

RATING REPORT

Shields REIT Management Company Limited

REPORT DATE:

November 01, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating
REIT Rating	MQR
Rating Outlook	Stable
Rating Date	November 01, 2023

COMPANY INFORMATION

Incorporated in July 2022	External Auditors: Grant Thornton Anjum Rahman Chartered Accountants (<i>Appointed in Oct'22</i>)
Public Limited Company (unquoted)	Board Chairman: Mr. Abdullah Dadabhoy
Key Shareholders:	Chief Executive Officer: Mr. Abdul Ghani Dadabhoy
<i>Shield (Pvt.) Limited ~80%</i>	
<i>Mr. Mohammad Ali ~10%</i>	
<i>Mr. Osman Asghar Khan ~10%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Management Quality Rating Criteria: 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>

Shields REIT Management Company Limited

OVERVIEW OF THE RMC RATING RATIONALE

Shields REIT Management (SRMC) was incorporated in Pakistan as a public limited company (unquoted) on July 22nd, 2022 under Companies Act 2017. The Company is a REIT Management Company, registered under the NBFC Rules with the Commission.

Profile of Chairman

Mr Abdullah Dadabhoy is a renowned businessman by default and an entrepreneur by choice. He is the founder and owner of several companies, heads numerous philanthropic organizations, and patron of many social welfare organizations, in and outside Pakistan. As Chairman of Dadabhoy Housing & Investments, he has pioneered several real estate projects enabling the development of various low cost housing projects in and around Karachi.

Profile of CEO

Abdul Ghani Dadabhoy completed his early business education from the Institute of Business Management, Karachi, Pakistan. Dadabhoy obtained his Executive Business education from London School of Economics, and his MBA from said Business School, University of Oxford, England. He is also certified director from

Corporate Profile

Shields REIT Management Company Limited referred to as 'SRMC' or 'The RMC', operates as a subsidiary of the real estate-focused Shields (Pvt) Ltd (SPL), a key affiliate entity of Abdullah Dadabhoy Group of Companies. The Group, holding a prime land portfolio in Karachi, intends to initiate two mega housing projects and introduce REIT funds via SRMC. The RMC, established in July 2022 and licensed by SECP in April 2023, is owned by SPL and two individual investors. The SPL's ownership is ultimately held by four members of the Dadabhoy family. As per management, SPL plans to merge all its real estate assets and those owned by other group entities into a REIT structure.

Group Profile

After 1947, in Karachi, the late Mr. Abdul Ghani Dadabhoy established a trading house, initially focusing on cotton ginning, oil plants, and construction. By the 1990s, Dadabhoy's name had evolved into a leading conglomerate, diversifying into areas like cement, sanitary, plastic ware, lubricants, paper sacks, prefabricated construction material, and agricultural equipment. Subsequently, leasing and insurance companies were also added. Within this transformative period in the 90s, a strategic family-led business restructuring led to the emergence of the Abdullah Dadabhoy Group. Since then, the Abdullah Dadabhoy Group, comprising several entities, has ventured into various sectors, including real estate development, higher education, media, investments, and healthcare, amassing an asset base of over Rs. 18b. The real estate development companies in the group include Dadabhoy Agencies (Pvt) Ltd, Dadabhoy Investments (Pvt) Ltd, Dadabhoy Housing (Pvt.) Ltd., Destiny Developers (Pvt.) Ltd., New Lasbela Holdings, and SPL. Below is SPL's financial summary:

Table: Key Financial Figures – Parent Entity (SPL)

Rs. in millions	FY21	FY22	FY23
Administrative Expenses	(151.6)	(214.3)	(64.9)
Other Income (mainly fair value gain on investment property)	2,275.2	5,805.0	3,368.6
Net Profit/Loss	2,113.9	5,453.3	3,303.7
RoAA	<i>n/a</i>	43.1%	19.2%
RoAE	<i>n/a</i>	105.5%	34.6%
PP&E	76.7	76.4	10.9
Investment Property	9,234.7	14,955.6	18,440.4
Short-term Investments	476.3	337.4	184.9
Cash & Bank Balance	3.9	12.5	10.0
Others	52.1	99.0	266.5
Total Assets	9,843.7	15,480.9	18,912.7
Financing Facility	-	-	6.2
Due to related parties	470.8	509.8	404.40
Trade & Other Payables	-	156.6	10.90
Short-term loan	-	-	371.5
Others	11.8	-	1.5
Total Liabilities	482.6	666.4	794.5
Share Capital	4.5	4.5	4.5
Retained Profits	2,426.9	7,880.2	11,183.9
Tier 1 Equity (Excluding Revaluation Surplus)	2,441.4	7,894.7	11,198.4
Total Equity	9,361.2	14,814.5	18,118.2
Leverage	0.20	0.08	0.07

ICMA Pakistan. Dadabhoj began his professional career in the year 2007 and within a span of thirteen years he is now serving at key directorial positions of various Dadabhoj businesses.

Following are the prime properties owned by the Group in Karachi:

- A 2.4-acre plot of Land near Karachi University, eligible for High-rise building for residential and commercial activities.
- A 300-acre plot of Land at Hawkesbay Scheme 42, adjacent to housing schemes launched by public and private sectors
- 40 acres plot of Land at, Scheme 33, near Jinnah Avenue, in the vicinity of posh housing societies.
- A 12-acre plot of Land at Scheme 33 in densely populated surrounding.
- A 15-acre plot of Land at Scheme 33, ideal for a low-cost housing scheme.
- A 52 acres plot, near Al-Azhar Garden, Scheme 33, Karachi

Key Rating Drivers:

Governance & Management Profile:

The assigned rating is underpinned by the effective implementation of an adequate corporate governance framework at the RMC.

- The Board of Directors comprises 7 members: 2 are independent, meeting one-third representation best practices, and 4 are nominated by the parent company. The Board follows SECP's Corporate Governance (CG) guidelines and ensures female representation. Meeting minutes are formally documented.
- As of now, no Board-level committees exist due to the recent incorporation. Yet, the management is considering introducing a Board Audit Committee (BAC). The intention is for an independent director to possibly chair the BAC, aligning with CG best practices.
- The executive team demonstrates a deep understanding of RMC's function in property management, with over forty years of expertise, largely in the real estate development sector. Major past projects include Dadabhoj Center, Al Aisha Square, Darakhshan Villa, Pir Gul Hassan Town, and Pir Ahmed Zaman Town among others.
- SRMC adheres to a formal well-defined organizational structure, segmented into six major functional departments namely; Finance, Investments, Projects, Sales & Marketing, HR, and Compliance. Each department, under the leadership of its respective head, reports directly to the CEO, facilitating efficient oversight and management.
- The newly formed Internal Audit department reports directly to the CEO, and a Head of Internal Audit has been appointed.
- In October 2022, Grant Thornton Anjum Rahman Chartered Accountants was appointed as External Auditors, and in August 2022, A Qadir & Company was engaged as the Legal Advisor.

Research, MIS & Investment Infrastructure:

- The RMC is currently in its nascent stages of development and is in the process of formulating and approving a formal risk management policy. The same will be reviewed in due course.
- Investment policy covering defined criteria for selecting and evaluating property investments for inclusion in REIT schemes also needs to be documented.

- Research and Development (R&D) department has formed an outsourcing partnership by enlisting Vincent J.H. Lo Chartered Architects Malaysia as a third-party contractor responsible for conducting research on behalf of the RMC.
- The organization utilizes a Management Information System (MIS), named as Esoft, which provides comprehensive Enterprise Resource Planning (ERP) solutions. Esoft's suite covers various functionalities, including accounting, invoicing, stock control, payroll, mobile sales/inventory applications, and more.

Proposed REIT Project Details:

- The Group is currently in the process of registering two REIT funds, as mentioned below, to oversee the management of the projects.

A) The Shield Tower Development REIT (STDR)

- The project pertains to a closed-end Developmental Real Estate Investment Trust (REIT) Scheme with a predetermined duration of three years.
- This scheme is focused on a strategically chosen project site situated at Mosaymayt Chowrangi, Gulshan-e-Iqbal, Karachi, within the ambit of Scheme 33.
- The location in question exhibits significant promise for both residential and commercial development due to its high population density and prime positioning.
- The project entails the construction of a multi-story building on a 3.4-acre parcel of land. A substantial portion of this land, specifically 2.4 acres, has been contributed by the Dadabhoj Group, with an additional acre being contributed by another strategic partner.
- The project comprises of 848 residential units measuring 1,400 Sq. ft. each & on average. 42 commercial units measuring 1,000 sq. ft.
- The expected Internal Rate of Return (IRR) for this project is approximately 40%.
- The cost of the land for the project is around Rs. 4b, while construction costs are projected at Rs. 7b.
- The fund's total value amounts to Rs. 1b with a par value of per unit to be Rs. 10.
- Borrowing of Rs. 800m is planned, with a repayment schedule spanning 3 years and a 1-year grace period.
- The total estimated revenue generated from the project is Rs. 19.9b while the expected gross and net margin on the project is ~33% and 25%, respectively.

B) Hawksbay Shields Development REIT (HSDR)

- This initiative encompasses a closed-end Real Estate Investment Trust (REIT) endeavor, designed to operate for a tenure of ten years.
- It revolves around the construction of residential units across a substantial 300-acre expanse situated within the Hawkes Bay Scheme 42 precinct in Karachi.
- The master plan for the project has been designed by international architect Vincent J.H. Lo Chartered Architects Malaysia, in collaboration with local partner SA architect, who has over 20 years of experience in town planning and housing societies.
- The project comprises a diverse array of residential structures, including 6,600 high-end bungalows, 3,300 upscale apartments, 1,800 conventional houses, and

- 3,100 mid-cost apartments. These accommodations offer a varied range of covered areas, spanning from 720 sq. ft. to 4,500 sq. ft.
- The project is divided into three blocks of land: 50 acres, 125 acres, and 125 acres, each with its commercial area, mosque, hospital, and park within its own boundary wall and gated security.
- The land is already owned by the parent company valued at Rs. 32bln, while the construction costs are projected at Rs. 250b.
- The fund's total value amounts to Rs. 10b with a par value of per unit to be Rs. 10.
- As per management, this project will generate substantial revenue, estimated at Rs. 407b with gross profit margins and net margins of ~29% and ~22%, respectively.
- The expected Internal Rate of Return (IRR) for this project is estimated at ~44%.

Financial Analysis:

- SRMC maintains a paid-up capital of Rs.50m, as required by section 3 of REIT Regulations 2022.
- RMC anticipates revenue generation with the launch of its initial two funds underway
- The projected annual management fee for REIT projects is 1.5% of the fund value.
- Expected other income will come from short-term investment returns.
- The intended dividend payout ratio is ~60% throughout the years.

Table: Financial Projections – SRMC

Rs. in millions	Year 1	Year 2	Year 3
Revenue	180.0	180.0	330.0
Operating Profit	108.1	98.1	232.0
Net Profit/Loss	76.9	74.6	164.0
Efficiency Ratio			
Property Plant & Equipment	16.0	28.8	63.0
Short term Investment	30.0	130.0	30.0
Cash and Bank Balance	113.9	28.5	251.8
Total Assets	159.9	187.3	344.9
Paid-up Capital	50.0	50.0	50.0
Retained Earnings	30.8	60.6	126.2
Total Equity	80.8	110.6	176.2
Total Liabilities	79.1	76.7	168.7

- Performance track record of funds will be established over time; the group’s achievements in the real estate sector provide comfort to the assessment of management quality rating.
- The RMC benefits from its association with the Abdullah Dadabhoy Group, drawing on its vast real estate experience and financial support.

Shields REIT Management Company Limited

Appendix I

FINANCIAL SUMMARY		<i>(Amount in PKR</i>
	<i>millions)</i>	
<u>BALANCE SHEET</u>		FY23*
Trade and Other Payable		0.6
Cash and Bank		49.2
Total Assets		49.8
Non-current Liabilities		-
Current Liabilities		0.1
Total Liabilities		
Paid up Capital		50.0
Net Equity		49.7
<u>INCOME STATEMENT</u>		
Revenue		-
Administrative Expenses		(2.3)
Profit Before Tax		(0.3)
Profit After Tax		(0.3)

**Management Accounts*

REGULATORY DISCLOSURE		Appendix II	
Name of Rated Entity	Shields REIT Management Company Limited		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	Management Quality Rating (REIT Management Company)		
Rating History	Rating Date	RMC Rating	Rating Action
	Nov 01, 2023	AM4+	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.		
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	Name	Designation	Date
	Mr. Amir Sheikh	Chief Financial Officer	Aug 30, 2023