



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Properties | TFC Series A

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-May-2019	AA-	-	Stable	Maintain	-
04-Dec-2018	AA-	-	Stable	Maintain	-
20-Mar-2018	AA-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings incorporate sustained 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) for Centrepoint. The business profile of TPL Properties is expected to remain healthy as 'Centrepoint' enjoys full occupancy coupled with relatively long-term agreements engendering low business risk. The agreements also incorporate annual rent escalation clause. TPL Group is pursuing its second project in real estate - HKC Tower. HKC tower will comprise luxury residential apartments and advance sale model will be followed for this project. The project was facing delay due to ban on high rise constructions in Karachi. Last year, the company raised debt through TFC (Series A) to swap long term finance present on book which was previously obtained at higher spread and finance pre-construction expenses of HKC Tower. The lower spread on the TFC was due to improved risk profile of the Company – a factor considered positive while assigning rating. The remaining amount of TFC (Series B) will be used for equity investment in projects. The financial risk profile is adequate and current financial commitments are manageable from existing cashflows of the company. Any further increase in leveraging beyond 'Tranche A' may have negative implications if upcoming investments are unable to contribute positive cashflows. 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 TFC Series A
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument(Jun-18)
Related Research	Sector Study Real Estate(Apr-19)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Formed in 2007, TPLP is the real-estate arm of 'TPL Holdings'. TPL Properties Limited got listed on Pakistan Stock Exchange (PSX) in Jul-16.

Background The Company is based in Karachi, Pakistan. 'Centrepoint' is the first project of TPL Properties so far. The project was initiated in Oct-07 and was eventually completed in May-13.

Operations 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. It is currently focused on providing executive class office facilities to the business community. As of January 10th, 2019; TPLP has signed a MOU with Equitativa Real Estate Limited. The largest Real Estate Investment Trusts (REIT) manager in the GCC and manager of Emirates REIT, and launch REIT Scheme in Pakistan.

Ownership

Ownership Structure Presently, TPL Properties is owned by TPL Group (46%) through companies (~33%) and individuals (~12%). Formerly in FY17, the shareholding of TPL Group was ~43%. Furthermore, the recent addition to shareholders are Alpha Beta Group (~15%) and Heritage Chambers Limited (~15%). The shareholding of Tundara has become 6.4% (formerly ~7%).

Stability TPL Properties ownership structure is considered to be stable as majority stake rests with the 'TPL Group'.

Business Acumen TPL Group is a fairly recent entrant on the business horizon of Pakistan. Its strategy for new ventures has centered on building partnerships with industry players who contribute core-business acumen and best practices, whereas TPL Group provides operational management and market knowledge.

Financial Strength TPL Group has investments in auto, insurance, real estate, security services, energy and financial services sectors. The Group consists of seven main companies. TPL Group has an equity base of over ~PKR 7.4bln at end-Jun18.

Governance

Board Structure The overall control of the company vests in eight-member board of directors (BoD) including the CEO. Five members, including one executive and four non-executive members, represent TPL Group while 'Mr. Ziad Bashir' is an independent director from the sponsoring group. The Chairman - Mr. Jameel Yusuf is the father of Mr. Ali Jameel, the CEO and both represent sponsoring family. Mr. Fawad and Mr. Siraj are representative of 'Heritage Chambers Limited' and 'Alpha Beta Capital'.

Members' Profile The board members have diversified experience with necessary technical skills owing to long association with the company. During FY18, attendance of BoD members is considered strong.

Board Effectiveness Post IPO, the company formed two board committees – Audit and Human Resource & Remuneration – to comply with Code of Corporate Governance.

Financial Transparency M/s. Ernst & Young Ford Rhodes, Chartered Accountants, are the external auditor of the company. The auditors have expressed unqualified opinion on TPL Properties' financial statements for the year ended June, 2018. An interim review for financial statements was held for the period ended December, 2018.

Management

Organizational Structure TPL Properties has a streamlined organizational structure. Each function is headed by an experienced resource though relatively new to the company.

Management Team Mr. Ali Jameel spearheads the management operations. Mr. Jameel, a fellow member of Institute of Chartered Accountant from England & Wales (ICAEW), has been the key individual in conception and development of group companies. The management team comprises professionally qualified members having requisite experience.

Effectiveness TPL Properties is working with five key functions namely (i) Information Technology, (ii) Finance, (iii) External Relations & CSR, (iv) Marketing and Communication, (v) Human Resource.

MIS The company maintains strong IT infrastructure and related controls. The company deploys Oracle E-Business Suit as ERP solution. Two Oracle modules are operational i) Financial, and ii) Supply Chain.

Control Environment TPL Properties has invested to ensure that sufficient security measures are in place. The company deploys Access Control Suite, solution which controls, manages and monitors physical access in building .

Business Risk

Industry Dynamics In last few years, an increased trend of investment was witnessed in real estate sector on account of improved spending on infrastructure, higher disposable income, improved security situation and prevailing lower interest rate environment. However, going forward rising interest rates and expected rise in inflation may result in lesser investment in the sector.

Relative Position 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, and ii) five-year term commitment signed with tenants. The company is enjoying 100% occupancy since many years.

Revenues During FY18, accounting rental income was recorded at PKR 366mln (FY17: PKR 363mln) up 1% YoY. While, agreement based rental income was recorded at PKR 397mln (FY17: PKR 361mln), up 10% YoY. The company recognizes revenues in financial statements as per IFRS 15 & 16, which requires rent income to be spread equally per annum over the contract period. Furthermore, consequent to property valuation in Jun-18 resulted in revaluation gain of PKR 1.1bln (FY17: PKR 289mln). Hence, the company recorded a profit of PKR 1,235mln - merely due to revaluation gain. Other income increased to PKR 26mln (FY17: PKR 14mln) due to increase in profit on savings accounts. Furthermore, the company has extended long term loan to CMS (wholly owned subsidiary) and HKC of PKR 241mln (end-Jun17: PKR 47mln) and PKR 191mln (end-Jun17: PKR 9mln) respectively. 5.4 During 1HFY19, accounting rental income increased to PKR 189mln which depicts a rise of 3.3% YOY. Interest income swelled up by 66% YOY, generated from markup on loan to subsidiaries. Interest expense also increased by 25% YOY, mainly due to increase in interest rates by SBP and the drawdown of TFC Tranche A by the company. The valuation gain on investment property stood at PKR 412mln, which is a 48% reduction YOY (end-Dec17: PKR 819mln). Consequently, PAT declined by 47% YOY standing at PKR 447mln (1HFY18: PKR 867mln).

Margins Deterioration of the operating margin in the recent most quarter was evidential due to the increase in operating expenses while the accounting revenue recorded in financial statements remain constant. During 1HFY19, GM & OM stood at 96% and 70% respectively (FY18: GM: 97%; OM: 68%, 1HFY18: GM: 97%; OM: 78%).

Sustainability Going forward, the company has two projects in pipeline 1) HKC Tower - residential apartments and 2) Office building/ residential apartments. HKC Tower is at more advanced stage with an equity investment by TPL Properties of PKR 797mln. HKC project was previously facing delays due to ban on high rise buildings in karachi, but as of 11th of December 2018, Supreme court of pakistan has lifted the ban and the project's cashflows are expected in foreseeable future upon completion.

Financial Risk

Working Capital TPL Properties' WC requirement is mainly the function of payables, for which the company relies on internal cashflows. The net cash cycle stood at 9days as at end-Dec18.

Coverages During 1HFY19, TPLP core coverage has slightly inched upward YOY to 0.7x (end-Jun18: 1.0x, end-Dec17: 0.6x). Going forward, with estimated approaching of interest payments (TFC), coverages are expected to witness further decline.

Capitalization Leveraging (debt to debt plus equity) largely stayed stagnant YOY (end-Dec18: ~29%; end-Jun18: ~30%; end-Dec17: ~29%). During the year, long term debt increases to PKR 2.1bln at end-Jun18 (end-Jun17: PKR 1.8bln) and Short term borrowing of PKR 400mln was availed to invest in attractive short-term real estate investments. Going forward, with rising leveraging and interest rates, strengthening of rental income and timely cash flows from new projects remain vital for the company.



TPL Properties Limited
Listed Public Limited

1 BALANCE SHEET	Dec-18 6M	Jun-18 12M	Jun-17 12M	Jun-16 12M
a Non-Current Assets	6,613	6,196	4,983	4,638
b Investments (Incl. Associates)	1,696	1,724	1,258	442
Equity Instruments	1,062	1,150	1,150	353
Debt Instruments	634	574	108	89
c Current Assets	748	705	476	989
Inventory	-	-	-	-
Trade Receivables	26	45	27	21
Others	721	659	449	968
d Total Assets	9,056	8,624	6,717	6,069
e Debt/Borrowings	2,526	2,553	1,865	2,275
Short-Term	400	408	-	200
Long-Term (Incl. Current Maturity of Long-Term Debt)	2,126	2,146	1,865	2,075
Other Short-Term Liabilities	204	186	190	540
Other Long-Term Liabilities	20	28	38	58
f Shareholder's Equity	6,305	5,858	4,623	3,196
g Total Liabilities & Equity	9,056	8,624	6,717	6,069

2 INCOME STATEMENT

a Turnover	189	366	363	364
b Gross Profit	182	357	353	352
c Net Other Income	446	1,208	305	252
d Financial Charges	(119)	(208)	(176)	(237)
e Net Income	447	1,235	352	291

3 CASH FLOW STATEMENT

a EBITDA	149	268	255	306
b Free Cash Flow from Operations (FCFO)	115	244	235	256
c Total Cashflows (TCF)	132	264	239	259

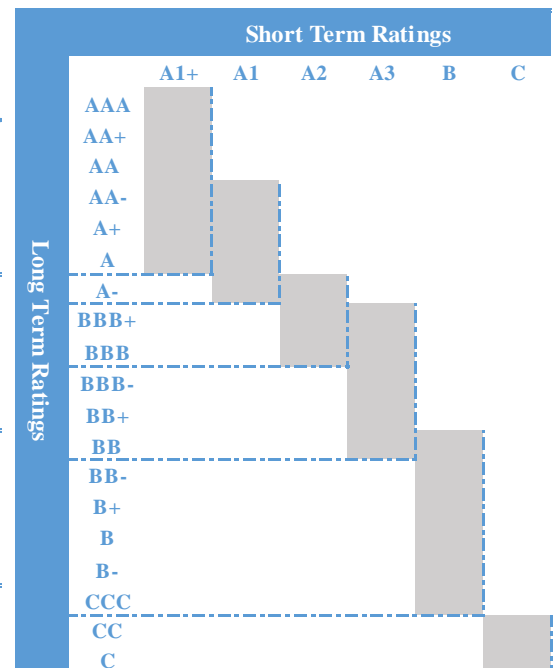
4 RATIO ANALYSIS

a Performance				
Turnover Growth	3%	1%	0%	57%
Gross Margin	96%	97%	97%	97%
Net Margin	237%	337%	97%	80%
ROE	15%	24%	9%	12%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.7	1.0	0.6	0.7
Interest Coverage (X) (FCFO/Gross Interest)	1.0	1.2	1.3	1.1
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	-321.2	57.2	31.5	121.0
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	9	4	-28	-64
d Capital Structure (Total Debt/Total Debt+Equity)	29%	30%	29%	44%

Credit Rating Scale & 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.

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	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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 and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

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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.
- (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)

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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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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR)
Privately Placed TFC	2.2bln	10 years	Charge over hypothecated assets, Mortgaged Property, assignment of dividend receivables and assignment of rights and benefits under Developer Margin Agreements. Additional security of rental agreements in favour of the Trustee	PKR 9.3bln	Fixed assets, current assets & future assets	Pak Brunci Investment Company Limited	4.6bln

TPL Properties Limited | TFC Series A | Mar'18

Name of Issuer	TPL Properties Limited
Issue size	PKR 2.2bln
Issue Date	Mar-18
Tenor	10 Years
Maturity	10 years from the date of issuance
Profit Rate	6MK + 1.25%
Call option	Option to redeem in full or partially, exercisable any time after expiry of one year from the issue date with prior notice
Principal Repayment	Stepped up payments
Security	Charge over hypothecated assets, Mortgaged Property, assignment of dividend receivables and assignment of rights and benefits under Developer Margin Agreements. Additional security of rental agreements in favour of the Trustee.

TPL Properties Limited | TFC Series A | Redemption Schedule

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate	6M Kibor (Assumed at 10%)	Markup/Profit Payment	Installment Payable	Principal Outstanding
								PKR in mln
Issuance								2,200
Sep'18	2,200	22	6 months from issuance	6 Month Kibor +1.25%	10%	124	146	2,178
Mar'19	2,178	22	12 months from issuance	6 Month Kibor +1.25%	10%	196	244	2,156
Sep'19	2,156	55	18 months from issuance	6 Month Kibor +1.25%	10%	193	280	2,101
Mar'20	2,101	55	24 months from issuance	6 Month Kibor +1.25%	10%	188	276	2,046
Sep'20	2,046	61	30 months from issuance	6 Month Kibor +1.25%	10%	183	279	1,986
Mar'21	1,986	61	36 months from issuance	6 Month Kibor +1.25%	10%	178	274	1,925
Sep'21	1,925	77	42 months from issuance	6 Month Kibor +1.25%	10%	172	295	1,848
Mar'22	1,848	77	48 months from issuance	6 Month Kibor +1.25%	10%	165	288	1,771
Sep'22	1,771	105	54 months from issuance	6 Month Kibor +1.25%	10%	158	325	1,667
Mar'23	1,667	105	60 months from issuance	6 Month Kibor +1.25%	10%	149	315	1,562
Sep'23	1,562	132	66 months from issuance	6 Month Kibor +1.25%	10%	140	350	1,430
Mar'24	1,430	132	72 months from issuance	6 Month Kibor +1.25%	10%	128	338	1,298
Sep'24	1,298	154	78 months from issuance	6 Month Kibor +1.25%	10%	116	361	1,144
Mar'25	1,144	154	84 months from issuance	6 Month Kibor +1.25%	10%	102	347	990
Sep'25	990	154	90 months from issuance	6 Month Kibor +1.25%	10%	89	334	836
Mar'26	836	154	96 months from issuance	6 Month Kibor +1.25%	10%	75	320	682
Sep'26	682	154	102 months from issuance	6 Month Kibor +1.25%	10%	61	306	528
Mar'27	528	176	108 months from issuance	6 Month Kibor +1.25%	10%	47	327	352
Sep'27	352	176	114 months from issuance	6 Month Kibor +1.25%	10%	32	312	176
Mar'18	176	176	120 months from issuance	6 Month Kibor +1.25%	10%	16	296	-
		2,200				2512	6012	