

# RATING REPORT

## Shields REIT Management Company Limited

**REPORT DATE:**

December 05, 2024

**RATING ANALYSTS:**

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**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
REIT Rating	AM4+(RMC)	AM4+(RMC)
Rating Action	Reaffirmed	Initial
Outlook/Rating Watch	Stable	Stable
Rating Date	December 05, 2024	November 01, 2023

**COMPANY INFORMATION**

<b>Incorporated in July 2022</b>	<b>External Auditors:</b> Grant Thornton Anjum Rahman Chartered Accountants
<b>Public Limited Company (unquoted)</b>	<b>Board Chairman:</b> Mr. Abdullah Dadabhoy
<b>Key Shareholders:</b>	<b>Chief Executive Officer:</b> 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**

<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
<p><i>Shields REIT Management Company Limited (SRMC) was incorporated in Pakistan as a public limited company (un-quoted) on July 22nd, 2022 under Companies Act 2017. The Company is a REIT Management Company, registered under the NBFC Rules with the Commission.</i></p> <p><b>Profile of Chairman</b></p> <p><i>Mr. Abdullah Dadabhoj 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 Dadabhoj Housing &amp; Investments, he has pioneered several real estate projects enabling the development of various low-cost housing projects in and around Karachi.</i></p> <p><b>Profile of C.E.O</b></p> <p><i>Abdul Ghani Dadabhoj completed his early business education from the Institute of Business Management, Karachi, Pakistan. Mr. Dadabhoj obtained a certification from London School of Economics, and his MBA from said Business School, University of Oxford, England. He is also certified director from</i></p>	<p><b>Corporate Profile</b></p> <p>Shields REIT Management Company Limited ('SRMC' or the 'RMC') was established in July 2022 as a Public Limited Company under the Companies Act, 2017, and received its license from the Securities and Exchange Commission of Pakistan (SECP) in April 2023. SRMC functions as a subsidiary of Shields (Private) Limited (SPL), a real estate-focused company affiliated with the Abdullah Dadabhoj Group of Companies, which holds a 79.99% stake in the RMC. The Group, which owns a significant land portfolio in Karachi, intends to launch three major housing projects and introduce real estate investment trust (REIT) funds through SRMC.</p> <p>The primary objective of SRMC is to establish REIT schemes and provide REIT management services in line with the REIT Regulations, 2022. However, as of 30<sup>th</sup> June 2024, the RMC has not yet launched any REIT schemes.</p> <p><b>Group Profile</b></p> <p>After 1947, in Karachi, the late Mr. Abdul Ghani Dadabhoj established a trading house that initially focused on cotton ginning, oil plants, and construction. By the 1990s, the Dadabhoj name had evolved into a prominent conglomerate, diversifying into sectors such as cement, sanitary products, plastic ware, lubricants, paper sacks, prefabricated construction materials, and agricultural equipment. During this period, leasing and insurance companies were also added to the portfolio.</p> <p>In the 1990s, a strategic restructuring within the family business led to the formation of the Abdullah Dadabhoj Group. Since then, the Abdullah Dadabhoj Group, composed of various entities, has expanded into multiple sectors, including real estate development, higher education, media, investments, and healthcare. The Group's real estate development companies include Dadabhoj Agencies (Pvt) Ltd, Dadabhoj Investments (Pvt) Ltd, Dadabhoj Housing (Pvt.) Ltd., Destiny Developers (Pvt.) Ltd., New Lasbela Holdings, and SPL.</p> <p>The Group's prime properties in Karachi include:</p> <ul style="list-style-type: none"> <li>• A 2.4-acre plot near Karachi University, designated for high-rise residential and commercial development.</li> <li>• A 300-acre plot at Hawkesbay Scheme 42, adjacent to public and private housing schemes.</li> <li>• A 40-acre plot in Scheme 33, near Jinnah Avenue, surrounded by upscale housing communities.</li> <li>• A 12-acre plot in Scheme 33, located in a densely populated area.</li> <li>• A 15-acre plot in Scheme 33, suitable for a low-cost housing project.</li> <li>• A 52-acre plot near Al-Azhar Garden, Scheme 33, Karachi.</li> </ul>

*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.*

### **Key Rating Drivers**

#### **Governance & Management Profile**

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

- Currently, the Board of Directors (BoD) consists of seven members, including the Chairman and CEO. The Board includes two independent directors, four nominee directors appointed by the parent company, and one female member. Meeting minutes are formally documented.
- Although no Board-level committees are established yet, the management is considering the formation of a Board Audit Committee (BAC). The intention is for an independent director to potentially chair the BAC, aligning with best practices in Corporate Governance.
- The executive team has substantial expertise in real estate, with over 40 years of combined experience in property management. Significant past projects include Dadabhoj Center, Al Aisha Square, Darakhshan Villa, Pir Gul Hassan Town, and Pir Ahmed Zaman Town, among others.
- SRMC follows a formal and well-defined organizational structure, divided into six key functional departments: Finance, Investments, Projects, Sales & Marketing, HR, and Compliance. Each department, led by its respective head, reports directly to the CEO, ensuring effective oversight and management.
- The Internal Audit department also reports directly to the CEO, with a Head of Internal Audit appointed to oversee internal controls and processes.

#### **Borrowing, Investment, and Risk Management Policy**

The REIT Regulations 2022 provide the foundational guidelines for the RMC's Borrowing and Investment Policy. In instances where there is any discrepancy between the Company's policy and the REIT regulations, the latter will take precedence.

The RMC's investment objective is to generate total investment returns through both income and capital growth. Income will be delivered via regular dividends, providing unit holders with a steady income stream intended to grow over the medium term. In addition, targeted capital growth aims to enhance the unit holders' total return over the long term.

To meet this objective, the RMC will invest in and expand a diversified portfolio of developmental and rental REIT funds. Key criteria for selecting projects include: property location in any major city of Pakistan, reputable partners or unit holders (preferably institutional), thorough legal due diligence on title documents by top legal firms, and a project IRR that outperforms other available investment options. Financial projections will be vetted by Big4 accounting firms, and projects will follow REIT regulations on dividend distribution to maximize tax benefits. The RMC will also assess both Shariah-compliant and non-Shariah-compliant funds and may invest directly or through SPVs, as permitted under REIT regulations. Furthermore, other major sponsors must agree to maintain their required shareholding until the project is completed.

Risk management is a key component of the RMC's policy. To enhance returns, the RMC will leverage gearing, ensuring that borrowings do not exceed 75% of gross assets at the time of investment, and will seek to lock in borrowing rates. For portfolio protection, the RMC may enter into derivative contracts as part of an efficient risk management strategy, particularly to hedge against potential interest rate increases. To manage material cost risks, the RMC may also engage in forward booking for critical construction materials, such as cement and steel, if such options are available, though derivatives for these materials are currently limited. The RMC will allocate any surplus funds in banks with a minimum short-term credit rating of A1 and a maturity period of no more than six months.

### **Research, MIS, and Investment Infrastructure**

The Research and Development (R&D) department has established an outsourcing partnership with Vincent J.H. Lo Chartered Architects, Malaysia, as a third-party contractor to conduct research on behalf of the RMC.

The organization utilizes a Management Information System (MIS) called Esoft, which provides comprehensive Enterprise Resource Planning (ERP) solutions. Esoft's suite encompasses various functionalities, including accounting, invoicing, stock control, payroll, and mobile sales/inventory applications, among other essential features.

### **Proposed REIT Project Details**

The Group is currently in the process of listing three REIT funds to manage the following projects in collaboration with Saima Group, who has been outsourced for development, marketing, and project management. The registration with SECP is expected by January 2025.

#### **A) Shield Tower Development REIT (STDR)**

- This fund will include a closed-end developmental REIT project, Saima Shield Towers, with a completion timeline of five years.
- The project is located near Dow University Ojha Campus, Suparco Road, Scheme 33.
- The location is favorable for both residential and commercial development due to its dense population and prime positioning.
- The project plan is to construct a multi-story building on a 3.4-acre site, of which, initially, 2.4 acres were contributed by the Dadabhoj Group, with an additional acre provided by a strategic partner. However, the Group has now purchased the additional acre from the strategic partner, making it the sole owner of the 3.4-acre site.
- The project design has been finalized, and the necessary approvals, including the NOC for sale and construction permit, have been obtained. The site inspection has been completed and the site office is now operational.
- The project consists of 866 units, including 824 residential flats and 42 commercial spaces, with sizes of 1,600 sq. ft. and 1,200 sq. ft. As of Nov'24, 98 units have been booked, generating Rs. 2.1 bn in advances. The management expects bookings to reach 200 units by 1QFY25, at which point construction is planned to commence.

- The cost of the project is estimated at Rs. 13.6 bn. The anticipated Internal Rate of Return (IRR) for this project is approximately 39%.
- The proposed fund's size will be Rs. 1.0 bn, with a per-unit par value of Rs. 10. The project is expected to generate total revenue of Rs. 22.1 bn, with a projected net profit of Rs. 4.4 bn.

#### **B) Shields Avenue Development REIT Fund**

- This fund will include a closed-end developmental REIT project, Saima Ace Avenue, situated on Main Super Highway, opposite New Sabzi Mandi. Its primary investor is Dadabhoy Agencies (Pvt) Ltd.
- The site spans 3,422 square yards, valued at Rs. 125,000 per yard, bringing the total land cost to Rs. 427.8 mn.
- The project design has been finalized, with all necessary approvals, including the NOC for sale and the construction permit, in place. The site inspection has been completed, the site office is fully operational, and the foundation work has been completed.
- The project comprises 188 units, including 176 residential and 12 commercial units. As of Nov'24, 112 units have been booked, resulting in advances totaling Rs. 77.7 bn.
- The total project cost is estimated at Rs. 1.6 bn. The anticipated Internal Rate of Return (IRR) is approximately 41%.
- The proposed fund size will amount to Rs. 100.0 mn. The project is expected to generate total revenue of Rs. 2.5 bn, with a projected net profit of Rs. 600.0 mn.

#### **C) Shields Residency Development REIT Fund**

- This fund will include a closed-end developmental REIT project, Saima Ace Residency, is located on Main Super Highway, opposite New Sabzi Mandi. The primary investor is Destiny Developers (Pvt) Ltd.
- The site covers 3,444 square yards, with a valuation of Rs. 125,000 per yard, resulting in a total land cost of Rs. 430.6 mn.
- The project design has been completed, and all required approvals, including the NOC for sale and the construction permit, have been obtained. While the site inspection has been completed, the site office is not yet operational.
- The development will include 190 units, comprising 180 residential and 10 commercial units.
- The total estimated project cost is estimated at Rs. 1.9 bn, with an anticipated Internal Rate of Return (IRR) of 31%.
- The proposed fund size for the project is Rs. 100.0 mn. The project is expected to generate total revenue of Rs. 2.4 bn, with a projected net profit of Rs. 479.0 mn.

#### **D) Hawksbay Shields Development REIT (HSDR)**

- Negotiations are ongoing with a real estate developer regarding the Hawksbay project, and efforts are underway to identify a suitable developer for the project.
- This fund will be a closed-end REIT with a ten-year tenure.

- It centers around the development of residential units across a 400-acre site within the Hawkes Bay Scheme 42 in Karachi.
- The master plan was developed by international architect Vincent J.H. Lo Chartered Architects Malaysia, in partnership with SA Architect, a local firm with over 20 years of experience in town planning and residential projects.
- The project will offer a variety of residential options, including 6,600 high-end bungalows, 3,300 upscale apartments, 1,800 standard houses, and 3,100 mid-cost apartments, with covered areas ranging from 720 sq. ft. to 4,500 sq. ft.
- The development is portioned into three distinct blocks of 50 acres, 125 acres, and 125 acres, each equipped with its own commercial area, mosque, hospital, park, and secure gated access.
- The land has been valued at Rs. 32.0 bn, while construction costs are estimated at Rs. 250.0 bn. The estimated Internal Rate of Return (IRR) for this project is around 44.0%.
- The fund's total value will be Rs. 10.0 bn, with a per-unit par value of Rs. 10.
- According to management, the project is expected to generate substantial revenue, estimated at Rs. 407.0 bn, with gross and net profit margins of approximately 29.0% and 21.5%, respectively.

### Financial Analysis

**Table: Financial Projections following the launch of two funds – SRMC**

Rs. in millions	Year 1	Year 2	Year 3
Revenue	180.0	180.0	330.0
<b>Operating Profit</b>	<b>108.1</b>	<b>98.1</b>	<b>232.0</b>
<b>Net Profit/Loss</b>	<b>76.9</b>	<b>74.6</b>	<b>164.0</b>
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
<b>Total Assets</b>	<b>159.9</b>	<b>187.3</b>	<b>344.9</b>
Paid-up Capital	50.0	50.0	50.0
Retained Earnings	30.8	60.6	126.2
<b>Total Equity</b>	<b>80.8</b>	<b>110.6</b>	<b>176.2</b>
<b>Total Liabilities</b>	<b>79.1</b>	<b>76.7</b>	<b>168.7</b>

In FY24, SRMC recorded no topline performance, as no REIT schemes were launched during the year. With the anticipated launch of its first two funds underway, however, the RMC expects to generate revenue soon. Other income from profits on bank balances reached Rs. 6.8 mn in FY24 (FY23: Rs. 2.0 mn), supporting the bottom line and resulting in a Profit-after-Tax (PaT) of Rs. 1.2 mn, compared to a net loss of Rs. 0.8 mn in FY23. Going forward, the RMC projects other income from short-term investments and intends to maintain a dividend payout ratio of approximately 60% annually.

In compliance with section 3 of the REIT Regulations 2022, SRMC has maintained a paid-up capital of Rs. 50.0 mn, with a projected annual management fee for REIT projects set at 1.5% of the fund's value. While the funds' performance track record is expected to develop over time, the RMC benefits from its association with the Abdullah Dadabhoj Group, whose extensive experience in real estate and financial support provide comfort to the management quality rating.

## Shields REIT Management Company Limited

## Appendix I

<b>Financial Summary</b>		
<b>Balance Sheet (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>
Formation Cost Receivable	0.00	9.1
Cash & Bank Balances	49.17	33.93
Total Assets	49.79	50.94
Non-Current Liabilities	0.00	0.00
Current Liabilities	0.61	0.59
Total Liabilities	0.61	0.59
Paid up Capital	50.00	50.00
Equity	49.17	50.35
<b>Income Statement (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>
Revenue	0.00	0.00
Administrative Expenses	2.82	5.11
Other Income	1.99	6.77
Profit Before Tax	(0.83)	1.65
Profit After Tax	(0.83)	1.17

A - Actual Accounts



REGULATORY DISCLOSURE		Appendix II		
<b>Name of Rated Entity</b>	Shields REIT Management Company Limited			
<b>Sector</b>	Miscellaneous			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Management Quality Rating (REIT Management Company)			
<b>Rating History</b>	<b>Rating Date</b>	<b>RMC Rating</b>	<b>Outlook/Rating Watch</b>	<b>Rating Action</b>
	Dec 05, 2024	AM4+ (RMC)	Stable	Reaffirmed
	Nov 01, 2023	AM4+ (RMC)	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.			
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	Mr. Muhammad Ahmed	Manager Accounts	15 <sup>th</sup> November, 2024	
	Mr. Aamir Shaikh	CFO		