



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
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	-

Rating Rationale and Key Rating Drivers

TPL Properties owned a high-end office building (Centrepoint) in Karachi. The Company entered into a sale agreement with Bank Al Habib to sell its flagship project at a transaction value of PKR 8bln. Thus, rental revenue's contribution towards the topline will not be observed in the upcoming future years as the revenue stream majorly would be dependent on the timely completion of company's current and future development projects. TPL Properties paid-off its entire debt obligations through the cash proceeds received from the sale agreement. The financial risk profile remains adequate; will be supported by additional cashflows expected from new projects. Some of the related projects are on the cards which might alleviate concerns pertaining to cash flows. Going forward, TPL Properties is pursuing four projects 1) One Hoshang - residential apartments, 2) Logistics Park, 3). Technology Park, 4). Korangi 40 Acres. 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 one time cash dividend upon completion of the One Hoshang project in June 2024. The Technology Park project consists of high end office space and 42 keys boutique hotel. The Company will follow a hybrid business model whereby partial office space will be sold on plan basis, while the remaining office space will retained and operated on rental basis. The hotel will be retained and operated by the company.

The ratings are dependent on management's ability to ensure adequacy of cashflows through the timely completion of upcoming projects. 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-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Real Estate(May-20)
Rating Analysts	Sana Shameen sana.shameen@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.

Ownership

Ownership Structure Ownership Structure Presently, TPL Properties is owned by TPL Group (51%) through companies (~38.6%) and individuals (~12.4%). Formerly in FY17, the shareholding of TPL Group was ~43%. The remaining shareholding is with Alpha Beta Group (~21.5%) and 27% shareholding is spread among others.

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 7.5bln at end-Jun20.

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'. 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, 2020 and for the period ended December-20.

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 To strengthen the real estate sector of Pakistan, the Government had declared an incentive package for the construction industry when some of the mobility restrictions under the lockdowns were lifted and it seems to have kick-started activities in the private sector. On account of which, the construction sector received a boost from the rise in public sector development spending. According to a recent report of SBP, development expenditures rose sharply by 15.4% during Q1-FY21 on a YoY basis, with the spending on large infrastructure projects such as dams and roads in particular increasing the demand for Cement & Steel. The industry dynamics are significantly favorable given the construction package incentives and subsidize mortgage financing.

Relative Position TPL Properties through various development projects is eyeing for optimal growth both in terms of profitability and cashflow stream. Company now takes appropriate measures to avoid any discrepancy in the projects while ensuring timely completion of the project.

Revenues On 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 8bln. The sale deed was signed on April 29th 2021 following the vacation of all the tenants from the building. Subsequent to the signing of Sale Deed 85% of the total proceeds was received by TPL Properties. Thus, rental revenue's contribution towards the topline will not be observed in the upcoming future years as the revenue stream majorly would be dependent on the timely completion of company's current and future development projects. Moreover, during 1HFY21 the rental income from the remaining tenor of the tenants/contracts is recorded at PKR 179mln. During 1HFY21 the other income decreased to PKR 64mln (1HFY20: PKR 344mln) due to the decrease in markup received from related parties and lower revaluation gain. Consequently, PAT declined to PKR 5mln (1HFY20: PKR 339mln).

Margins During 1HFY21 fluctuations were witnessed while analyzing the profitability of TPLP. Gross Profit Margin decreased to 96% (FY19: 97%) YoY, and Operating Profit Margin decreased to 57% (1HFY19: 71%) YoY. However, deterioration of the Net Profit Margin was evidential due to the decrease in rental revenue in addition with the increase in legal expenses related to Centrepoint sale and acquisition of new projects, and reversal of WWF.

Sustainability Going forward, the company has four projects in hand 1) One Hoshang - residential apartments, 2) Logistics Park, 3). Technology Park, 4). Korangi 40 Acres. One Hoshang is at more advanced stage with an equity investment by TPL Properties of PKR 709mln. One Hoshang premium mixed use development project is moving towards finalization of detailed designing followed by tender documentation. Regulatory approvals and Heritage NOC have been received. The project completion has been planned in June 2024. Furthermore, the Korangi 40 acres project is the most recent acquisition of the company to develop a master planned community consisting of residential, office and retail space on a water front location. The company has executed Sale Purchase Agreement for the land parcel and has paid 15% advance for it.

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 83days as at end- Dec20.

Coverages During 1HFY21, TPLP core coverage has declined to 0.1x (FY20: 0.4x, FY19: 0.4x). However, as per management the debt obligations are completely fulfilled through the cash proceeds received from the sale agreement of 'Centre Point'. 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 up to 39% (FY20: 33%; FY19: 27.7%). During 1HFY21, long term debt stood at PKR 2.7bln (FY20: PKR 2.5bln). Short term borrowings stand at PKR 1.3bln. Timely cash flows from new projects remain vital for the company.



TPL Properties Ltd Real Estate	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	7,675	7,652	6,880	6,196
2 Investments	-	-	-	-
3 Related Party Exposure	3,068	1,839	2,074	1,724
4 Current Assets	803	606	423	705
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	195	120	24	45
5 Total Assets	11,546	10,098	9,378	8,624
6 Current Liabilities	980	448	253	178
<i>a Trade Payables</i>	70	81	27	27
7 Borrowings	4,122	3,174	2,509	2,553
8 Related Party Exposure	0	22	10	8
9 Non-Current Liabilities	-	16	17	28
10 Net Assets	6,444	6,438	6,588	5,858
11 Shareholders' Equity	6,444	6,438	6,588	5,858
B INCOME STATEMENT				
1 Sales	179	678	403	366
<i>a Cost of Good Sold</i>	(7)	(217)	(11)	(10)
2 Gross Profit	173	461	392	357
<i>a Operating Expenses</i>	(69)	(138)	(106)	(108)
3 Operating Profit	103	324	286	249
<i>a Non Operating Income or (Expense)</i>	65	373	733	1,208
4 Profit or (Loss) before Interest and Tax	168	697	1,019	1,457
<i>a Total Finance Cost</i>	(173)	(419)	(267)	(208)
<i>b Taxation</i>	(10)	(1)	(22)	(14)
6 Net Income Or (Loss)	(14)	277	730	1,235
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	126	359	251	244
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(74)	(34)	50	69
<i>c Changes in Working Capital</i>	(1,261)	320	(89)	(139)
1 Net Cash provided by Operating Activities	(1,336)	286	(39)	(70)
2 Net Cash (Used in) or Available From Investing Activities	388	(740)	(257)	(410)
3 Net Cash (Used in) or Available From Financing Activities	919	480	(35)	676
4 Net Cash generated or (Used) during the period	(28)	27	(331)	196
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-47.1%	68.5%	9.9%	1.0%
<i>b Gross Profit Margin</i>	96.3%	68.0%	97.4%	97.4%
<i>c Net Profit Margin</i>	-8.0%	40.8%	181.3%	337.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-632.5%	100.1%	40.3%	28.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	-0.5%	4.5%	11.5%	23.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	160	39	32	36
<i>b Net Working Capital (Average Days)</i>	83	10	7	4
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	0.8	1.4	1.7	4.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	0.6	0.8	1.2	1.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.1	0.4	0.4	1.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-46.4	-50.9	-150.2	57.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	39.0%	33.2%	27.7%	30.4%
<i>b Interest or Markup Payable (Days)</i>	74.0	91.1	123.1	0.0
<i>c Entity Average Borrowing Rate</i>	10.6%	15.7%	10.5%	9.1%

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+	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	
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	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.
CC	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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