



Holding Companies

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Holding Companies

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Holding Companies

Global | Introduction

- In the developed economies, the concept of establishing Holding Companies to form corporate groups is increasing because of many benefits that the structure offers.
- In the USA, a Holding Company is defined as the parent business entity, usually a Corporation or LLC, that does not manufacture anything, sell any products or services, or conduct any other business operations. Its purpose, as the name implies, is to hold the controlling stock or membership interests in other companies in order to form corporate groups.
- A classic example of a Holding Company is the Alphabet Inc. - An American multinational Conglomerate), that was created through restructuring of Google in Oct'15, and became the parent company of Google and several former Google subsidiaries.
- Another example is the Berkshire Hathaway Inc. - An American multinational conglomerate. The company wholly owns a wide variety of big businesses, and also owns significant minority holdings in public companies such as The Coca-Cola Company, Bank of America, and Apple.



Holding Companies

Local | Overview

- As per the Companies Act 2017, a Holding Company is defined as “a company which is another company’s holding company if, but only if, that other company is its subsidiary” while a subsidiary is defined as “a company in which the Holding Company controls the composition of the Board or exercises or controls more than one-half of its voting securities either by itself or together with one or more of its subsidiary companies”. A holding company is also sometimes called an "umbrella" or parent company.
- PACRA’s definition of Holding Companies is broader and encompasses a wider range of entities, as compared to the definition of HoldCos laid out in the Companies Act, 2017.
- PACRA defines these as entities are primarily involved in holding controlling and/ or non-controlling stakes (equity participation) in other companies for the purpose of generating capital gains and/ or dividend income. These stakes may be in group companies or outside the group. While some holding companies’ activities are restricted to holding stakes in investees, others have their own operations as well.

HoldCos can make investments in Equity, Debt or Other Instruments.

- **Equity Investments** are funds invested in a company by purchasing shares of that company. These could be listed or unlisted.
- **Debt Investments** are fixed return investments in which an investor lends money to a firm or project sponsor with the expectation that the borrower will pay back the investment with interest.
- **Other Investments** refer to all investments not classified in equity and debt instruments.

Holding Companies

Investment Strategies

- Broadly speaking, Holding Companies can be classified into two categories based on their underlying structure, Investment Holding Companies and Operational Holding Companies.
- Following are the various types of investment portfolios of Holding Companies:

Core

These are investments where the holding company has operational control, and they are considered an essential part of the Holding Company. These investments are typically seen as long-term and integral to the Holding Company overall strategy, and it is very unlikely that the Holding Company would divest these assets. Financial stress on core investments would have a significant impact on the Holding Company credit profile.

Strategic

These comprise investments that are more liquid and can be easily converted into cash. Marketability is a key factor for these assets as they provide a cushion for generating urgent cash in times of stress. These investments might include listed equity stakes or other assets that can be sold in the market. However, even listed assets can sometimes be difficult to liquidate quickly, so PACRA assesses the actual marketability of these investments beyond just their listed status.

Trading

These comprise listed equity stakes held in other companies classified as 'Available for Sale' and/or 'Held for Trading'. These investments are least integrated and are held primarily with the intention of deriving trading income. The key risks involved here are liquidity and market risks.

Operations

These are treated as core business. These are embedded in the legal structure of the entity, offering full ownership with complete operational control. Major resource allocation is involved in operations and their management. Financial stress on operations can create a significant drag on the overall credit profile.

Holding Companies

Local | Snapshot

Figures in PKR bln

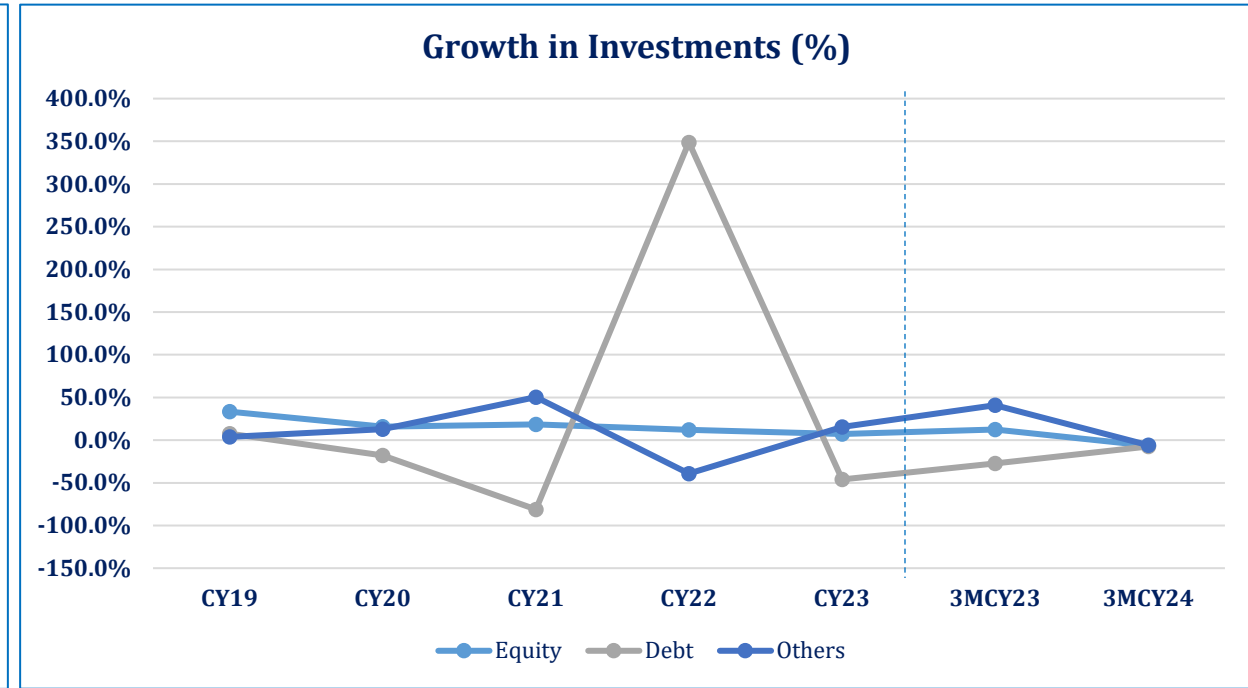
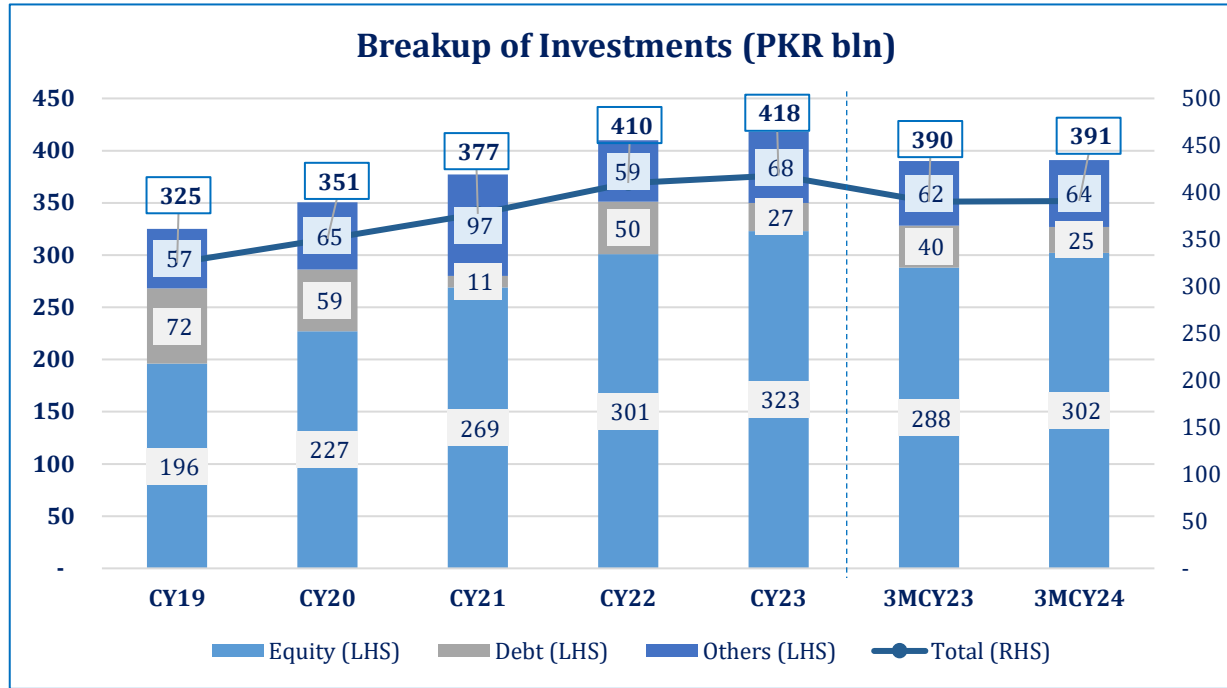
- The size of the Holding Companies is gauged by their Investment book, primarily because their mainstream business concerns managing investment portfolios and earning returns on these investments.
- Holding Companies generally have diverse investment portfolios depending upon their investment policy and are protected against losses accrued by subsidiaries. Many Holding Companies have significant investments in tradable short-term securities which reflects in their liquidity profile.
- PACRA rates 12 Holding Companies with total investments amounting to PKR~418bln as at End-CY23 (CY22: PKR~410bln), up ~2.0% YoY. For 3MCY24, total investments stood at PKR~391bln (3MCY23: PKR~390bln), up ~0.3% YoY.
- A large proportion of these investments in CY23 comprises equity stakes of ~77.3% (CY22: ~73.4%) which are further classified into core, strategic and trading categories. Meanwhile, ~6.5% of the sector’s investment book pertained to debt in CY23 (CY22: ~12.2%).
- In terms of total assets, the sector’s market size stood at PKR~471bln in CY23 (CY22: PKR~412bln), a ~14.3% YoY increase (SPLY: ~4.4% YoY growth). For 3MCY24, the sector’s market size stood at PKR~430bln (3MCY23: PKR~424bln), up ~1.4% YoY. A parent corporation might structure itself as a Holding Companies while creating subsidiaries for each of its business lines termed as a Asset Protection Strategy.

Particulars	CY22	CY23	3MCY23	3MCY24
No. of Players	11	12		
Total Assets	412	471	424	430
Total Investments	410	418	390	391
Equity Investments	301	323	288	302
Debt Investments	50	27	40	25
Others	59	68	62	64
Sector Structure	Oligopoly			
Regulator	Securities & Exchange Commission of Pakistan (SECP)			

Note: Data is based on ~12 PACRA-rated clients. 3MCY24 data is estimated based on 11 player’ market share..

Holding Companies

Local | Investments Portfolio

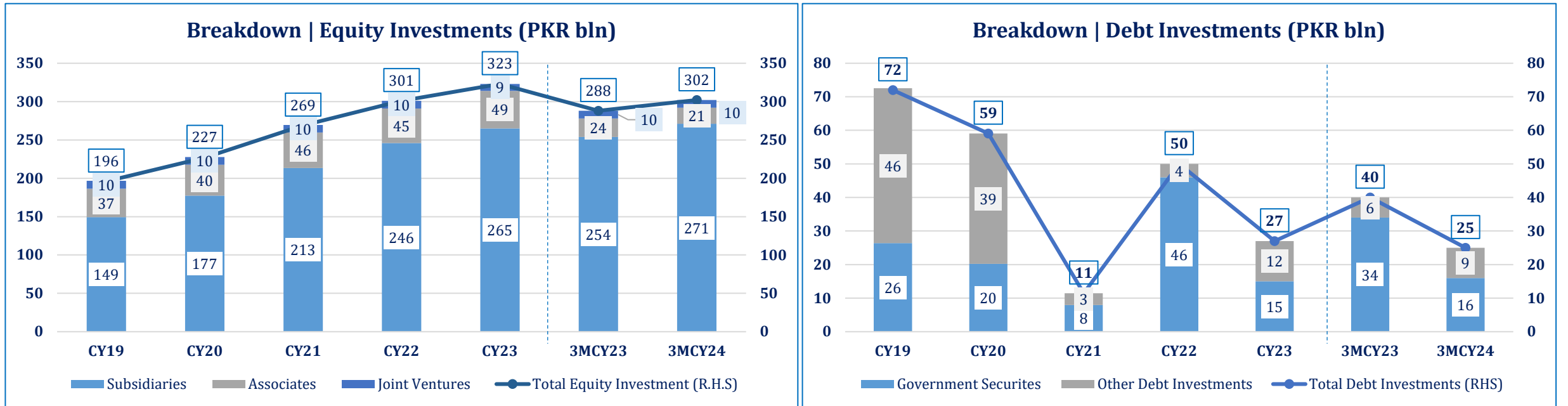


- Aggregate investments of the sector were registered at PKR~418bln in CY23 (CY22:PKR~410bln), increasing by ~2.0% YoY. For 3MCY24, aggregate investments of the sector were registered at PKR~391bln (3MCY23:PKR~390bln), down ~0.3% YoY.
- During CY23, equity investments grew by ~7.3% YoY and recorded at PKR~323bln in CY23 (CY22: PKR~301bln). On the other hand, debt investments were down ~46.0% YoY and clocked in at PKR~27bln (CY22: PKR~50bln).
- This largely resulted from lower Government security investments, which formed ~55.5% of the total debt investments in CY23 (CY22: ~92.0%). Investments in government securities were down ~-67.4% YoY in CY23 primarily owing to the fact that when interest rates rise, prices of existing long-term bonds fall, making them less attractive to investors until rates stabilize or peak. A breakdown of debt investments (covered later) reveals that only ~23.0% have been parked in T-bills on average (CY19-23) (longer debt maturity profiles allow for greater flexibility in repayment).

Note: Data is based on PACRA-rated clients. The sharp spike in Debt Investments (CY22) was likely due to one rated player with ~27% share in the sample based on Total Assets.

Holding Companies

Local | Investments Breakdown



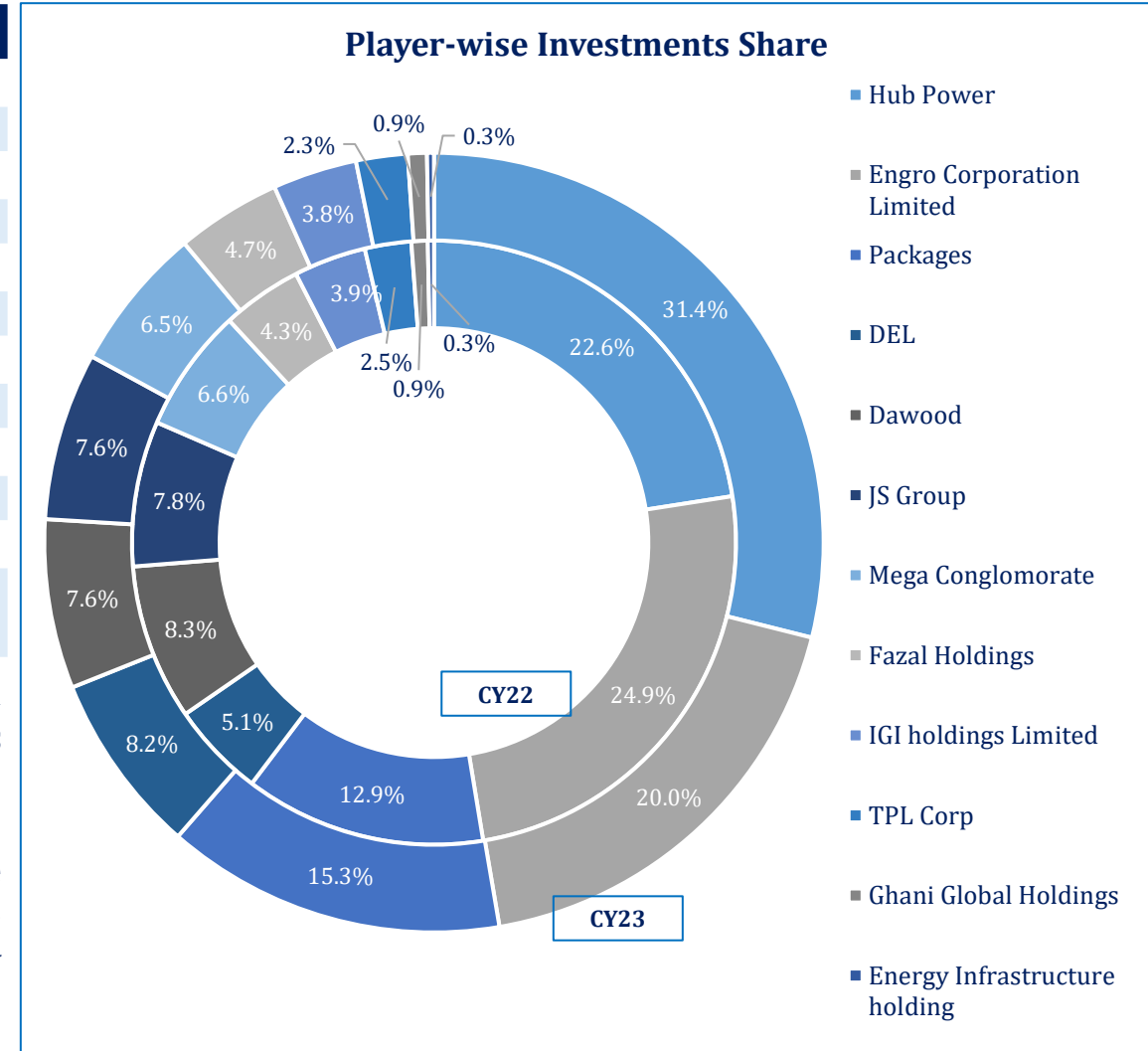
- The sector’s equity investments stood at PKR~323bln in CY23 (CY22: PKR~301bln). Holding Companies usually operate with strategic investments across various entities, with their own subsidiaries, in which they have controlling interests and decision-making authority, whereas these occupied a share of ~82.0% of the overall equity investments in CY23 (SPLY: ~-81.7%). Meanwhile, ~15.1% of equity investments were observed to be parked in associates, whereas ~2.7% were in joint ventures (SPLY: 15.0%, ~3.3%, respectively). In 3MCY24, equity investments stood at PKR~302bln (3MCY23: ~288bln) and registered ~4.9% YoY increase.
- With respect to debt investments, these clocked in at PKR~27bln in CY23 (CY22: PKR~50bln), down ~46.0% YoY. They comprised ~55.5% government securities which recorded ~67.3% YoY decline and ~44.4% other debt investments (SPLY: ~8.0%), including but not limited to, mutual funds. In 3MCY24, debt investments stood at PKR ~25bln (3MCY23: ~40bln), down ~37.5% YoY.

Holding Companies

Local | Player-wise Investments

Total Investments (PKR bln)	CY22	CY23
Hub Power Holdings Limited	22.6%	31.4%
Engro Corporation Limited	24.9%	20.0%
Packages Limited	12.9%	15.3%
DEL	5.1%	8.2%
Dawood Hercules Corporation Limited	8.3%	7.6%
Jahangir Siddiqui & Co Limited	7.8%	7.6%
Mega Conglomerate (Pvt.) Limited	6.6%	6.5%
Fazal Holdings (Pvt.) Limited	4.3%	4.7%
IGI Holdings Limited	3.9%	3.8%
TPL Corp Limited	2.5%	2.3%
Ghani Global Holdings Limited	0.9%	0.9%
Energy Infrastructure Holding (Pvt.) Limited	0.3%	0.3%

- In terms of market share in investments, Hub Power formed ~31.4% of total investments in CY23, recording at PKR~131bln. (SPLY: ~22.6%). It was followed by Engro Corp., with ~20.0% share during the year and investments amounting to PKR~83bln (SPLY: ~24.9%).
- The size of the investment book of a Holding Company depicts the size of the respective conglomerate’s business seeing as the sector’s investments are predominantly deployed in subsidiaries. Hub Power has a diversified equity portfolio in Power Generation & Coal Mining.

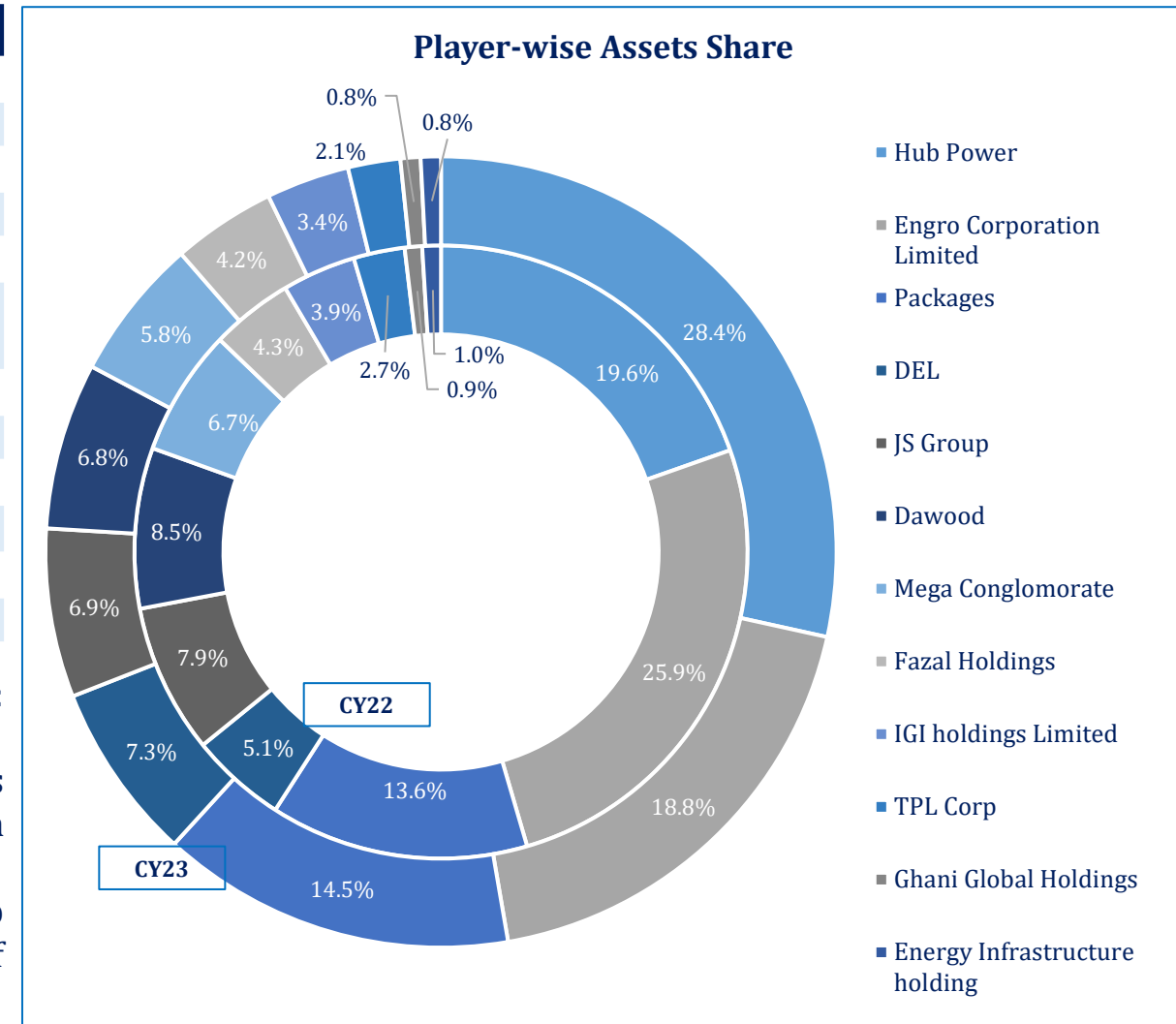


Holding Companies

Total Assets | Player-wise

Asset Size (PKR bln)	CY22	CY23
Hub Power Holdings Limited	19.6%	28.4%
Engro Corporation Limited	25.9%	18.8%
Packages Limited	13.6%	14.5%
DEL	5.1%	7.3%
Jahangir Siddiqui & Co Limited	7.9%	6.9%
Dawood Hercules Corporation Limited	8.5%	6.8%
Mega Conglomerate (Pvt.) Limited	6.7%	5.8%
Fazal Holdings (Pvt.) Limited	4.3%	4.2%
IGI Holdings Limited	3.9%	3.4%
TPL Corp Limited	2.7%	2.1%
Ghani Global Holdings Limited	0.9%	0.8%
Energy Infrastructure Holding	1.0%	0.8%

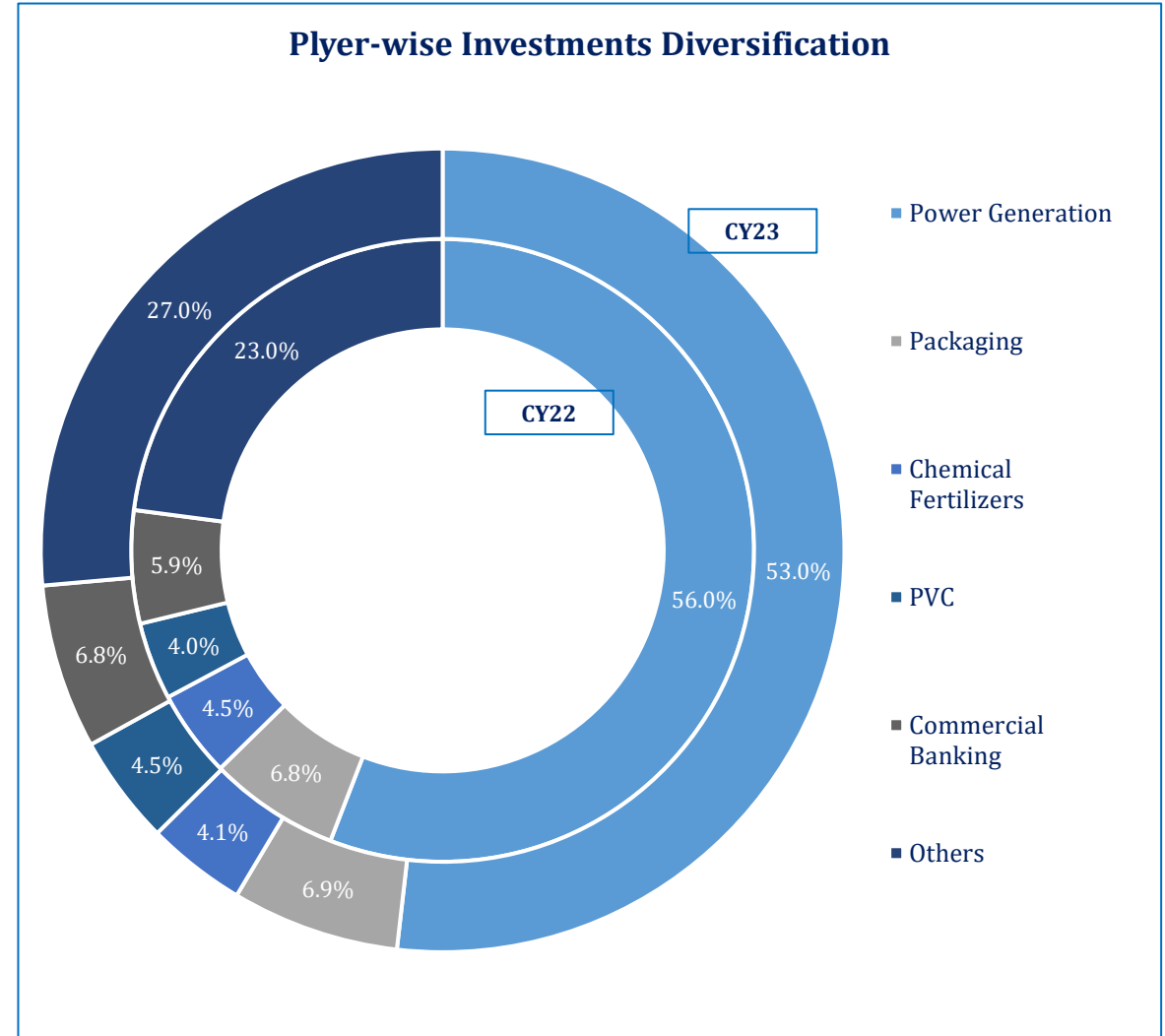
- Total assets of the sector amounted to PKR~471bln in CY23 (CY22: PKR~412bln), an increase of ~14.3% YoY.
- It follows from the previous section that the major portion of the sector’s assets comprise its investments (~88.9% in CY23; CY22: ~93.5%), with a smaller share of other operating assets.
- In CY23, ~28.4% of the sector’s total assets were accounted for by Hub Power, with Engro Corp. being the next at ~18.8%, while ~14.5% of sector’s total assets were recorded with Packages Limited during the year.



Holding Companies

Business Risk | Investment Diversification

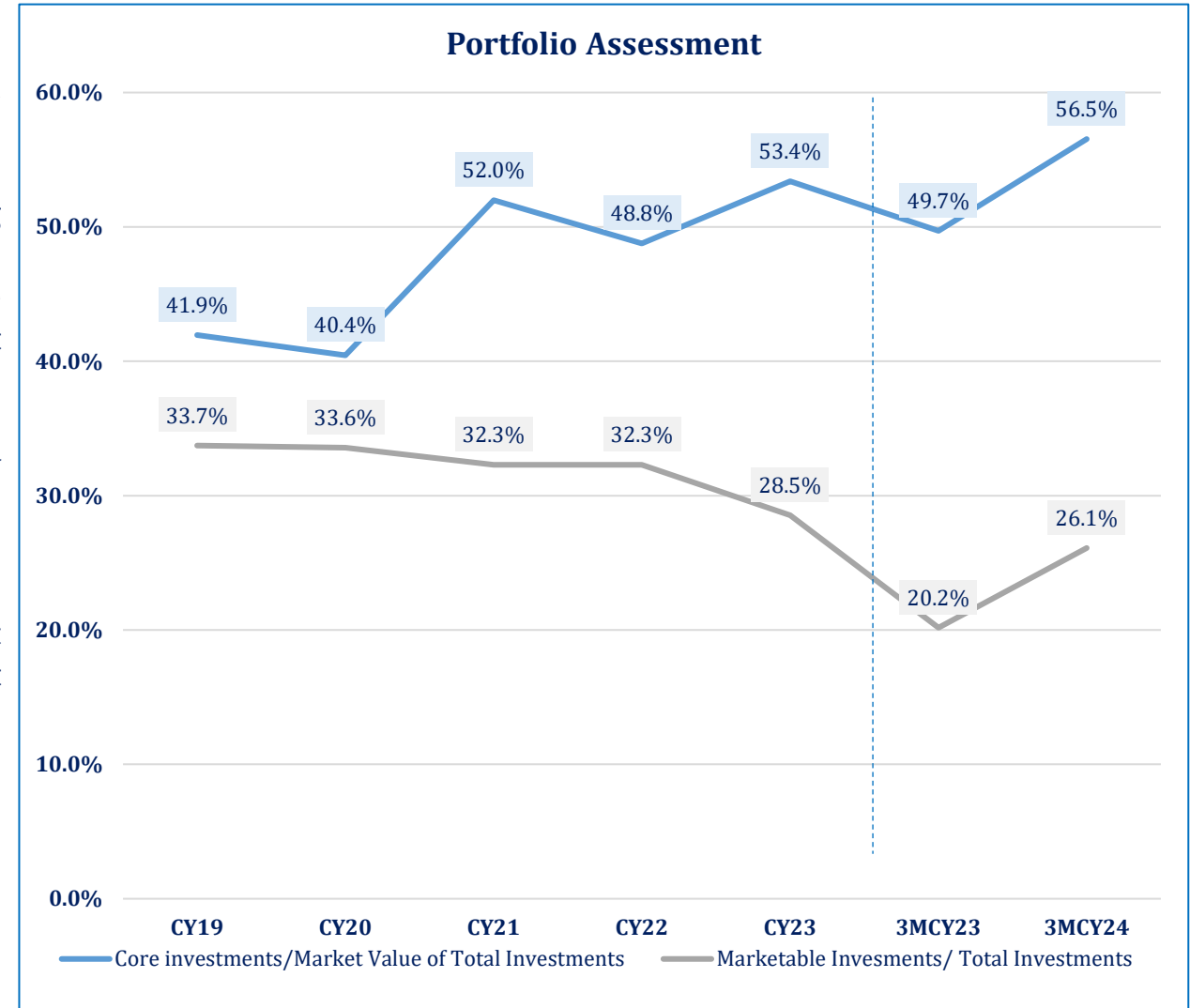
- The business risk of Holding Companies is correlated with the performance of their investments. The performance of investments can be evaluated in numerous ways, however, the two key factors used to determine the investment quality (covered in this report) are **‘Diversification’** and **‘Portfolio Assessment’**.
- Measuring diversification of the investments helps in evaluating the level of concentration Holding Companies possess in a particular sector. Higher the diversification, lower the risk and vice versa.
- Considering the portfolios of top four listed players of the sector (which account for ~74.2% of the sector’s investments in CY23 (SPLY:~67.8%), the concentration of overall investments comprised power generation sector (~53.0%) and “Others” (~27.0%), with the latter including various sectors such as Real Estate, Insurance & Banking, Investment Services and Information Technology, to name a few.
- Investments in the power sector were down ~4.5% YoY in CY23. Power sector’s circular debt reached PKR~2.3trn as of End-Jun’23, up ~2.5% YoY. Meanwhile, investments in the banking sector were up ~1.9% YoY. Commercial banks reported Profit-after-Tax of PKR~631.0bln, up ~90.6% YoY in CY23.



Holding Companies

Business Risk | Portfolio Assessment

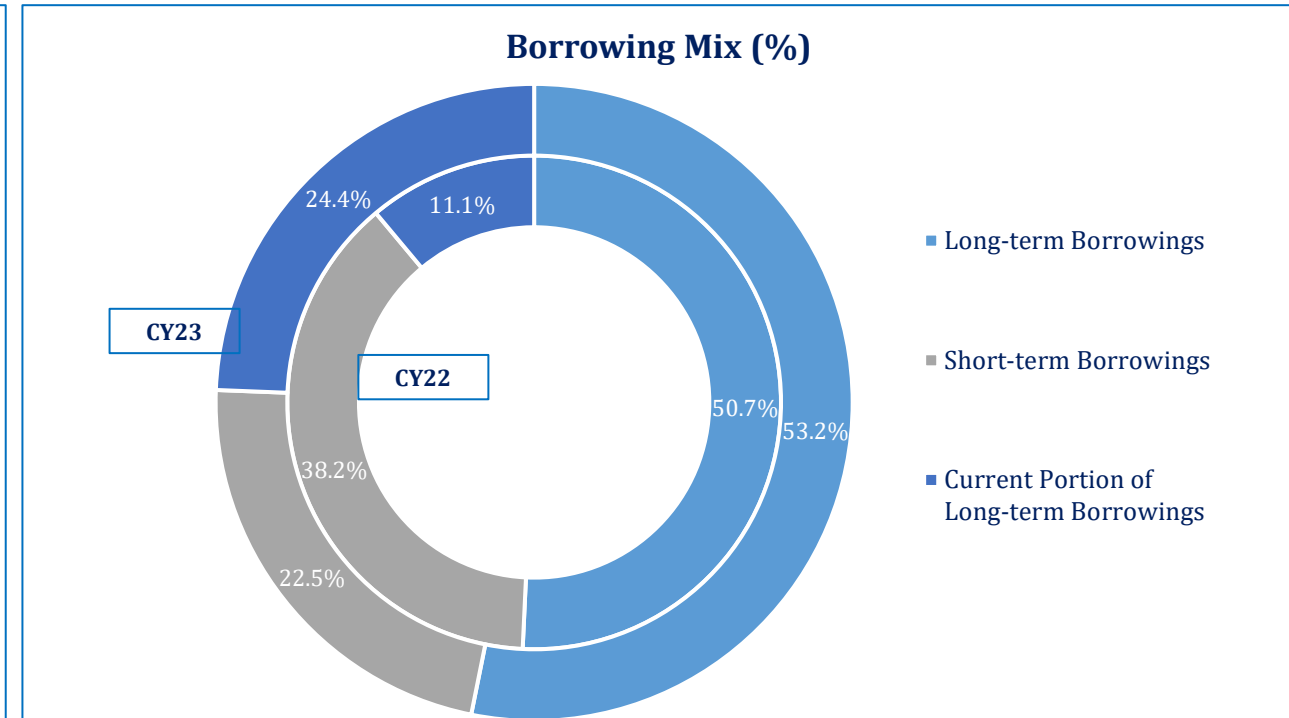
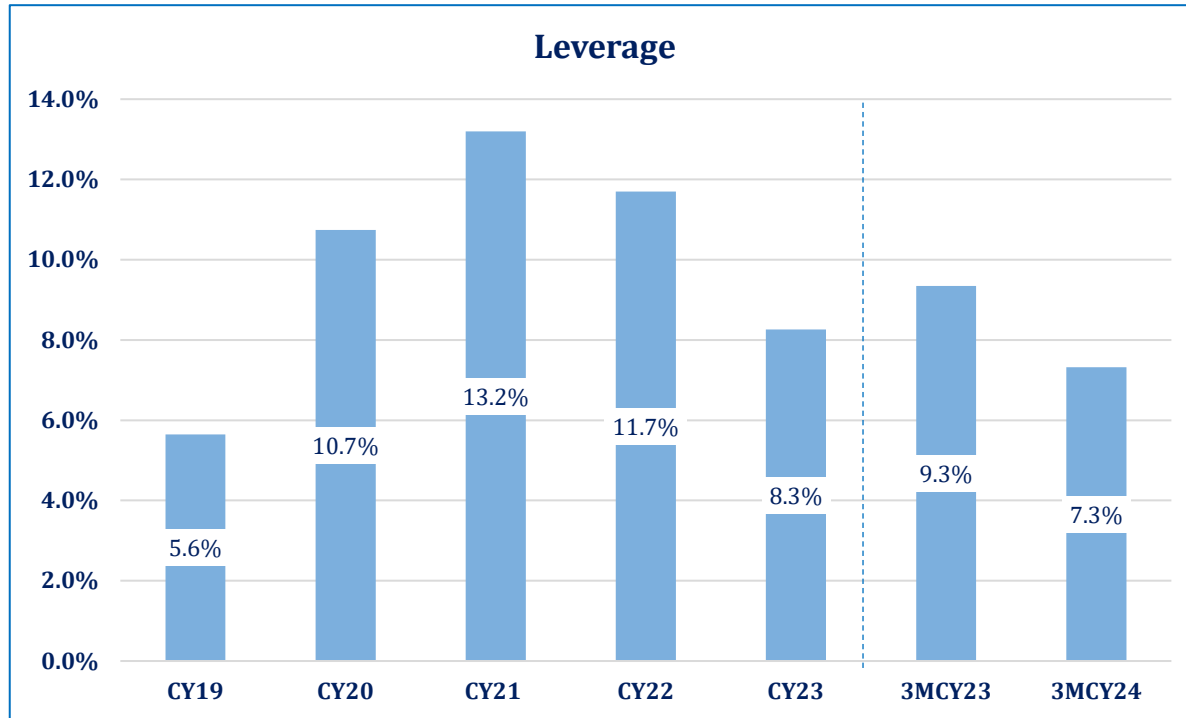
- Portfolio Assessment comprises core as well as marketable investments which the Holding Companies possess against their total investments at fair value.
- Core investments are long-term investments where the holding company has operational control. They are integral to the company's strategy and unlikely to be divested. Financial difficulties with these investments could significantly affect the holding company's credit profile.
- Marketable investments are more liquid assets that can be easily converted to cash, providing a cushion in times of financial stress. They typically include listed equity stakes or other marketable assets.
- The sector's core investments accounted for ~53.4% of the market value of its total investments in CY23 (CY22: ~48.4%), whilst recording ~32.8% increase YoY, while marketable investments accounted for ~28.5% of total investments in CY23 (CY22: ~32.3%), down ~23.5% YoY.



Holding Companies

Financial Risk | Borrowings

- Leverage of the sector declined to ~8.3% in CY23, reflecting ~19.3% YoY lower borrowings. These borrowings comprised ~53.2% long-term borrowings (CY22: ~50.7%), which increased by ~15.5% YoY and ~22.5% short-term borrowings (~38.2% in CY22), which decreased by ~52.6% YoY.
- For 3MCY24, average leverage of the sector declined to ~7.3%, reflecting ~26.6% YoY lower borrowings (3MCY23: ~9.3%) depicting low reliance on debt. Decreasing leverage amid lower borrowings helps companies enhance financial stability, reduce risk, and improve operational flexibility.



Note: Data is based on PACRA-rated clients.

Holding Companies

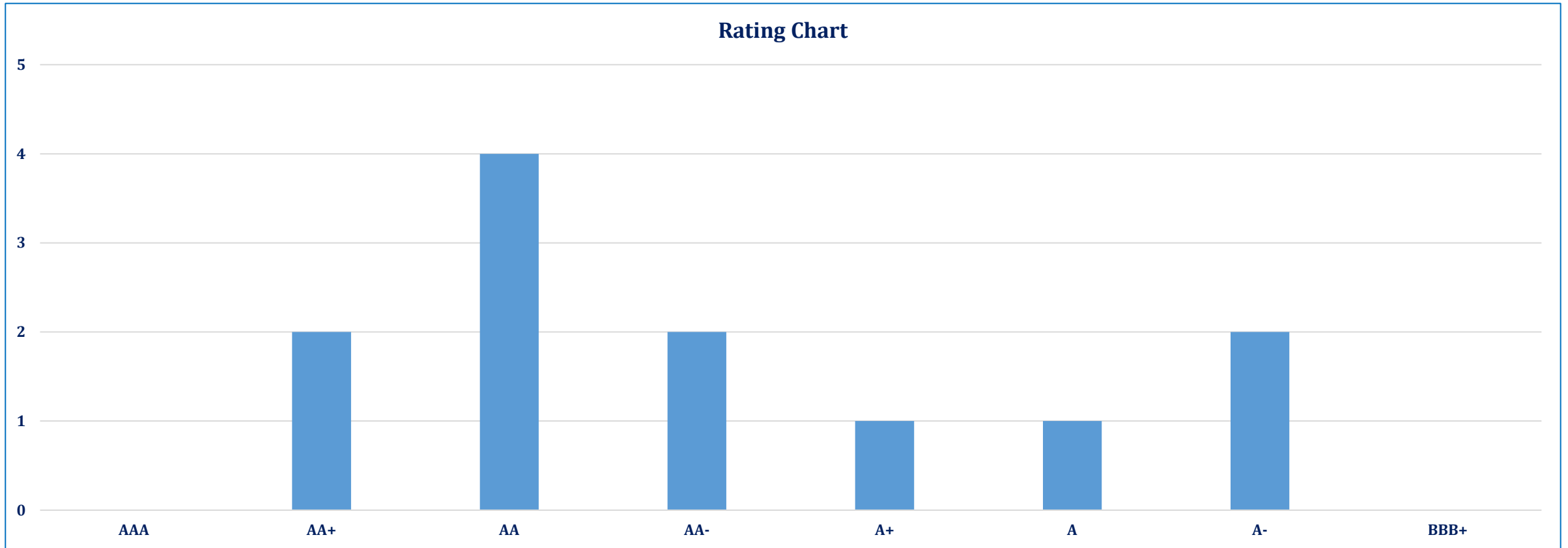
Regulatory Framework

- The SECP is the primary regulatory body overseeing corporate governance, ensuring that holding companies adhere to legal and regulatory standards. SECP is responsible for registration, compliance, and monitoring of corporate activities, including mergers and acquisitions.
- The Securities and Exchange Commission of Pakistan (SECP) has implemented the Group Companies Registration Regulations, 2008 to provide a regulatory framework for the formation of group companies, comprising a holding company and its subsidiaries.
- The Commission registers the holding company and its subsidiary companies as a Group in the prescribed form.
- The Commission is also empowered to cancel the registration of the group if any company within the group fails to comply with the requirements of the Regulations or any direction given by the Commission.
- After registration of the group, a holding company ensures that the group follows the requirements of the Code of Corporate Governance, International Financial Reporting Standards as applicable in Pakistan, and that transactions by any company within the Group with its associated companies and associated undertakings are carried out and recorded on an arm's length basis.
- The Regulations also facilitate streamlining of the group ownership structures and consolidation of the present complicated cross-company ownership to make the corporate sector internationally competitive.
- Surrender of tax losses between eligible group companies is allowed since 2007. The provisions allow both holding and a subsidiary company within the group to surrender their respective losses.

Holding Companies

Rating Curve

- PACRA rates 12 clients in the Holding Companies sector. Rating Bandwidth of the sector ranges from AAA to BBB+.



Holding Companies

SWOT Analysis

- Diversified Portfolio
- Increased asset size
- Efficient allocation of capital
- Reduced risk of losses
- Central Control and Management
- Tax benefits
- Financial Flexibility
- Easy access to capital

- Complex legal structures
- Investment concentration
- Economic downturns
- Market Competition
- Risk of overleveraging



- Unclear borrowing patterns
- Exposure to exchange rate volatility
- Inventory management issues in case an investee loses its market
- Complex organizational structure
- Regulatory scrutiny
- Dependency on subsidiary companies

- Less competition
- Flexibility of growth and competition
- Innovation & diversification
- Minimized Taxes
- Mergers & Acquisitions
- Global Expansion

Holding Companies

Outlook: Stable

- The trend of establishing Holding Companies to manage group structures is a well-established one in Pakistan, as is witnessed in the form of most big business groups such as Hub Power Holdings Limited, Engro Corporation Limited, Packages Limited etc. The sector is largely organized with a sizable asset base and investment book, clocking in at PKR~471bln and PKR~418bln, respectively, in CY23.
- In terms of market share in investments, Hub Power Holding maintained the highest share in the sector, recording at ~31.4% of the investment book in CY23 (CY22: ~22.6%). It is followed by Engro Corporation, with ~20.0% in CY23 and ~24.9% in CY22.
- Total assets of the sector amounted to PKR~401bln as at End-Mar'23 (End-Dec'22: PKR~392bln). It follows from the previous section that the major portion of the sector's assets comprise its investments, with a smaller share of other operating assets.
- Equity investments in the sector reached PKR~323bln in CY23, with ~82.0% in subsidiaries, ~15.1% in associates, and ~2.7% in joint ventures; a ~4.9% YoY increase to PKR~302bln was noted in 3MCY24. With respect to their debt investment portfolio, total investments clocked in at PKR~27bln in CY23 (CY22: PKR~50bln), a significant decrease of ~46.0% YoY. They comprised ~55.5% government securities which recorded ~67.3% YoY decline and ~44.4% other debt investments (SPLY: ~8.0%), including but not limited to, mutual funds. In 3MCY24, debt investments stood at PKR ~25bln (3MCY23: ~40bln), down ~37.5% YoY.
- Hub Power held ~31.4% of total investments in CY23, leading with PKR ~131bln, followed by Engro Corp. with ~20.0% at PKR ~83bln, reflecting the size and diversity of their respective conglomerates. In CY23, the sector's total assets grew ~14.3% YoY to PKR ~471bln, with ~88.9% in investments, led by Hub Power (~28.4%), Engro Corp. (~18.8%), and Packages Limited (1~4.5%).
- In CY23, the sector's core investments rose ~32.8% YoY to account for ~53.4% of total investments, while marketable investments declined ~23.5% YoY, making up ~28.5%. The sector's leverage decreased to ~8.3% in CY23, with borrowings down ~19.3% YoY, and further declined to ~7.3% in 3MCY24, reflecting a ~26.6% YoY drop in borrowings, enhancing financial stability and flexibility.
- Since majority of the country's large business groups have investments in a multiple number of companies operating in different sectors, establishing holding companies is necessary for better management, control, financial discipline and synergies across the group.

Holding Companies

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- State Bank of Pakistan
- Pakistan Bureau of Statistics
- PACRA Internal Database



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