RATING REPORT

International Complex Projects Limited

REPORT DATE:
March 13, 2020

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	Initial Rating	
	Long-term	Short-term
Entity	AA	A-1
Rating Outlook	Stable	
Rating Date	*March 13, 2020*	

COMPANY INFORMATION	
Incorporated in 1974	**External auditors:** KPMG, Taseer Hadi & Co, Chartered Accountants
Unquoted Public Limited Company	**Chairman of the Board & CEO:** Mr. Nadeem Riaz
Key Shareholders (with stake 10% or more):	
Mr. Nadeem Riaz – 25.0%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (May 2019)
http://vis.com.pk/kc-meth.aspx

International Complex Projects Limited (ICPL)

OVERVIEW OF THE INSTITUTION

International Complex Projects Limited (ICPL) is incorporated in Pakistan as an unquoted public limited company. The principal activity of the Company is to undertake the business of building, developing and renting out of properties.

RATING RATIONALE

International Complex Projects Limited (ICPL) belongs to the Dolmen Group, a well reputed real estate developer with residential, commercial and retail projects. The group has completed several projects including Dolmen Mall Clifton, Harbour Front and Executive Tower; two more towers are substantially completed and partially operational. Both Dolmen Mall Clifton and Harbour Front were transferred in the Dolmen City REIT (DCR), a closed end rental REIT fund managed by Arif Habib Dolmen REIT Management Company Limited. DCR is rated 'AAA(rr)' by VIS indicating highest investment quality. The company maintains exposure of 75% of DCR's units on its books.

Rating Drivers

Sale / rent of floors belonging to two properties are expected to support cash flows in the coming years.
ICPL is currently managing construction of two towers; Tower A has a total area of 540,400sq.ft. and Tower B has an area of 583,000 sq.ft. Construction risk of the towers is mitigated on account of significant physical completion. Tower A is constructed primarily for offices while Tower B was designed for both office spaces as well as hotel-serviced apartments. Each tower has a total of 35 floors each; to date ICPL has sold 8.75 floors of Tower A. Since the floors have not been handed over, advance payment amounting Rs. 4.2b is present as a liability on ICPL's books. Given the current economic scenario and rising interest rates, management plans to move to the rental model for Tower A. Currently, 4.25 floors of Tower A and 6 floors of Tower B have been rented out, at end-February 2020. Moreover, for Tower B, the company is undergoing negotiations to sign an agreement with one of the multinational hospitality companies. According to the agreement, ICPL will hand over top 10 floors of the tower to the company while property management will remain under the ambit of ICPL; a management fee will be charged by ICPL for the same. Cash flows from this arrangement are expected to emanate in the near horizon.

Construction of a new mall in Lahore in which Dolmen Group will hold a shareholding of up to 74%.
During 2019, ICPL (on behalf of Dolmen Group) entered into an agreement with DHA Lahore to construct a commercial complex / mall in Lahore on a land of 486,484 sq.ft. As per the agreement, DHA Lahore has agreed to provide the land and will not be liable for any further funding for the project. Furthermore, ICPL and DHA Lahore formed a new subsidiary, DHA Dolmen Lahore (Private) Limited (DDL) under which the project will exist. To execute the transaction, ICPL made an upfront payment of Rs. 300m to DHA Lahore in lieu of future dividend payments by DDL. As per agreement, Dolmen Group will hold 74% of investment in DDL while DHA Lahore will maintain a shareholding of 26%; profit sharing will be based on the same proportion. Total construction cost of the property is expected to be Rs. 27b, three-fourths of which will be funded by Dolmen Group while the remaining will be funded through borrowings on DDL's books. To date, ICPL has an exposure of Rs. 316.3m at end-December 2019 and is expected to reach Rs. 2b by end-December 2020. ICPL will fund its investment in DDL by way of a loan facility having a sanctioned limit of Rs. 2b in 2019.

Profitability profile is supported by a healthy dividend income and rental proceeds from its existing properties.
The company has a diversified revenue stream with cash flows emanating in the form of dividends from DCR and rental income from its corporate block. Total revenue of the company amounted to Rs. 3.4b (FY18: Rs. 3.9b) for FY19; decline in revenue was largely on account of delay in receipt of dividend payments for the prior year. While dividends are used for servicing its debt, rental proceeds allow the company to cover its administrative expenses. Administrative costs of the company have also increased to Rs. 359.9m (FY18: Rs. 175.9m) for FY19 on account of higher employee related

costs; ICPL has appointed 5 new directors on to its payroll. Net profit of the company amounted to Rs. 2.5b for FY19 vis-à-vis Rs. 2.9b for the preceding year. Profit for the period ending December 31, 2019 amounted to Rs. 917.4m. Going forward, proceeds from the sale of floors of Tower A and rental income from the two towers is expected to strengthen ICPL's profitability indicators.

Capital structure is considered strong with leverage indicators within manageable levels.
Financial profile of ICPL draws support from the company's strong balance sheet as evident sizeable equity base while profitability and cash flow profile of the company draws support from recurring and growing dividend income from DCR. Equity level of the company amounted to Rs. 25.5b, at end-December 2019. The company mobilized a total debt of Rs. 2.3b at end-HY20; Rs. 1.6b is in the form of a long term debt undertaken for completion of its two towers. The company plans to take further debt amounting Rs. 2b for investment in a new subsidiary, DDL. Even after accounting for additional debt planned to be undertaken, leverage indicators will remain within manageable levels.

Management has addressed some gaps in the corporate governance framework.
During 2019, the company appointed 5 directors in the management team in its core functions including operations, projects, business development, planning and marketing Besides these new inductions, there was stability was witnessed at the management level with key positions held by individuals having long association with the group. During 2019, management has concerted efforts towards strengthening its internal controls by outsourcing its internal audit function to A.F. Ferguson & Co, Chartered Accountants; there was no internal audit function at ICPL in the past. The company has also implemented a fully integrated ERP system which was developed internally; the system is integrated across the Dolmen group. Modules of the same include procurement, construction and financials. Corporate governance framework may be further improved in terms of elaboration of Board level deliberations.

International Complex Projects Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**31-Dec-19**
Fixed Assets	25	22	21	20
Investment in subsidiary	16,678	16,678	16,688	16,994
Project under construction	4,074	5,458	10,247	12,071
Loans, advances and deposits	7	17	11	6
Receivable from related party	-	-	-	-
Cash and Bank Balances	14	1,113	7	87
Total Assets	22,619	25,448	30,371	32,630
Trade and other payable	1,942	327	600	590
Long Term Debt *(*incl. current maturity)*	1,250	-	500	1,616
Short Term Debt	181	-	577	643
Paid Up Capital	320	320	320	320
Total Equity	19,233	22,091	24,591	25,508
INCOME STATEMENT	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**31-Dec-19**
Rental Income	89	239	270	150
Dividend Income	1,705	3,419	2,151	1,134
Operating Profit	2,714	3,749	2,855	1,098
Profit Before Tax	2,721		2,890	1,108
(Loss)/Profit After Tax	2,295	2,858	2,499	917
RATIO ANALYSIS	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**31-Dec-19**
FFO	1,102	2,523	1,562	863
FFO/Total Debt (x)	0.78	-	1.45	0.76
Current Ratio	1.37		1.98	2.26
Gearing (x)	0.07	-	0.04	0.09
Leverage (x)	0.18	0.15	0.24	0.28
Debt Servicing Coverage (x)	1.41	2.77	1,943.79	3,269.01
ROAA (%)	10.6	10.8	8.2	5.8
ROAE (%)	12.7	12.6	10.2	7.3

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	International Complex Projects Limited
Sector	Construction and Real Estate
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
3/13/2020	AA	A-1	Stable	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 credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted

	Name	Designation	Meeting Date
1	Mr. Aftab Ahmed	Chief Financial Officer	February 19, 2020