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
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 reflects sound risk profile of Packages Limited. Over the years, the 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 Folding Cartons) and Consumer Products (Tissue). The 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 and flexible packaging businesses, the management is confident to hold current performance pattern.

The Company holds a sizeable investment book of PKR 53bln comprising strategic (PKR 18bln) and non-strategic investments (PKR 35bln). Packages Mall, a diversified venture of the Group, is progressing as envisaged. The new JV of calcium carbonate - OmyaPack (Pvt.) Ltd, with an international player, became commercially operational in Oct-18. Bulleh Shah has been able to achieve operational efficiency and is expected to overcome its' difficult times. The management is eyeing on compensating the ending dividend stream from TetraPak through potential dividend income from local and international investments.

The ratings are dependent upon achieving operational efficiency in growth activities and inflow of stable investment 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 Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Holding Company(Aug-18)
Rating Analysts	Adnan Dilawar | adnan@pacra.com | +92-42-35869504

Profile

Legal Structure Packages Limited is incorporated as a Public Limited Company.

Background 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 consumer industry. Over the years, Packages has enhanced its facilities to meet the growing demand. Packages is listed on the Pakistan Stock Exchange (PSX) since 1965.

Operations Packages Limited is an operational and investment holding company. On the operational side, the Company is principally engaged in manufacturing and sale of Packaging Materials and Consumer Products. The Company has two business units in Packaging Division: Folding Cartons and Flexible Packaging. These provide packaging solutions to numerous sectors. In the Consumer Product Division, the Company provides a complete range of Personal Hygiene Products - tissues. Key brands include: Rose Petal, Tulip, Maxob, Double Horse and Zzoop. On the investment side, Packages Limited is the flagship Company of the Group. The Company has made strategic investments of PKR 53bln (as at Sept-18) in entities engaged in 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 and entities engaged in real estate, insurance and power generation.

Ownership

Ownership Structure Ali Group holds 55% of the stake in Packages Limited through family members (16%) and its corporates (39%), with IGI Holdings owning the prime share of 30%. Foreign partners and financial institutions own 8% and 21% stake, respectively, in the Company. Remaining 17% 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 Limited is a strong business Group having an asset base of PKR 110bln supported by PKR 68bln of equity in 9MCY18 and generates a turnover of PKR 40bln.

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. The Board seeks advisory support from the key individual in the development of Ali Group.

Members' Profile The BoD members have diversified experience and relevant expertise. The Board's Chairman, Mr. Towfiq H. Chinoy, holds directorships of various other entities and is associated with the Company's Board from 10 years.

Board Effectiveness The Board ensures effectiveness through two its committees; Audit Committee, and Human Resource and Remuneration Committee. Audit committee comprises 7 members and Human Resource and Remuneration Committee comprises 6 members. 3 Board meetings, with majority attendance, were held to discuss the Company's performance and make strategic decisions during 9MCY18.

Financial Transparency The Board's Audit Committee ensures accuracy of company's accounts and internal controls efficacy. Packages' external auditors, M/s A.F. Ferguson & Co., have been the Company's auditor's since inception and expressed an unqualified opinion on the financial reports of CY17.

Management

Organizational Structure Packages Limited 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 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 Team The Company's MD/CEO, Mr. Syed Hyder Ali is involved in the Company's operations and holds directorship in several other companies. Mr. Asghar Abbas heads the Packaging Division and has been associated with the Group in various capacities over the years. Mr Khurram Raza Bakhtiyari is serving as CFO of the Company.

Effectiveness The Company's management ensure effectiveness through two its 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.

MIS To generate reports, ERP software, SAP ECC6 and Oracle 11g are used. The Company's packaging and manufacturing plants, and offices in Lahore Karachi and Islamabad are connected through WAN and radio links.

Control Environment To ensure operational efficiency, the Company has setup Internal Audit Function that identifies, assess and reports all types of risk arising due to business operations.

Business Risk

Industry Dynamics Pakistan's paper and packaging industry that started in 1956, fulfills more than 80% of the domestic demand. Today, there are about 100 paper and packaging units having a combined capacity of approximately 650,000 tons/day. The industry has posted a growth of 8% in 2018 with a marginal contribution of 0.2% to LSM. Having a derived demand, growth in FMCG sector have positively impacted country's paper and paperboard industry.

Relative Position Packages holds a significant share in the Packaging side. In the Folding Carton market, the Company holds 12% and 60% of share in general and tobacco packaging. The Company holds 24% of the Flexible Packaging market. In the Consumer Product (Tissue) market, Packages' own 63% share of the market.

Revenues Packages total dividend income declined by 35%, from strategic and non-strategic investments (9MCY18: 2.7bln, 9MCY17: 4.2bln). Major dip in the non-core income was registered by the Company's non-strategic investments (9MCY18: PKR 2.2bln, CY17: PKR 5.9bln), due to the difference of timing in dividend declaration. However, from strategic investments, Packages received an dividend income of PKR 511mln, in 9MCY18. From core operations, Packages generates revenue from Packaging Division (78%) and Consumer Product Division (22%). In 9MCY18, the Company's topline witnessed growth of 18% (YoY), backed by an increase in volumes. Improvement in the product mix of both divisions contributed to the overall revenue growth – Packaging ~ 21% and Consumer Products ~ 10%.

Margins As the Company imports raw material (pulp), thus rupee devaluation led to an increase in pulp prices. This deteriorated the Company's gross margins (9MCY18: 19%, 9MCY17: 20%). The Company operating cost surged by 10% YoY, resulting in a slight decline in the Company's operating margins (9MCY18: 7.3%, 9MCY17: 8%).

Sustainability Going forward, the successful replacement of a sizeable dividend stream (emanating from Tetra Pak Pakistan Limited) from other profitable and diversified ventures would remain important for the Company's performance.

Financial Risk

Working Capital Packages has maintained stable working capital days in 9MCY18: 73 days (9MCY17: 74 days). Incremental borrowing to finance the working capital requirements deteriorated the Company's short term borrowing buffer.

Coverages In 9MCY18, FCFO inclined to PKR 958mln improved the Company's interest coverage 2.7x (9MCY17: 1.3x) and core coverage 0.7x (9MCY17: 0.3x). Due to late dividend inflow, dip in Packages operating cash flows deteriorated its total coverage to 2.5x (9MCY17: 3.5x).

Capitalization Packages Limited reaps benefits from a low leveraged capital structure. Debt to Debt plus equity ratio increased slightly in 9MCY18: 10.9% (9MCY17: 7.6%) due to increase in the Company's short term borrowings (9MCY18: PKR 4.6bln, 9MCY17: 1.8bln), obtained to finance CAPEX and working capital. Packages' long term borrowings declined and clocked in PKR 2.5bln in 9MCY18 (9MCY17: PKR 3.9bln). Moreover, the Company's investment income provides a cushion.

The Pakistan Credit Rating Agency Limited PKR mln

Packages Limited

Balanace Sheet	30-Sep-18	31-Dec-17	30-Sep-17	31-Dec-16
	9M	Annual	9M	Annual
Non-Current Assets	**6,162**	**5,208**	**4,575**	**4,234**
Investments (Incl. associates)	**53,119**	**60,301**	**65,636**	**50,211**
Equity	52,988	60,166	65,507	50,078
Debt	-	-	-	-
Investment property	131	135	129	133
Current Assets	**11,032**	**8,380**	**8,120**	**7,703**
Inventory	3,871	2,377	2,509	2,233
Trade Receivables	3,156	2,392	2,385	2,172
Others	4,005	3,611	3,227	3,298
Total Assets	**70,313**	**73,889**	**78,331**	**62,148**
Debt	**7,145**	**3,901**	**5,701**	**5,557**
Short-term	4,606	300	1,813	1,377
Long-term (Inlc. Current Maturity of long-term debt)	2,540	3,602	3,888	4,180
Other shortterm liabilities	3,719	3,295	2,926	3,070
Other Longterm Liabilities	1,047	1,027	774	736
Shareholder's Equity	**58,402**	**65,666**	**68,930**	**52,784**
Total Liabilities & Equity	**70,313**	**73,889**	**78,331**	**62,148**
Income Statement				
Turnover	**15,719**	**18,105**	**13,370**	**16,839**
Gross Profit	2,956	3,736	2,718	3,618
Net Other Income	2,666	6,005	4,015	6,470
Financial Charges	(350)	(445)	(343)	(1,308)
Net Income	**2,802**	**6,216**	**3,830**	**5,596**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	958	453	463	1,049
Net Cash changes in Working Capital	(2,089)	58	(347)	(54)
Net Cash from Operating Activities	1,150	1,053	3,878	6,941
Net Cash from InvestingActivities	(1,632)	(1,201)	(1,655)	(1,615)
Net Cash from Financing Activities	489	435	(2,139)	(5,337)
Ratio Analysis				
Performance				
Turnover Growth	17.6%	7.5%	5.1%	5.1%
Gross Margin	18.8%	20.6%	20.3%	21.5%
Net Margin	17.8%	34.3%	28.6%	33.2%
ROE	4.6%	10.3%	6.0%	11.1%
Coverages				
Interest Coverage (FCFO/Gross Interest)	2.7	1.4	1.3	0.8
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.7	0.3	0.3	0.6
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.7	3.9	3.5	4.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	3.1	21.0	24.4	-16.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	70	56	70	58
Capital Structure (Total Debt/Total Debt+Equity)	10.9%	5.6%	7.6%	9.5%

Rating Scale

Credit Rating Scale & Definitions

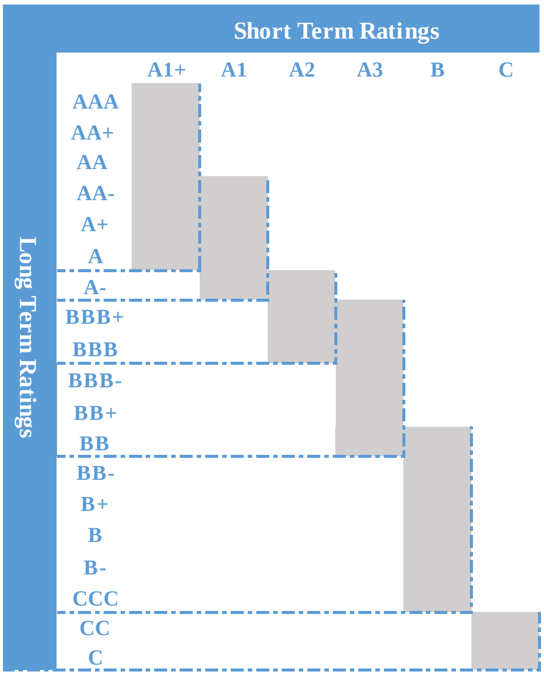
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

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.
(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)

Independence & Conflict of interest
(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)
Proprietary Information