



The Pakistan Credit Rating Agency Limited

## Rating Report

### IGI Holdings Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Dec-2020	AA	A1+	Stable	Maintain	-
20-Dec-2019	AA	A1+	Stable	Maintain	-
21-Jun-2019	AA	A1+	Stable	Maintain	-
20-Dec-2018	AA	A1+	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

IGI Holdings Limited ("IGI Holdings" or "the Company") emerged as a new entrant in the growing holding companies sector post restructuring of IGI Insurance Limited in 2017, consolidating Packages Group investments 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 dividends. IGI Investments, the investment arm of the group, has a sizable investment portfolio comprising strong players mainly financed through equity. IGI General Insurance has shown growth in business volumes as well as profitability, while IGI Life is pursuing its growth strategy through market penetration and new products. The dividend flow from IGI Investments, a dominant contributor, remained low in 3QCY20 owing to general economic conditions on the underlying investments. This impacted the revenue of IGI Holdings. Meanwhile, the Company's subsidiary i.e IGI Investments - completed its equity injection for acquiring 45% stake in S.C Johnson & Sons of Pakistan (Pvt.) Limited during the last quarter of 2020. The financial profile of the Company remains robust with low leveraged capital structure, strong coverage and adequate cushion in financing facilities. Going forward, dividend income from the subsidiaries is expected to remain sustained in the current economic environment. The Company has a strong governance framework. The system and controls to monitor investments and making key strategic investments are evolving.

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

#### Disclosure

<b>Name of Rated Entity</b>	IGI Holdings Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Methodology   Holding Company(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Holding Company(Aug-20)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** IGI Holdings Limited ("IGI Holdings" or "the Company") 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 completed its corporate restructuring involving amalgamation of IGI Investment Bank into IGI Insurance Limited 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 during 2017. As a result, IGI Insurance was renamed to IGI Holdings Limited.

**Operations** The Company is an investment holding company with strategic investments mainly in the financial sector. It has four subsidiaries namely IGI Life Insurance (82.7%), IGI General Insurance (100%), IGI Investments (100%) and IGI Finex Securities (100%).

## Ownership

**Ownership Structure** Major ownership of IGI Holdings (~72%) vests with Packages Group through sponsors (~32%) and associated entities (~40%) as on Sept-20.

**Stability** Ownership of the business is seen as stable as majority ownership vests with the sponsors.

**Business Acumen** IGI Holdings and Packages Group is ranked amongst the leading industrial groups of the country with diversified interests in paper and paperboard, packaging, financial institutions, food, personal care 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. Based on their respective consolidated financial statements for 3QCY20, these two have a collective asset base of ~ PKR 185bln, debt exposure of ~ PKR 37bln with an equity base of ~PKR 102bln.

## Governance

**Board Structure** IGI Holdings Board comprises seven members and CEO, five non-executive directors, two independent directors and CEO. 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 structure.

**Members' Profile** The BoD consists of seasoned professionals with significant experience. Board's Chairman, Syed Babar Ali, is the key individual in the development of the Group, IGI Holdings Limited and Packages Limited. 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 and Coca-Cola Beverages Pakistan Limited's Board. Ms. Faryal Sadiq was inducted as an Independent Director on the Company's BoD during the elections held on 21-May-20.

**Board Effectiveness** There are two committees to assist the Board in governing the affairs of the Company, namely, Human Resource & Remuneration Committee and Board Audit Committee. Information packs relating to performance reporting are solicited for each subsidiary and presented to the Board on quarterly basis. The HR committee met once, while the audit committee meeting held three meetings during 3QCY20. Timely occurrence and proper documentation of minutes bodes well for the Board. Three BoD meetings were held during 3QCY20.

**Financial Transparency** IGI Holdings external auditor, A.F. Ferguson & Co., has issued an unmodified auditor report on the financial statements for the year ended Dec-19.

## Management

**Organizational Structure** IGI Holdings institutes a simple organizational structure. Heads of all departments are shared and common with that of IGI General Insurance Limited. The subsidiaries have been given independent operational roles and have their own CEO, CFO and support functions. However, Legal and IT functions are centralized at group level.

**Management Team** The Company has a team of experienced individuals that has been associated with Ali Group for a long time and have significant experience in the insurance and financial sector. Mr. Tahir Masaud, IGI's CEO, has diversified national and international insurance related experience of over 20 years. He is also CEO of IGI General Insurance Limited. Mr. Syed Awais Amjad, IGI Holdings CFO, has an overall experience of over a decade. He is also the CFO of IGI General Insurance Limited.

**Effectiveness** The Company leads the oversight and control process of its subsidiaries. This is an evolving process and is expected to strengthen with time.

**MIS** Core business application used at 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. This was also previously in use at IGI Investment Bank Limited prior to its merger with the Company under Software Usage and Support Agreement renewable after 3 years.

**Control Environment** Packages Group has setup its own internal audit function, which is also responsible for the identification, assessment and reporting of all types of risks due to business operations of IGI Holdings and its subsidiaries. Internal audit reports for each subsidiary are presented to the Board Audit Committee and the 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 16bln (Sept-20) 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 market value ~PKR 47bln (Sept-20). IGI Finex Securities deals in 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 3QCY20, the Company's top line stood at ~PKR 780mln (3QCY19: PKR 998bln). It has mainly derived from IGI Investments followed by IGI General Insurance. Dividend income declined due to lower dividend declared from IGI investments (3QCY20: PKR 440mln, 3QCY19: PKR 594mln) and IGI General Insurance (3QCY20: PKR 340mln, 3QCY19: PKR 403mln).

**Margins** Owing to lower dividend income and 11% higher finance cost (3QCY20: PKR 157mln, 3QCY19: 141mln), the Company posted a 23% decrease in net income, standing at PKR 586mln in 3QCY20 (3QCY19: 830mln).

**Sustainability** During CY20, IGI Investments has invested 45% in the equity of S.C Johnson & Son of Pakistan (Private) Limited, which is a global manufacturer of household cleaning and pest control products. Going forward, dividend income from the subsidiaries is expected to remain sustained in the current economic environment.

## Financial Risk

**Working Capital** During 3QCY20, short term borrowings of the Company increased to PKR 1,136mln (3QCY19: PKR 973mln). This rise is attributable to timings of cashflows from dividend income.

**Coverages** Owing to decrease in dividend inflow, interest cover posted a dip in 3QCY20 ~ 4.8x (3QCY19: 6.7x), but, remained strong. Loan to value stood at ~ 9% as at Sept20 (3QCY19: 13%).

**Capitalization** The Company has a low leveraged capital structure ~12% (3QCY19: ~13%) consisting of both long-term and short-term debt. Long term finance of PKR 1.5bln was obtained in CY18 for the purpose of injecting equity in IGI General Insurance. Total debt stood at PKR 1,886mln during 3QCY20, (3QCY19: PKR 2,023mln). Being a HoldCo, the nature of strategic assets are long term and short term borrowings could create a mismatch.



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Financial Summary

PKR mln

IGI Holdings Limited Holding Company	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19
	9M Management	6M Management	3M Management	12M Audited	9M Management	6M Management
<b>A BALANCE SHEET</b>						
1 Investments	224	224	221	223	228	228
2 Related Party Investments	15,736	15,736	15,736	15,736	15,644	14,812
3 Non-Current Assets	45	45	45	45	87	87
4 Current Assets	104	89	93	87	100	109
5 Total Assets	16,109	16,094	16,095	16,092	16,058	15,235
6 Current Liabilities	290	278	340	297	331	276
7 Borrowings	1,886	2,020	1,628	2,021	2,023	1,368
8 Related Party Exposure	-	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-	-
10 Net Assets	13,933	13,795	14,126	13,774	13,705	13,591
11 Shareholders' Equity	13,933	13,795	14,126	13,774	13,705	13,591
<b>B INCOME STATEMENT</b>						
1 Total Investment Income	780	590	440	1,111	1,000	799
a Cost of Investments	(157)	(119)	(73)	(210)	(141)	(79)
2 Net Investment Income	624	471	368	901	858	720
a Other Income	11	11	0	108	8	7
b Operating Expenses	(47)	(31)	(16)	(98)	(64)	(40)
4 Profit or (Loss) before Interest and Tax	588	451	352	912	802	687
a Taxation	(3)	(2)	(0)	(15)	27	28
6 Net Income Or (Loss)	586	449	352	897	830	716
<b>C CASH FLOW STATEMENT</b>						
a Total Cash Flow	745	570	425	1,027	942	757
b Net Cash from Operating Activities before Working Capital Changes	577	440	392	836	849	668
c Changes in Working Capital	3	(7)	8	19	17	11
1 Net Cash provided by Operating Activities	581	433	400	855	865	679
2 Net Cash (Used in) or Available From Investing Activities	(0)	(0)	(0)	(830)	(832)	0
3 Net Cash (Used in) or Available From Financing Activities	(562)	(427)	(393)	389	391	(252)
4 Net Cash generated or (Used) during the period	18	5	7	414	425	428
<b>D RATIO ANALYSIS</b>						
<b>1 Performance</b>						
a Asset Concentration (Market Value of Largest Investment / Market Value of	58.4%	66.0%	74.0%	66.6%	74.4%	74.5%
b Core Investments / Market Value of Total Investments	69.0%	78.0%	87.4%	78.7%	87.3%	87.5%
c Marketable Investments / Total Investments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>2 Coverages</b>						
a TCF / Finance Cost	4.8	4.8	6.1	4.9	6.7	9.6
b TCF / Finance Cost + CMLTB	2.0	2.1	2.9	2.0	2.6	3.3
c Loan to Value (Funding / Market Value of Total Investments )	9.3%	11.2%	10.1%	11.3%	12.7%	8.6%
<b>3 Capital Structure (Total Debt/Total Debt+Equity)</b>						
a Leveraging [Funding / (Funding + Shareholders' Equity)]	11.9%	12.8%	10.3%	12.8%	12.9%	9.1%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	13.5%	14.6%	11.5%	14.7%	14.8%	10.1%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	
BB-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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- (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)
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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
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- (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)

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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 | 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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