

Directors' Report

We are pleased to present the Directors' Report together with the Financial Statements (audited) for the year ended June 30, 2022. These accounts have been audited by statutory auditors of the Modaraba and are accompanied by their audit report.

ECONOMIC UNCERTAINTY IMPACT

The business environment during FY 2022 was generally unfavorable due to political and economic challenges faced by Pakistan adding more fuel to the miseries of our economy which has adversely effected businesses across the industries. The staggering increase in the prices of raw material, currency depreciation in the past 12 months, unprecedented increase in the policy rates, for the economy that is majorly "Import Dependent" for all basic to specialized raw material along with the uncertain political situation has made very hard for the businesses to survive.

Our business is no exception to these challenges, however, the dedication and hard work of our teams has somewhat restricted the above adverse economic impact. The operating and financial profile of the company has posted notable improvement across all key parameters including, sales liquidity, cost controlling and plant operations. Key reasons for the improved performance during FY 2022 are the growth in sales volume, improvement in plant efficiency, better cost management, price rationalization and reduction in financial cost. Despite the turbulent economic conditions, the company managed to perform much better than the previous year which helped to yield better results. Going forward, due to continuous improvements in our sale and marketing strategy, operational planning and cost management, we expect further improvement in sales volume, profitability and liquidity management.

FINANCIAL HIGHLIGHTS

Revenue for the year on consolidated basis increased to Rs. 7,678 million from Rs. 6,095 million, registering a significant growth of 25.98%. The company is currently operating in three segments; corrugated boxes, soaps and batteries. Sales volumes of corrugated and battery divisions increased by 29% and 37% respectively, whereas soap segment volume declined by 34.29%. The reason for shortfall in sales volume of Soap is on account of demand and supply in the market and the product mix.

The company was able to achieve gross profit for FY 2022 amounting to Rs. 284.72 million as against gross loss of Rs. 90.14 million of last corresponding period shows a significant improvement as a result of better & efficient cost management and price rationalization by the company. Sales volume of the battery segment reported an increase of 37% over previous years, which indicates that our product has made significant inroads in the market, which is primarily due to reliability and performance of our product that has enhanced the customer's confidence.

The company was able to improve operating loss in FY 2022 to Rs. 279.67 million from Rs. 692.20 million in FY 21 which is an above par achievement that was managed due to better cost management price rationalization and improved plant operations. Furthermore, in battery segment, reduction in advertisement and warranty claims proves that the company's brand has now made its strong presence in the market and our products are becoming popular among

customers as sales volumes are on increasing trend even with significant reduction in advertisement expenses and also the quality of our products has improved, which is evident from the decrease in warranty claims.

The financial cost has posted a significant decrease of 39.19%, from Rs. 789.99 million to Rs. 480.39 million due to conversion of loan from the parent company into equity. The continuous improvement in our battery segment is evident from the fact that its losses has reduced significantly as the company registered the net loss at Rs. 541.74 million in FY2022 as compared to net loss of Rs. 617.47 million of last corresponding period. Efforts are being made to bring the company in profit in the FY 2023.

FINANCIAL RESULTS :

	Rs. in 000	2021-2022	2020-2021	% Change
Sales (net)		7,678,361	6,094,863	25.98%
Gross Profit/(Loss)		284,719	(90,144)	415.85%
Operating Profit/(loss)		(279,673)	(692,196)	59.60%
Net Profit/(Loss)		(541,738)	(617,470)	12.26%
Earnings/(Loss) per Certificate		(0.63)	(2.42)	73.97%
Transfer to Statutory Reserve		Nil	Nil	
Book Value per Certificate		4.95	7.02	-30%

Auditors in the Audit report has drawn attention to Note 1.1 regarding the financial health of the Modaraba. The management has provided the mitigation plan to improve the operation of Modaraba.

Following major steps have been taken by the management to improve the operations of the business, and these measures are being implemented which will surely improve the business performance:

1. Battery Prices Rationalization:

Battery pricing was continually reviewed in line with competitors and market dynamics. In line with the pricing strategy since July 2021, eight (8) price increases have been made which were absorbed by the market.

2. Improvement in Plant Efficiency:

Continuous improvement in manufacturing strategy that has resulted in better plant utilization and resultantly delivered enhanced production. Our overall plant utilization has been 56.05% compared to 47.91% in the previous year.

3. Reduction in Administrative Costs:

Following up on resource localization approach, the battery plant operations are now being fully managed by trained local team. This has resulted in considerable overhead reduction. The local team is supported by only one Korean expat in the domain of R&D and Quality.

In case of corrugation segment, the prices of the products have much improved and rationalized over the period and Modaraba has successfully passed on the cost increase effect of the factor's inputs to the customers. Apart from this, a better sales management by focusing on high margin customers, cost controlling and improving plant operational efficiency has resulted in improved margins.

Directors' Report

4. Organizational Restructuring:

Following organizational restructurings have been made during the year.

A new COO battery division has been appointed effective August 2022. He has led a remarkable transformation in both domains through improving Plant reliability, enhancing Production Output, implementing lean inventory model and enabling record volumes. He will report to the Executive Director.

A new Head Sales & Marketing – Battery Davison has been appointed effective August 2022. The incumbent has extensive experience in battery sales in local market nationwide. A new position has been created to look into the export opportunities of the battery. Head Battery Exports and OEM (Original Equipment Manufacturer) has been appointed. It is expected that through his experience and expertise we will be able to tap the Exports market also our OEM business channel will improve.

5. Financial Plan:

In addition to the remedial measures for the continued and sustainable operational performance of the Modaraba, the sponsoring directors of the parent company in order to provide financial support to the Modaraba, safeguarding its capital base and improving its financial ratios, had approved the decision for the conversion of loan provided by parent company into equity fund of the Modaraba which had also been approved by the regulators during the year. Following this approval, 183,590,293 Modaraba certificate of Rs. 10 each have been issued to the parent company against its loan as shown under the current liabilities. Towards the endeavor of providing continued financial assistance, after reporting date the parent company and its sponsoring directors have also committed to lend Rs. 2 billion, to the Modaraba for the repayment of its debt from financial institutions. This loan will eventually be converted into Modaraba equity through "Issue other than right". This financial plan has been approved by the board of directors of the company. In view of the above stated facts, the management believes that Modaraba will continue to operate as a viable venture in foreseeable future.

Spin off Battery segment to separate a Company (Treet Battery Limited) is in progress. Execution of demerger plan is underway. Currently, the demerger case in pending adjudication at Lahore High court. It is expected that the Honourable Lahore High Court will approve the scheme in FY 2022/23.

Accordingly, the going concern assumption used by the management in the preparation of these financial statements is appropriate.

SEGMENT-WISE ANALYSIS

Rs. in 000	Corrugated Packaging		Soap		Battery	
	2021-2022	2020-2021	2021-2022	2020-2021	2021-2022	2020-2021
Gross Sales	2,699,311	2,062,293	590,169	897,646	6,153,927	5,098,162
Inter-Segment Sales	2,833	12,632				
Less: Sales Tax & Excise & Discounts	(395,415)	(287,278)	100,409	(152,284)	(1,272,055)	(1,536,308)
Total Sales	2,306,729	1,787,647	489,760	745,362	4,881,872	3,561,854
Gross Profit/(Loss)	103,439	18,806	26,109	25,834	155,170	(134,784)
Gross Profit /(Loss) %	4.48%	1.05%	5.33%	3.47%	3.18%	-3.78%
Operating Profit/(Loss)	35,886	(45,985)	(18,956)	13,917	(296,605)	(660,796)
Operating Profit/(Loss) %	1.56%	-2.57%	-3.87%	1.87%	-6.08%	-18.53%

CORRUGATED PACKAGING

The net revenue for the year 2021-22 is Rs. 2,307 million which has increased by 29% as compared to last financial year. The business has posted a gross profit of Rs. 103 million compared to a gross profit of Rs. 18.8 million. The improvement is primarily due to better sales managements by focusing on high margin customers, cost controlling and improving plant operational efficiency.

Efforts are being made to broaden the customer base through market diversification. Moreover, prices are also being rationalized in tandem with the increased costs (raw material, salaries etc.) however, with time lagged impact.

SOAPS

The net revenue for the year 2021-22 is Rs.489.76 million which has decreased by 34.29% as compared to last financial year. Soaps sales volumes and margins have decreased due to increased cost of raw material (because of depreciation of the currency) and reduction in selling price. Prices are being rationalized to increase the margins in the coming months.

BATTERY PLANT

The battery segment has shown healthy increase in the volume which is approximately 37% higher compared to last year. The net revenue for the financial year 2021-22 is Rs. 4,882 million, which is 37% higher compared to last financial year. At this sale volume, the business has posted gross profit of Rs. 155.17 million which has improved by 215% compared to last financial year.

Furthermore, due to better management and control the administration & general and selling expenses has reduced by 14.25% compared to last year, which resultantly helped in reducing the operating loss to Rs. 296.6 million, which is 55% lower compared to last year.

DIVIDEND

Cash dividend is Nil % (2021: Nil) due to loss in Modaraba.

APPROPRIATIONS

	Rs. in '000
(Loss) for the Year	(541,738)
Un-appropriated loss brought forward	(7,810,787)
Transferred to Statutory Reserves (0.0%) for the year ended June 30, 2022	-
Incremental depreciation charged during the year	65,629
Transfer of revaluation surplus on disposal of asset	144,950
Un-appropriated loss carried forward	(8,141,947)
Final Dividend for the year ended June 30, 2022 @ Rs. Nil	Nil

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

In compliance with the Code, the Board of Directors of Modaraba Company states that:

- The financial statements, prepared by the management of Modaraba, fairly present its state of affairs, the result of its operations, cash flows and changes in equity.

Directors' Report

- Proper books of accounts of the Modaraba have been maintained.
- Appropriate accounting policies are consistently applied by your Modaraba in the 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 the preparation of these financial statements and any departure therefrom, if any, has been adequately disclosed.
- The system of Internal Controls, being implemented in your Modaraba is sound and has been effectively persisted throughout the year.
- Keeping in view the financial position of your Modaraba, we do not have any significant doubt upon its continuance as a going concern.
- There has not been any material departure from the best practices of corporate governance, as detailed in the listing regulations, during the year under review.

MEETINGS OF THE BOARD OF DIRECTORS

During the year, the Board of Directors of Modaraba has met 04 times and the attendance at each of these meetings is as follows:

Name	Designation	26/ Oct/21	27/ Oct/21	24/ Feb/22	26/ Apr/22	2021- 2022
Imran Azim	Chairman/Non-Executive Director	P	P	P	P	4/4
Munir Karim Bana	Non-Executive Director	P	P	P	P	4/4
Dr. Salman Faridi	Independent Director	P	P	P	P	4/4
Sidra Fatima Sheikh	Independent Director	P	P	P	P	4/4
Syed Shahid Ali	Chief Executive Officer	A	P	A	A	1/4
Syed Sheharyar Ali	Executive Director	P	P	P	P	4/4
Muhammad Shafique Anjum	Non-Executive Director	P	P	A	P	3/4

P	Present
A	Absent

AUDIT COMMITTEE

During the year, the Audit Committee of the Board have met 04 times and the attendance at each of these meetings is as follows.

Name	Designation	26/ Oct/21	27/ Oct/21	24/ Feb/22	26/ Apr/22	2021- 2022
Dr. Salman Faridi	Chairman/Independent Director	P	P	P	P	4/4
Munir Karim Bana	Non-Executive Director	P	P	P	P	4/4
Imran Azim	Non-Executive Director	P	P	P	P	4/4

P	Present
A	Absent

SHARI'AH ADVISOR:

Mufti Muhammad Javed Hassan is the Shari'ah advisor to the Modaraba. Annual Shari'ah Advisor's Report is attached with this report.

PATTERN OF CERTIFICATE-HOLDING:

The pattern of certificate-holding of your Modaraba as on June 30, 2022 is annexed with this report. This statement is in accordance with the amendments made through the Code.

HR & ADMINISTRATION:

Complete HR Function is outsourced to associated company Treet HR Management (Private) Limited who is labor hire company specialized in providing workforce to host companies under service agreement and is taking all responsibilities of the workforce.

ACKNOWLEDGEMENT:

The Board would like to take this opportunity to express gratitude and thanks to our valuable customers for their patronage and support, the Securities and Exchange Commission of Pakistan, the Pakistan Stock Exchange Limited and Modaraba Association of Pakistan for their continuous support and guidance.

Special thanks to our certificate holders for the trust and confidence reposed in us.

For and on behalf of the Board



Syed Shahid Ali
Chief Executive Officer

Dated: September 27, 2022
Lahore