



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Trakker Limited | Sukuk-I | May-16

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Jun-2018	A+	-	Stable	Maintain	-
16-Sep-2017	A+	-	Stable	Maintain	-
18-Feb-2017	A+	-	Stable	Maintain	YES
16-Jun-2016	A+	-	Stable	Initial	-
18-Feb-2016	A+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings incorporate TPL's leadership position in the tracking industry, emanating from its diverse product portfolio and superior technology infrastructure. STE is exposed to border closure risk, never the less the company is expanding its cargo monitoring business in Pakistan. This would add significant revenue to the top line; incremental cash flows from new segments are crucial to the growth. The company is also endeavoring to switch to rental model as against sale model.

CPEC is also an emerging opportunity. TPL Trakker is projecting that it will muster a sizable revenue even if it is able to garner a fraction of the expected container movement.

Revenue augmentation is also expected to foster from Auto hardware sales: Navigation systems, 360 degree Cameras and Parking Sensors. The deal is at an advanced stage. The company is raising debt by way of Sukuk bond, bulk of which will be utilized in retiring the existing borrowing

The ratings are dependent upon the improved risk profile with strengthened business revenue and financial health. Herein revenues from new projects need to transpire, as projected. Adherence to good financial discipline while harnessing working capital management and strengthening debt servicing capacity is vital.

Disclosure

Name of Rated Entity	TPL Trakker Limited Sukuk-I May-16
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17)
Related Research	Sector Study Tracking Services(Jun-18)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

TPL TRAKKER (TPL TRAKKER) PROFILE	
Incorporated	2017
Major Business	Tracking business
Head Office	Karachi

OWNERSHIP	GOOD
<ul style="list-style-type: none"> TPL Trakker Limited (TPL) – a wholly owned subsidiary of TPL Corp (Pvt.) Limited – is a vehicle tracking and fleet management solutions, provider. TPL Corp Limited – close to two and a half billion rupee corporate conglomerate in turnover terms – has expanded its footings in diversified business avenues with a sizable portfolio of strategic investment 	
GOVERNANCE	GOOD
<ul style="list-style-type: none"> The Board consists of four directors. All four of the board members comprise vastly experienced professionals of insurance and tracking industries Mr. Ali Jameel, a Chartered Accountant from England & Wales, is the Director of TPL Trakker. He has diversified experience in managing various business ventures 	
MANAGEMENT	GOOD
<ul style="list-style-type: none"> Mr. Sarwar Ali Khan is the CEO of the company. Mr. Khan is experienced professionally over a decade and has been associated with the company for the last two years. He is directly reportable to the Group CEO, Mr. Ali Jameel. The company has an able management team. The long association of the management team, barring few new positions, with the group, bodes well for the overall growth of the company. 	
PERFORMANCE	GOOD
<ul style="list-style-type: none"> During 9MFY18, TPL Trakker’s revenue clocked in at PKR 1.2bln. 48% of the revenue comes from renting the tracking devices followed by monitoring income (35%). The remaining is shared among equipment sale (14%) and customer service (3%). Gross margin of the company stands at 58%. With the rationalized operational cost, operating margin of 16.1% was achieved Owing to a high finance cost (PKR 169mln), the company recorded a net profit of PKR 26.6mln with Net Profit margin at 2.2%. Going forward, TPL envisages a sizeable growth in all segments. In vehicle tracking, many new products are in the offing, – includes bike tracking and camera monitoring. Targeting a niche market in Hardware business to OEM by focusing on i) Infotainment ii) Parking Sensors iii) Wireless Chargers iv) 360 Cameras. TPL Trakker projects the revenue to close to PKR 1.8bln at end - FY18 	
INSTRUMENT	
<ul style="list-style-type: none"> On Apr-16, TPL issued a Sukuk of PKR 600mln (@ KIBOR +3%, 5 years maturity), opting for the Shirqat-ul-Milk structure. Equal principal repayments (semi-annual) are scheduled to fall starting from the 42nd month from the date of issue. Equal principal repayments (semi-annual) were scheduled to fall starting from the 42nd month from the date of issue The generated funds were utilized in the following manner: permanent working capital requirements (PKR 200mln), and rest to launch new projects 	
FINANCIAL RISK	ADEQUATE
<ul style="list-style-type: none"> At end-Mar18, the gross cash cycle stands at 266days The low operating margins (16%) are resulting in lesser free cash flows (FCFO) (9MFY17: PKR 401mln). TPL Trakker has a sizeable equity base of PKR 1.1bln at end-Mar18. Working capital needs and new projects led to increases in leveraging (70%) 	



VEHICLE TRACKING

The Pakistan Credit Rating Agency Limited

Financial Summary

TPL Trakker Limited (TPL)

BALANCE SHEET	31-Mar-18
	9M
Non-Current Assets	2,429
Investments	-
Current Assets	2,293
Inventory	381
Trade Receivables	1,255
Others	658
Total Assets	4,722
Debt	2,695
Short-term	1,360
Long-term (incl. Current Maturity of Long-Term Debt)	1,335
Other short-term liabilities	900
Other long-term liabilities	1
Shareholder's Equity	1,127
Total Liabilities & Equity	4,722

INCOME STATEMENT

Turnover	1,211
Gross Profit	700
Operational Expenses	(503)
Other Income	24
Financial Charges	(169)
Net Income	27

Cashflow Statement

Free Cash flow from Operations (FCFO)	401
Net Cash changes in Working Capital	(215)
Net Cash from Operating Activities	49
Net Cash from Investing Activities	(300)
Net Cash from Financing Activities	259

Ratio Analysis

Performance	
Turnover Growth	
Gross Margin	57.8%
Net Margin	2.2%
ROE	3.2%
Coverages	
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.2
Interest Coverage (X) (FCFO/Gross Interest)	2.4
Debt Payback (Years) (Total Debt (excl. Covered Short Term Borrowings) / FCFO)	6.5
Liquidity	
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	267
Capital Structure (Total Debt/Total Debt+Equity)	70.5%

TPL Trakker Limited (TPL)

Jun'2018



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

<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.</p>	<p>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’.</p>	<p>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.</p>	<p>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.</p>
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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.

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

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- (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.
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- (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)

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- (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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