RATING REPORT

Dolmen (Private) Limited

REPORT DATE:
May 23, 2023

RATING ANALYST:
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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*May 23, 2023*	
Rating Action	*Initial*	

COMPANY INFORMATION

Incorporated in 1986	**External auditors:** Clarkson Hyde Saud Ansari & Chartered Accountant
Private Limited Company	**Chairman of the Board:** Mr. Nadeem Riaz **CEO:** Mr. Faisal Nadeem
Key Shareholders (with stake 10% or more):	
Mr. Nadeem Riaz – 50% Mrs. Uzma Nadeem- 10% Mr. Faisal Nadeem- 10% Ms. Ramsha Nadeem- 10% Ms. Anum Nadeem- 10% Ms. Sidra Nadeem- 10%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May 2023):
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

APPLICABLE RATING SCALE(S)

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

Dolmen Private Limited

OVERVIEW OF THE INSTITUTION

Dolmen (Private) Limited (DPL) was incorporated in Pakistan as a private limited company in September'1986. The principal activities of the Company is to undertake the business of building, developing and renting out of properties developed by the company.

Profile of Chairman

Mr. Nadeem Riaz has experience of over 32 years in the real estate market developing and managing renowned and award winning residential, commercial and retail projects. He is a pioneer in developing international standard shopping malls in Pakistan, transforming the dynamics of the retail industry. Mr. Nadeem Riaz is a member of both International Council of Shopping Centers and Middle East Council of Shopping Centers, since 2002.

Profile of CEO

Mr. Faisal has been involved in the development, marketing and management of prime commercial and retail real estate projects including Dolmen Mall Clifton. Mr. Faisal started career as Manager Special Projects associated with the development of Dolmen

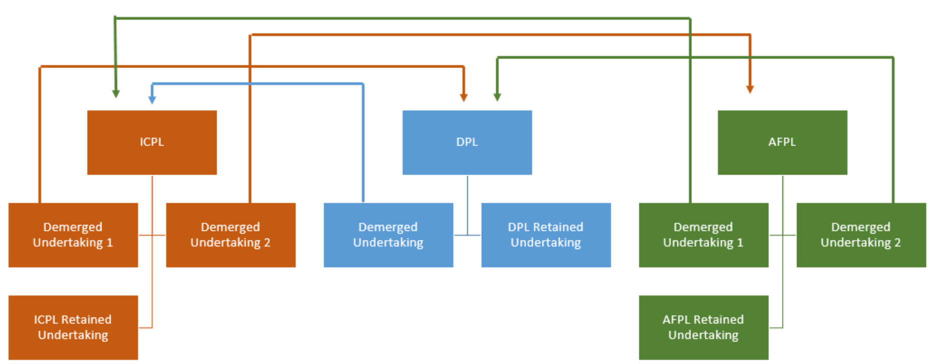
RATING RATIONALE

Corporate Profile

Dolmen (Private) Limited (DPL) was incorporated in 1986 as a Private Limited Company in Pakistan under the Companies Ordinance, 1984. The Company is engaged in the business of construction and selling/renting out of self-developed properties. The company is a part of Dolmen Group, which is a well-reputed real estate developer present in residential, commercial and retail project segments. The registered office of the Company is located at Dolmen Estate, Shaheed-e-Millat Road, Karachi. Dolmen Real Estate Management (Private) Limited (DREM) has been employed for the management of activities in relation to the buildings and tenants occupying the buildings including arrangement of common amenities and maintenance of the common areas and related assets of constructions under the Dolmen Group.

Restructuring of the Dolmen Group

As a part of group level corporate restructuring, a Scheme of Arrangement (SOA) was submitted to High Court (HC) whereby reorganization/rearrangement of assets, liabilities, obligations and undertakings of each International Complex Projects Limited (ICPL), Dolmen Private Limited (DPL) and Al-Feroz Private Limited (AFPL) was finalized. The effective date of restructuring is mentioned as of July 1st, 2021. A brief summary of the scheme of arrangement is picturized below:



ICPL Demerged Undertaking 1- Consists of 50% share of rental income from Executive Tower, and Sky Towers; 50% DCR REIT units, 100% ownership of DHA Dolmen Lahore (Pvt.) Limited, and 50% stake in Land in Clifton, Karachi
ICPL Demerged Undertaking 2- Consists of 50% share of rental income from Executive Tower, and Sky Towers; 50% DCR REIT units, and 50% stake in Land in Clifton, Karachi
ICPL Retained Undertaking- Comprises PPE worth Rs. 17.8m
DPL Demerged Undertaking- Consists of Subordinated Loans of around Rs. 25m
DPL Retained Undertaking- Consist of Project under construction- Grove Residency
AFPL Demerged Undertaking 1- Consists of Loans & Advances amounting Rs. 22.0m
AFPL Demerged Undertaking 2- Includes 50% share in rental income from Dolmen Mall Tariq Road (DMTR) & Dolmen Mall Hyderi (DMH), 100% ownership of Land in Korangi- Karachi, 100% ownership of Land in Jami Street, DHA Karachi and 100% stake of Land in DHA, Khayaban-e-Humayun, Karachi
AFPL Retained Undertaking- Consists of 50% share in rental income from DMTR & DMH, 100% ownership in Grand Bazaar at Sunrise Avenue DHA Karachi, 100% ownership of **3 areas** of Land in Khayaban-e-Abbasi- Karachi and 100% share of Land in Khayaban-e-Rizwan, DHA Karachi .

Mall Tariq Road, Dolmen Mall Hyderi, Dolmen Food Courts, The Harbour Front Office Tower and Dolmen Mall Clifton. He later served in the capacity of Director Leasing, for the Dolmen property portfolio. He is also serving as the Chief Operating Officer at Dolmen Real Estate Management (Pvt.) Limited, which manages over 6 million square feet of prime retail and commercial space.

Profile of CFO

Mr. Abdul Sattar Sheikh has over 16 years of experience in retail, real estate & construction, shipping & logistics industries in Pakistan and UAE. Mr. Sheikh joined the dolmen group as the Chief Financial Officer in September 2022. He is the Fellow Member of Institute of Chartered Accountants of Pakistan.

DPL's Assets & Liabilities Post De-merger

- As a result of restructuring where DPL Demerged Undertaking was transferred to ICPL, only Rs. 25m worth of loans were shifted along with no other outflow of asset and liabilities.
- Post-restructuring of AFPL Demerged Undertaking 2, 50% ownership of Dolmen Mall Tariq Road & Dolmen Mall Hyderi and 50%of land bank was transferred to DPL along with many other assets & liabilities as indicated in the table below.
- Based on the Scheme of Arrangement, where ICPL Demerged Undertaking 1 was moved to DPL, 50% of Dolmen City REIT units, 50% of Twin Towers (of each Tower A & Tower B respectively), 50% ownership of Corporate Office Block and 100% ownership of subsidiary's project- DHA Dolmen Mall Lahore was transferred to DPL.
- As a consequence of the restructuring, DPL shall be wholly owned by Nadeem Riaz & Family. Reduction of Rs. 0.6m in the Share capital of DPL is attributable to the cancellation of the DPL shares held by Ferozuddin Family Shareholders, in the year of Scheme of Arrangement.
- After the SOA, balance sheet transfer into DPL from ICPL and AFPL was completed as follows:

In Millions	Transferred from ICPL	Transferred from AFPL	Total
Investment Property	4,631.59	714.72	5,346.31
Right of use asset	41.01	-	41.01
Advance against equity	-	-	-
Long-term Investments	12,407.98	-	12,407.98
Long-term advances and deposits	197.7	9.59	207.29
Project under construction	4,854.69	-	4,854.69
Trade debts	-	16.28	16.28
Advances- deposits, prepayment and other receivables	3.35	400.72	404.07
Taxation	-	12.22	12.22
Cash and bank balances	1.09	235.89	236.98
Total Assets	**22,137.41**	**1,389.42**	**23,573.76**
Long-term finance	3,735.92	-	3,735.92
Securities deposit from tenants	-	46.72	46.72
Advances from tenants	-	7.95	7.95
Lease Liabilities	51.41	-	51.41
Short-term finance	347.55	-	347.55
Accrued markup	36.10	-	36.10
Taxation	91.61	-	91.61
Trade and other payables	324.71	15.51	340.22
Total Liabilities	**4,587.30**	**70.17**	**4,657.47**
Net Asset Transferred	**17,550.11**	**1,319.26**	**18,869.37**
Subordinated Loan	**Transferred to ICPL**	**Transferred to AFPL**	**Total**
Mr. Ferozuddin Riaz	-	(25.00)	(25.00)

Benefits of the Scheme

- Bifurcating ownership between two set of shareholders (Nadeem and Feroz Family)
- Larger asset base for DPL and AFPL
- Efficient control where each company will manage, operate, and develop respective undertakings.
- Distribution of risk providing greater stability to each Company.
- Fiscal efficiencies with respect to payment of dividends and efficient utilization of revenue streams.

DPL's Assets Under Management

1. **Grove Residency (100% ownership)** is an ongoing residential project in Qayumabad, Karachi comprising three towers constructed by DPL expected to be completed by Dec'23. Currently, around 66% of the apartments are booked while remaining portion is intentionally kept on hold by the Company to garner benefits of expected price escalation. Construction of the project is funded mostly through customer advances and no debt will be drawn by DPL to finance the project. DPL's management plans to sell the project after completion and envisages a net gain of around Rs. 3.75b which will be utilized to pay off outstanding debt obligations. Key factual details of the project are tabulated below:

Grove Residency	
No. of Floors (3 Towers)	86
Total No. of Apartments	254
Covered Area (sq.ft)	807,954
Saleable Area (sq.ft)	616,461

2. **Dolmen City REIT (37.5% ownership)** is a perpetual, listed, close-end rental REIT established in January 2015 under a Trust Deed between Arif Habib Dolmen REIT Management Limited (AHDRML) as the REIT Management Company (RMC) and Central Depository Company (CDCPL) as the Trustee of the fund. The REIT earns rental income from properties comprising Dolmen Mall Clifton, Karachi (DMC) and The Harbour Front (THF). As per management, DMC is nearly 100% occupied whereas HF's occupancy ratio being above 96%. With DPL's 37.5% stake of ownership in DCR, DPL records dividend income in its books as a source of revenue. DCR is rated 'AAA (rr)' by VIS Credit Rating Company Limited.
3. **DHA Dolmen Lahore (Private) Limited (DDL)** is Private Limited Company and the principal line of business entails construction of a commercial complex/mall on a land measuring 108 kanals situated at Phase VI DHA Cantonment Lahore for leasing/licensing out shops/space for generating revenues for the company. As a part of JV Agreement, DPL holds stake of 74% in the Company while DHA Lahore holds the remaining stake of 26% in the

form of land provision in DHA Lahore. On June 23, 2022, DHA and DPL entered in an agreement whereby it was decided to transfer the project and land to a REIT scheme. Consequently, on June 27, 2022 DHA Dolmen Lahore REIT (DDLR) was established under Trust Deed executed between AHDRML as the RMC and CDCPL as the trustee. As of February'23, completion rate of the project is close to 70% (FY22: 37%). After commencement, dividend income will be the source of income from this investment.

4. **Sky Towers (Tower A & Tower B)** are 50% owned by DPL and occupancy level of the same being 76% and 36% respectively. Investment in this property is a source of rental income for DPL.
5. **Corporate Office Block** is a commercial project, with major international companies as tenants occupying 92% of the building. As a part of SOA, 50% ownership of the same is now undertaken by DPL yielding rental revenue in the books.
6. **Dolmen Mall Tariq Road & Dolmen Mall Hyderi, Karachi** have been partially (50%) transferred to DPL under the SOA. Occupancy levels of these properties are reported above 95% as per management yielding rental revenue.

<u>Key Rating Drivers</u>

Sponsor Support provides comfort to the ratings

The company being a part of Dolmen Group provides support to the ratings. Dolmen Group is a well reputed real estate developer present in residential, commercial and retail project segments for more than four decades. Sufficient experience and track record of providing high quality projects at prime locations bode well for the ratings.

Stable stream of rental and dividend income; however, high finance charges due to elevated debt to finance DDL project is expected to keep profitability indicators subdued over the next two years. Generation of dividend income from DDLR from FY24 onwards and timely retirement of debt through sale of Grove Residency and IPO of DDLR will be important to support profitability profile of the company.

The company generates its revenue from DCR's dividend and rental income from Corporate Office Block, Sky Towers, Dolmen Mall Tariq Road and Dolmen Mall Hyderi. Total revenue amounted Rs. 2.25b in FY22, 50% contributed by rentals and the remaining from dividend income. Annual escalations of 10% in rentals along with increase in occupancy of Sky Towers is expected to increase rental income over the rating horizon. Further, dividend income from DDLR after commencement and repayment of DDL's obligations is expected to further improve revenue generation from FY27 onwards. The Company generates the highest proportion of rental income (33%) from its tenants at the Dolmen Mall Tariq Road (DMTR) followed by 28% from the Sky Tower A property in HYFY23. Rental client concentration is on the higher side for all properties excluding DMTR premises as indicated in the table below. However, long-term association and annual renewals of contracts with the clients provide comfort to the ratings assigned. Top tenants include Bank of China Limited, Reckitt Benckiser Pakistan Limited, Weaves Properties (SMC-Private) Limited, Jad E-Services Pakistan Private Limited, Habib Bank Limited and Khaadi (SMC-Private) Limited. During HYFY23, highest rental income was generated by DMTR (33%) followed by Sky Tower A (28%), Sky Tower B (17%), COB (15%) and DMH (7%).

Top 5 Rental Concentration in HYFY23 (Property Wise)	Occupancy levels	% Top 5 Concentration (Respectively)	% Top 5 Concentration (Aggregate Level)
Corporate Office Block	92%	54%	8%
Sky Tower A	76%	80%	22%
Sky Tower B	36%	89%	15%
Dolmen Mall Tariq Road	91%	29%	9%
Dolmen Mall Hyderi	95%	46%	3%

Occupancy levels of four out of five properties is reported on the higher side; however Sky Tower B is occupied 36% with the remaining left for hotel apartments. On the construction front, the same is completed. Selling/ renting of the available space in Sky Towers will be important. Administrative overheads have escalated upwards to Rs. 570.6m (FY21: Rs. 47.3m; FY20: Rs. 10.8m) in FY22 mainly due to SOA on account of higher depreciation charge and management fee expensed during the same period. Income from financial and non-financial assets of around Rs. 93.2m in FY22 (FY21: Rs. 31.5m) was reported in FY22. Despite significant incline in finance cost given higher debt mobilization during FY22, net profit amounted to Rs. 1.05b (FY21: Loss of Rs. 0.1b; FY20: Loss of Rs. 0.01b) turning the entity into a profit making Company as before the SOA, DPL was only managing development of Grove Residency project.

High finance charges due to elevated debt to finance DDL project is expected to keep profitability indicators subdued. Generation of dividend income from DDLR from FY27 onwards and timely retirement of debt through sale of Grove Residency and IPO of DDLR will be important to support profitability profile of the company.

Timely completion and sale of Grove Residency along with commencement and successful IPO of DHA Dolmen Lahore REIT are key rating factors to support the liquidity profile of the company over the rating horizon.

ICPL (on behalf of Dolmen Group) entered into an agreement with DHA Lahore in 2019 to construct a commercial complex / mall in Lahore under a new subsidiary, DHA Dolmen Lahore (Private) Limited (DDL). 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. DDL has now become a subsidiary of DPL as discussed above post group restructuring and the project has been transferred to a REIT scheme with IPO planned in FY24.

As per management, total expected construction cost of the project is approximately Rs. 32.2b; of which 75% is planned to be funded by DPL while remaining (25%) will be arranged through borrowings on DDL's books. Given target to commence mall operations by Sep'23, debt to the tune of around Rs. 22b will be drawn on DPL's books by HYFY24 to finance the construction cost. This debt will be shown as equity in DDL's books. Furthermore, debt on DDL's financials is estimated at a quantum of Rs. 7.8b by HYFY24. Current debt position as of Feb'23 on DPL's and DDL's books amount Rs. 12b and Rs. 5.5b, respectively. Moreover, given absence of income generation on the books of DDL, finance costs till commencement of the project are under the onus of DPL which will be repaid in FY27.

Given high debt utilization and further expected increase in the same, Debt Service Coverage Ratio is at borderline of 1.01x over the rating horizon. Management expects to generate liquidity to early retire outstanding obligations through the sale of Grove Residency (approximately for Rs. 4b) in second half of FY24 and through planned IPO. Other comfort factors include deferment of interest cost on outstanding loans (R. 7.5b worth loans interest cost payment is deferred by 2 years) and available land bank having a market value of around Rs. 9b.

Gearing levels on the lower side due to sizeable equity base.
DPL's financial profile draws support from strong balance sheet as evident from sizeable equity base reported at Rs. 19.79b at end-June'22 post restructuring. Paid up capital of the Company depicted a downtick on account of cancellation of DPL shares held by Group B shareholders.

Overall debt profile of the company has a mix of long-term and short-term loans. At end-Dec'22, total long-term debt increased to Rs. 10.1b (FY21: Rs. 8.3b; FY20: Nil) which is attributable to the mobilization of funding resources for DDL, construction of Grove Residency and Sky Towers. 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.

Corporate governance framework and Internal Audit function depicts room for improvement.

DPL is a family-owned entity where senior management team has remained stable with senior level positions held by individuals having long association with the Dolmen group. Board of Directors (BoD) comprise owners while core business functions include operations, projects, business development, planning and marketing. The company does not have a separate Internal audit function. External auditors of the company are Clarkson Hyde Saud Ansari & Chartered Accountant who are QCR rated. They do not classify in SBP's Panel of Auditors. MS Dynamics have been employed having modules of procurement, controls and financials. MS Dynamics is employed to assist the IT function of the Company. Room for improvement exists in the corporate governance framework which can be achieved through segregation of ownership and management and formulation of a separate Internal Audit department.

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Dolmen Private 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				

	23/05/2023	A-	A-2	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.				
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Due Diligence Meetings Conducted

S.no	Name	Designation	Meeting Date
1	Mr. Shiban Toufiq	Senior Manager-Corporate Finance	24-Jan-2023
2	Mr. Jawwad Haqqi	General Manager Finance	24-Jan-2023
3	Mr. Abdul Sattar Sheikh	CFO	20-Feb-2023