

RATING REPORT

Thal Limited

REPORT DATE:

December 18, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	AA	A1+	AA	A1+
Rating Date	December 18, 2024		January 15, 2024	
Rating Outlook/Watch	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
<i>Individuals – 35.8%</i>	Chief Executive Officer: Mr. Muhammad Tayyab Ahmad Tareen
<i>Directors, Chief Executive Officer and their Spouse and Minor Children – 5.3%</i>	
<i>Financial Institutions – 5.8%</i>	
Foreign investors holding 5% or more voting interest:	
<i>Ali Reza Limited – 9.3%</i>	
<i>Asad Limited – 9.3%</i>	
<i>Mustafa Limited – 10.1%</i>	
<i>Shakir Limited – 6.7%</i>	

APPLICABLE METHODOLOGY

Applicable Rating Criteria:

Corporates <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 an established conglomerate headquartered in Pakistan.

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 (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 Tazayab 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 Thal, he was associated with K-Electric, 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.

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).

The head office of the company is located at Sharah-e-Faisal, Karachi. Production facilities are located at the following locations:

- Engineering operations are located at Korangi and Port Qasim, Karachi.
- Jute operations are located at Muzaffargarh.
- Packaging operations are located at Hub and Gadoon.
- Laminates operations are located at Hub.

Rating Drivers

Ratings incorporate strong sponsor profile and diversified business group.

THAL is an established conglomerate based in Pakistan and engaged in diversified businesses. Thal's operations are spread across different sectors comprising automobile, building materials, packaging, and energy. Thal 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.

THAL has made significant investments in the energy sector through its subsidiaries.

ThalNova Power Thar (Private) Limited

ThalNova Power Thar (Private) Limited (TNTPL), a joint venture between Thal Power (Private) Limited (a subsidiary of Thal Limited), Nova Powergen Limited (a subsidiary of Novatex Limited) and The Hub Power Company Limited (HUBCO).

TNTPL's has set up a 330 MW coal-fired power plant in Thar, Sindh, Pakistan. This plant has agreements with SECMC for coal supply and with the CPPA-G (Central Power Purchasing Agency) for power purchase and project implementation. Hub Power Services Limited (HPSL), an associated company of TNTPL, provides operations and maintenance (O&M) services to the plant. The plant commenced operations on February 17, 2023. In FY24, it generated 1,971 GWh (FY23: 748 GWh) of net electrical output and maintained its load factor of 75.0%. Net sales of TNTPL reached Rs. 62.9M (FY23: Rs. 22.5m) while net profit mounted to Rs. 9.6b (FY23: Rs. 4.5b) in FY24. THAL further invested Rs. 59.6m (FY23: Rs. 442m) to TNTPL in FY24.

Sindh Engro Coal Mining Company Limited

THAL holds 11.90% ownership in Sindh Engro Coal Mining Company Limited (SECMC), a project set up to mine coal and establish power projects. THAL received dividend of Rs. 346.3m (FY23: Rs. 677.3m) in FY24. In Oct'24, the Board approved investment of up to approximately

Rs. 1.08b to acquire up to 1.90% of Sindh Engro Coal Mining Company Limited (SECMC), increasing the company's total shareholding in SECMC to 13.80%. The shares will be purchased from Habib Bank Limited (proposed seller) at a price of approximately Rs. 35.3 per share. Furthermore, THAL will be authorized to make an additional investment in SECMC to maintain its position as the largest private sector shareholder. This additional investment could be up to 4.75% of SECMC's shares, with a maximum investment amount of Rs. 2.7b. This would increase the company's total shareholding in SECMC to a maximum of 16.65%.

Amid downturn in auto sector and weak demand of jute bags, THAL's net sales decreased during the review period. However, diversified operations and income from subsidiaries supported profitability profile.

Net sales decreased by 16.6% to Rs. 26.6b (FY23: Rs. 31.9b) in FY24 on account of significant decline in volumetric sales across majority of business segments. THAL's core operations are segregated into two divisions - Engineering and Building Materials and Allied Products (BMAP). Engineering produces auto parts including air conditioners controls, wire harness, heater blower and engine components for leading OEMs (original equipment manufacturers). BMAP comprises building materials and allied products divided into three segments – jute, packaging and laminates.

Amid economic slowdown during FY23 and FY24, automobiles sector has witnessed a sharp decline. Engineering net sales decreased by 25% YoY in FY24 due to reduced demand for auto parts from OEMs. THAL has continued developing and supplying components for both existing and newly launched vehicles. The jute industry encountered supply chain disruptions and slowdown in demand in FY24. The company mitigated these challenges by prioritizing local sourcing, boosting exports and automating packaging processes to facilitate international retail expansion. BMAP's sales decreased by 10.4% in FY24 however, favorable sales mix mitigated cost-pressures. In FY24, BMAP's contribution to sales increased to 61.1% (from 56.7% in FY23 and 38.3% in FY22), while Engineering share decreased to 38.9% (from 43.3% in FY23 and 61.7% in FY22).

Higher depreciation and fuel, and energy expenses reduced gross margins to 10.5% (FY23: 13.8%) in FY24. Net sales and gross margin stayed rangebound in 1QFY25 compared to SPLY. THAL incurred lower exchange loss of Rs. 1.4m (FY23: Rs. 436.7m) in FY24 on account of rupee to dollar appreciation. Other income, mainly comprising rental income from METRO, dividend income from related parties, and income from mutual funds, increased to Rs. 3.1b in FY24, up from Rs. 2.5b in FY23.

Financial charges rose to 729.4m (FY23: Rs. 405.5m) in FY24 owing to increase in borrowings and high interest rates. This increase in financial charges along with weakened gross margin contributed to a lower net profit of Rs. 2.2b (FY23: Rs. 2.8b) in FY24. However, the company's bottom-line was higher in 1QFY25 compared to 1QFY24, mainly due to an increase in other income.

THAL's profit margins have remained within median range among peers during the review period. The management maintains a positive outlook with regards to engineering segment as rebound in demand of automobiles is likely to drive the sales of auto-parts amid stability in inflation and declining financing rates. BMAP's turnover is expected to increase from exports and pricing revisions whereas local demand may remain subdued.

Liquidity profile and debt coverages remained strong

Cash flows and coverages remained healthy in the outgoing year. FFO (funds from operations) decreased to Rs. 3.2b (FY23: Rs. 3.5b) in FY24 owing to reduced income tax payment. DSCR,

although strong, declined to 3.89x (FY23: 7.50x) on account of higher finance cost paid. Stock-in-trade and trade debts provided sound coverage against short-term borrowings.

Liquidity profile was strong as current ratio increased to 2.98x (FY23: 2.70x) in FY24 mainly due to higher short-term investments. However, cash conversion cycle rose to 116 days (FY23: 102) in FY24. Trade debts to sales increased to 18.7% (FY23: 11.4%) in FY24 on the back of higher trade debts. Aging profile of trade debts profile was manageable. Liquidity profile and debt coverages weakened in 1QFY25 mainly due to low margins. Debt coverage profile and liquidity metrics of THAL are commensurate with assigned ratings.

Ratings take into account conservative capital structure

Assigned ratings take into account low financial risk given that total equity has increased to Rs. 31.3b (FY23: Rs. 29.6b) in FY24 owing to sustained profit retention. Long-term debt rose to Rs. 4.3b (FY23: Rs. 4.2b) mainly for financing investments in ThalNova and the installation of a solar power system. Despite increase in total debt, concurrent increase in equity has resulted in a sustained gearing ratio of 0.16x (end-FY23: 0.16x) at end-FY24.

Additionally, debt leverage experienced a marginal decline to 0.37x (FY23: 0.41x) in FY24. Both gearing and leverage remained at same levels at end-1QFY25. Moreover, capitalization indicators have consistently remained above peers during the period under review.

Thal Limited
Annexure I

FINANCIAL SUMMARY				
<i>(Rs in millions)</i>				
BALANCE SHEET	FY22	FY23	FY24	1QFY25
Property, Plant & Equipment	5,678.5	6,135.7	6,119.4	6,079.9
Long Term Investments	10,908.7	12,881.6	13,081.7	13,063.5
Short Term Investments	1,263.3	4,202.5	7,288.6	7,222.1
Trade Debts	3,829.9	3,635.8	4,969.1	4,530.9
Stock-in-Trade	10,379.1	9,862.9	7,772.6	9,047.5
Cash & Bank Balances	2,557.6	1,151.9	1,447.1	1,029.9
Total Assets	37,605.7	41,604.6	42,755.0	43,472.6
Long Term Debt	2,858.7	4,207.8	4,306.5	4,200.1
Short Term Debt	597.1	555.0	780.0	780.0
Total Debt	3,455.8	4,762.8	5,086.5	4,980.1
Trade and Other Payables	5,843.7	6,289.4	4,814.3	5,279.4
Total Liabilities	10,375.8	11,999.2	11,507.8	11,914.6
Paid-Up Capital	405.2	405.2	405.2	405.2
Total Equity	27,229.8	29,605.4	31,247.3	31,558.0
INCOME STATEMENT				
	FY22	FY23	FY24	1QFY25
Net Sales	37,351.5	31,920.7	26,550.6	5,751.1
Gross Profit	6,504.1	4,410.6	2,796.5	481.1
Finance Cost	145.0	405.5	729.4	190.1
Other Income	1,831.8	2,497.9	3,132.4	795.7
Profit Before Tax	5,924.9	4,012.4	3,064.9	496.0
Profit After Tax	4,257.2	2,750.7	2,190.4	328.9
RATIO ANALYSIS				
	FY22	FY23	FY24	1QFY25
Gross Margin	17.4%	13.8%	10.5%	8.4%
Net Margin	11.4%	8.6%	8.3%	5.7%
FFO	5,409.8	3,452.3	3,228.3	(80.2)
FFO to Total Debt (x)	1.57	0.72	0.63	(0.06)
FFO to Long Term Debt (x)	1.89	0.82	0.75	(0.08)
Debt Servicing Coverage Ratio (x)*	36.17	7.50	3.89	0.45
Short Term Debt Coverage (x)	23.80	24.32	16.34	16.91
Current Ratio (x)	2.70	2.70	2.98	2.90
Cash Conversion Cycle (days)*	81	102	116	134
ROAA*	11.3%	6.9%	5.2%	3.1%
ROAE*	15.6%	9.7%	7.2%	4.2%
Leverage (x)	0.38	0.41	0.37	0.38
Gearing (x)	0.13	0.16	0.16	0.16

*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/Watch	Rating Action
	RATING TYPE: ENTITY				
	18/12/2024	AA	A1+	Stable	Reaffirmed
	15/01/2024	AA	A1+	Stable	Reaffirmed
	18/01/2023	AA	A1+	Stable	Reaffirmed
	21/12/2021	AA	A1+	Stable	Reaffirmed
	29/12/2020	AA	A1+	Stable	Reaffirmed
	12/12/2019	AA	A1+	Stable	Reaffirmed
	20/11/2018	AA	A1+	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	Name	Designation		Date	
	Shahid Saleem	CFO		26-Nov-2024	
	Sameer Amlani	Company Secretary			
	Ali Godil	Manager Finance			
	Syed Akkas ul Husaini	Engineering Business Head			
	Ejaz Ali Sheikh	Financial Controller Jute Business			
	Umair Ahmed	Packaging Business Head			
	Farrukh Zameer	Laminates Business Head			