

Thal Limited

Directors' Review Report to the Shareholders

On behalf of the Board of Directors, I am pleased to share Directors' Review along with the unaudited interim condensed financial statements for the period ended September 30, 2019.

Financial Highlights

	Rupees in Millions	
	For the quarter ended Sep. 30, 2019	For the quarter ended Sep. 30, 2018
Sales	3,998	4,881
Profit Before Taxes	285	714
Profit After Taxes	194	511
Earnings Per Share (Rs.)	2.40	6.31

Performance Overview

During the first quarter ended on September 30, 2019, the Company posted sales revenue of Rs. 3.9 billion compared to Rs. 4.9 billion in the corresponding quarter last year. The basic & diluted Earnings Per Share (EPS) are Rs 2.40 compared to Rs. 6.31 in the corresponding period last year.

Business Brief – Engineering Segment

The Company's Engineering segment comprises of the Thermal & Engine Components Business and Electric Systems Business. These businesses are primarily focused on parts manufacturing for the auto industry.

The Auto sector overall faced a challenging first quarter as OEM's automobile sales declined by 39% versus the same period last year and were lower by 34% compared to the last quarter. The demand is expected to remain weak in the short term because of increased prices of the vehicles owing to introduction of duties and taxes as well as sharp devaluation of the Rupee. However, considering different steps taken by the OEMs, management is hopeful that volumes will start to recover in next few months.

This decline in demand for cars has translated into a contraction in the auto parts manufacturing industry as well. The turnover of the Engineering Segment for Q1 FY19-20 was recorded at Rs 2.3 billion, registering a decline of 34% compared to Rs 3.5 billion in the same period last year. In addition to the above, slow off-take has resulted in significant pile up of inventory. The Company being prudent, has made a significant provision against this inventory which negatively impacted overall Company's Gross Margin; registering at 8.7% in this quarter versus 17.3% in the same period last year.

In these challenging times, the management remains committed to implementing cost optimization measures with continued focus on developing new business and further localization.

Business Brief – Building Material & Allied Product Segment

Sales revenue of Building Material & Allied Product Segment during the quarter ended September 30, 2019 was Rs 1.7 billion against Rs 1.4 billion in the corresponding period last year, an increase of 21%.

Jute Operations

The quarter under review remained challenging for the company. Major cost increases were absorbed in terms of raw jute, electricity and minimum wage. Additionally, the devaluation of the Pak Rupee further strained the profitability of the business, and posed new challenges for the management. However, the company fully supports

the government's efforts to document the economy, which would provide a level playing field for all in the long run.

Volumes of export sales were increased as compared to the same period last year. However, the demand in local market is under pressure and expected to improve in the coming months with moderate demand of grain sacks. Overall the business remained on budget for the quarter.

Papersack Business

The quarter under review registered 21% higher sales revenue as compared to the corresponding period last year. This increase is the consequence of higher paper cost in the international market coupled with PKR devaluation and an increase in additional custom duty due to which the difference between paper and polypropylene sacks increased further, creating a challenge for the business. Your management is in continuous follow up with regulatory authorities for the rationalization of custom duties, in order to get a level playing field.

Volumes of Industrial sacks, SOS and Carrier bags collectively grew as compared to the same period last year as our customer base has widened owing to the drive against plastic bags.

The management continues to advocate the proliferation of paper in packaging nationwide as compared to the environmentally harmful use of plastic bags which is one of the major contributors to non-biodegradable urban waste.

The outlook for the year is positive as paper prices are moving back to normal levels in the international market. However, recession in the construction industry, exchange rate volatility along with unfair custom tariff will continue to remain challenging for the business. In the months to come, demand for our food grade and fashion bags is expected to show a healthy growth which the business is geared up to capitalize from.

Laminates Operations

The quarter under review registered higher sales revenue for the business compared to the corresponding period last year due to growth in volumes as well as price. The quarter was expected to be slow and challenging with the market dealers resisting and testing the government's new conditions to document sales. Those who have registered themselves are also gradually increasing their documented sales.

Subsidiaries

Thal Boshoku Pakistan (Private) Limited (TBPK)

During the current quarter the sales were significantly down over the same period last year. The main reason for decrease in sales is due to negative volume variance at the back of declining market conditions. At the same time, the continuous devaluation of PKR against major foreign currencies including USD and JPY was a constant pressure on profitability for the Company.

The Company witnessed significant developments being undertaken during the current period. The Company is on track to be ready for commercial production of seats in its new facility. In addition to a new seat plant, the Company is also taking steps towards increasing its products offering by working to increase its localization portfolio, along with introduction of new automotive parts.

On the operations side, all customer supplies requirements were met in time with ZERO DEFECT, and the customers rated the business in the "GREEN ZONE" throughout the year. Focus remained on improving production efficiency, Kaizen and towards providing a healthy and safe working environment to our team members.

Further localization and increase in product range will provide the Company with the ability to succeed in challenging times, while being able to maintain profitability for the shareholders.

Habib- Metro Pakistan (Private) Limited (HMPL)

The main business of Habib METRO Pakistan (Private) Limited (HMPL) is to own and manage properties. Thal Limited holds 60% shareholding in HMPL while 40% is held by Metro Cash & Carry International Holding B.V. The company is exploring various business opportunities to complement the cash & carry retail rental business and to enhance enterprise value from its store locations.

During the quarter, HMPL approved final dividend of Rs. 69 million for payment to Thal Limited.

Makro-Habib Pakistan Limited (MHPL)

Makro Habib Pakistan Limited (MHPL) is a wholly owned subsidiary of Thal Limited which owns Makro Saddar store. The Honorable Supreme Court of Pakistan dismissed MHPL's Review Petition for Saddar Store and as a consequence, the store of MHPL was closed down on September 11, 2015.

Subsequently, on December 9, 2015, the Honorable Supreme Court of Pakistan accepted the request of Army Welfare Trust (AWT) for restoration of its Review Petition. In its hearing held on February 2, 2016, the Honorable Chief Justice commented that while reviewing AWT's review petition, both MHPL and Ministry of Defense will also get a chance to argue their points on merit as they are respondents in AWT's petition.

AWT's review petition was fixed for hearing on October 17, 2017 before a new bench. However, there were no proceedings during the hearing on account of adjournment filed by counsel representing Shehri & KWSB.

Investment in Power Sector

Sindh Engro Coal Mining Company Limited

SECMC is a joint venture between the Government of Sindh, Thal Limited, Engro Powergen Limited, Hub Power Company Limited, Habib Bank Limited, CMEC Thar Mining Investments Limited and SPI Mengdong. It is engaged in developing Pakistan's first open pit mining project at Thar Coal Block II. The project achieved its commercial operations date for 3.8 million tons per annum capacity (Phase I) on July 10, 2019. Phase I of the Thar mining is supplying coal to a 2x330 MW power generation plant set up by Engro Powergen Thar (Private) Limited.

Phase II of SECMC is on course to achieving Financial Close. The tariff has been determined by Thar Coal & Energy Board while the financing documents have been executed. For Phase II, SECMC has entered into Coal Supply Agreements with ThalNova Power Thar (Private) Ltd and Thar Energy Ltd to supply additional 1.9 million tons of lignite per annum to each 330 MW power plant, respectively.

Thal Power (Private) Limited

ThalNova Power Thar Private Limited ("ThalNova") is a joint venture between Thal Power (Private) Limited, Nova Powergen Ltd (subsidiary of Novatex Ltd) and Hub Power Company to set up a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be run on indigenous coal extracted from the mine operated by SECMC.

China Machinery & Engineering Corporation ("CMEC") has been appointed as the EPC Contractor. ThalNova has entered into Coal Supply Agreement (CSA) with SECMC to supply 1.9 million tons per annum of lignite. It has also entered into a Power Purchase Agreement (PPA) with the Central Power Purchase Agency (Guarantee) Ltd (CPPA) and the Implementation Agreement ("IA") with Private Power Infrastructure Board (PPIB).

China Development Bank ("CDB") and Habib Bank Limited ("HBL") have been engaged for arrangement of foreign and local currency project debt respectively. ThalNova executed key financial agreements with project lenders in July this year and is on course for achieving financial close.

ThalNova (through shareholder's equity) has given Mobilization Advance along with Limited Notice to Proceed (LNTP) to the EPC contractor i.e. CMEC to initiate work on the site and expedite the achievement of Commercial Operations Date of the Project.

Acknowledgement

We would like to thank and to convey our appreciation in these challenging times to our Board of Directors, customers, dealers, bankers and the joint venture & technical partners for their continued support and confidence in the company. We also want to recognize the efforts of all our fellow employees who have worked with commitment to achieve the results.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M. T. Tareen', with a horizontal line underneath the name.

Muhammad Tayyab Ahmad Tareen
Chief Executive

Karachi: October 25, 2019.