

# 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 unaudited interim condensed financial statements for the period ended September 30, 2020.

### **Financial Highlights**

|                          | <i>Standalone</i>     |                     | <i>Consolidated</i>   |                     |
|--------------------------|-----------------------|---------------------|-----------------------|---------------------|
|                          | <b>3 months ended</b> |                     | <b>3 months ended</b> |                     |
|                          | <b>Sep 30, 2020</b>   | <b>Sep 30, 2019</b> | <b>Sep 30, 2020</b>   | <b>Sep 30, 2019</b> |
| (PKR in million)         |                       |                     |                       |                     |
| Sales                    | 5,057                 | 3,998               | 5,514                 | 4,187               |
| Profit Before Taxes      | 928                   | 285                 | 1,819                 | 864                 |
| Profit After Taxes       | 717                   | 194                 | 1,486                 | 650                 |
| Earnings Per Share (Rs.) | 8.85                  | 2.40                | 17.18                 | 7.04                |

### **Performance Overview**

For the quarter ended September 30, 2020, the Company posted sales revenue of Rs. 5.06 billion, up Rs. 1.06 billion (26%) compared to Rs. 4 billion in the corresponding quarter last year. The basic & diluted earnings per share (EPS) for the current quarter was Rs. 8.85 compared to Rs. 2.40 in the corresponding prior period last year.

### **Business Brief – Engineering Segment**

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

For the quarter ended September 30, 2020, the turnover of the engineering segment was Rs. 3.1 billion, up Rs. 0.8 billion (35%) compared to Rs. 2.3 billion during the same period last year. The increase is mainly attributable to the improvement in automotive demand post-COVID-19 lockdown and stabilization of economic indicators. In the same period last year, automotive demand was significantly lower due to the imposition of additional taxes and duties by the government. We anticipate a favorable demand for automotive in the coming months.

Amidst the pandemic, the economic challenges and political instability is making it difficult to assess consumer demand in the longer term. However, the management is confident on government initiatives towards economic recovery.

In order to protect the interest of the stakeholders in these uncertain times, the management has taken several steps to reduce operational costs, ensure sustainability and maintain profitable operations. On the steady trajectory of business growth, the Company relishes its reputation in the automotive industry where localization opportunities, in collaboration with existing and new OEMs, shows a positive sign of success.

Going forward, management will continue its focus on improving quality, health, safety and environment initiatives through continuous process improvement.

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

Sales revenue of the Building Material & Allied Product Segment for the quarter ended September 30, 2020, was Rs. 2 billion, up Rs. 0.3 billion (18%) compared to Rs. 1.7 billion during the same period last year.

### **Jute Operations**

The quarter under review remained challenging for the business. The cost of major inputs like raw jute and power increased significantly, coupled with depreciation of the Pakistani Rupee (PKR), became an ongoing challenge to set off the increase in operating costs. This resulted in an increase of cost to the end user.

Despite the effects of an overall slowdown in the economy due to COVID-19 and tough competition, we were able to maintain the sales momentum due to enhanced focus on cost efficiencies, better sales and supply chain management, the business was able to deliver improved results during the year.

Sales during next quarter is expected to remain strong, however, the devaluation of PKR and the trend of rising raw jute prices may pose new challenges for the management. The management will continue to focus on improving quality, health, safety and environment initiatives while enhancing cost efficiencies through continuous process improvement.

### **Papersack Business**

The government is giving special attention to uplift the construction sector causing a double-digit increase in demand for cement in the quarter. The Company was poised in terms of new additional capacity and capability with greater efficiency to benefit from this increased demand. During the quarter, revenue and volume grew significantly higher than the corresponding period of last year. The safety and well-being of our people will remain our primary focus. The Company is taking all precautionary measures during this pandemic to ensure a safe working environment for its employees.

Volumes of other segments, mainly the food grade bags segment, also increased owing to higher take-away and home deliveries by restaurants during the COVID-19 pandemic.

Profitability of the business improved, which is mainly attributed to higher volumes and softening of paper price in the international market. Furthermore, with continuous follow up with the government authorities, the Company was able to get a relief in custom duty on sack Kraft paper through the Finance Act 2020. The entire paper sack industry is thankful to the government, especially Ministry of Commerce & National Tariff commission, as this custom duty rationalization has provided a level playing field to paper bags against WPP bags.

The outlook for the remainder of the year remains positive as we are expecting the demand for cement sacks and food grade bags to continue to increase. The management is continuously focusing on keeping costs under control and work environment safe. However, exchange rate volatility and second wave of COVID-19 in the country may have a negative impact on demand due to possible lockdowns.

### **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.

Post lockdown, the market has picked up. Not only was the Laminates Business able to maintain local sales momentum during the quarter but it also managed to retain existing clients in the Middle Eastern and African markets with regards to exports. Moreover, it was also able to add new customers in both the local and export market.

Due to enhanced focus on cost efficiencies, better sales and supply chain management, the Laminates Business was able to deliver far better results than budgeted during the quarter. Global markets still remain somewhat inconsistent in terms of pricing and shipping timelines. Therefore, we are maintaining safety stocks of raw material to avoid any major shortages.

Key drivers to focus on, in the next quarter, would be to continue work on enhancing brand visibility, increasing product quality and expanding the product line by exploring avenues in door skins, floor lamination, etc.

The on-going boom in the construction industry and allied building materials industry gives us confidence that the Laminates division will be enjoying healthy profitable business for the foreseeable future.

## **Subsidiaries**

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

The seat plant that started operations in February 2020, contributed significantly to the increased sales revenue this quarter.

With the increase in volume, price, product diversification, and recognition of the high quality by consumers, the Company was able to increase its presence in the market and generate positive cash flows, improving its liquidity.

On the operations side, all customer supplies requirements were met in time with '*zero defects*', and was rated in the 'GREEN ZONE' throughout the year. Focus remains on improving production efficiency, Kaizen and towards providing a healthy and safe working environment for our team members.

Outlook for the future of the Company looks challenging due to continued pressure on the local economy. However, since the lifting of the lockdown, the automotive sector has seen resurgence of demand from the OEM's. In addition, the new OEM entrants have started local production which has created further opportunities to diversify the customer base. The Company is also taking steps towards increasing its product offering by working to increase its localization portfolio, along with development of new products within the auto-parts industry.

### **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 a final dividend of Rs. 127 million for payment to Thal Limited.

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

Makro Habib Pakistan Limited (MHPL) is a wholly owned subsidiary of Thal Limited that owns the Makro Saddar store. The Honorable Supreme Court of Pakistan dismissed MHPL's Review Petition for the Saddar store and as a consequence, the Saddar store 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 the 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 matter is being pursued to fix the next hearing and the Company shall continue to seek a favorable resolution.

## **Investment in Power Sector**

### **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.

SECMC achieved a commercial operations date for 3.8 million tonnes per annum (MTPA) capacity mine (Phase I) on July 10, 2019. Phase I of the Thar mining is to supply coal to a 2x330 megawatt (MW) power generation plant set up by Engro Powergen Thar Private Limited.

In the period ending 9M CY2020, SECMC operated smoothly and supplied 3 million tonnes of coal to record sales revenue of c. Rs. 28 billion and an after-tax profit of c. Rs. 6.7 billion. Whilst SECMC has generated positive cash flows over the period, it is restricted from declaring any dividends under its financing agreements until achievement of Project Completion Date (PCD) which is subject to 'true up' and approval of SECMC's COD stage tariff petition by the Thar Coal and Energy Board. SECMC management is targeting achievement of PCD in Q1 CY2021.

SECMC successfully achieved financial close for expansion of its mining operations to 7.6 MTPA on December 31, 2019. For Phase II, SECMC has entered into Coal Supply Agreements with ThalNova Power Thar Private Limited and Thar Energy Limited to supply an additional 1.9 MTPA of lignite to each of the 330 MW power plants.

The Project Company is now striving to achieve commercial operations date for Phase II in 2022. Thal Ltd. owns 11.9% of the 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 Limited (subsidiary of Novatex Ltd.) and Hub Power Company to set up a 330 MW mine mouth coal-fired power generation plant located in 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 MTPA 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).

The Power Plant is listed under Priority Projects under the China Pakistan Economic Corridor (CPEC) and its financing is being led by China Development Bank and Habib Bank Ltd.

ThalNova achieved its Financial Close on September 30, 2020. The Project is expected to come online in 2022. Thal Ltd. owns 26% ordinary shareholding in ThalNova through its wholly owned subsidiary Thal Power (Private) Limited.

### **Acknowledgement**

We would like to thank and 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



**Muhammad Tayyab Ahmad Tareen**  
Chief Executive



**Salman Burney**  
Director

Karachi: October 27, 2020