CHAIRMAN’S REVIEW

It gives me great pleasure to present you the financial information for first six months period ended September 30, 2013, along with limited review report by Auditors.

The Economy
The economy is steadily heading towards growth but sustainable performance has remained largely elusive. Inflation remains at 8.0%. Foreign direct investment posted growth of 101.3%, reaching USD 105.4 million compared with the last comparable period. Workers’ remittances of USD 3.9 billion and disbursement from IMF under new loan program injected much needed cash flow in the economy. The trade deficit narrowed down by 5.2% as exports went up by 9.2% in comparison to 3.1% increase in imports. The improving trade imbalance helped in reducing the Current Account Deficit to USD 632 million. However, pressure on the external front on account of loan repayments to IMF reduced foreign currency reserves to USD 10 billion. Falling reserves, in turn, caused devaluation of Pak Rupee by 76% against US Dollar during July – Sept 2013. Given the low tax collections and structural issues, fiscal deficit and its financing remains a source of concern. The increase in GST and reduction in energy sector subsidies are some of the measures the government has taken to address the fiscal imbalance. Anticipating the consequent inflationary pressure and further devaluation of currency, SBP raised policy rate by 50 bps to 9.5%.

The performance of agriculture sector was mixed. Prolonged monsoon rains and floods damaged the standing crops affecting the yields of kharif crops. This was neutralized somewhat by production gains in wheat crop. However, higher fertilizer prices, power outages and rising input costs continued to erode liquidity of farming community. Thus, demand of two wheelers remained stagnant in rural areas.

Large Scale Manufacturing posted healthy growth of 6.5% during first two months of fiscal year 2013-14. Fertilizer, petroleum, food and paper products sectors were major contributors. However, persistence of energy shortages, ever increasing fuel costs and vulnerability of Pak Rupee against USD remained the key threats to the financial viability of businesses.

Automobile Industry
The growth of automobile industry remained sluggish during the period under review due to slow economic growth. Total industry production for first six months ended September 2013 reduced to 63,388 units against 73,449 units in the same period last year, down by 13.7%. Sales declined accordingly and were recorded at 62,286 units against 71,410 units in the same period last year, down by 12.8%. However, your company achieved considerable growth in production and sales, mainly due to growth in sales of new model of Honda Civic. The company produced a total of 12,995 units in first six months of the year 2013-14 against 9,856 units in the same period last year, a growth of 31.8%. Similarly sales for the first six month were 12,805 units against 8,577 units in the same period last year depicting a growth of 49.3%.

The Company
The company continued to improve its operational efficiency and gross and operational profit margins improved over last year. However, the unprecedented increase in exchange rate of USD affected the world economy in general, and Pakistan economy was no exception. During second quarter of 2013-14, the Rupee was devalued by 76%, which reduced the operating profit earned by the company in that quarter. Overall, the company earned profit after tax of Rs 314.4 million, in first six months period, against loss of Rs 70.9 million in the same period last year.

Net sales for the first half of the year were Rs 21,371 million against Rs 12,793 million in the same period of last year. Cost of goods sold continued to reduce in terms of net sales and was Rs 19,822 million against Rs 12,244 million. Gross profit margin improved from 4.3% in first half of last year to 7.3% in the period under review. In monetary terms, the company
earned gross profit of Rs 1,549.5 million against Rs 549.3 million in the first half of last year. Selling and administrative expenses increased in line with increase in sales to Rs 239.3 million against Rs 191.8 million. However, in absolute terms, SGA expenses reduced from 1.5% to 1.1% of net sales. Thus the company earned operating profit of Rs 769.6 million against Rs 136.6 million.

However, other expenses increased considerably from Rs 249.4 million last year to Rs 731.1 million in the period under review. The devaluation of Pak Rupee against USD led to increase in translated value of foreign exchange liabilities, which wiped-off operational profits of Rs 597.3 million earned in second quarter and the company ended up with profit before tax of Rs 751.1 million, against Rs 5.1 million, in the same period of last year.

Future Outlook
The macroeconomic outlook remains challenging on account of the tight fiscal position and vulnerability associated with adverse balance of payments. Furthermore, rising Government borrowings and ongoing energy crisis are likely to constrain economic recovery prospects. The Government has shown its intention to bring fiscal deficit down by taking various revenue measures and controlling expenditures through reduction in subsidies. Also, improving law and order situation and clarity of policies on the political front can reignite confidence of foreign investors. Agriculture, being the largest employer, holds the key to revival. Reasonable support prices, improved acreage and timely subsidies to farmers will bring positive results to the economy. The automobile industry has experience downward decline mostly due to inconsistence and short-terms policies of the government. Now again the industry is facing tough times ahead, with declining production & sales. Now the situation demands to envision & set long term direction for consistent growth and prosperous future, not only for auto industry, but for progress of ancillary industries as well.

With sights set on sustained and qualitative long term growth, the Company strives for the best use of resources & optimum operational excellence leading to significant value addition for the stakeholders. The management will continue to focus on quality & cost control measures to improve its competitiveness to meet the future challenges that are to come.

Acknowledgement
On behalf of the Board, I would like to acknowledge the continued support of Honda Motor Company Limited, Atlas Group, our valued customers, vendors, bankers and shareholders for their support and confidence in the company. I also thank Mr. Takeharu Aoki, President & CEO of the Company, along with his dedicated team, inspiring leadership & commitment in the challenging business environment.

Yusuf H. Shirazi
Chairman
Lahore,
November 26, 2013