The Pakistan Credit Rating Agency Limited

Rating Report

Packages Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AA	A1+	Stable	Maintain	-
30-Dec-2017	AA	A1+	Stable	Maintain	-
23-Jun-2017	AA	A1+	Stable	Maintain	-
25-Jun-2016	AA	A1+	Stable	Maintain	-
26-Jun-2015	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflects sound risk profile of Packages Limited. Over the years, company has shown a strong character converting its challenges into opportunities. Sponsor's business acumen and their widespread reach have been beneficial.

The company enjoys a strong market presence in its segments - packaging (flexible and cartons) and consumer products (tissue paper). Company continues to increase its top-line backed by volumetric growth. Overall a decline was witnessed in the margins owing to surge in raw material prices followed by increase in marketing expenses, impacting operating profits of the company's core business. Although competition is heating up for its tissue business, the management is confident to hold current performance pattern.

The company holds a sizeable investment book of 64bln comprising strategic (PKR 18bln) and non-strategic investments (PKR 46bln). These generate a healthy dividend stream and support the companys' bottom line.

Packages has inaugurated Packages Mall – a Real Estate Project as a part of its diversification strategy. It became operational in CY17. The new JV of calcium carbonate– OmyaPack (Pvt.) Ltd - with an international player is progressing as envisaged. It is expected to begin commercial operations in CY18. Meanwhile, Bulleh Shah is expected to overcome its' difficult times based on efforts to achieve operational efficiencies. Potential dividend income from Packages Mall, Bulleh Shah Packaging, and OmayaPack are expected to compensate to a certain extent the ending dividend stream from TetraPak - an already divested entity.

The ratings are dependent upon timely commencement of the growth activities and inflow of stable income. The ratings draw comfort low leveraged capital structure and its ability to maintain margins from it's core operations.

Disclosure	
Name of Rated Entity	Packages Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating Methodology(Jul-17),Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Holding Companies(Jun-17)
Related Research	Sector Study | Holding Company(Jun-17)
Rating Analysts	Muhammad Shahzad Saleem | shahzad@pacra.com | +92-42-35869504

Packages Limited	
Incorporated	1957
Major business lines	▪ Principally engaged in manufacturing and sale of packaging materials and tissues. ▪ Investment and Holding Company
Legal status	Listed

Industry Snapshot

- There are 100 paper and packaging units having a combined capacity of approx. 650,000 tons/day in Pakistan.
- Industry caters to almost 80% of the domestic demand
- Growth of 7.2% is witnessed in 2017 with a marginal contribution of 2.3% to LSM.
- Many companies have grown through diversification and making strategic investments in various companies and sectors, setting trend for organizations in Pakistan to become a holding company

Ownership

- **Structure:** Ali Group holds 50% of the stake in Packages Limited through family members (14%) and its corporates (36%), with IGI Holdings owning the prime share of 28% in Packages Limited. Foreign partners and financial institutions own 8% and 24% stake, respectively, in the company. Remaining 18% shares are held by general public.
- **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. Packages acquired the remaining 35% stake in Bulleh Shah Packaging (Pvt.) Limited (BSPPL), making it a wholly owned subsidiary. Group has diversified into real estate segment by through Packages Construction (Pvt.) Limited. Strong affiliation and technical track record with international JVs is suitable for company's holding structure.
- **Financial Strength:** Packages is a strong business group having an asset base of PKR 113mln supported by PKR 77mln of equity in CY17 and an annual turnover is PKR 31mln.

Governance

- **Board Structure:** Packages BoD comprises one independent, seven non-executive and two executive directors. Apt board size and presence of independent oversight indicates a well framed governance. Board seeks advisory support from the key individual in the development of Ali Group.
- **Member Profile:** The BoD members have diversified experience and relevant expertise. Boards Chairman, Mr. Towfiq H. Chinoy, holds directorships of various other entities and is associated with Packages' board from past 10 years. During CY17, Mr. Khurram Raza Bakhtayari filled the casual vacancy as Mr. Jari Latvanen resigned. Subsequently, Mr. Imran Khalid Niazi was appointed as a member of the BoD.
- **Board Effectiveness:** Board ensures effectiveness through two committees; Audit Committee, and Human Resource and Remuneration Committee. Audit committee comprising 7 members, met four times during the year. Human Resource and Remuneration Committee comprise 6 members. Seven board meetings, with majority attendance, were held to discuss company's performance, approve its financial statements and make strategic decisions.
- **Financial Transparency:** The Audit Committee ensures accuracy of company's accounts and internal controls efficacy. Packages external, M/s A.F. Ferguson & Co., have expressed an unqualified opinion on the financial reports for CY17. The firm have been company's auditors since inception.

Management

- **Organizational Structure:** Packages operates through two main divisions: a) packaging, and b) consumer products. However, Engineering, Finance, IT, Human Resource and Internal Audit departments work as shared services for the main divisions. All the divisional Heads report to the Company's CEO/MD, who reports to the board. However, Head of Internal Audit reports administratively to the CEO/MD and functionally to the Board Audit Committee.
- **Management Profile:** Company's MD/CEO, Mr. Syed Hyder Ali joined Packages in July 1987. He was involved in company's operations and holds directorship in several other companies. He holds the directorship of various companies. Mr. Asghar Abbas joined Packages in 1998 and currently heads Packaging Division. He has been associated with the Group in various capacities over the years. Mr Khurram Raza Bakhtiyari is serving as the CFO of the company. He is an FCA and has been associated with Packages for 13 years.
- **Effectiveness:** Management ensure effectiveness through two committees, Executive Committee, and System and Technology Committee. These committees meet periodically to monitor company's performance. Minutes of these meetings are well documented.
- **Control Environment:** To ensure operational efficiency, company has setup internal audit function that identifies, assess and reports all types of risk arising due to business operations.
- **MIS:** To generate reports, ERP software, SAP ECC6 and Oracle 11g are used. Company's packaging and manufacturing plants, and offices in Lahore Karachi and Islamabad are connected through WAN and radio links.

Business Risk

- **Investments:** In CY17, Packages total dividend income (from strategic and non-strategic investments) amounts to PKR 6.3bln with major inflow from Tetra Pak (PKR 4.5bln) & Nestle (PKR 1.5bln). Since majority of the non-core income is generated from non-strategic investments, thus highlighting the risk for concentration. From company strategic investments, Packages have received an investment income of PKR 301mln. Company has acquired the remaining 35% shares held by Stora Enso in Bulleh Shah Packaging (Pvt) Ltd., making it a wholly owned subsidiary. Equity contribution of PKR 125mln was made in Anemone Holdings Limited, Mauritius for debt financing. Investment in Packages Lanka (Pvt.) Ltd. reaped an investment income of PKR 115mln (CY16: PKR 97mln). Investment income from DIC Pakistan Ltd. (CY17: PKR 57mln, CY16: PKR 118mln) showed a declining trend during the year. Investment income (CY17: PKR 129mln, CY16: 50mln) from Tri-Pack, an associated company, showed an inclining trend. Due to delay in Tetra Pak's dividend inflow, in 1QCY18 non-core income decline to PKR 190mln.

- **Performance:** In CY17 and 1QCY18, Packages topline witnessed growth of 8% and 15% respectively, backed by inclining volume. Both divisions contributed towards overall revenue growth – packaging ~ 6% and consumer products ~ 14%. Packaging division dominated the sales mix (75%) on the back of efficient B2B distribution channel. Company's operating cost surged by 18% YoY and 9% QoQ respectively, due to aggressive market strategy, resulting in a slight decline of gross margins ~ 20.6%. In 1QCY18, gross margins remained stable (21%). Inclining core income led to 11% growth in bottom line (CY17: PKR 6.2bln, CY16: PKR 5.5bln). Timing difference of dividend declaration deteriorated the investment income in 1QCY18 ~ PKR 625mln (1QCY17: 1.7bln).
- **Sustainability:** Packages intends to replace a sizeable dividend stream (emanating from Tetra Pak) from other ventures going forward. Keeping raw material and operational costs under control, company can make Bulleh Shah Packaging (Pvt.) Limited a profitable venture. OmyaPack (Pvt.) Ltd., a JV with Omya Group, will be commercially operational in CY18.

Financial Risk

- **Capital Structure:** Packages reaps benefits from a low leveraged capital structure. Debt to Debt plus equity ratio significantly declined in CY17: 5.6% (CY16: 9.5%) and 1QCY18: 5.3% (1QCY17: 7.7%) due to repayment of borrowings and improved equity base. Long term borrowing declined and clocked in PKR 2.3bln in CY17 (CY16: PKR 3.6bln) and PKR 1.9bln in 1QCY18 (1QCY17: PKR 3.6bln). Moreover, dividend inflows from Tetra Pak and other investments, provides a cushion.
- **Working Capital Management**: Efficient working capital management improved the short term borrowing buffer. Packages maintained stable working capital days in CY17: 56days (CY16: 58 days) and 1QCY18: 58days (1QCY17: 56 days).
- **Coverages:** In CY17, FCFO declined to PKR 617mln owing to increased group tax regime. This has deteriorated company's core coverages to 0.3x (CY16: 0.7x). Sizeable contribution from dividend income and company's operating cash flows maintain a modest debt coverage position of 3.9x.
- In 1QCY18, FCFO inclined to PKR 623mln with a 63% dip in PBT. Due to late dividend inflow, company's operating cash flows led to deteriorating coverage position to 1.7x (CY16: 2.4x). Going forward, coverages are expected to remain stable.

Packages Limited

BALANCE SHEET	31-Mar-18	31-Dec-17	31-Mar-17	31-Dec-16	30-Dec-15
	3M	Annual	3M	Annual	Annual
Non-Current Assets	**5,291**	**5,208**	**4,325**	**4,234**	**3,864**
Investments (Incl. associates)	**64,497**	**60,301**	**50,556**	**50,211**	**45,153**
Equity	64,363	60,166	50,424	50,078	44,998
Debt	-	-	-	-	-
Investment property	134	135	131	133	155
Current Assets	**9,431**	**8,380**	**8,218**	**7,704**	**7,918**
Inventory	2,518	1,955	1,969	1,769	1,780
Trade Receivables	2,810	2,392	2,203	2,172	1,781
Others	4,103	4,033	4,045	3,763	4,358
Total Assets	**79,219**	**73,889**	**63,099**	**62,149**	**56,936**
Debt	**3,920**	**3,901**	**4,575**	**5,557**	**5,034**
Short-term	719	300	398	1,377	884
Long-term (Inlc. Current Maturity of long-term debt)	3,201	3,602	4,177	4,180	4,149
Other shortterm liabilities	3,859	3,295	3,171	3,070	3,627
Other Longterm Liabilities	1,045	1,028	718	737	488
Shareholder's Equity	**70,395**	**65,666**	**54,636**	**52,784**	**47,786**
Total Liabilities & Equity	**79,220**	**73,890**	**63,100**	**62,149**	**56,936**
INCOME STATEMENT					
Turnover	**5,157**	**18,105**	**4,496**	**16,839**	**16,028**
Gross Profit	1,089	3,736	940	3,618	3,364
Net Other Income	203	6,005	1,409	6,470	2,515
Financial Charges	(90)	(445)	(114)	(1,308)	(646)
Net Income	**533**	**6,216**	**1,505**	**5,596**	**3,295**
Cashflow Statement					
Free Cashflow from Operations (FCFO)	623	617	158	1,049	1,692
Net Cash changes in Working Capital	(477)	143	(301)	(54)	765
Net Cash from Operating Activities	193	6,556	1,269	6,941	4,263
Net Cash from InvestingActivities	(258)	(2,542)	(258)	(1,615)	(3,046)
Net Cash from Financing Activities	17	(3,922)	(983)	(5,337)	(1,368)
Ratio Analysis					
Performance					
Turnover Growth	14.7%	7.5%	5.1%	5.1%	6.2%
Gross Margin	21.1%	20.6%	21.5%	21.5%	21.0%
Net Margin	10.3%	34.3%	33.2%	33.2%	20.6%
ROE	0.8%	10.3%	43.1%	43.1%	26.1%
Coverages					
Interest Coverage (FCFO/Gross Interest)	7.0	1.4	1.4	0.8	2.6
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.5	0.3	0.2	0.7	2.3
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.7	3.9	2.4	5.2	5.8
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interes	1.5	21.0	96.7	-4.0	1.0
Liquidity					
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	57.5	56.2	57.6	57.6	56.7
Capital Structure (Total Debt/Total Debt+Equity)	5.3%	5.6%	9.5%	9.5%	9.5%

Rating Scale

Credit Rating Scale & Definitions

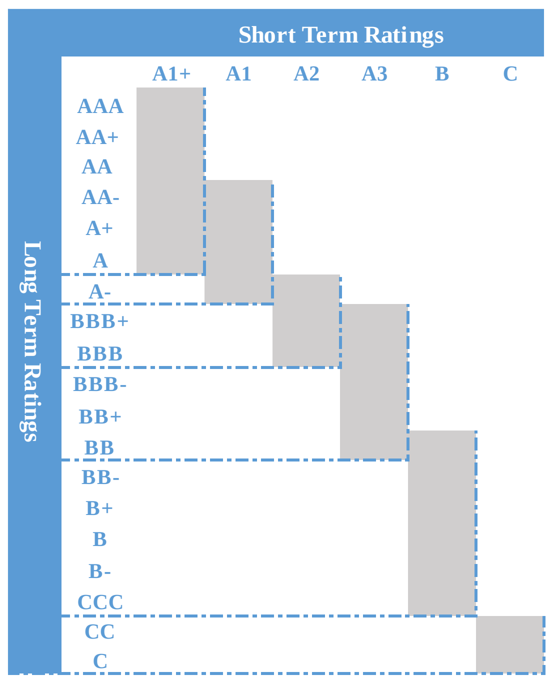
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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

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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
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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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