



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
23-Dec-2020	A-	A2	Stable	Maintain	-
29-Jun-2020	A-	A2	Stable	Maintain	YES
14-Dec-2019	A-	A2	Stable	Maintain	-
14-Jun-2019	A-	A2	Stable	Maintain	-
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	-
18-Feb-2016	A-	A2	Stable	Maintain	-
29-Jun-2015	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings incorporate TPL Trakker's prominent position in Pakistan's tracking industry, emanating from its multifaceted product portfolio and sanguine technology infrastructure. As diversity becomes inevitable to sustain in its operating segment, the Company is gradually shifting towards business avenues that are more beneficial for company's growth; the new segments have started to play their role however, incremental yet consistent cash flows remain pivotal. Recent developments precisely include acquisition of majority stake of Trakker Middle East LLC, and merger of TPL Maps & TPL Rupiya into TPL Trakker. Post-merger, the mapping division and locations based Services (LBS) have already started achieving above-par results. Moreover, as per the Company's plan, the process of going listed has been successfully completed – oversubscribed by 14.6% - hence, now stands as a public listed company from Aug'20. Underpinning the IPO, which got slightly delayed from its planned timeline, is the Privately Placed Commercial Paper (PPCP) which is providently redeemed and 20% remaining is deferred till Jan'21 under the SECP's Relief Package. The Company will soon be adding another Sukuk to its liquid profile, however, most of the Company's financial obligations have been deferred, including Sukuk (PKR 600mln), therefore diluting the pressure in the shorter horizon. The Company still faces the pressure of high finance cost on account of its leveraged book, resulting in persistent bottomline losses in 3MFY21. The situation accumulates the impact of COVID-19 pandemic in the country which has led to severe economic disruption and demand deceleration. Currently, the Company's financial risk profile exhibits a sigh of relief at all fronts; interest and debt coverages alongside capital structure and cash conversion cycles, endurance of which is necessitated.

The ratings are dependent upon the inclusion of new revenue streams, diversified product slate and Company's aptness to address and unwind the factors impacting the risk profile. Improved performance indicators, including reversal of losses and sanguine financial discipline remain imperative to the ratings.

Disclosure

Name of Rated Entity	TPL Trakker Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Tracking Services(May-20)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504

Profile

Legal Structure TPL Trakker Limited (herein referred to as "TPL Trakker" or "the Company") incorporated in 2017, is a Public Listed Company since Aug'20.

Background TPL Trakker Limited 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). In the recent times, TPL Maps and TPL Rupiya were amalgamated with TPL Trakker w.e.f Jul 01, 2019. As per the Group level strategic vision, the Company recently got listed on the PSX.

Operations TPL Trakker's core business includes vehicle tracking and fleet management solutions. TPL Trakker is now making its way in new business arenas by stepping into Internet of things-IoT service provision. Post merger, digital mapping and location based services is yet another auspicious addition to its product offerings. It is serving over 300 leading clients; corporate, retail and institutional sector constitutes the client mix. It operates a network of 9 branches, across major cities of Pakistan with an installation center at Karachi.

Ownership

Ownership Structure Post IPO, TPL Corp. Limited is the major shareholder (~64%), remaining constitutes: Banks, DFI, NBF, Modarabas, insurance and other (28.3%) and Gen Public 7.3%.

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

Business Acumen TPL Corp Limited is majorly owned by TPL Holdings and has extended footings in diversified business avenues with a sizeable portfolio of strategic investments, representing firm business profiles.

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

Governance

Board Structure The Company's board of directors consist eight members including the CEO. All members are from diverse professional background.

Members' Profile Mr. Jameel Yusuf, a businessman by profession is the Chairman of TPL Trakker Limited. He also serves as the Chairman of TPL Corp Limited with vast expertise expanded in managing various business ventures.

Board Effectiveness As the Company is now governed by the guidelines of Code of Corporate Governance, the Board has formed two sub-committees – (i) HR and Remuneration Committee and (ii) Audit Committee. Both committees are being headed by an independent director and consist of 4 members each. Three board meetings were convened where attendance of the members remained good.

Financial Transparency Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants are the External Auditors of TPL Trakker, rated 'A' on the SBP panel. They have expressed an unqualified opinion on the financial statements for the year ended Jun, 2020.

Management

Organizational Structure TPL Trakker maintains a well defined yet concentrated business processes 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 a seasoned professional with over a decade of experience and has been associated with the Company for more than three 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 fortnightly performance review meetings attended by respective department heads.

MIS As TPL is a technology driven business, therefore its 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 organisation has implemented Oracle ERP suite to automate its installation and repair center countrywide as well.

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

Business Risk

Industry Dynamics In the backdrop of raging pandemic there are tremendous challenges being faced by the sector. Lock downs by the Government and limited scope of operations has drastic implications. Pakistan's tracking Industry is largely driven by the automobile segment, which is showing a constant decline of 50% nationally when compared with last year. Hence, tracking industry is facing a demand shift towards other services such as monitoring services from vehicle tracking/other related business avenues. Tracking business will be more dependent on fleet management and container tracking, going forward. Amidst increasing competition, continuous innovation & diversification is inevitable in such a technology driven industry.

Relative Position For over 18 years TPL Trakker Ltd has been a pioneer in the GPS tracker industry in Pakistan and it has sustained a strong position in the tracking industry of the country. Despite increasing challenges and competition in the market, holds a prominent market share of ~42% in tracking & fleet management industry and still outperforming the market. This was made possible primarily due to the shift in strategy by TPL Trakker and entering new avenues such as the Internet of Things (IoT) instead of relying solely only on the Vehicle Tracking market.

Revenues TPL Trakker's revenue mainly comprises i) Equipment sale ii) Rental income iii) Monitoring income and iv) other services. Precisely two new additions have started to contribute to the revenue base: Navigation & E-ticketing. During FY20, revenue clocked in at PKR 1.6bln, which is nearly close to last year (FY19: PKR 1.7bln) while during 3MFY21 it stood at PKR 396mln (3MFY20: PKR 439mln), in line with industry dynamics. Approximately ~63% of the revenue comes from rental of tracking devices followed by monitoring income. The revenue base is expected to augment in coming periods in view of growth in Internet of things (IoT), CPEC and transhipment project begins to take up pace. Location based services is yet another promising segment to add more value to the business.

Margins Dipping revenues have impacted gross margins of the Company, stood at ~26% in 3MFY21 (FY20: 39%, FY19: ~57%). Although operating expenses have reduced, both operating and net margin remained in red zone. Major hurdle to translation of gross margins into bottom-line is the financing cost, although reduced for the period but is still at a higher end. During 3MFY21, bottom-line showed a net loss of PKR~100mln (FY20: PKR 459mln), representing shrink in the loss gap. The Company's bottom-line is expected to witness recovery in near future when revenues begin to instil.

Sustainability Multiple yet diversified revenue streams ensure the sustainable inflows for the business. The Company has secured Export Processing Zone mandate which is in the 2nd phase of STE project covering to and from container movement from Karachi Port to Export Processing Zone. In the near future, the EPZs will be covering dry ports as well. Additionally, introduction of integrated products, 'connected cars', in collaboration with auto manufacturers and near time CPEC project routing are expected to support the Company's growth. Moreover, TPL Rupiya & TPL Maps has been merged into the company whereas international collaborations are under deliberations which is expected to drive synergies.

Financial Risk

Working Capital TPL Trakker's working capital requirements emanate from credit allowance to corporates and financial institutions; financed through short-term borrowings. The Company has obtained eight RF credit facilities dedicated to working capital needs. In 3MFY21, the cash cycle has reduced to 191days (FY20: 213days). As per the norms of the industry, aging analysis reveals that most of the debtors take about minimum four months to pay, which mainly constitute corporate clientele.

Coverages During 3MFY21, losses borne at PBIT level, resulted in a free cash flows (FCFO) of PKR 92mln as compared to PKR 398mln in FY20. Finance cost kept the overall coverages conservative at 1.1x in 3MFY21 (FY20: 0.8x). Further Improvement in core cash flows is dependent upon the stabilization of ongoing outbreak and success of new products and initiatives.

Capitalization Post IPO, Company's equity base stood at PKR 2.2bln as at 3MFY21 (FY20: PKR 1.6bln). In a bid to optimize its capital structure, Company's total borrowings were reduced by PKR 800mln during 3MFY21, resulting in improved capitalization. The Company intends to issue a privately placed Sukuk of PKR 1.4bln at an offer rate of 3 Month KIBOR + 3.00% p.a with a tenor of five years, inclusive of 6months grace period. The instrument is secured through a tiered security structure, comprising an additional charge over TPL Corp's long term investments of upto PKR 1,500mln and a pre-default mechanism clause.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

TPL Trakker Limited Tracking Services	Sep-20 3M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	3,407	3,368	2,808	2,316
2 Investments	-	-	-	200
3 Related Party Exposure	1,241	1,157	661	350
4 Current Assets	1,712	1,629	1,808	1,762
<i>a Inventories</i>	272	228	256	316
<i>b Trade Receivables</i>	1,111	1,023	1,310	1,299
5 Total Assets	6,360	6,154	5,278	4,628
6 Current Liabilities	1,145	1,078	866	786
<i>a Trade Payables</i>	569	420	536	334
7 Borrowings	2,785	3,408	2,129	2,206
8 Related Party Exposure	216	98	670	437
9 Non-Current Liabilities	3	2	-	-
10 Net Assets	2,210	1,568	1,613	1,199
11 Shareholders' Equity	2,210	1,554	1,613	1,199
B INCOME STATEMENT				
1 Sales	396	1,605	1,772	1,661
<i>a Cost of Good Sold</i>	(294)	(982)	(767)	(661)
2 Gross Profit	102	624	1,005	999
<i>a Operating Expenses</i>	(122)	(739)	(655)	(676)
3 Operating Profit	(21)	(115)	350	324
<i>a Non Operating Income or (Expense)</i>	28	161	31	29
4 Profit or (Loss) before Interest and Tax	8	46	381	353
<i>a Total Finance Cost</i>	(100)	(515)	(310)	(224)
<i>b Taxation</i>	(7)	11	(35)	(31)
6 Net Income Or (Loss)	(100)	(459)	36	97
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	92	398	541	463
<i>b Net Cash from Operating Activities before Working Capital Change</i>	24	(13)	238	251
<i>c Changes in Working Capital</i>	236	(1,342)	(182)	(111)
1 Net Cash provided by Operating Activities	260	(1,355)	56	140
2 Net Cash (Used in) or Available From Investing Activities	(116)	236	105	(240)
3 Net Cash (Used in) or Available From Financing Activities	954	1,118	(155)	114
4 Net Cash generated or (Used) during the period	1,098	(1)	6	14
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-1.4%	-9.4%	6.7%	--
<i>b Gross Profit Margin</i>	25.7%	38.9%	56.7%	60.2%
<i>c Net Profit Margin</i>	-25.2%	-28.6%	2.0%	5.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sc</i>	83.1%	-58.8%	20.3%	21.2%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Ass</i>	-18.4%	-31.8%	2.4%	8.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	304	320	328	286
<i>b Net Working Capital (Average Days)</i>	190	212	238	212
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.5	1.5	2.1	2.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.1	0.8	2.0	2.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.2	0.1	0.5	0.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance C</i>	-72.9	-25.1	5.1	5.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	55.8%	68.7%	56.9%	64.8%
<i>b Interest or Markup Payable (Days)</i>	95.6	63.4	78.0	102.9
<i>c Entity Average Borrowing Rate</i>	13.4%	18.0%	13.6%	9.9%

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+	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	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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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)
- (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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