



The Pakistan Credit Rating Agency Limited

Rating Report

Entertainment Pakistan Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 16-May-2023 | BB | A3 | Stable | Maintain | - |
| 23-May-2022 | BB | A3 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

Entertainment Pakistan Limited (EPL or the Company) enjoys two streams of income – Rental and through sale of developed properties. The company earns sublease income by subletting buildings that have been taken on Lease from DHA under first pivot, and develops its own real estate projects under second pivot. In the developmental model, EPL transfers ownership as well as possession of apartments after installments are received completely. The company purchases land on deferred payment model for its projects and starts construction before transfer of land ownership which creates risk of land ownership disputes. Company’s first real estate venture, “Dawood Homes” offering accommodations on 5 marla plots, is 85% complete with 11-12 buildings delivered. Payment for Dawood Homes land has been made fully while payment for its second venture, Roshan Homes land will be adjusted against proceeds received from sales of Roshan Homes. The company’s topline has suffered owing to depressed market conditions and was recorded at PKR 37mln in Dec 22 (FY22: PKR 92mln) with 28.4% GP margin. EPL is not exposed to any significant financial risk as it does not have significant borrowings from banks. It instead borrows from sponsors and their close relatives. Company has also received a tranche from REALL Limited UK for Roshan Homes amounting to PKR 27.5 million which is a soft debt at 6%, repayable in PKR. Completion risk and inflation risk of the company is low as units are constructed and handed over on batch basis which gives it flexibility over price setting. The company is committed to complete first building of Roshan Homes soon and has 2 more projects in the pipeline on similar model in already developed societies.

Ownership of land and adequacy of financial strength remain crucial for the company. Timely completion of the projects along with delivering promised quality to develop positive brand image and timely collection from customers against sale of apartments are important. Governance and corporate structure require improvement and so does financial discipline.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Entertainment Pakistan Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22) |
| Related Research | Sector Study Real Estate(May-22) |
| Rating Analysts | Uswa Sikandar uswa.sikandar@pacra.com +92-42-35869504 |

Profile

Legal Structure Entertainment Pakistan Limited is a public unlisted company and its registered office is located on H-160/2 Commercial Phase 1 DHA, Lahore Punjab. The principal activities of the company is to take buildings on lease and sublease them as well as real estate development.

Background The Company was incorporated on July 4, 2011 as a private limited company under Companies Act, 2017, and later on November 12, 2019, status of company was changed from private to public. The company was primarily made to explore sustainable living options for the economically challenged class of the society.

Operations The company has primarily two streams of income – lease rental income and real estate development. In the first pivot, EPL gets access to properties requiring innovative solutions and restructures them. Company has currently 2 buildings on this model in Lahore, obtained on lease from DHA on an agreement of 30 years. The company has further sublet these building to different companies and earns sublease income on the same. In the 2nd pivot, the company develops its own real estate projects. Dawood homes and Roshan homes are two such projects of the company.

Ownership

Ownership Structure Shares of EPL are almost equally divided among group of highly qualified and experienced individuals.

Stability The ownership structure of the Company is seen as weak as there is no comprehensive partnership agreement in place to address issues of succession planning.

Business Acumen Business Acumen of sponsors seems adequate. Mr. Raza Khan, COO of Zaitoon Group, has over 20 years' experience as property developer and consultant with different companies such as Pace Pakistan Ltd, Pace Barka Properties Ltd., Taavun Pvt. Ltd etc. while Mr. Imran Hafeez, Group Finance Head at PACE Pakistan, also has extensive experience of fund raising, feasibility analysis, pricing architecture, make vs. buy, capital investments, budgeting and cost management, project valuation and prioritization, etc.

Financial Strength There is a room for improvement in adequacy of financial strength of the company as it is not backed by any significant financial group. The company has 2 other entities in the group as well.

Governance

Board Structure Currently, the company has six-member board with Mr. Raza Ahmad Khan being the Chairman. There are two independent directors on the board as of now.

Members' Profile Majority of board members are from corporate sector having diversified range of experience and expertise.

Board Effectiveness Board is considered to be effective as it consists of qualified and experienced professionals from the fields of Engineering, Finance, Sales & Marketing. There are two board committees, Audit Committee and Human Resource Committee. Minutes of the meetings are also maintained well.

Financial Transparency M/s. Nasir Javaid Maqsood Imran are the external auditor of the company. The auditors are QCR rated and classified in category "B" of SBP Panel of Auditors. They have expressed unqualified opinion for the year ended Dec 31, 2022. The company gets external audit done twice every year to ensure transparency.

Management

Organizational Structure Company has an adequate organizational structure. Currently, the organizational structure is divided into four main functions namely; 1) Operations 2) IT 3) Finance & Accounts 4) HR.

Management Team Mr. Raza Khan spearheads the management operations. He is a mechanical engineer from GIK and has done his MS in real estate development and management from Heriot-Watt University. He is supported by an adequately enabled team. He looks into the operations, while finance side is being managed by Mr. Imran Hafeez.

Effectiveness Weekly construction meetings are held for the review of policies and progress of ongoing projects and are attended by directors as well as construction and sales teams. Directors visit office of EPL every day in the evening for a few hours. Management on ground is being managed by CFO, Mr. Asad Bajwa and Company Secretary, Mr. Yahya Khurram. Absence of executive directors on the premises full time raises questions regarding effectiveness of management.

MIS Manual reports generated on MS office are currently used by management for its decision making. Working on new ERP (Axiom) is under process.

Control Environment The company currently has no certification on health, safety and quality control as it is not a service provider, however, as per management, its contractor, Global Construction Company, has the necessary certification. The company also has an Internal Audit Function.

Business Risk

Industry Dynamics In recent past, fluctuations have been witnessed in investment in real estate sector attributable to change in fiscal policies which resulted in peaked interest rate environment. Revised policy rates and inflation impacted adversely on construction sector resulting in increasing the input costs. Thus, slowing down the pace of Real Estate.

Relative Position Since most of the names in real estate sector are catering to the demand of high-end customers/ elite class accommodation and commercial real estate, there are very few companies that are working to provide sustainable living solutions for less economically fortunate class of the society. Resultantly company has very few competitors such as ICON homes.

Revenues During 6MFY23, revenues were recorded at PKR ~37mln (FY22: PKR ~92mln; 6MFY22: PKR 54mln; FY21: PKR ~127mln). While in 6MFY23 company has recorded the net profit of PKR 3mln showing an increase of 26% from same period last year primarily due to booking of PKR ~5mln as other income. (FY22: PKR~4mln FY21: PKR~8mln).The company made almost no sales of apartments last year due to increasing inflation because of which price could not be fixed at any level and Sales remained static. It has now however, devised a solution and is in final stages of finalizing an agreement with its legal counsel.

Margins Gross Profit Margin of EPL was recorded at 28.4% for 6MFY23 (FY22: 33.2%; FY21: 30%), while Operating Profit Margin decreased to 5.3% (FY22: 10.3%; FY21: 13.9%) due to the increase in operating expenses for the year. Net profit margin was recorded at 8.1% in 6MFY23 (FY22: 4.2%; FY21: 6.3%) due to increase in other income as mentioned above.

Sustainability The company has currently 2 projects in the pipeline. 1) Rehan Gardens Phase II Project near Central Park Ferozpur Road in which it plans to make 3 to 5 marla houses on plots to be purchased on deferred payment terms. 2) Central Park project in which company is engaging with the management of Central Park to develop a Dawood Homes Replica project there.

Financial Risk

Working Capital EPLs' working capital requirement is mainly the function of payables and receivables, for which the company relies on internal cashflows as of now. EPL's gross working capital days were recorded at 1,576 in 6MFY23 (FY22: 1,115; FY21: 502) due to increase in both inventory as well as trade receivable days due to overall business slowdown. Trade payable days stretched to 1,072 (FY22: 806; FY21: 372) for similar reasons, resulting in net working capital days of 504 days during the 6MFY23, (FY22: 309 days; FY21: 129 days).

Coverages During 6MFY23, EPL has FCFO of PKR 4mln (FY22: 10mln; FY21: 10mln) and coverage ratio of 1.8x (FY22: 1.7x; FY21: 1.4x) indicating weak cash flow management.

Capitalization Leveraging (debt to debt plus equity) stood at 51.2% on Dec 22 (FY22: 53.6%; FY21: 35.5%). Company received its first tranche of investment from REALL Limited UK in December 2021 amounting to PKR 27.5 million which is a soft debt at 6% and no exchange risk. This loan has been incurred for Roshan Homes. The company has no funded/non-funded facility from bank other than finance lease liabilities of PKR 3.3 million for vehicles purchased. The company has an equity base of PKR 76 million and short term borrowings in the form of loans availed from individuals amounting to PKR 49.07 million at an interest rate of upto 24% per annum and loan from directors amounting to PKR 9.9 million clubbed in "other payables".



| Entertainment Pakistan Limited Real Estate | Dec-22 6M | Jun-22 12M | Jun-21 12M | Jun-20 12M |
|---|--------------|---------------|---------------|---------------|
|---|--------------|---------------|---------------|---------------|

A BALANCE SHEET

| | | | | |
|----------------------------|-----|-----|-----|-----|
| 1 Non-Current Assets | 18 | 23 | 22 | 11 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 375 | 365 | 293 | 153 |
| <i>a Inventories</i> | 208 | 191 | 123 | 23 |
| <i>b Trade Receivables</i> | 120 | 125 | 122 | 80 |
| 5 Total Assets | 393 | 388 | 316 | 165 |
| 6 Current Liabilities | 225 | 216 | 195 | 70 |
| <i>a Trade Payables</i> | 224 | 214 | 192 | 67 |
| 7 Borrowings | 31 | 33 | 6 | 4 |
| 8 Related Party Exposure | 49 | 51 | 32 | 17 |
| 9 Non-Current Liabilities | 12 | 14 | 13 | 13 |
| 10 Net Assets | 76 | 73 | 69 | 61 |
| 11 Shareholders' Equity | 76 | 73 | 69 | 61 |

B INCOME STATEMENT

| | | | | |
|--|------|------|------|------|
| 1 Sales | 37 | 92 | 127 | 102 |
| <i>a Cost of Good Sold</i> | (27) | (61) | (89) | (69) |
| 2 Gross Profit | 11 | 31 | 38 | 34 |
| <i>a Operating Expenses</i> | (9) | (21) | (20) | (18) |
| 3 Operating Profit | 2 | 9 | 18 | 16 |
| <i>a Non Operating Income or (Expense)</i> | 5 | 2 | 1 | 2 |
| 4 Profit or (Loss) before Interest and Tax | 7 | 12 | 19 | 18 |
| <i>a Total Finance Cost</i> | (2) | (6) | (7) | (7) |
| <i>b Taxation</i> | (1) | (2) | (4) | (3) |
| 6 Net Income Or (Loss) | 3 | 4 | 8 | 7 |

C CASH FLOW STATEMENT

| | | | | |
|--|-----|------|------|------|
| <i>a Free Cash Flows from Operations (FCFO)</i> | 4 | 10 | 10 | 8 |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 4 | 10 | 10 | 8 |
| <i>c Changes in Working Capital</i> | (8) | (44) | (11) | 5 |
| 1 Net Cash provided by Operating Activities | (3) | (35) | (1) | 13 |
| 2 Net Cash (Used in) or Available From Investing Activities | (0) | (4) | (14) | (10) |
| 3 Net Cash (Used in) or Available From Financing Activities | (5) | 46 | 18 | (3) |
| 4 Net Cash generated or (Used) during the period | (8) | 8 | 2 | (0) |

D RATIO ANALYSIS

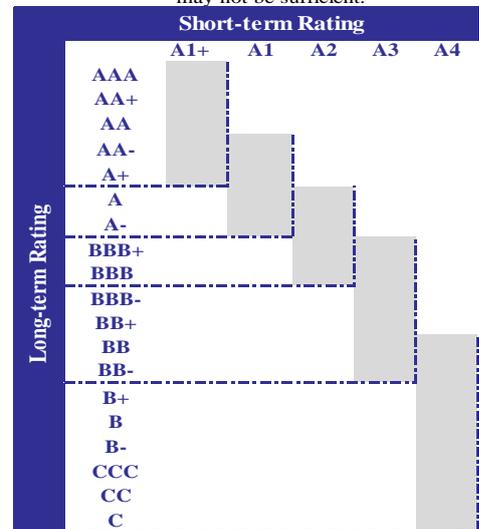
| | | | | |
|---|--------|--------|-------|--------|
| 1 Performance | | | | |
| <i>a Sales Growth (for the period)</i> | -18.9% | -27.5% | 24.1% | -38.2% |
| <i>b Gross Profit Margin</i> | 28.4% | 33.2% | 29.9% | 33.0% |
| <i>c Net Profit Margin</i> | 8.1% | 4.2% | 6.3% | 7.3% |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i> | -9.3% | -38.0% | -0.8% | 12.3% |
| <i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i> | 8.1% | 5.4% | 12.3% | 12.9% |
| 2 Working Capital Management | | | | |
| <i>a Gross Working Capital (Average Days)</i> | 1576 | 1115 | 502 | 379 |
| <i>b Net Working Capital (Average Days)</i> | 504 | 309 | 129 | 150 |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i> | 1.7 | 1.7 | 1.5 | 2.2 |
| 3 Coverages | | | | |
| <i>a EBITDA / Finance Cost</i> | 2.5 | 1.8 | 2.3 | 1.7 |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i> | 1.5 | 1.4 | 1.2 | 1.0 |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i> | 21.4 | 22.1 | 13.8 | 50.1 |
| 4 Capital Structure | | | | |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i> | 51.2% | 53.6% | 35.5% | 25.0% |
| <i>b Interest or Markup Payable (Days)</i> | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>c Entity Average Borrowing Rate</i> | 6.0% | 8.6% | 23.2% | 33.1% |

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+ | |
| 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- | |
| 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 | |
| CC | 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. |
| 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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies 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

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(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)

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 | 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)

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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)

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(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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