



The Pakistan Credit Rating Agency Limited

PACKAGES LIMITED

ENTITY RATINGS REPORT

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

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JUNE 2016

Company

- Packages' core operations comprises folding cartons, flexible packaging division and consumer products – and non-core Business – dividends from investment portfolio. Packaging division, dominating sales mix, represents 80% of total sales revenue followed by consumer products (20%) which showed an uptick due launch of new tissue line.
- The company's market share is (flexible packing: 28%, folding cartons: 15%, consumer products: 70%).

Investments

- Packages maintain a diversified investment book though it is concentrated in terms of its value in few major companies. The dividend stream is concentrated with two major companies (Tetra Pack & Nestle).
- The company holds a non-voting stake in Tetra Pak and enjoys the right to 44% of the company's dividends until 2018. The successful replacement of this sizeable dividend stream from other profitable ventures would be important.
- The company has sealed a deal on the basis of 50/50 Joint Venture with Omya Group – one of the world's leading calcium carbonate producers. The Joint Venture arrangement is subject to regulatory/customary approvals

Strategic Overview

- Packages intends to strengthen its market position by following a multi-faceted strategy, which includes bringing better product mix, production efficiencies, high capacity and price rationalization among its product slate.
- The operations of its joint venture company, BSPL, would benefit from the successful commissioning of its bio-mass boiler plant. The management expects to achieve turnaround in the company's performance resulting from continuity of smooth operations and achieving operational efficiencies.
- The company's real estate project, through a fully owned subsidiary is expected to be completed by end of CY16. The projected is financed through a 50% debt to equity ratio.

Performance

- Topline witnessed a healthy increase of 14% supported by positive contribution of both the divisions. The enhanced utilization levels and operational efficiencies contributed positively towards increase in margins. (CY15: 21%, CY14: 15%)
- The sizeable dividend income (PKR 2,618mln) alongwith a reduction in finance cost mainly resulting from a declining interest rate environment helped in boosting the company's profitability by 30% on a YoY basis.

Capital Structure

- Packages has a low leveraged capital structure (8%). Post demerger, the leveraging has improved on the back of a major repayments of borrowings along with improved equity based derived from operations.
- Long term borrowing stands at PKR 4,115mln at end-Dec15, a major portion of which represents convertible preference shares (CY15: PKR 2,014mln, CY14: PKR 2,128mln). The reduction in preference shares is due to a right exercised by IFC convert 2mln preference shares in 2mln ordinary shares which resulted in reduction in borrowings.

Profile:

- Packages Limited, a flagship company of Ali group, owned (49%) through various individuals, corporate & trusts, was established in 1957. The company is listed on all Pakistan stock exchange.

Governance & Management

- The ten members BoD comprises one independent, seven non-executive, and two executive directors. The diversified background and relative expertise of the members, is a key source of guidance to the management.
- The Managing Director, Syed Hyder Ali, has worked in the company in paper & packaging industry since 1987.

RATING RATIONALE

The ratings reflect sustainability in the risk profile of the company. Over the years, Packages has portrayed a strong character managing well the challenges impacting the company. The sponsor's business acumen and their widespread - domestic and international - reach have always benefited. The JV - Bulleh Shah Packaging - with an international player is progressing as envisaged. This allowed focus on other planned projects; most mentionable is in the real-estate. The completion is targeted Dec-16. Meanwhile, the company is further diversifying its investment book; a local JV with an international player and a flexible packaging subsidiary in South Africa. The ratings also draw comfort from stable dividend stream from its sound investment portfolio.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to execute its envisaged strategy of growth and expansion. Meanwhile, further strengthening and formalizing of oversight mechanism for its investee companies is important.



Packages Limited

BALANCE SHEET	31-Mar-16	30-Dec-15	30-Dec-14	30-Dec-13
	1QCY16	Annual	Annual	Annual
Non-Current Assets	3,967	3,864	3,864	3,771
Investments (Incl. associates)	42,424	44,998	47,304	41,048
Equity	42,424	44,998	47,304	41,048
Debt	-	-	-	-
Current Assets	7,863	7,918	8,548	8,359
Inventory	1,729	1,780	2,231	2,065
Trade Receivables	2,224	1,781	1,527	1,623
Others	3,910	4,357	4,790	4,672
Total Assets	54,408	56,935	59,854	53,269
Debt	4,167	5,034	5,722	6,916
Short-term	134	884	1,263	1,518
Long-term (Incl. Current Maturity of long-term debt)	4,032	4,149	4,459	5,398
Other shortterm liabilities	3,055	3,627	3,662	3,610
Other Longterm Liabilities	633	488	467	654
Shareholder's Equity	46,553	47,786	50,003	42,090
Total Liabilities & Equity	54,407	56,936	59,854	53,269

INCOME STATEMENT

Turnover	4,583	16,028	15,087	14,888
Gross Profit	1,200	3,364	2,215	1,995
Other Income	1,306	2,515	2,654	2,219
Financial Charges	109	646	752	845
Net Income	1,593	3,295	2,536	1,796

Cashflow Statement

Free Cashflow from Operations (FCFO)	482	1,695	890	439
Net Cash changes in Working Capital	(412)	765	(24)	1,140
Net Cash from Operating Activities	1,375	4,266	2,655	2,531
Net Cash from Investing Activities	(572)	(3,046)	(1,108)	(2,916)
Net Cash from Financing Activities	(3)	(990)	(1,275)	(450)

Ratio Analysis

Performance				
Turnover Growth	6.4%	6.2%	1.3%	26.8%
Gross Margin	26.2%	21.0%	14.7%	13.4%
Net Margin	34.7%	20.6%	16.8%	12.1%
ROE	13.4%	26.0%	21.5%	9.2%
Coverages				
Interest Coverage (FCFO/Gross Interest)	-4.4	-2.6	-1.2	-0.5
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	5.6	-3.1	-1.3	-0.6
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	20.9	-7.9	-4.9	-3.3
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	6.8	0.4	2.7	4.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	53.8	60.5	73.9	71.4
Capital Structure (Total Debt/Total Debt+Equity)	8.2%	9.5%	10.3%	14.1%



STANDARD 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 AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant 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.</p>	
CCC CC C	<p>High default 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.</p>	
D	<p>Obligations are currently in default.</p>	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, or e) the entity/issuer defaults.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issues 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.



Regulatory and Supplementary Disclosure

Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Packages Limited
Holding Company
Solicited
Independent Risk Assessment

Rating History

Table with 5 columns: Dissemination Date, Long Term, Short Term, Outlook, Action. Rows include dates from 25-Jun-16 to 12-Nov-99 with corresponding ratings and actions like 'Maintain', 'Upgrade', and 'Initial'.

Related Criteria and Research

Holding Companies study | May16

Rating Methodology

Corporate Rating Methodology (2005)

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

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Probability of Default (PD)

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.