



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Properties Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
11-Oct-2016	A+	A1	Stable	Maintain	-
12-Oct-2015	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings incorporate sustained fundamentals of the Company. TPL Properties owns a high-end office building (Centrepoin) in Karachi. The company is following BOMR (build, own, maintain and rent-out) for Centrepoin. The business profile of TPL Properties is expected to improve as 'Centrepoin' has almost full occupancy coupled with relatively long-term agreements. The agreements also incorporate annual rent escalation clause. TPL Group is pursuing its second project in real estate – One Hoshang. One Hoshang will comprise luxury residential apartments and advance sale model will be followed for this project. The project previously faced delays owing to ban on high rise constructions in Karachi. The management is expecting to receive handsome developer's margin in upcoming year. Earlier, 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 One Hoshang. The financial risk profile remain adequate; will be supported by additional cashflows expected from new projects and curtailed key policy rate. Some of the related projects (REIT & Development Projects) are on the cards which might alleviate concerns pertaining to cash flows. Any further increase in leveraging may put stress on cushion available if upcoming investments are unable to contribute healthy cashflows. Furthermore, there exists guarantee from ultimate parent of 'TPL Properties Limited' in case of any payment constraint, they will service interest and principal installment of 'TFC Series A'. The comfort is drawn from sponsor's willingness to cut any of the current transactions, in which TPL Properties is currently dealing, to hold and/ or generate cash flows, if need be.

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
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Real Estate(Apr-19)
Rating Analysts	Usama Zubair usama.zubair@pacra.com +92-42-35869504

Profile

Legal Structure 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. REIT Management Company has been formed and the license to carry out REIT operations has been obtained from SECP. The launch of the REIT Scheme is expected to be around Dec, 20 or Jan, 21. The execution of this business strategy will diversify TPLP's revenue lines further through providing REIT management services, improve liquidity (converting real estate assets into tradeable REIT Units), realize gain on investment property which will be distributable, raise proceeds from REIT against transfer of Real Estate which will be used to pay down the outstanding debt to reduce finance cost, while also generating sufficient cashflows to undertake any further prospective investments. TPL Properties has entered into a joint venture arrangement with Al Hamd International Containers Terminal (Pvt.) Limited, for venturing into Logistics Park, which will be a bonded Commercial Freight Station handling export and import of Less than Container Load (LCL) General Cargo.

Ownership

Ownership Structure Ownership Structure Presently, TPL Properties is owned by TPL Group (45.8%) through companies (~33.4%) and individuals (~12.4%). Formerly in FY17, the shareholding of TPL Group was ~43%. The remaining shareholding is with Alpha Beta Group (~14.6%) and Heritage Chambers Limited (~14.5%).

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 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. TPL Group has an equity base of over ~PKR 3.5bln at end-Jun19.

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'. During the year Mr. Mr. Abdul Wahab Al Halabi joined the board as an independent director.

Members' Profile The board members have diversified experience with necessary technical skills owing to long association with the company. Five meetings were held during the year in which 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.

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 30, 2019 and for the period ended December 31, 2019.

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 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 two years, there has been downtrend witnessed in investment in real estate sector attributable to change in fiscal policies which resulted in peaked interest rate environment. Going forward, post management of Covid-19 crisis, real estate sector is deemed to pick up pace given incentives announced in construction package recently announced by government along with curtailed key policy rate.

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 almost 100% occupancy since many years.

Revenues During 1HFY20, accounting rental income was recorded at PKR 223mln (1HFY19: PKR 189mln). The company recognizes revenues in financial statements as per IFRS15&16, which requires rent income to be spread equally per annum over the contract period. The Company recorded a profit of PKR 339mln - majorly due to revaluation gain. Other income increased to PKR 36mln (1HFY19: PKR 27mln) due to increase in markup received from related parties. Interest income swelled up by 33% YOY, generated from markup on loan to subsidiaries. Interest expense also increased by 56% YOY, primarily attributable to peaked key policy rate. Consequently, PAT declined by 24% YOY standing at PKR 339mln (1HFY19: PKR 447mln).

Margins During Slight fluctuations were witnessed while analyzing the profitability of TPLP. Gross Profit Margin increased to 98% (1HFY19: 96%) YoY, while Operating Profit Margin increased to 82% (1HFY19: 70%) YoY. However, deterioration of the Net Profit Margin in the recent most quarter was evidential due to the increase in finance cost while the accounting revenue recorded in financial statements increased YoY.

Sustainability Going forward, the company has two projects at an advanced stage 1) One Hoshang - residential apartments and 2) Logistics Park. One Hoshang is at more advanced stage with an equity investment by TPL Properties of PKR 709mln. One Hoshang 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. Cash inflows in the form of fixed and variable developer's margin are expected in FY20. TPL Properties is planning to make an investment in Logistics Park, after taking at least one year to complete the construction, cash inflows are expected afterwards.

Financial Risk

Working Capital TPL Properties' working capital requirement is mainly the function of payables, for which the company relies on internal cashflows. The net cash cycle stood at 2days as at end-Dec19.

Coverages During 1HFY20, TPLP core coverage has maintained YoY to 0.4x (FY19: 0.4x, FY18: 1.0x). Going forward, with stepped-up repayments of principal, coverage are expected to stay under stress. Some of the related projects (REIT & Development Projects) are also on the cards which will alleviate concerns pertaining to cash flows. Furthermore, curtailed key policy rate will provide positive stimulus to financial matrix.

Capitalization Leveraging (debt to debt plus equity) inched down YoY (1HFY20: 26.3%; FY19: 27.7%; 1HFY19: 28.6%). During 1HFY20, long term debt stood at PKR 1.94bln (FY19: PKR 1.99bln; 1HFY19: 2.04bln). Short term borrowings stand at PKR 400mln. In Mar-20, TPLP's long term finance will increase by PKR 600mln availed for investment in AICT project. The loan has grace period of 2 years with rate of 6M Kibor plus 1.65%. Strengthening of rental income and timely cash flows from new projects remain vital for the company.



TPL Properties Limited Real Estate	Dec-19 6M	Jun-19 12M	Jun-18 12M	Jun-17 12M
---------------------------------------	--------------	---------------	---------------	---------------

A BALANCE SHEET

1 Non-Current Assets	7,203	6,880	6,196	4,983
2 Investments	-	-	-	-
3 Related Party Exposure	2,056	2,074	1,724	1,258
4 Current Assets	438	423	705	476
a Inventories	-	-	-	-
b Trade Receivables	34	24	45	27
5 Total Assets	9,696	9,378	8,624	6,717
6 Current Liabilities	278	253	178	178
a Trade Payables	26	27	27	37
7 Borrowings	2,458	2,509	2,553	1,865
8 Related Party Exposure	19	10	8	12
9 Non-Current Liabilities	14	17	28	38
10 Net Assets	6,927	6,588	5,858	4,623
11 Shareholders' Equity	6,927	6,588	5,858	4,623

B INCOME STATEMENT

1 Sales	223	403	366	363
a Cost of Good Sold	(4)	(11)	(10)	(10)
2 Gross Profit	219	392	357	353
a Operating Expenses	(36)	(106)	(108)	(106)
3 Operating Profit	183	286	249	247
a Non Operating Income or (Expense)	344	733	1,208	305
4 Profit or (Loss) before Interest and Tax	527	1,019	1,457	552
a Total Finance Cost	(185)	(267)	(208)	(176)
b Taxation	(3)	(22)	(14)	(23)
6 Net Income Or (Loss)	339	730	1,235	352

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	151	251	244	235
b Net Cash from Operating Activities before Working Capital Changes	26	50	69	31
c Changes in Working Capital	(25)	(89)	(139)	(81)
1 Net Cash provided by Operating Activities	0	(39)	(70)	(50)
2 Net Cash (Used in) or Available From Investing Activities	1	(257)	(410)	(62)
3 Net Cash (Used in) or Available From Financing Activities	(45)	(35)	676	(394)
4 Net Cash generated or (Used) during the period	(44)	(331)	196	(506)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	10.9%	9.9%	1.0%	-0.3%
b Gross Profit Margin	98.2%	97.4%	97.4%	97.3%
c Net Profit Margin	151.8%	181.3%	337.0%	97.0%
d Cash Conversion Efficiency (EBITDA/Sales)	82.6%	80.5%	73.2%	70.3%
e Return on Equity (ROE)	10.0%	11.7%	23.6%	9.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	24	32	36	24
b Net Working Capital (Average Days)	2	7	4	-28
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.6	1.7	4.0	2.7
3 Coverages				
a EBITDA / Finance Cost	1.0	1.2	1.3	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.4	1.0	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-34.2	-150.2	57.2	31.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	26.3%	27.7%	30.4%	28.9%
b Interest or Markup Payable (Days)	108.1	123.1	0.0	0.0
c Average Borrowing Rate	14.8%	10.5%	9.3%	7.9%

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

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent