

# Directors' Report to the Shareholders

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013.**

**Consequent to the General Elections, the new Government faces numerous uphill tasks and challenges, most critical being the deteriorating law & order, power shortage, economic slowdown, inflation, unemployment and increasing poverty which need to be taken up on priority to improve the industrial climate of the country.**

The Board of Directors' is pleased to recommend a cash dividend of 110% i.e. Rs. 5.50 per share. The Board has also recommended appropriation of Rs. 175.0 million from un-appropriated profits to General Reserve.

## **PAKISTAN'S ECONOMY**

The year 2013 started with continuing economic issues such as inflation, the growing current account deficit, problems of power and gas shortages along with other internal and external challenges. Low agriculture productivity, narrow tax and export bases, trade policy distortions are among the other issues that require immediate attention. The circular debt kept on increasing despite injections by the government. The working of the Public Sector Enterprises also deteriorated levying additional burden on budget.

The adverse impact of these economic difficulties was further compounded by the ongoing war against extremism/terrorism which continues unabatedly, causing irreparable loss to the economy and depriving the masses of mental peace and harmony. Despite these challenges, the overall growth of GDP was registered at 3.6% as compared to 4.4% last year.

Next year is again going to be as challenging for us as all the impediments of the last year have been carried forward without any solution. It includes uncertain policies, energy crisis, and deteriorating law and order situation.



## AUTOMOTIVE SECTOR

Auto Industry in the last year remained unpredictable due to wavering Government policies and frequent and fluctuating customers' demand. The passenger car segment was lower by 22% as compared to last year, mainly on account of carryover stock of the imported used cars. The second main reason for the slowdown in the local car production was on account of the amnesty scheme to the owners of the non-duty paid smuggled vehicles. However, under this relief, there was an influx of luxury cars brought from Afghanistan, Iran which was regularized on payment of duty/taxes based on used car formula. It has been reported that 50,850 vehicles were regularized under this scheme.

Tractor segment, which was badly hit last year improved by 6% this year. This growth in the tractor segment was possible after the rationalization of Sales Tax on tractor from 16% to 5% from July 2012 and thereafter to 10% from January 2013. Although the Sindh and Punjab Government announced subsidies on tractor purchase but the impact of these incentives on the overall market was negligible.

Motorcycle segment is unique in a sense that there are many approved assemblers making motorcycles largely on imports of CKD's from China. This year many of such assemblers have closed down their operations on account of stiff competition. The ones survived are the ones whose production volumes are sizeable. We expect this segment has lot of potential for growth.



Summarized automobile production figures comparing 2013 with 2012 appears below:

	2013	2012	Change
Passenger Cars	120,332	154,255	(22%)
Light Commercial Vehicles	15,992	21,380	(25%)
Trucks & Buses	2,445	3,165	(23%)
Tractors	50,856	48,120	6%
Motorcycles (2 & 3 Wheelers)	1,736,238	1,691,527	3%

## 1. SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2013:

(Rs. '000)

	2013	2012
Turnover	3,503,624	4,286,674
Gross Profit	574,603	925,703
Profit before Taxation	439,134	830,446
Taxation	(129,714)	(245,382)
Profit after Taxation	309,420	585,064
Earnings Per Share (Rs.)	10.74	20.31

Sales during the year 2013 remained at Rs. 3.5 billion as compared to last year's Rs. 4.28 billion, registering a decline of 18% over last year. The profit before tax for the year has also declined by 391.0 million as compared with last year. The main reason for the decline in sales & profitability is attributable to reduction in volume of the passenger car segment which has dropped by 22%.

## 2. UP-GRADATION OF MANUFACTURING FACILITIES

Regular up-gradation and balancing is required to keep the manufacturing facilities updated and to supply the parts to the customers as per their requirement. During the year, plant & machinery worth Rs. 67.9 million were added:

### Nissin Grinding Machine

After the successful working of new Grinding Machine last year, another new machine has been added to the Pipe Fork machining line. Pipe Forks are supplied to M/s. Atlas Honda Motorcycles and by adding this machine the capacity has increased to 72,000 pipe forks per month which would cater for the monthly requirement of 36,000 motorcycles.

### CNC Machining Center for Steering Box

Steering Box is supplied to Millat Tractor and until the introduction of this new CNC machine the machining was done on conventional manual type machines. After the addition of this machine the entire Steering Box Housing is machined within minutes





### 3. SAFETY, HEALTH AND ENVIRONMENT (SHE)

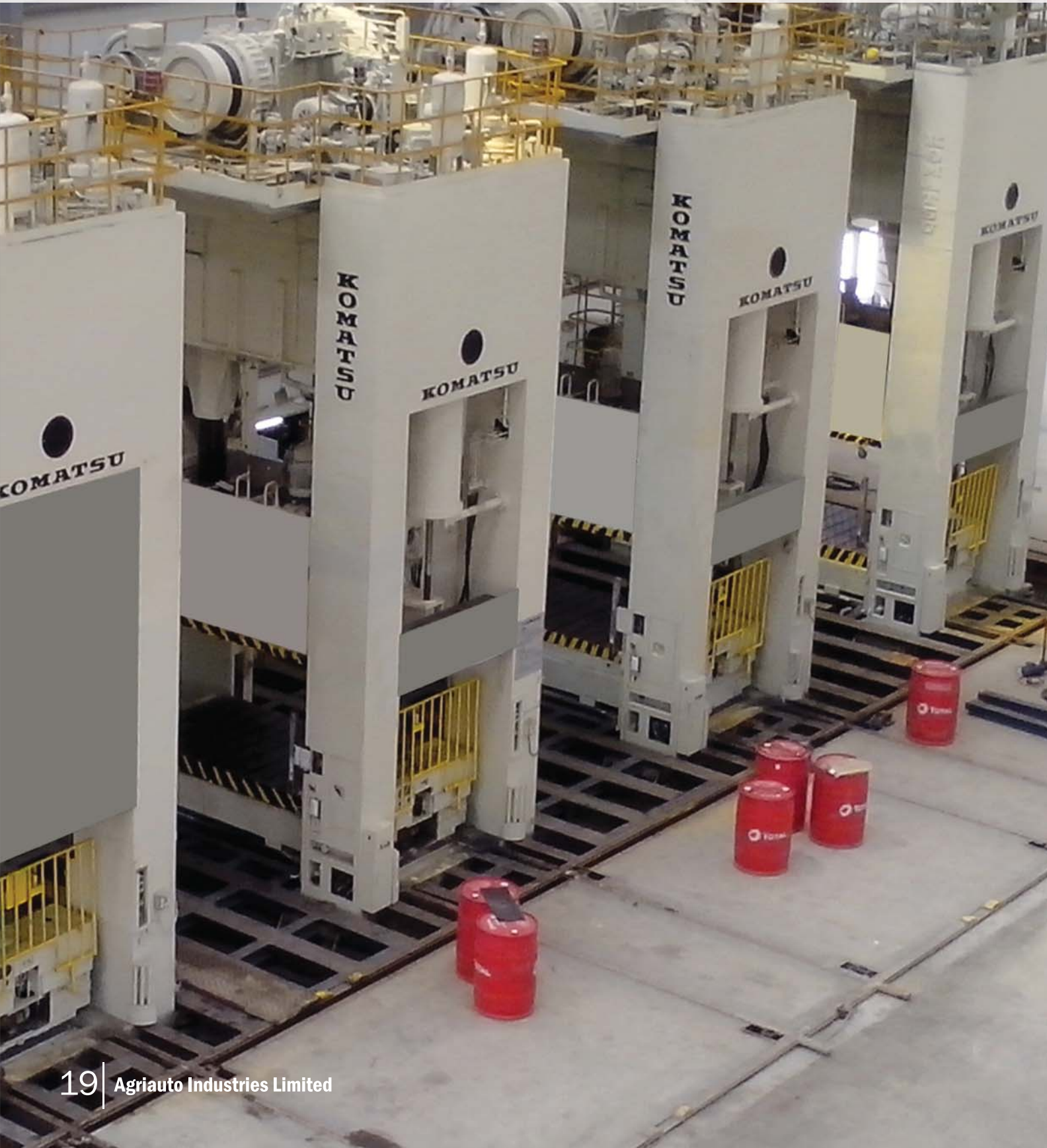
Agriauto is committed to provide a system that helps in providing safe & healthy work conditions. Hazard identifications and risk assessment are being performed, reviewed and all necessary corrective and preventive measures are taken to minimize the occurrence of potential accidents. Emergency response procedures and plans are established to deal with accidents and emergencies, Exercises are periodically carried out in order to check the effectiveness of these plans.

Responsibilities and authorities in emergency situation are clearly identified in the procedures. To improve safety on continual basis in each area, the Company has identified and has analyzed the potential risks related to work and Equipment. The countermeasures have been taken based on CCCF activity (complete check complete find out) and Hiyari Hatto (near miss and narrow escape) activity as per Toyota methods.

Regular training is being imparted to all the employees for safety and health awareness. Last year 3100 man hours training was conducted on SHE. We will continue to devote ourselves more energetically for this important aspect in the years to come.



# Agriauto Stamping Company (Private) Limited



The Company established a wholly owned subsidiary last year by the name of Agriauto Stamping Company (Private) Limited (ASC).

**The new Company has signed a Technical Assistance, Service & Consultancy Agreement with Ogihara Thailand Company Limited (OTC). OTC is the subsidiary of world renowned die & tool maker, M/s. Ogihara International, Japan. The total project cost is estimated at Rs. 1.05 billion and till June 2013 Rs. 703.125 million has been invested in the new Company.**

By the Grace of God – the project is coming up as per schedule and the supply of commercial production will commence from July 2014. During the year the Komatsu 4 press tandem line was purchased and currently it is being installed under the supervision of a Japanese expert. The dedicated electricity connection of 2.1MW has been sanctioned and it is expected that the electricity would be energized soon. The trainees who have undertaken six months extensive training at Ogihara, Thailand are back and are part of the executing team in their respective areas.

Apart from the facility development the prototype parts produced from the dies being developed in Thailand have been approved and the dies will now be shipped for local trial production. The material source has also been selected and sample lot will be ordered soon.

We are anxiously working on this new project and are very hopeful that the desired results from the new project will be attained.



#### 4. NEW PRODUCTS

During the year the Company embarked upon a Technical Assistance Agreement with M/s. Shiroki Corporation, Japan for the progressive manufacturing of manual type Window Regulator for passenger cars. Currently, three technical personnel are on training in Japan for a 3 week term. This training will entail smooth transition of technology for the local manufacturing which is scheduled to start from July 2014.

Consequent to the successful development of manual type window regulator, we have been given assurance from the technical partner that the power type regulator would also be considered for localization. We are quite hopeful that with the initial introduction of manual type regulator will pave the way for the power type regulator which has higher volumes with the vehicle assemblers.



# 5. corporate social responsibility

The Company is mindful of its obligations towards the community. During the year, the company contributed Rs. 4.3 million to various institutions working toward human cause and for the betterment of the underprivileged. The company contributes 1% of PBT toward CSR activities.

## a. Continued Support to Medical and Educational Institutes at Hub

We continued our endeavor to maintain and improve the facilities at a Hospital at Hub. The Laboratory and the Operation Theatre is being maintained by providing equipment for these facilities.

The company has also rendered financial assistance for the improvement of maternal & neonatal health standards.

Like preceding years, this year too we donated stationary and 6000 copies for distribution amongst needy/poor students of Girls School at Hub, for the new academic year.

## b. Provision of Rations

To cater for the needs of community at Hub, the company distributed Ration Hampers to the widows/poor families at Hub during the month of Ramzan.



## 6. Industrial Harmony

We are enjoying cordial management- Labor relations. Major/important decisions are shared with the workers during monthly morning assemblies. To ensure that the workforce remains committed and motivated, the employees are rewarded for good job done and successes are celebrated at shop floor. Employee of the month ceremony is regularly held to incentivize good performance of individuals/teams.

The company also distributed Ration Hampers to all the workers as a Ramadan Gift.

### Medical Camp

Free Medical and Eye Camp is being carried out for all employees. The members with poor eye sight were provided with free eye glasses.



## 7. CONTRIBUTION TO NATIONAL EXCHEQUER

During the year your Company contributed 0.868 billion to the National Exchequer.

## 8. HUMAN RESOURCE

### Training

To respond to the rapidly changing business landscape, managing and developing our human assets, remain the hallmark of our HR Strategy. Our focus remained on providing meaningful training to our employees in order to build up their skills, motivation and behavioral aspects.

A specialized training on Total Productive Management (TPM) was arranged for our executives through the aegis of Japan Technical Systems Institute (JTSI). The training which comprised ten intensive sessions was attended by 50 executives including the top management.



To ensure that the contents of the training are disseminated to the shop floor level, our workers were also given the training through in-house sessions.

As a post training initiative we have also planned TPM Consultancy sessions during this year, which is in progress.

Foreign trainings were also organized for Agriauto Stamping Company at Ogihara Thailand and regularly our members are trained through Association for Overseas Technical Scholarship, Japan (AOTS)

## Values Sessions

To foster the spirit of ownership and self-reliance, regular value sessions are being conducted.



### 5S

To inculcate team spirit amongst the employees, extensive 5S activities are carried out to simplify and improve the working environment. To ensure total commitment, span of 5S Activities has been extended to support functions as well.

## 9. FUTURE OUTLOOK

Notwithstanding various attempts by the Automobile industry to recommend a long term industry friendly policy to encourage local production and indigenization, the government continues to burden this industry by increasing registration fees, sales tax. Besides that, the production cost of the cars would go up, resulting in a further price hike. The compound effect of these taxes is so high on the price of the products which will make the next year more challenging.

We urge the Government to have a long term policy for automobile industry as the frequent changes lessen the confidence of the industry and it is not utilized to its optimum level.

Our focus this year will primarily be on motor cycle's segment as this segment has lot of potential for growth.



## 10. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2013 is annexed.

## 11. CORPORATE AND FINANCIAL REPORTING

In compliance with the listing regulation # 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore 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 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 judgement.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- 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 for the year ended June 30, 2013 amounted to Rs.132.749 million.

## 12. NUMBER OF BOARD MEETINGS

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

SL #	Names	No of meetings Attended/held
1	Mr. Yutaka Arae	7/7
2	Mr. Fahim Kapadia	7/7
3	Mr. Sohail P. Ahmed	5/7
4	Mr. Owaisul Mustafa	6/7
5	Mr. Asif Rizvi	4/7
6	Mr. Alireza M. Alladin	5/7
7	Mr. Danesh Dinshaw	6/7

## 13. AUDITORS

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

## 14. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

## 15. ACKNOWLEDGMENT

We are pleased to acknowledge that the relations with employees remained cordial and harmonious throughout the year. The Management recognizes and records its sincere appreciation to all employees for their continued dedication, commitment and hard work for the growth and prosperity of the company, without which this performance would not have been possible. Once again we expect the same zeal and commitment to continue and prevail.

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, steady 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 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 29,2013**