



The Pakistan Credit Rating Agency Limited

Rating Report

ISE Towers REIT Management Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Jan-2024	A	A1	Stable	Maintain	-
06-Jan-2023	A	A1	Stable	Maintain	-
07-Jan-2022	A	A1	Stable	Maintain	-
07-Jan-2021	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating emanates from ISE Towers REIT Management Company Ltd.'s ("ISE Towers or "The Company") business profile characterized by stable operating revenue and strong customer base. The diversified shareholding pattern of the Company comprises 215 shareholders (Corporates, Banks, DFIs, Insurance Companies, Modarabas, pension funds, and others). The assigned rating incorporates sound corporate governance, an experienced management team, an adequate control environment, and the Company's pioneer status in the capital markets. The compliance function ensures adherence to all applicable internal and external rules and regulations. The Company is deriving its core income from its dominating asset "ISE Towers" which is enjoying an almost 100% occupancy level. The multistory building is situated in the prime location of Blue Area, Islamabad. The Company is planning to convert the ISE Towers into REIT Fund. The project has achieved significant progress and obtained requisite approvals under REIT Regulation, 2022, and the REIT Fund is likely to be launched in 3QFY24. Although the operating income of the Company shows a minor dip and stood at 355mln as of FY23 (FY22: PKR 359mln, 1QFY24: PKR 93mln). However, the overall profitability of the Company has significantly increased and stood at PKR ~1,333mln as of FY23 (FY22: PKR 382mln, 1QFY24: PKR 122mln) on account of fair value gain on investment property. The business risk of the Company is supported by high-profile tenants. The Company has zero leveraging and its liquidity position remains comfortable. The equity stood at ~PKR 7.3bln at the FY23 (FY22: PKR 6.4bln, 1QFY24: PKR 7.7bln).

The ratings are dependent upon the company's ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remain important. Meanwhile, retention of key management, sound governance practices, and consistent performance of funds is critical. Any significant loss in market share will impact the rating.

Disclosure

Name of Rated Entity	ISE Towers REIT Management Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Non-Banking Finance Companies Rating(Jun-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Modaraba & NBFCs(Apr-23)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure ISE Towers REIT Management Company ("ISE Towers" or "The Company") is licensed as a Non-Banking Finance Company (NBFC) under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 by Securities and Exchange Commission of Pakistan in 2016 to form and launch Real Estate Investment Trust (REIT) under Real Estate Investment Trust Regulations, 2022.

Background ISE Towers REIT Management Company Ltd was initially incorporated as Islamabad Stock Exchange (Guarantee) Limited (ISE). Later on, after the integration of Karachi Stock Exchange (KSE) and Lahore Stock Exchange (LSE), on January 11'2016, the Company got converted from ISE to a REIT Management Company under the repealed Companies Ordinance, 1984. As a consequence of this approval of integration, the name and scope of the Company has been changed. The new name of the Company is "ISE Towers REIT Management Company Limited". The Company owns a multistory building "ISE Towers" situated in Blue Area Islamabad. The Company is in process to launch its Rental REIT Scheme. For this, the dominating asset owned by the Company "ISE Towers" has been earmarked for transferring to the scheme.

Operations The principal activities of the Company is to form, launch and manage Real Estate Investment Trust (REIT) under REIT Regulations, 2022. The Company owns a multistory building "ISE Towers" situated in Blue Area Islamabad. The Company is in the process to launch its Rental REIT Scheme. For this, the dominating asset owned by the Company "ISE Towers" has been earmarked for transferring to the scheme.

Ownership

Ownership Structure The shareholding pattern of the Company is well diversified comprising of 215 shareholders. Institutions and corporate bodies hold the majority of the shares.

Stability Building on years of experience in capital market, equity brokerage, financial and banking services etc.

Business Acumen Majority of the shareholders of the Company have well diversified experience in capital market, equity brokerage, financial services, portfolio management, investment advisory and financial services, banking and technical analysis

Financial Strength The financial strength of the sponsors remains strong due to their diversified investment portfolios.

Governance

Board Structure The Board comprises eleven members, which include four independent directors, six non-executive directors and one executive director.

Members' Profile All the directors are seasoned professionals and possess manifold experiences in the relevant fields. Mr. Zahid Latif Khan is the chairman of ISE Towers. He is a graduate of National Security Workshop (NSW) and is a certified director by ICMA. Mr. Zahid has a diversified experience of the capital Market business spanning over a period of twenty-five years. During his association with the securities industry, Mr. Zahid has achieved extensive hands on familiarity with multifaceted operational aspects.

Board Effectiveness The Board of the Company has the overall responsibility for establishment and oversight of risk management framework. There are four board committees: i) Audit Committee, and ii) Human Resource and Remuneration Committee iii) Nomination Committee iv) Risk Management Committee.

Financial Transparency For Financial Year 2023, BDO Ebrahim & Co. Chartered Accountants has been appointed as external auditor of the company. Both the firm are QCR rated by ICAP and are in the A Category of SBP's panel of auditors.

Management

Organizational Structure The company's operations are grouped under six departments. These include (i) Internal Audit/Compliance (ii) Operations and Management (iii) Accounts & Finance (iv) Security Management (v) Administration/HR (vi) Information Technology. Each Department Head reports directly to the CEO and the head of internal audit reports to the Audit Committee.

Management Team The company has a mix of diverse experienced and skilled management. Mr Sagheer Mushtaq is the Chief Executive Officer of the Company. He is a commerce graduate and has over fifteen years of diversified experience in the field of finance, operation and regulatory compliance. Mr. Zeeshan Shafiq, CFO, has more than a decade experience and associated with the group since 2017.

Effectiveness Considering size of the Company and nature of business, currently there are no management committee to monitor performance and assure adherence to policies and procedures. The matters are discussed and settled at the individual levels with discussion with the top management.

MIS Due to current nature of operations, the company is using different Management Information Systems to manage day to day operations and management reporting, which are Sidat Hyder Financial Information System (FIS), Billing Control & Management System (BCMS) and Building Management System for HVAC system.

Risk Management Framework Risk management policy is well documented and approved by the Board. It covers operational risk, credit risk, financial risk, reporting and regulatory compliance. The policy framework enables the management to achieve operational efficiency and proper monitoring.

Business Risk

Industry Dynamics Real Estate sector is the most heavily invested segment of the economy in the country, offering a huge potential for the nation's development. The REIT Schemes provide a transparent and well-documented mechanism for investment in the real estate sector but due to range of limitations including absence of clean titles, restrictive building codes, problematic construction regulations, untold economic costs, imbalanced taxation regime, expensive financing, etc. growth of REIT Sector is not getting due momentum.

Relative Position ISE Towers REIT Management Company is in the process of launching its REIT scheme. Currently, the only REIT Management Company (RMC) which is running Rental REIT scheme is Arif Habib Dolmen REIT Management Company Limited.

Revenues During FY23, the company's operating income (rental income) clocked in at PKR~355mln (FY22: PKR~359mln) with a minor decrease of 1.1% on Y-O-Y while at the end of 1QFY24, it stood at ~92mln. The operating expenses decreased to PKR~91mln during the period ended FY23 (FY22: PKR~146mln) while it stood at ~22mln as of 1QFY24.

Performance During FY23, total earning assets reflected ~84% of the total asset base (FY22: ~81%, 1QFY24: ~83%). The other income increased from PKR~123mln to PKR~187mln during the period ended FY23 on YoY basis (1QFY24: 63mln). The share of profit from Associated companies stood at PKR~20mln during 1QFY24 (FY23: PKR~66mln). It comprises 16% of net profit during 1QFY24. The increase in rental income will be 14% on average.

Sustainability The Company is also envisaging some other real estate projects under REIT umbrella through joint ventures. The Company is also planning to generate resources thereby on the forthcoming public issue of ISE REIT as well as on the funds to be generated through sale of equity investments of the Company.

Financial Risk

Credit Risk As a REIT Management company, the credit risk is posed from the tenants of the building. ISE Towers is a corporate building and tenants are multinational corporations and strong reputed banks and institutions. Hence the company has low credit risk.

Market Risk The primary source of market risk of the company is interest rates. The Company's exposure to market risk is low as Company's investment in T-bills during 1QFY24 is PKR~807mln, yielding a return of 22.7%-23.4% (FY23: PKR~735mln from 20.9%-21.9%). The T-Bills matured in Sep 2023.

Liquidity And Funding The Company has properly designed its investment policy. The Company is managing and investing its funds in the manner that ensure safety of principal and a high degree of liquidity while maximizing the yield. Liquidity and preservation of capital are the paramount considerations. The investment policy may be reviewed by the Board at any time as deemed appropriate.

Capitalization The company has PKR~7,534mln capital at end of FY23 which is well above minimum regulatory requirements for REIT Management companies i.e. PKR~50mln. The company has no long and short term borrowings.



The Pakistan Credit Rating Agency Limited

ISE Towers REIT Management Company Limited
Public Unlisted Limited

PKR mln

Sep-23	Jun-23	Jun-22	Jun-21
3M	12M	12M	12M
Management	Audited	Audited	Audited

A BALANCE SHEET

1 Earning Assets	6,582	6,539	5,393	5,176
2 Non-Earning Assets	1,351	1,291	1,276	1,299
3 Total Assets	7,933	7,830	6,669	6,475
4 Total Borrowing	-	-	-	-
5 Other Liabilities	270	296	257	223
6 Total Liabilities	270	296	257	223
7 Shareholders' Equity	7,663	7,534	6,412	6,252

B INCOME STATEMENT

1 Investment Income	114	458	423	419
2 Operating Expenses	(22)	(91)	(146)	(101)
3 Net Investment Income	91	367	278	318
4 Other Income	63	1,093	219	282
5 Total Income	154	1,461	497	600
6 Other Expenses	-	-	-	(22)
7 Total Finance Cost	(0)	(0)	(1)	(0)
8 Profit Or (Loss) Before Taxation	154	1,461	496	578
9 Taxation	(32)	(128)	(114)	(68)
10 Profit After Tax	122	1,333	382	510

C RATIO ANALYSIS

1 Investment Performance

i. Investment Income / Average AUMs	N/A	N/A	N/A	N/A
ii. ROE	6.4%	19.1%	6.0%	8.2%
iii. ROA	6.2%	18.4%	5.8%	7.9%

2 Financial Sustainability

i. Coverages				
a. Total Borrowing / EBITDA	N/A	N/A	N/A	N/A
b. EBITDA / Finance Cost	N/A	N/A	N/A	N/A
ii. Capitalization				
a. Total Borrowing / (Total Borrowing + Shareholders' Equity)	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	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)

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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 | 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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