



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Holdings Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Dec-2018	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Post restructuring formerly known IGI Insurance Limited has now been converted to a Holding Company (holdCo). The restructured Company, now known as IGI Holdings Limited, has emerged as a new entrant in the growing Holding Companies Sector, consolidating Packages Groups investment in financial sector i.e. Life and Non-life Insurance, Brokerage and investment holding Company. The ratings reflect IGI Holdings strong standing as a holdCo with its key underlying businesses performing well in their respective sectors, providing a steady stream of dividend. IGI Investments has a sizeable investment portfolio comprising strong players which is mainly financed through equity. IGI General Insurance has shown growth in business volumes as well as profitability, while IGI Life is continuing its growth strategy through market penetration and new products in line. The holdCo's low geared capital structure adds strength to the financial profile. The Company has a strong governance framework. The system and controls to monitor investments and make key strategic investments is evolving.

Ratings depend upon sustained performance of existing strategic investments. Formalizing a strong and effective mechanism for monitoring performance and providing holistic direction to it's subsidiaries would bode well for the ratings.

Disclosure

Name of Rated Entity	IGI Holdings Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology Holding Company (Jun-18)
Related Research	Sector Study Holding Company(Aug-18)
Rating Analysts	Adnan Dilawar adnan@pacra.com +92-42-35869504



Profile

Legal Structure IGI Holdings Limited is a Public Limited Company listed on the Pakistan Stock Exchange.

Background IGI Holdings - previously known as IGI Insurance Limited, was incorporated in 1953 under Companies Ordinance 1984. The Company has completed its corporate restructuring involving amalgamation of IGI Investment Bank into IGI Insurance Limited in Dec' 2016 and demerger of Insurance and Investment segment of IGI Insurance Limited. This has resulted into two wholly owned subsidiaries i.e. IGI General Insurance Limited and IGI Investments (Private) Limited as of Jan' 30, 2017. As a result IGI Insurance has been renamed to IGI Holdings Limited.

Operations The Company is an investment holding company with strategic investments in the financial sector. It has four subsidiaries namely IGI General Insurance (100%), IGI Life Insurance (82%), IGI Investments (100%) and IGI Finex Securities (100%).

Ownership

Ownership Structure IGI Holdings majority ownership (70%) lies with Packages Group through Sponsors (35%) and associated entities (35%).

Stability Ownership of the business is seen as stable as the major ownership vests with the Sponsors.

Business Acumen IGI and Packages Group is ranked amongst the leading industrial groups of the country with diversified interests in paper and paperboard, packaging, financial institutions, education and real estate sectors. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group.

Financial Strength Major shareholding of the Sponsors is consolidated in two main companies; IGI Holdings and Packages Limited. These two companies have a collective asset base of PKR 177bln, debt exposure of PKR 9bln, with and equity base of PKR 137bln.

Governance

Board Structure IGI Holdings Board comprises eight members, one executive Director, five non-executive Directors and two independent Directors. Majority of the members have long association with the Group and its Companies. Apt board size and presence of independent oversight indicates a well framed governance. Board seeks advisory support from the key individual in the development of Ali Group.

Members' Profile Syed Babar Ali, a distinguished businessman, philanthropist, educationist and the key individual in the development of Ali Group, serves as Chairman of the Board. He brings in diversified experience spanning over a time of more than 50 years. He is the founder of Packages Limited, Milkpak Limited—now Nestlé Pakistan Limited and Lahore University of Management Sciences. He is also the Chairman of Sanofi-Aventis Pakistan Limited, Siemens Pakistan Engineering Company Limited, and Coca-Cola Beverages Pakistan Limited.

Board Effectiveness There are two committees to assist the Board in governing the affairs of the Company, namely, a) Human Resource & Remuneration Compensation Committee, b) Board Audit Committee. Information packs for performance reporting are solicited for each subsidiary and presented to the Board on quarterly basis. Due to pendency of petition of IGI Insurance Limited for restructuring before the High Court of Sindh, the Board meetings could not be held in 2017 as required. Subsequently the meetings were held later and the minutes were appropriately documented. All meetings have been held on timely basis in 2018.

Financial Transparency IGI Holdings' external auditors are A.F. Ferguson & Co. They issued an auditor's report on interim financial statements ending Jun '18, whereas an unmodified report was given for financial year ended Dec '17.

Management

Organizational Structure IGI Holdings has instituted a simple organizational structure with the heads of all departments, mostly on shared basis/common with that of IGI General Insurance. The subsidiaries structure created as a result of the demerger have been given independent operational roles and have its own CEO, CFO and their supporting functions. However, Legal and IT functions are centralized at the group level. The Company is yet to formalizing a Group Structure for oversight and control.

Management Team The Company has a team of experienced individuals that has been associated with Packages Group for a long time and have significant experience in the insurance and financial sector. Mr. Tahir Masaud, CEO has diversified national and international insurance related experience of over 20 years. He is also CEO of IGI General Insurance Limited.

Effectiveness The Company is formalizing a structure for oversight and control. This is an evolving process and is expected to strengthen with time.

MIS Core business application in use of IGI Holdings is PIBAS General Ledger Module integrated with Loan Microfinance Module, a customized application for Banks and NBFCs provided by PIBAS Pakistan (Pvt.) Limited which was also previously in use of IGI Investment Bank Limited prior to its merger with the Company under Software Usage and Support Agreement renewable after 3 years.

Control Environment IGI Holdings has an in-house Internal Audit function. However, it has limited manpower given its functions of consolidated reports. Each subsidiary has a proper audit function outsourced to EY Ford Rhodes. Internal audit reports for each subsidiary are presented to the Audit Committee and BoD for discussion.

Business Risk

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

Relative Position IGI Holdings has an investment book of PKR 15bln comprising of investments in the financial sector. IGI General Insurance holds an established position in the general insurance sector while IGI Life insurance has implemented a growth strategy to gain volumes. IGI Investments holds a hefty portfolio of non-strategic investments of PKR 54bln. In 2006, IGI Finex Securities was acquired and valued at PKR 307mln by PWC as at Dec' 2017. The principal activities of the business include shares and commodities brokerage, money market and foreign exchange brokerage and advisory and consulting services.

Revenues The Company's top-line comprises of dividend income from its subsidiaries. During 9MFY18, the Company's top line stood at PKR 2.2bln. Majority of the revenue was derived from IGI Investments followed by IGI General Insurance.

Margins Owing to simple operations and organizational structure, the Company enjoys high margins (9MFY18: 91%) except for finance cost and taxation expense. Bottom-line stood at PKR 2bln at end of 9MFY18.

Sustainability Going forward, dividend income from the subsidiaries is expected to remain stable. With no increase in debt of the books, finance cost is also expected to remain minimal.

Financial Risk

Working Capital There are no short term borrowings giving rise to sufficient room to borrow.

Coverages Owing to low leverage and healthy inflow of dividends, the Company has a strong interest coverage of 40x and core coverage of 9.7x as at Jun' 18.

Capitalization The Company has a low geared capital structure of 10.4%. It has availed long term finance facility worth PKR 1.5bln during the year for the purpose of injecting equity in its subsidiary IGI General Insurance Limited. The loan carries markup rate at 6 month KIBOR plus 0.03% per annum. Principal repayment is to be made in 10 equal semi-annual installments starting from the 6th month after disbursement and subsequently, every six months thereafter. The facility is secured against pledge of certain shares held by IGI Investment (Pvt) Limited (one of subsidiary of the Company). During the period, the Company has made principal repayment of Rs. 150 million.



IGI Holdings Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17
	9M	1HFY18	3M	Annual
Non-Current Assets	10	10	11	11
Investments (Incl. associates)	14,980	14,977	14,980	14,977
Equity	14,977	14,973	14,977	14,974
Others	3	3	3	3
Advance against Investment	-	-	-	-
Current Assets	536	522	1,353	481
Inventory	-	-	-	-
Trade Receivables	-	-	-	-
Others	536	522	1,353	481
Total Assets	15,526	15,509	16,343	15,469
Debt	1,350	1,350	1,570	1,570
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	1,350	1,350	1,570	1,570
Other short-term liabilities	311	322	379	306
Other Long-term Liabilities	-	226	226	226
Shareholder's Equity	13,865	13,611	14,168	13,366
Total Liabilities & Equity	15,526	15,509	16,343	15,469

INCOME STATEMENT

Turnover	2,181	1,883	1,827	82
Gross Profit	2,181	1,883	1,827	82
Other Income	24	20	7	(243)
Financial Charges	(73)	(48)	(25)	(22)
Net Income	1,985	1,733	1,791	(246)

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,188	1,910	1,713	(9)
Net Cash changes in Working Capital	(13)	(16)	(1)	88
Net Cash from Operating Activities	2,175	1,894	1,712	78
Net Cash from Investing Activities	10	9	1	(915)
Net Cash from Financing Activities	(1,991)	(1,722)	(938)	1,481

Ratio Analysis

Performance				
Turnover Growth (same period last year)	2546.7%	2186.2%	21634.4%	NA
Gross Margin	100.0%	100.0%	100.0%	100.0%
Net Margin	91.0%	92.0%	98.1%	-299.1%
ROE	19.1%	24.8%	52.0%	-3.7%
Coverages				
Interest Coverage (FCFO/Gross Interest)	30.1	40.1	68.9	-0.4
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	7.4	9.7	40.5	-0.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	7.4	9.7	40.5	-0.1
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.5	0.4	0.3	-57.9
Capital Structure (Total Debt/Total Debt+Equity)	8.9%	10.4%	11.2%	11.8%

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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- (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.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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