The Pakistan Credit Rating Agency Limited

# Rating Report

## TPL Properties Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 29-Apr-2022 | A+ | A1 | Stable | Maintain | - |
| 07-May-2021 | A+ | A1 | Stable | Maintain | - |
| 11-May-2020 | A+ | A1 | Stable | Maintain | - |
| 09-Nov-2019 | A+ | A1 | Stable | Maintain | - |
| 10-May-2019 | A+ | A1 | Stable | Maintain | - |
| 04-Dec-2018 | A+ | A1 | Stable | Maintain | - |
| 20-Mar-2018 | A+ | A1 | Stable | Maintain | - |
| 23-Jun-2017 | A+ | A1 | Stable | Maintain | - |
| 11-Oct-2016 | A+ | A1 | Stable | Maintain | - |

**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. The sponsors have a very good understanding of the business. 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. In the new model TPL properties will operate as an investment holding company and will benefit from dividends derived from subsidiaries. There will be four core pillars to the revised business model of TPL properties. I) it will own a portion (approx.38%) of the REIT Fund based on the contribution of land and project developed to date, REIT will provide dividends and capital gains to the Company. II) it will continue to develop the projects and will receive development fees. III) as the owner of the RMC, it will receive dividends as the RMC receives management fees for REIT. It also owns a company - TPL Property management which manages the commercial buildings, currently they are maintaining Centrepoint building and going forward has plans to add in more projects/buildings. The Company has approved the transfer of its projects namely "One Hoshang", "Technology Park" and "Mangrove" to the TPL REIT Fund I where company will also realize substantial Capital Gains. The financial risk profile remains adequate; will be supported by additional cashflows expected from new business lines. Furthermore, company arranged substantial working capital financing to bridge the gap for the acquisition of Mangrove project. Thus, soaring leveraging to 41%. However, management has planned to completely pay off the debt upon transfer of assets in REIT Fund. Furthermore, with appreciation in the real estate market, the company expects a rise in the market demand in near future and plans on taking advantage of it.

The ratings are dependent on management's ability to ensure adequacy of cashflows through the timely execution of the transfer of the SPVs to the REIT Fund. Any material deviation in strategy impacting risk profile of the company will be negative.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | TPL Properties Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jun-21),Criteria \| Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria \| Rating Modifiers(Jun-21) |
| **Related Research** | Sector Study \| Real Estate(May-21) |
| **Rating Analysts** | Anam Waqas Ghayour \| anam.waqas@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Legal Structure Formed in 2007, TPLP is the real-estate arm of 'TPL Holdings'. TPL Properties Limited got listed on Pakistan Stock Exchange (PSX) in Jul-16.

**Background** The Company is based in Karachi, Pakistan. ‘Centrepoint’ is the first project of TPL Properties so far. Centrepoint project was initiated in Oct-07 and was eventually completed in May-13. And company sold the project to Bank al Habib amounting to PKR 7.75bln.

**Operations** 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. TPL Properties has entered into a joint venture arrangement with Al Hamd International Containers Terminal (Pvt.) Limited, for venturing into Logistics Park, which will be a bonded Commercial Freight Station handling export and import of Less than Container Load (LCL) General Cargo. Furthermore, company has expanded its operations in Development Advisory Business as well as in REIT Management.

## Ownership

**Ownership Structure** The Company’s ownership structure has gone through some changes during last few years. Presently, TPL Properties is owned by TPL Group (52%) through companies and individuals, followed by Alpha Beta Group (11%) and remaining is on free float.

**Stability** TPL Properties ownership structure is considered to be stable as majority stake will rest with the TPL Group.

**Business Acumen** TPL Group is a fairly recent entrant on the business horizon of Pakistan. Its strategy for new ventures has centered on building partnerships with industry players who contribute core-business acumen and best practices, whereas TPL Group provides operational management and market knowledge.

**Financial Strength** TPL Group has investments in Life & Non-Life Insurance, Real Estate, Security Services, Asset Tracking, Technology, Internet of Things, Digital Mapping & financial services sector. The Group consists of seven main companies.

## Governance

**Board Structure** The overall control of the company vests in eight-member board of directors (BoD) including the CEO. Five members, including one executive and four non-executive members, represent TPL Group. The Chairman - Mr. Jameel Yusuf is the father of Mr. Ali Jameel, the CEO and both represent sponsoring family.

**Members’ Profile** The board members have diversified experience with necessary technical skills owing to long association with the company. All directors have attended mandatory directors training program required under the code of corporate governance. The board members meet at regular intervals.

**Board Effectiveness** Post IPO, the company formed two board committees – Audit and Human Resource & Remuneration – to comply with Code of Corporate.

**Financial Transparency** M/s. Ernst & Young Ford Rhodes, 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, 2021 and for the period ended December 31, 2021. The company has an internal audit department which reports directly to the Board Audit Committee in line with Code of Corporate Governance.

## Management

**Organizational Structure** TPL Properties has a streamlined organizational structure. Each function is headed by an experienced resource.

**Management Team** Mr. Ali Jameel spearheads the management operations. Mr. Jameel, 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.

**Effectiveness** TPL Properties is working with five 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.

**MIS** The company maintains strong IT infrastructure and related controls. The company deploys Oracle E-Business Suit as ERP solution. Two Oracle modules are operational i) Financial, and ii) Supply Chain. In addition, the company has also implemented Building Security Management Solution (BMS).

**Control Environment** TPL Properties has invested to ensure that sufficient security measures are in place. The company deploys Access Control Suite, solution which controls, manages and monitors physical access in building and includes modules on i) Visitor Management, ii) Vehicle Management, iii) Personal Access, and iv) Lift Secure Access. TPL Properties has also in place CCTV camera recording solution, to facilitate real time data backup.

## Business Risk

**Industry Dynamics** In last two years, fluctuations has been witnessed in investment in real estate sector attributable to change in fiscal policies which resulted in peaked interest rate environment. Real estate sector picked up pace by the incentives announced in construction package by government along with curtailed key policy rate. However, impact of revised policy rate and the policies of the incumbent government are yet to be seen.

**Relative Position** Key business risks with rental model are occupancy rate and inflation. TPL Properties has hedged these risks through built-in clauses in contracts, including i) annual advance rent, and ii) five-year term commitment signed with tenants.

**Revenues** During 1HFY20, in August 2020, TPL Properties entered into a sale agreement with Bank Al Habib to sell its flagship project “Centrepoint” at a transaction value of PKR 7.75bln. The sale deed was signed on April 29th 2021 following the vacation of all the tenants from the building. Subsequent to the signing of Sale Deed, proceeds were received by TPL Properties. Thus, rental revenue's contribution towards the topline will not be observed in the upcoming future years. The future revenue streams shall be flowing in from the REIT Management and Development Advisory business, along with dividends from REIT Units held and investment in Logistics Park. During 1HFY22, company generated revenue of PKR ~24mln from rental income.

**Margins** During 1HFY22, as company is not operating in its core business and developing new projects, margins kept the declining trend. However, deterioration of the Net Profit Margin was evidential due to the decrease in rental revenue and other profit.

**Sustainability** The company has four projects in hand 1) One Hoshang, 2) Logistics Park, 3) Technology Park, & 4) Mangrove. Going forward, the three projects One Hoshang, Technology Park and Mangrove shall be transferred to REIT Fund. One Hoshang is at more advanced stage with an equity investment by TPL Properties of PKR 709mln. Construction on the said project has started and the management is confident to complete the project in 2.5 years. The other two projects are also in the process of obtaining relevant approvals from the concerned authorities and construction will commenced by the end of CY22.

## Financial Risk

**Working Capital** TPL Properties’ working capital requirement is mainly the function of payables, for which the company relies on internal cashflows. However, company has obtained the short-term borrowings of PKR 2.275bln to bridge finance for the acquisition of Mangrove project.

**Coverages** During 1HFY22, TPLP core coverage has shown some resistance and stands at 0x recovering from -0.4x. However, some of the related projects (REIT & Development Projects) are also on the cards which will alleviate concerns pertaining to cash flows.

**Capitalization** Leveraging (debt to debt plus equity) surge to 41.4% by end Dec-21 (FY21: 22.2%, FY20: 33%; FY19: 27.7%). The increase in leveraging is because of short term borrowings, which are procured to bridge finance the acquisition. Short term borrowings stand at PKR 2,275mln. Timely transfer of SPVs to REIT fund remain vital for the company.

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

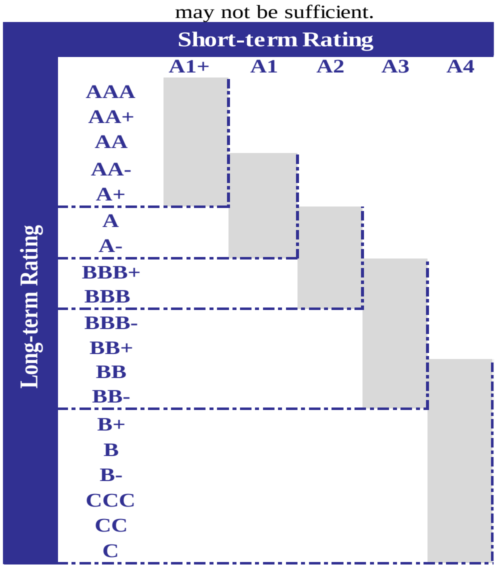
| TPL Properties | Dec-21 | Jun-21 | Jun-20 | Jun-19 |
|---|---|---|---|---|
| Real Estate | 6M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 385 | 216 | 7,652 | 6,880 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | 2,255 | 4,619 | 1,839 | 2,074 |
| 4 Current Assets | 7,074 | 2,666 | 606 | 423 |
| *a Inventories* | - | - | - | - |
| *b Trade Receivables* | *121* | *108* | *120* | *24* |
| **5 Total Assets** | 9,714 | 7,501 | 10,098 | 9,378 |
| 6 Current Liabilities | 118 | 245 | 448 | 253 |
| *a Trade Payables* | *10* | *2* | *81* | *27* |
| 7 Borrowings | 3,944 | 1,608 | 3,174 | 2,509 |
| 8 Related Party Exposure | 31 | 2 | 22 | 10 |
| 9 Non-Current Liabilities | - | 20 | 16 | 17 |
| **10 Net Assets** | 5,621 | 5,627 | 6,438 | 6,588 |
| **11 Shareholders' Equity** | 5,621 | 5,627 | 6,438 | 6,588 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 24 | 284 | 678 | 403 |
| *a Cost of Good Sold* | *(0)* | *(9)* | *(217)* | *(11)* |
| **2 Gross Profit** | 24 | 275 | 461 | 392 |
| *a Operating Expenses* | (141) | (564) | (138) | (106) |
| **3 Operating Profit** | (117) | (289) | 324 | 286 |
| *a Non Operating Income or (Expense)* | *121* | *133* | *373* | *733* |
| **4 Profit or (Loss) before Interest and Tax** | 3 | (156) | 697 | 1,019 |
| *a Total Finance Cost* | *(74)* | *(425)* | *(419)* | *(267)* |
| *b Taxation* | *(2)* | *17* | *1* | *(22)* |
| **6 Net Income Or (Loss)** | (72) | (564) | 278 | 730 |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *25* | *(171)* | *359* | *251* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *(5)* | *(657)* | *(34)* | *50* |
| *c Changes in Working Capital* | *199* | *(222)* | *320* | *(89)* |
| **1 Net Cash provided by Operating Activities** | 194 | (879) | 286 | (39) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (2,604) | 4,645 | (740) | (257) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 2,326 | (1,905) | 480 | (35) |
| **4 Net Cash generated or (Used) during the period** | (85) | 1,861 | 26 | (331) |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | -83.2% | -58.1% | 68.5% | 9.9% |
| *b Gross Profit Margin* | 99.7% | 96.7% | 68.0% | 97.4% |
| *c Net Profit Margin* | -302.2% | -198.8% | 41.0% | 181.3% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 936.1% | -138.4% | 100.1% | 40.3% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | -2.6% | -9.4% | 4.3% | 11.7% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 877 | 147 | 39 | 32 |
| *b Net Working Capital (Average Days)* | 832 | 94 | 10 | 7 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 60.0 | 10.9 | 1.4 | 1.7 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 0.5 | -0.5 | 0.8 | 1.2 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 0.0 | -0.2 | 0.4 | 0.4 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | -17.4 | -2.7 | -50.8 | -150.2 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 41.4% | 22.2% | 33.2% | 27.7% |
| *b Interest or Markup Payable (Days)* | 214.7 | 37.0 | 91.1 | 123.1 |
| *c Entity Average Borrowing Rate* | 5.2% | 14.2% | 15.7% | 10.5% |

## 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.

| Long-term Rating | |
|---|---|
| **Scale** | **Definition** |
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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. |
| A+<br>A<br>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. |
| BBB+<br>BBB<br>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. |
| BB+<br>BB<br>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+<br>B<br>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. |
| CCC<br>CC<br>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. |

| Short-term Rating | |
|---|---|
| **Scale** | **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 |
| 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 surveill 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):

**Entities**
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

**Instruments**
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

# Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**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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