



The Pakistan Credit Rating Agency Limited

## Grading Report

### Oasis Park Residencia

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#### Grading History

Dissemination Date	Grading	Outlook	Action	Rating Watch
13-Apr-2023	PG3+	Stable	Maintain	-
13-Apr-2022	PG3+	Stable	Upgrade	-
13-Apr-2021	PG3	Stable	Initial	-

#### Grading Rationale and Key Grading Drivers

#### Rating Rationale and Key Rating Drivers

The grading denotes the prospects of execution of the real estate project as per plan and the ability to transfer the possession as per defined terms. The project "Oasis Park Residencia" is the first venture of BRB Properties Builders and Developers started in FY18 and will be completed by June'25 as per agreed terms with Sindh Building Control Authority (SBCA). The project is earmarked for the construction of 334 bungalows of 120 sq yards located at main Super highway, District Malir Karachi. The Project site, measuring 24 acre and 11.5 Ghuntas (117,552 square yards) of land and is divided in two division "bungalows and "commercial flats". The project has shown significant progress towards the construction of the bungalows with management's commitment to complete the grey structure by Sept'23. The business profile of the project is improving as the project is gaining attraction from the community. As of Feb 2023, the project has already sold 85% of the bungalows while the management plans to benefit from price appreciation of the remaining units. The management is expecting rise in the saleable value which currently hovers around PKR 25mln. In FY22 the company recognized revenue of PKR ~1,263mln (FY21: PKR 990mln) by reference to the stage of completion of the bungalows. FCFO stood at PKR 34mln in absolute terms. The financial risk profile remains subject to mobilization of customer advances and recovery ratio which stood at approx. 70% of the booked amount. BRB Properties has fully utilized the facility of PKR 650mln from Meezan Bank Ltd under Musharaka agreement at KIBOR plus 250bps which is payable in quarterly installments. The case relating to tax liability amounting to PKR 25.2mln has been referred to Chairman FBR by the Sindh High Court. The courts interim order of no coercive action against the petitioners holds to continue till the matter is decided by FBR. The land bank left from the residential Project would provide strength to the developer.

The corporate structure of the developer is aligned with the assigned grading. The grading is dependent on management's ability to complete the Project within defined parameters. Any material deviation in the plan, impacting risk profile of the company, will be negative.

#### Disclosure

<b>Name of Rated Entity</b>	Oasis Park Residencia
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Project Grading
<b>Applicable Criteria</b>	Assessment Framework   Project Grading(Feb-23)
<b>Related Research</b>	Sector Study   Real Estate(May-22)
<b>Rating Analysts</b>	Hashim Yazdani   hashim.yazdani@pacra.com   +92-42-35869504

## Management Systems

Project management evaluates the management systems used to execute and monitor the Project. The principal activity of BRB Properties Builders and Developers (BRB Properties or the Company) is to invest, purchase, develop and build real estate and to sell, or otherwise dispose of in any manner the real estate including commercial and residential buildings, houses, shops, plots or other premises. The Company has a lean but defined organizational structure. Each function is headed by professionally qualified members having requisite experience and the Company has adequate resources for completion of project "Oasis Park Residencia" (the Project). Mr. Khawaja Bilal Azam, has been the key individual in conception and development of "Oasis Park Residencia". He is in the business since 1996 and has developed strong asset base through diverse businesses in stocks, tea importer and from FY 2000 evolved himself as real estate investor. He spearheads the management operations along with a team of qualified individuals. The land title is under the sole ownership of Mr. Khawaja Bilal Azam, provides comfort against future litigation on land title/ownership. BRB Properties shows strong commitment towards the project, as they are working on the construction of the bungalows in strips. The location of the Project is such that management can easily access to the resources in terms of machinery, material and the labor. Management selects the contractor by having the prequalification process. While company also have some skilled and semi-skilled labor on the payroll of BRB Properties to ensure the continuous availability of labor till the Completion of the Project. BRB Properties maintains adequate IT infrastructure and related controls. The Company ERP solution software deploys by Sidat Hyder Management Consulting. Six modules are operational i) Financial, and ii) Contract Management, (iii) Supply Chain, (iv) Accounts Payable, (v) Accounts Receivable, (vi) Human Resource. The management also has weekly reporting system in place to monitor the activities of the Project. Each activity is monitored and controlled by the site engineers and architectural consultant, finally approved by Chairman. Control environment despite the fact that business KPIs are continuously monitored through regular reporting, single line of management bodes control risk.

## Business Risk

The Project was initiated by "BRB Properties" in FY18. The expected completion date of the Project as agreed with Sindh Building Control Authority will be in FY25 but management assiduously of the view to complete the project before agreed timeline. The Project is earmarked for the construction of 334 bungalows and two high-rise buildings, located at District Malir Karachi at main super highway. The Project location makes it more attractive, being its near-about of Malir Cantt, Rangers Headquarters, falcon society and few minutes away from Airport. The Project site, measuring approximately 117,552 sq yards (24 acres) of land, divided in two division first are the "bungalows of 2,691 sq feet each" covering the total area of 106,622 sq yards and second are the "two high-rise buildings for semi-commercial & residential flats", the total area for these high rise buildings is 10,930 sq yards. The Project is in developmental/construction phase, with the management focusing on the construction of bungalows in strips. Oasis Park Residencia is the first Project of BRB Properties, brand recognition will take time in market. Zameen.com is the marketing partner of the Project. Prices are competitive, selling price of each bungalow is between PKR 23-25mln. Further, the Company provides instalment options to customers with 30% as an advance booking amount and rest is payable over three year period. As of Feb'23, the Company has sold approx. 85% units with only few units vacant, depicting interest of public in the Project. There has been a rising demand in the real estate sector due to the shortfall of houses in Pakistan. The increase in construction costs and raw materials have also led to the surge in the average price of bungalows.

## Performance Risk

Company has developed a proper master plan to achieve the Project timelines and BRB properties did not observe any delay so far. A team of professional engineers is present on site to monitor the progress of the Project and quality control department is established to critically evaluate the performance against the agreed predefined milestones. Senior management has weekly meeting protocol to appraise the performance and enlighten the future milestones/targets. The management is working tirelessly to complete the construction of the grey structure of all 334 bungalows before Sept'23. Currently, the Company has just one project in pipeline which will ensure the management commitment towards the Project. As per plans, the management is of the view that the financial inflows will be completed by FY25. Timely completion of the Project and recovery from client will mitigate the cashflow issues going forward for the completion of projects. Timelines agreed with the customers are 3 years to construct and handover the bungalow, title of the land will be transferred to buyer upon receipt of complete payment. Financial penalties are also incorporated in the Project for material deviations/delays if observed. Penalties are also imposed in case of nonpayment by customer and on the flip side, if the Company not provided the units as per the agreed timelines, they will have to pay agreed financial penalties to its customers. During FY22, net income was recorded at PKR ~30mln (FY21: PKR ~48mln). Stability was witnessed while analyzing the profitability of BRB Properties. Gross Profit Margin for FY22 recorded at 32.6% (FY21: 24.6%). However, the Company recorded a Net Profit Margin of 2.4% for FY22 as compared to 4.9% in FY21.

## Financing Risk

The Project financing risk is associated with the Company's aptitude to meet its obligation related to project infrastructure and operational needs. So far, largely the Company is relying on equity and as of Jun'22 its capital structure ratio is standing at 23.8%. Working capital is mainly a function of trade receivables and trade payables for which the company relies on internally generated cashflows. As of Jun'22 trade receivables stood at PKR 310mln (as at Jun'21: PKR 126mln). The company has utilized 100% of its borrowing amounting to PKR 500mln from Meezan Bank which are payable in quarterly installments based on markup of KIBOR + 2.5% per annum. The company has a Tax payable under amnesty scheme amounting to PKR 25.2mln. The company had filed a case in the Sindh High court regarding the surcharge which has been referred by the court to Chairman FBR. Till the decision given by the Chairman FBR in the present matters, the interim order passed by the court that no coercive action to be taken against the petitioners will be held. The adverse inference, which the Management foresees in this case, will be the immediate payment of tax liability as admitted under the declaration filed under Asset Declaration Ordinance 2019 together with any surcharge as per the said Ordinance. As of Feb'23, the Company has booked approx. PKR 4,609mln against sale of bungalows out of which 70% are received. Additional comfort is drawn from sponsor's willingness to support the Project in time of need.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

BRB Properties Builders and Developers Real Estate	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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**A BALANCE SHEET**

1 Non-Current Assets	94	33	10	9
2 Investments	-	2,357	1,309	505
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,855	1,173	1,024	1,001
<i>a Inventories</i>	3,414	706	992	999
<i>b Trade Receivables</i>	311	126	23	-
5 Total Assets	3,949	3,563	2,343	1,515
6 Current Liabilities	431	407	205	49
<i>a Trade Payables</i>	124	93	12	22
7 Borrowings	839	357	-	-
8 Related Party Exposure	-	-	-	266
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,680	2,799	2,138	1,200
11 Shareholders' Equity	2,680	2,799	2,138	1,200

**B INCOME STATEMENT**

1 Sales	1,263	990	137	36
<i>a Cost of Good Sold</i>	(851)	(747)	(106)	(27)
2 Gross Profit	412	243	31	10
<i>a Operating Expenses</i>	(357)	(193)	(22)	(16)
3 Operating Profit	55	50	9	(6)
<i>a Non Operating Income or (Expense)</i>	4	6	0	-
4 Profit or (Loss) before Interest and Tax	60	56	9	(6)
<i>a Total Finance Cost</i>	-	-	-	-
<i>b Taxation</i>	(30)	(7)	(2)	(0)
6 Net Income Or (Loss)	30	48	7	(7)

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	34	57	11	(5)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	34	57	11	(5)
<i>c Changes in Working Capital</i>	(438)	267	136	(258)
1 Net Cash provided by Operating Activities	(404)	324	147	(263)
2 Net Cash (Used in) or Available From Investing Activities	(60)	(18)	(3)	(6)
3 Net Cash (Used in) or Available From Financing Activities	320	(85)	(140)	268
4 Net Cash generated or (Used) during the period	(144)	220	4	(0)

**D RATIO ANALYSIS**

1 Performance				
<i>a Sales Growth (for the period)</i>	27.6%	620.9%	278.1%	234.5%
<i>b Gross Profit Margin</i>	32.6%	24.6%	22.6%	27.0%
<i>c Net Profit Margin</i>	2.4%	4.9%	5.4%	-18.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-32.0%	32.7%	107.2%	-723.5%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	1.2%	2.1%	0.4%	-0.9%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	658	340	2718	N/A
<i>b Net Working Capital (Average Days)</i>	627	321	2672	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	9.0	2.9	5.0	20.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	N/A	N/A	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.2	2.2	N/A	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	19.3	3.6	0.0	-57.6
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	23.8%	11.3%	0.0%	18.2%
<i>b Interest or Markup Payable (Days)</i>	N/A	N/A	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	0.0%	0.0%	0.0%	0.0%

### Project Grading

An independent opinion on the execution prospects of a real estate project as per plan and ability to transfer as per terms.

Scale	Definition
<b>PG1</b>	<b>Very Strong.</b> Very Strong prospects of successful implementation of real estate project and transfer as per terms. Project risk factors are very low.
<b>PG2++</b> <b>PG2+</b> <b>PG2</b>	<b>Strong.</b> Strong prospects of successful implementation of the real estate project and transfer as per terms. Project risk factors are low.
<b>PG3++</b> <b>PG3+</b> <b>PG3</b>	<b>Good.</b> Good prospects of successful implementation of the real estate project and transfer as per terms. Project risk factors are moderate.
<b>PG4++</b> <b>PG4+</b> <b>PG4</b>	<b>Adequate.</b> Adequate prospects of successful implementation of the real estate project and transfer as per terms. Project risk factors are relatively high.
<b>PG5</b>	<b>Weak.</b> Weak prospects of implementation of the real estate project and transfer as per terms. Project risk factors are very high.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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 surveill the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated grading opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of grading opinion is carried out at least once every six months. However, a grading opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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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**

(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)

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(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)

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