

RATING REPORT

Arif Habib Dolmen REIT Management Limited

REPORT DATE:

December 11, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
REIT Rating	AM2+(RMC)	AM2+(RMC)
Rating Outlook	Stable	Stable
Rating Action	<i>Reaffirmed</i>	<i>Reaffirmed</i>
Rating Date	<i>December 11, 2023</i>	<i>October 25, 2022</i>

COMPANY INFORMATION

Incorporated in 2009	External Auditors: Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants
Unquoted Public Company	Chairman of the Board: Mr. Arif Habib
Key Shareholders (10% or more):	CEO: Mr. Muhammad Ejaz
<i>Arif Habib Group</i>	
<i>Dolmen Group</i>	

APPLICABLE METHODOLOGY(IES)

VIS Management Quality Rating Criteria for REIT Management Company (October 2023)
<https://docs.vis.com.pk/docs/REITManagement-2023.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale: <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Arif Habib Dolmen REIT Management Limited

OVERVIEW OF THE RMC

AHDRML was incorporated in April 2009 as an unlisted public limited company. It is a joint venture between the groups of Arif Habib and Dolmen. The company is engaged in launch and management of Real Estate Investment Trust (REIT) Schemes.

Profile of Chairman:

Mr. Arif Habib is the Chairman of Arif Habib Dolmen REIT Management Limited and the Chief Executive Officer of Arif Habib Corporation Limited, the holding company of Arif Habib Group. He is also the Chairman of Fatima Fertilizer Company Limited, Pakarab Fertilizers Limited, Aisha Steel Mills Limited, Javedan Corporation Limited (the owner of Naya Nazimabad) and Sachal Energy Development (Pvt.) Limited among others.

Profile of CEO:

Mr. Muhammad Ejaz, has over 22 years of experience in financial services and general management. He is a certified director and serves on the boards of several Arif Habib Group Companies. He has served in senior positions at leading local and

RATING RATIONALE

Corporate profile

Arif Habib Dolmen REIT Management Limited ('AHDRML' or the 'the RMC'), is a joint venture between the Arif Habib Group and the Dolmen Group. The RMC has been licensed by the SECP in 2009. Since launching its inaugural REIT scheme, 'Dolmen City REIT', in 2015, the RMC had a seven year interval before launching the Global Residency REIT in 2022. Management attributed this pause to the taxation and regulatory problems within Pakistan's REIT management industry. Since then AHDRML has further expanded its portfolio and now manages a total of 10 REIT schemes. In addition, the RMC further plans to launch 5 additional REIT funds in the ongoing year.

Key Rating Drivers:

Governance and Management Profile:

The assigned rating derives strength from enforcement of sound corporate governance framework at the company.

- There are 3 independent directors among the 9 members of the Board of Directors (BoD). The composition of the BoD adheres to the best standards, which stipulate that independent directors must make up at least one third of the entire Board. In addition, there is a female representation also on the Board. The composition of the BoD has not changed since the last review.
- There are 2 Board committees in place i.e. the Board Audit Committee (BAC) and Board Human Resource & Remuneration Committee (BHRRC).
- Terms of Reference for each of the Board committees (BAC and BHRRC) are clearly defined and documented. A comprehensive policy framework is also in place.
- Record-keeping of Board meetings involve comprehensive discussions on future strategy and quarterly updates, and the scope of minutes is deemed satisfactory.
- During the review period Mr. Arsal Khalid was appointed in place of Mr. Adnan Rizvi, taking over the responsibility for overseeing investments. In addition, Mr. Murtaza Shabbir was designated as the Head of Internal Audit. No other change has been observed in the senior management.
- Majority of the executive management has varying level of real estate industry expertise, indicating that they understand the RMC's function in property management and the dynamics of the local property market. A specialized property management unit manages the operations and upkeep of each of the properties under the REIT management.
- A detailed internal management update report is prepared and circulated internally every month and it covers economic overview, budgetary & regulatory changes and real estate outlook.
- Financial statements for the last six years are audited by Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants (Category 'A').

Research & Investment Infrastructure:

- A Risk Management Policy (RMP) is in place. The RMP is comprehensive in nature as it covers operational risk, credit risk, financial risk, reporting and

international banks and is a certified Financial Risk Manager (FRM). He also holds an MBA degree from Institute of Business Administration, Karachi.

compliance/regulations. Measures implemented by the Board to monitor risk related aspects include quarterly reporting to the Board, circulation of minutes and employing appropriately qualified employees. Risk Management is overseen by the Head of Compliance and Internal Audit. Whereas the designated team is outsourced to Junaidy Shoaib Asad Co. Chartered Accounts.

- The AHDRML has adequate research infrastructure in place. The resource deployed by the RMC gathers research from both formal and informal sources to evaluate potential opportunities. Moreover, the resource has significant experience in the real estate sector. The RMC follows a defined process for vetting property investment for inclusion in REIT Schemes in line with the strategic investment policy.

Funds Under Management:

- AHDRML at the present manages 10 REIT schemes including two funds listed on PSX, named Dolmen City REIT (DCR) and Globe Residency REIT (GRR).
- In 2021, AHDRML launched three developmental REIT schemes, Silk Islamic Development REIT, Silk World Islamic REIT and Pakistan Corporate CBD REIT.
- During FY23, AHDRML’s flagship fund DCR’s revenue increased by 21% vis-à-vis SPLY. Despite the economic challenges faced by the country in the past year, DCR maintained its occupancy level above 97%.
- GRR was launched in March 2022 as a Development REIT located at Naya Nazimabad, Karachi. It was later listed on PSX in December, 2022. During FY23, the REIT scheme posted a revenue of Rs. 2.8b.
- During the review period AHDRML launched 5 additional projects as under:

S.no	REIT scheme	Date of launch	Fund size (Rs. in million)	REIT Type
1	Naya Nazimabad Apartments REIT	June 30, 2022	5,875	Developmental
2	Rahat Residency REIT	June 30, 2022	1,650	Developmental
3	DHA Dolmen Lahore REIT	October 29, 2022	95,300	Rental
4	Signature Residency REIT	March 30, 2023	825	Developmental
5	Sapphire Bay Islamic Development REIT	January 12, 2022	25,00	Developmental

- Going forward, the RMC plans to launch 5 additional funds which would be developmental REITS.

Financial Analysis:

- Net equity stands at Rs. 620.03m at end-June’23, well above the Rs. 50.0m minimum paid-up capital requirement set forth in 2022 REIT Regulations.
- While the equity base more than doubled as of June’23, the total borrowing remained intact. With the absence of any increase in debt, coupled with the increase in equity, gearing ratio improved to 0.65x as at Jun’23 (Jun’22: 1.51x).
- Receivables from REIT management schemes increased to Rs. 471.30 as at Jun’23

from Rs. 216.21 as at Jun'22. This remains critical for ratings going forward as debt servicing requirements has increased due to mobilization of Rs. 400m debt on balance sheet.

- In FY23, operating revenue increased by 30% amounting to Rs. 245.9m compared to Rs. 189.6m in FY22. This increase in revenue is primarily due to increase in the management fees earned from the newly launched funds. The efficiency ratio stood at 58% (FY22: 52%) in FY23. The same has been considered positive from the ratings perspective.
- Bottom-line of the RMC improved significantly to Rs. 374.28m in FY23 from Rs. 41.3m in FY22. This increase is attributable to routing through P&L of unrealized gain of Rs. 341.40m from investment in Silk Islamic Development REIT. Excluding the unrealized gain, PAT remains at Rs. 33.4m in FY23 (FY22: Rs. 41.32m). The core reason of decrease in PAT was the increased finance cost amid high interest rates environment.
- Going forward, augmentation of management fees income and continuation of sponsor support will remain important from the ratings perspective.

Table: Financials extract – AHDRML

Rs. in millions	FY21	FY22	FY23
Operating Revenue	85.49	189.60	245.91
Gain/(Loss) on re-measurement of ST investment	1.08	-	341.40
Gross Profit	84.41	189.60	587.31
Operating expense	84.02	98.89	142.51
Efficiency Ratio (%)	98%	52%	58%
Finance cost	0.97	45.45	71.62
Other income	16.34	19.43	12.27
PBT	15.77	64.70	385.45
PAT	5.48	41.32	374.28
Total Assets	718.49	1,027.18	1,446.71
Total Debt (including current maturity)	404.79	400.80	399.99
Total Liabilities	494.06	761.43	826.67
Equity	224.43	265.75	620.03
Gearing (x)	1.80	1.51	0.65

Arif Habib Dolmen REIT Management Limited
Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY20	FY21	FY22	FY23
Right of use assets	6.06	3.64	1.21	-
Non-current Assets	9.81	9.01	611.70	954.88
Current Assets	222.06	709.47	415.48	491.83
Liabilities against right of use assets	4.51	1.78	-	-
Long-term borrowings <i>(including current maturity)</i>	6.61	404.79	400.80	399.99
Non-current Liabilities	5.90	401.78	400.45	333.55
Current Liabilities	7.07	92.28	360.98	493.12
Paid Up Capital	200.00	200.00	200.00	200.00
Net Equity	218.90	224.43	265.75	620.03
<u>INCOME STATEMENT</u>	FY20	FY21	FY22	FY23
Revenue	77.05	85.49	189.60	245.91
Administrative Expenses	(64.62)	(84.02)	(97.85)	(128.96)
Unrealized gain on remeasurement in units of Silk Islamic Development REIT	-	-	-	341.40
PBT	37.74	15.77	64.70	385.45
PAT	24.51	5.48	41.32	374.28
FFO	(0.7)	(8.2)	62.0	(6.3)
Gearing	0.03	1.80	1.51	0.65
Current ratio	31.42	7.69	1.15	1.00
Efficiency ratio	84%	98%	52%	58%

REGULATORY DISCLOSURE		Appendix II	
Name of Rated Entity	Arif Habib Dolmen REIT Management Limited		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	Management Quality Rating (REIT Management Company)		
Rating History	Rating Date	RMC Rating	Rating Action
	11-Dec-23	AM2+ (RMC)	Reaffirmed
	25-Oct-22	AM2+ (RMC)	Reaffirmed
	22- Sept-21	AM2+ (RMC)	Reaffirmed
	4-Sep-20	AM2+ (RMC)	Reaffirmed
	18-Oct-19	AM2+ (RMC)	Upgrade
	17-Sep-18	AM2 (RMC)	Reaffirmed
	25-Jul-16	AM2 (RMC)	Reaffirmed
	4-May-16	AM2 (RMC)	Harmonized
8-Jun-15	AM2-(RMC)	Initial	
Instrument Structure	N/A		
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on management quality only and is not a recommendation to buy or sell any securities.		
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Due Diligence Meetings Conducted	Name	Designation	Date
	Mr. Razi Haider	CFO & Company Secretary	November 08, 2023
	Mr. Aamir Hafeez	VP Finance	