The Pakistan Credit Rating Agency Limited

PACKAGES LIMITED

RATINGS REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

1. RATING ANALYSIS
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

DECEMBER 2017

Profile:

- Packages Limited, a flagship company of Ali group, owned (49%) through various individuals, corporate & trusts, was established in 1957. The company is listed on Pakistan Stock Exchange

Governance & Management

- The ten members BoD comprises one independent, seven non-executive, and two executive directors. During the year Mr. Imran Khalid Niazi replaced Mr. Jari Latvanen as the director.
- The Managing Director, Syed Hyder Ali, has vast experience in the paper and packaging industry, and is working with the company since 1987.

Company

- Packages' core operations comprises of folding cartons, flexible packaging and consumer products – and non-core business – dividends from investment portfolio. Packaging division, dominating sales mix, represents 77% of total sales revenue followed by consumer products (23%).
- The company's market share is (flexible packing: 24%, folding cartons: 31%, consumer products: 60%).

Investments

- Packages maintain a diversified investment book though it is concentrated in terms of its value in few major companies. The dividend stream is concentrated with two major companies (Tetra Pak Pakistan & Nestle). During the year, PL purchased 35% shares held by Stora Enso in Bulleh Shah Packaging (Pvt) Ltd at PKR 833mln making it a wholly-owned subsidiary of PL.
- The company holds a non-voting stake in Tetra Pak Pakistan and enjoys the right to 44% of the company's dividends until 2018. During 9MCY17, PL received PKR 2.6bln dividend income from Tetra Pak (CY16: PKR 4.7bln). Overall income from dividend investments was 4.17bln in 9MCY17 compared to 6.5 in CY16.
- OmyaPack (Pvt.) Limited is a 50|50 Joint Venture with Omya Group – one of the world's leading calcium carbonate producers. The production facility is under construction in Kasur adjacent to Bulleh Shah Packaging unit. PL plans to devise prudent supply chain management of the raw materials between the two group companies. The company made a cumulative investment of PKR 310mln in the equity of its 50|50 Joint Venture– OmyaPack (Private) Limited. The production facility is scheduled to be operational by the end of 2QCY18.

Strategic Overview

- Management views optimization in value chain and distribution system in B2C segment to bring efficiencies and benefit from technical expertise through its Joint Venture operations.
- Furthermore, the successful replacement of a sizeable dividend stream (emanating from Tetra Pak Pakistan) from other profitable and diversified ventures would remain important for the company's performance.

Performance

- Topline witnessed a healthy increase of 5% against 9MFY17 supported by positive contribution of both the divisions. The enhanced utilization levels and operational efficiencies has been offset by price discounts passed onto consumers that has marginally diluted GP margins. (9MCY17: 20.3%, CY16: 21.5%)
- The sizeable dividend income, PKR 4,170mln as at 9MCY17, is supported by significantly high dividend income from Tetra Pak Pakistan. The finance cost plunged clocking at PKR 343mln as at 9MCY17 (9MCY16: 1,177mln) on the back of IFC not exercising its redemption call over the preference shares.

Capital Structure

- Packages has a low leveraged capital structure (7.6%). The leveraging has improved on the back of major repayments of borrowings along with improved equity based derived from operations.
- Packages' long term borrowing stands at PKR 3,888mln at end-Sep17, including convertible preference shares (9MCY17: PKR 932mln)
- The Company has obtained term financing facility of PKR 3 billion from HBL out of which PKR 1.5 billion was prepaid before year-end. This loan provides comfort in meeting redemption obligation of preference shares issued to IFC.

RATING RATIONALE

The ratings reflect established sound in the risk profile of the company. Over the years, Packages has portrayed a strong character managing well the challenges impacting the company. Sponsor's business acumen and their widespread - domestic and international - reach have always benefited the company. Packages has inaugurated Packages Mall – a Real Estate Project as a part of its diversification strategy. Expected dividend income emanating from the real estate business should enable Packages to replace the ending dividend stream from TetraPak - an already divested entity. The new JV – OmyaPack (Pvt.) Ltd - with an international player is progressing as envisaged. It is expected to begin commercial operations in FY18. Meanwhile, its on balance sheet business of tissues, printing and packaging are holding relative position. The ratings draw comfort from stable dividend stream from its sound investment portfolio along with a low leveraged capital structure.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to execute its envisaged strategy of growth and expansion.

Packages Limited

BALANCE SHEET	30-Sep-17	31-Dec-16	30-Dec-15	31-Dec-14
	9-MCY17	Annual	Annual	Annual
Non-Current Assets	**4,576**	**4,234**	**3,864**	**3,864**
Investments (Incl. associates)	**65,635**	**50,211**	**45,153**	**47,442**
Equity	65,507	50,078	44,998	47,304
Debt	-	-	-	-
Investment property	129	133	155	138
Current Assets	**8,120**	**7,704**	**7,918**	**8,548**
Inventory	1,975	1,769	1,780	2,231
Trade Receivables	2,385	2,172	1,781	1,527
Others	3,760	3,763	4,358	4,790
Total Assets	**78,331**	**62,149**	**56,936**	**59,854**
Debt	**5,701**	**5,557**	**5,034**	**5,722**
Short-term	1,813	1,377	884	1,263
Long-term (Inlc. Current Maturity of long-term debt)	3,888	4,180	4,149	4,459
Other shortterm liabilities	2,926	3,070	3,627	3,662
Other Longterm Liabilities	775	737	488	467
Shareholder's Equity	**68,930**	**52,784**	**47,786**	**50,003**
Total Liabilities & Equity	**78,332**	**62,149**	**56,936**	**59,854**
INCOME STATEMENT				
Turnover	**13,370**	**16,839**	**16,028**	**15,087**
Gross Profit	2,718	3,618	3,364	2,215
Net Other Income	4,015	6,470	2,515	2,654
Financial Charges	(343)	(1,308)	(646)	(752)
Net Income	**3,830**	**5,596**	**3,295**	**2,536**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	(147)	1,049	1,692	890
Net Cash changes in Working Capital	(104)	(54)	765	(24)
Net Cash from Operating Activities	1,557	6,941	4,263	2,655
Net Cash from InvestingActivities	(196)	(1,615)	(3,046)	(1,108)
Net Cash from Financing Activities	(1,413)	(5,337)	(1,368)	(13)
Ratio Analysis				
Performance				
Turnover Growth	5.1%	5.1%	6.2%	-46.3%
Gross Margin	20.3%	21.5%	21.0%	14.7%
Net Margin	28.6%	33.2%	20.6%	16.8%
ROE	6.0%	44.3%	26.1%	15.5%
Coverages				
Interest Coverage (FCFO/Gross Interest)	1.3	0.8	2.6	1.2
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.3	0.7	2.3	1.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.8	5.2	5.8	4.3
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interes	32.5	-4.0	1.0	8.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	42.5	61.0	56.7	150.3
Capital Structure (Total Debt/Total Debt+Equity)	7.6%	9.5%	9.5%	10.3%

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

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short Term Ratings

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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 surveill the opinion due to lack of requisite information

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.

Regulatory and Supplementary Disclosure

Name of Issuer — Packages Limited
Sector — Holding Company
Type of Relationship — Solicited

Purpose of the Rating — Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Dec-17	AA	A1+	Stable	Maintain
23-Jun-17	AA	A1+	Stable	Maintain
25-Jun-16	AA	A1+	Stable	Maintain
26-Jun-15	AA	A1+	Stable	Maintain
27-Jun-14	AA	A1+	Stable	Maintain

Related Criteria and Research — Holding Companies study | May17

Rating Methodology — Corporate Rating Methodology (2016)

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Rating Team Statement

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