



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
07-Jan-2021	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

ISE Towers REIT Management Company Ltd (or "The Company") is licensed as a Non-Banking Finance Company (NBFC) under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The diversified share holding pattern of the Company comprises of 253 shareholders (Corporates, Banks, DFIs, Insurance Companies, Modarabas, pension funds and others). The assigned ratings incorporates the sound corporate governance, experienced management team, adequate control environment and structured investment processes. The compliance function ensures adherence with all applicable internal and external rules and regulations. The Company is deriving its core income from its dominating asset "ISE Towers" which is enjoying almost 100% occupancy level. The multistory building is situated in the prime location Blue Area, Islamabad. The Company is planning to convert the ISE Towers into REIT Scheme. The project has achieved significant progress, in shape of obtaining requisite approvals under REIT Regulation, 2015 and REIT scheme is likely to be launched in calendar year 2021. The funds generated from this scheme will be utilized to undertake new REIT projects. The profitability of the company is growing at a moderate pace and reported at PKR 338mln for FY20 (SPLY: PKR 191mln). Rental relief were given to the tenants due to economic slowdown amid COVID-19 pandemic. The business risk of the company is supported by high profile tenants, economic recoveries and improving COVID-19 situation in the country. The Company has zero leveraging and liquidity position remains comfortable. The equity stood at ~PKR 5.7bln at end Jun'20 (SPLY: ~PKR 5.3bln).

The ratings are dependent on the Company's aptness to uphold its business and financial risk profile under the prevailing volatile macroeconomic-environment. Sustenance of growth momentum is imperative.

#### Disclosure

<b>Name of Rated Entity</b>	ISE Towers REIT Management Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   NBFC(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-20)
<b>Rating Analysts</b>	Shazia Afzal   shazia.afzal@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, 2015.

**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, 2015. 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.

## Ownership

**Ownership Structure** The shareholding pattern of the Company is well diversified comprising of 253 shareholders. The majority of the shares are held by institutions and corporate bodies.

**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 three independent director, seven 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** BDO Ebrahim & Company Chartered Accountants were the external auditors of the company till Financial year 2020. For Financial Year 2021, M/s Yusuf Adil Saleem & 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 COO/CFO 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 Acting 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, Head of Internal Audit, 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 nations' 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 FY20, the company's operating income (rental income) clocked in at PKR~267mln (FY19: PKR~254mln) and increased at 5% on Y-O-Y while operating expenses decreased to PKR~88mln during FY20 (FY19: PKR~104mln).

**Performance** During FY20, total earning assets reflected ~80% of the total asset base (FY19: ~80%). The other income increased from PKR~71mln to PKR~87mln at 22% during the period. The share of profit from Associated companies stood at PKR~35mln during FY20 (FY19: PKR~29mln). It comprises 10% of net profit during FY20 vs 14% during previous year. The Fair value gain on investment property (unrealized Capital gain) comprises 30% of net profit during FY20. Bottom-line of the company clocked in at PKR~338mln during FY20 (FY19: PKR~191mln)

**Sustainability** The Company is also envisaging some other real estate projects under REIT umbrella through joint ventures. The project in hospitality industry is under special focus. 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 FY20 is PKR~376mln, yielding a return of 8%-10%. The T-Bills are matured in August, 2020 and due to low interest rate environment the company has to invest the funds at lower rate.

**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~5,674mln capital at end Jun'20 which is well above minimum regulatory requirements for REIT Management companies i.e. PKR~50mln. The company has no long and short term borrowings.



## ISE Towers Reit Management Co. Ltd.

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Jun-20

Jun-19

Jun-18

12M

12M

12M

### A BALANCE SHEET

1 Total Finance-net	362	315	275
2 Investments	4,222	4,060	3,937
3 Other Earning Assets	63	41	28
4 Non-Earning Assets	1,231	1,123	1,114
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>5,877</b>	<b>5,540</b>	<b>5,354</b>
6 Funding	180	195	163
7 Other Liabilities	24	19	17
<b>Total Liabilities</b>	<b>204</b>	<b>214</b>	<b>180</b>
<b>Equity</b>	<b>5,674</b>	<b>5,321</b>	<b>5,175</b>

### B INCOME STATEMENT

1 Mark Up Earned	42	23	11
2 Mark Up Expensed	-	-	(0)
3 Non Mark Up Income	450	331	804
<b>Total Income</b>	<b>492</b>	<b>354</b>	<b>815</b>
4 Non-Mark Up Expenses	(88)	(104)	(103)
5 Provisions/Write offs/Reversals	-	-	-
<b>Pre-Tax Profit</b>	<b>405</b>	<b>249</b>	<b>713</b>
6 Taxes	(66)	(58)	(57)
<b>Profit After Tax</b>	<b>339</b>	<b>191</b>	<b>655</b>

### C RATIO ANALYSIS

#### 1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	17.8%	29.5%	12.6%
b ROE	6.2%	3.6%	13.6%

#### 2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	201.8%	161.7%	168.9%
b Accumulated Provisions / Non-Performing Advances	100.0%	100.0%	100.0%

#### 3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	437.9%	337.8%	295.7%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%

#### 4 MARKET RISK

a Investments / Equity	74.4%	76.3%	76.1%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%

#### 5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	96.5%	96.1%	96.6%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	6.4%	3.7%	14.7%

**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+	<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	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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)

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- 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)
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- (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.
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- (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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