



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
16-Jun-2022	AA	A1+	Stable	Maintain	-
16-Jun-2021	AA	A1+	Stable	Maintain	-
17-Jun-2020	AA	A1+	Stable	Maintain	-
17-Dec-2019	AA	A1+	Stable	Maintain	-
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	-
25-Jun-2016	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect Packages Ltd.'s ('Packages' or 'the Company') holding company character and robust profile built over the years as the flagship Company of Ali Group. The sponsor's business acumen and strong connections have remained beneficial. Post internal restructuring, the manufacturing business has been transferred to Packages Convertors Ltd., a wholly owned subsidiary, thus enabling Packages to act purely as a holding company. Packages holds a sizable investment book ~ PKR 48bln (as at Mar-22), comprising core, strategic and non-strategic investments. Packages Convertors has prominent market presence in its operational segments - Packaging (Flexible Packaging & Folding Cartons) and Consumer Products (Tissue). Dividend from Bulleh Shah Packaging is improving over time. Packages Mall, a real estate venture, is operating as envisioned. OmyaPack (Pvt.) Ltd, a JV with an international player for calcium carbonate, is still evolving. Packages Limited now has a total shareholding of 69.26% in Tri-Pack Films Ltd after acquiring 19.33% stake from Mitsubishi Corporation on February 15, 2022. StarchPack (Pvt.) Ltd, a newly formed wholly owned subsidiary with the primary business to manufacture and distribute corn-based starch, is in the initial gestation phase.

Topline of the Company has improved supported by dividend income emanating from Bulleh Shah Packaging. Moreover, profits remain sizable after transferring liabilities to Packages Convertors. This is expected to remain stable as the envisaged dividend flow from core investments is being realized. In the current inflationary pressure and high interest rates environment, Packages and its investments (that operate in the FMCG sector) are expected to be marginally impacted. However, the management is confident to hold its market share along with improved performance, going forward. On the financial profile side, low leveraging and strong coverages provide comfort to the Company's ratings. Strong business acumen of Sponsors adds further cushion.

The ratings are dependent upon building sustainable dividend stream from maturing investments. Maintaining low leveraged capital structure and strong coverages remain critical.

Disclosure

Name of Rated Entity	Packages Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Holding Company Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Holding Company(Aug-21)
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Profile

Background Packages Limited ('Packages' or 'the Company') 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 for the consumer industry. Over the years, Packages has continued to enhance its facilities to meet the growing demand for packaging & allied products. It used to be classified as an operational holding company. However, during Jun-20, the Company transferred the manufacturing business into a 100% owned subsidiary; Packages Convertors Limited, as a result of internal restructuring.

Structural Analysis Packages is the flagship investment holding company of Ali Group. The Group owns IGI Holdings Ltd., Babar Ali Foundation, Gurmani Foundation, and Mohsin Trust. Packages investment book comprises entities engaged in the manufacturing and sale of inks, flexible packaging material, paper, paperboard, and corrugated boxes, biaxially oriented polypropylene film and cast polypropylene film, production and sale of ground calcium carbonate products, entities engaged in insurance, power generation, real estate segment of the economy and recently diversifying into manufacturing of corn-based starch. As of Mar-22, the Company's total investment book (including core, strategic and non-strategic investments) stands at PKR 48bln. Out of this, core investments are ~ PKR 17.8bln, strategic investments are ~ PKR 4bln, and non-strategic investment are ~ PKR 26.5bln.

Ownership

Ownership Structure Ali Group holds ~ 47% stake in Packages through directors and family members (~ 3%) and other group entities (~ 44%), with IGI Holdings owning the prime share of ~ 30%. Financial institutions and Modarabas own ~ 18% stake. ~ 30% shares of the Company 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 has a consolidated asset base of ~ PKR 48bln supported by ~ PKR 66bln of equity and generated a turnover of ~PKR 26bln during 3MCY22.

Governance

Board Structure The BoD comprises three independent, five non-executive, and two executive directors. Apt Board size and significant presence of independent oversight supplement a strong governance framework. The BoD seeks advisory support from the key individual in the development of Ali Group.

Members' Profile The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. Mr. Towfiq Habib Chinoy, is a chairman of the Board and holds directorships of various entities. He is associated with the Company's Board for the past 18 years. Syed Aslam Mehdi a Executive Director, has a Masters degree in Business Administration from Institute of Business Administration, Karachi and has been associated with different companies of the Packages Group in various capacities over the years.

Board Effectiveness The Board ensures effectiveness through two committees: Audit Committee and Human Resource & Remuneration Committee, having 5 and 6 members, respectively. Meetings were well attended with discussions focusing on the Company's performance and strategic direction

Transparency Packages external auditors, M/s A.F. Ferguson & Co., have been the Company's auditors since inception and expressed an unqualified opinion on the financial reports of CY21.

Management

Organizational Structure Packages functions as an investment holding company. It has instituted a simple organizational structure that is divided across basic functional divisions. The subsidiaries' structure has been given independent operational roles.

Management Team The Company's CEO/MD, Mr. Syed Hyder Ali oversees the Company's operations and holds directorship in several other companies. Mr. Khurram Raza Bakhtiyari is serving as CFO of the Company.

Management Effectiveness The Company's management ensures effectiveness through its two committees: Executive Committee, and System and Technology Committee. These committees meet periodically to monitor the Company's performance. Minutes of these meetings are well documented. To generate MIS and operational reports, ERP software, SAP ECC6 is used.

Control Environment To ensure operational efficiency, the Internal Audit Function is placed at the Group level that identifies and reports risks.

Investment Strategy

Investment Decision-Making Packages is an investment vehicle of Ali Group. For investment decision making, the Company has an investment team placed at the Group level and is headed by Mr. Sajjad Iftikhar as the Group's Chief Head of Investments. He is an FCA and associated with the Group since 2006. His team comprises 3 Chartered Accountants and a CFA charter holder.

Investment Policy Packages has a prudent investment policy as the Company focuses on building partnerships with well-established companies in the packaging sector, through local and foreign investments. Foreign investments include Anemone Holding Limited, Packages Lanka Limited, and Omya Pak Limited.

Investment Committee Effectiveness The Group investment team liaisons with the rest of the Group companies, and receives updates on their performance. The team then presents its findings to the BoD on a quarterly basis.

Business Risk

Diversification The size of the portfolio is inclined towards packaging, paper, and related companies (~ 41%). Whereas, ~49% of the investments are forwardly integrated, which includes Nestle Pakistan. ~ 2% of the Company's investment book comprises stake in insurance sectors through its associate IGI Holdings Limited.

Portfolio Assessment The Company majorly has three kinds of investments on its balance sheet: Core, Strategic and Non-strategic investments. Core investments include IGI Holdings (Listed), Bulleh Shah Packaging, Packages Real Estate, DIC Pakistan, Packages Convertors, and Packages Investments. Strategic Investments include Packages Lanka, Packages Power, OmyaPack, StrachPack, and Anemone Holdings. While, the Non-strategic Investments include listed Nestle Pakistan (Listed), Tri-Pack Films (Listed), and Coca-Cola Beverages. As of Mar-22, the core investments are ~ 37% of the total investment book; while strategic and non-strategic investments are ~ 55% and ~ 8% of the total investment book, respectively.

Income Assessment The Company received PKR 4.2bln in the form of dividend income from its investments during CY21 (CY20: PKR 1.9bln). Out of this, PKR 1.6bln was received from Bulleh Shah Packaging, with 43% increase from the previous year, followed by Nestle Pakistan, which shared PKR 934mln, posting a rise of 46% (CY20: PKR 639 mln). Dividend income during 1QCY22 stood at PKR 876mln (1QCY21: PKR 782mln), mainly comprising PKR 100mln from Bulleh Shah Packaging and PKR 400mln from Packages Convertors.

Financial Risk

Coverages Interest coverage increased to 21.3x in CY21 (CY20: 3.6x). owing to an increase in total operating cash flow (TCF) supported by an increase in realized dividend income. Moreover, finance cost (CY21: PKR 243mln, CY20: PKR 782mln) posted a dip as a result of internal restructuring. The coverage declined significantly to 2.9x (1QCY21: 29x) in 1QCY22, as TCF rose to PKR 1,084mln, (1QCY20: PKR 865mln) owing to higher realized dividend income received from investments. Finance cost (1QCY22: PKR 153mln, 1QCY21: PKR 38mln) increased significantly due to high interest rates.

Capital Structure Packages reaps benefit from low leveraged ratio. Leverage ratio increased but remained low (CY21: 6.2%, CY20: 4%). In CY21 short term and long term borrowing stood at 21mln and 2.4mln resulting, short term borrowings decreased from PKR 453mln along with long term borrowings to PKR 2mln. These represent investments in Term Deposit Receipts with a maturity of one to six months carrying a markup rate of 6.64% to 9.59% per annum. During 1QCY22, long-term loans stood at 3,683mln (1QCY22: nil post demerger).

Consolidated Position On a consolidated level, the Company has a modest coverage ratio of 1.5x which remained stable in CY21 and 1QCY22.



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Financial Summary

PKR mln

Packages Limited Holding Company	Mar-22 3M Management	Dec-21 12M Audited	Dec-20 12M Audited	Dec-19 12M Audited
A BALANCE SHEET				
1 Investments	28,158	27,345	28,482	32,599
2 Related Party Investments	21,719	21,643	19,419	15,853
3 Non-Current Assets	224	189	430	7,414
4 Current Assets	5,394	3,962	4,838	10,960
5 Total Assets	55,494	53,140	53,168	66,827
6 Current Liabilities	1,855	1,714	1,739	3,877
7 Borrowings	4,289	3,119	1,994	9,373
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	765	755	350	1,261
10 Net Assets	48,586	47,552	49,085	52,316
11 Shareholders' Equity	48,586	47,552	49,085	52,316
B INCOME STATEMENT				
1 Total Investment Income	987	4,619	2,188	1,345
a Cost of Investments	(153)	(243)	(782)	(1,056)
2 Net Investment Income	834	4,376	1,406	290
a Other Income	41	853	224	(18)
b Operating Expenses	(162)	(591)	(1,684)	(2,478)
4 Profit or (Loss) before Interest and Tax	714	4,638	2,836	2,166
a Taxation	(31)	(542)	(16)	(819)
6 Net Income Or (Loss)	683	4,096	2,820	1,346
C CASH FLOW STATEMENT				
a Total Cash Flow	419	5,096	2,718	4,375
b Net Cash from Operating Activities before Working Capital Changes	371	4,865	1,805	3,412
c Changes in Working Capital	(54)	124	(112)	(1,331)
1 Net Cash (Used in) or Available From Investing Activities	317	4,989	1,693	2,081
2 Net increase (decrease) in long term borrowings	(1,103)	(3,832)	(1,100)	(2,519)
3 Net Cash (Used in) or Available From Financing Activities	1,199	(483)	1,612	611
4 Net Cash generated or (Used) during the period	413	674	2,205	173
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value c	47.5%	47.5%	50.0%	59.7%
b Core Investments / Market Value of Equity Investments	47.2%	47.2%	43.7%	34.0%
c Marketable Investments / Total Investments at Market Value	55.8%	53.4%	53.7%	64.3%
2 Coverages				
a TCF / Finance Cost	2.9	22.2	3.6	4.2
b TCF / Finance Cost + CMLTB	2.9	21.3	3.6	3.5
c Loan to Value (Funding / Market Value of Equity Investments)	0.1	0.1	0.0	0.2
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	8.1%	6.2%	3.9%	15.2%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	10.3%	8.1%	5.6%	19.9%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 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 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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 | Clause 11-(A)(p).

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(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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