beyond the control of the management. These include bureaucratic red tape, delays in project approval from various departments, unforeseen delays caused by political and economic policy shift, and delayed provision of facilities from the utility authorities with electricity and sewerage connections being major bottlenecks.
- Project planning at EDPL is a very comprehensive and analytical process. EDPL has a complete in-house technical manpower infrastructure, including engineers with different specializations and project managers who analyze, supervise and manage project development and construction. EDPL also has in-house computerized land record of its own projects. From the purchase of land to its mortgage to financial institutions every single detail is computerized. Moreover, for ensuring validity of legal titles, EDPL has in place a team of land and revenue officers. This has helped in minimizing disputes regarding the legal title. EDPL is also making efforts to improve its internal control and capacity systems for timely availability of information for efficient monitoring and timely execution of projects. With recent increase in construction activities, shortage of skilled labour has emerged as one of major constraints for real estate developers. However, EDPL due to established relations with its labour contractors and limited incremental requirement has not faced any serious problem. Nevertheless, going forward, with start of new projects this may be a constraining factor.
- Financing from financial institutions is usually acquired at the land acquisition and initial development stage of the project. Once the project is launched EDPL has ample liquidity generated through customer installments to construct and complete the project on time. However, consistent cash flow generation from clients is exposed to the risk of default. This is mitigated by the detailed documentation that is carried out with the potential buyers clearly stating the terms and conditions that need to be adhered to by both parties. Nevertheless, in the event of a cash flow crunch, the company has a cushion available in terms of the appreciating value of investment in property, as well as its enhanced equity base. Also, the company maintains good relationship with leading financial institutions, which along with EDPL's low leverage would provide easy access to external borrowing.
- Going forward, EDPL is vigorously working on few projects in Multan, Faisalabad and Rawalpindi and is also considering building houses on thermo steel structure with support of another company. These structured houses have higher protection against natural calamities like earthquake, heavy rains and other disasters. The management is cognizant of increasing competition and intends to manage the impact through innovative architectural designs and planning, high standards of construction and management and enhanced utilization of technology.