

# Thal Limited

## DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

The Directors of your Company are pleased to place before you the performance for Q3 ended March 31, 2014.

The sale revenue for the period ended March 31, 2014 was Rs 8.5 billion as against Rs 8.8 billion in the same period last year. The profit before tax was Rs 1.4 billion compared to the previous period of Rs 1.5 billion. The basic and diluted earnings per share was Rs 13.01 as compared to Rs 13.71.

The Board has approved the 2nd interim cash dividend i.e. Rs 2.5 per share for the nine months ended March 31, 2014 in addition to the 1st interim cash dividend of Rs 2.5 per share @ 50%.

### Engineering Segment

The Sales revenue for the Engineering Segment during the Q3 period ended March 31, 2014 amounted to Rs 4.8 billion similar to the corresponding period last year.

The local auto industry has been encountering several challenges, particularly the continuing adverse impact of imported used cars. However, auto sales did demonstrate a slight recovery of 7% during Q3 of fiscal 2013-14 and consequently the Engineering Segment ended the quarter on a better note compared to the previous two quarters. With the recent reduction in car prices by OEMs, it is expected that volumes will increase and help improve the next quarter.

The engineering segment is on its way to enhance its product offerings with the induction of the Starter and Alternator engine components in its lineup and this will assist to augment its revenue stream in the future. The segment remains customer focused and is continuously working to improve operational efficiencies by committing to the KAIZEN culture embedded with a continuous improvement attitude.

The first draft of five-year Automotive Industry Plan (AIP 2014-19) is under review and it should aim to provide a stable policy in auto industry. It is hoped that the new AIP will serve and protect the national interest by promoting and protecting indigenization of imported components adequately.

We appreciate the recent amendments made in Sales Tax regime whereby the additional 2% sales tax on Auto Parts manufacturers has been withdrawn and provincial sales tax charged on services has been allowed to be adjustable against the overall sales tax liability.

Our valued customers have acknowledged our efforts on quality and suppliability improvements through awards received during the period.

### Building Material & Allied Products Segment

The Building Materials & Allied Products Segment accomplished a turnover of Rs 3.7 billion during the Q3 period as against Rs 4 billion in the corresponding period last year.

### Jute Business:

During the Q3 period the Jute industry witnessed several challenges in the local and international markets, particularly the dumping of jute goods by India and Bangladesh in the export markets. The cost of manufacturing has increased substantially and this could not be passed on to the customers in its entirety. Furthermore, the procurement of grain sacks by the Public Procurement Agencies (PPAs) has also reduced significantly this year in favour of plastic bags.

The Business is taking appropriate measures to reduce cost and also optimize the sales mix for local and international markets in order to remain competitive. The Jute Business achieved the ISO-18000 (OHSAS) Certification which augurs well for the operations.

#### **Papersack Business:**

The indigenous cement industry has improved overall by 0.9% YoY, however, cement exports have declined by 2.4% YoY. Although there has been marked stability in sack demand from cement units over preceding quarter(s), the commissioning of new capacities in the Polypropylene sack segment has compounded the competition amongst all sack manufacturers.

The regional export markets continue to be the primary focus for growth and it is anticipated that this effort will augment our operating results.

With the achievement of the ISO 22000 (Food Grade Packaging) certification, the business expects to fast track the process of registration with global fast food franchises operating in Pakistan and will open up new avenues for future expansions including exports.

The unexpected and recent appreciation of the Pak Rupee does pose unique challenges for the business, however, we are confident that a stable currency will be beneficial to the business in the long term.

#### **Laminates Business:**

Traditionally, Q3 is a slow period. In addition, with exports to Afghanistan adversely impacted by a severe winter and the ever-widening price gap with competing undocumented suppliers which hampered local growth, the business faced multiple challenges. The dominance of the FORMITE brand along with existing and new export customer base in the MENA region, provided some consistency and stability needed to overcome part of the hurdles.

The addition of DuPont's range of Solid Surfaces – Corian® & Montelli® – has indirectly served to enhance the brand image of FORMITE, as a result of complementing the current product portfolio.

The Business views Expo 2020 being awarded to Dubai (UAE) as a good export opportunity, and has seen some positive developments in the MENA region which gives confidence.

### **Subsidiaries**

#### **Makro-Habib Pakistan Limited:**

Makro-Habib continues to stay focused and to play its role in the Cash and Carry business in Pakistan through its Saddar store. The operation of the store is handled by METRO Habib Cash and Carry Pakistan under the terms of the Operations Agreement. The Store is subject to a legal case pending adjudication in the Supreme Court of Pakistan.

The final cash dividend for the year ended June 30, 2013 amounting to Rs 57.7 million was received during the current year.

#### **Habib METRO Pakistan (Private) Limited:**

The main business of Habib METRO Pakistan (Private) Limited is to manage the properties housing the Metro Habib Cash & Carry stores and its major revenue stream flows from rental income. The Company's holding is 60%. That received its share of dividend in the sum of Rs 54.7 million and Rs 53.5 million respectively against Q1 and Q2 financials.

The Board of Directors in its meeting for the third quarter held on April 15, 2014 has declared 3rd interim cash dividend and That's share amounts to Rs 57.5 million.

**Thal Boshoku Pakistan (Private) Limited:**

Our automotive parts Joint Venture, Thal Boshoku Pakistan (Private) Limited, established for the manufacturing of the Air Cleaner, Seat Track and Seat Side Frame sub-assemblies is proceeding as planned.

**Acknowledgement:**

In the end we would like to thank the Almighty for all His blessings in these challenging times and to convey our appreciation to all our Customers, Dealers, Bankers and Technical Assistance 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 the results.

On behalf of the Board



**(ASIF RIZVI)**

Chief Executive

Karachi: April 18, 2014.