



The Pakistan Credit Rating Agency Limited

# TPL TRAKKER LIMITED (TPL)

## INSTRUMENT RATING REPORT

	NEW [FEB-17]	PREVIOUS [JUN-16]	REPORT CONTENTS
<b><u>Instrument Rating</u></b>			1. RATING REPORT
Unlisted and Secured Sukuk of PKR 600mln	A+	A+	2. FINANCIALS
Rating Watch	Yes	No	3. RATING SCALE
Outlook	Stable	Stable	4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

FEBRUARY 2017

<p><b>Profile &amp; Ownership</b></p> <ul style="list-style-type: none"> <li>TPL Trakker Limited (TPL), listed on Pakistan Stock Exchange, is Pakistan’s largest vehicle tracking and fleet management company operating with a network of 9 branches, catering to 150,000 customers’ tracking needs</li> <li>Majority (53%) owned by TPL Holdings (Pvt) Limited (THL), which, in turn, is equally owned by Ali Jameel and Ali Bhai families</li> <li>Digicore, the other key shareholder, divested its complete stake</li> <li>THL has strategic investments in insurance, real estate, security services, life insurance and navigation service</li> </ul> <p><b>Corporate Restructuring</b></p> <ul style="list-style-type: none"> <li>TPL is being restructured into a holding company, and renamed to “TPL Corp”</li> <li>The purpose is to separate assets from strategic investments</li> <li>The two major segments, i) Vehicle Tracking and ii) Maps, would be spinned-off from the company into two separate wholly owned subsidiaries, i) TPL Vehicle Tracking (TPLV) and ii) TPL Maps (TPL M)</li> <li>In Dec’16 application was filled with High Court; approval pending – whole procedure expected to be finalized by Jun’17 with effect from Jun’16</li> </ul> <p><b>Governance and Management</b></p> <ul style="list-style-type: none"> <li>Eight member board of directors including the CEO; six representative of THL and two independent members</li> <li>CEO, Mr. Ali Jameel, is a Chartered Accountant from England &amp; Wales and has diversified experience in managing various business ventures</li> <li>COO, Mr. Asif Pervaiz, oversees commercial operations, while the financial and technological matters are kept with the CEO</li> </ul> <p><b>Performance</b></p> <ul style="list-style-type: none"> <li>Revenues are generated from four distinct segments, (i) Vehicle Tracking – 64%, (ii) FBR’s Safe Transport Environment (STE) project – 24%, (iii) TPL Maps – 4%, and (iv) Container Tracking (EITV) – 1%</li> <li>Majority revenue from regular stream of income; monitoring fee (34%), followed by rental income (32%) and sale of equipment (25%).</li> <li>Revenues registered a nominal increase of 5% in FY16; growth in vehicle tracking (6%) and container segment (9%) with decline in Maps segment (34%)</li> <li>Gross margins have been sustained (FY16: 50.4%, FY15: 50.8%)</li> <li>Operational cost rationalized; operating margins intact at 14%</li> <li>Net profit declined (FY16: PKR 63mln, FY15: PKR 202mln); FY15 profit includes gain (PKR 144mln) realized from sale of 33% stake in TPL Direct Insurance</li> <li>During 1Q17, growth trend continued in same pattern (4%); gross margins pushed a little upwards to 52%, along with its operating margins at 15%</li> <li>Growth in map (82%) and E-Ticketing (63%) segment in 1Q17 represents increased focus of the management towards establishing these new segments</li> </ul> <p><b>Investments</b></p> <ul style="list-style-type: none"> <li>Sizeable strategic investments, constituting 50% of its total equity, comprises equity investments (PKR 1,230mln) and interest bearing receivables (PKR 249mln)</li> <li>In Jul’16, 100% stake in TPL Life (Previously: AsiaCare) acquired; an investment of PKR 260 mln</li> <li>Other investments include TPL securities (PKR 44mln), TPL Direct insurance (PKR 402mln), Trakker Middle East (PKR 85mln) and TPL Properties (PKR 688mln)</li> <li>Investments in TPL Properties classified to short term; for future liquidity concerns</li> <li>In Sep’16, the current account balance with TPL Holdings was increased to PKR 99mln (Jun’16 PKR 19mln)</li> </ul> <p><b>Business Strategy</b></p> <ul style="list-style-type: none"> <li>Sizeable growth in envisaged in the map segment along with new products in vehicle tracking; targeting niche market in the personal tracking solutions</li> <li>Growth expected from e-ticketing contract with Lahore Transport Company</li> <li>Expansion of tracking business outside Pakistan through newly incorporated subsidiaries in the Middle East and Africa</li> </ul> <p><b>Financial Risk</b></p> <ul style="list-style-type: none"> <li>Working capital requirements emanating from credit allowance to corporates and financial institutions is financed through short-term borrowings</li> <li>Whopping gross cash cycle (371days); 38% debts due up to 1 month, and 42% up to 1-4 months warranting management’s attention</li> <li>Working capital needs and new investments led to increase in leveraging (34%) – also associated with the issuance of Sukuk (PKR 600mln) in Jun’16</li> <li>Low free cash flows (FY16: PKR 401mln) constricts the coverages (1.2 times); sustainability of cash flows from new products remains to be seen</li> </ul>	<p><b>RATING RATIONALE</b></p> <p>The ratings incorporate TPL’s leadership position in tracking industry, emanating from its diverse product portfolio and superior technology infrastructure. The company is targeting tracking business in niche market in the personal tracking solutions and is also poised to expand geographically. Sustainability, from incremental cash flows from core operations, going forward, remains important for coverages which are currently subdued to some extent. After the acquisition of TPL Life (Previously: Asia Care Health and Life Insurance Company Limited), whole organization structure has been revamped along with a new firm strategy; encompassing innovation in its products and introducing mass retail channel targeting lower income segments. The rating watch captures the ongoing corporate restructuring of the company; TPL Trakker being restructured into a holding company, and renamed to “TPL Corp”. The two major segments would be demerged into wholly owned subsidiaries, i) TPL Vehicle Tracking (TPLV), and ii) TPL Maps (TPL M), along with these two investments TPL Corp would entail investment in TPL Properties, TPL Direct Insurance, TPL Securities Services, and Trakker Middle East.</p>
	<p><b>KEY RATING DRIVER</b></p> <p>The ratings are dependent upon the corporate restructuring; new status of the company and its financial strength. The ratings are reliant on the company’s ability to sustain its market share and technological edge in the industry. Adherence to good financial discipline while strengthening debt servicing capacity through improving cash position is vital.</p>
	<p><b>INDUSTRY</b></p> <p>The local auto industry continued growth in FY16, witnessing a volumetric growth in car sales of ~31% (FY14: -8%, FY13: -19%) majorly due to Punjab Government’s ‘Apna Rozgar Scheme’. Taking note of lowering interest rate scenario in the country, auto lending by commercial banks also increased by ~27%, bringing the vehicles under the insurance cover and ultimately benefitting the tracking business. Amidst increasing competition, the industry is diversifying into innovative tracking solutions, in addition to vehicle tracking.</p>



## VEHICLE TRACKING

The Pakistan Credit Rating Agency Limited

Financials [Summary]

### TPL Trakker Limited (TPL)

PKR mln

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15
	1Q	Annual	Annual
<b>Non-Current Assets</b>	<b>2,008</b>	<b>2,027</b>	<b>1,936</b>
Investments	1,909	1,547	1,411
<b>Current Assets</b>	<b>1,643</b>	<b>1,472</b>	<b>1,288</b>
Inventory	326	294	253
Trade Receivables	1,134	1,038	856
Others	183	141	179
<b>Total Assets</b>	<b>5,560</b>	<b>5,046</b>	<b>4,635</b>
<b>Debt</b>	<b>1,636</b>	<b>1,526</b>	<b>1,181</b>
Short-term	659	523	566
Long-term (incl. Current Maturity of Long-Term Debt)	977	1,003	615
Other short-term liabilities	947	571	699
Other long-term liabilities	5	5	10
<b>Shareholder's Equity</b>	<b>2,972</b>	<b>2,944</b>	<b>2,745</b>
<b>Total Liabilities &amp; Equity</b>	<b>5,560</b>	<b>5,046</b>	<b>4,635</b>

### INCOME STATEMENT

<b>Turnover</b>	<b>401</b>	<b>1,537</b>	<b>1,458</b>
Gross Profit	209	775	741
Operational Expenses	(147)	(559)	(539)
Other Income	11	32	161
Financial Charges	(32)	(124)	(144)
<b>Net Income</b>	<b>41</b>	<b>125</b>	<b>218</b>

### Cashflow Statement

Free Cash flow from Operations (FCFO)	108	401	377
Net Cash changes in Working Capital	(114)	(522)	(401)
Net Cash from Operating Activities	(32)	(211)	(123)
Net Cash from Investing Activities	(89)	(260)	46
Net Cash from Financing Activities	116	481	84

### Ratio Analysis

<b>Performance</b>			
Turnover Growth	4.2%	5.5%	3.8%
Gross Margin	52.1%	50.4%	50.8%
Net Margin	6.9%	4.1%	13.9%
ROE	4.0%	2.2%	7.7%
<b>Coverages</b>			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.5	1.2	1.0
Interest Coverage (X) (FCFO/Gross Interest)	3.4	3.2	2.6
Debt Payback (Years) (Total Debt (excl. Covered Short Term Borrowings) / FCFO)	9.6	3.6	2.6
<b>Liquidity</b>			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	161.4	179.2	123.4
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	35.5%	34.1%	30.1%

TPL Trakker Limited (TPL)

February 2017



## STANDARD RATING SCALES & DEFINITIONS

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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b> <b>AA</b> <b>AA-</b>	<p><b>Very high credit quality.</b> Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
<b>A+</b> <b>A</b> <b>A-</b>	<p><b>High credit quality.</b> Low expectation of credit risk.</p> <p>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.</p>	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> Possibility of credit risk developing.</p> <p>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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>High credit risk.</b></p> <p>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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b></p> <p>“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.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

**Rating Watch**

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**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’.

**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, a suspended rating should be considered withdrawn.

**Withdrawn**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Regulatory and Supplementary Disclosure

Name of Issuer
Name of Issue
Sector
Type of Relationship

TPL Trakker Limited
TPL Trakker Limited | Sukuk
Auto and Allied | Vehicle Tracking
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Table with 4 columns: Dissemination Date, Rating, Outlook, Action. Rows show dates from Feb-17 to Feb-16 with ratings A+ and outlooks Stable, Rating Watch, Initial, Preliminary.

Instrument Details

Table with 6 columns: Nature of Instrument, Size of Issue (PKR mln), Tenor (yrs), Security, Nature of Assets, Trustee. Row details Sukuk instrument for 500mln PKR with 5-year tenor.

Amortization Schedule

Refer to Annexure

Related Criteria and Research

Tracking Services Viewpoint | Feb-16

Rating Methodology

Debt Instrument Rating Methodology

Rating Analysts

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security.

Disclaimer

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Probability of Default (PD)
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.

	Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Profit Payment	Installment Payable	Principal Outstanding
		PKR in mln			Base	Spread			
1	31-Jul-16	500	0	31-Jul-16	1Y Kibor	300bps	12.5	12.5	500
	31-Oct-16	500	0	31-Oct-16	1Y Kibor	300bps	12.5	12.5	500
2	31-Jan-17	500	0	31-Jan-17	1Y Kibor	300bps	12.5	12.5	500
3	30-Apr-17	500	0	30-Apr-17	1Y Kibor	300bps	12.5	12.5	500
4	31-Jul-17	500	0	31-Jul-17	1Y Kibor	300bps	12.5	12.5	500
5	31-Oct-17	500	0	31-Oct-17	1Y Kibor	300bps	12.5	12.5	500
6	31-Jan-18	500	0	31-Jan-18	1Y Kibor	300bps	12.5	12.5	500
7	30-Apr-18	500	0	30-Apr-18	1Y Kibor	300bps	12.5	12.5	500
8	31-Jul-18	500	0	31-Jul-18	1Y Kibor	300bps	12.5	12.5	500
9	31-Oct-18	500	0	31-Oct-18	1Y Kibor	300bps	12.5	12.5	500
10	31-Jan-19	500	0	31-Jan-19	1Y Kibor	300bps	12.5	12.5	500
11	30-Apr-19	500	0	30-Apr-19	1Y Kibor	300bps	12.5	12.5	500
12	31-Jul-19	500	0	31-Jul-19	1Y Kibor	300bps	12.5	12.5	500
13	31-Oct-19	500	0	31-Oct-19	1Y Kibor	300bps	12.5	12.5	500
14	31-Jan-20	500	125	31-Jan-20	1Y Kibor	300bps	12.5	137.5	375
15	30-Apr-20	375		30-Apr-20	1Y Kibor	300bps	9.4	9.4	375
16	31-Jul-20	375	125	31-Jul-20	1Y Kibor	300bps	9.4	134.4	250
17	30-Oct-20	250		30-Oct-20	1Y Kibor	300bps	6.3	6.3	250
18	31-Jan-21	250	125	31-Jan-21	1Y Kibor	300bps	6.3	131.3	125
19	30-Apr-21	125		30-Apr-21	1Y Kibor	300bps	3.1	3.1	125
20	31-Jul-21	125	125	31-Jul-21	1Y Kibor	300bps	3.1	128.1	0