



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Properties Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Apr-2023	A+	A1	Stable	Maintain	-
29-Apr-2022	A+	A1	Stable	Maintain	-
07-May-2021	A+	A1	Stable	Maintain	-
11-May-2020	A+	A1	Stable	Maintain	-
09-Nov-2019	A+	A1	Stable	Maintain	-
10-May-2019	A+	A1	Stable	Maintain	-
04-Dec-2018	A+	A1	Stable	Maintain	-
20-Mar-2018	A+	A1	Stable	Maintain	-
23-Jun-2017	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

TPL Properties Ltd (TPL Properties or the Company) has significant presence in Real estate sector for more than a decade. The sponsors have a very good understanding of the business. TPL Properties after the sale of its first and flagship project “Centrepoint” is re – strategizing its business model from single revenue stream of rental income. Following the materialization of their plan TPL Properties is now effectively a holding company, having subsidiaries in REIT Management, Real Estate Development, Property management and substantial investment in TPL REIT Fund I. In addition, the Company has successfully transferred its projects namely “One Hoshang”, “Technology Park” and “Mangrove” to the TPL REIT Fund I where company has also realized substantial Capital Gains. I) REIT will provide dividends to the Company. II) it will continue to develop the projects and will receive development fees. III) as the owner of the RMC, it will receive dividends as the RMC receives management and performance fees for REIT. The financial risk profile remains adequate; will be supported by additional cashflows expected from new business lines. Moreover, leveraging of the company stands at 4.2% as company repaid its debt and decreased its reliance on short-term borrowings. Furthermore, with stability in macroeconomic indicators company expects a rise in the real estate market demand in near future.

The ratings are dependent on management's ability to ensure adequacy of cashflows through the timely execution of the construction plans of the said projects. Any material deviation in strategy impacting risk profile of the company can have detrimental effect on Ratings.

Disclosure

Name of Rated Entity	TPL Properties Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Real Estate(May-22)
Rating Analysts	Ahsan Zahid ahsan.zahid@pacra.com +92-42-35869504

Profile

Legal Structure Legal Structure Formed in 2007, TPLP is the real-estate and fund management arm of 'TPL Corp'. 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. Centrepoint project was initiated in Oct-07 and was eventually completed in May-13. And company sold the project to Bank al Habib amounting to PKR 7.75bln.

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. Furthermore, company has expanded its operations in Development Advisory Business as well as in REIT and Fund Management.

Ownership

Ownership Structure The Company's ownership structure has gone through some changes during last few years. Presently, TPL Properties is owned by TPL Group (51.4%) through companies and individuals, followed by Alpha Beta Group (8.82%) and remaining is on free float.

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

Business Acumen TPL Group has been on the business horizon of Pakistan since last two decades. 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 Life & Non-Life Insurance, Real Estate, Security Services, Asset Tracking, Technology, Internet of Things, Digital Mapping & financial services sector. The Group consists of seven main companies.

Governance

Board Structure The overall control of the company vests in seven-member board of directors (BoD) including the CEO. Two members, including one executive and one non-executive members, represent TPL Group. The Chairman - Mr. Jameel Yusuf is the father of Mr. Ali Jameel, the CEO and both represent sponsoring family

Members' Profile The board members have diversified experience with necessary technical skills owing to long association with the company. All directors have attended mandatory directors training program required under the code of corporate governance. The board members meet at regular intervals.

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

Financial Transparency M/s. BDO Ebrahim & Co, 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 30, 2022. The company has an internal audit department which reports directly to the Board Audit Committee in line with Code of Corporate Governance.

Management

Organizational Structure TPL Properties has a streamlined organizational structure. Each function is headed by an experienced resource.

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 seven key functions namely (i) Information Technology, (ii) Finance, (iii) External Relations & CSR, (iv) Marketing and Communication, (v) Human Resource, (vi) Operations and (vii) Project Management reporting to Chief Executive Officer.

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. In addition, the company has also implemented Building Security Management Solution (BMS).

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 and includes modules on i) Visitor Management, ii) Vehicle Management, iii) Personal Access, and iv) Lift Secure Access. TPL Properties has also in place CCTV camera recording solution, to facilitate real time data backup.

Business Risk

Industry Dynamics In last two years, fluctuations have been witnessed in investment in real estate sector attributable to change in fiscal policies which resulted in peaked interest rate environment. However, revised policy rates and inflation impacted adversely on construction sector resulting in increasing the input costs. Thus, slowing down the pace of Real Estate.

Relative Position TPL Properties is a renowned name in the Real Estate sector. With the launch of TPL REIT Fund I company has evidently made a significant presence in the market.

Revenues During 1HFY21, In August 2020, TPL Properties entered into a sale agreement with Bank Al Habib to sell its flagship project "Centrepoint" at a transaction value of PKR 7.75bln. Subsequent to the signing of Sale Deed, proceeds were received by TPL Properties. As of now, TPL Properties is effectively a Holding Company. Thus, revenues will be generated by Management & Performance fee combined with dividends from TPL REIT Fund I and TPL Development (Pvt.) Ltd. Revenue stream majorly would be dependent on the timely completion of current and future development projects of its subsidiaries. During FY22 & 1HFY23 company generated revenues of PKR 5,919mln & PKR 5,037mln respectively. Revenues attributed to the transfer of units to TPL REIT Fund I.

Margins During FY22, company's margins rebounded on generating significant revenues. Similarly, in 1HFY23 company reported the topline with revenues of PKR 5,037mln and net profit margin soar to 82.4% & 95.3% respectively. As in corresponding periods company was not operating in its core business and developing new projects, margins kept the declining trend.

Sustainability Going forward, the company has three projects in hand 1) One Hoshang - residential apartments, 2) Mangrove, 3). Technology Park, One Hoshang is at more advanced stage. Construction on the said project has started and the management is confident to complete the project in 2.5 years. The other two projects are also in the process of obtaining relevant approvals from the concerned authorities and construction will be commenced by the end of FY24.

Financial Risk

Working Capital TPL Properties' working capital requirement is mainly the function of payables, for which the company relies on internal cashflows. Company had obtained the short-term borrowings of PKR 2,275mln to temporarily finance the acquisition of land parcel for Mangrove Project. However, the facility was repaid subsequent to the transfer of land parcel to TPL REIT Fund I and short term borrowings stands at PKR 40mln at end Dec-22.

Coverages During FY22, TPLP interest coverage soar to 8.3x on back of healthy cash flows. However, in 1HFY23 FCFOs again declined as company is still in developing stage therefore, coverage also decline to -2.9x. However, some of the related projects (REIT & Development Projects) are also on the cards which will alleviate concerns pertaining to cash flows.

Capitalization Leveraging (debt to debt plus equity) stands at 4.2% at end Dec-22 down from 41.4% at end Dec-21 (FY21: 22.2%, FY20: 33%; FY19: 27.7%). As company has repaid its remaining debt and significantly decreased its reliance on short term borrowings. Timely realization of cash flows from developer margin, dividend from REIT Fund and management and performance fee earned by TPL RMC remains vital for the company.



TPL Properties Ltd Real Estate	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

1 Non-Current Assets	261	280	216	7,652
2 Investments	-	-	-	-
3 Related Party Exposure	15,402	9,429	4,619	1,839
4 Current Assets	1,009	2,809	2,666	606
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	-	-	108	120
5 Total Assets	16,672	12,518	7,501	10,098
6 Current Liabilities	658	1,064	245	448
<i>a Trade Payables</i>	118	70	2	81
7 Borrowings	667	939	1,608	3,174
8 Related Party Exposure	-	-	2	22
9 Non-Current Liabilities	-	-	20	16
10 Net Assets	15,347	10,515	5,627	6,438
11 Shareholders' Equity	15,347	10,515	5,627	6,438

B INCOME STATEMENT

1 Sales	5,037	5,919	284	678
<i>a Cost of Good Sold</i>	-	(7)	(9)	(217)
2 Gross Profit	5,037	5,912	275	461
<i>a Operating Expenses</i>	(226)	(950)	(564)	(138)
3 Operating Profit	4,811	4,962	(289)	324
<i>a Non Operating Income or (Expense)</i>	65	249	133	373
4 Profit or (Loss) before Interest and Tax	4,876	5,210	(156)	697
<i>a Total Finance Cost</i>	(62)	(333)	(425)	(419)
<i>b Taxation</i>	(12)	(1)	17	1
6 Net Income Or (Loss)	4,802	4,877	(564)	278

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	(178)	2,662	(171)	359
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(205)	2,725	(657)	(34)
<i>c Changes in Working Capital</i>	(396)	2,037	(222)	320
1 Net Cash provided by Operating Activities	(601)	4,762	(879)	286
2 Net Cash (Used in) or Available From Investing Activities	(44)	(4,410)	4,645	(740)
3 Net Cash (Used in) or Available From Financing Activities	(208)	(676)	(1,905)	480
4 Net Cash generated or (Used) during the period	(853)	(324)	1,861	26

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	70.2%	1985.0%	-58.1%	68.5%
<i>b Gross Profit Margin</i>	100.0%	99.9%	96.7%	68.0%
<i>c Net Profit Margin</i>	95.3%	82.4%	-198.8%	41.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-11.4%	79.4%	-138.4%	100.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	74.3%	60.4%	-9.4%	4.3%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	N/A	7	147	39
<i>b Net Working Capital (Average Days)</i>	-3	4	94	10
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.5	2.6	10.9	1.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-2.7	8.4	-0.5	0.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-2.1	4.5	-0.2	0.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-1.3	0.4	-2.7	-50.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	4.2%	8.2%	22.2%	33.2%
<i>b Interest or Markup Payable (Days)</i>	228.3	48.1	37.0	91.1
<i>c Entity Average Borrowing Rate</i>	6.1%	13.2%	14.2%	15.7%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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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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 | 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)

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)

Proprietary Information

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