



The Pakistan Credit Rating Agency Limited

## Rating Report

### Sitara Heights (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jan-2024	A-	A2	Negative	Maintain	Yes
31-Jan-2023	A-	A2	Stable	Maintain	Yes
31-Jan-2022	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Sitara Heights (Pvt.) Limited (“Sitara Heights” or “the Company”) is committed towards the development of its real estate ventures including residential and commercial properties. Currently the Company is engaged in five projects, three in Lahore and two are in Faisalabad. Namely; 3 Jays Tower, Sitara Icon Tower, Sitara Serene Tower, The Edge and Gold Vista. The land for the projects has already been acquired, indicating a major comfort to the assigned ratings. The Company has successfully launched four projects. The Lahore based projects including 3 Jays tower and Sitara Serene are at more advanced stages and substantial numbers of units are already sold. Faisalabad projects including Sitara Icon Tower and The Edge sales have just commenced. The launch of its 5th project, namely gold vista, has been delayed owing to the unfavorable macroeconomic indicators. The current inflationary environment with higher interest rates and rising cost of raw materials including steel and cement have led to a slowdown in the real estate sector. Furthermore, the ongoing political uncertainty and unstable economic environment has adversely affected the sector. Resultantly, the progress on the existing pipeline projects has been stalled and is concerning. However, management is confident of meeting the revised completion benchmarks as planned. During FY23 the Company reported revenues of PKR 724mln. Going forward, cash flows requirement for the development and construction expenditure of projects are mainly planned to be met through advance booking receipts, launch of gold vista project and working capital lines available from the bank. The leveraging of the Company as of FY23 stood at 59%.

Rating Watch and negative outlook signifies the prevailing uncertainty pertinent to the Company’s ability for timely debt servicing. However, the assigned ratings incorporate the sound financial strength of the group who are amongst the well-established players in the oil marketing and distribution segments, namely Gas & Oil Petroleum and Sitara Petroleum. Ratings further take comfort from the land bank available to the Company. Timely completion of projects milestones without significant cost overruns and maintenance of sales and collection efficiency will remain critical to avoid cash flow mismatch over the project’s construction period.

#### Disclosure

<b>Name of Rated Entity</b>	Sitara Heights (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Real Estate(May-23)
<b>Rating Analysts</b>	Ali Arslan Malik   Ali.Arsilan@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Sitara Heights (Pvt.) Limited (the Company) was incorporated in Pakistan in 2019 as a private limited company under the Companies Act 2017.

**Background** The principal line of business of the Company is development of residential and commercial properties including communities and apartments, commercial markets, multistoried buildings for offices, shopping center and restaurants.

**Operations** Currently the Company is engaged in five projects, three in Lahore and two in Faisalabad. Namely, 3 Jays Tower (Gulberg III, Lahore), Sitara Icon Tower (Samanabad, Faisalabad), Sitara Serene Tower (Gulberg III, Lahore), The Edge (Sargodha Road, Faisalabad), Gold Vista (Moza kanjraa, Lahore).

## Ownership

**Ownership Structure** Mr. Khalid Riaz holds majority shareholding ~97% followed by Mr. Tariq Wasir Ali (1%), Mr. Tahir Iqbal (0.995%), Mr. Muhammad Ammar Ali Talat (1%) and Fazeel Abdullah (0.005%).

**Stability** Overall shareholding is vested in Mr. Khalid Riaz. He also owns the GO petroleum and a Oil distribution company which bode well for the stability in the structure.

**Business Acumen** Company's sponsors have an extensive industry experience with major concentration in oil & lubricants' trading, distribution & transportation to OMCs all across Pakistan. Majority shareholder Mr. Khalid Riaz possesses extensive oil distribution and trading experience.

**Financial Strength** Sponsors have a strong financial background on account of well-diversified profitable businesses.

## Governance

**Board Structure** The board has a total of three members, all are from Sitara Heights (Pvt.) Limited. There are no independent directors on the board.

**Members' Profile** The BoD has a diversified experience and knowledge of marketing and distribution of oil. The Chairman of the board, Mr. Khalid Riaz, veteran of the retail & oil transportation sector with rich experience in the field for more than 35 years. He is accompanied by Mr. Muhammad Ammar Ali Talat. He is a Former Director Strategy & BD K-Electric. Also responsible for Retail Engineering and Non-Fuel Revenue of Gas & Oil Pakistan Limited.

**Board Effectiveness** As the board structure is still developing there are no board committees.

**Financial Transparency** GT Anjum Rehman is the external auditors of the Company. They gave an unqualified opinion on the financial results of June 2023.

## Management

**Organizational Structure** The Company has an adequate organizational structure. The operations of the Company have been bifurcated into three broad functional areas which comprise: i) Operations, ii) Finance, and iii) Sales. Each function is further divided into sub-units. The entire operational set-up of the company falls under the purview of CEO.

**Management Team** Mr. Khalid Riaz is the CEO of the company. He has an overall experience of ~41 years. Mr. Mazhar Abbas is the project director and Mr. Zain Jaffery is the group head of finance. Mr. Mudassar Shafique is serving as the GM of Sitar Heights.

**Effectiveness** Mr. Khalid Riaz-CEO, is supported by team of experienced individuals who are equipped with necessary technical skills.

**MIS** Top management receives a daily performance report of operations which results in optimal monitoring. Moreover, the quality of the I.T. infrastructure and the breadth and depth of activities remained well satisfactory.

**Control Environment** The Company will implement internal control systems and procedures in place to ensure the quality on a continuing basis.

## Business Risk

**Industry Dynamics** Relative to construction activity, real estate has contributed a larger share to Pakistan's GDP over the FY16-22 period. During FY22, real estate's contribution to GDP was ~4.9% (FY21: ~5.4%). Similarly, where construction formed ~0.9% in the Gross Fixed Capital Formation for the Private Sector (at current prices), Real Estate activities formed ~17.6% during FY22, the second-highest after Agriculture.

**Relative Position** The current inflationary environment with higher interest rates and rising cost of raw materials including steel and cement have led to a slowdown in the real estate sector. The floods have adversely impacted the sector with delays in construction and fall in volume of cement sold during the period. However, the shortfall of houses in the residential sector and increasing demand with growth in population has led to continuous rise in the prices of property.

**Revenues** During FY23, the revenue of the Company decreased by 65% and stood at PKR 724mln from PKR 2,043mln in FY22 on back of inflationary environment with higher interest rates and rising cost of raw materials including steel and cement have led to a slowdown in the real estate sector. However, Company secured advances from customers for selling the units amounting to PKR 4,777mln. However, this figure is south of the one projected by the Company at the time of launching of projects. Furthermore, the management of the Company is optimistic that by the launch of 5th project (Gold Vista) the revenues will become align to the projections.

**Margins** During FY23, GP margin increased to 18.2% from 11.1% back on the higher sales prices. However, net margins shrink to -8.5% from 1.7%.

**Sustainability** Currently the Company has announced five projects and actively working on four of them. And the 5th project will be launched in the upcoming month. Moving forward the company will launch a new project for which the land is already purchased in Sialkot.

## Financial Risk

**Working Capital** Sitara Heights (Pvt.) Limited relies on internal cash flows and short-term borrowings for its working capital management. During FY23, the quantum of short-term borrowings reduced to PKR 169mln from PKR 465mln. Company reduced its reliance on the short-term borrowings on the back of internal generation of cash thorough the adequate selling of units. As on end Jun-23, STB constitutes the 7.8% of total borrowings down from 16.9% at end Jun-22.

**Coverages** During FY23, on back of decrease in revenues, Company reported the EBITDA of PKR -39mln decrease from the PKR 54mln in FY22.

**Capitalization** The Company has high percentage of leverage in their capital structure. The long-term borrowing of the Company in FY23 stood at PKR 1,307mln and short-term borrowing are PKR 169mln. While CMLTB stands at PKR 682mln. The leveraging of the company stands at 58.9% down from 63.7% at end Jun-22.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Sitara Heights (Pvt.) Limited Construction	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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#### A BALANCE SHEET

1 Non-Current Assets	183	110	7	0
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	8,720	7,897	7,993	5,325
<i>a Inventories</i>	8,547	7,459	7,435	5,278
<i>b Trade Receivables</i>	-	-	-	-
5 Total Assets	8,902	8,007	7,999	5,325
6 Current Liabilities	1,940	1,384	1,090	1,362
<i>a Trade Payables</i>	354	249	542	1,267
7 Borrowings	2,159	2,752	4,397	2,482
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	3,296	2,302	1,042	-
10 Net Assets	1,508	1,569	1,471	1,481
11 Shareholders' Equity	1,508	1,569	1,471	1,481

#### B INCOME STATEMENT

1 Sales	724	2,043	202	-
<i>a Cost of Good Sold</i>	(593)	(1,816)	(161)	-
2 Gross Profit	132	227	41	-
<i>a Operating Expenses</i>	(182)	(177)	(48)	(7)
3 Operating Profit	(50)	50	(7)	(7)
<i>a Non Operating Income or (Expense)</i>	-	0	-	-
4 Profit or (Loss) before Interest and Tax	(50)	50	(7)	(7)
<i>a Total Finance Cost</i>	(2)	(2)	(0)	(0)
<i>b Taxation</i>	(9)	(14)	(3)	-
6 Net Income Or (Loss)	(61)	34	(10)	(7)

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	(116)	(26)	(26)	(10)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(495)	(316)	(175)	(218)
<i>c Changes in Working Capital</i>	1,115	1,895	(1,636)	(795)
1 Net Cash provided by Operating Activities	620	1,578	(1,811)	(1,013)
2 Net Cash (Used in) or Available From Investing Activities	(15)	(42)	(3)	-
3 Net Cash (Used in) or Available From Financing Activities	(600)	(1,587)	1,911	1,023
4 Net Cash generated or (Used) during the period	4	(51)	98	10

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-64.5%	912.4%	N/A	N/A
<i>b Gross Profit Margin</i>	18.2%	11.1%	20.4%	N/A
<i>c Net Profit Margin</i>	-8.5%	1.7%	-5.0%	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	137.8%	91.5%	-823.9%	N/A
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/STB)]</i>	-4.0%	2.2%	-0.7%	-0.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	4033	1330	11498	N/A
<i>b Net Working Capital (Average Days)</i>	3881	1260	9861	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.5	5.7	7.3	3.9
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-21.9	N/A	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-0.2	0.0	0.0	0.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-16.9	-88.0	-98.5	-63.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	58.9%	63.7%	74.9%	62.6%
<i>b Interest or Markup Payable (Days)</i>	19408.6	N/A	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	0.1%	0.0%	0.0%	0.0%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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