



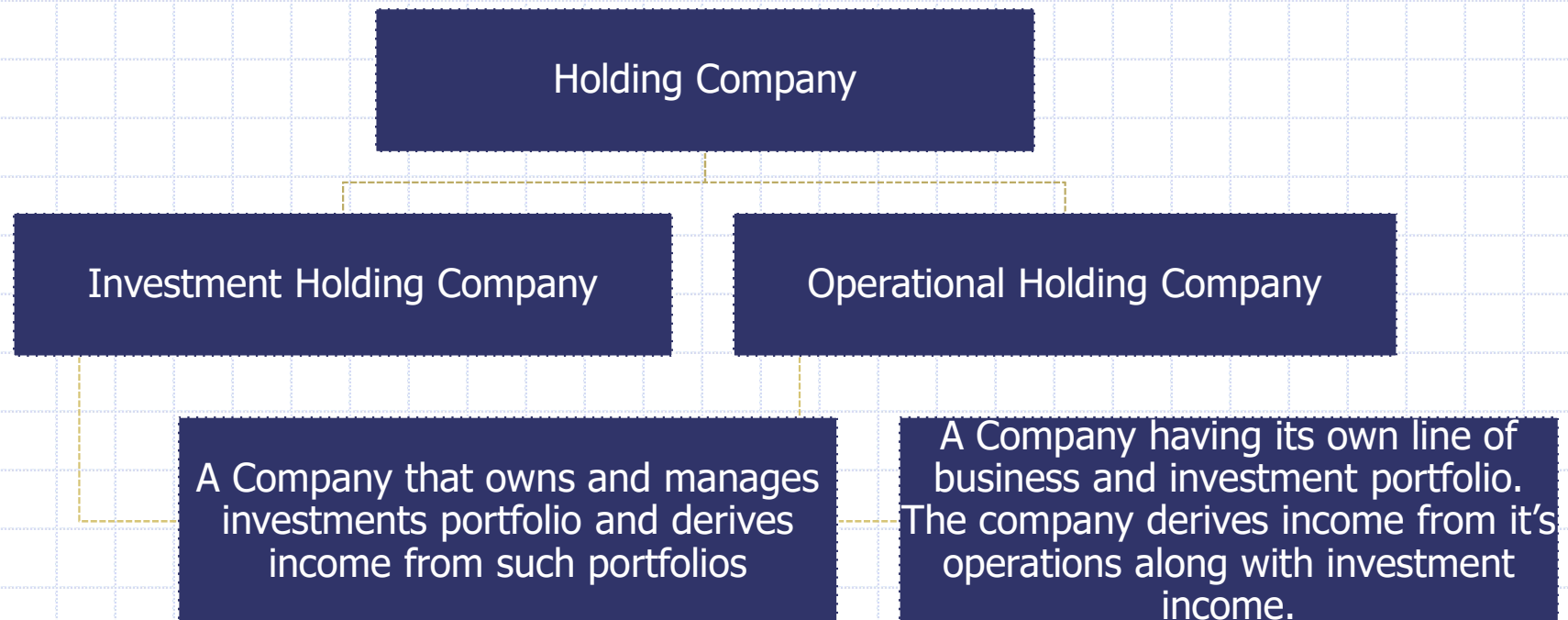
Holding Companies

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Introduction | Types of HoldCo

- A holding company (HoldCo) is defined as a corporate having investment in one or more companies.
- The investment portfolio is built in order to capitalize on opportunities and to diversify the risk.
- The holding company can be classified in two broad categories on the basis of the underlying structure .





Investment Portfolio

- The classification of the investment portfolio can be done in three levels based on its relationship with the holdco.
- The degree of economic and financial significance plays an important role in categorizing the investment portfolio.
 - Core : The entities where the group has operational control and are essentially a part of the holdco. Financial stress for core entities will have a significant effect on the holdco's credit profile. It is very unlikely that the group may decide to divest.
 - Strategic: These entities may not act as flagship companies. Group can have partnerships in these companies. Core investments can translate into strategic investment upon divestiture of holdings.
 - Trading: Least integrated entities. Holdco classifies these as HFT and has clear intention to sell in near-term. Primarily held to make gains in short-term. The key risk involved here is market risk.



Holding Companies in Pakistan

- Through the establishment of the holdco structure, the business houses felt that they could manage their investment portfolio in a more efficient manner by focusing on:
 - Performance monitoring of investee companies,
 - Efficient allocation of capital,
 - Management of talent within group companies
 - Control structures
- The performance of an holding company is determined by:
 - Subsidiaries net working capital & cash-flow management
 - Debt structure & Dividend Income
- The trend in Pakistan is increasing towards the investment holding companies as key business houses have established their investment holdco's.

Key Holding Companies in Pakistan

Sr. No.	Group Name	Hold Co	Key Sectors	Asset Size (PKR Bln)
				Dec-17
1	Jahangir Siddiqui	Jahangir Siddique & Co.	Commercial Banking, Asset Management, Securities Brokerage and Insurance.	413
2	Dawood Group	DH Corporation	Technology & Telecom;	337
3	Dawood Group	Engro Corporation	Fertilizers, Food, Energy, Petrochemicals & Storage.	324
4	Arif Habib Group	Arif Habib Corporation.	Fertilizers, Food, Energy, Petrochemicals & Storage.	45
5	Nishat Group	Nishat Mills	Textile, Cement, Banking, Insurance, Power generation and Realty.	119
6	Packages Group	Packages Limited	Packaging and Construction.	113



Key Challenges

- In an operational holding company major resource allocation is involved in operations and management of core operations, limited time is allocated towards monitoring of investment book
- Investment management framework for monitoring performance of investee companies needs attention
- Borrowing patterns are not clearly established between the holdco and operational entities.
- Inter-corporate dividends within the group companies were exempt from tax. However, the Finance Act, 2016 withdrew the exemption to inter-corporate dividend to such companies that fall within the scheme of section 59B availing group relief by removing "section 59B" from the Clause 103A, Part I, Second Schedule of the Income Tax Ordinance, 2001.
 - Exemptions of intercorporate dividend encourage group companies to diversify their businesses in an efficient manner and promotes group formation and consolidation.

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