

Directors' Report

to the shareholders for the year ended June 30, 2018

Dear Shareholders,

The Directors of Agriauto Industries Limited have the pleasure of presenting the Directors' Report along with the Audited Accounts for the year ended June 30, 2018.

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at June 30, 2018 comprised of:

1.	Mr. Yutaka Arae – Chairman	Non-executive Director
2.	Mr. Fahim Kapadia – Chief Executive	Executive Director
3.	Mr. Sohail P. Ahmed	Non-executive Director
4.	Mr. Salman Burney	Non-executive Director
5.	Mr. Owaisul Mustafa	Non-executive Director
6.	Mr. Muhammad Ali Jameel	Independent Director
7.	Mr. Abbasul Hussaini	Non-executive Director

PRINCIPAL ACTIVITIES OF THE COMPANY

The Company is engaged in the manufacture and sale of components for automotive vehicles, motor cycles and agricultural tractors.

FINANCIAL & BUSINESS PERFORMANCE

During the year 2017-18, the Company achieved its highest ever sales of Rs. 6.11 (2017: Rs. 5.66) billion showing a growth of 8% over last year. The Gross Profit of the Company increased from Rs. 1.05 billion last year to Rs. 1.12 billion on account of higher sales as well as production efficiencies. Other Income decreased from Rs. 145.9 million to Rs. 54.2 million mainly due to the fact that no dividend was paid by the subsidiary during the year (2017: Rs. 114.4 million).

Following are the summarized financial results of the Company for the year 2017-18:

	(Rs. '000)	
	2018	2017
Turnover	6,112,980	5,657,541
Gross Profit	1,115,918	1,045,884
Profit before Taxation	773,238	810,364
Taxation	(252,831)	(223,727)
Profit after Taxation	520,407	586,637
Earnings Per Share (Rs.)	18.07	20.37

The profit after tax decreased from Rs. 586.6 million last year to Rs. 520.4 million mainly due to decrease in Other Income.

- CONSOLIDATED FINANCIAL STATEMENTS:**

	2018	(Rs. '000) 2017
Turnover	8,315,021	7,115,296
Gross Profit	1,592,200	1,418,241
Profit before Taxation	1,207,756	1,033,367
Taxation	(248,039)	(287,738)
Profit after Taxation	959,717	745,629
Earnings Per Share (Rs.)	33.32	25.89

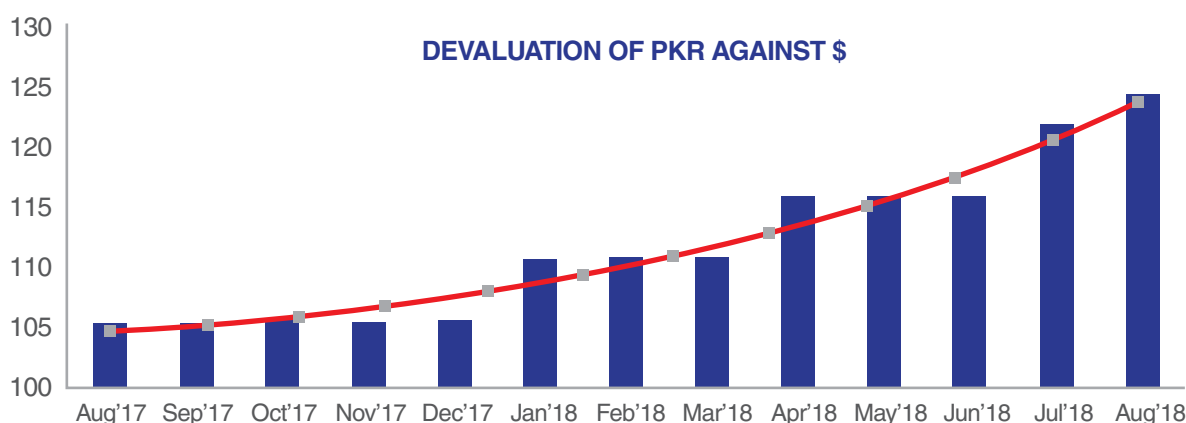
- APPROPRIATION OF PROFIT**

The Board of Directors is pleased to recommend a final cash dividend of Rs. 8.50 per share (170%) for approval of the shareholders at the Annual General Meeting of the Company to be held on October 22, 2018. The final dividend is in addition to the interim dividend of Rs. 4.00 per share (80%) already paid. The total dividend for the year, therefore, aggregates to Rs. 12.50 per share (250%). The Board has also recommended transfer of Rs. 190 million from un-appropriated profits to General Reserve.

- PAKISTAN'S ECONOMY**

During FY2018, the country achieved a GDP growth of 5.7%, highest in 10 years backed by the manufacturing, service and agricultural sectors. Although, the average CPI for FY2018 of 3.9% was well within the State Bank of Pakistan's overall target of 6%, the SBP has started adjusting the interest rates to check the increasing inflationary trend backed by increase in electricity and gas tariffs as well as local demand.

In addition, the widening current account deficit which swelled to US\$ 18 billion by June 30, 2018 poses a significant threat to the economy. The trade imbalance caused by an alarming increase in imports coupled with failing exports has led to the recent major devaluation of Pak Rupee. We believe that the trade deficit will continue to keep the Pak Rupee in tremendous pressure in the foreseeable future as well.

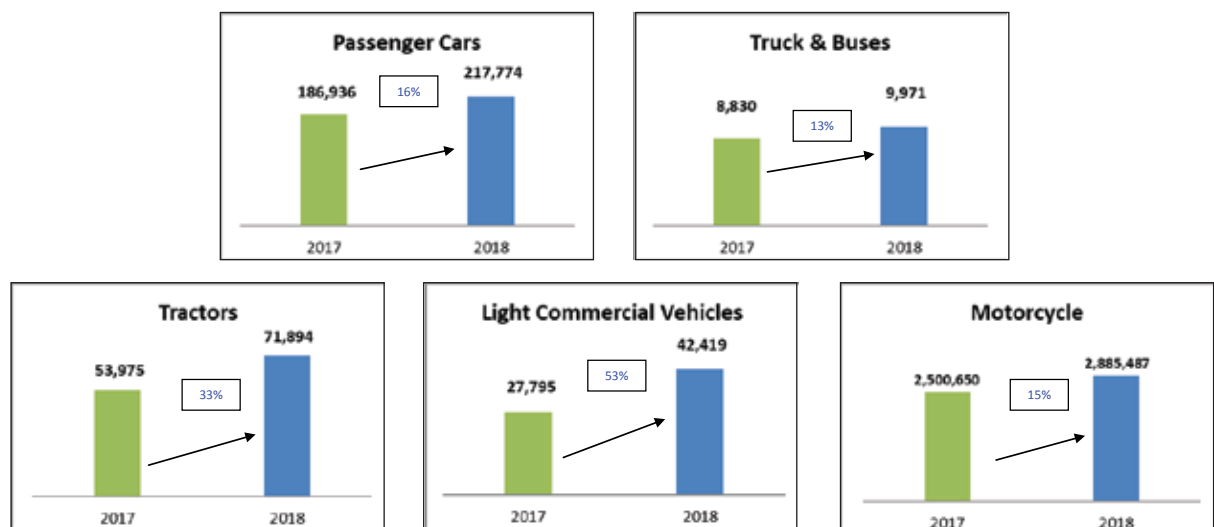


The manufacturing sector in Pakistan which relies heavily on the use of imported raw material, including steel sheets has been impacted adversely by the recent unprecedented major devaluation of Pak Rupee. The devaluation has caused significant problems for the manufacturing sector in terms of escalating the cost of input and eroding profit margins. In addition, the Government has imposed Regulatory Duty (RD) on imported raw material which has further worsened the situation causing major hardships for the manufacturing sector.

As a basic principle, we believe that RD should be imposed on luxury and non-essential items to restrict their imports. However, RD has been levied on auto grade steel sheets, the raw material for the auto parts maker, which is not produced in Pakistan. The imposition of RD has created inequality between the duty level on raw material and the finished product, which would make the imports cheaper than local manufacturing hurting the local auto part makers.

- ### AUTOMOTIVE SECTOR

Despite above challenges on the economic front, Pakistan's automotive sector has done quite well in all segments (i.e., passenger cars, LCVs, trucks & buses, motor cycles and tractors) which is reflected in the growth in the industry sales, backed by higher demand. The industry expects to see new players entering the market in the coming years, whereas a few assembling units which were closed are also reviving their businesses. In addition, all of the existing players are working on introducing new models to tap the increase in demand.



- ### PRINCIPAL RISKS AND UNCERTAINTIES

Risk management process includes identification of strategic, financial, operational and legal risks affecting the performance of the Company and to ensure appropriate measures to mitigate those risks. An effective risk management strategy is in place to detect these risks at an early stage and to devise action plans to address and mitigate the same.

The Directors believe that the current pressure on the exchange rate carries a high risk and any further devaluation of Pak Rupee may have significantly adverse impact on the automotive industry in Pakistan.



Agriauto Stamping Company (Private) Limited

The subsidiary company, Agriauto Stamping Company (Pvt) Limited (ASC) is operating at its full capacity backed by increased demand from its customers. In order to meet the enhanced requirement, the Company is in the process of setting up a new half tandem line of 800 and 500 ton presses which are expected to be commissioned by second quarter of 2019.





The sales of the subsidiary company for the year grew by 50% to reach Rs. 2.23 (2017: Rs. 1.49) billion whereas profit after tax increased by 61% to reach Rs. 439 (2017: Rs. 273) million. The increased sales & profitability is mainly due to the introduction of Catalytic Converter business during the year.

Other key achievements of the subsidiary company during the year are:

- a) Obtained ISO certifications (i.e., ISO 9001-2015, ISO14000, TS16949)
- b) Zero defects in parts supplied
- c) In time delivery of parts to the customers
- d) Developed four additional press parts and supply commenced
- e) Start of the 1st phase of the die development center for which 3 trainees were sent to Ojihara, Thailand for training on designing and manufacturing of dies and fixtures

Safety, Health And Environment (SHE)

The Company is fully cognizant of its responsibility towards Environment. We believe growth is only sustainable if it is achieved while respecting the environment. We are fully complying with all applicable legal and other requirements.

- a) In the Daily 'Asakai Meeting', safety hazards are identified based on previous day's audit.
- b) SHE member attends Daily Morning Circle and talks on one topic for safety in all the Plants to enhance safety awareness and shares key safety tips/actions.
- c) Enforcement of hazards elimination process based on HIRA (Hazard Identification and Risk Assessment) in progress.
- d) Paint Booth modified to remove environmental hazards of high Volatile Organic Compound (VOC) fumes in Paint Booth and provision of suitable Personal Protective Equipment (PPEs) to the Paint Shop Operators.
- e) Effluent Treatment Plant (ETP) is functional to treat the infected water with a Reverse Osmosis Plant (RO) to recycle the treated water to be used for processes again.



Corporate Social Responsibility (CSR)

Corporate social responsibility is embedded in to company's core business strategy. We believe that what is good for the people is good for the business. The company continues to spend 1% of its PBT over community welfare and development initiatives. Our objective remains, to support the local community for the welfare of all our stakeholders. The projects undertaken during the year include:

Support to Educational Institutions

- Donation to various educational institutions providing support in respect of uniforms, books & furniture etc.

Support to Hospitals

- Donation to various healthcare institutions including Indus Hospital, SIUT, Kidney Center etc.

Provision of Ration Hampers

- Distribution of Ration Hampers to employees and local residents in the Factory vicinity during the month of Ramadan.

Industrial Harmony

- Company remains committed to fulfilling its legal obligations towards the workforce and complies with regulations regarding their wages and benefits, thus leading to excellent industrial harmony and amicable management of labor relations

CONTRIBUTION TO NATIONAL EXCHEQUER

During the year under review, your Company contributed Rs. 1.81 billion to the National Exchequer.

HUMAN RESOURCE

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 salient of HR initiatives:

Training & Development

A variety of Training and Development opportunities were offered to various tiers of Management both in-house and externally such as at:

- o Association of Overseas Technical Cooperation & Sustainable Partnerships (AOTS), Japan, - various trainings
- o Ogihara, Thailand for Safety and technical trainings
- o The Fuqua School of Business at North Carolina, USA for Senior Management Program and
- o South East Asia Leadership Academy (SEALA), Thailand for Senior Management Program

Total Foreign Trainings hours for the year under review were in excess of 4,200 hours.

Team Building & Value Sessions

Various team building exercises and value sessions for new comers were conducted during the year to bring alignment in objectives and improve employee engagement.

Award & Recognition

- Received 3rd Position Award from Atlas Honda Ltd for best KAIZEN at its 28th Alamayar Convention 2018.
- Following awards from Employers' Federation of Pakistan:
 - o 2nd Prize on Best HRM Practices - 2017 in the category "Large National Companies"
 - o 2nd Prize on Excellence in Women Empowerment – 2018 in the Category "Large National Companies"
 - o Gold Award on Best Practices in OSH (Occupational Safety and Health) compliance
- Awarded TS16949 Certification through external audit by URS
- Successfully passed Honda Vendor Improvement Program (VIP) Audit I & Audit II
- 1st prize of the QCC from Indus Motor Company Limited



FUTURE OUTLOOK

Following the smooth political transition into a new government, hopes have risen for a better and stable political future for the Country. Political stability, low interest rates, low inflation coupled with high domestic demand will create a positive business environment for the industry. However, challenges on the economic front including consistent devaluation of Pak Rupee poses a grave problem. The ballooning current account deficit and depleting forex reserves will continue to keep the Pak Rupee under pressure in the foreseeable future.

The changes brought in by the Finance Act 2018 viz-a-viz, imposition of additional custom duty, regulatory duty and requirement of being a tax filer for registration of new vehicles may have an impact on the Company's future sales.

On the other hand, entry of new players in the market shall open new doors for additional business for the Company. The management is committed to take all actions necessary to benefit from these new business avenues.

PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2018 is annexed.

RELATED PARTY TRANSACTIONS

All transactions with related parties have been carried out in normal course of business at arm's length and have been disclosed in the financial statements under relevant notes.

CORPORATE AND FINANCIAL REPORTING

As required by the Code of Corporate Governance, incorporated in the Listing Regulations of the Pakistan Stock Exchange, the Directors of the Company do hereby declare the following:

- a. 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.
- b. Proper books of account of the Company have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.



- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Company's ability to continue as a going concern.
- g. 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 as at June 30, 2018 amounted to Rs.188.6 million.

NUMBER OF BOARD MEETINGS

During the year, 6 Board meeting were held and attendance is given hereunder:

SL #	Names	No of meetings Attended
1	Mr. Yutaka Arae	6
2	Mr. Fahim Kapadia	6
3	Mr. Sohail P. Ahmed	6
4	Mr. Salman Burney*	5
5	Mr. Owaisul Mustafa	6
6	Mr. Muhammad Ali Jameel	3
7	Mr. Abbasul Husaini	3
8	Mr. Asif Rizvi**	1

* Mr. Salman Burney joined the Board with effect from August 7, 2017

** Mr. Asif Rizvi resigned from the Board with effect from August 7, 2017

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.

STATEMENT OF COMPLIANCE WITH THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2017

The Statement of Compliance with the above Code of Corporate Governance is annexed herewith.



ACKNOWLEDGMENT

We would like to express our sincere appreciation to all our employees for their untiring efforts and through a cordial and positive relationship during the year which helped us in meeting and overcoming our challenges due to which the company continued its year on year growth. We expect the same level of support from our employees in the years ahead.

On behalf of the Board of Directors, we would like to place on record our 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 Ride Control, LLC. 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, M/s KMS (KYB Motorcycle Suspension, 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 17, 2018

