

# DIRECTORS' REPORT TO THE SHAREHOLDERS



For the Year Ended June 30, 2017

## 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, 2017.

The Board of Directors of the Company as of the Balance Sheet date is as follows:

1. Mr. Yutaka Arae
2. Mr. Fahim Kapadia
3. Mr. Sohail P. Ahmed
4. Mr. Asif Rizvi \*
5. Mr. Owaisul Mustafa
6. Mr. Muhammad Ali Jameel
7. Mr. Abbas ul Husaini

\* Subsequent to year end, casual vacancy occurred upon resignation of Mr. Asif Rizvi which was filled through appointment of Mr. Salman Burney.

### APPROPRIATION OF PROFIT

The Board of Directors is pleased to recommend a cash dividend of 150% i.e. Rs. 7.50 per share. This dividend is in addition to 50% already paid as interim. The total dividend for the year adds to Rs. 10.00 per share. The Board has also recommended appropriation of Rs. 300 million from un-appropriated profits to General Reserve.

## PAKISTAN'S ECONOMY

Due to consistent economic policies GDP has been growing steadily, achieving 5.2% in 2016-17 which is the highest rate of growth in the last decade. Investment in CPEC related infrastructure projects, accommodative monetary policy, increase in private sector credit, and governmental support policies for agriculture boosted business activity in all major sectors of the economy specially agriculture, services and real estate providing impetus for GDP growth.

Ballooning current account deficit which increased 205%, slowdown in worker's remittances and export- import imbalance are the major challenges that can affect the GDP growth in coming years.

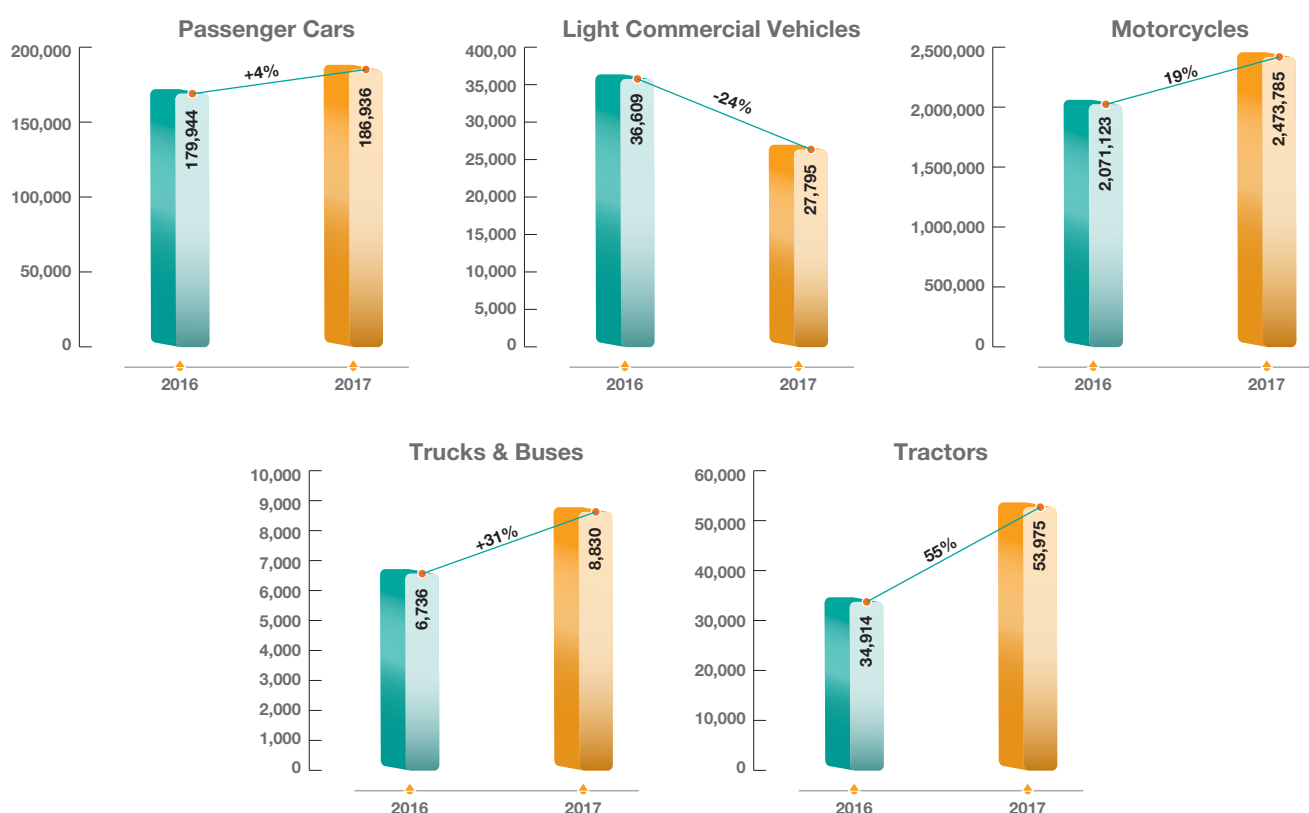
The foreign exchange reserves have reached the highest level at US\$24 billion in Oct'16 but due to worsening current account deficit it reached to US\$21.57 billion by Mar'17 end.

## AUTOMOTIVE SECTOR

The auto sector has been performing exceptionally well in recent years and the trend is continuing this year as well, with growth in nearly all the segments except in LCV in which YoY decrease of 24% is attributable to the conclusion of Punjab Taxi scheme.

The growth in agriculture sector boosted the sales of tractors to 53,975 units which is 55% higher than last year, reduction in GST from 10% to 5%, use of high HP tractors in road building projects and loans to farmers contributed to this growth. Similarly due to CPEC related activities Trucks and buses segment production has shown an upside of 31% over 6,736 units LY.

The ADP 2016-17 has increased the interest of new players in the auto sector due to tariff incentives, many companies have applied for establishing new assembly plants under the Greenfield category out of which 4 have been granted the permission and remaining cases are in process.





## 1. SUMMARY OF FINANCIAL RESULTS

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

### Separate

(Rs.'000)

	2016-17	2015-16
Turnover	5,657,541	5,758,380
Gross Profit	1,045,884	1,034,475
Profit before Taxation	810,364	713,332
Taxation	(223,727)	(228,868)
Profit after Taxation	586,637	484,464
Earnings Per Share (Rs.)	20.37	16.82

### Consolidated

(Rs.'000)

	2016-17	2015-16
Turnover	7,115,296	7,137,114
Gross Profit	1,418,241	1,326,258
Profit before Taxation	1,033,367	967,925
Taxation	(287,738)	(228,868)
Profit after Taxation	745,738	739,057
Earnings Per Share (Rs.)	25.89	25.66

## 2. NEW PRODUCTS

During the year the company started volume production of fuel tanks for cars & motorcycles.

The development of power window regulator and the catalytic convertor projects which were initiated last year have been successfully completed and the production & supply commenced from July 2017.



The company has recently received RFQ's (request for quotation) from its valued customers for development of suspension and other parts for their upcoming new car models. We are in the phase of discussing with our technical partners for the development of these parts.

### 3. PROCESS IMPROVEMENT ACTIVITIES

Process improvement activities are part of culture at Agriauto, following the KAIZEN philosophy of Toyota Production System. In order to manage the manufacturing operations, daily ASAKAI meeting is established where all departments' in-charges join an early morning meeting to discuss current issues of quality, production etc. and take immediate countermeasures. Training on TPM (Total Productive Maintenance) being conducted by Japanese consultant every quarter since 2012, is providing the required knowledge, techniques and expertise for maintaining the equipment, controlling the breakdowns and to ensure safety of the operators.

The Company is also regularly updating its equipment in order to comply with the requirements of its customers. During the year additional welding machine and a grinding machine was added in the shock absorber plant for cars and motorcycles and also the addition of one 250ton press at the HUB plant.

### 4. CHANGES IN BOARD

Subsequent to the year end, a casual vacancy occurred upon resignation of Mr. Asif Rizvi from the Board. The casual vacancy was filled within the stipulated time

by appointing Mr. Salman Burney.

The Board acknowledges the valuable contribution made by Mr. Asif Rizvi during his association with the Company and welcomes Mr. Salman Burney on to the Board.

### 5. AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED (ASC)

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

The subsidiary company sales for the year were Rs. 1,488.9 million (2016: 1,412.8 million) an increase of 5.4% and profit after tax of Rs. 273.4 million as against Rs. 254.6 million of last year. The increase is on account of start of production of fuel tank & other parts as planned.

The following are the major achievements of the subsidiary company:

- i. 100% compliant to the requirements of the customer for which the appreciation has been received.
- ii. Zero defects in supplied production.
- iii. Developed four additional press parts and supply commenced
- iv. Start of the 1st phase of the die development center for which 3 trainees were sent to Ogihara, Thailand for 6-12 months training on designing and manufacturing of dies and fixtures.

## Safety, Health and Environment (SHE)

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



- Company installed state of the art Effluent Treatment Plan (ETP) 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 savings on water purchase through tankers.
- In addition to the use of ETP water for gardening, we have also started using the treated water in our manufacturing process after processing it through the installation of a Reverse Osmosis (RO) plant.
- The sludge from the ETP is being used to develop Paver Blocks for in-house use. To date 11,000 pavers have been made & utilized.
- The Company got ISO 14001 and OHSAS 18001 certifications.
- To ensure provision and monitoring of safe drinking water for the Company employees, a monthly check is carried out from the external Laboratory.
- Concealed piping system for drinking water from RO/Filter plant to the respective plants is being laid to provide clean water to all the staff members at the plant.
- Safety talk at plant floor is a regular feature.



# 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 and for the welfare of all our stakeholders. The project undertaken during the year includes:

**a. Support to Educational Institutes**

- Educational Fees support, providing uniform, books and copies to the Children of 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

- 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.

## 8. CONTRIBUTION TO NATIONAL EXCHEQUER

During the year under review, your Company contributed Rs. 1.71 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 salient 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 The Fuqua School of Business at North Carolina, USA and South East Asia Leadership Academy (SEALA), Thailand. Total Foreign Training carried out was over 900 hrs.

- **Value Sessions:**

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

### b. Award & Recognition

Participated in EFP 4th Employer of the Year Award & won the "3rd Prize" in category "Large National Companies"

The Company was included in the Forbes 2017 List of 'Asia's 200 Best under a

Billion Dollar Company'. Only 5 companies from Pakistan could make it to the prestigious list.

## 10. FUTURE OUTLOOK

The growth in almost all the sectors of the industry augurs well for the company and development process of upcoming models shall further give a positive impact to the company's sales & profitability. The company is in the process of upgrading its paint shop to comply with the requirement of its customers. We are also in the process of evaluating the capacities of our Stamping Company in view of the demand of press parts from the existing customers and also from new entrants.

The benefits of ADP (Automotive Development Policy) 2016-21 have started to become visible as four new entrants have been given "Green Field" status for establishing their cars / LCV's plants, this shall provide an opportunity for the company to evaluate any possible business opportunity.

The Government of Punjab has announced in its fiscal budget for 2017-18, a new tax scheme of 50,000 cars; however due to the current political scenario the formal implementation is delayed till beginning of next calendar year. If, this scheme materializes it would give a significant growth to the company's sales and profitability.

The tractor segment is performing well and if the sales tax and other related Government policies remain unchanged than we should look for a sustained volume for the next year as well.

We expect continued growth in the trucks and buses sector due to the on-going development work on CPEC (China Pakistan Economic Corridor) and other road construction related mega projects.

The motorcycle segment is one of the growing segments. The Chinese and Japanese manufacturers are increasing their production capacities due to customers demand.

## 11. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2017 is annexed.

## 12. RELATED PARTY TRANSECTIONS

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.

## 13. 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 judgment.
- 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, 2017 amounted to Rs. 178.2 million.

## 14. NUMBER OF BOARD MEETINGS

During the year, 4 Board meeting were held and attendance is given hereunder:

SL#	Names	No of meetings Attended/held
1	Mr. Yutaka Arae	4/4
2	Mr. Fahim Kapadia	4/4
3	Mr. Sohail P. Ahmed	2/4
4	Mr. Owaisul Mustafa	4/4
5	Mr. Asif Rizvi	4/4
6	Mr. Muhammad Ali Jameel	2/4
7	Mr. Abbas ul Husaini	4/4
8	Mr. Salman Burney	0/4

## 15. 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.

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

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

## 17. 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, 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 25, 2017



**Yutaka Arae**  
Chairman

KARACHI  
DATED : August 25, 2017