



The Pakistan Credit Rating Agency Limited

Rating Report

Packages Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2019	AA	A1+	Stable	Maintain	-
28-Dec-2018	AA	A1+	Stable	Maintain	-
30-Jun-2018	AA	A1+	Stable	Maintain	-
30-Dec-2017	AA	A1+	Stable	Maintain	-
23-Jun-2017	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the Company's strong business and financial profile built over the years as flagship Company of Packages Group. The sponsor's business acumen and their widespread reach have remained beneficial. Lately, the Company plans for an internal restructuring; separating into operational and investment subsidiaries and making Packages a pure Holding Company. Packages has prominent market presence in its operational segments - Packaging (Flexible and Folding Cartons) and Consumer Products (Tissue). The Company has shown growth in business volumes as well as profitability. However, an overall decline was witnessed in the margins owing to surge in raw material prices and increased marketing expenses. Although competition remains for its tissue and flexible packaging businesses, the management is confident to hold current market position and sustain the performance pattern.

Packages holds a sizeable investment book of PKR 45bln (as at Mar-19), comprising strategic (PKR 18bln) and non-strategic (PKR 26bln) investments. Packages Mall, a real estate venture, is progressing as envisioned. OmyaPack (Pvt.) Ltd, a JV with an international player for calcium carbonate, became operational and is still evolving. Bulleh Shah Packaging (Pvt.) Ltd. has yet to completely turn around and generate profits.

Packages has loaded more debt on its balance sheet to finance CAPEX and working capital needs. Moreover, the ended dividend stream from TetraPak exerts pressure on the Company's financial profile. However, Packages low geared capital structure and sufficient coverages provides cushion to meet its payments comfortably in a timely manner. The management envisages on an augmented potential dividend inflow from local and international investments to compensate its dividend stream in next two years.

The ratings are dependent upon achieving operational efficiency in growth activities and improved inflow of investment income. Materialization of same into sustained dividends is important. The ratings draw comfort from low leveraged capital structure and the ability to maintain coverages. Predictable and consistent impact of internal restructuring would remain imperative.

Disclosure

Name of Rated Entity	Packages Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology Holding Company (Jun-18)
Related Research	Sector Study Packaging(Oct-18)
Rating Analysts	Silwat Malik silwat.malik@pacra.com +92-42-35869504

Profile

Legal Structure Packages Limited is a public limited company incorporated in Pakistan and listed on Pakistan Stock Exchange.

Background Packages was established in 1957 as a Joint Venture between the Ali Group of Pakistan and Akerlund & Rausing of Sweden, to convert paper and paperboard into packaging. Over the years, Packages has enhanced its facilities to meet the growing industry demand. The Company is listed on the Pakistan Stock Exchange (PSX) since 1965.

Operations Packages Limited is an operational and investment holding company. On the operational side, the Company is principally engaged in manufacturing and sale of Packaging materials in two business units, Folding Cartons and Flexible Packaging; and Consumer products - Tissues. On the investment side, Packages Limited is the flagship Company of the Group. Packages has made strategic investments of PKR 45bln (as at Mar-19) and PKR 51bln (as at Dec-18) in entities engaged in manufacturing and sale of inks, packaging material - flexible and paper, Polypropylene (BOPP and CPP) films, production and sale of ground calcium carbonate products and entities engaged in real estate, insurance and power generation.

Ownership

Ownership Structure Ali Group holds 55% stake in Packages through family members (16%) and corporates (39%), with IGI Investments owning prime share (30%). Foreign partners and financial institutions own 8% and 21% stake, respectively. Remaining 17% shares are held by general public.

Stability Ownership of the Company draws stability from major stake being held by Ali family.

Business Acumen Ali Group is ranked amongst the leading industrial groups of the country with interests in paper and paperboard, packaging, financial institutions, education and real estate sectors. Strong affiliation with international JVs is suitable for the Company's holding structure.

Financial Strength Packages is a strong business Group having an asset base of PKR 108bln supported by PKR 65bln of equity in CY18. The Company generated a turnover of PKR 53bln. Packages subsidiaries have a stable asset base. IGI, Company's flagship organization and an associate, reported an operating revenue of PKR 9.4bln and an asset base of PKR 88bln, in CY18.

Governance

Board Structure Packages BoD comprises one Independent Director, seven Non-Executive Directors and two Executive Directors. Governance structure draws strength from Board's apt size and presence of independent oversight. The Board seeks advice from the key individual in the development of Ali Group.

Members' Profile The BoD have diversified experience and relevant expertise. Board's Chairman, Mr. Towfiq H. Chinoy, holds directorships of various entities and is associated with Packages Board from 11 years. During CY18, Mr. Muhammad Aurangzeb resigned and Mr. Atif Aslam Bajwa was appointed as an Independent Board member.

Board Effectiveness The Board ensures effectiveness through two committees; Audit Committee, and Human Resource and Remuneration Committee. Both Committees comprises 6 members. Four Board meetings, with majority attendance, were held to discuss Packages performance and make strategic decisions, in CY18. Minutes of these meetings were formally documented.

Financial Transparency The Board's Audit Committee ensures accuracy of the Company's accounts and internal controls. Packages external auditors, M/s A.F. Ferguson & Co., have been its auditor's since inception and have expressed an unqualified opinion on the financial reports of CY18.

Management

Organizational Structure Packages Limited operates through two main divisions: Packaging, and Consumer Products. However, Engineering, Finance, IT, Human Resource and Internal Audit departments work as shared services for the main divisions. All Divisional Heads report to the Company's CEO/MD, who reports to the Board. However, Head of Internal Audit and Human Resource reports administratively to the CEO/MD and functionally to the Board Audit Committee and Board Human Resource and Remuneration Committee, respectively.

Management Team The Company's MD/CEO, Mr. Syed Hyder Ali is involved in the Company's operations and holds directorship in many other companies. Mr. Asghar Abbas heads the Packaging Division and has been associated with the Group in various capacities over the years.

Effectiveness Packages management ensure effectiveness through two committees: Executive, and System and Technology Committee. These committees meet periodically to monitor the Company's performance. Minutes of these meetings were formally documented.

MIS To generate reports, ERP software, SAP ECC6 and Oracle 11g are used. The Company's packaging and manufacturing plants are connected through WAN and radio links with offices in Lahore Karachi and Islamabad.

Control Environment To ensure operational efficiency, Packages has setup an Internal Audit Function that identifies, assess and reports all types of risk arising due to business operations.

Business Risk

Industry Dynamics In Pakistan, paper and packaging industry was setup in 1956. It fulfills more than 80% of the domestic demand. Today, there are about 100 paper and packaging units having a combined capacity of approximately 650,000 tons/day. The industry has posted a growth of 8% in 2018 with a marginal contribution of 0.2% to LSM. Having a derived demand, growth in FMCG sector have positively impacted the country's paper and paperboard industry.

Relative Position In the Folding Carton market, Packages holds 12% and 60% share in general and tobacco packaging. The Company holds 24% share of Flexible Packaging market. In the Consumer Product (Tissue) segment, Packages own 63% share of the market.

Revenues In CY18, Packages generated revenue from Packaging (77%) and Consumer Product (23%) divisions. Topline witnessed a volumetric growth of 16% (YoY) and 13% (QoQ). The Company's dividend income declined by 52% (CY18: 3bln, CY17: 6.3bln) due to non-strategic investments (CY18: PKR 2.5bln, CY17: 6bln), as subdued dividends were received from Packages Lanka (Pvt.) Ltd., TetraPak (Pakistan) Ltd. and Nestle Pakistan. Dividends received from the strategic investments clocked in at PKR 511mln. In 3MCY19, dividend income posted an increase (3MCY18: 1.1bln, 3MCY19: 190mln) and was received from TetraPak, mainly. The eroded profitability in CY18 was recouped in 3MCY19 supported by the Company's operational efficiency.

Margins Rupee devaluation has increased raw material (pulp) prices and resultantly, conversion costs. The inability to pass on this increase deteriorated the Company's margins in CY18 ~16% (CY17: 20%). However, in 1QCY19, the Company was able to pass on the increased cost. Surge in operating costs, restricted the Company's operating margins (CY18: 5%, CY17: 9%).

Sustainability Packages Board has evaluated and approved internal restructuring with an objective to create a Holding Company. Also, going forward, successful replacement of sizeable dividend stream (emanating from Tetra Pak Pakistan Ltd.) from other profitable and diversified ventures would remain important for the Company's performance.

Financial Risk

Working Capital Packages witnessed an increase in working capital days (CY18: 64 days, CY17: 57 days and 3MCY19: 74 days, 3MCY18: 58 days), due to increased inventory held days. Incremental borrowing to finance the working capital requirements deteriorated the Company's short term borrowing buffer.

Coverages In CY18, increase in FCFO to PKR 1.1bln improved the Company's interest cover ~ 2x (CY17: 1.4x) and core cover ~ 0.6x (CY17: 0.4x). Decline in dividend inflow and thus, total operating cashflows, deteriorated the total cover ~ 2.1x (CY17: 3.8x). In 3MCY19, FCFO declined to PKR 546mln deteriorated the Company's interest cover ~ 2.8x (3MCY18: 7.2x) and core coverage ~ 1.3x (3MCY18: 1.5x). Increase in total operating cashflows improved the total cover ~ 3.8x (3MCY18: 1.7x).

Capitalization Packages Limited reaps benefits from a low leveraged capital structure. Debt to Debt plus equity ratio increased to 12% in 3MCY19 and CY18 (3MCY18: 6%, CY17: 7%) due to increase in the Company's short term borrowings (CY18: PKR 4.4bln, 3MCY18: 2.5bln), obtained to finance CAPEX and working capital. Packages total borrowings inclined in CY18 and 3MCY19 to PKR 6.7bln and PKR 6.4bln, respectively (CY17 and 3MCY18: PKR 3.9bln). Decline in the Company's investment income limits the risk absorption cushion.



Packages Limited

Listed Public Limited

A BALANCE SHEET	Mar-19 3M	Dec-18 12M	Dec-17 12M	Dec-16 12M
1 Non-Current Assets	6,504	6,625	5,208	4,234
2 Investments	45,134	51,612	60,429	50,743
a Equity Instruments	44,724	51,323	60,166	50,078
b Debt Instruments	-	-	-	-
c Others	409	289	263	666
3 Current Assets	11,211	9,939	8,252	7,171
a Inventory	3,244	3,125	1,955	1,769
b Trade Receivables	3,163	2,569	2,392	2,172
c Others	4,804	4,245	3,905	3,230
4 Total Assets	62,849	68,176	73,889	62,148
5 Borrowings	6,956	7,282	4,515	6,164
a Short-Term	2,465	4,414	300	1,377
b Long-Term (Incl. CMLTB)	4,491	2,868	4,216	4,787
6 Other Short-Term Liabilities	4,141	3,749	3,222	3,070
7 Other Long-Term Liabilities	1,446	1,317	1,093	736
8 Shareholder's Equity	50,306	55,828	65,060	52,178
9 Total Liabilities & Equity	62,849	68,176	73,889	62,148

B INCOME STATEMENT

1 Sales	5,772	20,699	17,894	16,839
2 Gross Profit	1,145	3,280	3,524	3,618
3 Non Operating Income	1,055	2,956	6,005	6,470
4 Total Finance Cost	(206)	(607)	(490)	(6,017)
5 Net Income	1,076	2,654	6,171	886

C CASH FLOW STATEMENT

1 Free Cash Flow from Operations (FCFO)	546	1,148	663	1,049
2 Total Cashflows (TCF)	1,642	4,091	6,937	7,521
3 Net Cash changes in Working Capital	(1,062)	(1,360)	110	(54)
4 Net Cash from Operating Activities	447	2,265	6,569	6,941
5 Net Cash from Investing Activities	(86)	(2,423)	(2,552)	(1,615)
6 Net Cash from Financing Activities	1,622	(4,076)	(2,849)	(5,337)
7 Net Cash generated during the period	1,983	(4,234)	1,169	(11)

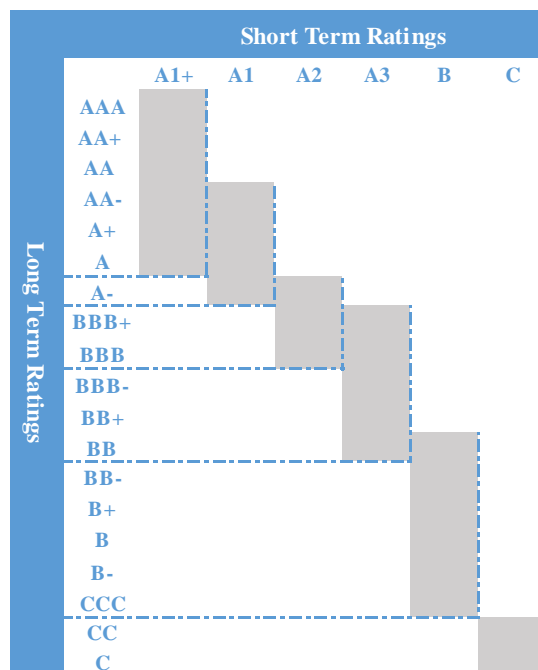
D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	12%	16%	6%	5%
b Gross Profit Margin	20%	16%	20%	21%
c Net Profit Margin	19%	13%	34%	5%
d Return of Equity	8%	4%	11%	2%
2 Working Capital Management				
a Gross Working Capital (Inventory Days + Receivable Days)	95.7	88.5	84.5	73.2
b Net Working Capital (Inventory Days + Receivable Days - Payable Days)	73.9	64.3	56.9	46.0
3 Coverages				
a Debt Service Coverage (FCFO / Finance Cost+CMLTB+Excess STB)	1.3	0.6	0.4	0.2
b Interest Coverage (FCFO / Finance Cost)	2.8	2.0	1.4	0.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.2	5.1	21.5	-1.2
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Capital Structure (Current Borrowings / Total Borrowings)	74	64	57	46
b Capital Structure (Total Borrowings / Total Borrowings+Equity)	12%	12%	6%	11%

Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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			
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+	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			
B-			
CCC	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.		
CC			
C			
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(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

Restrictions

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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)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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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