VIS Credit Rating Company Limited www.vis.com.pk

International Affiliates: Islamic International Rating Agency - **Bahrain**, Credit Rating Information & Services Ltd. - **Bangladesh**
Borhan Credit Rating Company Ltd. - **Iran**

Press Release

VIS Reaffirms Entity Ratings of Thal Limited

Karachi, December 12, 2019: 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 November 20, 2018.

The ratings assigned to THAL continue to reflect conservative financial policy of the company, robust financial profile with low levels of projected debt, if any, and healthy liquidity indicators. Ratings also incorporate company's strong sponsor profile, ongoing efforts to enhance product competitiveness and strengthen operating performance. Ratings remain dependent on maintaining robust financial profile through business cycles and low leveraged capital structure.

Business risk profile draws support from the company's competitive position (in flagship products) in local auto parts manufacturing industry, significant revenue diversification in building, allied & materials segment alongside investments in real estate and energy sectors. However, macroeconomic headwinds and frequent policy changes have adversely impacted the automobile sector, and in turn, sales volumes of THAL's engineering segment (accounting for two-thirds of the topline) during ongoing fiscal year. Cyclicality in engineering sales due to slow down in GDP growth and frequent policy changes are key business risk factors. The auto vendor industry is expected to remain under pressure in the medium term since new entrants are not required to localize in the near future although currency devaluation may force even new entrants to localize. However, in the long term this segment remains well-poised for growth.

Profitability profile is supported by sizeable dividend income from investment portfolio. Recovery in engineering sales volumes in second half of ongoing fiscal year and improvement in margins are expected to support earnings over the ratings horizon while income from investments is also projected to contribute significantly to the bottom line. Going forward, 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. Muhammad Ibad Desmukh (Ext: 205) or the undersigned (Ext: 207) at (021) 35311861-66 or email at info@vis.com.pk.

Jamal Abbas Zaidi
Advisor

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

Information herein was obtained from sources believed to be accurate and reliable; however, VIS Credit Rating Company Limited (VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned in this report. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. VIS is paid a fee for most rating assignments. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.