

RATING REPORT

Dolmen (Private) Limited

REPORT DATE:

February 10, 2025

RATING ANALYST:

 Musaddeq Ahmed Khan
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Rating Category	RATING DETAILS			
	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Stable		Stable	
Rating Date	February 10, 2025		May 23, 2023	
Rating Action	Reaffirmed		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. Nadeem Riaz

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 RATING SCALE(S)

VIS Entity Rating Criteria
Corporates
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>
Construction Industry
<https://docs.vis.com.pk/Methodologies%202024/CONSTRUCTION-INDUSTRY-RATING-CRITERIA.pdf>
VIS Rating scale
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Dolmen (Private) Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

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

Profile of Chairman and CEO

Mr. Nadeem Riaz has experience of over 33 years in the real estate market developing and managing 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.

Corporate Profile

Dolmen (Private) Limited (‘DPL’ or the ‘Company’) was incorporated in 1986 as a Private Limited Company in Pakistan under the Companies Ordinance, 1984 (now Companies Act, 2017). The principal activities of the Company are to undertake the business of builders, developers and renting out of properties developed by the Company. The Company is a part of Dolmen Group, which is a reputed real estate developer present in residential, commercial and retail project segments with flagship projects including Dolmen Mall Karachi, Tariq Road and DHA Lahore. The registered office of the Company is located at Dolmen Estate, Shaheed-e-Millat Road, Karachi.

Auditors’ Report:

The FY24 financial statements were audited by Clarkson Hyde Saud Ansari, Chartered Accountants, which is a QCR Rated Firm. The auditor issued an unqualified opinion on the financial statements.

DPL’s Assets Under Management

- 1. Grove Residency (100% ownership)** is an ongoing residential project in Qayumabad, Karachi comprising three towers constructed by DPL and expected to be completed by Dec’25. Currently, around 55% of the total 254 apartments have been sold, however, the management strategically decelerated the sales process in response to the real estate sector’s slowdown caused by the prevailing high-interest-rate environment. With the easing of interest rates, improving macroeconomic indicators, and declining inflation, property prices are anticipated to recover. The management plans to relaunch the project in Mar’25 and net cashflow from the project is expected to generate Rs. 4.5b.

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. DHA Dolmen Lahore (Private) Limited (DDL) (62.9% ownership)** is a Private Limited Company with principal line of business entailed in construction of a commercial complex/mall on a land measuring 108 kanals situated at Phase VI DHA Cantonment Lahore, under a JV Agreement with DHA Lahore with 26% equity stake in the form of land provision. Dilution in DPL shareholding has been noted from previous (74%) with Al-Feroz group, related family group, entering the venture. This

project has been met with cost overruns and delays as a result of notable increases in construction costs over the last 2 years as well as import restrictions that constrained finishing of the project. The incurred project cost till date stands at ~Rs. 34b, with an addition Rs. 6b to be spent over the next two years. However, the mall construction is completed and operational as of Dec'24. The mall records 87% occupancy at the outset, with remaining spaces reserved for certain potential tenants.

3. **Dolmen City REIT (37.5% ownership)** is a perpetual, listed, close-end rental REIT established in Jan'15 under a Trust Deed between AHDRML as the RMC and CDCPL as the Trustee of the fund. The REIT earns rental income from properties comprising Dolmen Mall Clifton, Karachi (DMC) and The Harbor Front (THF). DMC and HF has occupancy ratios above 97%. 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.
4. **Sky Towers (Tower A & Tower B) (50% ownership)** have occupancy levels of 100% and 47% respectively. Investment in these properties is a source of rental income for DPL.
5. **Corporate Office Block (50% ownership)** is a commercial project, with major international companies as tenants occupying 92% of the building. This project is yielding rental revenue in the books.
6. **Dolmen Mall Tariq Road and Dolmen Mall Hyderi (50% ownership)** have occupancy levels reported at 97% and 99%, respectively, yielding rental revenue.
7. **Dolmen City Islamabad (Private) Limited and Dolmen Mall DHA Islamabad (Private) Limited** are established in partnership with DHA Islamabad for further projects in pipeline. The plan includes a mall and a residential project planned on a major scale.

Real Estate Industry

In FY24, Pakistan's real estate sector faced economic and regulatory challenges, including high interest rates, sluggish construction growth, and project delays. However, macroeconomic stability, marked by monetary easing, inflation control, a stable PKR, and higher foreign reserves, improved liquidity and spurred investment. Total foreign investment, including FDI and portfolio inflows, surged 189% YoY in July 2024, largely due to contributions from China (via CPEC) and Gulf countries. Government efforts to formalize the economy, broaden the tax base, and curb the foreign exchange grey market further supported sectoral transformation.

Urbanization and a youthful demographic offered growth potential, but high CPI inflation (24.52% average) and elevated interest rates (19.5%) constrained progress. Import restrictions helped narrow the current account deficit and spurred localized production, notably in telecommunications and industrial manufacturing, but disrupted value chains. The office sector

remained robust, with high demand for premium spaces by MNCs and local groups, maintaining strong occupancy rates in Grade A buildings. Co-working spaces and the hospitality sector also showed resilience, with occupancy surpassing pre-COVID levels.

The industrial sector benefited from increased local manufacturing, driving demand for warehouses, while retail maintained high occupancy rates in malls, with new projects like Dolmen Group's Lahore mall generating excitement. However, the residential sector struggled as speculative investor demand dwindled, leading to lower take-up rates. Encouragingly, more REITs were launched, registering assets over Rs. 280b, and 39 NBFCs acquired licenses to act as real estate managers, signaling a growing institutional presence in the sector despite ongoing political and economic uncertainties.

As 2025 begins, the property market in Pakistan is undergoing notable changes, driven by economic recovery, policy reforms, and evolving buyer preferences. The country's economy has demonstrated resilience, supported by remittances, growing exports, and government-led initiatives that have stabilized key indicators. Interest rates have dropped to 12% with projections to decline further to 9%, complemented by a stable PKR and controlled inflation. This favorable economic environment has positioned real estate as an attractive investment option. Additionally, the stock market's impressive performance, surpassing the 100,000-point mark, underscores the growing optimism around the sector.

In 2025, smart city initiatives and technological advancements are reshaping urban living in Pakistan. Cities like Lahore and Islamabad are leading with energy-efficient systems, smart housing solutions, and enhanced security features, appealing to modern buyers seeking sustainable and tech-integrated properties. The growing demand for mixed-use developments that combine residential, commercial, and recreational spaces highlights evolving urban preferences. Simultaneously, the commercial real estate sector is set for significant growth, driven by the expansion of e-commerce and entrepreneurial ventures. This has increased demand for logistics hubs, coworking spaces, and modern commercial complexes, with Karachi, Lahore, and Islamabad emerging as key hubs for these investments.

Key Rating Drivers

Ratings are supported by proven track record and expertise of sponsors.

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.

Revenue Growth Outlook

The Company derives its revenue from DCR's dividend and rental income generated by its assets, including the Corporate Office Block, Sky Towers, Dolmen Mall Tariq Road, and Dolmen Mall Hyderi. Total revenue for FY24 reached Rs. 3.5b, marking an increase from Rs.

2.8b in FY23. Rental income contributes 52.7% of the total revenue, while the remaining portion comes from dividend income.

Rental income experienced a robust growth of approximately 35% in FY24, driven by higher rental rates and improved occupancy levels. Annual rental escalations, coupled with further increases in the occupancy of Sky Towers B, are expected to bolster rental income in the coming periods. Additionally, dividend income rose by about 16%, reflecting an increase in earnings from DCR units held by the Company.

Looking ahead, a significant boost in dividend income is anticipated from the commencement of DDLR's operations. Additionally, the rise in rental income due to higher occupancy levels at Sky Tower B is expected to further bolster the Company's revenue base, which is expected to further strengthen the Company's revenue base.

Rental Income Concentration and Tenant Profile

Top 5 Rental Concentration in FY24 (Property Wise)	Occupancy levels	% Top 5 Concentration (Respectively)	% Top 5 Concentration (Aggregate Level)
Corporate Office Block	86%	64%	8%
Sky Tower A	100%	69%	29%
Sky Tower B	47%	72%	19%
Dolmen Mall Tariq Road	96%	25%	7%
Dolmen Mall Hyderi	99%	48%	3%

Project Under DDL	Occupancy level
Dolmen Mall Lahore	87%

Rental income concentration remains high across key properties, underscoring the significance of long-term tenant relationships and the franchise value of these assets. The tenant profile includes prominent corporate clients such as United Energy Pakistan Limited, Jad E-Services Pakistan Private Limited, Habib Bank Limited, Khaadi Pakistan, and Rapid Innovation (Private) Limited. These high-profile tenants contribute to the stability and reliability of rental income streams.

In FY24, the highest rental income was generated by Dolmen Mall Tariq Road (27.7%), followed closely by Sky Tower A (27.5%) and Sky Tower B (26.7%). Corporate Office Block (12.0%) and Dolmen Mall Hyderi (6.1%) also contributed to the revenue mix.

Occupancy levels remain strong across all properties. Key properties such as Sky Tower A, Dolmen Mall Tariq Road, and Dolmen Mall Hyderi boast occupancy rates of 100%, 96%, and 99%, respectively. The newly established Dolmen Mall Lahore has achieved an impressive 87% occupancy at launch, reflecting the property's franchise value and market appeal.

Project Delays and Cost Overrun

Dolmen Mall in DHA Lahore has faced significant cost overruns, with the total project cost escalating to Rs. 40b. This sharp increase is primarily attributable to an extraordinary rise in raw material prices, driven by inflationary pressures and market volatility. Additionally, constraints on the import of critical materials further compounded the situation, causing delays in project timelines and contributing to higher overall costs. This coincided with rising interest rates which further aggravated the impact.

The combined effect of these factors has placed upward pressure on the project budget, impacting the financial planning and execution timelines. Despite these challenges, the premium nature of the mall and its strategic location in DHA Lahore are expected to drive strong demand and ensure its long-term viability and revenue-generating potential.

Elevated Gearing and Leverage Impacting Profitability

The financial risk profile of the Company's is strained on account of elevated gearing and leverage, which have significantly impacted profitability. The increased levels of gearing and leverage are primarily driven by additional borrowings undertaken to cover the project cost overruns and delays. This financial pressure has been exacerbated by a slowdown in the property market during 2024, which delayed the realization of anticipated sales proceeds, further affecting the Company's cash flow and liquidity position. Going forward, liquidity pressures are expected to remain elevated in the medium term, given the pending capital commitments related to Grove Residency and DDL, coupled with medium term debt servicing requirements.

To address these challenges, the management is actively implementing measures including reprofiling existing debt and securing additional financing to optimize cashflows. The ratings draw comfort by the sponsors' proven track record of successfully completing and delivering high-quality projects, together with strategic plan of sale of Grove Residency units and IPO of DDL under REIT scheme. Implementation of the same remain crucial for the ratings. Additionally, the ratings draw strength from the sizeable property portfolio of the company with may provide a buffer against potential debt servicing pressures.

Corporate governance framework

DPL is a family-owned entity with a stable senior management team, where key positions are held by individuals with a long-standing association with the Dolmen Group. The Board of Directors (BoD) is comprised of the owners, and the Company's core business functions include operations, projects, business development, planning, and marketing. Corporate governance framework provides room for improvement with respect to supervisory and internal control functions, together with enhancement in external framework in line with best practices. The Company utilizes MS Dynamics with modules for procurement, controls, and financial management, which supports its IT function.

Dolmen (Private) Limited

REGULATORY DISCLOSURES		Appendix I			
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/Watch	Rating Action
	RATING TYPE: ENTITY				
	10-Feb-2025	A-	A2	Stable	Reaffirmed
	23-May-2023	A-	A2	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	Abdul Sattar Shaikh	CFO	06 th Dec 2024	
	2	Muhammad Umer	Manager Finance	06 th Dec 2024	