

Press Release

VIS Reaffirms Entity Ratings of Thal Limited

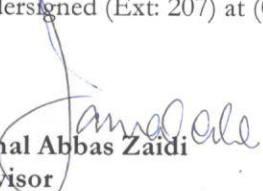
Karachi, December 12, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Thal Limited (THAL) at 'AA/A-1+' (Double A /A-One Plus). The long-term rating of 'AA' signifies high credit quality and strong protection factors. Risk is modest but may vary slightly from time to 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. Cyclicity 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
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Applicable Rating Criteria: Industrial Corporates (May 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

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