



The Pakistan Credit Rating Agency Limited

Rating Report

TPL REIT Management Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Dec-2021	RM 3+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating recognizes TPL REIT Management Limited's financial risk profile ("TPL RMC" or the "Company") which is supported by the adequate capital structure. The rating reflects the TPL-RMC's well-experienced management team and governance framework. The Board comprises seasoned professionals having vast experience in various sectors. TPL-RMC is de-risking the Fund's projects in four major ways: i) Acquiring land and relevant NOCs before the initial fundraising ii) Drawing investors' commitments according to milestone-based schedule iii) Working with world-acclaimed international and local third-party partners iv) Getting its decisions vetted by the investment committee comprising of independent members. The Company is in process of launching its first hybrid Shariah Compliant REIT Fund "TPL REIT Fund I" which would be initially comprised of three projects i) Technology Park (commercial office & business hotel) ii) Mangrove (waterfront mid-rise community) and iii) One Hoshang (luxury residences). All projects are located at prime locations in Karachi. The funds targets to raise at least PKR 80bln, equivalent to ~USD 500mln in multiple rounds, with first close up to PKR 18.75 bn. TPL-RMC has a strong partner network, which includes Squire & Partners (UK) in the design team and Morgan Lewis as the international legal counsel. Going forward, the construction activity is picking up rapidly due to access to finance for both the developer and the buyer, and this is expected to grow exponentially over the next two years. The offering will allow investors to tap into Pakistan's booming real estate. The PAT of the RMC has increased to PKR 6mln during FY21 on the back of gain in investment in mutual funds. Once the fund is launched, the income of the TPL-RMC will be diversified through management fee and performance fee. During FY21, sponsors have injected fresh equity in the Company amounting to PKR 350mln. Currently, the equity of the RMC stands at PKR 450mln which is well above the minimum regulatory requirement. The assigned rating reflects TPL RMC's association with a well-established real estate developer and operator 'TPL Properties, which is also the developer adviser to the Fund.

The rating is dependent upon the Company's ability to sustain its market share and uphold strong investment processes and control environment. Meanwhile, retention of key management, sound governance practices, and consistent performance of funds is critical. Any sustained downturn in fund performance and/or significant loss in market share will impact the rating.

Disclosure

Name of Rated Entity	TPL REIT Management Company Limited
Type of Relationship	Solicited
Purpose of the Rating	REIT Manager Rating Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology REIT Manager Rating(Oct-21)
Related Research	Sector Study Real Estate(May-21)
Rating Analysts	Muhammad Junaid muhammad.junaid@pacra.com +92-42-35869504

Profile

Background TPL REIT Management Company Limited (TPL-RMC or the "Company") is a public limited company, licensed by SECP to carry out REIT Management Services in accordance with NBFC Rules, 2003 and REIT Regulations, 2015. TPL-RMC was incorporated in 2018 to capitalize on the emerging REITs market in Pakistan. The company is in-process to launch Pakistan's first Hybrid REIT, "TPL REIT Fund I" and shall provide REIT management services to it.

Market Share Currently, the industry size comprises assets under management of PKR ~54bln at end Jun'21. TPL-RMC is one of those companies licensed to undertake REIT management services and is launching the first hybrid Non-PPP REIT Fund. TPL-RMC aims to initially raise up to PKR 18.75bln, which would help to establish its market share in the industry. The real estate sector of Pakistan is thriving and flush with private sector investment owing to the incentive packages given by the current government for the real estate sector.

Fund Mix The Company has planned to launch the first closed-end and shariah-compliant Hybrid Non-PPP REIT Fund "TPL REIT Fund I" by the end of CY21. The fund size is targeted at ~ PKR 80bln. The funds raised from the first close of the Fund shall be invested in three projects namely: i) Technology Park (Commercial Office & Business Hotel) ii) Mangrove (Waterfront mid-rise community) and iii) One Hoshang (Luxury residences).

Ownership

Ownership Structure TPL-RMC is a wholly-owned subsidiary of TPL Properties Limited. TPL Properties Limited is the real estate arm of TPL Group.

Stability TPL Properties ownership structure is considered to be stable as the 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 Corp, the holding company of the TPL Group, has investments in Life & Non-Life Insurance, Real Estate, Security, Asset Tracking, Technology, Internet of Things, Digital Mapping, and Venture Capital. TPL Group has an equity base of over ~PKR 7.6bln at end-Jun'21.

Governance

Board Structure TPL-RMC's control vests in the six-member board which includes three independent directors. The composition of the Board is in line with best practices.

Members' Profile The Chairman, Mr. Ali Jameel, besides holding this office also serves at the board of several prestigious organization. He is CEO of TPL Corp Ltd, which was founded in 2000, and has diversified investments in Asset Tracking, Digital Mapping, Life Insurance, General Insurance, Fintech, Information Technology and Property Development. The rest of the Board members are seasoned professionals having extensive experience in various sectors.

Board Effectiveness The Board of the Company has the overall responsibility for the establishment and oversight of the risk management framework. There are three Board level committees i) Audit, Risk and Oversight Committee ii) Human Resource & Remuneration Committee and iii) Investment Committee. Quality of Board minutes is satisfactory with board minutes entailing comprehensive discussions covering future outlook and strategy.

Transparency The external auditors of the Company are M/S EY Ford Rhodes. They have a satisfactory QCR rating and are classified in the 'A' category of the SBP Panel of Auditors. The Company has an in-house internal audit department that reports independently to the audit committee.

Management

Organizational Structure TPL-RMC has a well-defined organizational structure having departments and sub-departments reporting to the CEO. The departments are i) Internal Audit ii) Accounting iii) Legal iv) Compliance v) Corporate Finance vi) Marketing vii) Human Resources viii) IT and ix) Admin.

Management Team The management team of the Company comprises experienced and qualified professionals. The CEO, Mr. Ali Asghar, possesses ~14 years of experience. He has primarily worked for TPL Properties. The CFO, Mr. Imad Zahid Nagi, possesses overall ~15 years of experience in the capital markets.

Management Effectiveness The management is effectively engaged with stakeholders to ensure regulatory approval of the project.

Oversight Of Third-Party Service Providers The Company has hired the expertise of various third-party service providers such as development advisors, independent valuers, international fund administrator, and others. The management's experience in real estate has equipped it to effectively oversee third-party service providers.

Control Environment The Company has established legal and compliance departments. The department is headed by Mr. Danish Qazi, a UK-qualified barrister. The department ensures compliance with all applicable statutory regulations and internal investment guidelines.

Investment Risk And Portfolio Management

Investment Risk Management The Company has established Investment Committee to evaluate investment opportunities as per investment guidelines stipulated in the Information Memorandum. The Company is managing the investment risk by overseeing activities such as (i) Acquiring land and relevant NOCs before raising private investment (ii) Drawing investors' commitments according to a milestone-based schedule (iii) Working with world-acclaimed third-party partners and (iv) Getting its decision vetted by the Investment Committee comprised of independent members. The risk management policy is in place which covers operational risks, credit risks, and financial risks. Risk management is overseen by the Head of Compliance. The Company has also engaged Shariah Advisor to ensure the REIT Compliance with Shariah rules.

Investment Decision Making As per international best practices, TPL-RMC has established an Investment Committee, comprising experienced independent professionals to oversight and approve investment decisions as per the investment criteria mentioned in Information Memorandum. The members of the Investment Committee include Mr. Adnan Afaq and Mr. Abdul Wahab Al Halabi. Along with it, an advisory board shall be established on the foreign AMC level to set out the strategic direction of the TPL REIT Fund. The advisory board shall be comprised of Mr. Waqar Malik, Mr. Asad Naqvi, and Mr. Aliuddin Ansari. The Fund may also engage a licensed investment advisor to advise on the investment of surplus funds on a non-discretionary basis which will be in accordance with the investment guidelines of the Fund.

Investment Research & Analysis The investment and acquisition department is responsible for monitoring the real estate value, market position, changes in the economic and regulatory environment that may impact the operations and performance of the TPL REIT Fund. Mr. Moid Shaikh is heading the department. He has ~7 years of experience in corporate finance.

Customer Relationship

Investor Services The Company would manage investors' relationships using specifically developed software which would provide a centralized platform for facilitating and monitoring sales and marketing activities.

Investor Reporting The investor's reporting mechanism is in process of establishment.

Distribution & Sales Network Currently, the Company is operating through its head office based in Karachi.

Investment Performance

REIT Funds Under Management The Company is in process of raising an initial fund of up to PKR 18.75bln for its Hybrid Shariah-compliant REIT fund.

Performance The topline of the Company has increased to PKR 7mln during FY21 (FY20: PKR 1mln). While the PAT has increased to PKR ~6mln (FY20: PKR 4mln). The profit is attributable to an unrealized gain on mutual funds.

Financial Sustainability The sponsor has injected fresh equity amounting to PKR 350mln during FY21. The current equity of the Company is standing at PKR 410.17mln as of end-Jun'21 which is well above the minimum regulatory requirement.



The Pakistan Credit Rating Agency Limited

TPL REIT Management Limited
Public Limited

Jun-21
12M

Jun-20
12M

Jun-19
12M

A BALANCE SHEET

1 Earning Assets	417	54	50
2 Non-Earning Assets	3	0	0
3 Total Assets	420	54	50
4 Total Borrowing	-	-	-
5 Other Liabilities	10	0	0
6 Total Liabilities	10	0	0
7 Shareholders' Equity	410	54	50

B INCOME STATEMENT

1 Investment Income	8	5	1
2 Operating Expenses	(1)	(1)	(1)
3 Net Investment Income	7	5	(0)
4 Other Income	-	0	-
5 Total Income	7	5	(0)
6 Other Expenses	-	-	(0)
7 Total Finance Cost	-	-	-
8 Profit Or (Loss) Before Taxation	7	5	(0)
9 Taxation	(1)	(1)	-
10 Profit After Tax	6	4	(0)

C RATIO ANALYSIS

1 Investment Performance

i. Investment Income / Average AUMs	N/A	N/A	N/A
ii. ROE	2.7%	7.4%	-0.5%
iii. ROA	2.6%	7.4%	-0.5%

2 Financial Sustainability

i. Coverages			
a. Total Borrowing / EBITDA	N/A	N/A	N/A
b. EBITDA / Finance Cost	N/A	N/A	N/A
ii. Capitalization			
a. Total Borrowing / (Total Borrowing + Shareholders' Equity)	0.0%	0.0%	0.0%

REIT Manager Rating

An independent opinion on the quality and expertise deployed by a REIT Manager

Scale	Definition
RM1	Very high quality. REIT manager meets or exceeds the overall REIT management industry best practices and highest benchmarks.
RM2++ RM2+ RM2	High quality. REIT manager meets high REIT management industry standards and benchmarks with noted strengths in several of the rating factors.
RM3++ RM3+ RM3	Good quality. REIT manager meets REIT management industry standards and benchmarks.
RM4++ RM4+ RM4	Adequate quality. REIT manager demonstrates an adequate organization that meets key REIT management industry standards and benchmarks.
RM5	Weak. REIT manager does not meet the minimum REIT management industry standards and benchmarks.

<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 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.

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- 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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- (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

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- (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)
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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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- (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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