

DIRECTORS' **REPORT** TO THE **SHAREHOLDERS**

For the Year Ended June 30, 2016

Dear Shareholders,

The Directors of your Company have the pleasure of presenting the Annual Report based on the results of its operations along-with the audited accounts for the year ended June 30, 2016.

The Board of Directors is pleased to recommend a cash dividend of 125% i.e. Rs. 6.25 per share. This dividend is in addition to 50% or Rs. 2.50 already paid as interim. The total dividend for the year Rs. 8.75 per share i.e. 175%.

The Board has also recommended appropriation of Rs. 300 million from un-appropriated profits to General Reserve.

PAKISTAN'S ECONOMY

The economy continues to steadily maintain its growth momentum for the third consecutive year, with real GDP growing at 4.71 percent in financial year 2016, which is the highest ever in eight years. GDP recorded a reasonable growth over last year, despite a major setback in agriculture on account of massive decline in cotton production. However, the loss to some extent has been compensated by growth in industrial and services sector as both these sectors surpassed their targets, while other key macro-economic indicators like inflation, fiscal and current account balance recorded improvement.

The foreign exchange reserves have attained the highest level at US\$21 billion. It is anticipated that economy shall continue to grow with single digit inflation. Foreign reserves are expected to grow further and the fiscal deficit is projected to shrink. The external sector will continue to remain stable on the back of improvement in trade balance, higher remittances, continuous inflow from International Financial Institutions, and stable exchange rate.

AUTOMOTIVE SECTOR

The Auto Industry, except for tractors, continued to grow in all segments i.e. passenger cars, light commercial vehicles, trucks & buses over the preceding year. The tractor segment was seriously affected due to first the uncertainty caused by announcement of subsidized tractor scheme announced by the Governments of Punjab & Sindh and later its cancellation by the two provincial governments, despite reduction in sales tax from 16% to 10%.

Summarized automobile production figures comparing 2016 with 2015 appears below:

	2016	2015	Change
Passenger Cars	179,944	152,524	18%
Light Commercial Vehicles	36,609	29,298	25%
Trucks & Buses	6,736	4,614	46%
Tractors	34,914	48,883	(29%)
Motorcycles	2,024,600	1,763,818	15%

Source:PAMA & PBS

1. SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2016:

	2016	2015
Turnover	5,758,380	4,923,276
Gross Profit	1,034,475	988,652
Profit before Taxation	713,332	733,399
Taxation	(228,868)	(248,338)
Profit after Taxation	484,464	485,061
Earnings Per Share (Rs.)	16.82	16.84



Sales for the year 2016 are higher by 17% compared to last year. This increase was due to the overall growth in the auto sector in all segments except tractors.

Despite sale growth, profitability was adversely affected due to following cost increase:

- i. Regulatory Duty (RD) imposed on steel products.
- ii. Additional 1% custom duty imposed by the Government.
- iii. Licensing fee paid for new technologies acquired.

We are in discussion with our customers for adjustment in pricing on account of RD & 1% additional duty and are hopeful of favorable outcome.

2. NEW PRODUCTS

The Company has embarked upon a new project of developing Catalytic Converter for cars to meet the government's emission requirements. A new building is being constructed for this purpose, for which necessary plant and equipment has already been ordered. It is expected that the production for this will commence from July 2017.

We are also pleased to inform that our efforts, for the induction of Power Window Regulator have been successful with the technical partner, M/s. Shiroki Corporation, Japan. Technical agreement has now been extended to include the Power Window Regulator as well. The supply of the new product will commence from financial year 2017-18.

3. PROCESS IMPROVEMENT ACTIVITIES

Process improvement activities are regularly performed at Agriauto. Continuous trainings are being imparted by a Japanese Consultant every quarter to train our staff to maintain the machines and equipment. The progress is also being monitored regarding the improvements being made since the start of the Total Productive Maintenance (TPM) activities.

The Company is also regularly updating its equipment to keep pace with technology meeting customer requirement. During the year, new welding line has been added in the Shock Absorber plant, additional oil filling machine has been added with electronic controls for accuracy, new presses have been added to manufacture additional press parts in-house.

4. AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED (ASC)

The wholly owned subsidiary, which was established in the year 2012, and had successfully started commercial production of sheet metal parts from July 2014, is now running at its capacity.

For the year under review the subsidiary Company achieved turnover of Rs.1.41 billion (Rs. 0.73 billion last year), an increase of 93% and after tax profit of Rs. 254 million as against R. 60.5 million earned last year. We are pleased to inform that the Company has complied with all the requirements of Section 65D of the Income Tax Ordinance and as such the subsidiary company is eligible to take 5 year tax credit on its profits from start up. The same has been incorporated in these financial statements.

The following have been major achievements of the subsidiary company:

- i. 100% compliant to the requirements of the customer for which appreciation has been received
- ii. Zero defects in products supplied
- iii. Successful development of Fuel Tank for motorcycle and car. Mass production to start from next fiscal year
- iv. Start of the 1st phase of the die development center for which 3 trainees were sent to technical partner M/s. Ogihara, Thailand for 6-12 months training on designing and manufacturing of dies and fixtures.

The Board of the subsidiary company has recommended payment of 10% cash dividend to its parent company.



Safety, Health and Environment (SHE)



- Company installed state of the art Effluent Treatment Plant to control and treat the hazardous factory waste. The plant started its operation with effect from January-2016. The recycled water is now being used for gardening, thus saving on account of tanker water.
- Company has also started the activities to attain the ISO 14001 & OHSAS 18001 certification.
- Ensured provision and monitoring of safe drinking water for the Company employees and monthly check of NEQs from the Laboratory.
- Safety talk at plant floor is a regular feature.



A photograph showing two hands, one on the left and one on the right, holding a small, vibrant green tree in a lush green field. The background is a clear blue sky with scattered white clouds. The hands are positioned as if they are gently supporting the tree, symbolizing care and growth.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The company continued to play its role in community development initiatives and contributed 1% of PBT. This year again the focus remains on education and medical facilities. The following CSR activities were performed:-

a. Support to Educational Institution

- Supported for Educational Fees, Premises Maintenance, Uniform and Copies to the Government Girls High School at Hub.

b. Support to Hospitals

- Murshid Hospital was supported for facility development.

c. Provision of Rations

- Distributed Ration Hampers to the widows/poor families at Hub during the month of Ramadan.



7. INDUSTRIAL HARMONY

- Maintenance of industrial harmony remained the focus this year as well. Close coordination and cordial communication was ensured by timely dissemination of information on different issues.
- All notices/ordinance issued by the Government for workers welfare was complied with and ensured smooth process through out the year.

8. CONTRIBUTION TO NATIONAL EXCHEQUER

During the year under review, your Company contributed Rs. 1.63 billion to the National Exchequer.

9. HUMAN RESOURCE (HR)

HR Department remains committed to the professional development and training of the employees with emphasis on inculcating company values in employees and providing them an environment of team work and mutual respect. Following are the salients of HR initiatives:

a. Training & Development

A variety of Training and Development opportunities were offered to various tiers of Management both in-house and abroad:-

Foreign Training:

- In order to ensure that our Human Resources are in line with the latest development techniques, and current with the internationally followed best Management practices, the Company sent Executives on various trainings to AOTS/HIDA, Japan, Safety and technical Training at Ogihara Thailand, and Senior Management Program at National University, Singapore. Total Foreign Training carried out was over 1400 hrs.

• Value Sessions:

Regular value sessions are carried out during Orientation of new comers.

b. Award & Recognition

- Atlas Honda Limited awarded the Company with the Best Vendor for the year 2015. The Company was awarded as the Best for its continuous improvement efforts (KAIZEN)
- Participated in UNGC's Communication on Progress Report & Achieved "Certificate of Participation".
- Appreciation Certificate has been awarded by UNGC Pakistan to AIL for participating in Living the UN Global Compact Principles Best Practices Award.
- Participated in EFP OSHE Award & won the "3rd Prize" in category "Processing & Allied Sector".
- Participated in EFP Employer of the month Award , and awarded 3rd Prize in the category of Large National Companies

10. FUTURE OUTLOOK

The positive economic indicators and growth seen in the auto industry this year are expected to continue which shall augur well for the Company. The Auto Development Policy 2016-21 announced by the government has not given any incentive to the auto parts manufacturers. However, the Policy does remove uncertainty and have given a road map for the future of the industry.

With the reduction in GST from 10% to 5% announced on Tractors, positive growth is expected in the production and sale of tractors, thereby giving impetus to this sector and the vendor industry.

We expect growth in the trucks and buses sector due to the on-going development work on CPEC (China Pakistan Economic Corridor). This segment is also expected to grow next year as well.

The two wheeler segment is expected to

grow as the major manufacturer planning to increase its annual production capacity. The new entrant motorcycle assembler is also introduce new models.

11. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2016 is annexed.

12. CORPORATE AND FINANCIAL REPORTING

In compliance with the listing regulation # 37 of the Pakistan Stock Exchange, the Directors of the Company do hereby declare the following:

- The financial statements prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and

prudent judgement.

- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

The value of investments made by the Provident Fund for the year ended June 30, 2016 amounted to Rs. 176.97 million.

13. NUMBER OF BOARD MEETINGS

During the year, six Board meeting were held and attendance is given hereunder:

SL#	Names	No of meetings Attended/held
1	Mr. Yutaka Arae	6/6
2	Mr. Fahim Kapadia	6/6
3	Mr. Sohail P. Ahmed	5/6
4	Mr. Owaisul Mustafa	6/6
5	Mr. Asif Rizvi	6/6
6	Mr. Muhammad Ali Jameel	3/6
7	Mr. Abbas ul Husaini	4/6

During the year the Audit Committee met 4 times and attendance of the Directors was as follows:

SL#	Names	No of meetings Attended/held
1	Mr. Owaisul Mustafa (Chairman)	4/4
2	Mr. Sohail P. Ahmed	4/4
3	Mr. Asif Rizvi	4/4
4	Mr. Muhammad Ali Jameel	2/4

14. AUDITORS

The existing Auditors M/s. EY Ford Rhodes (Chartered Accountants) retired and have offered themselves for re-appointment. The reappointment has also been recommended by the Audit Committee of the Board.

15. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The statement of compliance to the Code of Corporate Governance is annexed herewith.

16. ACKNOWLEDGMENT



The relations with employees continue to remain cordial and pleasant throughout the year for which the Management recognizes

the dedicated efforts and commitment displayed by all the employees of the Company. We expect continued devotion and selflessness by all in future as well.

On behalf of the Board of Directors, we would like to place on record our sincere appreciation to all our Patrons, Dealers, Suppliers and Employees for their valuable help, continuous support and contribution to the Company. We are also thankful to all our overseas technical collaborators, M/s Gabriel Ride Control Products (GRC), Inc. USA, M/s KYB Corporation, Japan, M/s Aisin Seiki Co. Ltd, Japan, M/s. Shiroki Corporation, Japan, M/s. Sannou Riken Co Ltd, Japan and M/s. Ogihara (Thailand) Co. Ltd for their technical assistance and advice.

On behalf of the Board of Directors.

Fahim Kapadia
Chief Executive

KARACHI
DATED : August 29, 2016