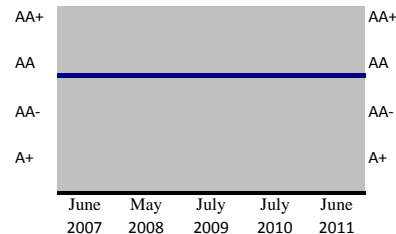


## RATINGS (JUNE 2011) PACKAGES LIMITED (PL)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+

### LONG TERM RATING HISTORY



### FINANCIAL DATA

PKR (mln)

	1Q11*	Dec-10	Dec-09
Total Assets	44,813	39,625	35,608
Equity	30,936	26,930	23,416
Net Turnover	5,192	18,536	14,043
Net Income	126	(332)	4,063
EBITDA	533	1,551	1,045
ROA %	0.3	n.a.	2.9
ROE %	1.8	n.a.	20.5
Total Debt/ FCFO (x)	19.5	8.0	11.3
EBITDA Interest Cover (x)	1.5	1.3	0.8
Total Debt/ (Total Debt + Equity) %	22.3	23.2	25.6

\* Based on unaudited accounts for 3 months ended March 31, 2011.

### ANALYSTS

Omaira Amjad  
+92 42 35869504  
omaira.amjad@pacra.com

Ahmed Ali Ehsan  
+92 42 35869504  
ahmed.ehsan@pacra.com

### RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect PL's leading market position in local paperboard, packaging and tissue industry mainly emanating from its established brand, efficient supply chain, and long customer relationships. The company's business profile draws comfort from increasing business volumes, mainly in paperboard and packaging segments, further supported by rising gross margins. This is expected to lead improvement in overall capacity utilization, though energy shortage and fluctuations in cost and availability of raw material remain key challenges. The company is facing competition in establishing its foothold in paper segment. Nevertheless, financial profile is supported by low leveraged capital structure, improving cash flows from core business, and a stable dividend stream from its sound investment portfolio.
- The ratings are dependent on the management's ability to achieve optimum capacity utilization while maintaining adequate business margins. Meanwhile, continuation of regular dividend stream from its investments would remain critical. As the company's debt repayments would start from Jun-12, any significant deterioration in debt servicing coverages, owing to cashflow weakening or accumulation of further debt, may have negative implications on the ratings.

### ASSESSMENT

- The global paper and packaging industry witnessed positive developments in 2010 after observing negative trends in 2008 and 2009. Despite subdued economic condition in the country, PL's revenue increased by 32% during 2010 though largely price driven but also supported by higher production. This was mainly led by Packaging and Paper and Board division. However, the rising prices of raw material and fuel, which constitute major portion of cost, in addition to substantial depreciation charge on the recently capitalized Bulleh Shah Paper Mill (BSPM) kept the margins under check. Meanwhile, power shortage and competition from foreign players make it challenging for the company to establish its position in domestic white paper market. Packaging on the other hand proved more resilient mainly on the back of being in sync with the defensive Fast Moving Consumer Goods (FMCG) manufacturing industry that witnessed a growth during 2010. Tissue segment of PL maintained its position in local market (70% market share). However, the improvement in gross profit was not sufficient enough to fully absorb the operating cost; hence, operating loss, though much lower compared to 2009. Nevertheless, PL's bottom-line is supported by dividend income which increased significantly (2010: PKR 946mln, 2009: PKR 313mln) largely on account of dividend (PKR 528mln) received from Tetra Pak Pakistan Limited.
- During 1Q11, PL's core performance has shown improving signs (better gross and operating margins). This is on the back of price rationalization supplemented by cost efficiency. However, with ongoing energy crises and stiff competition in paper segment, upholding of this trend is challenging. Relatively high interest cost reflects expanded working capital needs in this period. Meanwhile, investment income remained the main stay.
- Going forward, PL intends to strengthen its market position by following multi-pronged strategy, which includes enhancing capacity utilization, price rationalization, product diversification, controlling operating cost, and aggressive selling and marketing plan. PL has multiple energy sources to cater to the energy requirement of Lahore plant, including a) diesel power plant, b) gas power plant and, c) WAPDA. PL has established a 41MW gas powered power plant at BSPM, and an additional 11MW back-up plant. To curb energy shortages, the company is planning to use biomass in BSPM as energy source. In this regard, the project is in feasibility stage. In order to manage competition in paper and board segment, the company while striving to establish its foothold in the market, is taking steps to obtain regulatory support. Moreover, the company is enhancing its brown paper machine capacity to achieve further cost optimization.
- PL has a sizeable investment portfolio (45% of PL's equity) comprising investments in dairy and food business, packaging, and financial sector entities. Dividends from these entities contribute substantially towards the company's profitability.
- The company is in the process of technical upgradation of ERP system i.e. SAP from current version of 4.5 B to ECC 6. For this purpose PL has entered an agreement with IBM. Moreover the company is purchasing software to streamline its production process from BARCO Vision. Going forward, the company intends to integrate this software with ERP.
- The company's coverage ratios have improved due to combined benefits of reduction in debt levels and improving cash flows. The repayment of major long term loan (PKR 5,185mln) would begin in Jun-12, offering the company an adequate grace period to build requisite funds. Moreover, the comfort is drawn that convertible loan stock/preference shares (PKR 4,076mln) are convertible into equity if PL does not settle these in cash. Going forward, the management intends to maintain low leveraged capital structure. Moreover, once Packages achieves optimal capacity utilization, cash flows from operations would improve.

### PROFILE

- Packages Limited (PL), a flagship company of Ali group (49%) owned through various individuals, corporate & trusts, was established in 1957. The company is listed on all three stock exchanges. PL is a vertically integrated company having its own paper and paperboard mill. The company has three key product lines; (i) Paper & Paperboard (ii) Packaging - Flexible Packaging, Folding Cartons & Corruwall Products, and (iii) Consumer Products mainly tissue papers.
- The BoD of Packages, comprising ten members with diversified background and relative expertise, is a key source of guidance to the management. The Managing Director, Mr. Syed Hyder Ali, has worked in the company in different capacities since 1987. He is assisted by a team of qualified and experienced professionals.