



The Pakistan Credit Rating Agency Limited

Rating Report

ISE Towers REIT Management Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jan-2022	A	A1	Stable	Maintain	-
07-Jan-2021	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating emanates from ISE Towers REIT Management Company Ltd.'s ("ISE Towers or "The Company") business profile characterized by stable operating revenue and robust demand. The diversified shareholding pattern of the Company comprises 236 shareholders (Corporates, Banks, DFIs, Insurance Companies, Modarabas, pension funds, and others). The assigned rating incorporate sound corporate governance, an experienced management team, an adequate control environment, and Company's pioneer status in the capital markets. The compliance function ensures adherence to all applicable internal and external rules and regulations. The Company is deriving its core income from its dominating asset "ISE Towers" which is enjoying an almost 100% occupancy level. The rental revenue grew by only ~6% due to strained operating environment caused by the pandemic. The multistory building is situated in the prime location Blue Area, Islamabad. The Company is planning to convert the ISE Towers into REIT Fund. The project has achieved significant progress, in the shape of obtaining requisite approvals under REIT Regulation, 2015, and the REIT Fund is likely to be launched in FY22. The funds generated from this fund will be utilized to undertake new REIT projects. The Company is planning to diversify into hybrid and development REIT schemes. The profitability of the company is growing at a moderate pace and reported at ~PKR 510mln for FY21 (FY20: PKR 339mln). The Company has acquired a trustee company "Digital Custodian Company Limited" in order to diversify its business. The business risk of the company is supported by high-profile tenants, economic recoveries, and improving COVID-19 situation in the country. The Company has zero leveraging and its liquidity position remains comfortable. The equity stood at ~PKR 6.1bln at the end-Jun'21 (Jun'20: ~PKR 5.7bln).

The ratings are dependent on the Company's aptness to uphold its business and financial risk profile under the prevailing volatile macroeconomic environment and risk profile of new REIT projects. Sustenance of growth momentum is imperative.

Disclosure

Name of Rated Entity	ISE Towers REIT Management Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Modaraba & NBFCs(Apr-21)
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Profile

Structure ISE Towers REIT Management Company ("ISE Towers" or "The Company") is licensed by SECP to carry out REIT Management Services under NBFC Rules, 2003 and REIT Regulations, 2015. The objective of the Company is to form and launch Real Estate Investment Trust (REIT) under Real Estate Investment Trust Regulations, 2015.

Background ISE Towers REIT Management Company Ltd was initially incorporated as Islamabad Stock Exchange (Guarantee) Limited (ISE). Later on, after the integration of the Karachi Stock Exchange (KSE) and Lahore Stock Exchange (LSE), on January 11, 2016, the Company got converted from ISE to a REIT Management Company under the Company Act, 2017. Consequently, the name and scope of the Company have been changed. The Company is in the process to launch its Rental REIT Fund which will manage its prime asset, "ISE Towers".

Operations The principal activities of the Company are to form, launch and manage Real Estate Investment Trust (REIT) under REIT Regulations, 2015. The Company owns a multistory building "ISE Towers" situated in Blue Area Islamabad. The Company is in the process to launch its Rental REIT Fund. For this, the prime asset owned by the Company "ISE Towers" has been earmarked for transfer to the fund. ISE Towers anticipates the launch of its fund in FY22 and it is actively venturing into new real estate projects. Furthermore, the Company has diversified its operations through the acquisition of a trustee company "Digital Custodian Company Limited".

Ownership

Ownership Structure The shareholding pattern of the Company is well diversified comprising 236 shareholders. The majority of the shares are held by institutions and corporations.

Stability The Company has strong background owing to its pioneer status in the development of the capital markets in Pakistan.

Business Acumen The majority of the shareholders of the Company have well-diversified experience in various sectors.

Financial Strength The financial strength of the sponsors remains strong due to their diversified investment portfolios.

Governance

Board Structure The Board comprises eleven members including the CEO. The board includes three independent directors and seven non-executive directors.

Members' Profile All the directors are seasoned professionals and possess manifold experiences in the relevant fields. Mr. Zahid Latif Khan is the chairman of ISE Towers. He is a graduate of the National Security Workshop (NSW) and is a certified director by ICMA. Mr. Zahid has diversified experience in the capital Market business spanning over twenty-five years.

Board Effectiveness The Board of the Company has the overall responsibility for the establishment and oversight of the risk management framework. There are four board committees: i) Audit Committee and ii) Human Resource and Remuneration Committee iii) Nomination Committee and iv) Risk Management Committee.

Financial Transparency BDO Ebrahim & Company Chartered Accountants were the external auditors of the company till the Financial year 2020. For Financial Year 2021, M/s Yusuf Adil Chartered Accountants has been appointed as external auditor of the company. Both the firm are QCR rated by ICAP and are in the A Category of SBP's panel of auditors. For FY21, the external auditor has expressed an unqualified opinion on the financial statements of the Company.

Management

Organizational Structure The company's operations are grouped under six departments. These include (i) Internal Audit/Compliance (ii) Operations and Management (iii) Accounts & Finance (iv) Security Management (v) Administration/HR (vi) Information Technology. Each Department Head reports directly to the COO/CFO and the head of internal audit reports to the Audit Committee.

Management Team The company has a mix of diverse experienced and skilled management. Mr. Sagheer Mushtaq is the Chief Executive Officer of the Company. He is a commerce graduate and has over fifteen years of diversified experience in the field of finance, operation, and regulatory compliance. Mr. Zeeshan Shafiq, Head of Internal Audit, has more than a decade of experience and associated with the group since 2017.

Effectiveness Considering the size of the Company and nature of business, currently, there is no management committee to monitor performance and assure adherence to policies and procedures. The matters are discussed and settled at the individual levels with discussion with the top management.

MIS Due to the current nature of operations, the company is using different Management Information Systems to manage the day-to-day operations and management reporting, which are Sidat Hyder Financial Information System and Billing Control & Management System.

Risk Management Framework Risk management policy is well documented and approved by the Board. It covers operational risk, credit risk, financial risk, reporting, and regulatory compliance. The policy framework enables the management to achieve operational efficiency and proper monitoring.

Business Risk

Industry Dynamics REITs is a developing sector in Pakistan. There has been recent activity in the sector as six REITs worth ~PKR 38bln are expected to launch soon. The key factor driving this growth is the current government's efforts to stimulate the economy through a construction boom. It is being supported by institutional interest in the sector and robust demand for real estate.

Relative Position Total assets of the REIT sector were ~PKR58bln as of end-Sep'21. Arif Habib Dolmen REIT is the only listed REIT fund with a fund size ~PKR 57bln as of end-Jun'21. ISE is a relatively small player with ~PKR 4bln worth of investment property. Once launched, the ISE REIT fund will have a market share of ~7%.

Revenues During FY21, the company's operating income clocked in at ~PKR 313mln (FY20: ~PKR 267mln) and increased at 17% owing to relaxation in COVID restrictions and annual increments.

Performance During FY21, the Company reported net profits of ~PKR 510mln (FY20: ~PKR 339mln). The improvement in the net profit came on the back of improved operating performance and unrealized gain on investment property. The unrealized gain totaled ~PKR 201mln (FY20: ~PKR 102mln) and it stemmed from the "ISE Towers" buildings.

Sustainability The Company is also envisaging some other real estate projects under the REIT umbrella through joint ventures. The project in the hospitality industry is under special focus. ISE Towers has obtained controlling interest of Digital Custodian Company Limited (Formerly: MCBFSL, a subsidiary of MCB Bank Limited) through a consortium with M/s Infotech (Pvt.) Limited in the equity ratio of 10:90 respectively. DCC is engaged in trusteeship and custodianship business. The Company acquired the subsidiary to diversify its business. The Company has de-facto control of DCC as SECP approved the acquisition of DCC upon the condition that ISE maintains effective control over DCC.

Financial Risk

Credit Risk As a REIT Management company, the credit risk is posed from the tenants of the building. ISE Towers is a corporate building and tenants are multinational corporations and strong reputed banks and institutions. Hence the company has low credit risk.

Market Risk The primary source of the market risk of the company is interest rates. The Company's exposure to market risk is low as Company's investment in T-bills during FY21 is PKR~560mln, yielding a return of ~7%. The T-Bills have matured in Sep'21 and Company may benefit from rising interest yields.

Liquidity And Funding The Company has properly designed its investment policy. The Company is managing and investing its funds in a manner that ensures the safety of principal and a high degree of liquidity while maximizing the yield. Liquidity and preservation of capital are the paramount considerations.

Capitalization The company reported equity of ~PKR 6.1bln at end-Jun'21 which is well above minimum regulatory requirements for REIT Management companies i.e. PKR~50mln. The company has no long and short term borrowings.



ISE Towers REIT Management Co. Ltd.
Unlisted Public Limited

PKR mln

Sep-21 **Jun-21** **Jun-20** **Jun-19**
3M **12M** **12M** **12M**

A BALANCE SHEET

1 Total Finance-net	-	-	-	-
2 Investments	5,126	5,032	4,575	4,361
3 Other Earning Assets	40	64	63	41
4 Non-Earning Assets	1,265	1,282	1,240	1,138
5 Non-Performing Finances-net	-	-	-	-
Total Assets	6,430	6,378	5,877	5,540
6 Funding	99	127	122	150
7 Other Liabilities	85	92	81	69
Total Liabilities	184	219	204	218
Equity	6,246	6,159	5,674	5,321

B INCOME STATEMENT

1 Mark Up Earned	12	34	42	23
2 Mark Up Expensed	(0)	(0)	-	(0)
3 Non Mark Up Income	104	614	450	331
Total Income	116	648	492	353
4 Non-Mark Up Expenses	(18)	(73)	(88)	(104)
5 Provisions/Write offs/Reversals	-	-	-	-
Pre-Tax Profit	98	575	405	249
6 Taxes	(17)	(64)	(66)	(58)
Profit After Tax	81	510	339	191

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	15.5%	11.3%	17.8%	29.5%
b ROE	5.2%	8.6%	6.2%	3.6%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	0.0%	0.0%	0.0%	0.0%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	1122.4%	818.6%	646.8%	439.9%
b Borrowings from Banks and Other Financial Institutes / Funding	0.0%	0.0%	0.0%	0.0%

4 MARKET RISK

a Investments / Equity	82.1%	81.7%	80.6%	81.9%
b (Equity Investments + Related Party) / Equity	7.2%	6.9%	6.1%	5.6%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	97.1%	96.6%	96.5%	96.1%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	5.2%	9.0%	6.4%	3.7%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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