

Thal Limited

DIRECTORS' REVIEW REPORT TO THE SHAREHOLDERS

Dear 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 March 31, 2018.

Financial Highlights

	Rupees in Millions	
	For the period ended March 31, 2018	For the period ended March 31, 2017
Sales	13,623	12,501
Profit Before Tax	2,710	4,583
Profit After Tax	2,054	3,434
Earnings Per Share (Rs.)	25.35	42.38

Performance Overview:

Sales revenue for the nine months ended March 31, 2018, was Rs. 13.623 billion as compared to Rs. 12.501 billion for the corresponding period of last year, showing an increase of 9%. Profit after tax for the period was lower by Rs. 1.38 billion compared to the corresponding period mainly on account of gain on the divestment of shares in Metro Habib Cash & Carry Pakistan (Private) Limited that took place in the comparative period last year. The basic & diluted Earnings Per Share (EPS) was Rs. 25.35 compared to Rs. 42.38 in the corresponding period last year.

The Board has approved a 2nd interim dividend of Rs. 2.5 per share @ 50% for the period ended March 31, 2018, in addition to the 1st interim dividend of Rs. 2.5 per share @ 50% thus making a total dividend payout of Rs. 5 per share i.e. 100% for the nine months ended March 31, 2018.

Business Brief – Engineering Segment:

The domestic auto industry market remained strong on the back of successful launches of new models by the local auto assemblers and an increase in auto leasing due to availability of attractive rates.

Import of used vehicles continues to rise sharply, exhibiting an increase of about 34% from last year, led by an increase in Hybrid passenger cars. This continues to have an adverse impact on the performance of the local auto industry with around 59,089 units imported during 9 months compared to 44,084 units imported in last year.

The government continues to negotiate Free Trade Agreements (FTAs) with China, Thailand and Turkey. In this respect, the Company's management has put forward its opinion to the government with a view to protect the auto vendor industry and will continue its engagement on this issue.

The sales revenue for the nine-month period ended March 31, 2018 was Rs. 9.118 billion as compared to Rs. 8.765 billion in the corresponding period of last year, showing an increase of 4%.

The aftermarket segment has performed well during the nine-month period. Demand for products of the company for the commercial vehicle segment performed particularly well with the induction of new customers and with the sales of new products to existing customers.

Sales during the last quarter of the financial year are expected to remain strong. The management will continue its focus on improving product quality, human health and safety and its environment preservation initiatives. Efforts towards continuous improvement yield higher efficiencies and assist in improving the economics of the business.

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Business Brief – Building Material & Allied Product Segment

Sales revenue of Building Material & Allied Product Segment during the nine months ended March 31, 2018 was Rs. 4.505 billion against Rs. 3.736 billion for the corresponding period last year an increase of 20.6%.

Jute Business

The Jute Business maintained a positive trend during the nine-month period, and retained its position as a major supplier of Jute products in the country. Despite challenging external conditions such as devaluation of the Pak Rupee and rising trend of fuel & energy cost, the management's prudent cost control measures; productivity improvement initiatives and market penetration strategies bore positive results.

The demand for PGS (Pakistan Grain Sacks) remained strong due to lower carryover stocks from last year. The business also witnessed growth in demand with the addition of new local & export customers. The business plans to build its export base for growth, while maintaining its strong presence in the domestic market. Management will maintain its focus on production efficiencies to ensure competitive advantage in both the local and export markets

Papersack Business

The Cement sector continued to show healthy growth and volumes increased by 14 % in nine months of the year in comparison with last year. The business was able to take advantage of this increase in terms of packaging demand and grew sales volumes of cement bags. The SOS segment also saw volume growth in line with retail market growth.

The period under review however saw global price increases for paper as well as an erosion of Pak Rupee against the Euro which significantly impacted raw material costs. Over the course of the period, selling price increases of our products could not fully offset the adverse impact of increased costs of raw materials, resulting in an erosion of margins. The outlook for the year is expected to remain challenging due to a tight global supply market along with price increases in raw material prices.

Commercial production of Carrier bags has started which will create more value for the business. The industrial sacks and food bag segments are expected to show robust growth that the Company is geared up to capitalize upon.

Laminates Operations

The Laminates Business operates in three major segments, High Pressure Laminates (HPL), Compact Laminates and Lamination of boards.

The recent increase in import cost of raw materials including boards has been a challenge for the business as the Company relies on either imported boards or local supplies from the fully documented sector thus operating at a higher cost base.

The company made efforts to develop new products and expand its customer base, and develop new sales channels and value added market segments, which are expected to strengthen its brand and commercial competitive ability.

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Subsidiaries

Thal Boshoku Pakistan (Pvt.) Ltd.

During the period under review, the Sales Revenue for the Company registered a decline vis-à-vis last year mainly due to less off take by customers. However, the Company worked towards mitigating the corresponding drop in profit, through effective financial management, improved cost control, and efficient inventory management.

The Company has launched its efforts towards expansion of its operations. Construction work on a new manufacturing facility is underway and progressing at a fast pace. The management of the Company remains focused towards completion of the expansion project as per schedule. The future outlook of the Company remains encouraging as auto sector demand exhibits a rising trend.

Makro-Habib Pakistan Limited (MHPL)

The Honorable Supreme Court of Pakistan had 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.

Habib Metro Pakistan (Private) Limited (HMPL)

The main business of Habib METRO Pakistan (Private) Limited (HMPL) is to own and manage retail store properties and accordingly, most of its revenue is generated from rental income. Thal Limited holds 60% shareholding in the subsidiary. The company is exploring various business opportunities to complement the retail rental business and to enhance enterprise value from its store locations.

The Board of Directors in their meeting for the third quarter held on April 23, 2018 declared interim cash dividend of Rs. 0.463 per share amounting to Rs. 94.4 million in respect of Thal Limited.

Investments in Energy Sector

Thal Power (Private) Limited

The Company has entered into a Joint Venture Agreement with Novatex Limited, for collaboration to develop a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be based on lignite coal extracted from the mine operated by Sind Engro Coal Mining Company (SECMC).

The Company through its wholly owned subsidiary, Thal Power (Private) Limited has incorporated a JV project company, i.e., ThalNova Power Thar Private Limited ("ThalNova"), to develop the project.

ThalNova has obtained the Letter of Intent (LOI) and the Letter of Support (LOS) from the Private Power Infrastructure Board (PPIB). National Electric Power Regulatory Authority (NEPRA) has issued the Generation License and awarded the Upfront Tariff on Thar coal to the project company. ThalNova has also been issued a No Objection Certificate (NOC) by the Sindh Environmental Protection Agency (SEPA). China Machinery & Engineering Corporation 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 lignite. It has also entered into a Power Purchase Agreement (PPA) with the Central Power Purchase Agency (Guarantee) Ltd.

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and the Implementation Agreement (“IA”) with PPIB. China Development Bank (“CDB”) and Habib Bank Limited (“HBL”) have been engaged for arrangement of foreign and local currency project debt respectively.

Whilst the project has sound fundamentals being based on indigenous resources and enjoys good support and encouragement from the respective governments, it also presents significant challenges in achieving timely financial close. ThalNova is actively engaged in concluding all project agreements and securing financial close for the project.

Sindh Engro Coal Mining Company Limited (SECMC)

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 Financial close on April 4, 2016.

The project is under construction and presently the progress is ahead of schedule. To date c. 82 Million BCM of overburden has been removed and the mine has reached a depth of 125 meters. Related infrastructure projects of Effluent Disposal Line and Left Bank Outfall Drainage Scheme are expected to come online as per schedule.

For the first phase of the project, the Board of Directors of Thal Limited approved a total exposure of Pak Rupee equivalent of US\$ 36.1 million, which includes equity investment of US\$ 24.3 million, US\$ 5 million for cost over-run and US\$ 6.8 million for debt servicing reserve. To date the Company has invested Rs. 1,199 million equivalent to US\$ 11.51 million in the project.

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 as Phase II of the mine’s development.

Acknowledgement

In the end we would like to thank the Almighty for all His blessings in these challenging times and convey our appreciation to all our Customers, Dealers, Bankers, Joint Venture and Technical Partners for their continued support and confidence in the Company. We also wish to recognize the efforts of all our team members who have worked diligently to achieve these results.

On behalf of the Board



Mazhar Valjee
Chief Executive
Karachi: April 26, 2018.