RATING REPORT

Thal Limited

REPORT DATE:
December 21, 2021

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1+	AA	A-1+
Rating Date	*December 21, 2021*		*December 29, 2020*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 1966	**External auditors:** EY Ford Rhodes Chartered Accountants
Listed Public Limited Company	**Chairman of the Board:** Mr. Rafiq M. Habib
	Chief Executive Officer: Mr. Muhammad Tayyab Ahmad Tareen

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (August, 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Thal Limited

OVERVIEW OF THE INSTITUTION

In 1966, Thal Limited (THAL) was incorporated as a public limited company and listed on Pakistan Stock Exchange (PSX). THAL is part of House of Habib (HoH), an established conglomerate headquartered in Pakistan. HoH's operations are spread across different sectors.

Profile of Chairman
Mr. Rafiq M. Habib is one of THAL's founding members. He also serves as the group Chairman of 'House of Habib'. He has served on the Board of Governors of 'Pakistan Institute of Management'. Mr. Habib possesses vast business experience in a variety of industries and is also the Chairman of Habib Insurance Company Limited.

Profile of CEO
Mr. Muhammad Tayyab Ahmad Tareen joined as CEO of Thal Limited on 1st July 2019. He has more than 25 years of experience mainly with multinationals and private equity. Before joining House of Habib, he was associated with K-Electric, serving as its CEO and Chairman of the Board, CFO and Chief Strategy Officer. He is a Member of Institute of Chartered Accountants, England and Wales.

RATING RATIONALE

Thal Limited (THAL) is a diversified national conglomerate engaged in manufacturing of engineering products (auto parts), jute products, paper sacks and laminate products. THAL also has stakes in varied businesses with notable subsidiaries being Thal Boshuku Pakistan (Private) Limited (TBPL) Makro-Habib Pakistan Limited, Habib METRO Pakistan (Private) Limited, Pakistan Industrial Aids (Private) Limited, Noble Computer Services (Private) Limited and Thal Power (Private) Limited. The Company has further diversified into the energy sector with a 11.9% stake in Sindh Engro Coal Mining Company Limited (SECMC) and 26% stake in a 330MW coal-fired power project, ThalNova Power Thar (Private) Limited (ThalNova), through its wholly owned subsidiary Thal Power (Private) Limited.

THAL's operations are segregated into two major divisions - Thal Engineering (TE) which contributes around two-third of total revenue and remaining emanates from Building and Allied Materials (BAM). TE is further subdivided into Thermal Systems & Engine Components (automotive air conditioner, aluminum radiator, cooling sub module, lever assembly heater control, reserve tank and starter & alternator) and Electric Systems (wire harness for automobiles) while the subsidiary TBPL (55% shareholding) produces and supplies automotive seats, seat parts and air cleaners. The outgoing fiscal year marked the first full year of TBPL's seat plant operations which started from June 2020 and received positive response from its clientele. BAM division comprises jute, paper sack and laminate businesses.

Ratings incorporate strong sponsor profile and diversified business group

THAL is part of House of Habib (HOH), an established conglomerate based in Pakistan and engaged in diversified businesses. HOH's operations are spread across different sectors comprising automobile, building materials, packaging, energy and financial services. HOH has equity and technical collaborations with Japanese, European and American companies. Also, THAL has an established market position and track record in the auto parts industry along with technical collaborations with leading international players.

Business risk underpinned by diversified revenue profile across product segments

<u>Engineering segment</u>

The demand for auto parts is derived from the automobile industry. Passenger car sales in Pakistan witnessed recovery post ease in COVID-19 and increased by 56.7% in FY21 (compared to FY20) supported by low interest rates and accommodative auto financing policy. In line with recovery in automobile sales, Thal's auto parts segment witnessed recovery in sales as well. However, it is pertinent to note that the automobile sales in the country are still lower than pre-COVID-19 levels. The Auto Industry Development and Export Policy, 2021-2026 (AIDEP21-26) announced in the Federal Budget FY22 featured varying reduction in sales tax, FED rate and duty structure, with major reduction in tax and duties for cars up to 1,000cc. The aim of the policy is to facilitate high quality cars at lower cost and encourage local production. The growth trend continued during 4MFY22 as well, exhibiting increase of 75% (compared to 4M'FY21) in passenger cars and simultaneously boosting profits of auto part manufacturers. In response to increase in business activity within OEM space, the management increased its production and inked agreement with Hyundai Nishat Motor (Private) Limited and Atlas Honda Limited, as well as on boarded Al-Ghazi Tractors Limited in its client list.

Going forward, the overall industry is expected to remain stable in the medium term given all OEMs continue to have sufficient order book, which indicate stable demand prospects for automobile industry as well as auto parts manufacturers. However, the growth momentum is expected to taper off due to stringent automobile financing regulations (lately announced by the government), ongoing semi-conductor chip shortages, Pakistani Rupee devaluation and rising cost of key inputs translating into increase in car prices and impacting affordability and ongoing monetary tightening inducing slowdown to a certain extent in growth in automobile sales.

Building and Allied Material segment

This division comprises jute, paper sack and laminate business. The major revenue contributors in this segment are Jute and Papersack division.

Pakistan's jute industry is relatively small in size with THAL possessing significant market share. The product line includes sacking bags and hessian cloth used in the packaging of agricultural produce like wheat, potatoes, rice, etc. A large portion of demand for jute based packaging emanates from government procurement of sacking bags. Increase in buying by the government and higher export orders during FY21 and in Q1'FY22 resulted in higher production of jute bags and boosted topline and profitability of this division. On the supply front, Pakistan is almost entirely reliant on Bangladesh for purchase of raw jute which exposes the division to import risk and exchange rate volatility. Going forward, demand is expected to remain stable on account of adequate orders in pipeline from government in lieu of increase in wheat import orders and higher expected export based orders.

Papersack division manufactures bags for cement and non-cement sector. The product line includes bags for cement manufacturers, food packaging industry and retail bags. Sales mix indicates that more than three-fourth of the division's revenue emanates from the cement sector and THAL enjoys significant market share within the cement packaging sector. In FY21, robust growth observed in cement industry boosted production and topline of the Company. Also, the volumes of carrier bags and retail bags increased on account of higher take-away and home deliveries by restaurants. The company is currently undertaking capex of Rs. 1.7b in woven polypropylene (WPP) bags manufacturing facility with installation of advanced higher end printing equipment to tap the market in cement and non-cement sectors. Going forward, as per management local cement demand is expected to stay stable given the government continues to promote the housing and construction sector and also the rising trend in online shopping and take away deliveries will support the sales of the papersack division. However, with recent macro-economic developments some slowdown in cement sales growth may be expected.

Laminates is a small portion within the diversified product line and bottom-line of this segment posted profit in FY21 after two consecutive years of nominal losses on the back of strategic purchases, better operational controls and timely secured contracts. The management foresees volumes for this division to grow on account of increase in activity post ease in COVID-19 led disruption.

Recovery in automobile, cement and construction industry post COVID-19 and increase in agricultural activity improved overall profitability of the Company in FY21 and Q1'FY22 though the margins are below pre-COVID-19 levels. Going forward, the industry remains exposed to changes in the macroeconomic environment.

Net sales of the Company increased by 64.5% during FY21 to Rs. 27.3 (FY20: Rs. 16.6b) with growth observed across all segments and particularly higher quantum of sales noted in auto parts segment owing to upbeat automotive demand. The trend continued in Q1'FY22 with net sales registering impressive growth of 50.3% over the same period in the preceding year. Export sales growth, increase in gunny sack demand and higher average selling prices enabled the jute business to post higher revenue during FY21. Revenue from papersack division was also higher in FY21 vis-à-vis FY20 due to a combination of volumetric growth and higher average selling prices. Net profitability of all segments was reported higher in FY21 (compared to FY20) on account of volumetric growth, increase in average selling prices of products and efficient management of operations. Going forward, revenue of the Company is expected to stay stable though the current supply chain issue, local currency devaluation and rising input costs is likely to put pressure on margins.

Investment portfolio provides further support to overall profitability in the form of dividends

The investment portfolio of the Company stands at Rs. 8,325.7m, representing Rs. 25.5% (FY21: 27.1%) at end Sep'21 of the total asset base encompassing long term investments in subsidiaries and associated companies. The associated companies include Indus Motors Company Limited, Habib Insurance Company Limited, Agriauto Industries Limited, Shabbir Tiles and Ceramics Limited, Sindh Engro Coal Mining Company Limited (SECMC) and ThalNova Power Thar (Private) Limited (ThalNova). Major dividend support emanates from Habib METRO Pakistan (Private) Limited, Indus Motors Company Limited and Habib Insurance Company Limited. While dividend income from SECMC is expected to commence after achievement of Project Completion Date (PCD) which is subject to 'true up' of tariff and approval by regulatory authority. SECMC's management is targeting achievement of PCD in third quarter of FY22. ThalNova project is expected to commence operations in 2022 in line with Phase II of SECMC operations. THAL has undertaken to invest an amount of the PKR equivalent of USD 25.6m and USD 34.3m and of this, USD 23.1m and USD 13.0m has already been injected in SECMC and ThalNova, respectively.

Low leverage indicators, strong liquidity profile and conservative financial policy translate to a low financial risk profile

Equity base of the Company grew by 14.3% and was reported at Rs. 23.9b (FY20: Rs. 20.9b) during FY21 and further increased to Rs. 24.8b by end Q1'FY22 on the back of profit retention. The company has maintained dividend payout ratio in the range of 20-23% over the last three years. Total debt was reported at Rs. 2,263m (FY21: Rs. 799.8m) at end Q1'FY22. Around four-fifth of the debt profile comprises long term loans which have been drawn for meeting CAPEX, majorly in Papersack division. The Company has mobilized TERF facility of Rs. 1.4b to finance purchase of machinery required for manufacturing woven polypropylene bags and arranged Rs. 244.5m out of Rs. 358m under SBP's Refinance Scheme for Renewable Energy for installation of Solar Power plant. The other long term loan include salary refinance scheme. Short-term financing of Rs. 375m represents Export Refinance facility availed by the Company. Almost entire borrowings of the Company have been mobilized on subsidized interest rates. Overall quantum of debt has increased but leverage indicators (gearing: 0.09x; leverage: 0.31x) stand at acutely low levels given sizable equity base even after adjusting equity by strategic investments worth Rs. 8.3b, the adjusted gearing and liability continue to remain at low levels. Meanwhile, liquidity profile is considered strong on account of healthy cash flows, low working capital requirement, strong current ratio and liquid assets carried on the balance sheet.

FINANCIAL SUMMARY				(amounts in PKR millions)
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**Q1'FY22**
Property Plant and Equipment	2,187.8	3,118.5	3,710.8	4,999.1
Long term loans	861.3	1,927.3	275.0	275.0
Long term investments	5,431.6	5,795.6	8,007.4	8,325.7
Stock-in-Trade	5,635.3	5,553.8	7,730.0	8,679.2
Trade Debts	2,347.9	2,507.5	3,231.2	3,710.0
Short-Term Investments	1,894.2	1,201.2	2,802.3	2,057.6
Cash & Bank Balances	1,657.2	3,055.4	2,096.4	2,106.9
Total Assets	21,222.6	24,116.3	29,534.2	32,711.6
Trade and Other Payables	2,483.6	2,669.0	4,335.2	4,976.6
Short Term Debt	-	145.0	361.0	375.0
Long Term Debt (incl. maturity)	-	207.6	438.8	1,888.0
Total Debt	-	352.6	799.8	2,263.0
Share Capital	405.2	405.2	405.2	405.2
Total Equity	18,631.5	20,901.2	23,905.6	24,877.9
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**Q1'FY22**
Net Sales	22,499.0	16,600.4	27,317.2	7,673.8
Gross Profit	4,281.0	2,555.7	4,668.8	1,337.4
Profit Before Tax	4,334.6	2,371.6	4,571.9	1,232.6
Profit After Tax	3,154.7	1,867.2	3,482.3	947.0
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**Q1'FY22**
Gross Margin (%)	19.0%	15.4%	17.1%	17.4%
Net Margin (%)	14.0%	11.2%	12.7%	12.3%
Funds From Operations-FFO	3,330.2	2,348.2	3,975.9	867.3
Current Ratio (x)	4.8	4.2	3.2	3.0
Gearing (x)	0.00	0.02	0.03	0.09
Leverage (x)	0.14	0.15	0.24	0.31
ROAA (%)	15.7%	8.2%	13.0%	12.2%*
ROAE (%)	18.0%	9.4%	15.5%	15.5%*

**annualized ratios*

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
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.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix II

Name of Rated Entity	Thal Limited
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12/21/2021	AA	A-1+	Stable	Re-affirmed
12/12/2019	AA	A-1+	Stable	Re-affirmed
20/11/2018	AA	A-1+	Stable	Initial

Instrument Structure	n/a
Statement by the Rating Team	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 herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

S.No	Name	Designation	Date
1	Mr. Shahid Saleem	Chief Financial Officer (CFO)	Nov 04, 2021
2	Mr. Mahad Hamza	Head of Investments	
3	Syed Akkas-ul-Husaini	Head of Engineering	
4	Mr. Saqlain Akhtar	Head of Jute Business	
5	Mr. Mustafa Jafar	Head of Laminate Business	
6	Syed Umair Ahmed	Head of Papersack division	
7	Mr. Tariq Sultan	Head of Habib METRO Pakistan (Pvt.) Ltd	
8	Mr. Salman Khalid	Company Secretary	