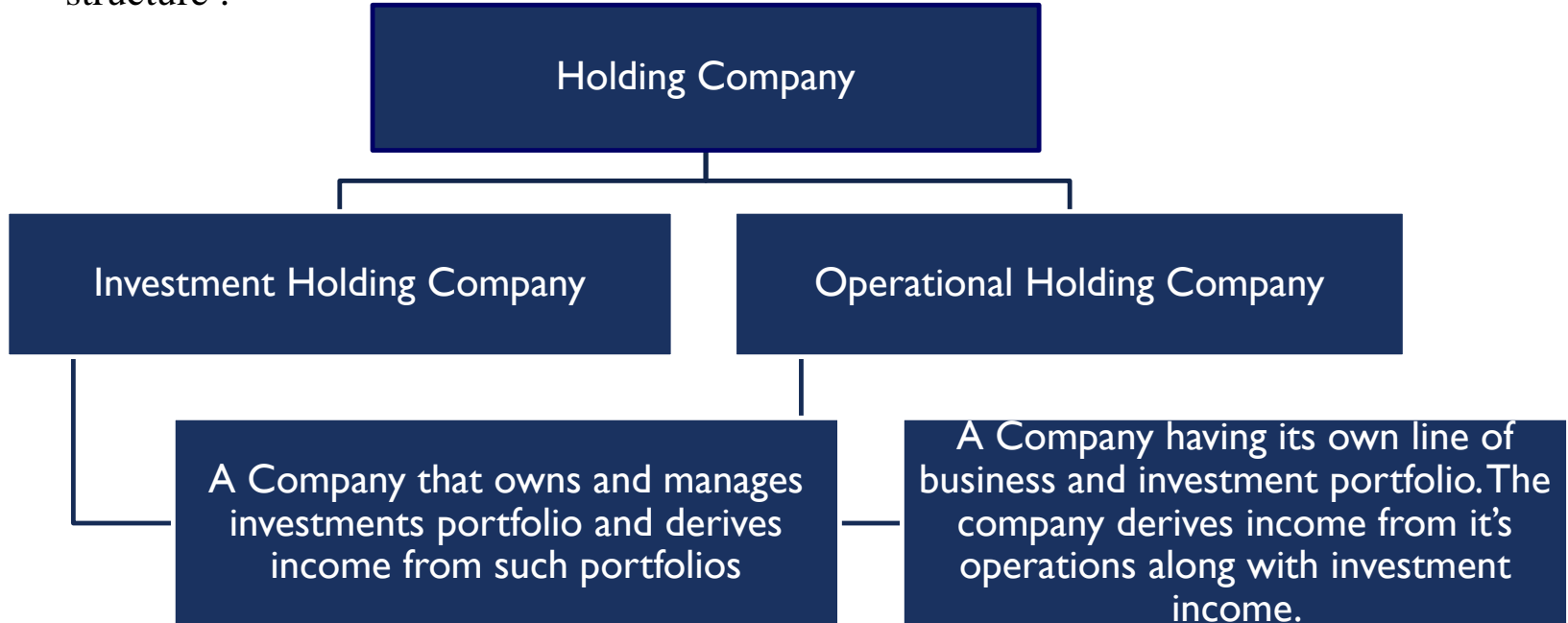


Holding Companies

August 2019

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 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.

MAJOR HOLDING COMPANIES

PKR in Mln

Description	Engro Corporation	Mega Conglomerate	Jahangir Siddiqui & Co	IGI Holdings	Packages	Dawood Hercules Corporation	Nishat
Balance Sheet	Dec-18	Jun 18	Dec-18	Dec-18	Dec-18	Dec-18	Jun 18'
Long-term Ratings	AA+	AA-	AA	AA	AA	AA	AA
Short-term Ratings	A1+	A1	A1+	A1+	A1+	A1+	A1+
Investment book							
L.T Investments	24,652	24,649	25,077	14,820	54,324	45,051	44,757
Total Assets	92,576	31,417	28,715	15,187	68,176	47,334	102,736
Consolidated L.T Investments	31,590		68,397	69,236	41,161	31,590	51,825
Consolidated Total Assets	393,155		480,255	85,853	107,667	421,613	140,031
Total Debt	998	19,202	4,342	1,610	6,675	11,227	19,844
Consolidated Debt	138,181		108,121	3,482	17,372	149,172	29,516
Total Equity	85,103	1,048	23,794	13,306	56,434	34,964	75,713
Consolidated Equity	185,587		34,114	58,250	65,057	201,743	99,635
Income Statement							
Dividend Income	11,233	650	1,016	2,183	3,209	4,094	3,391
Capital Gains*		-	56	-	-	258	-
Total Revenue	11,233	650	1,245	2,183	3,209	4,352	3,391
Consolidated Revenue	171,568		34,261	9,409	52,923	171,568	84,723
Net Income	12,720	(50)	206	1,800	2,654	6,054	4,097
Consolidated Net Income	23,632		814	968	1,160	33,148	8,841

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.

Partial Relief in Budget FY20

- Exemption to intercorporate dividend if the company being a recipient of such dividend is eligible for group relief even without actually availing group relief.

Exemptions of intercorporate dividend encourage group companies to diversify their businesses in an efficient manner and promotes group formation and consolidation.

Research Team	Silwat Malik
	silwat.malik@pacra.com
	Contact No: +92 42 35869504-6

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.