



## The Pakistan Credit Rating Agency Limited

### Rating Report

## IGI Holdings Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Dec-2019	AA	A1+	Stable	Maintain	-
21-Jun-2019	AA	A1+	Stable	Maintain	-
20-Dec-2018	AA	A1+	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

IGI Holdings Limited ("IGI Holdings" or "the Company"), has emerged as a new entrant in the growing Holding Companies Sector post restructuring of IGI Insurance Limited, consolidating Packages Group investments in financial sector i.e. Life and Non-life Insurance, Brokerage and investment holding Company. The ratings reflect IGI Holdings strong standing as a holdCo with its key underlying businesses performing well in their respective sectors, providing a steady stream of dividend. IGI Investments, the investment arm of the group, has a sizeable investment portfolio comprising strong players mainly financed through equity. IGI General Insurance has shown growth in business volumes as well as profitability, while IGI Life is pursuing its growth strategy through market penetration and new products. The dividend flow from IGI Investments, a dominant contributor, remained subdued in 9MCY19 owing to impact of general economic conditions on the underlying investments. This impacted the revenue of IGI Holdings. Meanwhile, the Company injected further equity and increased its stake in IGI Life. The financial profile of the Company remains robust with low geared capital structure, although borrowings increased on YoY basis, strong coverage and adequate cushion in financing facilities. The Company has a strong governance framework. The system and controls to monitor investments and make key strategic investments are evolving.

Ratings depend upon sustained performance of existing strategic investments. Formalizing a strong and effective mechanism for monitoring performance and providing holistic direction to its subsidiaries would bode well for the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	IGI Holdings Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-19),PACRA_Methodology_Holding Company_FY19(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Holding Company(Aug-19)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** IGI Holdings Limited ("IGI Holdings" or "the Company") is a Public Limited Company listed on the Pakistan Stock Exchange.

**Background** IGI Holdings, previously known as IGI Insurance Limited, was incorporated in 1953 under Companies Ordinance 1984. The Company completed its corporate restructuring involving amalgamation of IGI Investment Bank into IGI Insurance Limited in Dec '16 and demerger of Insurance and Investment segment of IGI Insurance Limited. This has resulted into two wholly owned subsidiaries i.e. IGI General Insurance Limited and IGI Investments (Private) Limited as of Jan -17. As a result, IGI Insurance was renamed to IGI Holdings Limited.

**Operations** The Company is an investment holding company with strategic investments mainly in the financial sector. It has four subsidiaries namely IGI General Insurance (100%), IGI Life Insurance (82%), IGI Investments (100%) and IGI Finex Securities (100%).

## Ownership

**Ownership Structure** Major ownership of IGI Holdings (~71%) vests with Packages Group through sponsors (~32%) and associated entities (~39%) as on Sept-19.

**Stability** Ownership of the business is seen as stable as majority ownership vests with the sponsoring family.

**Business Acumen** IGI Holdings and Packages Group is ranked amongst the leading industrial groups of the country with diversified interests in paper and paperboard, packaging, financial institutions, education and real estate sectors. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group.

**Financial Strength** Major shareholding of the Sponsors is consolidated in two main companies; IGI Holdings and Packages Limited. On consolidated basis, IGI Holdings has an asset base of ~ PKR 70bln, debt exposure of ~ PKR 4bln, with an equity base of ~PKR 40bln.

## Governance

**Board Structure** The Board of IGI Holdings comprises eight members, one executive Director, six non-executive Directors and one independent Director. Majority of the members have long association with the Group. Apt board size and presence of independent oversight indicates a well framed governance structure.

**Members' Profile** All BoD members are seasoned professionals with significant experience. Board's Chairman, Syed Babar Ali, is the key individual in the development of the Group - IGI Holdings Limited and Packages Limited. He is the founder of Packages Limited, Milkpak Limited – now Nestlé Pakistan Limited and Lahore University of Management Sciences. He is also the Chairman of Sanofi-Aventis Pakistan Limited and Coca-Cola Beverages Pakistan Limited's Board. During 9MCY19, Mr. Osman Khalid Waheed resigned as an Independent Director and Mr. Hasan Askari was inducted as a Non-Executive Director on IGI Holdings Board.

**Board Effectiveness** There are two committees to assist the Board in governing the affairs of the Company, namely, Human Resource & Remuneration Committee and Board Audit Committee. Information packs for performance reporting are solicited for each subsidiary and presented to the Board on quarterly basis. The HR committee met once, while the audit committee held four meetings during 9MCY19. Timely occurrence and proper documentation of minutes bodes well for the Board. Five BoD meetings were held during 9MCY19.

**Financial Transparency** IGI Holdings external auditors, A.F. Ferguson & Co, have issued an unmodified report for the CY18.

## Management

**Organizational Structure** IGI Holdings institutes a simple organizational structure. Heads of all departments are shared and common with that of IGI General Insurance Limited. The subsidiaries have been given independent operational roles and have their own CEO, CFO and support functions. However, Legal and IT functions are centralized at group level.

**Management Team** The Company has a team of experienced individuals that has been associated with Packages Group for a long time and have significant experience in the insurance and financial sector. Mr. Tahir Masaud, IGI's CEO, has diversified national and international insurance related experience of over 20 years. He is also CEO of IGI General Insurance Limited. Mr. Syed Awais Amjad, IGI Holdings CFO, has an overall experience of over a decade.

**Effectiveness** The Company leads the oversight and control process of its subsidiaries. This is an evolving process and is expected to strengthen with time.

**MIS** Core business application used at IGI Holdings is PIBAS General Ledger Module integrated with Loan Microfinance Module, a customized application for Banks and NBFCs provided by PIBAS Pakistan (Pvt.) Limited. This was also previously in use at IGI Investment Bank Limited prior to its merger with the Company under Software Usage and Support Agreement renewable after 3 years.

**Control Environment** Packages Group has setup internal audit function, which is also responsible for the identification, assessment and reporting of all types of risks due to business operations of IGI Holdings and its subsidiaries. Internal audit reports for each subsidiary are presented to the Board Audit Committee and the BoD for discussion.

## Business Risk

**Industry Dynamics** Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments gradually for the purpose of diversification and growth eventually de-merged from their operations and structured itself so that holding companies could concentrate their investments for the purpose of business growth and diversification.

**Relative Position** IGI Holdings has an investment book of ~ PKR 16bln (Sept'19) comprising of investments in the financial sector. IGI General Insurance holds an established position in the general insurance sector while IGI Life insurance has implemented a growth strategy to gain volumes. IGI Investments holds a hefty portfolio of non-strategic investments of ~PKR 34bln (Sept'19). IGI Finex Securities deals in shares and commodities brokerage, money market and foreign exchange brokerage and advisory and consulting services.

**Revenues** The Company's top-line comprises of dividend income from its subsidiaries. During 9MCY19, the Company's top line stood at ~PKR 997mln (9MCY18: PKR 2.2bln). It is mainly derived from IGI Investments followed by IGI General Insurance and IGI Life. Dividend income declined due to lower dividend declared from IGI investments (9MCY19: PKR 594mln, 9MCY18: PKR 1.9bln) while increased dividends were received from IGI General Insurance (9MCY19: PKR 403mln, 9MCY18: PKR 163mln).

**Margins** Owing to simple operations and organizational structure, the Company enjoys high margins as it stood at 83% in 9MCY19 (9MCY18: 91%), with the Bottom-line standing at PKR 830mln in 9MCY19 (9MCY18: PKR 1,985mln).

**Sustainability** The Company acquired 83mln shares and increased its holding in IGI Life Insurance by 0.7% through a right issue during 9MCY19. Meanwhile, IGI Investments is looking to invest 45% in the equity of S.C Johnson & Son of Pakistan (Private) Limited, which is a global manufacturer of household cleaning and pest control products. The proposed investment is subject to obtaining regulatory approval. Going forward, dividend income from the subsidiaries is expected to remain subdued in the current economic environment.

## Financial Risk

**Working Capital** In 9MCY19, short term borrowings of the Company increased to PKR 972mln (CY18: PKR 409mln). This rise is attributable to timings of cashflows from dividend income.

**Coverages** Owing to decrease in dividend inflow, interest cover posted a dip in 9MCY19 ~ 6.6x (CY18: 21.7x), but, remained strong. Core and total coverage stood at ~ 0.9x as at Sept'19 (CY18: 2.8x).

**Capitalization** The Company has a low geared capital structure of ~12.9% (9MCY19) consisting of both long-term and short-term debt. During 9MCY19, short term borrowings stood at ~ PKR 972mln to finance its participation in right issue announced by IGI Life Insurance. Long term finance of PKR 1.5bln was obtained in CY18 for the purpose of injecting equity in IGI General Insurance. Being a holdCo, the nature of strategic assets are long term and short term borrowings could create a mismatch.



**IGI Holdings Limited**  
**Unconsolidated**

PKR mln

**BALANCE SHEET**

	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18	31-Dec-17
	9M	6M	3M	Annual	Annual
	Management	Management	Management	Audited	Audited
<b>Non-Current Assets</b>	<b>88</b>	<b>89</b>	<b>59</b>	<b>62</b>	<b>11</b>
<b>Investments (Incl. associates)</b>	<b>15,649</b>	<b>14,818</b>	<b>14,820</b>	<b>14,821</b>	<b>14,977</b>
Equity	15,649	14,818	14,820	14,821	14,974
Others	-	-	-	-	3
<b>Advance against Investment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current Assets</b>	<b>320</b>	<b>329</b>	<b>908</b>	<b>304</b>	<b>481</b>
Inventory	-	-	-	-	-
Trade Receivables	-	-	-	-	-
Others	320	329	908	304	481
<b>Total Assets</b>	<b>16,058</b>	<b>15,235</b>	<b>15,788</b>	<b>15,187</b>	<b>15,469</b>
<b>Debt</b>	<b>2,023</b>	<b>1,368</b>	<b>1,633</b>	<b>1,610</b>	<b>1,570</b>
Short-term	973	318	433	410	-
Long-term (Incl. Current Maturity of long-term debt)	1,050	1,050	1,200	1,200	1,570
Other short-term liabilities	331	276	315	271	306
Other Long-term Liabilities	-	-	-	-	226
<b>Shareholder's Equity</b>	<b>13,705</b>	<b>13,591</b>	<b>13,839</b>	<b>13,306</b>	<b>13,366</b>
<b>Total Liabilities &amp; Equity</b>	<b>16,058</b>	<b>15,235</b>	<b>15,788</b>	<b>15,187</b>	<b>15,469</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>998</b>	<b>797</b>	<b>594</b>	<b>2,183</b>	<b>82</b>
Gross Profit	998	797	594	2,183	82
Other Income	10	8	2	(142)	(243)
Financial Charges	(141)	(79)	(43)	(100)	(22)
<b>Net Income</b>	<b>830</b>	<b>716</b>	<b>534</b>	<b>1,800</b>	<b>(246)</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	940	756	(19)	2,156	(9)
Net Cash changes in Working Capital	17	11	13	(53)	88
Net Cash from Operating Activities	957	768	(7)	2,103	78
Net Cash from Investing Activities	(830)	1	0	10	(915)
Net Cash from Financing Activities	298	(341)	427	(2,129)	1,481

**Ratio Analysis**

**Performance**

Turnover Growth	NA	NA	NA	NA	NA
Gross Margin	100.0%	100.0%	100.0%	100.0%	100.0%
Net Margin	83.2%	89.8%	89.8%	82.5%	-299.1%
ROE	8.3%	10.3%	15.7%	13.4%	-3.7%

**Coverages**

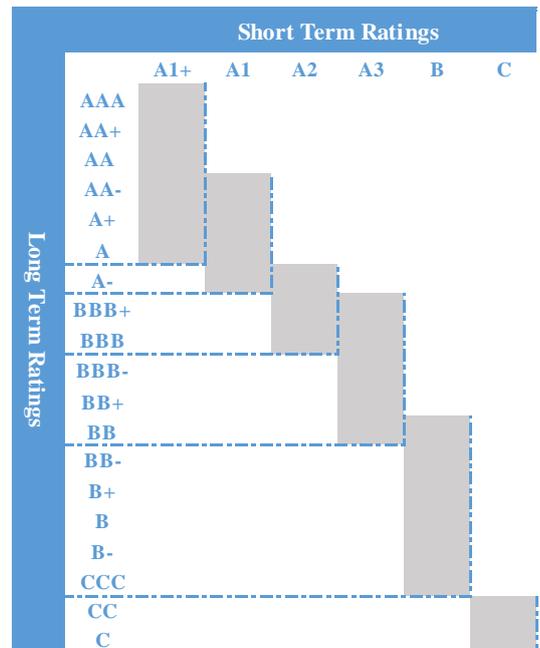
Interest Coverage (FCFO/Gross Interest)	6.6	9.6	-0.4	21.7	-0.4
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.9	2.1	-0.2	2.8	-0.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.9	2.1	-0.2	2.8	-0.1
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	1.9	1.0	-4.8	0.8	-65.1

<b>Capital Structure (Total Debt/Total Debt+Equity)</b>	<b>12.9%</b>	<b>9.1%</b>	<b>10.6%</b>	<b>10.8%</b>	<b>13.1%</b>
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## Credit 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



**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’.

**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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
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(22) 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. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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