



# Holding Companies

## Sector Study

# Table of Contents

Contents	Page No.	Contents	Page No.
Global   Overview	1	Regulatory Framework	13
Local   Overview	2	SWOT	14
Investment Strategies	3	Outlook	15
Local   Snapshot	4	Bibliography	16
Investment Portfolio	5		
Investment   Equity & Debt	6		
Investments   Player-wise	7		
Total Asset Size   Player-wise	8		
Business Risk   Investment Diversification	9		
Business Risk   Portfolio Assessment	10		
Financial Risk   Borrowing	11		
Rating Chart	12		

---

# Holding Companies

## Global | Overview

- Globally, Holding Company structures are well accepted and growing, especially in the developed economies. The concept of establishing Holding Companies to form corporate groups is increasing because of the many benefits that the structure offers. A few of them are mentioned in the adjacent diagram.
- In USA, a Holding Company is defined as the parent business entity, usually a Corporation or LLC, that does not manufacture anything, sell any products or services, or conduct any other business operations. Its purpose, as the name implies, is to hold the controlling stock or membership interests in other companies in order to form corporate groups.
- A classic example of a Holding Company is the Alphabet Inc. - An American multinational Conglomerate), that was created through restructuring of Google in October 2015, and became the parent company of Google and several former Google subsidiaries.
- Another example is the Berkshire Hathaway Inc. – An American multinational conglomerate. The company wholly owns a wide variety of big businesses, and also owns significant minority holdings in public companies such as The Coca-Cola Company, Bank of America, and Apple.



# Holding Companies

## Local | Overview

- As per the Companies Act 2017, a Holding Company is defined as “a company which is another company’s holding company if, but only if, that other company is its subsidiary” while a subsidiary is defined as “a company in which the Holding Company controls the composition of the Board or exercises or controls more than one-half of its voting securities either by itself or together with one or more of its subsidiary companies”.
- A holding company is also sometimes called an "umbrella" or parent company.
- PACRA’s definition of Holding Companies (henceforth referred to as “HoldCos”) is broader and encompasses a wider range of entities, as compared to the definition of HoldCos laid out in the Companies Act, 2017.
- PACRA defines HoldCos as entities which are primarily involved in holding controlling and/or non-controlling stakes (equity participation) in other companies for the purpose of generating capital gains and/or dividend income. These stakes may be in group companies or outside the group. For the purpose of sector classification, PACRA takes into account only those HoldCos whose primary business is investment in equity and debt instruments, mainly of group companies. Such HoldCos that have operations of their own are classified in the respective sectors to which their operations pertain.
- As per SECP Group Companies Registration Regulations’08: “Group” means a holding company and its subsidiaries registered with the Commission” (i.e., SECP).

HoldCos can make investments in Equity, Debt or Other Instruments.

- **Equity Investments** are funds invested in a company by purchasing shares of that company. These could be listed or unlisted.
- **Debt Investments** are fixed return investments in which an investor lends money to a firm or project sponsor with the expectation that the borrower will pay back the investment with interest.
- **Other Investments** refer to all investments not classified in equity and debt instruments.

## Investment Strategies

- Broadly speaking, HoldCos can be classified into two categories based on their underlying structure, **Investment Holding Companies** and **Operational Holding Companies**.
- Following are the various types of investment portfolios of HoldCos.

### Core

The entities where the HoldCo has operational control and are essentially a part of the HoldCo or treated as a wholly owned subsidiary. Financial stress for core entities will have a significant effect on the HoldCo's credit profile. It is very unlikely that the HoldCo would decide to divest

### Strategic

The entities where the HoldCo has operational control and are essentially a part of the HoldCo or treated as a wholly owned subsidiary. Financial stress for core entities will have a significant effect on the HoldCo's credit profile. It is very unlikely that the HoldCo would decide to divest

### Trading

These comprise listed equity stakes held in other companies classified as 'Available for Sale' and/or 'Held for Trading'. These investments are least integrated and are held primarily with the intention of deriving trading income. The key risks involved here are liquidity and market risks.

### Operational Segment

These are treated as core business. These are embedded in the legal structure of the entity, offering full ownership with complete operational control. Major resource allocation is involved in operations and their management. Financial stress on operations can create a significant drag on the overall credit profile.

# Holding Companies

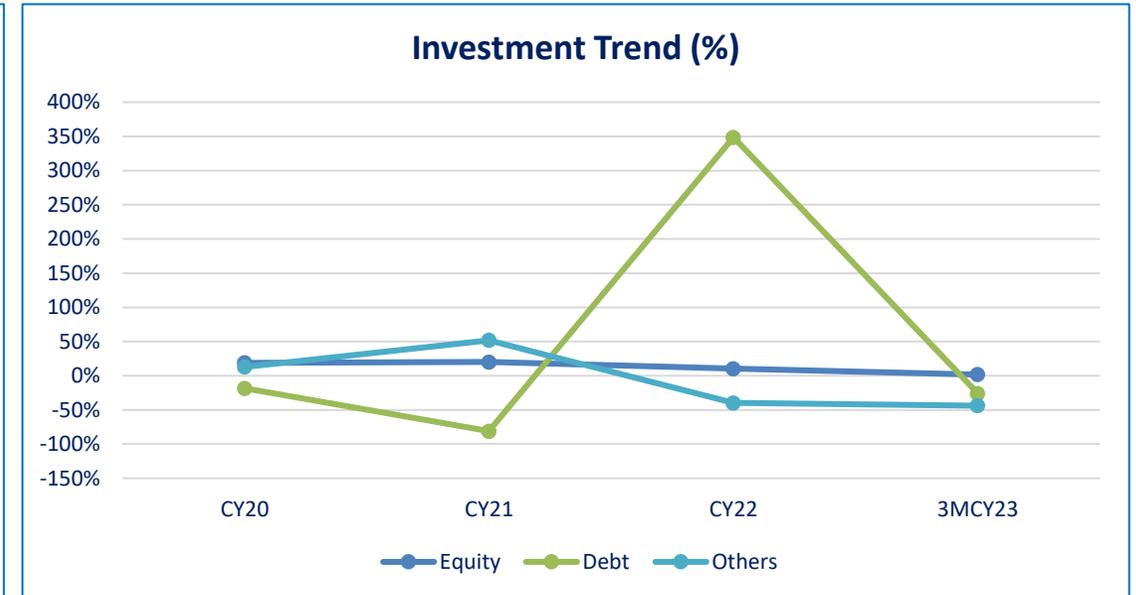
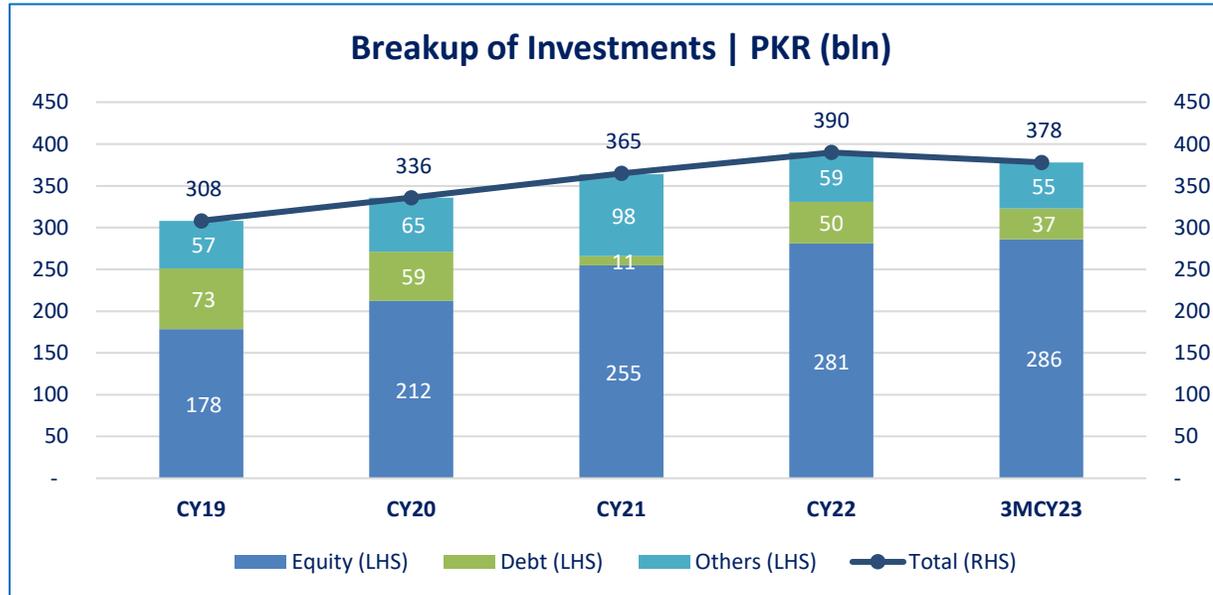
## Local | Snapshot

- Unlike other Corporates, the size of the HoldCos is gauged by their Investment book, primarily because their mainstream business concerns managing investment portfolios and earning returns on these investments.
- PACRA rates 11 HoldCos with a total investment book of PKR~378bln as at End-Mar'23 (Dec'22: PKR~390bln), an increase of ~4.1%.
- A large proportion of these investments comprises equity stakes (~72.0%) which are further classified into core, strategic and trading categories.
- Meanwhile, ~13% of the sector's investment book pertained to debt as at End-Dec'22 (CY21: ~3.1%), whereas ~15% belonged to other investments (CY21: ~26.8%).
- In terms of total assets, the sector's market size stood at PKR~401bln as at End-Mar'23 (CY22: PKR~392bln). As an asset protection strategy, a parent corporation might structure itself as a HoldCo, while creating subsidiaries for each of its business lines.
- HoldCos generally have diverse investment portfolios depending upon their investment policy and are protected against losses accrued by subsidiaries. Many HoldCos have significant investments in tradable short-term securities which reflects in their liquidity profile.
- Recently, trend is increasing towards investment HoldCos as major business houses in Pakistan have established their investment Holding Companies, including Engro, Packages, DH Corp, TPL etc.

Particulars	CY21	CY22	3MCY23
<b>Number of Players</b>		11	
<b>Total Asset Size (PKR bln)</b>	380	392	401
<b>Investment Breakup (PKR bln)</b>			
<b>Total Investments</b>	<b>363</b>	<b>390</b>	<b>378</b>
Equity Investments	255	281	286
Others	108	109	92
<i>Sector Growth (Based on Asset Size)</i>	7.6%	3.1%	2.45
<b>Sector Structure</b>	Oligopoly		
<b>Regulator</b>	SECP		

# Holding Companies

## Investment Portfolio

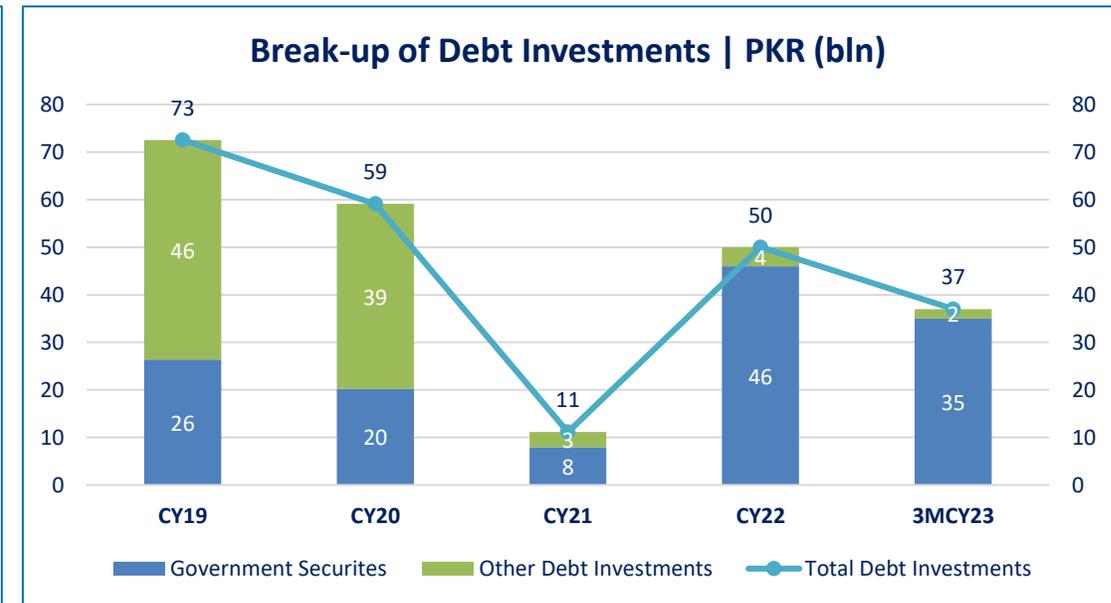
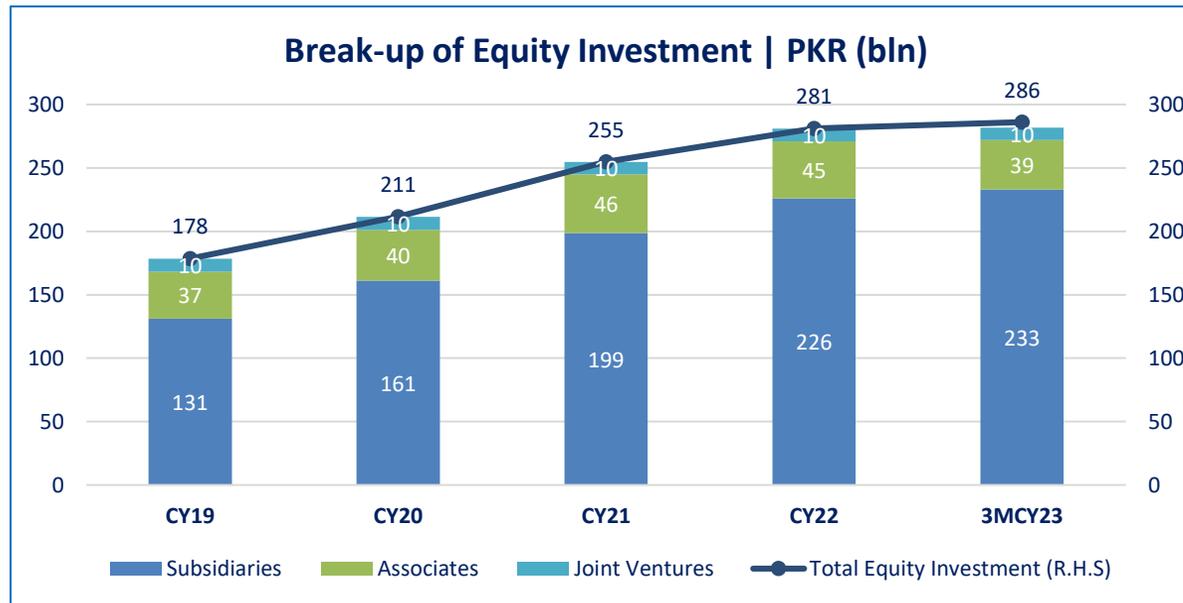


- Aggregate Investments of the sector were registered at PKR~390bln as at End-Dec'22 (End-Dec'21:PKR~365bln), increasing by ~6.8% YoY. Investments for 1QCY23 amounted to PKR~378bln (SPLY: PKR~354bln).
- During CY22, equity investments grew by ~10% YoY and recorded at PKR~281bln as at End-Dec'22 (End-Dec'21: PKR~255bln). On the other hand, debt investments exhibited a strong spike, growing by ~349% YoY and clocking in at PKR~50bln (End-Dec'21: PKR~11bln). This largely resulted from increased investments in Government securities, which formed ~91% of the total debt investments. The trend can be hinged on the nature of these securities and the concomitant interest rate hikes, while the need for investing safe likely resulted from the macroeconomic slump the country faced, especially 2HCY22 onwards. These also largely included investments made for the purpose of fair value gains.

*Note: Data is based on PACRA-rated clients. The sharp spike in Debt Investments is likely due to one rated player with ~27% share in the sample based on Total Assets.*

# Holding Companies

## Investments | Equity & Debt



- The sector's total equity investments stood at PKR~281bln as at End-Dec'22 (End-Dec'21: PKR~255bln). HoldCos usually operate with strategic investments across various entities, with their own subsidiaries, in which they have controlling interests and decision-making authority, occupying a share of ~78% of the overall equity investments during the same time period. Meanwhile, ~18% of equity investments were observed to be parked in associates, whereas ~4% were in joint ventures.
- With respect to their debt investment portfolio, HoldCos' total investments clocked in at PKR~50bln as at End-Dec'22 (End-Dec'21: PKR~11bln), a significant increase of ~354% YoY. These largely comprised ~92% government securities (majorly T-Bills, due to safe returns), which grew by ~479% (inclusive of Other Comprehensive Income) and ~8% other debt Investments, including but not limited to, mutual funds.

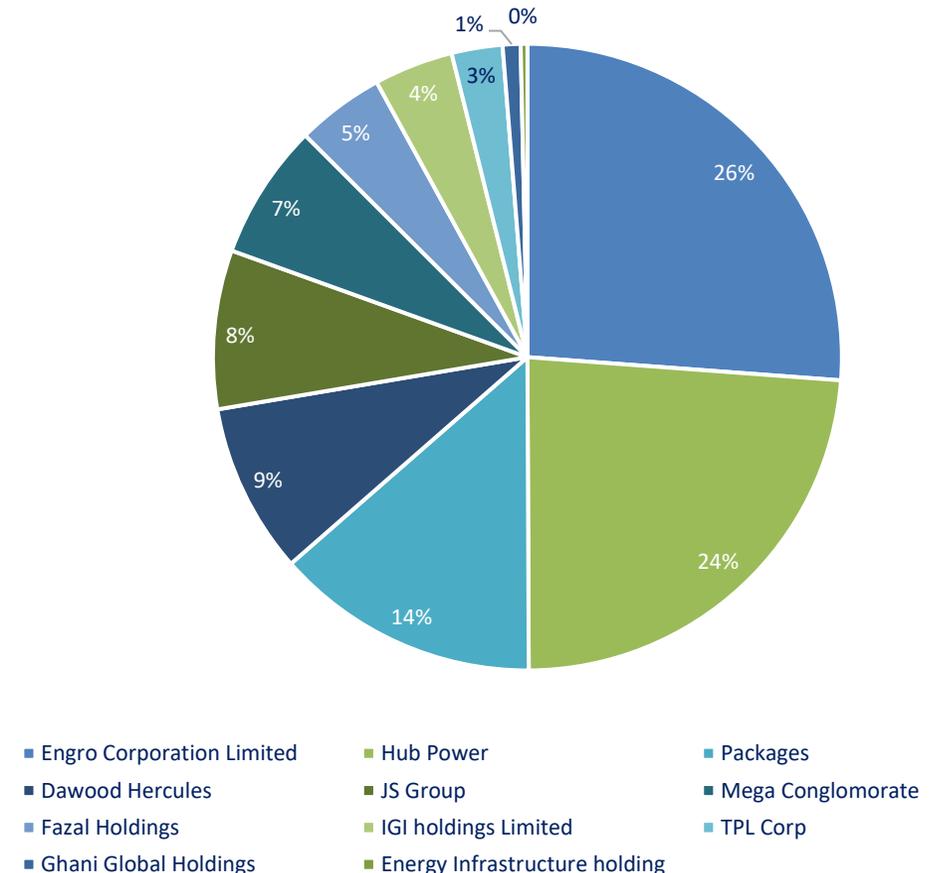
# Holding Companies

## Investments | Player-wise

Total Investments	CY20	CY21	CY22	3MCY23
<b>PKR bln</b>	<b>336</b>	<b>363</b>	<b>390</b>	<b>378</b>
Engro Corporation Limited	27%	27%	26%	24%
Hub Power Holdings Limited	18%	19%	24%	27%
Packages Limited	14%	13%	14%	13%
Dawood Hercules Corporation Limited	11%	10%	8%	8%
Jahangir Siddiqui & Co Limited	10%	9%	8%	8%
Mega Conglomerate (Pvt.) Limited	8%	8%	7%	7%
IGI Holdings Limited	5%	4%	4%	4%
TPL Corp Limited	2%	3%	3%	3%
Fazal Holdings (Pvt.) Limited	3%	5%	5%	5%
Ghani Global Holdings Limited	1%	1%	1%	1%
Energy Infrastructure Holding (Pvt.) Limited	1%	0%	0%	0%

- In terms of market share in investments, E.Corp maintained the highest share in the sector, recording at ~26% of the investment book as at End-Dec'22 (End-Dec'21: ~27%). It is followed by Hub Power Holdings, with ~24% as at End-Dec'22 and ~19% in End-Dec'21.
- The size of the investment book of a HoldCo depicts the size of the respective conglomerate's business seeing as the sector's investments are pre-dominantly deployed in subsidiaries. E.Corp has a diversified equity portfolio in fertilizers, chemicals, polymers and other prominent sectors.

Player-wise Investment Share | CY22

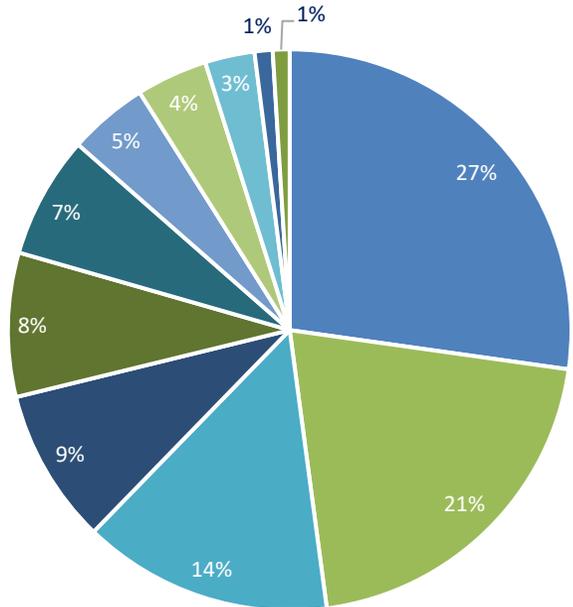


# Holding Companies

## Total Assets | Player-wise

Asset Size	CY20	CY21	CY22	3MCY23
<b>PKR bln</b>	<b>356</b>	<b>380</b>	<b>392</b>	<b>401</b>
Engro Corporation Limited	27%	27%	27%	25%
Hub Power Holdings Limited	18%	19%	21%	25%
Packages Limited	15%	14%	14%	13%
Dawood Hercules Corporation Limited	11%	10%	9%	8%
Jahangir Siddiqui & Co Limited	10%	9%	8%	8%
Mega Conglomerate (Pvt.) Limited	8%	7%	7%	7%
Fazal Holdings (Pvt.) Limited	3%	4%	5%	4%
IGI Holdings Limited	5%	4%	4%	4%
TPL Corp Limited	2%	3%	3%	3%
Energy Infrastructure Holding (Pvt.) Limited	1%	1%	1%	1%
Ghani Global Holdings Limited	1%	1%	1%	1%

Player-wise Asset Share | CY22



- Engro Corporation Limited
- Hub Power
- Packages
- Dawood Hercules
- JS Group
- Mega Conglomerate
- Fazal Holdings
- IGI holdings Limited
- TPL Corp
- Energy Infrastructure holding
- Ghani Global Holdings

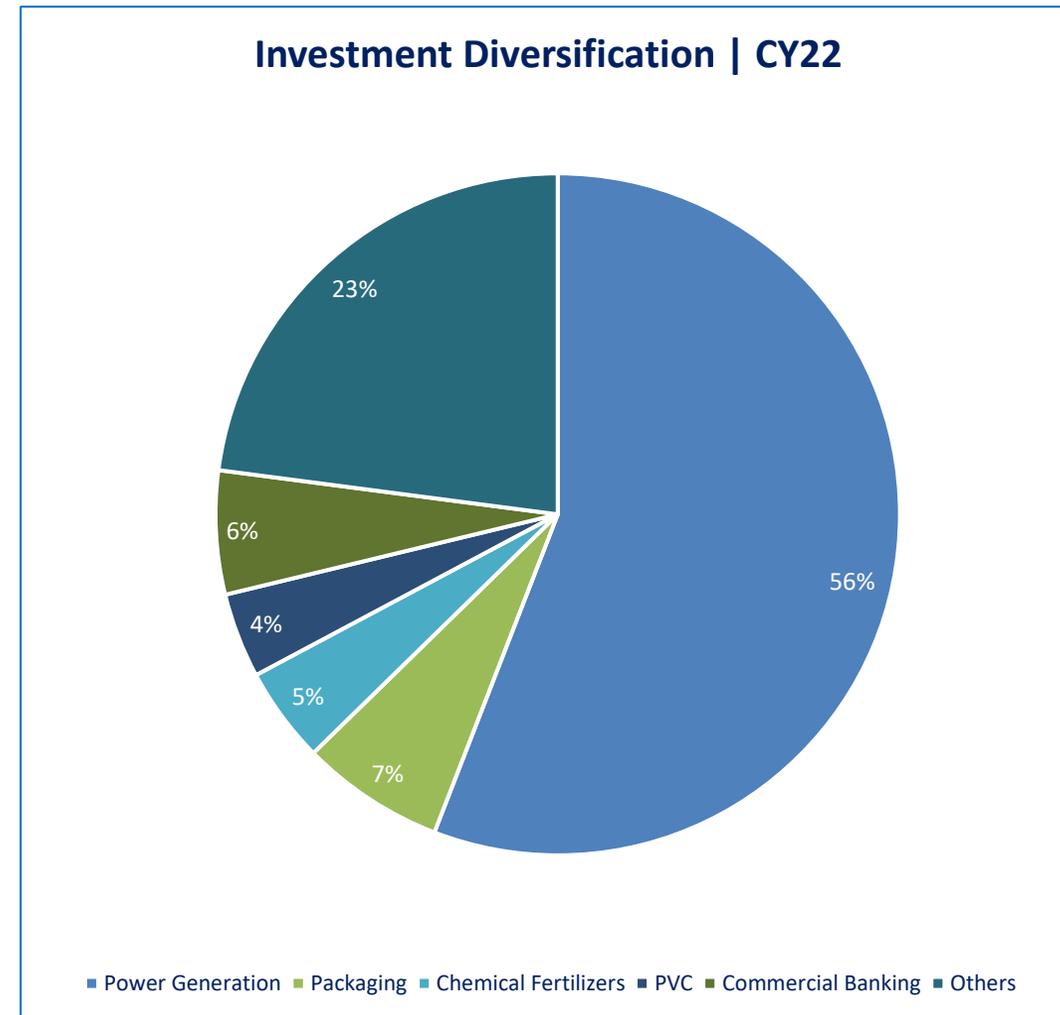
- Total assets of the sector amounted to PKR~401bln as at End-Mar'23 (End-Dec'22: PKR~392bln).
- It follows from the previous section that the major portion of the sector's assets comprise its investments, with a smaller share of other operating assets.
- As of End-Dec'22, ~25% of the sector's assets belong to E.Corp with Jahangir Siddiqui & Co Limited being the next at ~21%, while ~14% of sector's total assets were recorded by Dawood Hercules Corporation Limited.

*Note: Data is based on PACRA-rated clients. Figures have been rounded off to one decimal place.*

# Holding Companies

## Business Risk | Investment Diversification

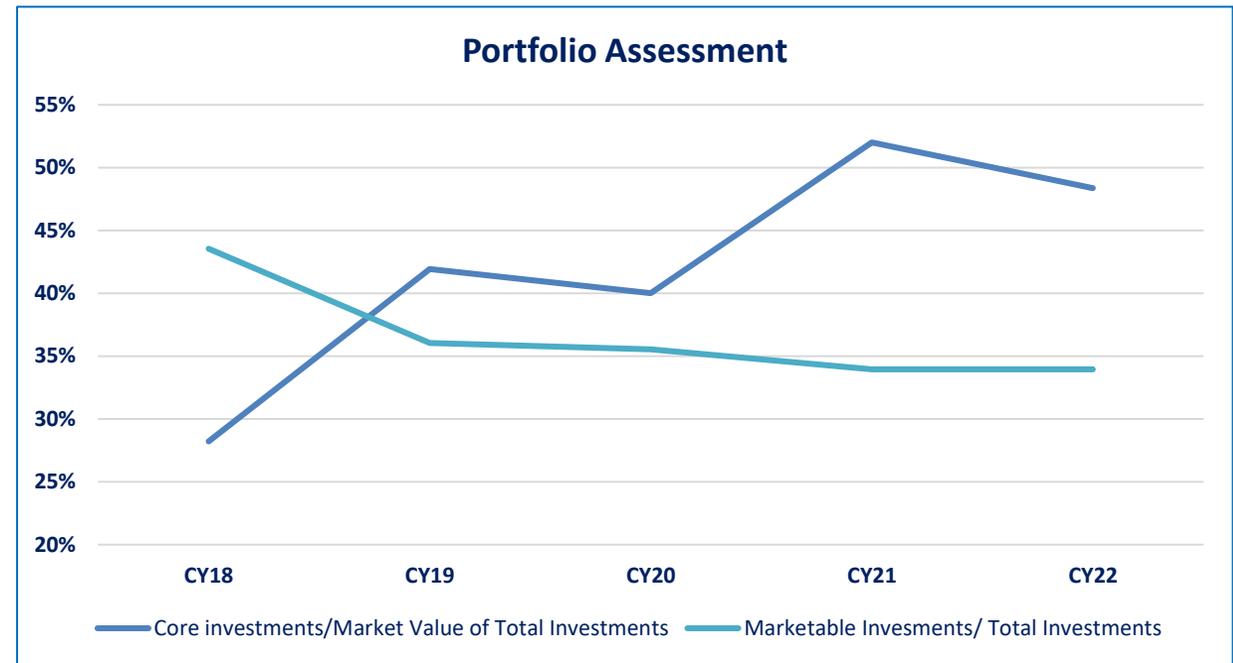
- The business risk of HoldCos is correlated with the performance of their investments. The performance of investments can be evaluated in numerous ways, however, the key two factors used to determine the investment quality (covered in this report) are **‘Diversification’** and **‘Portfolio Assessment’**.
- Measuring diversification of the investments helps in evaluating the level of concentration Holding Companies possess in a particular sector. Higher the diversification, lower the risk and vice versa.
- Considering the portfolios of top five listed players of the sector (which account for ~76% of the sector’s investments), the concentration of the Sector’s investments as of End-Dec’22 comprises power generation sector (~56%) and Others (~23%), which include various sectors such as Real Estate, Insurance & Banking, Investment Services and Information Technology, to name a few.



# Holding Companies

## Business Risk | Portfolio Assessment

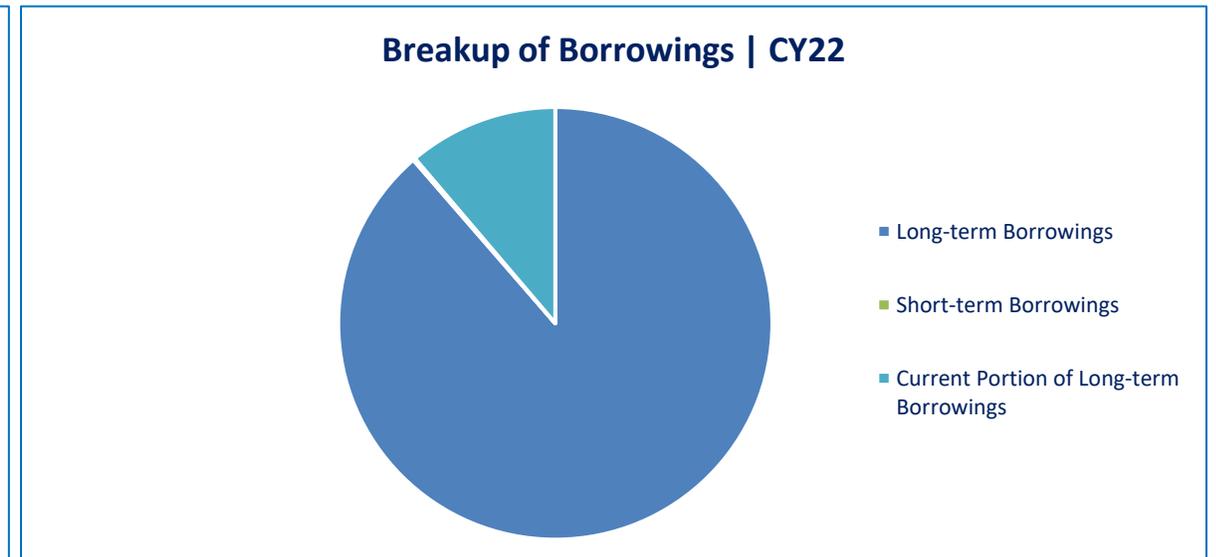
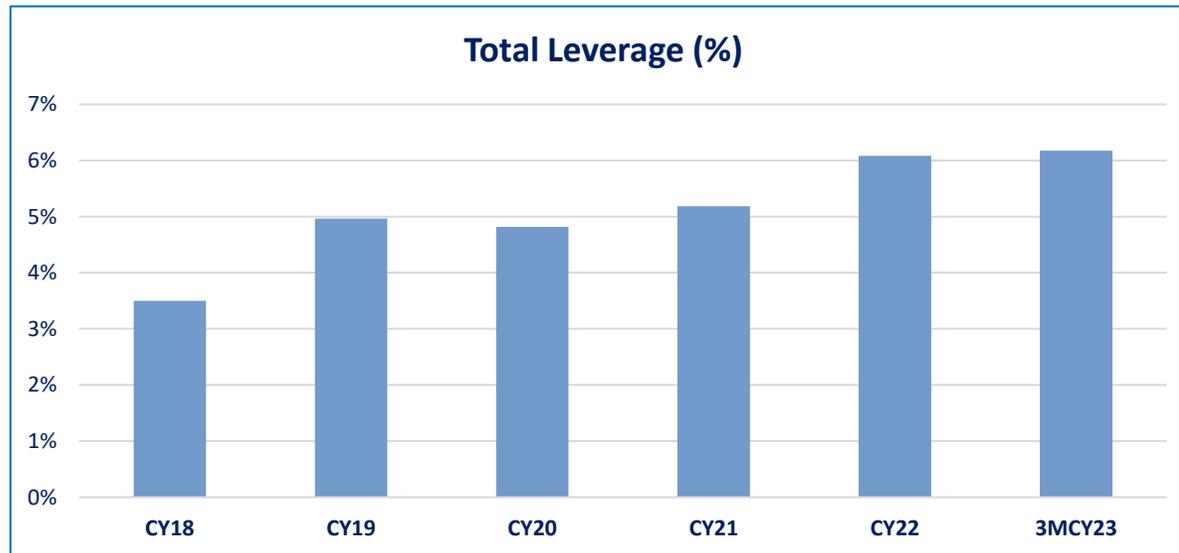
- Portfolio Assessment comprises core as well as marketable investments which the HoldCos possess against their total investments at fair value. As per PACRA methodology, core investments are those where the HoldCo has 100% wholly-owned stake in a company.
- This implies that the HoldCo is fully exposed to the risks associated with its core investments. On the other side, Marketable investments are those that can be converted to cash at a readily available price. Such investments are necessary to provide support to the HoldCo's liquidity profile.
- The sector's core investments accounted for ~48% of the market value of its total investments as at End-Dec'22 (End-Dec'21: ~52%), while the marketable investments accounted for ~34% of total investments as at End-Dec'22 (End-Dec'21: ~34%).



# Holding Companies

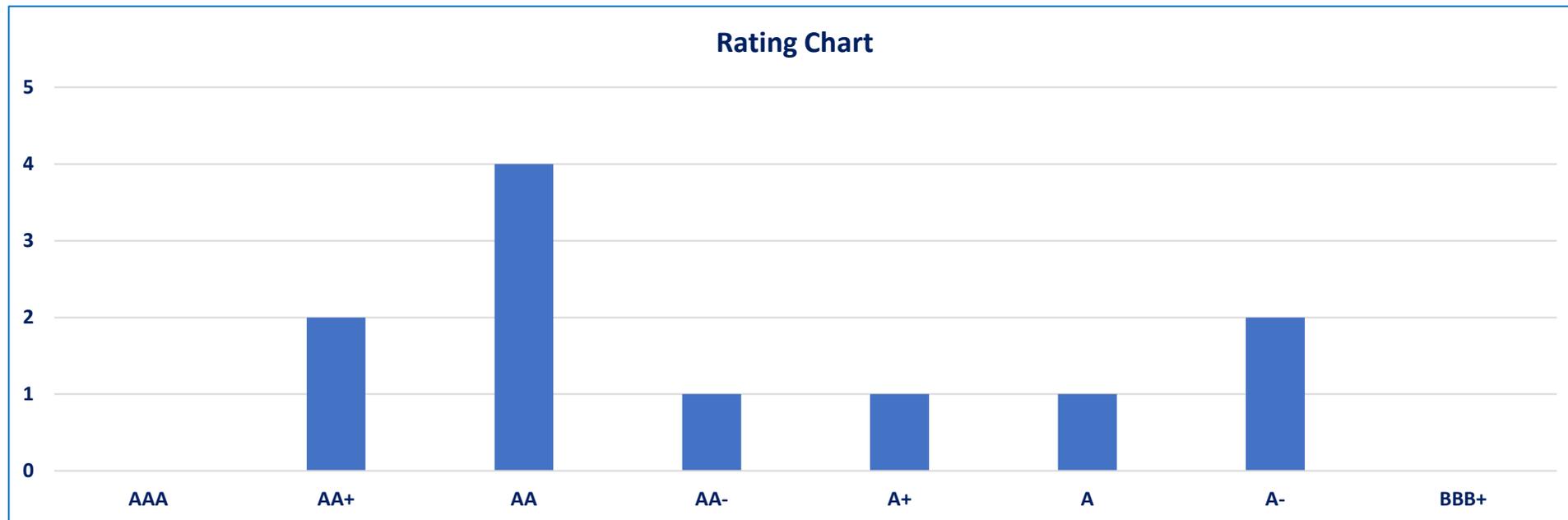
## Financial Risk | Borrowing

- Leverage of the sector increased to ~6% as at End-Dec'22, reflecting an increase in total borrowings of ~27% YoY. These borrowings comprised ~84% long-term borrowings (End-Dec'21: ~91%), which grew by ~23% YoY, and ~6% short-term borrowings (~0.3% as at End-Dec'21), which grew by ~25x YoY.
- In 3MCY23, the sector did not record any short-term borrowings, most likely in line with the increasing interest rates, while long-term debt increased to PKR~11,880mln.



## Rating Chart

- PACRA rates 11 clients in the Holding Companies sector.
- Rating Bandwidth of the sector ranges from AAA to BBB+.



## Regulatory Framework

- The Securities and Exchange Commission of Pakistan (SECP) has implemented the Group Companies Registration Regulations, 2008 to provide a regulatory framework for the formation of group companies, comprising a holding company and its subsidiaries.
- The Commission registers the holding company and its subsidiary companies as a Group in the prescribed form.
- The Commission is also empowered to cancel the registration of the group if any company within the group fails to comply with the requirements of the Regulations or any direction given by the Commission.
- After registration of the group, the HoldCo ensures that the group follows the requirements of the Code of Corporate Governance, International Financial Reporting Standards as applicable in Pakistan, and that transactions by any company within the Group with its associated companies and associated undertakings are carried out and recorded on an arm's length basis.
- The Regulations also facilitate streamlining of the group ownership structures and consolidation of the present complicated cross-company ownership to make the corporate sector internationally competitive.
- Surrender of tax losses between eligible group companies is allowed since 2007. The provisions allow both holding and a subsidiary company within the group to surrender their respective losses.

# Holding Companies

## SWOT Analysis



## Outlook: Stable

- The trend of establishing HoldCos to manage group structures is a well-established one in Pakistan, as is witnessed in the form of most big business groups such as E.Corp, DHCorp, Packages, JS & Co. IGI, etc. The sector is largely organized with a sizable asset base and investment book, clocking in at PKR~390bln and PKR~392bln, respectively, as at End-Dec'22.
- In terms of market share in investments, E.Corp maintained the highest share in the sector, recording at ~26% of the investment book as at End-Dec'22 (End-Dec'21: ~27%). It is followed by Hub Power Holdings, with ~24% as at End-Dec'22 and ~19% in End-Dec'21. Total assets of the sector amounted to PKR~401bln as at End-Mar'23 (End-Dec'22: PKR~392bln). It follows from the previous section that the major portion of the sector's assets comprise its investments, with a smaller share of other operating assets.
- The sector's total equity investments stood at PKR~281bln as at End-Dec'22 (End-Dec'21: PKR~255bln). With respect to their debt investment portfolio, HoldCos' total investments clocked in at PKR~50bln as at End-Dec'22 (End-Dec'21: PKR~11bln), a significant increase of ~354% YoY. These largely comprised ~92% government securities (majorly T-Bills, due to safe returns), which grew by ~479% (inclusive of Other Comprehensive Income) and ~8% other debt Investments, including but not limited to, mutual funds.
- The concentration of the Sector's investments as of End-Dec'22 comprises power generation sector (~56%) and Others (~23%), which include various sectors such as Real Estate, Insurance & Banking, Investment Services and Information Technology, to name a few. Moreover, most of the HoldCos have a sufficient level of marketable securities in their investment book which provides support to their liquidity profiles.
- The Sector has a robust capital formation and equity base to meet the financial needs of its subsidiaries and other strategic investments. Leverage of the sector increased to ~6% as at End-Dec'22, reflecting an increase in total borrowings of ~27% YoY. These borrowings comprised ~84% long-term borrowings (End-Dec'21: ~91%), which grew by ~23% YoY, and ~6% short-term borrowings (~0.3% as at End-Dec'21), which grew by ~25x YoY.
- Since majority of the country's large business groups have investments in a multiple number of companies operating in different sectors, establishing holding companies is necessary for better management, control, financial discipline and synergies across the group

## Bibliography

- Securities Exchange of Pakistan
- State Bank of Pakistan
- Pakistan Bureau of Statistics
- PACRA Internal Database

<b>Research Team</b>	<b>Saniya Tauseef</b> Senior Manager <a href="mailto:saniya.tauseef@pacra.com">saniya.tauseef@pacra.com</a>	<b>Ayesha Wajih</b> Supervising Senior <a href="mailto:ayesha.wajih@pacra.com">ayesha.wajih@pacra.com</a>
<b>Contact Number: +92 42 35869504</b>		

## DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.