

## RATING REPORT

### IMAGE REIT

**REPORT DATE:**

March 19, 2025

**RATING ANALYSTS:**Musaddeq Ahmed Khan  
[musaddeq@vis.com.pk](mailto:musaddeq@vis.com.pk)**RATING DETAILS**

<b>Rating Category</b>	<b>Initial Rating</b>
<b>REIT Rating</b>	RFR3 (hr)
<b>Outlook/Rating Watch</b>	Stable
<b>Rating Date</b>	March 19, 2025
<b>Rating Action</b>	Initial

**COMPANY INFORMATION**

<b>REIT Name:</b> IMAGE REIT	<b>Auditor:</b> Crowe Hussain Chaudhury & Co., Chartered Accountants
<b>RMC:</b> Sinolink REIT Management Company Limited	<b>Chairman of the Board:</b> Mr. Anjum Adil <b>Chief Executive Officer:</b> Ms. Mariam Ahmad
<b>Key Unitholders (with stake 5% or more):</b>	<b>Trustee:</b> Central Depository Company of Pakistan (CDCPL)
<ul style="list-style-type: none"><li>- Mr. Asad Ahmed ~ 76.8%</li><li>- First Tri Star Modaraba ~ 23.2%</li></ul>	

**APPLICABLE METHODOLOGY(IES)****Real Estate Investment Trust (REIT) Fund**<https://docs.vis.com.pk/docs/REIT-Methodology-2023.pdf>**APPLICABLE RATING SCALE(S)****VIS Issue/Issuer Rating Scale:**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## IMAGE REIT

## OVERVIEW OF THE SCHEME

*Image REIT was established through a Trust Deed dated July 01, 2022, between Sinolink REIT Management Company Limited (SRMCL) as the REIT Management Company (RMC) and Central Depository Company of Pakistan Limited (CDCPL) as the Trustee. The Scheme is governed under the REIT Regulations, 2022. The Trust Deed was registered on July 01, 2022, and the SECP granted approval for the REIT Scheme's registration on March 07, 2023. The Scheme operates as a perpetual, closed-end, Shariab-compliant hybrid REIT.*

## RATING RATIONALE

The Image REIT ("Image" or the "Scheme") is structured as a hybrid real estate investment trust, integrating rental income with capital appreciation from its development component. With a prospective fund size of Rs. 2.8 bn, it operates in three segments: residential, commercial, and retail. This structure allows the Scheme to generate lease revenue while also benefiting from the appreciation of newly developed properties.

The sponsor group possesses a reasonable understanding of real estate investments and development. To further strengthen position of the group, they are actively engaging with experienced real estate professionals and consultants to enhance our in-house expertise. In addition, their strategic selection of prime locations along major city arteries and commitment to quality construction provides leverage to the Scheme's positioning.

The third-party project contractors engaged for the development have moderate experience, primarily in small to mid-sized commercial projects, offering a reasonable level of execution capability, though they are not ranked among the top-tier firms. Tenant concentration is high; however, the presence of associated companies as tenants contributes to cash flow predictability and lowers vacancy risk.

The Scheme maintains a debt-free capital structure, relying entirely on equity and customer advances. An Initial Public Offering (IPO) is planned for the ongoing year, primarily to raise additional funds for completion of the development piece of the project, which will reduce the strategic stake of sponsors to 66.6%. Availability of equity upfront addresses the funding constraints which strengthens the completion timeline of the developmental component. At the same time, the Scheme's existing rental income provides a strong liquidity buffer, supporting operational stability.

The REIT's development component remains strategically managed, supported by a moderate project scale, prime location, and a realistic sales plan. These factors ensure a reasonable return potential for investors over the foreseeable horizon. Additionally, conservatively estimated project timelines of two years provide sufficient buffer against potential delays. The consolidated projected internal rate of return (IRR) is 14.05%, though returns remain sensitive to fluctuations in projected rental rates and selling prices.

#### Company Profile

Image REIT is a perpetual, closed-end, shariah-compliant hybrid REIT, formally established through a Trust Deed dated July 1, 2022, executed between Sinolink

REIT Management Company Limited (SRMCL) as the REIT Management Company (RMC) and Central Depository Company of Pakistan Limited (CDCPL) as the Trustee. The Trust Deed was registered on the same date. The Securities and Exchange Commission of Pakistan (SECP) granted approval for the registration of the REIT Scheme on March 7, 2023, following the guidelines of the REIT Regulations, 2022.

The hybrid structure combines the benefits of stable rental income from completed properties with the growth potential of developmental projects. This dual approach enables the Scheme to enhance its asset base while generating consistent returns for stakeholders. The initial fund size was Rs. 1.7b, contributed by the sponsors, however, the fund size is projected to increase to Rs. 2.8b with the planned IPO this year.

Image REIT Fund (Rs. in millions)		Uses of Fund (Rs. in millions)	
<b>Initial REIT Size</b>	<b>1,718.0</b>	<b>Developmental Component</b>	
		Land	450.0
<b>Targeted REIT Size</b>		Net Construction Costs	1,040.6
Existing Sponsors Equity (66.6%)	1,838.4	<b>Rental Component</b>	
IPO Proceeds (33.4%)	920.2	Land	760.8
<b>Total</b>	<b>2,758.6</b>	Building	507.2
		<b>Total</b>	<b>2,758.6</b>

#### Sponsor Profile:

At present, Mr. Asad Ahmed, holds a 76.8% stake, and First Tri-Star Modaraba, holds the remaining 23.2%. Post - IPO, strategic stake of sponsors will reduce to 66.6%.

Mr. Asad Ahmad, a businessman with over 35 years of experience in manufacturing, exports, imports, trade, and finance, is the primary shareholder. He holds a master's degree in Business Administration from the Institute of Business Administration (IBA), Karachi, and has a deep understanding of the corporate sector and governance. With a family history spanning over 200 years in business and 70 years in manufacturing, Mr. Ahmad brings a wealth of knowledge and leadership to the RMC. He is on the board of Directors of 4 listed companies by virtue of his position is well versed with the corporate sector and effective in the implementation and management of the code of corporate governance at the Company. Mr. Asad Ahmed currently serves as the CEO of Image Pakistan Limited, a publicly listed company on the Pakistan Stock Exchange (PSX) since 1990. The company is involved in the manufacturing of unstitched and ready-to-wear value-added embroidered fabric, operating under women's apparel brand "Image." As of June 2024, Image Pakistan Limited had a total asset base of Rs. 4.8 bn, total equity base of Rs. 3.5 bn, turnover of Rs. 2.9 bn, and net profit of Rs. 285.9 mn for FY24.

First Tri-Star Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by A.R.T. Modaraba Management (Private) Ltd. The Modaraba is a perpetual Modaraba and is primarily engaged in leasing / Ijarah of plant, machinery, motor vehicles (both commercial and private) and computer equipment, etc. The Modaraba is listed on Pakistan Stock Exchange Limited. It is an associated company, with Mr. Asad Ahmed serving as the CEO and Ms. Marium Ahmed as the non-executive director.

### Auditor's Opinion

The FY24 financial statements were audited by Crowe Hussain Chaudhury & Co., Chartered Accountants, categorized as 'Category A' on the SBP's Panel of Auditors and a QCR rated firm. The auditor issued an unqualified opinion on the state of the Scheme's affairs as at 30<sup>th</sup> June 2024, and of the profit, other comprehensive income, the changes in unitholder's fund and its cashflows for the year then ended.

### Rental Component

The rental portfolio includes a six-story commercial property located on a 360-square-yard plot at Plot No. A/33, Central Commercial Area, Block 7/8, Main Shahrah-e-Faisal, Karachi, built by the sponsors in 2021. With a total built-up area of approximately 23,000 square feet, the property has been generating consistent rental income since July 2023. The building maintains a 100% occupancy rate.

The building is located on Main Shahrah-e-Faisal, the main artery of Karachi, near its intersection with Shaheed-e-Millat Road, connecting with Karachi's prominent commercial and residential areas. This location is renowned as a commercial hub, surrounded by numerous offices, business complexes, and corporate centers.

Floor	Tenant	Area (Sq Ft)	Monthly Rental/Sq Ft (Rs.)	Revised* Rental/Sq Ft (Rs.)
Ground floor	First Tri-Star Modaraba	1,200	100	380
2nd Floor	First Tri-Star Modaraba	2,840	100	403
3rd Floor	Image Tech Limited	2,840	176	403
4th Floor	Image Tech Limited	2,840	176	403
5th Floor	Image Pakistan Limited	2,840	176	403
6th Floor	Image Pakistan Limited	2,840	176	403
Basement + Ground Floor + 1 <sup>st</sup> Floor	Parking and Common Area	7,524	-	-
<b>Total</b>		<b>22,924</b>	<b>2,403,360</b>	<b>6,178,600</b>

\* Revised rentals effective from 01<sup>st</sup> January 2025

Tenant concentration remains high, with Image Pakistan Limited occupying a significant portion of the building. However, vacancy risk is mitigated as all tenants are related parties.

Rental leases were recently revised, increasing the average rate to Rs. 403 per sq. ft. from the previous Rs. 176 per sq. ft. This rate exceeds market benchmarks on Shahrah-e-Faisal, where rents range from Rs. 167 per sq. ft. in older buildings to Rs. 245 per sq. ft. in newer constructions, heightening replacement risk.

All leases are on a 12-month renewable basis, but given that tenants are group companies, lease expiry risk remains low. Dependence on associated companies enhances cash flow predictability and minimizes vacancy risks. However, the absence of a dedicated property manager, with in-house management overseeing operations, may impact overall efficiency.

### Developmental Component

The developmental component of Image REIT is located on a 500-square-yard commercial plot at Plot No. 19, DMCHS, Block 7/8, Tipu Sultan Road, Karachi. The project is designed to include a combination of retail, commercial and residential units, with a planned completion timeline of two years. As of now, the foundation, two basements, ground floor, and first floor of the building have been completed. The project encompasses a 68,891 sq ft construction with retail space on ground, mezzanine, and first floors, totaling 9,800 square feet, while remaining include construction of 22 apartments on 11 floors. Each floor will consist of two units: one with four rooms and the other with three rooms, catering to a diverse clientele. The design thoughtfully balances functionality and aesthetic appeal. Upon completion, a smaller part of the project transition into the rental portfolio, with a large part of the apartments planned for sale. The retail space has already been completed and operational since March 2024 and leased to Image Pakistan Limited as a retail outlet. The same is to be sold to Image Pakistan eventually.

Square Feet Break Down	Number of Floors	Area (Sq Ft)	Total Area (Sq Ft)
<b>Basement- Parking</b>	2	4,207	8,414
<b>Ground floor – Retail Area</b>	1	3,310	3,310
<b>Ground floor – Service Area</b>	1	1,190	1,190
<b>Mezzanine Floor</b>	1	800	800
<b>First floor – Retail Area</b>	1	3,515	3,515
<b>First floor – Service Area</b>	1	985	985
<b>Floor levels – Residential</b>	11	4,607	50,677
<b>Total</b>			<b>68,891</b>

The subject property is located on Tipu Sultan Road, another desirable area, offering significant potential for both capital appreciation and rental demand. This location connects three major roads: Shahrah-e-Faisal, Shaheed-e-Millat Road, and Karsaz Road, ensuring seamless access to various parts of the city. The area is well-

established, densely populated featuring renowned restaurants and retail outlets on the same road, attracting consistent footfall. Its central position enhances the project's attractiveness to potential tenants and buyers, making it a prime choice for both residential and commercial purposes. Additionally, the area is home to relatively affluent business families who are attracted to quality new establishments in the vicinity for their growing families.

The total project cost is estimated at Rs. 1.6 bn, covering land and a 5% contingency provision, resulting in an approximate construction cost of Rs. 16,000 per square foot. This falls within the prevailing range of Rs. 14,000 – Rs. 17,000 per square foot for comparable high-grade B apartments in Karachi. In case the project is positioned as a Grade A construction (As per *Pakistan Real Estate Market Overview 2024* by Savills, Karachi currently lacks Grade A apartment buildings) additional development costs for high-end finishes and upscale amenities may add to costs.

Total Project Cost	Rs.
Land Cost	450,000,000
Land transfer and Duties	9,000,000
<b>Total Land Cost</b>	<b>459,000,000</b>
Apartments	742,519,404
Basement + Ground Floor	164,828,761
Other costs	135,000,000
Construction Cost	1,042,348,165
Contingencies (5%)	42,635,266
<b>Total Construction Cost</b>	<b>1,084,983,431</b>
<b>Project Management Fee</b>	<b>77,199,172</b>
<b>Total Project Cost</b>	<b>1,621,182,603</b>

The contingency allocation of 5% is on the lower side compared to market norms, which typically range between 7% and 10%. Additionally, the two-year construction timeline, the project remains exposed to potential cost escalations due to historical price volatility in the construction sector.

The project engages Ali Arshad Associates as the architectural firm. The firm has completed projects such as Emporium Mall Lahore, The Nishat Hotel – Emporium Mall, The Nishat Hotel – Gulberg, Interwood – Karachi, and Elysium Apartments – Islamabad. Bilal Construction Company has been appointed as the contractor. While the firm has limited experience in local residential construction projects, the sponsors have had satisfactory past engagements with them.

RH Memon Consulting Engineers serves as the development advisor. Structural design consultancy is handled by Saify Enterprises, established in 2020. Led by Chief Engineer Saifuddin M. Ali, the firm draws on over 30 years of experience in commercial and residential projects.

Alhamd Shariah Advisory Services (ASAS) has been appointed as the Shariah advisor who are a registered firm with the Securities and Exchange Commission of Pakistan (SECP). The project's valuation is conducted by Sadruddin Associates (Private) Limited, an approved valuer by the Pakistan Banks' Association. However, the scope of valuation remains relatively limited compared to industry peers.

With the basement, ground, and first floors already constructed, completion risk is reduced. Additionally, the project's manageable scale minimizes development complexity and streamlines sales efforts. Additionally, the timeline for completing the remaining construction is conservatively estimated, adequately factoring in potential unforeseen delays.

As per management, some apartments will be retained as part of the Scheme's rental portfolio, contributing to long-term and stable income generation. Meanwhile, others will be sold to generate immediate cash flow, helping to offset development costs. The apartments are projected to be priced at approximately Rs. 40,000 per square foot. This competitive pricing is designed to align with prevailing market trends in the vicinity. The retail piece is also planned to be sold at an average rate of Rs. 80,000 per square foot. Sales plan is spread over a three-year period, on an incremental basis.

The Scheme is characterized by a debt free capital structure with no debt envisaged for the future. The size of the Fund as of Jun'24 is at Rs. 1.8 bn, funded wholly through sponsors equity. An IPO is planned in FY25, amounting to Rs. 920.2 mn. The IPO proceeds will primarily be utilized to fund the initial development component of the Scheme. Regular dividend payouts are projected from 2026. Liquidity of the fund post IPO is expected to remain sound. On a consolidated basis, the project's projected IRR stands at 14.05%, reflecting a moderate yet reasonable return. Sensitizing the project cash flows reflects that IRR remains vulnerable to fluctuations in projected rental rates and selling prices.

Revenue Change	Rental IRR	Development IRR	Consolidated IRR
	11.39%	22.74%	14.05%
5 %	10.58%	19.75%	12.70%
10%	9.73%	16.59%	11.29%
15%	8.83%	13.25%	9.82%
20%	7.88%	9.68%	8.27%

**IMAGE REIT**
**Appendix I**

Financial Summary		(Rs. in millions)					
<b>Balance Sheet</b>	<b>Jun'23*</b>	<b>Jun'24</b>	<b>Jun'25</b>	<b>Jun'26</b>	<b>Jun'27</b>	<b>Jun'28</b>	<b>Jun'29</b>
	<b>(A)</b>	<b>(A)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>
Non-Current Assets - Investment Property	1,718	2,051	2,125	2,400	2,674	1,791	1,788
Bank Balances	0	11	757	1,437	2,090	1,744	1,147
Other Assets	0	20	0	0	0	0	0
<b>Total Assets</b>	<b>1,718</b>	<b>2,082</b>	<b>2,883</b>	<b>3,837</b>	<b>4,764</b>	<b>3,535</b>	<b>2,935</b>
Advance from Customers	0	0	138	691	1,659	0	0
Accrued Expenses	0	3	1	52	41	31	20
Other Liabilities	0	6	0	0	0	0	0
<b>Total Liabilities</b>	<b>0</b>	<b>9</b>	<b>140</b>	<b>743</b>	<b>1,700</b>	<b>31</b>	<b>20</b>
Paid up Capital	1,718	1,838	2,759	2,759	2,759	2,759	2,759
Unappropriated Profit	0	34	(16)	336	306	746	156
<b>Net Equity (excl. revaluation reserve)</b>	<b>1,718</b>	<b>1,873</b>	<b>2,743</b>	<b>3,094</b>	<b>3,064</b>	<b>3,505</b>	<b>2,915</b>
Revaluation Reserve	0	200	0	0	0	0	0
<b>Net Equity (incl. revaluation reserve)</b>	<b>1,718</b>	<b>2,073</b>	<b>2,743</b>	<b>3,094</b>	<b>3,064</b>	<b>3,505</b>	<b>2,915</b>
<b>Net Asset Value per unit (Rs.)</b>	<b>10.00</b>	<b>11.27</b>	<b>9.94</b>	<b>11.22</b>	<b>11.11</b>	<b>12.70</b>	<b>10.57</b>
<b>Income Statement</b>	<b>FY23*</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>
	<b>(A)</b>	<b>(A)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>
Rental Income	0	41	86	116	114	118	130
Developmental Income	0	0	0	343	281	1,659	0
<b>Total Income</b>	<b>0</b>	<b>41</b>	<b>86</b>	<b>459</b>	<b>395</b>	<b>1,777</b>	<b>130</b>
Administrative Expenses	0	7	16	18	20	28	26
RMC Fee	0	0	41	41	41	41	41
REIT Listing Expense	0	0	47	0	0	0	0
<b>Profit before change in fair value of investment</b>	<b>0</b>	<b>35</b>	<b>(18)</b>	<b>399</b>	<b>334</b>	<b>1,707</b>	<b>63</b>
Unrealized gain on remeasurement of fair value of investment	0	200	0	0	0	0	0
<b>Profit Before Tax</b>	<b>0</b>	<b>235</b>	<b>(18)</b>	<b>399</b>	<b>334</b>	<b>1,707</b>	<b>63</b>
<b>Profit After Tax</b>	<b>0</b>	<b>235</b>	<b>(18)</b>	<b>399</b>	<b>334</b>	<b>1,707</b>	<b>63</b>
<b>Ratio Analysis</b>	<b>FY23*</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>
	<b>(A)</b>	<b>(A)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>	<b>(P)</b>
Operating Profit Margin	NA	83.5%	-20.7%	87.0%	84.5%	96.1%	48.5%
Gearing (x)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Leverage (x)	0.00	0.00	0.05	0.24	0.55	0.01	0.01
ROAA (%)	NA	1.82%	-0.72%	11.88%	7.76%	41.15%	1.95%
ROAE (%)	NA	1.93%	-0.77%	13.67%	10.84%	51.99%	1.97%

\*Represents period from March 07, 2023 to June 30, 2023

A - Audited Accounts

P - Projected Accounts

REGULATORY DISCLOSURES		Appendix II		
<b>Name of Rated Entity</b>	Image REIT			
<b>Sector</b>	Hybrid REIT Scheme			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Fund Rating			
<b>Rating History</b>	<b>Rating Date</b>	<b>REIT Rating</b>	<b>Outlook/Rating Watch</b>	<b>Rating Action</b>
	19-Mar-25	RFR3 (hr)	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 credit quality only and is not a recommendation to buy or sell any securities.			
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>			<b>Designation</b>
	1. Mr. Asad Ahmad			Director (Sinolink REIT Management Company Limited)
				<b>Date</b>
				09 <sup>th</sup> January, 2025