



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
03-Jan-2023	A+(rr)	-	Stable	Initial	-
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 objective is 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 shall 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 3,988 sq. yds. The building is relatively new and completed in 2013. The building is a state of the art with branded lifts installed, an HVAC plant, and the latest security structure along with ample car parking space, a cafeteria, and a gym. Out of the total 22 floors with the ground and mezzanine floor dedicated to the shopping mall, six floors are parking floors, 8th floor is amenity/utility and the 9th-14th floors are currently vacant. Initially, two floors i.e. 19th and 20th occupied by JS Investments as tenant, is converted into Rental REIT and the initial size of the fund is PKR 700mln. The total cost of the scheme is 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 falling under the REIT scheme 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>	Assessment Framework   Rental REIT Fund Rating(Mar-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Real Estate(May-22)
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## Profile

**Portfolio Mix** JS Investments Limited ("JSIL-RMC" or the "Company") has launched a Rental REIT fund. The initial fund size is ~PKR 700mln. The site has a land area of 3,988 sq. yds, whereas, each floor has an area of 12,646 sq. ft with a market value of ~PKR 3.4bln. The structure is relatively new and consists of 22 floors with a helipad on the rooftop.

## Economic & Industry Risk

**Economic Overview** The construction industry is considered as a backbone of any economy as it provides enormous employment opportunities to skilled and unskilled workers. The construction sector also provides stimulus to its allied industries and to the economy as a whole. The real estate industry is strongly correlated with overall economic conditions. Macroeconomic indicators like GDP, manufacturing activity, interest rate environment and favorable policies exhibit a favorable correlation with real estate demand and, in turn, prices. The macroeconomic indicators are mixed in Pakistan. On one hand, there has been a post-pandemic upturn in economic activity and an upward revision in the GDP estimates. However, there is uncertainty due to the current account deficit and stalled IMF program. The government's focus on the real estate and construction sector has shown significant improvement recently with the announcement of several incentive packages for the construction industry.

**Industry Dynamics** PACRA analyzes the real estate industry in the context of the local economy and regulatory environment. REITs are a relatively new entrant in Pakistan's market with 10 RMC licenses granted by SECP to date. Only one REIT is listed on the Pakistan Stock Exchange (PSX). Arif Habib Dolmen REIT is the only major player in the market with a fund size of ~PKR 52bln, the total market size is ~PKR 54bln. TPL REIT Fund I is the second-largest player and the first hybrid fund in the industry with an initial fund size of PKR 18.35bln, aiming to reach the target fund size of PKR 80bln.

## Asset Quality Risk

**Market Position** The subject building, named "The Center" under the Fund is situated at Abdullah Haddon 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 the shopping mall, while JS group owns 12 floors. While six floors are parking floors. Initially, two floors occupied by JS Global would be converted into Rental REIT. JS Global is an "AA" rated entity with an equity base of ~PKR 2.214bln.

**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 advisors 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 the 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 the 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 the 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 a ~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 1.34bln as of Sep'22 (SPY: PKR 1.55bln). While the Company has reported net losses during 9CY22 amounting to PKR 162mln (SPY: ~249mln). The AMC segment of the Company comprises of total fourteen open-ended funds and two Pension funds with AUM-based PKR 36bln. The AMC rating of the Company is AM2+, while RMC rating is RM3.



The Pakistan Credit Rating Agency Limited

PKR mln

JS Investments Limited  
Listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

## A BALANCE SHEET

1 Earning Assets	1,182	1,382	1,637	1,799
2 Non-Earning Assets	593	603	668	763
<b>3 Total Assets</b>	<b>1,774</b>	<b>1,985</b>	<b>2,305</b>	<b>2,562</b>
4 Total Borrowing	245	308	359	312
5 Other Liabilities	187	173	171	436
<b>6 Total Liabilities</b>	<b>432</b>	<b>480</b>	<b>530</b>	<b>747</b>
<b>7 Shareholders' Equity</b>	<b>1,343</b>	<b>1,504</b>	<b>1,775</b>	<b>1,815</b>

## B INCOME STATEMENT

1 Investment Income	155	190	334	337
2 Operating Expenses	(270)	(332)	(336)	(429)
<b>3 Net Investment Income</b>	<b>(116)</b>	<b>(141)</b>	<b>(3)</b>	<b>(92)</b>
4 Other Income	-	25	15	71
5 Total Income	(116)	(117)	12	(21)
6 Other Expenses	(20)	(138)	-	-
7 Total Finance Cost	(21)	(34)	(35)	(38)
<b>8 Profit Or (Loss) Before Taxation</b>	<b>(156)</b>	<b>(288)</b>	<b>(23)</b>	<b>(59)</b>
9 Taxation	(6)	(11)	(17)	(28)
<b>10 Profit After Tax</b>	<b>(162)</b>	<b>(300)</b>	<b>(40)</b>	<b>(87)</b>

## C RATIO ANALYSIS

### 1 Investment Performance

i. Investment Income / Average AUMs	0.8%	0.9%	1.6%	1.4%
ii. ROE	-15.1%	-18.3%	-2.2%	-4.4%
iii. ROA	-11.5%	-14.0%	-1.6%	-3.5%

### 2 Financial Sustainability

i. Coverages				
a. Total Borrowing / EBITDA	N/A	N/A	N/A	N/A
b. EBITDA / Finance Cost	N/A	N/A	N/A	N/A
ii. Capitalization				
a. Total Borrowing / (Total Borrowing + Shareholders' Equity)	15.4%	17.0%	16.8%	14.7%

### 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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(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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(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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