RATING REPORT

International Complex Projects Limited

REPORT DATE:
July 19, 2021

RATING ANALYST:
Muhammad Tabish
muhammad.tabish@vis.com.pk

RATING DETAILS				
Rating Category	**Final Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1	AA	A-1
Rating Outlook	Rating Watch-Developing		Stable	
Rating Date	*July 19, 2021*		*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	RATING RATIONALE

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.

Corporate Profile

International Complex Projects Limited (ICPL) has been engaged in the business of construction and renting out of self-developed properties for more than four decades. Project portfolio includes Dolmen Mall Clifton, Harbour Front, Executive Tower and the recently completed project Twin Towers (Tower A & B). Moreover, the company is part of Dolmen Group which is a well reputed real estate developer present in residential, commercial and retail project segments.

Both Dolmen Mall Clifton and Harbour Front were sold and transferred to Dolmen City REIT (DCR - rated 'AAA (rr)' by VIS) wherein ICPL owns 75% units on its books. DCR is a closed-end rental REIT fund managed by Arif Habib Dolmen REIT Management Company Limited

Group level restructuring and rearrangement of assets. Outlook assigned to ratings has been revised to 'Rating Watch-Developing'.

As part of group level restructuring, ICPL has submitted a Scheme of Arrangement (SOA) to High Court (HC) whereby the existing entity will be demerged into three undertakings i.e. ICPL Demerged undertaking 1, ICPL Demerged undertaking 2 and ICPL Retained undertaking (as surviving entity). As per SOA, the Demerged undertakings will be transferred to two related party concerns, Dolmen Private Limited (DPL) and Al-Feroz Private Limited (AFPL). Upon finalization of the scheme with regulatory approvals, ratings will be reviewed. Meanwhile, outlook assigned to ratings has been revised to 'Rating Watch-Developing'.

<u>Key Rating Drivers</u>

Update on Twin Towers' project; sale proceeds and rental inflows from the same draw comfort to debt servicing.

Tower A and B has total square footage area of 540,400 and 583,000 respectively with 35 floors each; all floors are completed and operational. Tower A is constructed primarily for offices while Tower B was designed for both office spaces as well as hotel-serviced apartments. Since last review, the company managed to sell two-fifth area (10 floors) of Tower A while to date (end-Feb'21) one-fifth area of each Tower (A & B) has been rented out. Given that floors sold are not handed over to customers yet, advance payment as a liability stands at Rs. 6.1b at end-Feb'21. Construction risk is mitigated on account of significant physical completion. Furthermore, negotiations (to sign an agreement) with one of the multinational hospitality companies for Tower B faced a delay due to Covid-19, however, still are underway.

In terms of debt servicing, cash inflows from sale of floors of Tower A, healthy growth in rental proceeds (given increase in occupancy levels post completion of Twin Towers) and recurring dividend income are expected to remain adequate.

Development of a commercial complex/ mall in Lahore under a new subsidiary, DHA Dolmen Lahore (Private) Limited (DDL) is ongoing.

ICPL (on behalf of Dolmen Group) entered into an agreement with DHA Lahore in

2019 to construct a commercial complex / mall in Lahore (on a land of 486,484 sq.ft.) under a new subsidiary, DHA Dolmen Lahore (Private) Limited (DDL). As per agreement, 74% shareholding of DDL is vested in Dolmen Group while remaining is held by DHA Lahore; profit sharing will be based on same proportion. DHA Lahore provided the land of Rs. 5b with no liability of providing any further funding while ICPL made an upfront payment of Rs. 300m to DHA Lahore in lieu of future dividend payments by DDL.

Total expected construction cost is Rs. 22b (excluding the land cost); of which three-fourth is planned to be funded by the Dolmen Group while remaining will be arranged through borrowings on DDL's books. At end-Feb'21, ICPL's investment in DDL reached to Rs. 3.8b (Dec'19: Rs. 316.3m) which was financed through debt.

Despite rent concessions provided on account of Covid-19, recurring dividends from DCR remained stable in FY20 and in the ongoing year. Going forward, healthy growth in rental proceeds would support the profitability profile and cash flows.

The company derives its major revenue (around one-half) from dividend income and by rentals while revaluation gains on investment property has supported the profitability profile over the years. In FY20 and in the ongoing year, dividend inflows from DCR has remained stable despite rent concessions/ waiver announced by REIT (as malls were shuttered during nationwide lockdowns) initially during the first-wave of Covid-19 pandemic and now in third-wave. Overall topline grew by ~25% in FY20 on account of higher rental proceeds while the same growth trend is expected to continue given increase in occupancy rate. Moreover, capital gains on sale of floors of Tower A would provide additional support to topline and overall profitability in the ongoing year.

Administrative overheads have remained around prior year's levels. Finance cost has increased given higher debt mobilization. Given the absence of revaluation gain in 8M'FY21, net profit amounted to Rs. 0.9b (FY20: 2.9b; FY19: 2.5b).

Strong capitalization levels; leverage ratios are expected to remain elevated on account of the debt planned to be undertaken over the rating horizon.

ICPL's financial profile draws support from strong balance sheet as evident from sizeable equity base which has increased to Rs. 28.5b (FY19: Rs. 24.6) at end-Feb'21. Overall debt profile of the company has a mix of long-term and short-term loans. At end-Feb'21, total long-term debt increased to Rs. 3.9b (FY20: Rs. 2.5b; FY19: Rs. 500m) which is attributable to the mobilization of funding resources for DDL project while further debt addition is planned over the rating horizon. The management has negotiated all the fresh loans with a 3 years grace and 3 years of repayment period to accumulate revenues from the new projects. However, leverage indicators would continue to remain elevated.

Corporate governance framework is sound

Since last review, management team has remained stable with senior level positions held by individuals having long association with the group. Board of Directors (BoD) comprise 5 directors while core business functions include operations, projects, business development, planning and marketing. Internal audit function is outsourced to A.F. Ferguson & Co, Chartered Accountants. An internally developed ERP system which is fully integrated across the Dolmen group is in place. Modules 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	**FY19**	**FY20**	**8M'FY21**
Fixed Assets	21	19	17
Investment in subsidiary	16,688	17,964	20,458
Project under construction	10,247	12,389	13,436
Loans, advances and deposits	11	34	37
Cash and Bank Balances	7	1	1
Total Assets	30,371	35,862	39,388
Trade and other payable	600	486	533
Long Term Debt *(including current maturity)*	500	2,343	3,781
Short Term Debt	577	835	31
Paid Up Capital	320	320	320
Total Equity	24,591	27,589	28,522
INCOME STATEMENT			
Rental Income	270	309	452
Dividend Income	2,151	2,301	1,301
Operating Profit	2,855	3,814	1,339
Profit Before Tax	2,890	3,835	1,359
(Loss)/Profit After Tax	2,499	2,999	933
RATIO ANALYSIS			
FFO	1,562	1,812	972
FFO/Total Debt (x)	1.45	0.55	0.37
Current Ratio	1.99	1.97	1.87
Gearing (x)	0.04	0.12	0.14
Leverage (x)	0.24	0.30	0.38
Debt Servicing Coverage (x)	1,943.79	531.1	2.4

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				
	07/19/2021	AA	A-1	Rating Watch-Developing	Maintained
	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	**S.no**	**Name**	**Designation**	**Meeting Date**	
	1	Mr. Aftab Ahmed	CFO & Company Secretary	May 06, 2021	