Chairman's Review

It gives me great pleasure to present you the financial statements of the company for the nine months period ended December 31, 2012.

The Economy

The current fiscal year continued to show encouraging signs. The CPI rate came down to 8.1% against 10.9% of last year. Accordingly, the State Bank of Pakistan resumed monetary easing by reducing the discount rate and bringing it down to 9.5%. Tax collection showed an increase of 7.7% aggregating to Rs. 546 billion upto October 2012. The workers' home remittances at US $7.1 billion and receipts of US $1.9 billion from Coalition Support Fund (CSF) provided much needed impetus to the economy. Resultantly, current account deficit reduced to USD 365 million. However, foreign currency reserves remained under pressure and dwindled to US $13.8 billion, a year on year decline of 19%. This was largely due to rising import bill, declining foreign investment and continuous debt servicing. These factors put enormous pressure on PKR which devalued by 8% against US Dollar. On the fiscal front, the government is funding its entire deficit though local borrowings, which has resulted in crowding out of the private sector from access to credit. Given the forgoing challenges on fiscal front coupled with national elections just around the corner, GDP growth is expected to slump to 3.5% compared with an initial target of 4.2%.

The performance of the agriculture sector was less than expected. Floods in the southern region caused substantial damage to the standing crops. Further, the rising cost of electricity and fertilizers together with lower prices of major crops, specially cotton, eroding liquidity of the farmer. As a result, sale of two wheelers saw slowdown in the rural areas.

Large Scale Manufacturing (LSM) index too displayed a meager growth of less than 1.9% in 4MFY 2012-13 with major contribution coming from consumer driven industries. The major hurdle in LSM growth remains the ongoing energy crisis. This has resulted in under utilization of installed capacities and forced businesses to divert to expensive alternate energy sources.

Automobile Industry

The automobile industry remained under pressure owing to the import of reconditioned cars under transfer of residence, personal baggage and gift schemes. During the nine months period starting from April 1, 2012 to December 31, 2012, the total automobile production was 96,045 units against 101,782 units in the same period of last year, a

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reduction of 5.6%. Correspondingly, sale was 95,191 units against 102,026 units, down by 6.7%. However, in the last quarter of Oct-12 to Dec-12, the impact of import of used cars was severe and industry production went down by 36.4% as compared with 11.8% decline in Jul-12 to Sep-12 quarter. A welcome step by the government last month has been the reduction of age limit of used cars from 5 years to 3 years. However, any positive impact of this change will be reflected in second half of the fiscal year. The government needs to ensure consistency of industry-friendly policies to boost economic stability and growth in the automobile sector.

The Company

During the nine months period under review, the company produced 13,695 units against 9,900 units in the same period of last year. Sales improved too and 12,411 units were sold against 10,259 units last year. A new model of Honda Civic, launched in September 2012 received a favourable response from customers and continues to be the leader in its category of locally produced cars.

Financial Results

The company is on its way in overcoming the lean period of last couple of years. The management has continuously endeavoured to improve capacity utilization, reduce fixed cost and running expenses to overcome this situation.

During the nine months period ended December 31, 2012, the company earned profit before tax of Rs 128.3 million against loss of Rs 42.3 million in the corresponding period last year, a turnaround of Rs 170.7 million. Sales revenue during three quarters of the year increased to Rs 19,514.7 million against Rs 14,441.9 million for the same period last year, up by 35.1 %. Cost of sales was Rs 18,648.4 million against Rs 14,154.8 million. Gross profit on above sales improved to Rs 866.3 million against Rs 287.1 million and gross profit margin as a percentage of sales improved to 4.4 % from 2.0 %. Selling and general administrative (SGA) expenses increased to Rs 289.3 million from Rs 212.2 million, last year. However, in terms of percentage of sales, SGA expense remained unchanged. Operating profit was Rs 276.2 million against Rs 52.9 million. Other income was Rs 103.1 million against Rs 172.7 million. Financial and other charges increased to Rs 551.8 million which included impact of exchange loss on foreign currency liabilities.

After necessary tax adjustment, profit after tax for the period under review was Rs 10.4 million against loss of Rs 142.8 million in 2011, last year.

Future Outlook

The macroeconomic outlook for 2013 remains challenging on account of stressed fiscal position resulting from alarmingly increased government borrowings, lower Foreign Direct Investment and persistent energy shortages. There is an urgent need to implement sound economic reforms, apply long term economic management policies and introduce alternate power sources to create a conducive business environment. Overall, rural economy holds the key to revival. Reasonable support prices, improved acreage in major crops and timely subsidies to farmers could bring favorable results to the economy. This will augur well for the automobile sector and also, will provide opportunity for the private sector to enhance its presence in the far flung areas.

The company will continue to focus its core strengths; advanced technology in product line up, best quality and ingenuity to offer best value for money to its customers.

جوئندہ یا بندہ
(Who seeks gets it)

Acknowledgement

I would like to thank Honda Motor Company and Atlas Group for their continued support. I would also thank our customers, dealers, vendors, bankers and our shareholders for keeping faith in the Company. I also thank Mr. Takeharu Aoki, President & CEO of the company, and his team for their hard work and dedication in the ever challenging business environment.

January 29, 2013
Lahore

Yusuf H. Shirazi
Chairman