

DIRECTORS' REPORT TO THE SHAREHOLDERS

FOR THE YEAR ENDED JUNE 30, 2019

Dear Shareholders,

The Directors of your Company are pleased to present their Report along with the Audited Financial Statements for the year ended June 30, 2019.

THE BOARD OF DIRECTORS

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

1.	Mr. Yutaka Arae – Chairman	Non-executive Director
2.	Mr. Fahim Kapadia – Chief Executive	Executive Director
3.	Mr. Hamza Habib	Non-executive Director
4.	Mr. Sohail P. Ahmed	Non-executive Director
5.	Mr. Salman Burney	Non-executive Director
6.	Ms. Ayesha T. Haq	Independent Director
7.	Mr. Muhammad Ali Jameel	Independent 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.

PAKISTAN'S ECONOMY

During the year, Pakistan faced many challenges, especially on the economic front with the Government making economic reforms as its highest priority & addressing various structural issues. With significant devaluation & interest rate increases, the economy saw a slowdown in demand & growth.

During the year, the growth rate declined to 3.29 percent against the target of 6.2 percent. This was caused by reduction in growth in most of the sectors of the economy, such as, agriculture sector declined by 0.85 percent, manufacturing sector declined by 1.4 percent and services sector significantly declined by 4.7 percent.

Owing to the slower growth of the economy, the government felt the need to streamline the economy and undertook the following major initiatives:

- Trade imbalance and current account deficit were successfully consolidated by tightening the import of non-essential goods. Compared to 2017-18 where current account deficit stood at USD 18.1 billion, it closed at USD 12 billion for the year 2018-19, recording a sizable reduction of USD 6.1 billion or 34 percent. However, foreign exchange reserves fell from USD 16.4 billion to USD 14.5 billion, a reduction of 11.5 percent.

In addition, discount rates increased from 7.50 percent to 13.25 percent, an increase of 575 bps. This was necessary to align SBP policy rate with rising inflationary condition.

- Pak Rupee was devalued on multiple occasions during the year to align the exchange rate with market forces. During the year, Pak Rupee parity with US Dollar was adjusted by around 34 percent.

In addition to the above, another significant measure finalized by the new government was to avail the International Monetary Fund (IMF) Program. The government believed that the IMF Program was necessary to introduce necessary reforms in the economy, such as implementation of various taxation measures by empowering (FBR), strengthening of the State Bank of Pakistan for effective execution of monetary policy, bringing efficiency in the power sector and better management of State-Owned Enterprises. The government is determined to bring these structural reforms to ensure long term benefits to the economy.

FINANCIAL & BUSINESS PERFORMANCE

During the year 2018-19, the Company achieved its highest ever sales of Rs.7.12 billion (2018: Rs.6.11 billion) showing a growth of 16.5% over last year. The Gross Profit of the Company decreased from Rs.1.12 billion last year to Rs.1.08 billion mainly on account of adverse impact of currency devaluation on import of raw material and other costs of input that were partly offset by higher sales and production efficiencies. Other Income increased during the year from Rs.54.2 million to Rs.153.4 million on account of dividend was paid by the wholly-owned subsidiary of the Company amounting to Rs.114.4 million (2018: Rs. Nil).

Following are the summarized financial results of the Company for the year 2018-19:

STANDALONE RESULTS

	(Rs. '000)	
	2019	2018
Turnover	7,122,487	6,112,980
Gross Profit	1,078,665	1,115,918
Profit before Taxation*	805,391	773,238
Taxation	(202,379)	(252,831)
Profit after Taxation	603,012	520,407
Earnings Per Share (Rs.)	20.94	18.07

* Includes dividend from subsidiary company of Rs.114 million

CONSOLIDATED RESULTS

	(Rs. '000)	
	2019	2018
Turnover	10,128,569	8,315,021
Gross Profit	1,681,151	1,592,200
Profit before Taxation *	1,256,752	1,207,756
Taxation	(202,054)	(248,039)
Profit after Taxation	1,054,698	959,717
Earnings Per Share (Rs.)	36.62	33.32

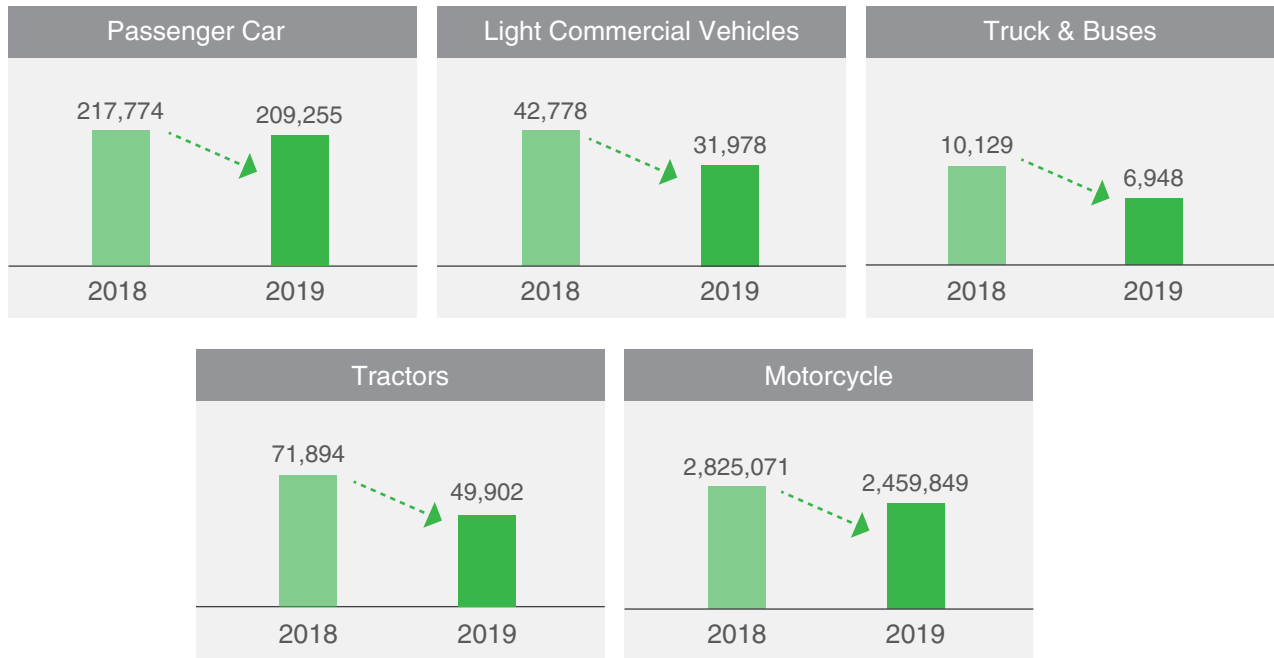
APPROPRIATION OF PROFIT

The Board of Directors is pleased to recommend a final cash dividend of Rs.7.0 per share (140%) for the approval of the shareholders at the Annual General Meeting of the Company to be held on October 21, 2019. The final dividend is in addition to the interim dividend of Rs: 3.0 per share (60%) already paid. The total dividend for the year, therefore, aggregates to Rs. 10 per share (200%). The Board has also recommended to transfer Rs.300 million from un-appropriated profits to General Reserve.

PERFORMANCE OF AUTOMOTIVE SECTOR

The fiscal year 2018-19 turned out to be a challenging year for auto sector due to prevailing economic conditions of the Country. The structural reforms by the Government, mentioned above resulted in multiple price corrections by automakers. Hike in interest rates dampened the demand for auto leasing as well. The measures taken by the Government had an adverse impact on the volume of auto sector during the fiscal year 2018-19 compared to last year, despite launch of some new models by automakers.

Analysts believe that the auto sector would continue to face headwinds in the existing environment where sale volumes for the year 2020 may not match the volumes of 2019.



NEW INITIATIVES:

The Board is pleased to share the new initiatives taken by the Company during the fiscal year 2018-19:

ED Paint Facility:

The Board has approved an investment of Rs. 201 million for the setup of Electro Deposition (ED Paint) facility at Hub Site, which shall become operational by the end of the fiscal year 2019-20. This plant shall cater to the customer requirements for ED paint on the front shock absorbers / struts.

Solar Power Energy Project:

To take advantage of the low-cost financing and tax concessions offered by the State Bank of Pakistan, the Board approved investment in the facility for Solar Power generation in both companies, i.e., Agriauto Industries Ltd and Agriauto Stamping Company (Pvt) Ltd. The project which is expected to be commissioned by 3rd quarter of 2019-20, shall help reducing the energy cost of the Company making its products more competitive in the market place.

PROCESS IMPROVEMENT ACTIVITIES

Process improvement activities are part of culture at Agriauto, following the KAIZEN philosophy. In order to manage the manufacturing operations, daily ASAKAI (morning meetings) are conducted where all departmental heads join to discuss current operational issues & progress related to safety, quality, production, maintenance, suppliability, projects, etc. and take immediate countermeasures.

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 these risks. At Agriauto, 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 Board believes that the current pressure on the exchange rate carries a high risk and any further devaluation of Pak Rupee or increase in interest rates shall have a significantly adverse impact on the automotive industry in Pakistan.



AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED (ASC)

The current fiscal year 2018-19 has been another successful year for the Agriauto Stamping Company (Pvt) Ltd, wherein the plant was operating at its full capacity. For the year 2018-19, the Company paid 100% interim cash dividend amounting to Rs.114 million to Agriauto Industries Limited, which is reflected in the stand-alone income statement of the Parent Company.

The Board is also pleased to report that the plant expansion planned last year through the installation of new half tandem line of 800 and 500-tons presses was successfully completed. In order to cater to additional welding assembly operations, the welding area has been extended with the addition of 32 transformers and 40 welding guns. This expansion will pave the way for adding further new business into the Company.

The Board would also like to apprise that the Subsidiary Company was availing 100% income tax credit for a five-year period starting from the date of commercial production, i.e., from July 2014. The tax credit has expired on June 30th, 2019. Hence, the Subsidiary Company will be liable to pay income tax at the prescribed rates.

The following are the major achievements of the subsidiary company during the fiscal year 2018-19:

1. Plant expansion project completed on time
2. Zero defects in supplies to customers.
3. Maintained 100% delivery of parts despite of major expansion activity.
4. Qualified surveillance audit of all ISO certifications (ISO 9001-2015, ISO 1400, TS 16949)





HEALTH, SAFETY AND ENVIRONMENT (HSE)

The Company is fully cognizant of its responsibility to Health, Safety and Environment. We believe growth is only sustainable if it is achieved respecting the environment and by ensuring the health and safety of the employees. We are fully committed as well as complying with all applicable legal and other HSE requirements. Following are the key highlights for the year 2018-19.

- a) Enforcement of hazards elimination process based on HIRA (Hazard Identification and Risk Assessment) in progress.
- b) Paint Booth of the shock absorber plant was to remove environmental hazards of high VOC fumes in Paint Booth and provision of suitable PPEs to the Operators.
- c) Effluent Treatment Plant (ETP) which is treating the infected water is installed with a Reverse Osmosis Plant (RO) to recycle the treated water to be used for processes again.
- d) Introduction of in-house Rapid Intervention Vehicle (RIV) at factory for any fire related emergency.
- e) Fire Suppression System (FM200/CO2) is installed and functional in the Paint Shop Area.
- f) New Fire Alarm System has been installed across the plant to detect any smoke, excessive heat. The philosophy of your company is "Safety First". Due to on-going activities, we ensure "Zero Accident Policy" at the plant and provide safe and clean working environment to all our members.



RIV Fire Fighting Training



RIV Fire Fighting Drill



Fire Alarm System



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 profit before tax over community welfare and development initiatives. Our objective remains, to support the local community for the welfare of all our stakeholders. The activities undertaken during the year include:

- Distribution of ration hampers to all Workers during the month of Ramazan.
- Donation to various educational institutions especially in the Hub vicinity
- Donation to different hospitals and welfare trusts
- Free medical check-up

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, the Company contributed Rs. 2.11 billion (2018: Rs.1.81 billion) to the National Exchequer.

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 highlights of HR initiatives:

Training & Development:

A variety of Training and Development opportunities were offered to employees in-house, external and international. Total Foreign Trainings carried out during the year were over 960 hours.

- A course on "Leadership for Built to Last" was arranged for management employees, which had a positive result on the participants to improve upon and implement new techniques in leadership.
- Training on TPM (Total Preventive Maintenance) was conducted by JTS Institute, Karachi through a Japanese trainer for Officers cadre.
- Supply Chain Management course at LUMS was attended by a member of senior management
- Directors' Training Program by PICG was attended by a member of senior management

Awards & Recognitions

The Board is pleased to inform that the Company received following awards during the year.

- "Living the Global Compact Best Practices Sustainability Award 2017 – 2018": Participated and won 3rd Prize in the category "Large National Companies"
- Pak Suzuki awarded Agriauto Industries "The Best Quality Improvement Award" in Vendor Conference 2019 held in March'19.
- "Employer of the Year Award – 2017": Participated and received Special Recognition Shield in category "Large National Companies".
- "EFP Award on Best HRM Practices 2018": Participated and received Special Recognition Shield in the category "Large National Companies".

PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2019 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) IFRS, 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 for the year ended June 30, 2019 amounted to Rs.207.5 million.



NUMBER OF BOARD MEETINGS

Following is the status of the attendance at meetings of the Board of Directors:

SL #	Names	No of meetings Attended/held
1	Mr. Yutaka Arae	5/5
2	Mr. Fahim Kapadia	5/5
3	Mr. Hamza Habib	2/2
4	Mr. Sohail P. Ahmed	5/5
5	Mr. Salman Burney	4/5
6	Ms. Ayesha T. Haq	3/5
7	Mr. Muhammad Ali Jameel	3/5
8	Mr. Owaisul Mustafa	1/2
9	Mr. Abbasul Husaini	1/1

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 CODE OF CORPORATE GOVERNANCE

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

FUTURE OUTLOOK

The Fiscal year 2018-19 ended with major challenges to the country on the economic front. On July 3, 2019, the IMF formally approved the USD 6 billion, Extended Fund Facility (EFF) for Pakistan. While the bailout is expected to provide much needed financial support, the ambitious revenue collection targets will likely cause short-term hardships on the economy.

The outlook for the year 2020 is expected to remain volatile. Government spending will be constrained by ambitious fiscal consolidation efforts, while high inflation will likely continue to erode private consumption.

The auto industry is going to be worst hit due to the slow-down in the economy coupled with the measures to bring the tax non-filers in the tax net. The industry forecast is also showing a negative growth versus the previous year. In order to cope with the crisis, the Company is taking various steps to control costs to bring further production efficiencies.

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 and we expect the same level of support from our employees in the year 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

Yutaka Arae
Chairman

KARACHI
DATED: August 29, 2019