



The Pakistan Credit Rating Agency Limited

## Rating Report

### JS Rental REIT

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2022	A+(rr)	-	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

JS Rental REIT Fund (or the "Fund") is a perpetual, closed-end, conventional rental Scheme launched by JS Investment Limited. The Fund's objectives are to achieve regular and stable returns through investments in a fully developed portfolio of sustainable developments and yielding assets in the real estate sector in Pakistan. The Fund would be listed on the stock exchange within three years of financial close. The building "The Centre" has been targeted for the REIT scheme which is situated at Abdullah Haroon Road, Saddar, Karachi. The site has a land area of 3,988sq.yds. The building is relatively new and completed in 2013. The building is a state of the art with branded lifts installed, HVAC plant and the latest security structure along with ample car parking space, a cafeteria, and gym. Out of the total 22 floors with the ground and mezzanine floor dedicated to the shopping Mall, six floors are parking floors, and 9th-14th floors are currently vacant. Initially, two floors i.e. 19th and 20th occupied by JS Lands have been converted into Rental REIT and the initial size of the fund is PKR 657 mln. The total cost of the scheme would be financed by a mix of equity and a pool of funds.

The rating would remain dependent on the sustainability of the RMC, successful fundraising, achievement of milestones, and listing of the Fund. Successful completion of each project and generation of expected return would remain critical for rating.

#### Disclosure

<b>Name of Rated Entity</b>	JS Rental REIT
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Rental REIT Fund Rating
<b>Applicable Criteria</b>	Criteria   Rating Modifiers(Jun-21),Assessment Framework   Rental REIT Fund Rating(Mar-22)
<b>Related Research</b>	Sector Study   Real Estate(May-22)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504

## Profile

**Portfolio Mix** JS Investments Limited ("JSIL-RMC" or the "Company") is in process of launching a Rental REIT fund. The initial fund size is ~PKR 657mln and would reach to PKR 5bln. The site has a land area of 3,988 sq.yds, whereas, each floor has an area of 12,646 sq.ft with market value of ~PKR 3.4bln. The structure is relatively new and consists of 22 floors with a helipad on the roof top.

## Economic & Industry Risk

**Economic Overview** Pakistan GDP has followed a cyclical pattern, with growth averaging on ~4.2% over the past 30 years. In FY2022, the real GDP growth remained at 5.97 percent. However, underlying macroeconomic imbalances and associated domestic and international risks have dampened celebrations. While percentage growth is lower when compared to peers such as Bangladesh and Sri Lanka due to massive depreciation of PAK Rupee against Dollars. The CPI inflation for the period July-May FY2022 was recorded at 11.3 percent as against 8.8 percent during the same period last year. The pressures on headline inflation can fairly be attributed to adjustments in prices of electricity and gas, a significant increase in the non-perishable food prices, exchange rate depreciation along with a rapid increase in global fuel and commodity prices. Whereas, the policy rate increased by a cumulative 675bps during Sep-May FY22. The services sector still constitutes the largest share of 58 percent of GDP. While Real Estate activities have a 9.6% share in services and 5.6% in GDP. Real Estate activities posted a growth of 3.7% in the ongoing fiscal year.

**Industry Dynamics** REITs are investment schemes that own and actively manage income-producing real estate. Currently, three REIT schemes have offered units to the investors and acquired property(ies) i.e., Dolmen City REIT, Silk Islamic Developmental REIT, and Silk World Islamic REIT. As of December 31, 2021, the aggregate fund size of these REIT Schemes was Rs 67.15 billion. Stakeholders continue to express interest in REIT as a viable option for investing in real estate projects, as evidenced by the number of companies licensed to undertake REIT management services increasing to eleven and receipt of twelve fresh applications for the formation of REIT management company/grant of REIT management services licenses.

## Asset Quality Risk

**Market Position** The subject building, named "The Center" under the Fund is situated at Abdullah Haroon Road, near Zainab Market. The property is in a prime commercial zone of Karachi surrounded by Government buildings and corporate offices. The property is owned by JS Lands Private Limited.

**Tenancy Risk** Out of the total 22 floors with the ground and mezzanine floor dedicated to shopping Mall, while JS group owns 12 floors. While six floors are parking floors. Initially, two floor occupied by JS Global would be converted into Rental REIT. JS Global is "AA" rated entity with equity base of PKR 2.3bln.

**Legal Risk** The subject property is clear from any lien mark and stay orders against the transfer of the legal title.

**Third-Party Service Provider Risk** The valuation of the property is conducted by Colliers International Pvt Limited. While Digital Custodian Services is the trustee of the scheme. KPMG Taseer Hadi would be the external auditor of the Company while the legal advisor are Bawaney and Partners.

**Event Risk** The subject property is insured.

## Financial Risk

**Cashflows** The property is situated at one of the prime locations of Karachi and has a strong market position. While the tenants of the property JS Global Capital are financially very strong and generate stable cash flows. Given the liquidity constraints posed by high dividend distribution requirement to maintain tax free status, it is crucial for PACRA to assess the REIT's ability to raise cash, internally or through the strategic investor. Herein, special consideration would be given to existence of liquid assets, available borrowing lines and access to capital markets to sustain ongoing operations including proper maintenance and upkeep of the properties and all related services and amenities, and cover incurrence of unexpected costs (e.g., financial penalties or fines from legal authorities or third parties).

**Coverages** Key cash flow measures would include a REIT's Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) where AFFO accounts for the impact of ongoing maintenance expenses, capital expenditure and impact of any rent increases and advances received from tenants. Analysis of the adequacy of coverage provided by cash flows to outstanding costs, including debt principal and interest payments.

**Capital Structure** The RMC is also permitted to raise borrowings not exceeding 30% of the value of Real Estate to meet the shortfalls arising out of cost overruns. The JSIL-RMC would be the strategic investor in the rental REIT with 25% holding.

## Management Review

**REIT Manager** JS Investments Limited was established in 1995 and is listed on the Pakistan Stock Exchange. The Company is part of the Jahangir Siddiqui (JS) Group. JS Bank Limited holds ~85% shareholding in the Company. JS Investments possesses licenses for Asset Management, Investment Advisory, Private Equity, Venture Capital and REIT management Services. The equity base of the Company was PKR 1.4bln as of Mar'22 (SPY: PKR 1.5bln). While the Company has reported net losses during 3CY22 amounting to PKR 48mln (SPY: ~56bln). The AMC segment of the Company comprises of total fourteen open ended and two Pension funds with AUM based PKR 29.5bln. The AMC rating of the Company is AM2.



The Pakistan Credit Rating Agency Limited

JS Investments Limited

Public Listed Company

Dec'21      Dec'20      PKR mln  
12M      12M      Dec'19  
12M

## A BALANCE SHEET

1 Earning Assets	1,382	1,637	1,799
2 Non-Earning Assets	603	668	763
<b>3 Total Assets</b>	<b>1,985</b>	<b>2,305</b>	<b>2,562</b>
4 Total Borrowing	308	358	312
5 Other Liabilities	173	173	436
<b>6 Total Liabilities</b>	<b>480</b>	<b>530</b>	<b>747</b>
<b>7 Shareholders' Equity</b>	<b>1,504</b>	<b>1,775</b>	<b>1,815</b>

## B INCOME STATEMENT

1 Investment Income	53	334	337
2 Operating Expenses	(332)	(337)	(429)
<b>3 Net Investment Income</b>	<b>(279)</b>	<b>(3)</b>	<b>(92)</b>
4 Other Income	25	15	71
5 Total Income	(254)	12	(20)
7 Total Finance Cost	(34)	(35)	(38)
<b>8 Profit Or (Loss) Before Taxation</b>	<b>(289)</b>	<b>(23)</b>	<b>(59)</b>
9 Taxation	(11)	(17)	(28)
<b>10 Profit After Tax</b>	<b>(300)</b>	<b>(40)</b>	<b>(86)</b>

## C RATIO ANALYSIS

1 Investment Performance			
Investment Income / Average AUMs	0%	2%	N/A
ROE	-19%	-2%	12%
ROA	-15%	-2%	10%
2 Financial Sustainability			
i. Coverages			
a. Total Borrowing / EBITDA	N/A	N/A	N/A
b. EBITDA / Finance Cost	N/A	N/A	N/A
ii. Capitalization			
a. Total Borrowing / (Total Borrowing	17%	17%	15%

### Rental REIT Fund Rating

Opinion on the relative capacity of a Rental REIT fund to maintain stable rental income and risk factors impacting value of REIT assets.

Scale	Definition
AAA (rr)	<b>Exceptionally Strong</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets possess negligible exposure to risks.
AA+ (rr) AA (rr) AA- (rr)	<b>Very Strong</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets are modest over the foreseeable future.
A+ (rr) A (rr) A- (rr)	<b>Strong</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets may be vulnerable to changes in the economy over the foreseeable future.
BBB+ (rr) BBB (rr) BBB- (rr)	<b>Adequate</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets may be impacted by changes in the economy over the foreseeable future.
BB+ (rr) BB (rr) BB- (rr)	<b>Inadequate</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets are high.
B (rr)	<b>Weak</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets are very high.

**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

**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

**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

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

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(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 | Clause 11-(A)(p).

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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)

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(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)

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(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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