

Directors' Report

We are pleased to present the Directors' Report together with the audited Financial Statements for the year ended June 30, 2023.

These accounts have been audited by statutory auditors of the Modaraba and are accompanied by their audit report.

The Modaraba has witnessed significant enhancements in its operating and financial profile across various key indicators, such as sales, liquidity, cost control, and plant operations. The improved performance during the fiscal year 2023 can be attributed to several factors, including increased sales volume, enhanced plant efficiency, improved cost management, rationalized pricing, and decreased financial costs. Despite challenging economic conditions and the impact of the flood, the Modaraba outperformed the previous year, leading to improved outcomes.

DEMERGER OF BATTERY SEGMENT

In the financial year and following the court order, the demerger of the Battery segment from First Treet Manufacturing Modaraba (FTMM) has been successfully completed. All assets, liabilities, and the entire associated business, as they existed just before the effective date, have been smoothly separated from FTMM and are now under the entity known as Treet Battery Limited (TBL).

The demerger officially took effect on April 1, 2023. The financial statements of FTMM now include a separate mention of the loss from discontinued operations related to the Battery segment. These financial statements encompass the operations of the Battery segment for the nine months leading up to March 30, 2023.

FINANCIAL HIGHLIGHTS

The Modaraba is primarily engaged in three segments: Battery, Corrugated Boxes, and Soaps. Effective April 1, 2023, the Battery segment was demerged from the Modaraba as per a court order. The financial results of FY 2023, encompass nine months of the Battery segment's performance and the full year results for the Corrugated Boxes and Soaps segments. Overall, FY 2023 demonstrated remarkable growth and financial performance for the Modaraba, characterized by significant increases in revenue, gross profit, operating profit, leading to improved profitability, and a reduced net loss compared to the previous year.

The Battery segment experienced robust revenue growth, increasing from Rs. 4,881 million to Rs. 6,207 million, representing a substantial 27% rise. Similarly, the Corrugated Boxes and Soaps segments also witnessed impressive revenue growth, reaching Rs. 3,911 million, a 40% increase from Rs. 2,796 million in the previous year.

Remarkably, from continuous operations, the Modaraba achieved a gross profit of Rs. 303.2 million, a significant improvement from the Rs. 129.5 million recorded the previous year. This achievement can be attributed to enhanced cost management and the Modaraba's efforts in price rationalization, effectively passing on the impact of inflation through regular price revisions throughout the year. Furthermore, the Modaraba's operating profit surged to Rs. 126.87 million, a substantial leap from the Rs. 16.9 million reported in the previous year.

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This outstanding performance resulted from effective cost management practices.

Regarding profitability, the Modaraba achieved a net profit of Rs. 165 million from its continued operations in FY 2023, compared to Rs. 152 million in the previous year. Simultaneously, the Modaraba successfully reduced its losses from discontinued operations, decreasing them from Rs. 694 million in the previous year to Rs. 292 million, mainly due to the remarkable performance of the Battery segment.

The main challenge to our margins was the increase in financing costs, primarily driven by the significant rise in borrowing rates in the monetary policy throughout the year, which had a substantial impact on our bottom line. Consequently, the net loss for the year amounted to Rs. 126 million, compared to a loss of Rs. 542 million in the previous year.

(Rupees in millions)

Descriptions	2022-2023	2021-2022	% Change
Sales (net)	3,911	2,796	40%
Gross Profit	303	130	134%
Operating Profit	127	17	649%
Net Profit from Continued operations	165	152	9%
Net Loss from Discontinued operations	(292)	(694)	-58%
Net Loss	(126)	(542)	-77%
Earnings/(Loss) per Certificate	(0.15)	(0.63)	-76%
Transfer to Statutory Reserve	Nil	Nil	
Book Value per Certificate	3.48	5.08	-32%

SEGMENT-WISE ANALYSIS

Rs. in 000	Corrugated Packaging		Soap		Battery	
	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023*	2021-2022
Gross Sales	3,433,866	2,699,311	1,198,563	590,169	7,802,437	6,153,927
Inter-Segment Sales	8,163	2,833				
Less: Sales Tax & Discounts	-518,793	-395,415	210,376	100,409	-1,595,118	-1,272,055
Total Sales	2,923,236	2,306,729	988,187	489,760	6,207,319	4,881,872
Gross Profit/(Loss)	165,913	103,439	137,304	26,109	864,696	155,170
Gross Profit/(Loss) %	6%	5%	14%	5%	14%	3%
Operating Profit/(Loss)	54,178	35,886	72,695	-18,956	255,129	-296,605
Operating Profit/(Loss) %	2%	2%	7%	-4%	4%	-6%

*FY 2023 numbers are for nine (9) months

BATTERY - DISCONTINUED OPERATION

The battery segment's net revenue for the first nine months of FY 2022-23 reached Rs. 6,207 million, reflecting a substantial 27% increase compared to the previous full financial year. The business experienced a significant boost in gross profit, rising from Rs. 155 million in the previous year to Rs. 865 million. This notable improvement in gross profit margin can be attributed to effective price rationalization and efficient cost control measures.

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Furthermore, it is noteworthy that for the first time since the inception of the business, an operating profit of Rs. 255 million was achieved, representing an impressive 216% increase over the previous year. However, the steep rise in finance costs, amounting to Rs. 531 million, signifying a 12% increase compared to the previous year, resulted in a loss from discontinued operations of Rs. 292 million, as opposed to a loss of Rs. 771 million in the prior year.

CORRUGATED PACKAGING

The corrugation segment achieved a net revenue of Rs. 2,923 million for the fiscal year 2022-23, marking a significant 27% increase compared to the previous financial year. The business recorded a gross profit of Rs. 166 million, a notable improvement from the Rs. 103 million achieved last year. This improvement can be primarily attributed to enhanced sales management, with a focus on high-margin customers, effective cost control measures, and improvements in plant operational efficiency.

To further expand the customer base, efforts are underway to diversify into new markets. Additionally, pricing strategies are being adjusted in response to increased costs, including those related to raw materials and salaries, although there may be a time lag in the full impact of these adjustments.

SOAPS

In the fiscal year 2022-23, the net revenue amounted to Rs. 988 million, demonstrating a substantial increase of 102% compared to the previous financial year. The improved performance in soaps sales can be attributed to a more effective marketing strategy and cost absorption methods. There are plans to rationalize prices in the upcoming months with the aim of further enhancing margins.

ECONOMIC MELTDOWN

Pakistan's economy is currently grappling with significant challenges, marked by declining foreign reserves, a depreciating currency, and elevated inflation rates. Several factors have contributed to the contraction of economic activity, including stringent monetary policies, the adverse impact of floods, restrictions on imports, rising borrowing costs, and uncertainty in both policy and political realms. Furthermore, the manufacturing sector in Pakistan has been negatively affected by dwindling foreign reserves, limitations on imports, disruptions caused by floods, escalating fuel prices, policy uncertainties, and a slowdown in both domestic and global demand.

The Government of Pakistan is confronted with a complex policy dilemma as it strives to maintain progress toward achieving macroeconomic stability. The economic outlook depends heavily on the timely and comprehensive implementation of critical policy reforms, although there are substantial downside risks looming on the horizon.

DIVIDEND

Cash dividend is Nil % (2022: Nil) due to loss in Modaraba.

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APPROPRIATIONS

	Rs. in '000
(Loss) for the Year	(126,388)
Un-appropriated loss brought forward	(8,141,947)
Transferred to Statutory Reserves (0.0%) for the year ended June 30, 2023	-
Incremental depreciation charged during the year	29,551
Transfer of Un-appropriated loss on demerger	8,211,666
Un-appropriated loss carried forward	(27,118)
Final Dividend for the year ended June 30, 2023 @ Rs. Nil	Nil

CORPORATE AND FINANCIAL REPORTING FRAMEWORK:

In compliance with the Code, the Board of Directors of Modaraba 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.
- 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:

Sr. No.	Name	Designation	27/ Sep/22	27/ Oct/22	14/ Feb/23	26/ Apr/23	2022-2023
1	Mr. Imran Azim	Non-Executive Director/ Chairman	P	P	P	P	4/4
2	Syed Shahid Ali	Chief Executive Officer	P	P	P	P	4/4
3	Syed Sheharyar Ali	Non-Executive Director	P	P	P	P	4/4
4	Dr. Salman Faridi	Independent Director	P	P	P	P	4/4
5	Ms. Sidra Fatima Sheikh	Independent Director	P	P	P	P	4/4
6	Mr. Munir Karim Bana	Non-Executive Director	P	P	P	P	4/4
7	Dr. Haroon Latif Khan	Independent Director	P	P	P	P	4/4
	Quorum of Meetings		7/7	7/7	7/7	7/7	
P	Present in the Meeting						
A	Leave of Absence						

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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

Sr. No.	Name	Designation	28/ Sep/22	27/ Oct/22	24/ Feb/23	26/ Apr/23	2022- 2023
1	Dr. Salman Faridi	Chairman/Member	P	P	P	P	4/4
2	Mr. Imran Azim	Member	P	P	P	P	4/4
3	Mr. Munir Karim Bana	Member	P	P	P	P	4/4
Quorum of Meetings			3/3	3/3	3/3	3/3	
P	Present in the Meeting						
A	Leave of Absence						

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, 2023 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 Modaraba Treet HR Management (Private) Limited who is labor hire Modaraba 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 28, 2023
Lahore