

# Thal Limited

## Directors' Review Report to the Shareholders

On behalf of the Board of Directors, I am pleased to share the Directors' Review along with the unaudited interim condensed financial statements for the period ended December 31, 2019.

### **Financial Highlights**

	Rupees in million			
	Standalone		Consolidated	
	For the Half Year Ended Dec 31, 2019	For the Half Year Ended Dec 31, 2018	For the Half Year Ended Dec 31, 2019	For the Half Year Ended Dec 31, 2018
Sales Revenue	7,884	10,555	8,244	11,119
Profit Before Taxes	1,238	2,100	2,241	2,797
Profit After Taxes	940	1,494	1,683	1,971
Earnings Per Share (Rs.)	11.60	18.43	18.84	21.72

The Board has approved on interim cash dividend of Rs. 1.50 per share i.e. 30% for the half year ended December 2019

### **Performance Overview**

Sales revenue for the first half of the year ended on December 31, 2019, was Rs. 7.9 billion as compared to Rs. 10.5 billion in the corresponding period of last year. The basic & diluted Earnings Per Share (EPS) was Rs. 11.60 compared to Rs. 18.43 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.

During the six months' period ended Dec'19, overall car sales registered a decline of 43% as compared to the same period last year. The consumer demand for automobiles is showing signs of improvement from Jan'20 onwards, as the overall market is adjusting to the impact of PKR devaluation and new taxes introduced under fiscal budget 2019-20.

The turnover of the Engineering Segment for the half year ended 31<sup>st</sup> Dec 2019 was recorded at Rs 4.3 billion, registering a decline of 42% compared to Rs 7.4 billion in the six months' period ended 31<sup>st</sup> Dec 2018, owing primarily to slow demand for cars. The Company's gross margin has shown significant improvement over preceding quarter, registering at 14.10% for the half year versus 8.7% in the 1<sup>st</sup> quarter 2019-20 due to enhanced focus and streamlining of its Inventory Procurement Cycle with the OEM.

During this low production period, management efficiently reduced the operating cost and increased its focus on initiatives to improve quality, health, safety and environment. The management remains committed to implement all possible cost optimization measures including further localization initiatives and developing new business.

### **Business Brief – Building Material & Allied Product Segment**

Sales revenue of Building Material & Allied Product Segment during the half year ended December 31, 2019 was Rs 3.5 billion against Rs 3.2 billion in the corresponding period last year, resulting in an increase of 9%.

## **Jute Operations**

During the first half of 2019-20, the Jute business managed to retain its market share and maintained a positive momentum, despite considerable slowdown of the economic activities, which resulted in lower demand for the Jute products.

Jute Business' drive into export markets has borne positive results, with exports being the highest ever in the first half. Additionally, existing export customers have reposed their confidence in our products by placing repeat orders. Your management is exploring new export markets as well as developing new products, and is confident of reporting further successes in the coming periods.

The continuing trend of rising freight & energy costs along with abnormal increase in prices of raw jute will have some bearing on the overall performance of the business; however, the management is taking appropriate measures to reduce the costs and optimizing sales mix for local and international markets. The export prospect is quite positive and we expect more penetration in the international market going forward.

In the coming period, the business expects the local market conditions to improve. Demand of grain sacks is expected to be on the higher side from Government Procurement Agencies as compared to last year due to less carryover stocks of wheat with them this year.

## **Papersack Operations**

Performance of the business in the first half of the year was not better than the corresponding period last year in terms of profitability. High paper cost in the international market, and PKR devaluation adversely affected the profitability of the business. Lower sales volumes of the Cement segment also eroded profitability as customers are switching towards WPP bags for packaging which is attributed to unfair custom duty on paper. Your management is in continuous follow up with regulatory authorities for the rationalization of custom duties in order to get a level playing field.

Industrial Sacks, Fashion bags, Food grade bags/wraps have shown a healthy growth, resulting in an additional revenue in these segments.

The outlook for the year is positive as paper prices are normalizing in the international market. However, recession in construction industry, exchange rate volatility along with unfair custom tariff will continue to remain challenging for the company. In the months to come, demand for our food grade bags/wraps and fashion bags is expected to show a healthy growth. Your management is trying its best to improve profit margins through efficient raw material sourcing as well as tight controls on overheads.

## **Laminates Operations**

The Laminates Business operates under the brand name "Formite" in three major segments - HPL (High Pressure Laminates), Compact Laminates and Lamination Boards. The brand is known for its quality and adherence to corporate values.

Despite the effects of the overall slowdown in the economy, the Laminates Business was able to sustain its sales during the period. While the dollar has stabilized, the further increase in Gas Tariff has added to the cost pressures in an already depressed market.

There are initial signs of revival of the construction industry and we are confident that the business will achieve its projected targets.

## **Subsidiaries**

### **Thal Boshoku Pakistan (Private) Limited (TBPK)**

Thal Boshoku Pakistan (Private) Limited is a joint venture between Thal Limited (55% shareholding), Toyota Tsusho Corporation Japan (10% shareholding), Toyota Boshoku Corporation Japan (9.6% shareholding) and Toyota Boshoku Asia Corporation (25.4% shareholding).

During the six-month period ended 31<sup>st</sup> December 2019, sales have gone down due to negative volume variance at the back of declining market conditions. At the same time, the devaluation of PKR against major foreign currencies including USD and JPY was a constant pressure on profitability for the Company.

The Company is on track 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 product offering by working to increase its localization portfolio, along with introduction of new automotive parts.

Due to significant pressure on cash flow, the Company approved a shareholder loan of PKR 500 million in order to provide stability. The loan was approved by the respective shareholders, and the Company has received the funds during February 2020. The loan is for a one-year period, with an option to extend if needed.

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.

The future outlook of the industry is stable at best. 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 interim dividend of Rs. 162 million for payment to Thal Limited.

### **Makro-Habib Pakistan Limited (MHPL)**

The Honorable Supreme Court of Pakistan dismissed the MHPL's Review Petition for the Saddar Store and as a consequence, the Saddar Store of MHPL was closed down on September 11, 2015.

As a later development on December 9, 2015, the Honorable Supreme Court of Pakistan accepted the Army Welfare Trust's (AWT) request 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. The company is a wholly owned subsidiary of Thal Limited.

### **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. SECMC achieved commercial operations date for 3.8 million tons per annum capacity mine (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.

SECMC successfully achieved Financial Close for expansion of its mining operations to 7.6 mtpa on 31 Dec 2019. For Phase II, SECMC has entered into Coal Supply Agreements with ThalNova Power Thar (Pvt) Ltd and Thar Energy Ltd to supply additional 1.9 million tons of lignite per annum to each 330 MW power plant respectively. SECMC expects to achieve commercial operations date for Phase II in 2022.

Thal Ltd owns 11.9% ordinary shareholding in SECMC.

## **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).

ThalNova executed key financial agreements with project lenders in 2H CY2019 and is on course for achieving financial close in 1Q CY2020.

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 the Almighty for all His blessings in these challenging times and to convey our appreciation 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



**Muhammad Tayyab Ahmad Tareen**  
**Chief Executive**

Karachi: February 20, 2020