

**PACKAGES LIMITED****RATINGS (JUNE 2006)****PACKAGES LIMITED**

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

FINANCIAL DATA

PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	11,620.4	6,475.4
Equity	7,736.3	4,191.9
Operating profits	817.1	800.6
Net Income	1,015.4	957.5
Gross Margin (%)	19.1	21.9
ROE (%)	17.0	24.5
Total Debt/ Equity (%)	33.7	26.2

ANALYSTS

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RATING RATIONALE**ASSESSMENT**

- The ratings reflect the company's demonstrated competitiveness both in terms of pricing and efficiency in the paper and packaging industry of the country. This is instrumental in helping Packages to effectively manage the associated business risk. At the same time, the ratings also take into account the stable returns on the company's investment portfolio, which is concentrated in companies having strong presence in the growing consumer products segment.
- PL's gross profit, despite increased turnover, remained almost at the same level during 2005 on account of reduced margins (05: 19.1%, 04: 21.9%). The company's margins were under pressure due to increasing input costs mainly of oil-based raw materials, which formed a sizeable portion of the total, and relative inelasticity in transferring the impact of the same to the customers. Nevertheless, the company absorbed the impact of increasing costs to a greater extent by further improving the efficiency of its production processes, restricting the decline in margins. Going forward, the company, with increasing focus on high-margin value added products and further improvement in efficiency, is expected to withstand the pressure on its margins.
- Changing spending patterns, increasing urbanization and the growing service sector in the country are fostering use of paper and packaged products. Packages, recognizing a sustained growth in demand, is undertaking a sizeable expansion project targeting almost three-fold increase in its paper and board production capacity at a new site near Kasur. Packaging operations will continue at the existing location. The expansion project was started in 2005 and would be completed in a phased manner by end-2008. To date, there are no major variances in the targeted timeline and cost estimates. This while demonstrating the efficacy of the planning process at the company also reflects the management's in-depth understanding of the sector. The company, going forward, leveraging on its sophisticated production process and ability to produce large volumes, also intends to explore regional markets.
- The company's capital structure will experience a shift with borrowings for the ongoing expansion project. However, given the company's strong cash flows from core operations supplemented by a hefty dividend stream, the coverage, both for principal and interest, is expected to remain strong. Moreover, by way of a three years grace period the principal repayment of the expansion loan is structured to match the phased completion of the project.
- Packages, the flagship company of the group, has a sizeable investment portfolio comprising investments in dairy & food products, packaging and financial sector entities. Dividend from these entities, mainly Tetrapak Pakistan Limited, is contributing substantially towards the company's profitability (05: 43% of EBIT) and the pattern is expected to be maintained. Moreover, Packages has substantial unrecognized revaluation surplus on its listed investments enhancing its risk absorption capacity.

BACKGROUND

- Packages Limited, a joint venture between *Ali Group* of Pakistan and *Akerlund & Rausing* of Sweden, was established in 1957. The company is listed on all three stock exchanges. Packages is a vertically integrated company having its own paper and paperboard mill. It is the only company in Pakistan having a complete range of packaging solutions including offset printed cartons, shipping boxes and flexible packaging materials.
- The management follows a forward-looking strategy of continuous expansion and up gradation of production facilities for maintaining the company's competitive edge.