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
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	-
26-Jun-2015	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 43bln (as at Mar-21), 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). Bulleh Shah Packaging has generated significant dividends for the first time. Packages Mall, a real estate venture, is operating as envisioned. However, it had to waive off rents due to Covid-19 and this challenge continues. OmyaPack (Pvt.) Ltd, a JV with an international player for calcium carbonate, is still evolving. Lately, the Board has approved to increase stake in Tri-Pack Films Ltd. by 19.3%. Moreover, the Board approved the formation of a wholly owned subsidiary with the primary business to manufacture and distribute corn-based starch.
Topline of the Company has improved supported by dividend income emanating from Bulleh Shah Packaging. This along with lower finance costs, after transfer of liabilities to Packages Convertors, post sizable profits. This is expected to remain stable as envisaged dividend flow from core investments are being realized.
In the wake of pandemic, Packages and its investments have been marginally impacted, operating in the FMCG sector. The management is confident to hold its market share and improve its performance, going forward. Post internal restructuring, low leveraging and strong coverages provide comfort.

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(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Holding Company(Aug-20)
Rating Analysts	Shayan Farooq | shayan.farooq@pacra.com | +92-42-35869504

Profile

Legal Structure Packages Limited ("Packages" or "the Company") is incorporated as a Public Listed 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 investments to meet the growing demand. The Company is listed on the Pakistan Stock Exchange (PSX) since 1965.

Operations Post internal restructuring since Jul-21, Packages now operates as a pure investment holding company. The manufacturing and sale of Packaging Materials and Consumer Products has been transferred to the Company's wholly owned subsidiary, Packages Convertors Ltd. Packages has made investments of ~ PKR 43bln (as at Mar-21) in entities engaged in manufacturing and sale of inks, flexible packaging material, paper, paperboard and corrugated boxes, BOPP & CPP films, and grounded calcium carbonate. It also has presence in real estate, insurance and power generation. Lately, the Company plans to further integrate vertically by investing in the business of manufacturing and distribution of corn starch.

Ownership

Ownership Structure Ali Group holds 46.5% shares of Packages through directors & their family members (3.3%) and various associate entities (43.2%), with IGI Investments owning the prime share (30%). Modarabas and Mutual Funds own 9% stake, whereas 29% 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 JVs is suitable for the Company’s holding structure.

Financial Strength Packages Limited is part of a strong business Group having a consolidated asset base of PKR 100bln supported by PKR 56bln of equity in 1QCY21.

Governance

Board Structure Packages' BoD comprises three independent, five non-executive and two executive directors. Apt Board size and significant presence of independent oversight supplements strong governance framework. 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 entities and is associated with the Company for 18 years. During CY20, Mr. Atif Bajwa, an independent director, resigned from the Company's Board. The vacancy was filled by Mr. Hasan Askari in May'20. Mr. Irfan Mustafa and Ms. Saba Kamal have also been inducted as independent directors on the Company's Board.

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

Financial Transparency The Board's Audit Committee ensures accuracy of the 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 CY20.

Management

Organizational Structure The Company has instituted a well-designed organisational structure to cater to its needs as a HoldCo. It comprises separate departments for Finance, Investment Strategy, Internal Audit, IT, HR and Remuneration, Legal and Public Affairs. All Divisional Heads report to the Company’s CEO, who reports to the Board. However, Head of Internal Audit and Human Resource report administratively to the CEO and functionally to the Board Audit, HR and Remuneration Committee respectively.

Management Team The Company’s CEO, 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.

Effectiveness The Company's management ensures effectiveness through Executive Committee. The Executive Committee meets periodically to monitor the Company’s performance. Minutes of these meetings are well documented.

MIS To generate MIS and operational reports, ERP software, SAP ECC6 is used.

Control Environment To ensure operational efficiency, the Company has setup an Internal Audit Function at group level, that identifies and reports risks.

Business Risk

Industry Dynamics Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments for the purpose of diversification and growth eventually de-merged from their operations and structured into holding companies to concentrate their investments for the purpose of business growth and diversification.

Relative Position Packages holds a significant share in the Packaging side, through Packages Convertors Ltd. In the Folding Carton market, the Company holds 15% and 65% share in general and tobacco packaging. The Company holds 23% of the Flexible Packaging market. In the Consumer Product (Tissue) market, Packages' own 61% share of the market.

Revenues The Company's topline mainly comprises dividend income received from its investment book. During CY20, the Company received PKR 1,917mln (CY19: PKR 1,934mln); out of which, PKR 1,092mln was received from Bulleh Shah Packaging whereas, Nestle Pakistan shared PKR 639mln as dividends. During 1QCY21, dividend income stood at PKR 782mln (1QCY20: nil). It mainly comprised PKR 520mln from Bulleh Shah Packaging and PKR 250mln from Packages Convertors Ltd. Dividend income is expected to remain stable, going forward.

Margins Post internal restructuring, lower finance cost (CY20: PKR 782mln, CY19: PKR 1,056mln) benefited the Company's bottom line. This along with interest income on bank deposits led to an increase in the net income (CY20: PKR 2,820mln, CY19: PKR 1,346mln). Similarly, during 1QCY21, net income increased to PKR 697mln (1QCY20: PKR 199mln). Net Income is expected to remain stable, going forward.

Sustainability The Company has finalized the share price to acquire 19.3% stake in Tri-Pack Films Ltd. from Mitsubishi Corporation. Furthermore, the Company plans to carry out the business of manufacturing and distributing corn-based starch. Successful replacement of ended dividend stream from Tetra Pak by the current investment book and completion on envisioned plans remains pivotal for ratings.

Financial Risk

Working Capital Packages preserves liquidity through short term borrowings availed (CY20: PKR 453mln, CY19: PKR 5,713mln) for difference in timing of dividend income. On standalone basis, the Company holds stake in stable marketable entities - Nestle, Tri-Pack Films and IGI Holdings.

Coverages Packages interest coverage stood at of 3.6x, in CY20 (CY19: 4.2x) owing to decrease in total operating cash flow (TCF) to PKR 2.7bln in CY20 (CY19: PKR 4.4bln) due a decline in realized dividend income. However, finance cost (CY20: PKR 782mln, CY19: PKR 1,056mln) posted a dip as due to decrease in borrowings on the Company's balance sheet, post restructuring. In 1QCY21, the coverage improved significantly to 29x (1QCY20: 2.9x) as TCF increased to PKR 1,084mln, (1QCY20: PKR 865mln) owing to higher realized dividend income received from its investments (1QCY21: PKR 1,104mln, 1QCY20: PKR nil). Finance cost (1QCY21: PKR 38mln, 1QCY20: PKR 303mln) declined significantly. Going forward, coverages are expected to remain stable.

Capitalization In CY20, leverage ratio improved to 4% (CY19: 15%) post restructuring. As a result, short term borrowings decreased to PKR 453mln in CY20 (CY19: PKR 5,713mln) along with long term borrowings to PKR 2mln (CY19: PKR 2,121mln). In 1QCY21, short and long term loan remained nil. Leverage ratio stood at 3% in 1QCY21 (1QCY20: 16%).

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Financial Summary
PKR mln

Packages Limited Holding Company	Mar-21 3M Management	Dec-20 12M Audited	Sep-20 9M Management	Jun-20 6M Management	Mar-20 3M Management	Dec-19 12M Audited	Dec-18 12M Audited
A BALANCE SHEET							
1 Investments	25,497	28,482	28,273	27,806	29,281	32,599	36,368
2 Related Party Investments	19,687	19,419	19,422	16,073	14,248	15,853	15,253
3 Non-Current Assets	436	430	133	7,607	7,589	7,414	6,616
4 Current Assets	4,750	4,838	4,732	13,589	12,283	10,960	9,939
5 Total Assets	50,370	53,168	52,560	65,075	63,401	66,827	68,176
6 Current Liabilities	1,662	1,739	2,185	4,435	4,997	3,877	3,749
7 Borrowings	1,543	1,994	2,862	11,963	9,213	9,373	7,369
8 Related Party Exposure	-	-	-	-	-	-	0
9 Non-Current Liabilities	359	350	568	1,488	1,603	1,261	1,229
10 Net Assets	46,807	49,085	46,944	47,190	47,588	52,316	55,828
11 Shareholders' Equity	46,807	49,085	46,944	47,190	47,588	52,316	55,828
B INCOME STATEMENT							
1 Total Investment Income	917	2,189	743	343	(29)	1,345	3,172
a Cost of Investments	*(38)*	*(782)*	*(648)*	*(575)*	*(303)*	*(1,056)*	*(607)*
2 Net Investment Income	879	1,406	94	(232)	(332)	290	2,565
a Other Income	2	224	143	-	32	(18)	(94)
b Operating Expenses	*(160)*	*(1,684)*	*(1,708)*	*(1,542)*	*(788)*	*(2,478)*	*(2,389)*
4 Profit or (Loss) before Interest and Tax	721	2,836	1,327	1,008	320	2,166	3,363
a Taxation	*(25)*	*(16)*	*(319)*	*(248)*	*(121)*	*(819)*	*(709)*
6 Net Income Or (Loss)	697	2,820	1,008	760	199	1,346	2,654
C CASH FLOW STATEMENT							
a Total Cash Flow	*1,084*	*2,718*	*2,462*	*2,159*	*865*	*4,375*	*4,008*
b Net Cash from Operating Activities before Working Capital Ch	*1,067*	*1,805*	*1,650*	*1,484*	*652*	*3,412*	*3,543*
c Changes in Working Capital	*(66)*	*(112)*	*(1,064)*	*(1,964)*	*(188)*	*(1,331)*	*(1,360)*
1 Net Cash provided by Operating Activities	1,001	1,693	586	(480)	463	2,081	2,183
2 Net Cash (Used in) or Available From Investing Activities	(34)	(1,100)	(860)	(846)	(393)	(2,519)	(2,423)
3 Net Cash (Used in) or Available From Financing Activities	1	706	(162)	1,469	(170)	611	421
4 Net Cash generated or (Used) during the period	968	1,298	(436)	142	(99)	173	180
D RATIO ANALYSIS							
1 Performance							
a Asset Concentration (Market Value of Largest Investment / Ma	46.4%	50.0%	49.7%	55.4%	56.4%	59.7%	57.7%
b Core Investments / Market Value of Total Investments	46.3%	43.7%	43.4%	38.3%	38.6%	34.0%	36.8%
c Marketable Investments / Total Investments	53.3%	56.5%	56.2%	62.2%	66.1%	66.2%	70.2%
2 Coverages							
a TCF / Finance Cost	29.0	3.6	3.8	3.8	2.9	4.2	6.9
b TCF / Finance Cost + CMLTB	28.2	3.6	3.8	2.6	2.1	3.5	2.1
c Loan to Value (Funding / Market Value of Total Investments)	0.0	0.0	0.1	0.3	0.2	0.2	0.2
3 Capital Structure (Total Debt/Total Debt+Equity)							
a Leveraging [Funding / (Funding + Shareholders' Equity]	3.2%	3.9%	5.7%	20.2%	16.2%	15.2%	11.7%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equit	4.8%	5.6%	6.1%	26.3%	21.6%	19.9%	13.2%

Credit Rating

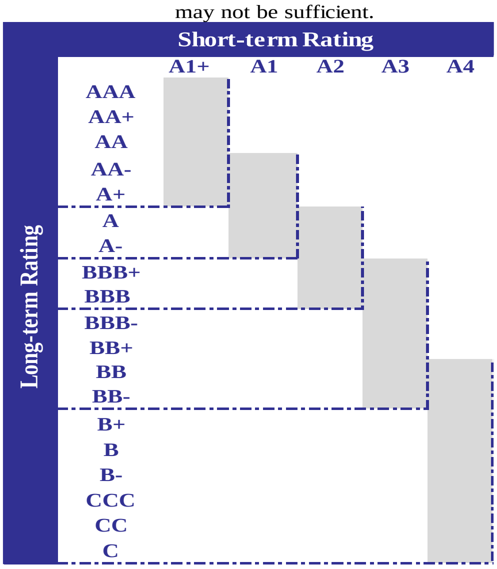
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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