

Press Release

VIS Reaffirms Entity Ratings of Thal Limited

Karachi, January 18, 2023: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Thal Limited ('THAL' or 'the Company') at 'AA/A-1+' (Double AA /A-One Plus). Long term entity 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. 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 ratings is 'Stable'. Previous rating action was announced on December 21, 2021.

The assigned ratings incorporate diversified business risk profile, consistently strong operating performance, robust financial profile and sound corporate governance framework. Ratings also draw strength from strong financial profile and diversified presence of the Company's sponsor, House of Habib (HOH Group). In addition, THAL has established market position and track record in auto parts industry along with technical collaborations with leading international players.

Business risk profile incorporates cyclical nature of the automobile industry as around two-third of the revenue of the Company emanates from auto parts segment. However, in case of THAL, business risk profile is diversified as remaining one-third of the revenue emanates from Jute, Papersack, and Laminates division. Net sales of the Company posted strong growth during FY22 with growth observed across all segments and particularly higher quantum of sales noted in auto parts segment owing to upbeat automotive demand. The strong margins persisted during the period, as a result of which the Company posted a much improved bottom line. Nevertheless, the positive sales trend in automobile segment has been affected in Q1'FY23, and accordingly THAL's topline and profitability margins posted contraction. This was mainly due to import restriction, high inflation and interest rate, volatility in exchange rate and flood situation in Sindh and Baluchistan. The contraction in revenue has affected the interim cash flow coverage indicators, however this contraction is likely to reverse in Q3'FY23, and cash flow coverage indicators for FY23 are projected to remain within threshold. An elongated adverse trend in cash flow coverages beyond VIS' expectations, may trigger a rating review going forward. Business risk profile of THAL is further diversified by the additional inflow of secondary income as investment portfolio returns. The investment portfolio of the Company comprises 30% of the Company's asset base. Major dividend support emanates from Habib Metro Pakistan (Private) Limited and Indus Motors Company Limited.

On the financial risk front, overall debt has increased, but gearing and leverage remain very low, and projected to remain low through the rating horizon. More than four-fifth of the debt profile comprise of long term debt, of which SBP's concessionary financing schemes account for 60% as of Sept'22. Remaining long term debt was taken from a commercial bank for investment in ThalNova Power Thar (Private) Limited through its subsidiary, Thal Power (Private) Limited. The assigned rating remains dependent on maintenance of business & financial risk metrics in line with threshold for the assigned rating.

For further information on this rating announcement, please contact the undersigned (Ext: 207) or Mr. Arsal Ayub, CFA (Ext: 215) at 021-35311861-64.

Sara Ahmed
Director

Applicable Rating Criteria: Industrial Corporates (August 2021)
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

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