



The Pakistan Credit Rating Agency Limited

Rating Report

Packages Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Jun-2023	AA+	A1+	Stable	Upgrade	-
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	-

Rating Rationale and Key Rating Drivers

Packages Ltd. ('Packages' or 'the Company'), a flagship holding company of Ali Group, has built a healthy profile over years. The Company was initially strategized as an operational holding company. However, in 2020, through a strategy revamp, the Company was structured as a pure holding company. All the operational segments were placed on the balance sheet of a wholly owned subsidiary, Packages Convertors. Today, Packages holds a sizable investment book of ~ PKR 51bln (as of Dec-22), comprising core and strategic investments of quoted and unquoted entities. Packages Convertors holds a prominent market presence in flexible packaging, folding cartons, and consumer products (tissues). The subsidiary is expected to post a growth trajectory and remain a cash generating investment. Moreover, Bulleh Shah Packaging, an emerging investment previously, now shares substantial dividends. The real estate venture, Packages Mall, and the international JV, OmyaPack, have also emerged. However, the newly formed subsidiary, StarchPack, is in its initial gestation phase. In CY22, the Company took many strategic initiatives. Firstly, the Company acquired ~19.3% stake in Tripack Films from Mitsubishi Corporation, increasing the entire holding to ~69.3%. Secondly, Packages invested in Systems Ltd. and Sanofi-Aventis Pakistan Ltd. However, lately, the Company has acquired a significant stake in Sanofi-Aventis through a consortium led by Packages. Thirdly, a new subsidiary, named Packages Trading FZCO, was incorporated in Dubai Economic Zone.

The Company's topline remains healthy, supported by an overall growth of ~16% in dividend income and rental income. Bulleh Shah Packaging, Packaging Convertors, and Nestle continued to share a major chunk of dividend income. While rental income emanates mainly from Packages Convertors. Subsequently, the Company's profits remain sizable and are expected to remain stable as the envisaged dividends from core and strategic investments are being realized. In the current inflationary pressure and high interest rate environment, Packages and its investments are expected to be marginally impacted. However, the management is confident to hold its market presence along with improved performance, going forward. The financial profile is characterized by low leveraging and a strong consolidated position, providing comfort to the Company's ratings. Strong executional track and business acumen of Sponsors further adds a shield.

The ratings are dependent upon building a consistent and augmenting dividend stream from maturing and emerging investments, respectively. Moreover, management's ability to execute its envisaged strategy of growth and expansion amidst the prevailing economic challenges remains imperative for the ratings.

Disclosure

Name of Rated Entity	Packages Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Aug-22)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Background Packages Limited ('Packages' or 'the Company') was established in 1957 as a JV between the Ali Group of Pakistan and Akerlund & Rausing of Sweden, to convert paper and paperboard into consumer packaging. 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. During CY20, the Company transferred its 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. The Company operates as a pure holding company and its investment book comprises entities engaged in the manufacturing and sale of inks, flexible packaging material, paper, paperboard, and corrugated boxes, biaxially oriented polypropylene film production and sale of ground calcium carbonate products, entities engaged in insurance, power generation, real estate segment and recently, has diversifying into manufacturing of corn-based starch. As of Dec-22, the Company's total investment book stands at ~PKR 51bln. Out of this, core investments are of ~PKR 18bln; while strategic investments are of ~PKR 32bln.

Ownership

Ownership Structure Ali Group holds ~46.6% stake in Packages through Directors and individuals of the sponsoring family (~3.6%) and various associate entities (~42.8%), with IGI Investments owning the prime share (~29.8%). Modarabas and Mutual Funds own ~6.6% stake; whereas ~23% shares are held by the 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 presence through JVs and otherwise remains suitable for the Company's holding structure.

Financial Strength Packages has a consolidated asset base of ~ PKR 172bln supported by ~ PKR 66bln equity. The Company generated a topline of ~PKR 121bln with a bottomline of PKR 6.9bln, during CY22.

Governance

Board Structure The BoD comprises three Independent, five Non-Executive, and two Executive Directors. Apt Board size and significant independence on the Board supplements 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 guidance for the management. Mr. Tawfiq Habib Chinoy, the Chairman, has been associated with the BoD for the past 18 years and is director of many other Group companies. Mr. Syed Aslam Mehdi, an Executive Director, has been associated with the Company's BoD for past 16 years.

Board Effectiveness The BoD ensures effectiveness through the Audit and Human Resource & Remuneration Committees. 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 expressed an unqualified opinion on the financial reports as of Dec-22. The firm is QCR rated and in SBP's panel of auditors in the "A" category.

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 CEO/MD, Mr. Syed Hyder Ali oversees the Company's operations and holds directorship in several other companies since Aug-94. Mr. Khurram Raza Bakhtayari, the CFO, joined Packages in 2005 and has vast experience in financial planning and budgeting, forecasting and analysis. He is also the CEO of Packages Real Estate.

Management Effectiveness The Company's management ensures effectiveness through Executive and System & Technology Committees. 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, an investment team is placed at the Group level headed by Mr. Sajjad Iftikhar as the Group's Head of Investments. He is associated with the Group since 2006. His team comprises 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 Ltd., Packages Lanka Ltd., Omya Pak Ltd., and, lately, has formed Packages Trading FZCO in Dubai Economic Zone.

Investment Committee Effectiveness The Group's 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's investment book comprises core and strategic investments. Core investments include unquoted entities, named Bulleh Shah Packaging, Packages Convertors, Packages Power, Packages Investments, StarchPack and Anemone Holdings. However, the strategic investments include both, unquoted and quoted entities. Unquoted include Packages Lanka, Packages Real Estate, DIC Pakistan, OmyaPack and Coca Cola; while the quoted include IGI Holdings, Tripack Films, Nestle, Systems Ltd. and Sanofi-Aventis. In CY22, the core investments are ~ 36% of the total investment book; while strategic investments are 63% of the total investment book. Packages Trading FZCO is yet to appear on the Company's balance sheet.

Income Assessment The Company's topline, comprising dividend and rental income, posted an overall growth of ~16%, during CY22. Out of this, dividend income grew by 16% (CY22: ~PKR 4.8bln, CY21: ~PKR 4.1bln). Major contribution was received from Bulleh Shah Packaging (PKR 1.5bln), Packages Convertor (PKR 1.4bln) and Nestle (PKR 1.2bln). While, the rental income grew by 15% (CY22: PKR 487mln, CY21: PKR 423mln). Packages Convertors shared the major chunk (PKR 308mln), followed by Bulleh Shah Packaging (PKR 79mln). Sustainability of topline, primarily the dividend income, growth remains pertinent for the Company, going forward.

Financial Risk

Coverages Interest cover is a function of its free cash flows and finance cost. Free cash flows remain significant, however posted a dip (CY22: PKR 4.7bln, PKR 5.2bln) due to reduced profits. Moreover, finance costs increased (CY22: PKR 704mln, CY21: PKR 230mln) due to interest rates hike. Consequently, the interest cover reduced (CY22: 6.6x, CY21: 22.7x). This may streamline, going forward, provided substantial uptick in dividend stream overcomes high finance cost impact.

Capital Structure The Company's capital structure remains strong as the leverage ratio, despite a slight deterioration, remains low (CY22: ~9.5%, CY21: ~6.2%). The Company holds limited debt exposure (CY22: PKR 5.2bln, CY21: PKR 3.1bln) - long term debts only (CY22: PKR 4.1bln, CY21: PKR 2.5bln). This was availed mainly to fund equity investments in the subsidiaries. However, the equity base is significantly strong supported by investment revaluation and reserves. Capital structure is expected to remain strong, going forward.

Consolidated Position The Company holds a strong consolidated financial position and performance. In CY22, the consolidated assets stood at PKR 172bln (CY21: PKR 117bln) with an equity of PKR 66bln (CY21: 59bln). While, during CY22, the Company generated a consolidated revenue of PKR 121bln (CY21: PKR 80bln) and a consolidated profit of PKR 6.9bln (CY21: PKR 7.1bln). The consolidated financial position and performance are expected to remain strong, going forward.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

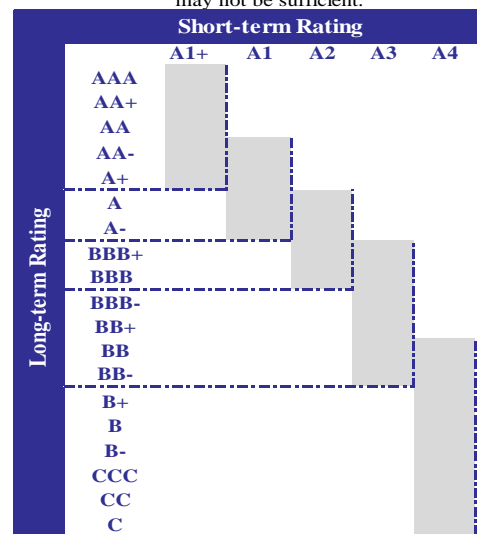
Packages Limited Holding Company	Mar-23	Dec-22	Mar-22	Dec-21	Dec-20
	3M	12M	3M	12M	12M
	Management	Audited	Management	Audited	Audited
A BALANCE SHEET					
1 Investments	21,624	22,908	23,014	22,362	25,754
2 Related Party Investments	28,964	30,176	27,583	26,626	22,146
3 Non-Current Assets	334	345	224	189	430
4 Current Assets	3,112	2,789	4,673	3,962	4,838
5 Total Assets	54,035	56,218	55,495	53,140	53,168
6 Current Liabilities	925	842	1,855	1,714	1,739
7 Borrowings	5,189	5,189	4,289	3,119	1,994
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	889	845	765	755	350
10 Net Assets	47,031	49,342	48,586	47,552	49,085
11 Shareholders' Equity	47,032	49,342	48,586	47,552	49,085
B INCOME STATEMENT					
1 Total Investment Income	1,217	5,350	987	4,619	2,188
a Cost of Investments	(198)	(727)	(153)	(243)	(782)
2 Net Investment Income	1,019	4,622	834	4,376	1,406
a Other Income	52	909	41	853	224
b Operating Expenses	(195)	(1,418)	(162)	(591)	(1,684)
4 Profit or (Loss) before Interest and Tax	876	4,113	714	4,638	2,836
a Taxation	(75)	(309)	(31)	(542)	(16)
6 Net Income Or (Loss)	801	3,804	683	4,096	2,820
C CASH FLOW STATEMENT					
a Total Cash Flow	340	4,668	419	5,227	2,718
b Net Cash from Operating Activities before Working Capital Changes	187	4,093	371	4,996	1,805
c Changes in Working Capital	(194)	79	(54)	4	(112)
1 Net Cash Provided by Operating Activities	(7)	4,172	317	4,999	1,693
2 Net Cash (Used in) or Available From Investing Activities	9	(4,024)	(1,103)	(3,608)	(1,100)
3 Net Cash (Used in) or Available From Financing	3	(421)	1,199	(483)	1,612
Activities 4 Net Cash generated or (Used) during the period	5	(273)	413	908	2,205
D RATIO ANALYSIS					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	40.0%	40.0%	47.0%	47.4%	50.0%
b Core Investments / Market Value of Equity Investments	50.1%	50.1%	46.7%	47.1%	43.7%
c Marketable Investments / Total Investments at Market Value	41.5%	44.7%	44.0%	43.1%	48.3%
2 Coverages					
a TCF / Finance Cost	1.8	6.6	2.9	22.7	3.6
b TCF / Finance Cost + CMLTB	1.0	3.8	2.9	21.9	3.6
c Loan to Value (Funding / Market Value of Equity Investments)	0.1	0.1	0.1	0.1	0.0
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	9.9%	9.5%	8.1%	6.2%	3.9%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	11.3%	10.8%	10.3%	8.1%	5.6%

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+	
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-	
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies 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

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(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).

(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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