



The Pakistan Credit Rating Agency Limited

**Rating Report**

**BRB Properties Builders and Developers**

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Jan-2022	BB+	A3	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

BRB Properties Builders and Developers is committed towards the construction of their first real estate venture Oasis Park Residencia. The company has shown progress towards the construction of bungalows which are expected to be completed by June'2025 as per agreed terms with Sindh Building Control Authority (SBCA). Additionally, the company has been successful in selling out more than 70% units with the aid of Zameen.com and through internal sales force. As a result, there has been a significant increase in the revenue stream with FY21 top line recorded at PKR 990mln (FY20: PKR 137mln). This sales growth is evidence of the market acceptability of the project which is in return beneficial for the company in terms of creating their value in the real estate sector. With appreciation in the real estate market, the company expects a rise in the average price of bungalows in near future and plans on taking advantage of it. The company has managed their receivables efficiently against the sale of bungalows with a consumer friendly instalment plan which has improved the company's liquidity. The company has secured a facility of PKR 500mln (98% utilized) from Meezan Bank Ltd under the Musharaka agreement at KIBOR plus 250 bps. The financial risk of the company is low but remains subject to further borrowings in order to support future projects. Payment of tax liability related to assets declared under Tax amnesty scheme remains important for the ratings of the Company. Regarding future plans, the company has finalized architectural designs for the construction of two high rise buildings for commercial and residential use on the same land. Construction for both towers will begin in the first quarter of CY22.

The timely completion of the project and the adequacy of cashflows remain crucial for the company. The ratings are dependent on the future projects that the company plans on undertaking along with timely collection from customers against sale of bungalows and any further borrowings that would affect the financial risk profile of the company.

Disclosure	
<b>Name of Rated Entity</b>	BRB Properties Builders and Developers
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Real Estate(May-21)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** BRB Properties Builders & Developers is a Sole Proprietorship that was formed in 2008. The principal activity of the organization is development of residential and commercial real estate projects on purchased land. The sole owner of the company is Mr. Khawaja Bilal Azam.

**Background** The Company is based in Karachi, Pakistan. 'Oasis Park Residencia' is the first project of BRB Properties that was initiated in Oct-18 and will eventually be completed in June 2025.

**Operations** The principal activity of 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 is currently working on its first project Oasis Park Residencia. The project includes the development of a residential society on 24 acres land purchased by the owner. The society will include 334 bungalows of 120 sq yard constructed on 10 acres. The remaining land will be utilized to construct roads, shops, mosque, parks and school.

## Ownership

**Ownership Structure** BRB Properties is 100% owned by Mr. Khawaja Bilal Azam who is the sole proprietor. This is an evidence that Mr. Khawaja Bilal Azam is the man at the last mile.

**Stability** The ownership structure of the Company is seen stable in foreseeable future. However, the existence of formal succession planning will add to the strength of the stable structure.

**Business Acumen** Mr. Khawaja Bilal Azam and his family is in the business of Tea Import and Trading. During the year 1996 to 1999, Mr. Bilal Azam was an investor in the field of Stock, Bills and Electronic Trading and from Year 2000, he entered in the industry of Real Estate where he played the role of investor in land. Due to extensive growth Mr. Bilal entered in the business of Property Development and started constructing Oasis Park Residencia project for residential purpose. Hence, the business acumen of sponsors is considered strong. In comparison to other business groups, which have been operating in other sector for decades, BRB properties are a fairly recent entrant.

**Financial Strength** Sound sponsorship has been the deriving component of the strong financial position of the business. Over the years Mr. Khawaja Bilal has grown into real estate business.

## Governance

**Board Structure** Currently, the company has six member board with Mr. Khawaja Bilal Azam being the Chairman. Remaining five members are close relatives of the owner.

**Members' Profile** Mr. Khawaja Bilal Azam is the sole owner, founder and Chairman of BRB Properties. He is the man at the last mile and the driving force behind the success and growth of BRB Properties. Remaining board members have vast experience in the fields of HR, IT, Engineering and Accounting respectively.

**Board Effectiveness** The board consists of qualified and experienced professionals from the fields of Engineering, Finance, Human Resource and Information Technology. The board members have been appointed recently. The board needs improvement with regards to the presence of independent directors and board committees.

**Financial Transparency** M/s Grant Thornton Anjum Rahman, are the external auditor of the company. The auditors have expressed unqualified opinion on BRB Properties financial statements for the year ended June 30, 2021 while given "Emphasis of Matter" regarding restatement of certain balances of prior years.

## Management

**Organizational Structure** BRB Properties has a streamline organizational structure. Each function is headed by an experienced resource though relatively new to the company but have past experiences in the relevant fields.

**Management Team** Mr. Khawaja Bilal Azam spearheads the management operations. Mr. Khawaja Bilal Azam, a lawyer by profession, has been the key individual in conception and development of company. The management team comprises professionally qualified members having requisite experience. Each department is headed by a qualified individual having previous experience in the field.

**Effectiveness** BRB Properties is working with eight key functions namely (i) Finance, (ii) Human Resource, (iii) Procurement, (iv) Admin, (v) Information Technology, (vi) Sales and Marketing (vii) Engineering Department, (viii) Quality Control reporting to the board. Company's effective management played a significant role in empowering the organization through its progressive results.

**MIS** BRB Properties maintains strong IT infrastructure and related controls. The company deploys Sidat Hyder as ERP solution. Six modules are operational i) Financial, ii) Contract Management iii) Supply Chain iv) Accounts Payable v) Accounts Receivable (Real Estate Management) and vi) Human Resource. In addition, the MIS reports are updated on a real-time basis to be available to senior management all the time. The reports are shared and discussed with the board regularly so that the information is conveyed promptly to the senior management.

**Control Environment** BRB Properties has invested to ensure that sufficient security measures are in place. Company's quality of the I.T. infrastructure and the breadth and depth of activities performed will ensure satisfactory outcomes.

## Business Risk

**Industry Dynamics** In last few years, an increased trend of investment was witnessed in real estate sector on account of improved spending on infrastructure, higher disposable income, improved security situation and prevailing lower interest rate environment. However, going forward in the medium term, stable interest rates and inflation may result in more investment in the sector.

**Relative Position** Since BRB Properties Builders & Developers is new to the real estate sector with Oasis Park Residencia being its first project, they are still developing their brand image within the real estate sector. The company has shown positive progress towards their project and thus customers have shown interest which is evident from the sale of the bungalows.

**Revenues** During FY21, revenues were recorded at PKR ~990mln (FY20: PKR ~137mln) up by 620% YoY. Furthermore, consequent to property valuation in FY21 resulted in additional revaluation gain of PKR 1,047mln resulting in total comprehensive income recorded at PKR ~1,096mln. (FY20: PKR ~811mln).

**Margins** Fluctuations were witnessed while analysing the profitability of BRB Properties. Gross Profit Margin increased to 24.6% (FY20: 22.6%) YoY, while Net Profit Margin decreased to 4.9% (FY20: 5.4%) YoY which was mainly due to the increase in sales, advertising and marketing expenses for the year. Similarly, Operating Profit Margin for the year FY21 was 5.1% (FY20: 6.8%) YoY.

**Sustainability** Owner is in the business since 1996 and since then develop its strong asset base through diverse business in stocks, real estate investor, tea import and from FY18 passionately developing its real estate business (Oasis Park Residencia) and going forward, the company has other plans to develop commercial buildings and other real estate projects in the future.

## Financial Risk

**Working Capital** BRB Properties' working capital requirement is mainly the function of payables and receivables, for which the company relies on internal cashflows as of now. The net working capital (Average days) decreased significantly to 8 days in FY21 (FY20: 36 days)

**Coverages** During FY21, BRB has FCFO of PKR 58mln in absolute terms when compared with FCFO of FY20 it was PKR 11mln, which is a significant positive change. As of June'21, company has borrowings from banks of PKR 357mln including current maturity of Long term borrowings.

**Capitalization** Leveraging (debt to debt plus equity) stood at 11.3% as a reason of increased borrowings during the year. Furthermore company has acquired the facility of PKR 500mln (98% utilized) from Meezan Bank Ltd under Musharaka agreement at KIBOR plus 250bps.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

BRB Properties Builders & Developers Real Estate	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	32	10	9	4
2 Investments	2,357	1,309	505	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,174	1,024	1,001	302
a Inventories	-	-	7	-
b Trade Receivables	126	23	-	-
5 Total Assets	3,563	2,343	1,515	307
6 Current Liabilities	407	205	49	0
a Trade Payables	93	12	22	-
7 Borrowings	357	-	-	-
8 Related Party Exposure	-	-	266	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,799	2,138	1,200	306
11 Shareholders' Equity	2,799	2,138	1,200	306
<b>B INCOME STATEMENT</b>				
1 Sales	990	137	36	11
a Cost of Good Sold	(747)	(106)	(27)	-
2 Gross Profit	243	31	10	11
a Operating Expenses	(193)	(22)	(16)	(8)
3 Operating Profit	50	9	(6)	2
a Non Operating Income or (Expense)	6	0	-	-
4 Profit or (Loss) before Interest and Tax	56	9	(6)	2
a Total Finance Cost	-	-	-	-
b Taxation	(7)	(2)	(0)	(0)
6 Net Income Or (Loss)	48	7	(7)	2
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	58	11	(5)	3
b Net Cash from Operating Activities before Working Capital Changes	58	11	(5)	3
c Changes in Working Capital	267	136	(258)	(301)
1 Net Cash provided by Operating Activities	325	147	(263)	(299)
2 Net Cash (Used in) or Available From Investing Activities	(453)	(143)	(6)	(4)
3 Net Cash (Used in) or Available From Financing Activities	349	-	268	306
4 Net Cash generated or (Used) during the period	222	4	(0)	4
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	620.9%	278.1%	234.5%	--
b Gross Profit Margin	24.6%	22.6%	27.0%	100.0%
c Net Profit Margin	4.9%	5.4%	-18.2%	19.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	32.8%	107.2%	-723.5%	-2748.6%
e Return on Equity / Net Profit Margin * Asset Turnover * (Total Assets/Sh	2.1%	0.4%	-0.9%	0.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	28	81	N/A	N/A
b Net Working Capital (Average Days)	8	36	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	2.9	5.0	20.6	10983.5
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	2.3	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.6	0.0	-57.6	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	11.3%	0.0%	18.2%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	0.0%	0.0%	0.0%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	
CC	<b>Very high credit risk.</b> 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.
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><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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)

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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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- (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)
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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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