

**PROJECT GRADING**

(JUNE 2011)

**PROJECT:**

CENTREPOINT KARACHI

**PROJECT COMPANY:**

TPL PROPERTIES (PVT.) LIMITED

	NEW	PREVIOUS
<b>Project Grading</b>	PG3+	PG3+
<b>Outlook</b>	-	Negative

**FINANCIAL DATA**

PKR (mln)

	31-Dec-10*	30-Jun-10
Total Assets	1,666	1,608
Equity	995	997
Advances from Customers	0	0
Debt/(Debt +Equity)	29%	29%

\* unaudited accounts for 6 months

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**GRADING RATIONALE AND KEY DRIVERS**

- The grading indicates good overall project execution capacity. The grading reflects the engagement of reputed project consultants supplemented by a rental yield based model, more suitable to current operating environment. The grading incorporates slow project progress, mainly due to stressed availability of requisite funds, which has led to delays in timely completion. However, the management's recent funding plan is expected to alleviate liquidity constraints and spur construction activities.
- The grading is dependent on the management's effectiveness in timely finalizing the proposed loan facility to meet funding requirements. Adherence to revised project timelines is critical as any variation in construction activities, leading to further delays in completion, would have a negative grading impact.

**ASSESSMENT**

- Real estate sector in Pakistan grew impressively in the first half of the last decade, in line with the benign economic environment, after which it has come under pressure. Various socio-economic factors, coupled with high cost of borrowing and limited credit expansion, have significantly impacted the consumer's purchasing power and consequently demand. Moreover, the uncertainty regarding the depth of economic slowdown and worsening law and order situation has further dampened consumer sentiments. These factors have discouraged expansion and new occupancies while slightly tilting the consumer preferences towards renting of property instead of purchasing it.
- Centrepoint Karachi, envisioned to be the tallest commercial building in Karachi, is the first real estate project of TPL Properties (Private) Limited (TPLP), and marks the entrance of the TPL Holdings (TPL) in the sector. Located beside the KPT Interchange, the 28 storey building offers 16 floors of high end purpose built corporate office space (196,618 square feet) along with 9 levels of parking and 3 floors for services and equipment storage. As a relatively new entrant, TPL Properties (Private) Limited (TPLP) lacks brand recognition in the real estate market, but the corporate image of TPL and the reputation of its project partners give credibility to the project.
- TPLP's business model is based on outsourcing of all construction related activities, while procurement of construction materials is retained in-house. The role of management is limited to monitoring and coordination of project activities and procurement of construction materials. The company has engaged reputed contractors for project management, architecture, and construction. AAA Partnership (Private) Limited (formerly Adnan Asdar & Associates) are the project manager whereas ARCOP provides architectural services to the project. Execution of project work is the responsibility of Associated Constructors Limited (ACL). The company has appointed an in-house project consultant for project monitoring.
- The project was initiated in October 2007 with planned completion in June 2010. However, the completion date has been twice revised to November 2010 and currently May 2012. To date, around 82% of the grey structure has been completed. The first phase of delays occurred due to changes in design to mitigate regulatory objections and other technical considerations, while the second phase can be attributed to constrained liquidity. Consequently, the construction progress was slow during last year with respect to physical progress, and, 21 floors have been erected. The cumulative effect of these obstructions has pushed the project about two years behind schedule. Although time recovery measures have been envisioned, most of the delays are irrecoverable at this stage of development.
- The original budgeted cost of the project has been revised from PKR 2,380mln to PKR 3,170mln. To date, PKR 1,632mln (~50% of revised estimate) cost has been incurred. To bridge the remaining need, TPLP has entered into a loan agreement worth PKR 1,720mln (USD 20mln) with an international agency. The loan amount will be primarily used for meeting the remaining project cost in addition to the repayment of existing debt (PKR 400mln). The company also intends to acquire a finance lease worth PKR 250mln for procurement of power generation equipment.
- TPLP intends to maintain ownership in the project and is focusing on the rental yield model. Sales advances earlier received from group companies have been converted into equity. Although, rental agreements with potential customers are yet to be finalized, the company is pursuing several business groups (local and international) to consolidate their offices at Centrepoint.

**PROFILE**

- TPL Properties (Pvt.) Limited, is the real estate arm of TPL Holdings, and is engaged in development, management and sale of properties. Previously these activities were being managed under a partnership structure, namely A&A Associates. TPLP acquired the business of A&A Associates in June 2010 on net asset basis and is now nearing completion of second year of its operations.
- TPLP is majority owned by TG (74%) through group companies (55%) and individuals (19%). Group CEO, Mr. Ali Jameel and Group Chairman, Mr. Jameel Yusuf are seasoned entrepreneurs who have successfully launched ventures in vehicle tracking and insurance sectors. In addition, Mr. Zia Chishti, a recent addition to the shareholding group, is renowned as the key founder of The Resource Group.