



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Properties Limited | PPTFC | PKR 1.575bln | Dec 23

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Feb-2024	A+	A1	Stable	Initial	-
23-Oct-2023	A+	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

TPL Properties Ltd (TPL Properties or the Company) has significant presence in Real estate sector for more than a decade. TPL Properties after the sale of its first and flagship project “Centrepoint” is re – strategizing its business model from single revenue stream of rental income. Following the materialization of their plan, TPL Properties is now effectively a holding company, having subsidiaries namely REIT Management Company, TPL Developments (Pvt.) Limited, TPL Property Management and substantial investment in TPL REIT Fund I. The Company has successfully transferred its projects namely “One Hoshang”, “Technology Park” and “Mangrove” to the TPL REIT Fund I where the company has also realized substantial capital gains. The foundation work on “One Hoshang” project including piling and shoring has been completed and the structure work has been commenced which is expected to be completed by 2026. Master plan for the “Mangrove” project has been approved with the formal launch and construction expected to commence during second half of FY24. While considering the macro-economic factors and lack of investors’ interest, the management is considering to shelve the third project “Technology Park” and is aiming to earn the capital gain from the sale of land. Topline of the Company in FY23, clocked to PKR 5.3bln (FY22: PKR 5.9bln) representing a revaluation gain on transfer of property to REIT FUND I. During FY23, leveraging of the company stood at 18%, as company has obtained short term borrowings to meet the working capital requirements and for the equity injection in TPL Investment Management Limited based in Abu Dhabi. The equity base of the Company improved to PKR 13.7bln, (FY22: PKR 10.5bln).

The ratings are dependent on management's ability to ensure adequacy of cashflows through the timely execution of the construction plans of the said projects. Any material deviation in strategy impacting risk profile of the company can have detrimental effect on Ratings.

Disclosure

Name of Rated Entity	TPL Properties Limited PPTFC PKR 1.575bln Dec 23
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Dec-23)
Related Research	Sector Study Real Estate(May-23)
Rating Analysts	Hashim Yazdani hashim.yazdani@pacra.com +92-42-35869504

Issuer Profile

Profile TPL Properties (TPLP) is the real-estate and fund management arm of 'TPL Corp'. TPL Properties Limited got listed on Pakistan Stock Exchange (PSX) in Jul-16. The Company is based in Karachi, Pakistan. The principal activity of the company is to invest, purchase, develop and build real estate and to sell, rent out or otherwise dispose of in any manner the real estate including commercial and residential buildings, houses, shops, plots or other premises. Furthermore, company has expanded its operations in Development Advisory Business as well as in REIT and Fund Management. 'Centrepoint' is the first project of TPL Properties. Centre point project was initiated in Oct-07 and was eventually completed in May-13. The Company sold the project to Bank Al Habib amounting to PKR 7.75bln.

Ownership Presently, TPL Properties is owned by TPL Group (51.4%) through companies and individuals, followed by Alpha Beta Group (8.82%) and remaining is on free float.

Governance The overall control of the company vests in seven-member board of directors (BoD) including the CEO. Two members, including one executive and one nonexecutive members, represent TPL Group. Both Chairman and CEO represent sponsoring family. The board members have diversified experience with necessary technical skills owing to long association with the company. The board members meet at regular intervals. M/s. BDO Ebrahim & Co, Chartered Accountants, are the external auditor of the company. The auditors have expressed unqualified opinion on TPL Properties financial statements for the year ended June 30, 2023.

Management TPL Properties has a streamlined organizational structure. Each function is headed by an experienced resource. Mr. Ali Jameel spearheads the management operations. He is a fellow member of Institute of Chartered Accountant from England & Wales (ICAEW), has been the key individual in conception and development of group companies. The management team comprises professionally qualified members having requisite experience. TPL Properties is working with seven key functions namely (i) Information Technology, (ii) Finance, (iii) External Relations & CSR, (iv) Marketing and Communication, (v) Human Resource, (vi) Operations and (vii) Project Management reporting to Chief Executive Officer.

Business Risk The uncertainty in the local real estate sector continued into 1H FY24 impacting the demand dynamics. Peaking interest rates along with inflation contributed towards rise in construction costs leading to slowdown in the pace of construction projects. However, the REIT Management sector represents a growing market in Pakistan. TPL Properties is a renowned name in the Real Estate sector. With the launch of TPL REIT Fund I company has evidently made a significant presence in the market. Currently, TPL Properties is effectively a Holding Company. Thus, revenues will be generated by Management & Performance fee combined with dividends from TPL REIT Fund I and TPL Development (Pvt.) Ltd. Revenue stream majorly would be dependent on the timely completion of current and future development projects of its subsidiaries. During FY23, the company generated revenues of PKR 5,286mln from unrealized gain on investment in REIT Fund I. Going forward, the REIT has three projects in hand 1) One Hoshang - residential apartments, 2) Mangrove, 3). Technology Park. One Hoshang is at more advanced stage. Construction on the said project has started and the management is confident to complete the project in 2.5 years. Master plan for the Mangrove Project has been approved and the initial launch and construction is expected during second half of FY24.

Financial Risk TPL Properties' working capital requirement is mainly the function of payables, for which the company relies on internal cashflows. The Company's STB stood at PKR 1,939mln as on Sep 2023, to fund equity injection in TPL Investment Management Limited and acquisition of property. During FY23, TPLP interest coverage was reported at -5.0x. As the company is still in developing stage therefore, coverages are also under stress. However, some of the related projects (REIT & Development Projects) are also on the cards which will alleviate concerns pertaining to cash flows. Leveraging (debt to debt plus equity) stands at 15.9% at end Sep-23. Timely realization of cash flows from developer margin, dividend from REIT Fund and management and performance fee earned by TPL RMC remains vital for the company's operation.

Instrument Rating Considerations

About The Instrument TPLP has issued a rated, secured, privately placed, Medium Term, Term Finance Certificate, amounting PKR 1.575bln to finance the Company's working capital requirements and settlement of short term borrowing of the Company. The tenor is 12 months and carrying a profit rate of 3MK+200bps. Profit will be paid on quarterly basis and TFC will be redeemed in bullet at the expiry of Tenor.

Relative Seniority/Subordination Of Instrument The claim of the certificate holders will rank superior to the claim of ordinary shareholders.

Credit Enhancement The security structure is strengthened by i) Pledge of units of TPL REIT Fund I (unlisted) held by the Company with 30% margin; ii) Assignment of all Dividends from TPL RMC and TPL REIT Fund I; iii) Pari passu hypothecation charge over current assets of TPL Properties Limited and TPL RMC Limited covering the issue amount. Initially ranking charge will be created which will be upgraded to pari passu charge within 30 days from the date of the disbursement.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

TPL Properties Ltd Real Estate	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	306	280	216	7,652
2 Investments	-	-	-	-
3 Related Party Exposure	16,196	9,429	4,619	1,839
4 Current Assets	1,622	2,809	2,666	606
a Inventories	-	-	-	-
b Trade Receivables	-	-	108	120
5 Total Assets	18,125	12,518	7,501	10,098
6 Current Liabilities	1,455	1,064	245	448
a Trade Payables	122	70	2	81
7 Borrowings	2,143	939	1,608	3,174
8 Related Party Exposure	800	-	2	22
9 Non-Current Liabilities	-	-	20	16
10 Net Assets	13,727	10,515	5,627	6,438
11 Shareholders' Equity	13,727	10,515	5,627	6,438
B INCOME STATEMENT				
1 Sales	5,286	5,919	284	678
a Cost of Good Sold	(43)	(7)	(9)	(217)
2 Gross Profit	5,244	5,912	275	461
a Operating Expenses	(978)	(950)	(564)	(147)
3 Operating Profit	4,265	4,962	(289)	314
a Non Operating Income or (Expense)	186	249	133	381
4 Profit or (Loss) before Interest and Tax	4,452	5,210	(156)	696
a Total Finance Cost	(161)	(333)	(425)	(419)
b Taxation	(20)	(1)	17	1
6 Net Income Or (Loss)	4,271	4,877	(564)	277
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	(798)	2,662	(171)	358
b Net Cash from Operating Activities before Working Capital Changes	(888)	2,725	(657)	(35)
c Changes in Working Capital	452	2,037	(222)	320
1 Net Cash provided by Operating Activities	(436)	4,762	(879)	285
2 Net Cash (Used in) or Available From Investing Activities	(26)	(4,410)	4,645	(740)
3 Net Cash (Used in) or Available From Financing Activities	163	(676)	(1,905)	480
4 Net Cash generated or (Used) during the period	(298)	(324)	1,861	25
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-10.7%	1985.0%	-58.1%	0.0%
b Gross Profit Margin	99.2%	99.9%	96.7%	68.0%
c Net Profit Margin	80.8%	82.4%	-198.8%	40.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-6.5%	79.4%	-138.4%	99.9%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	35.2%	60.4%	-9.4%	4.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	N/A	7	147	65
b Net Working Capital (Average Days)	-7	4	94	21
c Current Ratio (Current Assets / Current Liabilities)	1.1	2.6	10.9	1.4
3 Coverages				
a EBITDA / Finance Cost	-5.3	8.4	-0.5	0.8
b FCFO / Finance Cost+CMLTB+Excess STB	-0.4	4.5	-0.2	0.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-3.0	0.4	-2.7	-49.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	17.7%	8.2%	22.2%	33.2%
b Interest or Markup Payable (Days)	231.4	48.1	37.0	91.1
c Entity Average Borrowing Rate	12.1%	13.2%	14.2%	15.4%
#	Notes			
A-3	Related Party Exposure: Represents investment in subsidiaries and associated undertakings of PKR: 14,661 mln (FY 22: PKR: 8,749mln)			

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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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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 | 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)

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 | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Trustee	Book Value of Total Assets (PKR)
Term Finance Certificate (TFC)	1,575mln	12 months	Secured	*Pledge of units of TPL REIT Fund I (unlisted) held by the Company with 30% margin; *Assignment of all Dividends from TPL RMC and TPL REIT Fund I; *Pari passu hypothecation charge over current assets of TPL Properties Limited and TPL RMC Limited covering the issue amount.	Pak Oman Investment Company Limited	17,268 mln

Name of Issuer	TPL Properties Limited
Issue Date	29 Dec 2023
Maturity	28 Dec 2024
Option	-

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	3M Kibor Plus 200bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln			
29-Dec-2023 (Issuance)	1,575	-	-	-	-	-	-	1,575
	1,575	-	28-Mar-24	3M KIBOR + 200bps	23.45%	92.33	92.33	1,575
	1,575	-	28-Jun-24	3M KIBOR + 200bps	23.45%	92.33	92.33	1,575
	1,575	-	28-Sep-24	3M KIBOR + 200bps	23.45%	92.33	92.33	1,575
28-Dec-24	1,575	1,575	28-Dec-24	3M KIBOR + 200bps	23.45%	92.33	1,667.33	-
		1,575				369.32	1,944.32	

Note: The Markup rate will be calculated using the base rate (3M KIBOR) which will be set for the first time on the disbursement date using the Base Rate of one business day prior to the drawdown and subsequently every three months thereafter utilizing the Base Rate prevalent one business day prior to the start of upcoming markup period. The above calculations of markup are tentative and are done using Base Rate on 28th Dec 2023.