



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
14-Jun-2024	AA+	A1+	Stable	Maintain	-
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	-

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 the years. Packages Ltd holds a sizable investment book of ~ PKR 59.31bln (as of Mar-24), comprising core and strategic investments of quoted and unquoted entities. Packages Convertors Ltd holds a prominent market presence in flexible packaging, folding cartons, and consumer products (tissues). The subsidiary is anticipated to follow a growth trajectory and continue as a cash-generating investment. Additionally, Bulleh Shah Packaging is now yielding substantial dividends. The real estate venture, Packages Mall, and the international joint venture, OmyaPack, have also demonstrated significant advancement. In CY23, the Company took many strategic initiatives. The Company has acquired a significant stake in Hoechst Pakistan Ltd making its holdings to 41.07% from 6.07%. The company made an investment as equity in Packages Trading FZCO UAE with an aim to increase exports of finished goods to reduce import bills at group level. Packages Limited recognized an impairment loss on its investments in Anemone Holdings Limited.

The Company's topline remains healthy, supported by an overall growth of ~19.5% in dividend income and rental income. Bulleh Shah Packaging, and Packages Convertors Ltd, continued to share a major chunk of the company's dividend income, while rental income emanates mainly from Packages Convertors Ltd and Bulleh Shah Packaging. 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. The management is confident to hold its market presence along with improved performance. The financial profile is characterized by low leveraging and a strong consolidated position, providing comfort to the Company's ratings. The strong execution track and business acumen of Sponsors further add 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(Jul-23),Methodology Holding Company Rating(Jul-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Holding Company(Aug-23)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



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 2020, 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. Its investment book comprises of 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 and manufacturing of corn-based starch products. As of Mar'24, the company's total investment book stood at PKR 59.3bln. Out of this, core investments are ~ PKR 31.6bln and strategic investments are ~ PKR 27.7bln.

Ownership

Ownership Structure Ali Group holds ~ 49.9% stake in Packages through Directors and individuals of the sponsoring family (~ 5.8%) and various associated entities (~ 44.2%), with IGI Holdings owning the prime share of ~ 29.8%. Financial institutions and Modarabas own ~ 5.9% stake. While~ 24.8% of shares of the Company are held by the general public.

Stability Ownership of the Company draws stability from a 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 239.4bln supported by ~ PKR 94.2bln of equity at the end of Mar'24.

Governance

Board Structure The BoD comprises three Independent, five Non-Executive, and Two Executive Directors. Apt Board size and significant presence of independent oversight supplements 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, Chairman of the Board, holds directorships of various entities. He is associated with the Company's Board for the past 19 years. Syed Aslam Mehdi, an Executive Director, has a Master's 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 expressed an unqualified opinion on the financial reports of CY23. 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 Company's CEO/MD, Mr. Syed Hyder Ali oversees the Company's operations and holds directorship in several other companies. Mr. Khurram Raza Bakhtayari is serving as CFO of the Company

Management Effectiveness The Company's management ensures effectiveness through its two committees: Executive Committee, and IT and Digitalization Committee having 3 and 4 members, respectively. 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 decisions, the Company has a dedicated investment team placed at the Group level and is headed by Mr. Waqas Munir as the Group's Chief Investment Officer. He is associated with the Group since 2014 and his team comprises of 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 Pvt Limited, and Omya Pack Pvt Limited and Packages Trading FZCO.

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 (~ 53%). Whereas, ~47% of the investments are forwardly integrated, which includes Nestle Pakistan.

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, Packages Trading FZCO, Hoechst Pakistan Limited and Anemone Holdings. While, the Non-strategic Investments include listed Nestle Pakistan (Listed), Tri-Pack Films (Listed), System Limited and Coca-Cola Beverages. As of Mar'24, the core investments are ~ 30% of the total investment book; while strategic and non-strategic investments are ~14% and ~ 56% of the total investment book, respectively

Income Assessment The Company received PKR 1.3bln in the form of dividend income from its investments during 3MCY24 (3MCY23: PKR 1.0bln). Out of these PKR 650mln were received from Packages Convertors Limited followed by DIC Pakistan Limited PKR 351.9mln.

Financial Risk

Coverages Interest coverage decreased to 3.2x in 3MCY24 (3MCY23: 5.4x). Moreover, finance cost (3MCY24: PKR 398.8mln, 3MCY23: PKR 197.9mln) posted a hike due to increase in interest rate and long term loan obtained in Q2'23 to finance the acquisition of Hoechst Pakistan Limited

Capital Structure In 3MCY24 borrowing stood at ~ PKR 7bln as the Company obtained the loan of PKR 3.2bln to finance the acquisition of Hoechst Pakistan Limited. However the equity base is significantly strong supported by investment revaluation and reserves. Capital structure is expected to remain strong.

Consolidated Position On a consolidated level, the Company reports total assets of PKR 239.4bln at the end of Mar'24.



Packages Limited Holding Company	Mar-24	Dec-23	Dec-22	Dec-21
	3M	12M	12M	12M
	Management	Audited	Audited	Audited
A BALANCE SHEET				
1 Investments	31,390	31,759	22,908	22,362
2 Related Party Investments	31,456	32,357	30,176	26,626
3 Non-Current Assets	440	390	345	189
4 Current Assets	3,563	3,872	2,789	3,962
5 Total Assets	66,849	68,379	56,218	53,140
6 Current Liabilities	1,395	1,226	842	1,714
7 Borrowings	7,701	8,048	5,189	3,119
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,117	1,057	845	755
10 Net Assets	56,636	58,047	49,342	47,552
11 Shareholders' Equity	56,636	58,047	49,342	47,552
B INCOME STATEMENT				
1 Total Investment Income	1,503	6,534	5,350	4,619
a Cost of Investments	(463)	(1,502)	(727)	(243)
2 Net Investment Income	1,040	5,032	4,622	4,376
a Other Income	56	74	909	853
b Operating Expenses	(265)	(2,082)	(1,418)	(591)
4 Profit or (Loss) before Interest and Tax	831	3,024	4,113	4,638
a Taxation	(105)	(310)	(309)	(542)
6 Net Income Or (Loss)	726	2,714	3,804	4,096
C CASH FLOW STATEMENT				
a Total Cash Flow	1,730	4,560	4,668	5,227
b Net Cash from Operating Activities before Working Capital Changes	1,486	3,330	4,093	4,995
c Changes in Working Capital	58	598	79	4
1 Net Cash (Used in) or Available From Investing Activities	1,544	3,928	4,172	4,999
2 Net increase (decrease) in long term borrowings	(255)	(4,077)	(4,024)	(3,608)
3 Net Cash (Used in) or Available From Financing Activities	(344)	356	(421)	(483)
4 Net Cash generated or (Used) during the period	945	207	(273)	908
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	40.0%	40.0%	40.0%	47.4%
b Core Investments / Market Value of Equity Investments	50.1%	50.1%	50.1%	47.1%
c Marketable Investments / Total Investments at Market Value	61.5%	63.2%	44.7%	43.1%
2 Coverages				
a TCF / Finance Cost	3.8	3.0	6.6	22.7
b TCF / Finance Cost + CMLTB	2.6	2.1	3.8	21.9
c Loan to Value (Funding / Market Value of Equity Investments)	0.2	0.2	0.1	0.1
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	12.0%	12.2%	9.5%	6.2%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	13.6%	13.9%	10.8%	8.1%

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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- (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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
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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)
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- (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)

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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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