



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Trakker Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Dec-2018	A-	A2	Stable	Maintain	-
13-Jun-2018	A-	A2	Stable	Maintain	-
16-Sep-2017	A-	A2	Stable	Maintain	YES
18-Feb-2017	A-	A2	Stable	Maintain	YES
20-May-2016	A-	A2	Rating Watch- Developing	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings incorporate TPL's leadership position in Pakistan's tracking industry, emanating from its multifaceted product portfolio and superior technology infrastructure. STE is exposed to border closure risk, nonetheless company has expanded its cargo monitoring business in Pakistan. The company has secured Export Processing Zone mandate which is the 2nd phase of Safe Transport Environment project (STE). This is significantly adding value to the top line; incremental cash flows from new segments are critical for sustainable growth. The company escalated its rental model based business as against sale model. CPEC project is another emerging lucrative opportunity. TPL Trakker is projecting that it will muster a sizable revenue even if continues to garner a fraction of the expected container movement. Multiple yet upcoming diversified revenue streams ensures sustainable inflows for the business. The company is raising debt by way of Sukuk bond, bulk of which is utilized in retiring the existing borrowings

The ratings are dependent on upcoming potential projects with strengthened business revenue and financial health. Adherence to good financial discipline while harnessing working capital management and strengthening debt servicing capacity is vital.

Disclosure

Name of Rated Entity	TPL Trakker Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Tracking Services(Jun-18)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504



Profile

Legal Structure TPL Trakker Limited was incorporated in 2017 as a public unlisted company.

Background TPL Trakker was demerged In July 2017. As a consequence, TPL Corp was formed and the two major segments i) Vehicle Tracking and ii) Maps were dissolved into two separate wholly owned subsidiaries; i) TPL Trakker (previously named as TPL Vehicle Tracking) and TPL Maps (TPL M) of TPL Corp.

Operations TPL Trakker's core business includes vehicle tracking and fleet management solutions. It is serving over 300 leading corporate clients; corporate, retail and institutional sector constitute the client mix. Company operates with a network of 9 branches, across major cities of Pakistan and an installation center at Karachi.

Ownership

Ownership Structure The Company is a wholly owned subsidiary of TPL Corp. Limited.

Stability Overall group ownership displays stable pattern as TPL Corp. owns major stake in all entities, running different business lines.

Business Acumen TPL Corp. Limited is majorly owned by TPL holdings. TPL Corp Limited, majority owned by TPL holdings, has extended footings in diversified business avenues with a sizable portfolio of strategic investments, representing firm business profile

Financial Strength Group level business portfolio spans across various segments including Asset Tracking, Container Tracking along with diversified business avenues, demonstrating strong financial background.

Governance

Board Structure Company's board consist four directors; including the CEO; all of them are representatives of TPL Corp.

Members' Profile Mr. Ali Jameel, a Chartered Accountant from England & Wales, is the Chairman of TPL Trakker. He also serves as the Group CEO, with vast expertise expanded in managing various business ventures.

Board Effectiveness The Company's decision making process takes place at the group level and no formal board committees are called for meetings.

Financial Transparency Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants are the external auditors of TPL Trakker, rated 'A' on the SBP panel, have expressed an unqualified opinion on the financial statements for the year Ended Jun, 2018.

Management

Organizational Structure After the restructuring of business profile, TPL Trakker maintains well defined yet concentrated business process with established real time management systems

Management Team TPL Trakker's management portfolio is enriched with experienced professionals. Mr. Sarwar Ali Khan, CEO of the company, is professionally well experienced over a decade and has been associated with the company for more than two years.

Effectiveness Management team's long association with the company, barring few new positions, with the group, bodes well for the overall growth. TPL practices a fortnightly performance review meetings attended by respective department heads.

MIS Company's overall information security management framework is governed by best practices derived from ISO 27001 standard. TPL continues to invest in technology to ensure better service delivery standards to its customers while strengthening the internal processes of the company. The organization has implemented Oracle ERP suite to automate its installation and repair center countrywide as well.

Control Environment TPL Trakker is equipped with the most advanced technological solutions to support its business operations proficiently, allowing timely reporting framework

Business Risk

Industry Dynamics The local auto industry showed a steady growth in FY18, witnessing a volumetric growth in car sales of ~ 21% (FY17: -9%, FY16: 31%) majorly due to Punjab Government's cab scheme "Al Bayrak" and increasing private cab trends such as Uber and Careem. Amidst increasing competition, the industry is diversifying into innovative tracking solutions, in addition to vehicle tracking. However new technology innovation has muted the growth prospects for the players.

Relative Position For over 18 years TPL Trakker has been a pioneer in the GPS tracker industry in Pakistan. TPL Trakker has secured prominent position in the vehicle tracking industry of the country. With the largest market share (~75%) in tracking and fleet management industry.

Revenues From FY17 onwards, followed by the demerger, TPL Trakker is to be considered as a newly born separate entity. TPL has four revenue streams i) equipment sale ii) rental income iii) monitoring income iv) customer services. Lately, it has ventured in to navigation hardware sales. During FY18, TPL Trakker's revenue clocked in at PKR 1.6bln whereas 49% of the revenue comes from the rental of tracking devices followed by monitoring income (35%).

Margins Gross margin of the company stood at 61% in FY18. Operating cost to sales ratio was 41% resulting in an operating margin of 19.% was achieved despite high level of finance cost (PKR 224mln) on the account of excessive borrowing. On the contrary, the company closed on a positive note, recorded net profit of PKR 97mln with a meager Net Profit margin at 6%.

Sustainability Multiple yet diversified revenue streams ensure the sustainable inflows for the business. The company has secured Export Processing Zone mandate which is the 2nd phase of STE profit covering to and fro container movement from Karachi Port to Export Processing Zone. Going forward, future prospects of growth includes, the Sindh government has made vehicle tracking compulsory for bikes, promising growth in country's automobile sector. Additionally, introduction of integrated products in collaboration with auto manufacturers and near time CPEC project routing will strengthen the company' revenues manifold.

Financial Risk

Working Capital TPL Trakker's working capital requirements emanate from credit allowance to corporate and financial institutions; financed through short-term borrowings. The borrowings to meet the working capital requirements are of RF in nature. At FY18, the gross cash cycle stands at a whopping 238 days. As per the norms of the industry, aging analysis reveals that most of the debtors take about four months to pay, which mainly constitute corporate clientele. The company also has related parties' receivable of PKR 12mln. The amounts are receivable from the group companies on demand.

Coverages Adequate operating margins, resulted in a free cash flows (FCFO) of PKR 461mln in FY18. The upside of finance cost kept the overall coverages to reasonable at 2.1x. With the success of new products, improvement in core cash flows seems sanguine

Capitalization TPL Trakker has a sizeable equity base of PKR 1.2bln at FY18. Operational requirements and new projects led to increases in leveraging (60%). The Sukuk (PKR600mln) which was issued in Jun-16 also played a role in swelling the leverage. The proceeds from this Sukuk are being partially utilized to meet working capital needs and for enhancement in business arenas. The company intends to raise Sukuk with an amount of PKR1bln inclusive of PKR150mln greenshoe option (@3month KIBOR + 1.75% 6 years maturity) a)Securities: i) Equitable mortgage over property of Plot # 51-M Kot Lakhpat, Quaid - e- Azam industrial Estate Lahore and Equitable mortgage charge over Property of Plot# 20/B & 20/C Block VI, PECHS Karachi. ii) First Pari Passu Hypothecation charge on present & Future current Assets (including but not limited to receivables) of the company with 25% margin iii) 10 Million shares of TPL Properties Limited to be pledged prior to disbursement with a margin of 35% iv) Corporate Guarantee of TPL Holding (Pvt.) Limited and TPL Corp Limited. b) Repayment terms: Six (06) years, with no grace period. In twenty-four (24) equal quarterly installments, to be paid in arrears. The first Profit payment shall fall due at the end of the third (03rd) month from the date of Disbursement and every three (03) months thereafter on the total outstanding principal amount of Disbursement under the Issue.



VEHICLE TRACKING

The Pakistan Credit Rating Agency Limited

Financial Summary

TPL Trakker Limited (TPL)

PKR mln

BALANCE SHEET	30-Jun-18
	Annual
Non-Current Assets	2,316
Investments	232
Current Assets	2,081
Inventory	326
Trade Receivables	1,299
Others	456
Total Assets	4,628
Debt	2,206
Short-term	959
Long-term (incl. Current Maturity of Long-Term Debt)	1,247
Other short-term liabilities	1,223
Other long-term liabilities	-
Shareholder's Equity	1,199
Total Liabilities & Equity	4,628

INCOME STATEMENT

Turnover	1,661
Gross Profit	999
Operational Expenses	(676)
Other Income	2
Financial Charges	(224)
Net Income	96

Cashflow Statement

Free Cash flow from Operations (FCFO)	463
Net Cash changes in Working Capital	(111)
Net Cash from Operating Activities	140
Net Cash from Investing Activities	(240)
Net Cash from Financing Activities	(826)

Ratio Analysis

Performance	
Turnover Growth	37.1%
Gross Margin	60.2%
Net Margin	5.9%
ROE	7.6%
Coverages	
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.8
Interest Coverage (X) (FCFO/Gross Interest)	2.1
Debt Payback (Years) (Total Debt (excl. Covered Short Term Borrowings) / FCFO)	5.2
Liquidity	
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	283.7
Capital Structure (Total Debt/Total Debt+Equity)	64.8%

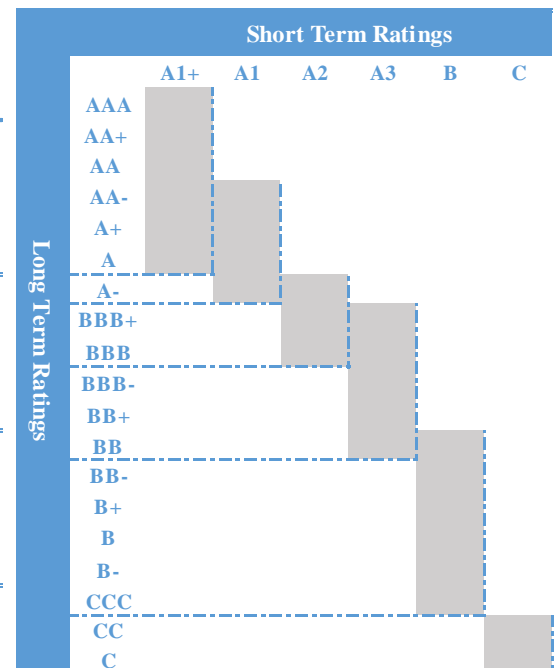
TPL Trakker Limited (TPL)

Dec'2018

Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ 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.	A1	A strong capacity for timely repayment.
A+ 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(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)

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.
- (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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