



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
17-Dec-2021	AA	A1+	Stable	Maintain	-
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 holding company post restructuring of IGI Insurance Limited in 2017, consolidating Packages Group investments in financial sector i.e. Life & Non-life Insurance, Brokerage and an 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, increased in 3QCY21 owing to improved performance of the underlying investments. This positively impacted the revenue of IGI Holdings. 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

Name of Rated Entity	IGI Holdings Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Holding Company Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Holding Company(Aug-21)
Rating Analysts	Shayan Farooq shayan.farooq@pacra.com +92-42-35869504



Profile

Background IGI Holdings Limited ("IGI Holdings" or "the Company") was incorporated as a public limited company in 1953 under Companies Ordinance, 1984 and is quoted on the Pakistan Stock Exchange Limited.

Structural Analysis IGI Holdings Limited is classified as a financial services investment holding company of the Packages Group. It has an investment book of PKR 16bln (3QCY21) in entities engaged in life and non-life insurance, brokerage and investment holding. Being a pure holding company, total investment portfolio constitutes 98% of the Company's total assets in the third quarter of CY21. Dividend from these entities contribute towards the Company's profitability.

Ownership

Ownership Structure Major ownership of IGI Holdings (~74%) vests with Packages Group through sponsors (~34%) and associated entities (~40%) as on Sep-21. Stability Ownership of the business is seen as stable as majority ownership vests with the sponsors.

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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. These two companies have a collective asset base of PKR 194bln, debt exposure of PKR 55bln, with an equity base of PKR 107bln as at 3QCY21. During 3QCY21 the companies achieved a collective turnover of PKR 69bln with a bottom-line of PKR 3.6bln.

Governance

Board Structure IGI Holdings board comprises eight members; five non-executive directors, two independent directors and a 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.

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 held three meetings during 3QCY21. Timely occurrence and proper documentation of minutes bodes well for the Board. Three BoD meetings were held during 3QCY21.

Transparency IGI Holdings external auditor, A.F. Ferguson & Co., has issued an unmodified auditor report on the financial statements for the year ended Dec-20.

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, the 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.

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

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.

Investment Strategy

Investment Decision-Making For investment decision making of subsidiaries, the Company has an investment team at group level. It is headed by Mr. Sajjad Iftikhar, Group Chief Head of Investments. He is a chartered accountant by qualification, from A.F. Fergusons, and associated with the Group since 2006. His team consists of 3 chartered accountants and a CFA charter holder.

Investment Policy The Company has prudent investment policy as it focuses on investing in the financial services sector only. These include, life and general insurance, brokerage and investment companies.

Investment Committee Effectiveness The Group investment team liaisons with the rest of the Group companies, and receives updates on their performance. The team then presents them to the BoD on a quarterly basis.

Business Risk

Diversification The Company's investment portfolio is inclined towards financial sector, as 75% of it consists of investment in an investment holding company (IGI Investments). 23% of the investment book consist of insurance companies (IGI Life Insurance and IGI General Insurance), while the remaining 2% consists of investment in a brokerage company (IGI Finex Securities).

Portfolio Assessment The Company holds two kinds of investments on its books: Core and Strategic investments. Core investments include three wholly owned subsidiaries: IGI Investments Limited, IGI General Insurance Limited and IGI Finex Securities Limited. Strategic investment includes only one company: IGI Life Insurance Limited, which is a listed concern. IGI Holdings holds 82.69% shares of this company, while 11% are floated free in the stock market.

Income Assessment During 3QCY21, the Company's topline stood at PKR 1,060mln (3QCY20: PKR 780mln). Dividend income inclined due to higher dividend declared from IGI Investments (3QCY21: PKR 800mln, 3QCY20: PKR 440mln). Whereas, IGI General Insurance declared a lower dividend (3QCY21: PKR 260mln, 3QCY20: PKR 340mln). No dividend was received from IGI Life Insurance or IGI Finex during the period.

Financial Risk

Coverages Owing to an increased total operating cashflows (3QCY21: PKR 1,185mln 3QCY20: PKR 745mln) from higher dividend inflow, interest cover also increased during 3QCY21 12.3x (3QCY20: 4.8x). Loan to value stood strong at 8% as at 3QCY21 (3QCY20: 9%).

Capital Structure The Company has a low leveraged capital structure at 11% (3QCY20: 12%) consisting of both long-term and short-term debt. During 3QCY21, short term borrowings stood at PKR 1,232mln (3QCY20: PKR 1,136mln), availed to finance participation in right issue by IGI Life Insurance, and as a cover to manage working capital requirement and to counter timing difference of dividend payments from subsidiaries. Long term finance of PKR 1.5bln was obtained in CY18 for the purpose of injecting equity in IGI General Insurance. Long term debt stood at PKR 450mln (3QCY20: PKR 750mln), including current maturity of long-term debt.

Consolidated Position The Company derives financial strength from its Sponsors, Packages Group and associated companies.



The Pakistan Credit Rating Agency Limited

IGI Holdings Limited Holding Company	Sep-21	Jun-21	Mar-21	Dec-20	Dec-19
	9M Management	6M Management	3M Management	12M Audited	12M Audited
A BALANCE SHEET					
1 Investments	218	221	218	218	223
2 Related Party Investments	15,838	15,838	15,838	15,838	15,736
3 Non-Current Assets	22	22	22	22	45
4 Current Assets	127	129	125	250	87
5 Total Assets	16,204	16,209	16,202	16,328	16,092
6 Current Liabilities	293	285	289	278	297
7 Borrowings	1,682	1,914	1,253	1,758	2,021
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	14,230	14,010	14,660	14,292	13,774
11 Shareholders' Equity	14,230	14,010	14,660	14,292	13,774
B INCOME STATEMENT					
1 Total Investment Income	1,061	511	400	1,111	1,111
a Cost of Investments	(96)	(62)	(31)	(192)	(210)
2 Net Investment Income	965	449	370	918	901
a Other Income	27	17	15	123	108
b Operating Expenses	(50)	(34)	(16)	(66)	(98)
4 Profit or (Loss) before Interest and Tax	941	432	369	975	912
a Taxation	(4)	(2)	(0)	(31)	(15)
6 Net Income Or (Loss)	937	429	369	944	897
C CASH FLOW STATEMENT					
a Total Cash Flow	1,185	641	549	920	1,027
b Net Cash from Operating Activities before Working Capital C	1,108	569	528	713	836
c Changes in Working Capital	(37)	(12)	(25)	(2)	19
1 Net Cash (Used in) or Available From Investing Activities	1,070	557	503	711	855
2 Net increase (decrease) in long term borrowings	-	-	-	2	(830)
3 Net Cash (Used in) or Available From Financing Activities	(1,076)	(559)	(511)	(691)	389
4 Net Cash generated or (Used) during the period	(6)	(2)	(7)	21	414
D RATIO ANALYSIS					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / Market Value of Total Investments)	58.6%	57.1%	53.3%	53.4%	66.5%
b Core Investments / Market Value of Equity Investments	69.7%	68.0%	63.5%	63.6%	78.7%
c Marketable Investments / Total Investments at Market Value	0.0%	0.0%	0.0%	0.0%	0.0%
2 Coverages					
a TCF / Finance Cost	12.3	10.4	17.9	4.8	4.9
b TCF / Finance Cost + CMLTB	3.7	3.0	5.2	1.9	2.0
c Loan to Value (Funding / Market Value of Equity Investments)	0.1	0.1	0.1	0.1	0.1
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	10.6%	12.0%	7.9%	11.0%	12.8%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	11.8%	13.7%	8.5%	12.3%	14.7%

Credit Rating

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

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (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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