

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, 2019.

Economic Highlights

The Fiscal year 2019, to date, has been marked with significant shifts in economic policy, ranging from increasing interest rates, tax policy changes to depreciation of the Rupee against the US\$. For most of the time since September of FY19, the new government has been busy trying to tame the Balance of Payments through reducing aggregate demand in the country.

Policy actions by the government have started to rapidly materialize over the last few months and early estimates from the World Bank indicate economic growth may slow down to 3.4% during the current fiscal year. This comes as no surprise as the Current Account Deficit for nine months FY19 was down almost 40% on a year on year basis.

However, economic indicators have been a mixed bag, with the fiscal deficit for 9 months FY19 registering an increase to 2.7% of GDP when compared with 2.3% for corresponding period last year. The average Consumer Price Index (CPI) for the outgoing nine months FY19 clocking in at 6.79% (up 300bps) over the same period last year. The Rupee lost another thirteen percent (13%) against US\$ during the period under review.

On the industrial front, as CPEC program moves to Phase II, where industrial and agricultural cooperation starts to materialize, the FDI inflows are expected to spread across various sectors. Importantly these are expected to be non-debt creating inflows with positive social and economic impacts.

For the remaining period of the current Fiscal Year, we expect that the government will remain focused on managing the External Account. Resultantly, inflationary pressure will likely continue over the near term as Pakistan economy will remain import reliant for the short-term and import substitution gradually takes hold.

Financial Highlights

	(Rupees in Millions)			
	Standalone		Consolidated	
	For the period ended March 31, 2019	For the period ended March 31, 2018	For the period ended March 31, 2019	For the period ended March 31, 2018
Sales	16,493	13,623	17,372	14,389
Profit Before Taxes	3,403	2,710	4,499	3,655
Profit After Taxes	2,456	2,054	3,213	2,696
Earnings Per Share (Rs.)	30.32	25.35	35.79	29.72

Performance Overview:

The Company achieved Unconsolidated Sales revenue of Rs. 16.5 Billion during the nine months ended March 31, 2019, showing an increase of twenty-one percent (21%) on a year on year basis. The basic & diluted Earnings Per Share (EPS) was Rs 30.32 compared to Rs 25.35 in the corresponding period last year.

Business Brief - Engineering Segment:

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

Despite a volatile year for auto industry in general, the Engineering Segment achieved a turnover of Rs. 11.3 Billion, up twenty-four percent (24%) on a year on year basis. The growth was primarily driven by higher volumes.

The performance of the business came against a slow-down in the Auto Sector due to restriction on purchase of new vehicles by non-filers of Income tax during the period under review. The auto industry registered a decline of six percent (6%) on a year on year basis as a result of these measures. Although, the condition on purchase of vehicles by non-filers of income Tax, has been relaxed as of April 2019, demand for new cars is expected to remain slow in the near term due to strict macroeconomic environment and high cost of vehicle financing.

Construction for the new facility for Wire Harness unit has now been completed under TAA with Yazaki Corporation Japan. Commercial production is expected to begin by the end of 2019.

The management continues to undertake initiatives to enhance cost efficiencies through continuous process improvements and maintains its focus on providing a safe and healthy work environment to its team members.

Building Material & Allied Products Segment:

Sales revenue of Building Material & Allied Product Segment during the nine months ended March 31, 2019 clocked in at Rs. 5.1 billion; a thirteen percent (13%) increase on a year on year basis.

Jute Business:

Thal Jute continued its positive trend and retained its position as a major supplier in the domestic markets during the period under review. The business faced considerable cost pressures originating from rising cost of raw material on the back of a depreciating Rupee as well as lower demand for grain-sacks from the Public Procurement Agencies (PPA's).

In the coming period the business plans to consolidate its export base, while maintaining a strong presence in the domestic market. Furthermore, the impact of rising costs shall be gradually passed over to the consumers.

The management is focused on improving production efficiencies and rationalization of inventories to ensure competitive advantage in the local and global markets.

Papersack Business:

The outgoing period was particularly challenging for the Papersack business. A prolonged monsoon season in the north, slowdown in construction industry, rising trend in the cost of raw materials and the devaluation of the Rupee created significant pressures for the cement business.

Despite the Cement sector witnessing negative year on year growth during the outgoing period, the Papersack Business was able to safeguard margins by timely passing on the increase in costs and implementing prudent controls on overheads.

The outlook for the last quarter of the fiscal year appears mixed on the back of a continuing slowdown in cement sales and Ramadan and Eid falling within this period with its impact on the construction industry.

Laminates Business:

The brand 'Formite' maintained its dominant position in the laminate industry by virtue of superior quality and adherence to systems and regulations in a largely informal sector. The new Elegant European Series of High Pressure Laminates (HPL) and Low Pressure Laminates (LPL) finishes have been well received in the market.

Extension of the product line and services has helped the business retain and create customer interest in a generally informal and uncertain market.

In the medium term, the management has increased focus on export sales to counter the drop in demand of domestic sales.

Subsidiaries:

Thal Boshoku Pakistan (Private) Limited (TBPk):

During the period under review, the sales revenue of the Company registered an increase of twenty-five percent (25%) on a year on year basis. This increase was driven by an increase in volume.

Construction of the new facility and installation of Machinery has been completed as of March 2019 and the Company is on target for trial production of car seats. Commercial production from the new facility is expected by end of 2019.

The Company approved the issuance of 50 million Right Shares at a par value of PKR 10 each in the previous year. Under the revised shareholding pattern, Thal Limited owns 55% of the shareholding in the Company while Toyota Tsusho Corporation Japan owns 10%, Toyota Boshoku Corporation Japan owns 9.6% and Toyota Boshoku Asia Corporation now owns 25.4% of the Company.

The Company has continued meeting the quality parameters set by Original Equipment Manufacturers (OEM) to be met on time with ZERO DEFECT. The future outlook of the industry is promising. Further localization from incumbent and new OEM Customers, will provide the Company the opportunity to improve profitability.

The management remains focused on improving production efficiencies, preparing for volume production from the new facility and towards providing a healthy and safe working environment to our team members.

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, Thal Limited received interim dividend of Rs.105.5 million from HMPL.

Makro-Habib Pakistan Limited (MHPL):

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

On December 9, 2015, the Honorable Supreme Court of Pakistan accepted 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 Defence 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.

Energy Sector Investments:

Sindh Engro Coal Mining Company Limited:

SECMC 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, is engaged in developing Pakistan's first open pit mining project at Thar Coal Block II.

Phase I of the project, which shall supply 3.8 million tons of lignite per annum to Engro Powergen Thar Limited, achieved its Financial close on April 4, 2016 and is under final stages of completion. Commercial Operations Date (COD) for Phase I is ahead of schedule (expected during first half of 2019). About 111 Million Billion Cubic Meters (BCM) of overburden has been removed and the mine has started supplying coal to its first customer i.e. Engro Powergen Thar Limited (EPTL). To date 52,298 tons of coal has already been provided to the Power Plant.

For Phase I of the project, the Board of Directors of Thal Limited approved a total exposure of US\$ 36.1 million (in Rupee equivalent terms), 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. 1,961 million (equivalent to US\$ 17.49 million).

SECMC is in advanced stages of achieving financial close for Phase II of the project which shall see the mine double its original coal supply capacity.

For the Phase II of the project, the Board of Directors of Thal Limited have approved a total exposure of US\$ 7.1 million in Rupee equivalent terms), which includes equity investment of US\$ 4.6 million, US\$ 1.3 million for cost over-run and US\$ 1.2 million for debt servicing reserve (adjustable upwards due to LIBOR/KIBOR movement).

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. Moreover, SECMC awaits approval of TCEB approval for Two Stage Tariff which will enable the company to achieve Financial Close in two phases in line with the Financial Close of subsequent two customers i.e. ThalNova Power Thar (Pvt) Ltd and Thar Energy Limited.

Thal Power (Private) Limited:

The Company through its wholly owned subsidiary, Thal Power (Private) Limited had incorporated a JV project company, i.e., ThalNova Power Thar Private Limited ("ThalNova"), a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh.

The Joint Venture is between Thal Power, Nova Powergen Ltd (subsidiary of Novatex Ltd) and Hub Power Company will be run on lignite coal extracted from the mine operated by Sind Engro Coal Mining Company (SECMC).

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. No Objection Certificate (NOC) by the Sindh Environmental Protection Agency (SEPA) has also been received by the Company.

China Machinery & Engineering Corporation has been appointed as the EPC Contractor for the project and SECMC shall be the Coal Supplier providing 1.9 million tons per annum of lignite. China Development Bank ("CDB") and Habib Bank Limited ("HBL") have been engaged for arrangement of foreign and local currency project debt respectively.

The Company has entered into a Power Purchase Agreement ("PPA") with the Central Power Purchase Agency (Guarantee) Ltd. (CPPA(G)) and the Implementation Agreement ("IA") with PPIB.

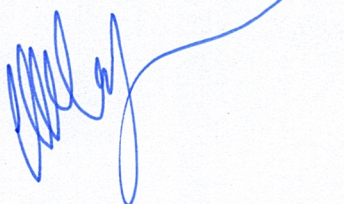
ThalNova has provided Mobilization Advance along with Limited Notice to Proceed (LNTP) to the EPC contractor to initiate work on the site. This step would expedite the achievement of Commercial Operations Date of the Project.

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

(MAZHAR VALJEE)
Chief Executive Officer



Karachi: April 25, 2019