

Press Release

VIS Reaffirms Entity Ratings of Thal Limited

Karachi, December 29, 2020: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Thal Limited (THAL) at 'AA/A-1+' (Double A /A-One Plus). The long-term rating of 'AA' signifies high credit quality and strong protection factors. Risk is modest but may vary slightly from time to time because of economic conditions. The short-term rating of 'A-1+' signifies highest certainty of timely payment; short term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations. Outlook on the assigned ratings is 'Stable'. Previous rating action was announced on December 12, 2019.

The assigned ratings incorporate conservative financial policy of the company, robust financial profile with low levels of projected debt and low leverage indicators, improving profitability profile and healthy liquidity indicators. The ratings also reflect presence of strong sponsor at helm and implementation of sound corporate governance internal controls framework within the organization. Ratings remain dependent on maintaining robust financial profile through business cycles and low leveraged capital structure.

Business risk profile of the company draws support from the company's established market position and track record in the auto parts industry along with technical collaborations with leading international players. Significant revenue diversification in jute, papersack and laminates businesses (classified under Building and Allied Materials (BAM) segment) alongside investments in real estate and energy sectors also strengthen business risk profile of the company. Cyclicalities in engineering sales due to slowdown in economic growth, frequent policy changes, and lower ability to pass on the increase in input costs to end consumers in jute, papersack and laminates businesses continue to remain key risk factors going forward. At present, all the core business segments remain well poised for growth in the medium term on account of improvement in macroeconomic conditions of the country and resurgence of demand in key supporting industries (automobile, cement, construction).

Profitability metrics of the company witnessed a downward trend in FY20 on account of various challenges such as suppression of demand in key industries (cement, automobiles) on account of COVID-19, rupee devaluation and inability to pass on the increase in input prices to end consumers (laminates business). However, improvement in profitability metrics across all business segments was observed in Q1'FY21 due to improving macroeconomic conditions, favorable demand prospects and cost efficiency initiatives undertaken by the management. Going forward, volumetric growth and improving margins are projected to support earnings of the company over the ratings horizon while income from investments is also projected to contribute considerably to the bottom line. Ratings are dependent on achieving projected revenue growth and cash flows, maintaining prudent financial policies while further strengthening market position in key business segments. Materialization of dividend income from investments in the energy sector could act as a positive rating driver.

For further information on this rating announcement, please contact Mr. Narendar Shankar Lal (Ext: 203) or the undersigned (Ext: 306) at (021) 35311861-66 or email at info@vis.com.pk.

Faryal Ahmad Faheem
Deputy CEO

Applicable Rating Criteria: Industrial Corporates (May 2019)<https://s3-us-west-2.amazonaws.com/backupsqjvis/docs/Corporate-Methodology-201904.pdf>

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Press Release

VIS Reaffirms Entity Ratings of Thal Power (Private) Limited

Karachi, December 29, 2020: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Thal Power (Private) Limited (TPPL) at 'AA/A-1+' (Double A /A-One Plus). The long-term rating of 'AA' signifies high credit quality and strong protection factors. Risk is modest but may vary slightly from time to time because of economic conditions. The short-term rating of 'A-1+' signifies highest certainty of timely payment; Short term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations. Outlook on the assigned ratings is 'Stable'. Previous rating action was announced on December 12, 2019.

The assigned ratings derive strength from the strong sponsor profile of TPPL, which operates as a wholly-owned subsidiary of Thal Limited (THAL). THAL is a diversified national conglomerate engaged in manufacture of engineering products (Karachi), jute products (Muzaffargarh), paper sacks (Hub & Gadoon) and laminated products (Hub); it also holds investments in real estate and energy sectors. TPPL was setup by THAL as a special entity for the purpose of routing its investment in ThalNova Power Thar (Private) Limited (ThalNova). Thal Ltd. owns 26% ordinary shareholding in ThalNova through TPPL.

ThalNova is a joint venture between TPPL, Nova Powergen Ltd (subsidiary of Novatex Ltd), CMEC ThalNova Power Investments Limited (a subsidiary of China Machinery Engineering Corporation) and Hub Power Company Limited 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 Sindh Engro Coal Mining Company Limited. The Power Plant is listed under Priority Projects under the China Pakistan Economic Corridor (CPEC). ThalNova achieved its Financial Close on September 30, 2020. The Project is expected to come online in 2022.

As at June 30, 2020, TPPL's outstanding liabilities included Rs. 1,652.3m due to THAL. This represents an interest free loan received from THAL for purchase of shares of ThalNova. The loan will be converted into share capital based on the progress achieved by ThalNova for its underlying project. Ratings are dependent upon TPPL being wholly-owned by THAL, the unlevered capital structure of TPPL, commitment from TPPL that it will not undertake any debt in future, and that THAL, as a parent company, will be responsible as a shareholder of TPPL.

For further information on this rating announcement, please contact Mr. Narendar Shankar Lal (Ext: 203) or the undersigned (Ext: 306) at (021) 35311861-66 or email at info@vis.com.pk.

Faryal Ahmad Faheem
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