

RATING REPORT

Thal Limited

REPORT DATE:

January 15, 2024

RATING ANALYSTS:

Husnain Ali

husnain.ali@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA	A-1+	AA	A-1+
Rating Date	January 15, 2024		January 18, 2023	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 1966	External auditors: A.F. Ferguson & Co. Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Mr. Rafiq M. Habib
	Chief Executive Officer: Mr. Muhammad Tayyab Ahmad Tareen

APPLICABLE METHODOLOGY

Applicable Rating Criteria:

Corporates (May 2023) <https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale & Definitions <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Thal Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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 HOH. 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 on July 1, 2019. He has more than 25 years of experience mainly with multinationals and private equity. Before joining HoH, he was associated with K-Electric,

Thal Limited ("THAL" or "the company") is a diversified national conglomerate engaged in manufacturing of engineering products (auto parts), jute products, packaging 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 (METRO), Pakistan Industrial Aids (Private) Limited, Noble Computer Services (Private) Limited, Makro-Habib Pakistan Limited (MHPL), Thal Electrical (Private) Limited and Thal Power (Private) Limited (TPPL).

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. THAL has an established market position and track record in the auto parts industry along with technical collaborations with leading international players.

Business Mix

Operating segments: THAL's core operations are segregated into two divisions - Thal Engineering (TE) which contributed 43.3% (FY22: 61.7%) and Building Materials and Allied Products (BMAP) which contributed 56.7% (FY22: 38.3%) to the revenue base.

TE produces auto parts including air conditioners controls, wire harness, heater blower and engine components for leading OEMs (original equipment manufacturers). TE's net sales decreased by 40% during FY23 on account of lower demand from major customers. Higher volumes of production and sales in BMAP division stemmed mainly from increased demand of woven polypropylene (WPP) bags from retail customers and stable local demand of paper bags. Also, higher prices of Jute, Packaging and Laminates led to increased sales during FY23. Annual sales segregated by operating segments are tabulated below:

	FY21	FY22	FY23
Thal Engineering			
▪ Thermal	7,834	10,801	6,369
▪ Electric	8,375	12,229	7,445
Building Materials and Allied Products			
▪ Jute	5,850	7,499	10,233
▪ Packaging	4,245	5,790	6,528
▪ Laminates	1,014	1,033	1,360

According to the management, profitability of TE is expected to improve on account of higher expected demand of auto parts during the ongoing year given that major customers have new automobile models in the pipeline. During FY24, BMAP's sales are also projected to increase on account of growing customer base amid largely stable local demand.

Recent updates from energy sector investments: The company has investments in energy sector with a 11.9% stake in Sindh Engro Coal Mining Company Limited (SECMC) and 26.0% stake in a 330MW coal-fired power project, ThalNova Power Thar (Private) Limited (ThalNova), through its wholly owned subsidiary TPPL.

-serving at various positions including CEO, Chairman of the Board, CFO and Chief Strategy Officer. He is a Member of Institute of Chartered Accountants, England and Wales.

SECMC is a joint venture between the THAL, the Government of Sindh, Engro Energy Limited, the Hub Power Company Limited, Habib Bank Limited and CMEC Thar Mining Investments Limited. The primary activities of SECMC are to develop and operate an open mouth coal mine project at Thar Coal Block II. Phase I started commercial operations in Jul'19 and announced Project Completion date (PCD) in May'23. Phase II commenced operations in Sep'22 and is now supplying coal to 1320MW Thar coal-based power plants in Block II – ranked high in the merit order of NEPRA for evacuation of power. SECMC Board has approved Phase III expansion of the mine to enhance total production capacity to 11.4 MPTA. Phase III expansion of the mine is expected to be completed by mid CY24.

ThalNova runs on indigenous coal extracted from the mine operated by SECMC. ThalNova has a Coal Supply Agreement with the SECMC to supply 1.9m tons per annum of lignite. ThalNova also has a Power Purchasing Agreement with the Central Power Purchasing Agency (Guarantee) Limited and an Implementation Agreement with Private Power Infrastructure Board. Since commencing operations on February 17, 2023, the project was standing at 4/73 of NTDC's (National Transmission and Despatch Company Ltd) merit list as on December 01, 2023.

Asset base mostly comprises investments, stock-in-trade, and property, plant and equipment: Total assets increased to Rs. 41.6b (FY22: Rs. 37.6b; FY21: Rs. 29.5b) at end-FY23 mainly on account of increase in investment and operating fixed assets. Operating fixed assets increased to Rs. 6.1b (FY22: Rs. 5.7b; FY21: Rs. 3.7b) on account of ongoing capex over the years. The investment portfolio of the company stood at Rs. 15.8b (FY23: Rs. 17.1b, FY22: Rs. 12.2b) at end-1QFY24, encompassing long-term investments in subsidiaries, and associated companies and short-term investments in treasury bills and money market funds. Stock-in-trade increased to Rs. 11.4b (FY23: Rs. 9.9b, FY22: Rs. 10.4b) on account of higher prices coupled ongoing product development of fashion bags and WPP at end-1QFY24. Trade debts increased to Rs. 4.2b (FY23: Rs. 3.6b, FY22: Rs. 3.8b) by end-1QFY24. Cash and bank balances stood at Rs. 1.1b (FY23: Rs. 1.2b, FY22: Rs. 2.6b) at end-1QFY24.

Despite higher income emanating from investment portfolio, net profit decreased mainly on account of decrease in sales and lower margins: During FY23, overall net sales decreased by 14.5% (FY23: Rs. 31.9b, FY22: Rs. 37.3b) mainly on account of lower TE sales. During 1QFY24, the company's net sales decreased by 14.5% (1QFY24: Rs. 5.9b, 1QFY23: Rs. 6.9b) compared to same period last year.

A decreasing trend in gross margin has been witnessed that stood lower at 10.1% (1QFY23: 12.8%; FY23: 13.8%, FY22: 17.4%) during 1QFY24 mainly due to lower capacity utilization and exchange rate fluctuations. Amidst inflationary pressures, operating expenses increased slightly to Rs. 2.5b (FY23: Rs. 2.3b) during FY23. Operating expenses decreased to Rs. 519.3m (1QFY23: Rs. 722.2m) on account of lower exchange loss during 1QFY24. THAL's other income increased to Rs. 2.5b (FY22: Rs. 1.8b) during FY23 mainly on account of higher dividend income from SECMC and METRO. Other income increased to Rs. 480.7m (1QFY23: Rs. 137.9m) owing to higher dividend income from Indus Motor Company and return on mutual funds during 1QFY24.

Financial charges increased to Rs. 193.0m (1QFY23: Rs. 53.8m; FY23: Rs. 405.4m, FY22: Rs. 145.0m) on account of hike in policy rate during FY23. THAL's net profit decreased to Rs. 2.7b (FY22: Rs. 4.3b) during FY23 as a result of lower sales, lower margins and higher financial charges. During 1QFY24, despite lower sales and gross margins, net profit increased to Rs. 253.3m (1QFY23: Rs. 171.1m) on account of lower operating expenses and higher other income. According to management, higher margins are expected going forward on account of increase in anticipated sales of high margin TE products.

Liquidity and coverages remained sound: Current ratio increased to 2.9x (FY23: 2.7x, FY22: 2.7x) mainly due to impact of lower trade payables on current liabilities by end-1QFY24. THAL's FFO decreased to Rs. 3.4b (FY22: Rs. 5.4b) during FY23 on account of lower profitability from core operations. DCSR declined, though remained sound, at 5.9x (FY22: 22.1x, FY21: 44.7x) in FY23. FFO decreased to Rs. 75.4m whereas the same was negative during SPLY, resulting in decrease in debt coverages during the ongoing period.

Trade debts and stock-in-trade provide sizable coverage against short-term borrowings (1QFY24: 28.0x, FY23: 24.3x, FY22: 23.8x). Cash conversion cycle remained range bound at 96 days (FY22: 81 days; FY21: 98 days) and trade debts as a percentage of sales increased slightly to 11.4% (FY22: 10.3%; FY21: 11.8%) in FY23.

Leverage indicators remained low: The company's equity base increased to Rs. 29.6b (FY22: Rs. 27.2b; FY21 Rs. 23.9b) by end-FY23 on the back of profit retention. In FY23, THAL mobilized long-term loan from a commercial bank for investment in ThalNova through its subsidiary, TPPL. The facility carries interest at 3-month KIBOR+0.25% and are repayable in 20 equal quarterly installments starting from January 2024. As a result, long-term borrowings increased to Rs. 4.2b (FY23: Rs. 3.9b, FY22: Rs. 2.5b) by end-1QFY24.

Despite some increase in borrowings, gearing and debt leverage remained low at 0.2x (FY23: 0.1x, FY22: 0.1x) and 0.4x (FY23: 0.4x, FY22: 0.4x) at end-1QFY24. According to the management, leverage indicators are projected to remain in the similar range, moving forward.

Thal Limited
Annexure I

FINANCIAL SUMMARY (PKR in m)					
BALANCE SHEET	FY21	FY22	FY23	1QFY23	1QFY24
Property, Plant and Equipment	3,710.8	5,678.5	6,135.7	5,880.7	6,129.6
Long-Term Investments	8,007.4	10,908.7	12,881.6	10,914.9	12,961.7
Stock In Trade	7,730.0	10,379.1	9,862.9	11,321.1	11,369.3
Trade Debts	3,231.2	3,829.9	3,635.8	3,596.8	4,163.7
Trade Deposits-Prepayments	452.7	1,042.2	1,468.7	303.4	269.2
Short Term Investments	2,802.3	1,263.3	4,202.5	874.1	2,888.4
Cash and Bank Balances	2,096.4	2,557.6	1,151.9	1,316.5	1,116.8
Other Assets	1,501.7	1,946.4	2,265.5	2,475.9	2,546.8
Total Assets	29,532.4	37,605.7	41,604.6	36,683.4	41,445.5
Long Term Borrowings (inc. current portion)	412.1	2,455.0	3,869.5	2,437.8	4,184.0
Short-Term Borrowings	361.0	597.1	555.0	555.0	555.0
Trade And Other Payables	4,335.2	5,843.7	6,289.4	5,153.8	5,569.2
Income Tax - Net	264.6	876.7	733.9	588.4	736.9
Other Liabilities	253.9	603.3	551.4	541.4	521.5
Total Liabilities	5,626.8	10,375.8	11,999.2	9,276.4	11,566.6
Share Capital	405.2	405.2	405.2	405.2	405.2
Total Equity	23,905.6	27,229.8	29,605.4	27,407.1	29,878.9
INCOME STATEMENT	FY21	FY22	FY23	1QFY23	1QFY24
Net Sales	27,317.2	37,351.5	31,925.0	6,918.9	5,861.1
Gross Profit	4,668.9	6,504.1	4,414.9	886.9	593.1
Operating Expenses	1,685.6	2,266.1	2,484.6	722.2	519.3
Other Income	1,651.7	1,831.8	2,487.5	138.0	480.7
Finance Cost	34.8	145.0	405.5	53.8	193.0
Profit Before Tax	4,571.9	5,924.9	4,012.4	248.9	361.4
Profit After Tax	3,482.3	4,257.2	2,750.8	171.1	253.3
RATIO ANALYSIS	FY21	FY22	FY23	1QFY23	1QFY24
Gross Margin	17.1%	17.4%	13.8%	12.8%	10.1%
Net Margin	12.7%	11.4%	8.6%	2.5%	4.3%
ROAA	11.8%	12.7%	6.9%	1.7%	2.4%
ROAE	14.6%	16.7%	9.7%	2.4%	3.4%
Current Ratio (x)	3.2	2.7	2.7	3.0	2.9
(Stock-In-Trade+Trade Debts)/ST Borrowing (x)	30.4	23.8	24.3	26.9	28.0
Trade Debts/Sales	11.8%	10.3%	11.4%	13.0%*	17.8%*
Cash Conversion Cycle (days)	98	81	96	142*	142*
FFO	3,975.9	5,409.8	3,394.1	(56.7)	75.4
FFO To Long-Term Debt (x)	5.1	1.8	0.8	-	0.1*
FFO To Total Debt (x)	9.6	2.2	0.9	-	0.1*
DSCR (x)	44.7	22.1	5.9	0.1	3.9*
Gearing (x)	0.0	0.1	0.1	0.1	0.2
Leverage (x)	0.2	0.4	0.4	0.3	0.4

*Annualized

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				
	01/15/2024	AA	A-1+	Stable	Re-affirmed
	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.				
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, 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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Mr. Shahid Saleem	CFO	December 14, 2023	
	2	Mr. Sameer Amlani	Company Secretary	December 14, 2023	
	3	Mr. Syed Akkas ul Husaini	Engineering Business Head	December 14, 2023	
	4	Mr. Saqlain Akhtar	Jute Business Head	December 14, 2023	
	5	Mr. Farrukh Zameer	Laminates Business Head	December 14, 2023	
	6	Mr. Syed Umair Ahmed	Packaging Business Head	December 14, 2023	