

# Thal Jute Mills Limited Karachi

## Directors Report

Dear Shareholders,

We are delighted to place before you our Report and the audited accounts for the year ended June 30, 2003. By the Grace of Allah, your Company has shown remarkable growth, achieving 35% increase in sales, 120% increase in gross profit and 136% increase in profit after tax.

The significant factors which made it happen are operational as well as environmental. Whilst we had a good crop of wheat even though less than targeted, the economy of the Country improved overall, government policies remained consistent, and the market size for vehicles increased with stable rupee, constant prices, low inflation and reduced financing costs.

Internally the results of our investments in productivity measures and lean manufacturing became largely obvious and contributed substantially to the overall results.

The salient overall results are as follows:-

	<b>Rs. In 000's</b>	
	<b>2002-03</b>	<b>2001-02</b>
Sales Revenue.....	2,097,287	1,552,384
Gross Profit .....	494,045	224,784
Net Profit before taxation .....	394,704	161,772
Provision for taxation .....	129,525	49,742
Net Profit after taxation .....	265,179	112,030
<b>Appropriations:</b>		
Interim Dividend – 25% (2002 Nil)	17,392	-
Final Dividend – 100% (2002: 80%).....	69,566	55,653
Transfer to General Reserve .....	178,000	58,000
Earning Per Share .....	19.06	8.05

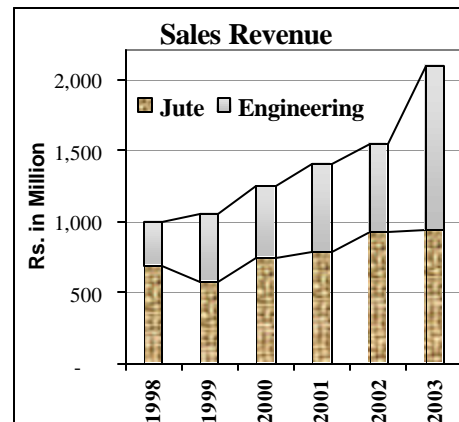
### HRD & TRAINING:

The personnel development resources have been strengthened at the corporate office of the group which has led to reviewing of various policies and system, as well as a revisit to our vision & values.

As part of human resource grooming, training, both in-house and with various training houses continued. Personnel were also sent to Vietnam at Furukawa's facility and Denso Japan for training. Altogether training of 15 hours per person training was provided.

### FPCCI EXPORT TROPHY AWARD:

Your Company was also awarded Merit Trophy for non traditional items in export of jute Goods of Rs 44 million for the year 2001-02 by the Federation of Pakistan Chambers of Commerce and Industry.



## CERTIFICATE OF CORPORATE EXCELLENCE:

Alhamdulillah Your Company was once again recipient of Certificate of Corporate Excellence from Management Association of Pakistan for the year 2001. This was the second consecutive certificate from MAP which is a recognition of our performance and management practices, of efforts made by all the team members and Allah's blessings. We wish to express our gratitude for the continued support and trust of all the stakeholders.

## CONTRIBUTION TO EXCHEQUER AND COMMUNITY:

Our contribution to national exchequer increased with the size of operations and the company contributed a sum of Rs. 577 million during the year under review in the form of duties, taxes and levies of sorts etc., up by 37% from Rs. 421 million in the preceding year.

We have always contributed in some manner to the community we live in – both in Muzaffargarh and Karachi. With more resources available we doubled our contribution to educational institutions and hospitals. We have agreed to provide for expenses at The Citizens Foundation (TCF) School to be built at Muzaffargarh.

## JUTE OPERATIONS:

### Sales:

The sales turnover for the year under review remained at a good level, marginally increasing to 936 million from Rs. 925 million for the preceding year. It is pleasing to note that the efforts on **exports** resulted in a remarkable increase during the year to Rs 130 million (US\$2.2 million) from Rs 44 million (US\$0.7 million) for the preceding year, a handsome increase of 214%. Whilst the local market remained static we successfully competed with Bangladesh and Indian jute mills internationally. We are exploring new markets in Middle East, Africa & Europe to further the export drive. If not for the Iraq war, our exports to Middle East would have been higher.

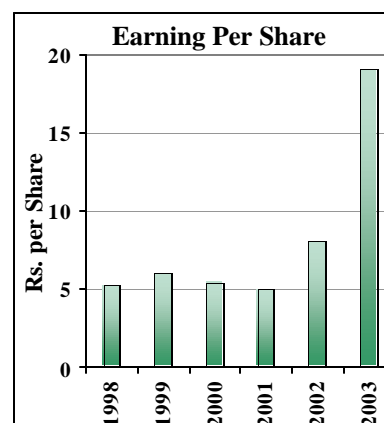
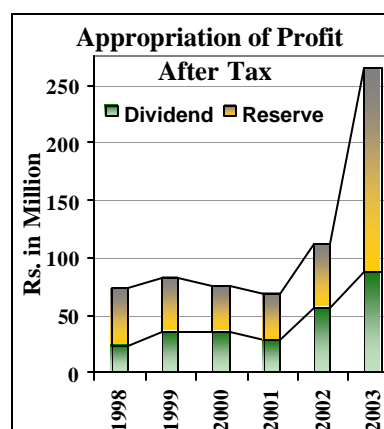
The company has made indirect exports of hessian products through the rice exporters of Rs 89 million (US\$ 1.5 million) against Rs 124 million (US\$ 2.1 million) last year.

### Production:

Production during the year dropped to 24,690 tons against 26,125 tons for the preceding year, showing a decrease of 5%. The drop in production was due to reduced demand of jute goods. In spite of the reduction, the cost of production was well contained.

### Cost of Manufacture:

Our purchasing was alert and efficiently carried out resulting in reducing the cost of manufacture from Rs 591 million to Rs 428 million. The manufacturing expenses like salaries & wages, repair & maintenance, power and overheads increased by a meagre 3% to Rs 300 million during the current fiscal year much lower than inflation and utility price hike.



## **ENGINEERING OPERATIONS:**

### **Sales:**

These are exciting times at the Engineering Division. It is now a leading supplier of auto parts to the Industry.

The sales turnover of the Engineering Division registered a bumper increase to Rs 1,161 million during the year under review from 627 million during the last fiscal year. The sales volume of auto air conditioners upped to 28,478 units from 16,858 units as the car and LCV sales went up by 50% - from 49,000 to 75,000 vehicles. Similarly the sale volume of wire harness also jumped to 20,185 sets during the year under review as compared to 15,710 units during the last fiscal year. A new beginning for the sale of heater blowers was made and we were able to sell 5,076 units to the auto makers.

During the year the air conditioner division touched the mark of 100,000<sup>th</sup> unit and went much beyond it. In wiring harness some state-of-the-art machinery as automatic cutting-crimping-testing machine and ultrasound welding have been added. No one in Pakistan has such machines.

### **Cost of Manufacture:**

The cost of manufacture went up from Rs 505 million during 2001-02 to Rs 872 million during the year 2002-03 only due to doubling of the sale volumes during the year under review, whilst the cost per unit came down. The salaries & wages increased due to increase in manpower for increased production and the increase in repair & maintenance occurred due to the machines now aging and their excessive use due to increased production volume.

## **ADMINISTRATION AND SELLING EXPENSES (CONSOLIDATED):**

The administrative and selling expenses went up to Rs 58 million during the year under review from Rs 43 million during the year 2001-02 showing an increase of Rs 15 million. The reason for increase in salaries, allowances and benefits is due to the provision for the funded retirement benefit scheme of the employees based on defined contribution on attaining the retirement age with a minimum of 10 years of service. The travelling and conveyance; advertisement & publicity, communication cost increased due to increase in the business volumes including export sales.

## **FINANCIAL EXPENSES (CONSOLIDATED):**

The financial expenses halved from Rs 20 million in 2001-02 to Rs 10 million during 2002-03 due to very economical mark-up rates prevalent in the money market and efficient fund management.

## **OTHER CHARGES (CONSOLIDATED):**

The other charges comprising of workers profit participation fund and workers welfare fund registered an increase from Rs 11 million to Rs 29 million due to increase in profit. While WWF is wholly paid to the government, contribution in excess of Rs 6,000 per worker from the funds of WPPF will also be paid to the government.

We feel that WPPF meant for workers should be spent only on the workers of the unit by the unit. This could help in uplifting the quality of life of our employees and also of all other units that earn profits. The government gets enough through WWF to do good for the workers, if it wishes to.

## **OTHER INCOME (CONSOLIDATED):**

The other income for the year under review was Rs 13.066 million as against Rs 27.861 million last year. The profit on the sale of property was the main contributory factor for enhanced "other income" last year.

## **FUTURE PROSPECTS:**

### **JUTE:**

#### **Demand of Jute Goods:**

Local demand of jute goods is static whereas the supply of jute goods is expected to increase next year to 110,000 tons (2002-03 - 95,000 tons). Provincial Food Departments and PASSCO are buying substantial quantity of jute bags for wheat. During current year under review the output of wheat crop was estimated to be 19.25 million tons, though short of the target, still exceeded last year's harvest (18.23 million) by 5.6 per cent. The provincial food departments and PASSCO had to face stiff competition from the private sector, who offered prices above the minimum support price of Rs 300 per 40 kg. So far, these government agencies could only procure about 3.5 million tons. This was 1.8 million tons (34%) lower than the original target of 5.3 million tons. On account of low procurement the government is carrying some stock of jute bags. We believe that in view of the shortfall in procurement during current year, the government will impose some restriction on movement of wheat and increase the support price also, which will ensure the target procurement of wheat next year. This way the demand for jute bags by the government agencies may increase during the next year.

#### **Protection of Jute Industry:**

- **Price Preference:** Pakistan Jute Mills Association (PJMA) have requested Ministry of Commerce to allow 25% price preference to local jute mills against imported jute goods from Bangladesh as given to engineering goods under S.R.O.193 (I)/98 dated 26th March, 1998, which stated that if value addition is over 30% the price preference to indigenous manufacturers of engineering goods will be 25%. In case of jute goods the value addition is more than 120% and it is labour intensive also. We hope the government agrees to this as it can provide due protection to the industry against dumping.
- **Export Market Assistance:** The Bangladesh Government is paying cash subsidy of 5% (2002-10%) to exporters of jute goods and Indian Government is also paying export market assistance to exporters of jute goods. PJMA has requested the Government to allow 5% export market assistance on export of jute goods to provide level playing field to the domestic jute industry. This will create employment, increase exports and increase GDP of the Country. The Government should appreciate the efforts of the jute industry in exporting non-traditional goods. We are importing raw jute from Bangladesh and after value addition of more than 120%; we are exporting jute goods by competing against worlds' largest jute fibre producing countries.

We are however, grateful to the Government for allowing duty-draw-back and 25% freight subsidy on export of jute goods, without which no export would have been possible.

## **FUTURE PROSPECTS:**

### **ENGINEERING:**

The auto industry is in the growth mode. The growth is predicted to continue in the next fiscal year, though the rate may not be as high as 50%, the projected numbers are certainly interesting.

The new Honda City Car, recently introduced, is a sell out. We are suppliers of wiring harness to it. The Wiring Harness Division has been in operation since about 40 months and has built up an enviable record of zero defects on supplies to all customers. Resistance welding machine and constant velocity assembly track will be added during the year to increase value addition and enhance productivity.

The forthcoming year promises to be good year, though it is not without threats. The removal of TRIMS under WTO from January 1994 unless the concession is extended by the world body because of obvious reasons of poverty, unemployment, disturbance on our borders, etc. The government has already asked for the extension, now they have to negotiate it.

Revival of Afghan Transit Trade & MFN status to India also loom large on the horizon.

#### **AUDITORS:**

The present auditors of the company Messers Hyder Bhimji & Company, Chartered Accountants retire and being eligible offers their services for re-appointment.

#### **PATTERN OF SHAREHOLDING:**

The pattern of shareholdings as at June 30, 2003 is attached to this report.

#### **Code of Corporate Governance**

- 1 The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- 2 Proper books of account of the listed company have been maintained.
- 3 Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as explained in note No.2 to the accounts and accounting estimates based on reasonable and prudent judgment.
- 4 International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- 5 The Board has outsourced the internal audit function to M/s. Noble Computer Services (Pvt) Ltd who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
- 6 The System of internal control is sound in design and has been effectively implemented and monitored.
- 7 The Audit Committee comprises of three non –executive directors and one executive director.
- 8 There are no significant doubts upon the Company’s ability to continue as a going concern.
- 9 There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations
- 10 The value of investments based on the audited accounts of provident fund stands at Rs.122.794 million.
- 11 The key operating & financial data for the last 10 years are annexed to the report.
- 12 No trading in shares of the Company was carried out by the Directors, CEO, CFO and Company Secretary, their spouses and minor children.
- 13 During the year under review the Board convened 4 times and the attendance of the respective Directors was as under:-

	<b>Names of Directors</b>	<b>Meetings attended</b>
1.	Mr. Rafiq M. Habib	4
2.	Mr. Ali S. Habib	4
3.	Mr. Mohamedali R. Habib	4
4.	Mr. S. A. Q. Haqqani	4
5.	Mr. Sohail P. Ahmed	4
6.	Mr. Mazhar Valjee	4
7.	Mr. Muhammad Jamil Hussain	4

**APPRECIATION:**

On behalf of the Board of Directors I would like to place on record our appreciation for the support and confidence of our Customers, Dealers, and Suppliers. I am also grateful to all our Bankers for their continued support. We also wish to record thanks to our Technical Partners, Denso Corporation, Japan and Furukawa Electric Company, Japan for their technical help and advice. The Board also acknowledges the commitment of all our team members who worked untiringly in achieving the Company's Objectives.

**On behalf of the Board**

SOHAIL P. AHMED  
**Chief Executive**

Karachi. September 8, 2003.