



The Pakistan Credit Rating Agency Limited

**Rating Report**

**BRB Properties Builders and Developers**

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jan-2023	BB+	A3	Stable	Maintain	-
18-Jan-2022	BB+	A3	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

BRB Properties Builders and Developers is committed towards the construction of their first real estate venture Oasis Park Residencia. The company has shown progress towards the construction of bungalows which are expected to be completed by June'2025 as per agreed terms with Sindh Building Control Authority (SBCA). Additionally, the company has been successful in selling out 90% units with the aid of Zameen.com and through internal sales force. Revenue from the sale of bungalows is recognized to the stage of completion of the units at the end of the reporting period. As a result, during FY22 the Company reported revenue of PKR 1,263mln (FY21: PKR 990mln). The sales growth is evidence of the market acceptability of the project which is in return beneficial for the company in terms of creating their value in the real estate sector. The current inflationary environment with higher interest rates and rising cost of raw materials including steel and cement have led to a slowdown in the real estate sector. Furthermore, the ongoing political uncertainty and unstable economic environment has adversely affected the sector. However, the shortfall of houses in the residential sector and increasing demand with growth in population has led to continuous rise in the prices of property. The Company has received approximately 60% of the booked amount under its consumer-friendly installment plan from its customers against the sale of bungalows. The remaining amount will be received over the time, thus adding to the cash flow stream that will be utilized towards the construction. The Company has fully utilized its facility of PKR 500mln from Meezan Bank towards the construction. The financial risk of the company is low but remains subject to further borrowings in order to support future projects. Payment of tax liability related to assets declared under Tax amnesty scheme remains important for the ratings of the Company. Regarding future plans, the company has finalized architectural designs and obtained approvals for the construction of Hexagon Tower for commercial and residential use on the same land. The Company plans on formally launching the project in mid of CY23 considering the real estate market and economic conditions.

The timely completion of the project and the adequacy of cashflows remain crucial for the company. The ratings are dependent on the future projects that the company plans on undertaking along with timely collection from customers against sale of bungalows and any further borrowings that would affect the financial risk profile of the company.

Disclosure	
<b>Name of Rated Entity</b>	BRB Properties Builders and Developers
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Real Estate(May-22)
<b>Rating Analysts</b>	Hashim Yazdani   hashim.yazdani@pacra.com   +92-42-35869504

## Profile

**Legal Structure** BRB Properties Builders & Developers is a Sole Proprietorship that was formed in 2008. The principal activity of the organization is development of residential and commercial real estate projects on purchased land. The sole owner of the company is Mr. Khawaja Bilal Azam.

**Background** The Company is based in Karachi, Pakistan. 'Oasis Park Residencia' is the first project of BRB Properties that was initiated in Oct-18 and will eventually be completed in June 2025.

**Operations** The principal activity of the company is to invest, purchase, develop and build real estate and to sell, or otherwise dispose of in any manner the real estate including commercial and residential buildings, houses, shops, plots or other premises. The company is currently working on its first project Oasis Park Residencia. The project includes the development of a residential society on 24 acres land purchased by the owner. The society will include 334 bungalows of 120 sq yard constructed on 10 acres. The remaining land will be utilized to construct roads, shops, mosque, parks and school.

## Ownership

**Ownership Structure** BRB Properties is 100% owned by Mr. Khawaja Bilal Azam who is the sole proprietor. This is an evidence that Mr. Khawaja Bilal Azam is the man at the last mile.

**Stability** The ownership structure of the Company is seen stable in foreseeable future. However, the existence of formal succession planning will add to the strength of the stable structure.

**Business Acumen** Mr. Khawaja Bilal Azam and his family is in the business of Tea Import and Trading. During the year 1996 to 1999, Mr. Bilal Azam was an investor in the field of Stock, Bills and Electronic Trading and from Year 2000, he entered in the industry of Real Estate where he played the role of investor in land. Due to extensive growth Mr. Bilal entered in the business of Property Development and started constructing Oasis Park Residencia project for residential purpose. Hence, the business acumen of sponsors is considered strong. In comparison to other business groups, which have been operating in other sector for decades, BRB properties are a fairly recent entrant.

**Financial Strength** Sound sponsorship has been the deriving component of the strong financial position of the business. Over the years Mr. Khawaja Bilal has grown into real estate business.

## Governance

**Board Structure** Currently, the company has six member board with Mr. Khawaja Bilal Azam being the Chairman. Remaining five members are close relatives of the owner.

**Members' Profile** Mr. Khawaja Bilal Azam is the sole owner, founder and Chairman of BRB Properties. He is the man at the last mile and the driving force behind the success and growth of BRB Properties. Remaining board members have vast experience in the fields of HR, IT, Engineering and Accounting respectively.

**Board Effectiveness** The board consists of qualified and experienced professionals from the fields of Engineering, Finance, Human Resource and Information Technology. The board members have been appointed recently. The board needs improvement with regards to the presence of independent directors and board committees.

**Financial Transparency** M/s Grant Thornton Anjum Rahman, are the external auditor of the company. The auditors have expressed unqualified opinion on BRB Properties financial statements for the year ended June 30, 2022.

## Management

**Organizational Structure** BRB Properties has a streamlined organizational structure. Each function is headed by an experienced resource though relatively new to the company but have past experiences in the relevant fields.

**Management Team** Mr. Khawaja Bilal Azam spearheads the management operations. Mr. Khawaja Bilal Azam, a lawyer by profession, has been the key individual in conception and development of company. The management team comprises professionally qualified members having requisite experience. Each department is headed by a qualified individual having previous experience in the field.

**Effectiveness** BRB Properties is working with eight key functions namely (i) Finance, (ii) Human Resource, (iii) Procurement, (iv) Admin, (v) Information Technology, (vi) Sales and Marketing (vii) Engineering Department, (viii) Quality Control reporting to the board. Company's effective management played a significant role in empowering the organization through its progressive results.

**MIS** BRB Properties maintains strong IT infrastructure and related controls. The company deploys Sidat Hyder as ERP solution. Six modules are operational i) Financial, ii) Contract Management iii) Supply Chain iv) Accounts Payable v) Accounts Receivable (Real Estate Management) and vi) Human Resource. In addition, the MIS reports are updated on a real-time basis to be available to senior management all the time. The reports are shared and discussed with the board regularly so that the information is conveyed promptly to the senior management.

**Control Environment** BRB Properties has invested to ensure that sufficient security measures are in place. Company's' quality of the I.T. infrastructure and the breadth and depth of activities performed will ensure satisfactory outcomes.

## Business Risk

**Industry Dynamics** The current inflationary environment with higher interest rates and rising cost of raw materials including steel and cement have led to a slowdown in the real estate sector. The floods have adversely impacted the sector with delays in construction and fall in volume of cement sold during the period. However, the shortfall of houses in the residential sector and increasing demand with growth in population has led to continuous rise in the prices of property.

**Relative Position** Since BRB Properties Builders & Developers is new to the real estate sector with Oasis Park Residencia being its first project, they are still developing their brand image within the real estate sector. The company has shown positive progress towards their project and thus customers have shown interest which is evident from the sale of the bungalows.

**Revenues** During FY22, revenues were recorded at PKR ~1,263mln (FY21: ~990mln, FY20: PKR ~137mln) up by 27.6% YoY against the sale of bungalows. Furthermore, the Company reported Net Income of PKR 30mln during FY22 (FY21: PKR 48mln).

**Margins** Gross Profit Margin increased to 32.6% during FY22 (FY21: 24.6%, FY20: 22.6%) owing to an overall surge in property values in the real estate sector. Alternatively, Net Profit Margin decline to 2.4% in FY22 from 4.9% in FY21 due to the impact from finance cost during the period.

**Sustainability** Owner is in the business since 1996 and has developed his strong asset base through diverse business in stocks, real estate investor, tea import. From FY18 the Company is passionately developing its real estate business (Oasis Park Residencia). Going forward, the Company has other plans to develop commercial buildings and other real estate projects in the future.

## Financial Risk

**Working Capital** BRB Properties' working capital requirement is mainly the function of payables and receivables, for which the company relies on internal cashflows and short term loan from the owner. The net working capital (Average days) during the period ended FY22 were 627 days (FY21: 321 days). The Company has provided a flexible installment plan to its customers against outstanding receivables from sale of bungalows.

**Coverages** During FY22, BRB has FCFO of PKR 34mln (FY21: PKR 57mln) against the sale of bungalows which shows a stable recovery of payments from the customers.

**Capitalization** Leveraging (debt to debt plus equity) stood to at 23.8% (FY21: 11.3%) as a reason of increased borrowings during the year. Furthermore company has acquired the facility of PKR 650mln (100% utilized) from Meezan Bank Ltd under Musharaka agreement at KIBOR plus 250bps.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

BRB Proerties Builders and Developers Real Estate	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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#### A BALANCE SHEET

1 Non-Current Assets	94	33	10	9
2 Investments	-	2,357	1,309	505
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,855	1,174	1,024	1,001
a Inventories	3,414	706	992	999
b Trade Receivables	311	126	23	-
5 Total Assets	3,949	3,564	2,343	1,515
6 Current Liabilities	431	407	205	49
a Trade Payables	124	93	12	22
7 Borrowings	665	207	-	-
8 Related Party Exposure	174	150	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,680	2,800	2,138	1,466
11 Shareholders' Equity	2,680	2,799	2,138	1,200

#### B INCOME STATEMENT

1 Sales	1,263	990	137	36
a Cost of Good Sold	(851)	(747)	(106)	(27)
2 Gross Profit	412	243	31	10
a Operating Expenses	(357)	(193)	(22)	(16)
3 Operating Profit	55	50	9	(6)
a Non Operating Income or (Expense)	4	6	0	-
4 Profit or (Loss) before Interest and Tax	60	56	9	(6)
a Total Finance Cost	-	-	-	-
b Taxation	(30)	(7)	(2)	(0)
6 Net Income Or (Loss)	30	48	7	(7)

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	34	57	11	(5)
b Net Cash from Operating Activities before Working Capital Changes	34	57	11	(5)
c Changes in Working Capital	(438)	267	136	(258)
1 Net Cash provided by Operating Activities	(404)	324	147	(263)
2 Net Cash (Used in) or Available From Investing Activities	(60)	(18)	(3)	(6)
3 Net Cash (Used in) or Available From Financing Activities	320	(85)	(140)	268
4 Net Cash generated or (Used) during the period	(144)	220	4	(0)

#### D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	27.6%	620.9%	278.1%	234.5%
b Gross Profit Margin	32.6%	24.6%	22.6%	27.0%
c Net Profit Margin	2.4%	4.9%	5.4%	-18.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-32.0%	32.7%	107.2%	-723.5%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	1.1%	2.0%	0.4%	-0.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	658	340	2718	6564
b Net Working Capital (Average Days)	627	321	2672	6338
c Current Ratio (Current Assets / Current Liabilities)	9.0	2.9	5.0	20.6
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	2.2	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	24.4	6.3	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.8%	11.3%	0.0%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	0.0%	0.0%	0.0%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

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

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **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)

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(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 | 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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