RATING REPORT

Thal Limited

REPORT DATE:
January 18, 2023

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	*January 18, 2023*		*December 21, 2021*	
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' or 'the Company') 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 Boshoku Pakistan (Private) Limited (TBPL), 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.

Business Mix:

Table 1: Business Mix

Rs. In million	FY20	FY21	FY22	Q1'FY23	FY20	FY21	FY22	Q1'FY23
Thal Engineering								
- Thermal	3,991	7,834	10,801	1,558	24%	29%	29%	23%
- Electric	4,118	8,375	12,229	1,935	25%	31%	33%	28%
Thal Packaging, Building Material and Allied Product Segment								
- Jute	4,253	5,850	7,499	1,849	26%	21%	20%	27%
- Papersack	3,394	4,245	5,790	1,314	20%	16%	16%	19%
- Laminates	846	1,014	1,033	263	5%	4%	3%	4%
Net Sales	**16,600**	**27,317**	**37,351**	**6,919**				

- THAL's operations are segregated into two major divisions - Thal Engineering (TE) which contributes ~60% of the Company's revenue, as noted from the average for two-year period (FY21-22). The other segment i.e. Thal Packaging, Building and Allied Materials (PBAM) contributes ~40% of the Company's revenue base.
- As illustrated in the table above, all segments, except for 'Laminates', posted healthy growth. Nevertheless, growth in TE's revenues was superior, as a result of which its proportion in total revenue increased from 59% to 62%.
- Contrary trend has been noted in Q1'FY23, as TE sales have been affected by import restrictions imposed by the State Bank of Pakistan (SBP) as well as ongoing volatility in economic fundamentals such as exchange rate, interest rates and inflation pressure. Accordingly, TE's segment revenues dropped by 31% vis-à-vis SPLY (Q1'FY23 Rs. 3.5b; Q1'FY22: Rs. 5.1b). On the other hand, revenues from PBAM segment were up 31% (Q1:FY23: Rs. 3.4b; Q1'FY22: Rs. 2.6b). Higher exports, improved selling prices due to higher import costs for jute and packaging products, and the start-up of the new woven poly-propylene bag manufacturing plant all contributed to the uptick in revenues from PBAM segment.

Business Review

Table 2: P&L Extract

Rs. In m	*FY20*	*FY21*	*FY22*	*Q1'FY22*	*Q1'FY23*
Sales	**16,600**	**27,317**	**37,351**	**7,674**	**6,919**
Gross Margin	15.4%	17.1%	17.4%	17.4%	12.8%
Operating Profit	**1,275**	**2,983**	**4,238**	**862**	**155**
Other Income	**1,114**	**1,623**	**1,832**	**383**	**148**
Finance cost	**(17)**	**(35)**	**(145)**	**(13)**	**(54)**
PBT	**2,372**	**4,572**	**5,925**	**1,233**	**249**
Net margin	11.2%	12.7%	11.4%	12.3%	2.5%

- Net sales of the Company increased by 36.7% during FY22 with growth observed across all segments and particularly higher quantum of sales noted in auto parts segment owing to upbeat automotive demand.
    - Export sales growth, increase in hessian and sacking demand and higher average selling price enabled the jute business to post higher revenue during FY22 vis-à-vis FY21.
    - Revenue from papersack division was also higher in FY22 vis-à-vis FY21 due volumetric growth.
    - Increase in the average selling price of laminate resulted in higher revenue in FY22 vis-à-vis FY21.
- Gross margin was almost similar in FY22 vis-à-vis FY21, as illustrated in the table above. However, given volumetric growth in offtake, gross profit was 39.3% higher on a YoY basis.
- Bottom-line of the Company stood 22.3% higher YoY for FY22. The decrease in net margin was noted due to reduction in proportion on other income in Profit after tax.
- The positive sales trend in automobile segment has been affected in Q1'FY23, when net sales fell 9.8% compared to SPLY, while profitability margin also depicted contraction. This was mainly due to import restriction, high inflation and interest rate, volatility in exchange rate and flood situation in Sindh and Baluchistan.

Secondary income i.e. investment portfolio returns, diversifies business risk of the Company

- The investment portfolio of the Company stands at Rs. 10.9b, representing Rs. 29.8 % of total assets as at end-Sep'22, encompassing long term investments in subsidiaries and associated companies.
- Major dividend support emanates from Habib Metro Pakistan (Private) Limited and Indus Motors 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 within Q1'2023.

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

Table 3: Balance Sheet (Extract)

Rs. In million	***Jun'20***	***Jun'21***	***Jun'22***	***Sept'22***
Total Asset	**24,116**	**29,532**	**37,606**	**36,683**
Total Liabilities	**3,215**	**5,627**	**10,376**	**9,276**
Total Equity	**20,901**	**23,906**	**27,230**	**27,407**
Long Term Debt	**208**	**439**	**2,859**	**2,827**
Short Term Debt	**145**	**361**	**597**	**555**
Total Debt	**353**	**800**	**3,456**	**3,382**
Leverage (x)	*0.15*	*0.24*	*0.38*	*0.34*
Gearing (x)	*0.02*	*0.03*	*0.13*	*0.12*

- 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.
- Equity base of the Company has improved on account of internal capital generation, growing at a CAGR of 12.8% (Jun'20-Sept'22). During the year FY22, the Company has reduced cash dividend per share paid to shareholder hence dividend payout ratio has dropped to 14.3% (Jun'21: 23.3%).
- More than four-fifth of the debt profile comprise of long term debt, of which SBP's concessionary financing schemes account for approximately 60% as of Sept'22 (Jun'22: 60%).

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.

- Effective cost of debt (Calculated on two-point average) has increased from 7.2% as of Sept'22 (Jun'22: 4.7%), which is lower than overall increase in benchmark rates, mainly as the increase emanated in the latter part of the year and also because a sizable amount of the debt is under SBP concessionary financing schemes.
- Overall debt has increased, but gearing and leverage remain very low, and projected to remain low through the rating horizon.

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.

FINANCIAL SUMMARY				*(amounts in PKR millions)*	
BALANCE SHEET		**Jun'20**	**Jun'21**	**Jun'22**	**Sept'22**
Property Plant and Equipment		3,118.5	3,710.8	5,678.5	5,880.7
Long term loans		1,927.3	275.0	-	-
Long term investments		5,795.6	8,007.4	10,908.7	10,914.9
Stock-in-Trade		5,553.8	7,730.0	10,379.1	11,321.1
Trade Debts		2,507.5	3,231.2	3,829.9	3,596.8
Short-Term Investments		1,201.2	2,802.3	1,263.3	874.1
Cash & Bank Balances		3,055.4	2,096.4	2,557.6	1,316.5
Total Assets		24,116.3	29,534.2	37,605.7	36,683.4
Trade and Other Payables		2,669.0	4,335.2	5,843.7	5,153.8
Short Term Debt		145.0	361.0	597.1	555.0
Long Term Debt (incl. maturity)		207.6	438.8	2,858.7	2,827.1
Total Debt		352.6	799.8	3,455.8	3,382.1
Share Capital		405.2	405.2	405.2	405.2
Total Equity		20,901.2	23,905.6	27,229.8	27,407.1
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**Q1'FY22**	**Q1'FY23**
Net Sales	16,600.4	27,317.2	37,351.5	7,673.8	6,918.9
Gross Profit	2,555.7	4,668.8	6,504.1	1,337.4	886.9
Profit Before Tax	2,371.6	4,571.9	5,924.9	1,232.6	248.9
Profit After Tax	1,867.2	3,482.3	4,257.2	947.0	171.1
RATIO ANALYSIS		**FY20**	**FY21**	**FY22**	**Q1'FY23**
Gross Margin (%)		15.4%	17.1%	17.4%	12.8%
Net Margin (%)		11.2%	12.7%	11.4%	2.5%
Funds From Operations-FFO		2,348.2	3,975.9	5,409.8	(56.7)
Current Ratio (x)		4.2	3.2	2.7	3.0
Gearing (x)		0.02	0.03	0.13	0.12
Leverage (x)		0.15	0.24	0.38	0.34
ROAA (%)		8.2%	13.0%	12.7%	1.8%*
ROAE (%)		9.4%	15.5%	16.7%	2.5%*

**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				
01/18/2023	AA	A-1+	Stable	Re-affirmed
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.
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Due Diligence Meetings Conducted

S.No	Name	Designation	Date
1	Mr. Shahid Saleem	Chief Financial Officer (CFO)	December 19, 2022
2	Mr. Saqlain Akhtar	Head of Jute Business	
3	Syed Akkas-ul-Husaini	Head of Engineering	
4	Mr. Salman Khalid	Company Secretary	
5	Syed Umair Ahmed	Head of Papersack division	