



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-2021	PG3	Stable	Initial	-

Grading Rationale and Key Grading Drivers

Rating Rationale and Key Rating Drivers

The grading denotes 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 first venture of the BRB Properties started in FY18 and will be completed in June'25 as per agreed terms with Sindh Building Control Authority (SBCA). Currently the Project is in developmental phase. BRB Properties shows strong commitment towards the Project and has already obtained complete spectrum of approvals. The business profile of the Project is improving as the Project is gaining attraction from the community. Marketing and sales partner is Zameen.com. As of Mar'21 the Company has already sold more than 50% of bungalows and recorded sales revenue of PKR 217mln in 1st half of FY21. With this increased sales, liquidity of the Company has improved (cash and bank balance as at end Dec'20 PKR 222mln; June'20 PKR 4.9mln). The Company is expecting rise in the saleable values, the average price of each bungalow is around PKR 15mln to PKR17mln. In FY20 revenue recorded at PKR ~137mln (FY19: PKR 36mln) a rise of 278%. FCFO stood at PKR 11mln in absolute terms. The financial risk profile remain subject to mobilization of customer advances. The BRB Properties has acquired the facility of PKR 500mln from Meezan Bank Ltd under Musharaka agreement at KIBOR plus 250bps. The available credit line is a cushion, though the management has not intend to leverage the balance sheet for this project, as mostly internal cash flows will take care of development cost. Payment of tax liability related to assets declared under Tax amnesty scheme might potentially effect the timely delivery of Project. Any further notice related to deferment granted remains critical for the project grading (expired on November 13, 2020). 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 plan, impacting risk profile of the company, will be negative.

Disclosure

Name of Rated Entity	Oasis Park Residencia
Type of Relationship	Solicited
Purpose of the Rating	Project Grading
Applicable Criteria	Methodology Project Grading(Feb-21)
Related Research	Sector Study Real Estate(May-20)
Rating Analysts	Saadat Mirza saadat.mirza@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 Mr. Usman Tanzeel Khawaja (COO). 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 have already obtained approvals from regulatory authorities and NOC from utility providers before the execution of project. The location of the Project is such that management can easily access to the resources in terms of machinery, material and the labour. Management selects the contractor by having the prequalification process. While company also have some skilled and semi-skilled labour on the payroll of BRB Properties to ensure the continuous availability of labour 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. Four ERP modules are operational i) Financial (Payable and GL), ii) Supply Chain, iii) HRM and iv) Real Estate Management System. 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 COO. 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 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, ground work and preliminary construction work has already been completed. 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 15-17mln. 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 Mar'21, the Company has sold more than 50% units, with an average price of PKR 16 mln each, depicting interest of public in the Project. In last two years, there has been downtrend witnessed in real estate sector investment, attributable to change in fiscal policies which resulted in peaked interest rate environment. In post management of Covid-19 crisis, real estate sector picked up pace on account of incentives announced in construction package by the Government along with curtailed key policy rate. However, going forward in the medium term, stable interest rates and inflation may result in more investment in the sector.

Performance Risk

Company has in place 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. Currently, the Company has just one project in pipeline which will ensure the management commitment towards the Project. The Company is planning to have further projects in pipeline - construction of two high rise buildings, developing more societies in the different regions of the country, alleviate the pressure on cashflows of the Company. As per plans, the management is of the view that 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 non-payment by customer and on the flip side, if the Company not provided the units as per the agreed timelines will have to pay agreed financial penalties to its customers. During FY20, income was recorded at PKR ~137mln (FY19: PKR ~36mln) up by 278% YoY. Furthermore, consequent to property valuation in FY19, resulted in revaluation gain of PKR 900 mln. During FY20 the Company has recorded net profit of PKR 7.362 mln due to increase in revenue. Fluctuations were witnessed while analysing the profitability of BRB Properties. Gross Profit Margin decreased to 22.7% (FY19: 27%) YoY. However, the Company recorded a Net Profit Margin of 5.4% for FY20 as compared to -18.2% in FY19.

Financing Risk

The Project financing risk 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 June'20 its capital structure ratio is standing at 9.5%. Working capital is mainly a function of trade receivables and trade payables for which the company relies on internally generated cashflows. As of June'20 trade receivables stood at PKR 23.4mln (as at Jun'19 trade receivables were zero) and this rise was majorly due to outbreak of COVID-19, company faces slow recovery of trade receivables. The Company has not availed any short term borrowing facilities to date. While the BRB Properties has pocketed the facility of PKR 500mln from Meezan Bank Ltd. under Musharaka agreement at KIBOR plus 250bps. The financing will increase the gearing ratio and management has the plan to maintain the leveraging between 40%-45% during the life of the Project. It is worthwhile to mention, that the Company has not yet pay the tax liability, for declared Land under Asset Declaration Ordinance 2019, resulting in tax on amnesty payable amounting to PKR. 18 million which has not been paid till date, whereas the amount of surcharge to-date has been added after which the liability has increased to approx. PKR. 22 million. Last date for payment as per the Ordinance was June 30, 2020. The management has filed a petition in High Court of Sindh on June 24, 2020 seeking relaxation in the rate of surcharge and deferral of payment in 12 instalments on the basis of COVID-19 related relaxations given by Government of Pakistan and Provincial Government. The High Court has granted a stay order in the matter of this petition, which was expired on November 2020. The Company's legal advisor is of view, that stay order is still intact as hearing in High Court is continuing and no parawise comments has been submitted by the Respondents. 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. 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-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET			
1 Non-Current Assets	10	9	4
2 Investments	505	505	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,024	1,001	302
a Inventories	4	7	-
b Trade Receivables	23	-	-
5 Total Assets	1,538	1,515	307
6 Current Liabilities	205	49	0
a Trade Payables	12	22	-
7 Borrowings	-	-	-
8 Related Party Exposure	126	266	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	1,207	1,200	306
11 Shareholders' Equity	1,207	1,200	306
B INCOME STATEMENT			
1 Sales	137	36	11
a Cost of Good Sold	(106)	(27)	-
2 Gross Profit	31	10	11
a Operating Expenses	(22)	(16)	(8)
3 Operating Profit	9	(6)	2
a Non Operating Income or (Expense)	-	-	-
4 Profit or (Loss) before Interest and Tax	9	(6)	2
a Total Finance Cost	-	-	-
b Taxation	(2)	(0)	(0)
6 Net Income Or (Loss)	7	(7)	2
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	11	(5)	3
b Net Cash from Operating Activities before Working Capital Changes	11	(5)	3
c Changes in Working Capital	139	(258)	(301)
1 Net Cash provided by Operating Activities	149	(263)	(299)
2 Net Cash (Used in) or Available From Investing Activities	(3)	(6)	(4)
3 Net Cash (Used in) or Available From Financing Activities	(142)	268	306
4 Net Cash generated or (Used) during the period	4	(0)	4
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	278.4%	234.5%	--
b Gross Profit Margin	22.7%	27.0%	100.0%
c Net Profit Margin	5.4%	-18.2%	19.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	108.7%	-723.5%	-2748.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareh	0.6%	-0.9%	0.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	76	N/A	N/A
b Net Working Capital (Average Days)	31	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	5.0	20.6	10992.7
3 Coverages			
a EBITDA / Finance Cost	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	11.8	-57.6	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	9.5%	18.2%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	0.0%	--

Project Grading

Project grading reflects opinion on execution prospects of a real estate project as per plan and ability to transfer as per terms.

Scale	Definition
PG1	Very strong. Highest prospects of successful implementation of real estate project and transfer as per terms. The project risk factors are very low
PG2++ PG2+ PG2	Strong. High prospects of successful implementation of the real estate project and transfer as per terms. The project risk factors are low
PG3++ PG3+ PG3	Good. Good prospects of successful implementation of the real estate project and transfer as per terms. The project risk factors are moderate
PG4++ PG4+ PG4	Adequate. Adequate prospects of successful implementation of the real estate project and transfer as per terms. The project risk factors are relatively high
PG5	Weak. Weak prospects of implementation of the real estate project and transfer as per terms. The project risk factors are very high

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>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 surveill the opinion due to lack of requisite information.</p>	<p>Harmonization 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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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (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)

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- (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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