The Pakistan Credit Rating Agency Limited

Rating Report

TPL Properties Limited | TFC

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Mar-2018	AA-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings incorporate strong fundamentals of the company. TPL Properties owns a high-end office building (Centrepoint) in Karachi. The company is following BOMR (build, own, maintain and rent-out) model. The business profile of TPL Properties is expected to remain strong as Centrepoint enjoys full occupancy coupled with relatively long-term agreements engendering low business risk. The agreements also incorporate annual rent escalation clause. Furthermore, TPL Group is at an advance level with its second project in real estate - HKC Tower. The company is planning to launch green building concept in the country through this project comprising luxury residential apartments. TPLP will follow sale model for HKC Tower apartments. The management is also eyeing third project of residential apartments which is planned to be completed by FY23. The company is in process of raising debt through TFC. A substantial portion of amount raised will be utilized to finance existing debt – a factor considered positive while assigning rating. The remaining amount of TFC will be used for the equity investment in projects. The financial risk of the company will be managed by limiting additional borrowing, existing cashflows, rent escalation and developers margin. Moreover, comfort can be drawn from financial strength of ultimate parent of TPL Properties Limited in case of any payment constraint, they will service interest and principal installment.

The ratings are dependent on management's ability to ensure adequacy of cashflows against debt repayment commitments. Any material deviation in strategy impacting risk profile of the company will be negative.

Disclosure

Name of Rated Entity	TPL Properties Limited | TFC
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Corporate Rating Methodology(Jul-2017), Methodology | Criteria Modifiers(Jun-2017), Methodology | Debt Instruments Rating Methodology(Jun-2017)
Related Research	
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504 Jhangeer Hanif | jhangeer@pacra.com | +92-42-35869504

TPL PROPERTIES LIMITED (TPLP) PROFILE	
Incorporated	2007
Major Business	The principal activity of the Company is to invest, purchase, develop and build real estate and to sell, rent out or otherwise dispose of in any manner the real estate including commercial and residential buildings, houses, shops, plots or other premises.
Legal Status	Listed
Head Office	Karachi

OWNERSHIP — STRONG

- The company's ownership structure has gone through some changes recently. TPL Group now owns 45% (FY16: 53%) followed by 29% (FY16: 0%) shareholding by Alpha Beta Capital Market and Heritage Chambers Limited collectively. Tundara now owns 7% shareholding.
- Key persons representing sponsor family are Mr. Jameel Yusuf and Mr. Ali Jameel. Mr. Ali Jameel is a renowned business man and has been associated with the company since its inception.

GOVERNANCE — STRONG

- The overall control of the company vests in eight member board of directors. Five members, including one executive and four non-executive members, represent TPL Group while three are independent from sponsoring group.
- There are Audit and Human Resource Committee in place to assist the board. Audit Committee reports to board in line with code of corporate governance.
- The auditors of the company M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants expressed an unqualified audit opinion pertaining to annual financial statements for FY17.

MANAGEMENT — STRONG

- Mr. Ali Jameel is the CEO of the company. He is assisted by a team of experienced professionals at key management positions.
- The company has a lean organizational structure with each function headed by a capable personnel, reporting to CEO.
- The organizational structure is divided into five functional departments, namely: (1) Finance, (2) Information Technology, (3) Operations & Administration (4) Marketing and Communication, and (5) Human Resource. Furthermore, Internal Audit function reports to Board Audit Committee.

SYSTEMS & CONTROLS — STRONG

- Sound operational infrastructure including security management system.
- Captive power generation (2MW gas, 2MW diesel) to meet energy requirements

PERFORMANCE — STRONG

- Key business risks with rental model are occupancy rate and inflation. TPL Properties has hedged these risks through built-in clauses in contracts, including i) annual advance rent, ii) 10% increase in rent annually, and iii) five-year term commitment signed with tenants. Presently, 100% of the office space has been serviced.
- During FY17, rental income was recorded at PKR 363mln (FY16: PKR 364mln). Rental income is subject to 10% yearly escalation.
- Operating margin deteriorated during FY17 to 68% (FY16: 82%) on account of increase in administrative expenses. An independent valuation of Centrepoint carried in Jun-17 resulted in revaluation gain of PKR 289mln (FY16: PKR 274mln).
- Other income (mainly interest income) reduced to PKR 14mln (FY16: PKR 30mln) due to reduction in benchmark rate charged for CMS loan. Hence, the company posted profits of PKR 352mln, up 21% YoY.
- During 1QFY18, the company's recorded revenue of PKR 92mln. Operating margin declined to 60% due to rising administrative costs. However, the management is of the view that this cost will be contained in years to come. The company's investment portfolio constitutes 25% of the equity base of the company.
- Going forward, the company has two projects in pipeline 1) HKC Tower and 2) Another Residential tower with total cost of PKR 4bln and PKR 5bln respectively. HKC Tower is at more advanced stage with an investment by TPL Properties of PKR 797mln.
- TPL properties is planning to issue privately placed and Secured Term Finanace Certificates (TFC) of amount PKR 3.5bln inclusive of green shoe option of PKR 500mln. The tenor of TFC is 10 years and will follow step-up repayments. The amount of PKR 2.2bln will be used to repay the existing diminishing Musharka facility. An amount of PKR 1.3bln will be invested as equity investment in other upcoming projects.

FINANCIAL RISK — STRONG

- TPL Properties' working capital management requirement is mainly the function of payables, for which the company mostly relies on internal sources. However, the company has short term line of PKR 200mln in case of need. The net cash cycle stood at 3days as at end-Jun17.
- TPL Properties' coverages are adequate
- The company's leveraging (debt to debt plus equity) has declined to ~29% as at end-Jun17 (end-Jun16: ~44%) due to increase in equity base to PKR 4.6bln and repayment of debt.
- Going forward, the company is planning to issue TFC of PKR 3.5bln which will increase the leveraging. However, the coverages are likely to stay within comfortable range. Moreover, comfort can be drawn from financial strength of ultimate parent of TPL Properties Limited in case of any payment constraint, they will service interest and principal installment"

PKR mln

TPL Properties Limited

BALANCE SHEET	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	1H	Annual	Annual	Annual
Non-Current Assets	**5,810**	**4,983**	**4,638**	**4,322**
Investments (Incl. associates)	**1,327**	**1,249**	**442**	**250**
Equity	1,150	1,150	353	1
Debt	176	99	89	249
Investment Property	-	-	-	-
Current Assets	**736**	**485**	**989**	**287**
Inventory	-	-	-	-
Trade Receivables	59	27	21	11
Others	677	459	968	277
Total Assets	**7,872**	**6,717**	**6,069**	**4,859**
Debt	**2,179**	**1,865**	**2,275**	**2,034**
Short-term	400	-	200	-
Long-term (Inlc. Current Maturity of long-term debt)	1,779	1,865	2,075	2,034
Other shortterm liabilities	168	190	264	291
Other Longterm Liabilities	35	38	334	749
Shareholder's Equity	**5,490**	**4,623**	**3,196**	**1,785**
Total Liabilities & Equity	**7,872**	**6,717**	**6,069**	**4,859**
INCOME STATEMENT				
Turnover	**183**	**363**	**364**	**232**
Gross Profit	178	353	352	220
Net Other Income	836	305	252	285
Financial Charges	(95)	(176)	(237)	(254)
Net Income	**867**	**352**	**291**	**184**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	129	235	256	131
Net Cash changes in Working Capital	(252)	(81)	(23)	107
Net Cash from Operating Activities	(185)	(50)	(201)	82
Net Cash from InvestingActivities	(91)	(62)	(210)	(62)
Net Cash from Financing Activities	295	(394)	1,067	80
Ratio Analysis				
Performance				
Turnover Growth	-0.4%	-0.3%	57.0%	240.6%
Gross Margin	97.4%	97.3%	96.6%	95.0%
Net Margin	473.4%	97.0%	79.8%	79.3%
ROE	16.8%	8.0%	10.1%	10.9%
Coverages				
FCFO/Gross Interest	1.4	7.7	7.7	6.8
FCFO/Gross Interest+Principal Payment	0.6	7.7	7.7	3.9
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	7.9	3.0	-18.8	-53.5
Capital Structure (Total Debt/Total Debt+Equity)	24.1%	28.7%	44.4%	59.3%

Annexure I

Repayment Schedule - TFC				
Sr. #	**Month**	**Interest Rate**	**Bi - Annual Installment**	**Outstanding Balance**
1	06th Month	1.00%	35,000,000	3,465,000,000
2	12th Month	1.00%	35,000,000	3,430,000,000
3	18th Month	2.50%	87,500,000	3,342,500,000
4	24th Month	2.50%	87,500,000	3,255,000,000
5	30th Month	2.75%	96,250,000	3,158,750,000
6	36th Month	2.75%	96,250,000	3,062,500,000
7	42th Month	3.50%	122,500,000	2,940,000,000
8	48th Month	3.50%	122,500,000	2,817,500,000
9	54th Month	4.75%	166,250,000	2,651,250,000
10	60th Month	4.75%	166,250,000	2,485,000,000
11	66th Month	6.00%	210,000,000	2,275,000,000
12	72th Month	6.00%	210,000,000	2,065,000,000
13	78th Month	7.00%	245,000,000	1,820,000,000
14	84th Month	7.00%	245,000,000	1,575,000,000
15	90th Month	7.00%	245,000,000	1,330,000,000
16	96th Month	7.00%	245,000,000	1,085,000,000
17	102th Month	7.00%	245,000,000	840,000,000
18	108th Month	8.00%	280,000,000	560,000,000
19	114th Month	8.00%	280,000,000	280,000,000
20	120th Month	8.00%	280,000,000	-
		100%	3,500,000,000	

ENTITY CREDIT RATING SCALE & DEFINITIONS

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

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high 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.
D	Obligations are currently in default.

Short Term Ratings

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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 or 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.

Rating Team Statements
(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.
(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)

Monitoring and review
(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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
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