



Hi-Tech Lubricants Limited

# **Quarterly Progress Report on Implementation of the Projects**

**For the Quarter ended March 31, 2016**

## **Hi-Tech Lubricants Limited**

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## COMPLIANCE AUTHORITIES

**This report is prepared in Compliance of following:**

**1. Securities and Exchange Commission of Pakistan**

Condition Number 5 for Initial Public Offering of 29 Million Ordinary Shares by Hi-Tech Lubricants Limited (HTLL) under section 88(1) read with section 87(2) of the Securities Act, 2015 through Letter Number SMD/SA-88/12/2015 dated November 30, 2015.

**2. Pakistan Stock Exchange Limited**

Condition Number 19 for Clearance of Prospectus of Hi-Tech Lubricants Limited through letter bearing Ref. No. KSE/GEN-6602 dated August 13, 2015 [Formerly Karachi Stock Exchange Limited]

## CONDITIONS IMPOSED BY COMPLIANCE AUTHORITIES

**The condition imposed by compliance authorities are as follows:**

**1. Securities and Exchange Commission of Pakistan**

The Company shall submit progress report on implementation of its projects on quarterly basis till their completion, to the securities exchange and the Commission;

**2. Pakistan Stock Exchange Limited**

The Company shall submit quarterly progress report of the expansion plan related to Blending Plant/Filling Lines and Retail Outlets to the Exchange and the Commission until implementation and its completion as detailed in the prospectus for its dissemination to all concerned.

# **EXTRACT OF PROSPECTUS**

## EXTRACT OF PROSPECTUS REGARDING AFOREMENTIONED CONDITIONS

Following was mentioned in the prospectus about the utilization of proceed of Initial Public Offering:

**The proceeds of the IPO will be utilized for the following:**

### 5.5 EXPANSION PLAN

HTLL envisages a total estimated investment requirement of PKR 1,250 million, break-down of which is as follows:

Proceeds Utilization	PKR Million
<b><u>Investment in Company</u></b>	
Land	470
Building	128
Plant, Machinery & Equipment	139
Pre-operating costs	33
Working Capital	280
<b>Sub-total (funds required by HTLL)</b>	<b>1,050</b>
<b><u>Investment in 100% owned subsidiary</u></b>	
Additional Filling Lines for Blending Plant, Hi-Tech Blending (Pvt.) Limited	200
<b>Total Requirement</b>	<b>1,250</b>
<b>IPO Proceeds</b>	<b>1,073</b>
<b>Internally generated resources, if required</b>	<b>177</b>

At a floor price of PKR 37 per share, HTLL expects to raise PKR 1,073 million from the IPO. Balance money, if any, will be financed by HTLL's internal sources. Excess funds, in case of a higher strike price, will be first utilized to cover the investment requirement of PKR 1,250 million and then meeting Company's current and future working capital requirements.

#### **Investment in Company: Retail Outlets - Service Delivery Categorization/Plan**

Under this expansion HTLL plans to offer state of the art retail outlets across Pakistan with multitude of unique services and technical support for our customers. This business expansion plan is the part of HTLL's forward integration strategy.

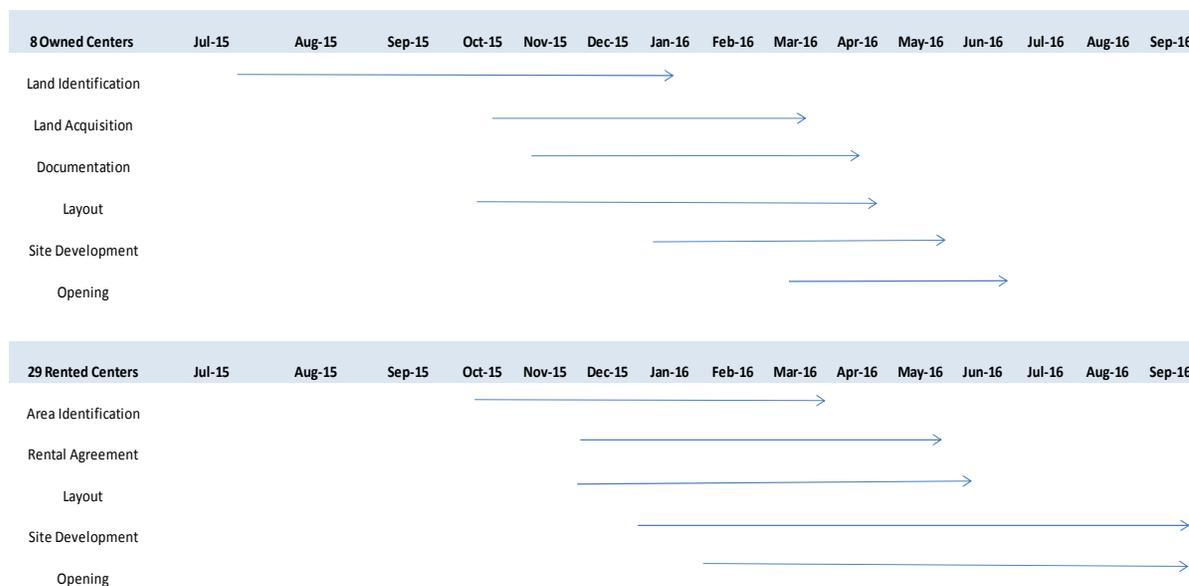
The Retail outlets plan will be executed initially based on 3-Tier Business Model



**Tentative Timelines / Roll-Out Strategy**

Area surveys are being conducted by HTLL. Proceeds from IPO will be invested in Hi-Tec Service centers that include launch of 8 owned outlets in Lahore (3), Gujranwala (1), Faisalabad (1), Islamabad (1) and Karachi (2) during 2015-16. Over a period of 5 years, HTLL plans to open 75 retail outlets (including 67 rented) across 16 major cities of Pakistan.

**Roll Out for Service Centers to be opened during the year 2015 –16:**



Following the possession of land either through acquisition or rent, the following indicative timelines are required to bring a service center online:

Milestone	Time Horizon
Layout / Designing	3 - 4 Weeks
Civil Construction	9 - 12 Weeks
Machinery Installation	3 Weeks
Furniture and Fixtures	2 Weeks
Pre-Launch Marketing	1-2 Weeks

**Investment in Hi-Tech Blending (Pvt.) Limited (“HTBL”) – 100% owned Subsidiary of HTLL**

Most recently HTLL has ventured into Blending Facility that has been located outside Sundar Industrial Estate, at Bhaikot Raiwand Road, Lahore. HTLL has incorporated a 100% wholly owned subsidiary named Hi-Tech Blending (Pvt.) Limited with a total investment of PKR 776 million as of June 30, 2015. The upcoming Plant is an integrated unit Producing International Standard Specifications Lubricants in HDPE bottles, filling, capping & labeling of finished products on an automated high accuracy filling line. As per the agreement between HTLL and SK Lubricant, HTLL is allowed to invest in a blending plant.

The following table shows component wise project cost of blending plant:

Cost Component	Expected Cost (Rs. '000')
Land	180,186
Additional development on land	40,358
Buildings & Admin Block	392,682
Plant, machinery and equipment	709,024
Tanks	116,359
Instrumentation	20,000
Vehicles	31,088
Furniture and fixture	1,291
Office and other equipment	17,306
Computers and Software	13,759
Pre-operating & Contingencies	80,947
<b>Total capital cost</b>	<b>1,603,000</b>
Working Capital	110,000
<b>Original Project Cost</b>	<b>1,713,000</b>
Expansion through Additional Lines	200,000
<b>Total Project Cost</b>	<b>1,913,000</b>

Details of source of funding of the project cost and status of the project:

Source of funding	Rs. '000'	% of Total
Equity	1,000,000	52%
IPO proceeds	200,000	10%
<b>Total Equity</b>	<b>1,200,000</b>	<b>62%</b>
Director loan	88,000	5%
Bank loan & lease	625,000	33%
<b>Total Debt</b>	<b>713,000</b>	<b>38%</b>
<b>Total</b>	<b>1,913,000</b>	<b>100%</b>
<b>Status as of 30th June 2015</b>	<b>Rs. '000'</b>	<b>% of Total</b>
Capital expenditure incurred	1,216,865	
Through Equity	776,410	64%
Through Debt	440,455	36%

This investment & business expansion plan offers multitude of opportunities to strengthen the local business line in Pakistan. HTLL's prime focus is to offer customized product range with diversified business line in the automotive & retail sector with unique selling propositions. No doubt the long sighted vision is the initial step, however; HTLL is determined to capitalize this plan with business knowledge and customized facility by carefully addressing the risk factors. The salient objectives include the following:

- Cost effectiveness / Competitiveness
- Effective Supply Chain Management
- Investing for the Sustainability and Support of Local Business Growth especially in Motorcycle (MCO) & Heavy duty Diesel oils (HDDO)
- Introducing the Indigenous Product Line with International Blending & Packaging Standards with Capturing the Local & Government Mainstream Institutions
- OEM supplies
- Exports to Afghanistan & CIS Countries
- Enhanced Product Portfolio (Industrial & process Oils)
- Diversification in Plastic products & trading

#### Further Investment in the Addition of New Filling Lines

HTLL now plans to invest further in the HTBL to introduce Jerry Can and Drum filling lines. Details of the investment requirement is as follows:

Component	Vendor	Origin	Currency	FOB US\$	Freight, Duty & Taxes 21%	Total	Pak Rs	in Millions
Drum Filling	Packon	South Korea	US\$	68,800	14,448	83,248	8,741,040	8.7
Drum Manufacturing	Full Shine engineering	Taiwan	US\$	433,600	91,056	524,656	55,088,880	55.0
Jerry Can Filling	Packon	South Korea	US\$	132,500	27,825	160,325	16,834,125	16.8
Jerry Can Manufacturing	ACE Corporation	South Korea	US\$	320,000	67,200	387,200	40,656,000	40.7
Transformer Oil	Meier-Group	Germany	EURO	198,650	41,717	240,367	27,882,514	27.9
Master Batch	Torninova	Italy	EURO	199,950	41,990	241,940	28,064,982	28.1
Local Components								23
<b>Total</b>								<b>200</b>

Implementation schedule for the additional filling lines:

Milestone	Schedule
Identification of supplier & quotation	July 2014 - March 2015
Final negotiation	October 2015
LC opening	November 2015
Pre-shipment	March 2016
Shipment	April 2016
Installation	June 2016
Test run	July 2016
Commercial run	August 2016

**Benefits of installing additional filling line**

- Bulk Product Selling
  - Packaging and sales of Industrial Products and Process Oils
  - Selling of Drums and Jerry Cans to other user, e.g. Chemicals , Paints etc
- Tapping huge potential of bulk sales in Export in Afghanistan

# **PROGRESS UPDATE**

## PROGRESS UPDATE

1. After the issuance of NOC from Pakistan Stock Exchange Limited on **March 09, 2016** the funds were placed in specific purpose accounts newly opened in banks having satisfactory ratings.
2. Out of the total funds received Rs 1,812,562,500 the company has invested Rs 1,600,000,000 in term deposits ranging from 1 to 6 months.

The chronological detail of activities undertaken is as follows:

### Expansion through retail outlets

Out of the total allocated amount of Rs 470 Million for purchase of land, the company has purchased a piece of land measuring 1 Kanals 5 marla in busiest business location in Lahore, district Punjab. Before the purchase of land for service center, the company got it valued by M/s Hamid Mukhatar & Co. (Pvt.) Limited, an independent and renowned valuer company appearing on the list of Pakistan Banks Association (PBA). The company's' legal counsel further conducted due diligence before the purchase of said plot of land.

The design and construction contract has been signed in April, 2016 and the service center would take 4 months to become operational. The company is looking expeditiously suitable plot of lands in in Karachi, Islamabad and Rawalpindi as certain contracts negotiated at the time of preparation of prospectus are not available this time.

Further, 5 to 6 locations have been identified in above cities and these are under negotiation with landlords for lease agreements which are expected to be finalized in the current quarter.

### Investment in Hi-Tech Blending (Pvt.) Limited – Wholly owned subsidiary company for additional filing lines

Current status of investment in plant is as follows:

Status as of 31 March 2016	Rs. '1,636,458'	% of Total
Capital expenditure incurred	1,506,038	
Through Equity	960,772	59%
Through Debt	675,686	41%

The plant is expected to be operational in the quarter ending June 30, 2016 subject to final approval by OGRA which is underway.

The Company is under negotiation with vendors for supply of additional filling lines as the bid validity dates of quotations mentioned in the prospectus have been lapsed.

### **Working capital**

The company has utilized PKR 134,381,900 for payment of short term borrowing facilities availed from banks against import of inventory.

### **Further developments**

To increase its infiltration into the market the board of directors of the company has approved to establish an oil marketing company and apply for the license from Oil and Gas Regulatory Authority (OGRA). The sector offers robust growth and lucrative margins for medium sized entity having low operational cost. This enables the company to increase its product penetration to the market and will enhance the capability of further breakthrough in to the retail segment and increase its market share.

### **AUDITORS' REPORT ON AGREED-UPON PROCEDURES TO THE CHIEF EXECUTIVE OF HTL WITH RESPECT TO UTILIZATION OF THE PROCEEDS OF THE INITIAL PUBLIC OFFER**

The external auditor of the Company has confirmed that the Company has utilized the proceeds of the IPO, only for the purposes mentioned in the Prospectus which is annexed herewith.

Sd.

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**Chief Executive Officer**

Sd.

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**Company Secretary**

# **ANNEXURE**

## **HI-TECH LUBRICANTS LIMITED**

**AUDITORS' REPORT ON AGREED-UPON PROCEDURE TO THE CHIEF  
EXECUTIVE OF HTLL WITH RESPECT TO UTILIZATION OF THE PROCEEDS OF  
THE INITIAL PUBLIC OFFER OF 29,001,000 ORDINARY SHARES AT A PRICE OF  
RUPEES 62.5 PER ORDINARY SHARE FOR THE PURPOSES MENTIONED IN  
PROSPECTUS DATED 28 DECEMBER 2015**

**FOR THE PERIOD ENDED 31 MARCH 2016**

Chief Executive  
Hi-Tech Lubricants Limited  
1-A, Danapur Road  
GOR-1  
LAHORE – 54000

11 April 2016  
Our ref: G-1-615

Dear Sir

**HI-TECH LUBRICANTS LIMITED (HTLL) – AUDITORS’ REPORT ON AGREED-UPON PROCEDURE TO THE CHIEF EXECUTIVE OF HTLL WITH RESPECT TO UTILIZATION OF THE PROCEEDS OF THE INITIAL PUBLIC OFFER OF 29,001,000 ORDINARY SHARES AT A PRICE OF RUPEES 62.5 PER ORDINARY SHARE FOR THE PURPOSES MENTIONED IN PROSPECTUS DATED 28 DECEMBER 2015 FOR THE PERIOD ENDED 31 MARCH 2016**

We have performed the procedure agreed with you through engagement letter number G-1-539 dated 20 February 2016 and enumerated below with respect to utilization of the proceeds of the initial public offer of 29,001,000 ordinary shares at a price of Rupees 62.5 per ordinary share for the purposes mentioned in prospectus dated 28 December 2015 for the period ended 31 March 2016.

Our engagement was carried out in accordance with International Standard on Related Services (ISRS) 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” applicable to agreed-upon procedures engagements. The procedure was performed solely to assist HTLL in ensuring compliance with Special Condition A.7 contained in Annexure – I ‘Conditions for Initial Public Offering of 29.00 Million Ordinary Shares of Hi-Tech Lubricants Limited’ under section 88(1) read with section 87(2) of the Securities Act, 2015’ to the letter No. SMD/SA-88/12/2015 dated 30 November 2015 of Director (CI) of the Securities and Exchange Commission of Pakistan and is summarized as follows:

**Procedure performed**

- Check that HTLL has utilized the proceeds of the initial public offer of 29,001,000 ordinary shares for the purposes mentioned under heading 5.5 ‘Expansion Plan’ in prospectus dated 28 December 2015 for the period ended 31 March 2016. Detail is as follows:

Purposes Mentioned Under Heading 5.5 ‘Expansion Plan’ In Prospectus Dated 28 December 2015	Total amount (Rupees)	Total amount utilized till 31 March 2016 (Rupees)
<b>Investment in HTLL</b>		
Land	470,000,000	60,618,100
Building	128,000,000	-
Plant, machinery and equipment	139,000,000	-
Pre-operating costs	33,000,000	-

Purposes Mentioned Under Heading 5.5 'Expansion Plan' In Prospectus Dated 28 December 2015	Total amount (Rupees)	Total amount utilized till 31 March 2016 (Rupees)
Working capital	842,562,500	134,381,900
<b>Sub-total</b>	<b>1,612,562,500</b>	<b>195,000,000</b>
<b>Investment in 100% owned subsidiary</b>		
Additional filling lines for blending plant, Hi-Tech Blending (Private) Limited	200,000,000	-
<b>Total</b>	<b>1,812,562,500</b>	<b>195,000,000</b>
<b>IPO proceeds</b>	<b>1,812,562,500</b>	

**Our findings**

Based on the procedures performed, we report that un-utilized proceeds of the initial public offer as at 31 March 2016 are being kept as follows:

Bank	Account / Deposit Number	Amount (Rupees)
Habib Metropolitan Bank Limited	Hi Tech Lubricants Ltd (Development Account) Account No. 6-2-84-20614-714-123961	3,902,567
Bank Alfalah Limited	Hi-Tech Lubricants Ltd – Spe Prps Account No. 0044-1005058732	4,832,721
JS Bank Limited	Hi Tech Lubricants Ltd Account No. 0000739341	3,344,115
JS Bank Limited	Term Deposit Receipt No. 0000742785	200,000,000
JS Bank Limited	Term Deposit Receipt No. 0000743056	200,000,000
JS Bank Limited	Term Deposit Receipt No. 0000743300	50,000,000
Habib Metropolitan Bank Limited	PLS Term Deposit No. 2-84/916	300,000,000
Habib Metropolitan Bank Limited	PLS Term Deposit No. 2-84/914	100,000,000
Habib Metropolitan Bank Limited	PLS Term Deposit No. 2-84/915	200,000,000
Bank Alfalah Limited	Term Deposit No. MM1607700072	250,000,000
Bank Alfalah Limited	Term Deposit No. MM1607800005	200,000,000
Bank Alfalah Limited	Term Deposit No. MM1607800009	100,000,000
		<u>1,612,079,403</u>

Bankers to the Issue deducted commission, charges and out-of-pocket expenses of Rupees 6,134,434 from the total IPO proceeds (including Rupees 125,000 received on account of duplicate CNIC) before transferring them to the above mentioned three bank accounts maintained at Habib

Metropolitan Bank Limited, Bank Alfalah Limited and JS Bank Limited. HTLL made cash deposits of Rupees 5,000, Rupees 10,000 and Rupees 5,000 in the above mentioned three bank accounts maintained at Habib Metropolitan Bank Limited, Bank Alfalah Limited and JS Bank Limited respectively at the time of account opening. Habib Metropolitan Bank Limited, Bank Alfalah Limited and JS Bank Limited deducted charges and taxes of Rupees 571, Rupees 232 and Rupees 335 respectively from the above mentioned three bank accounts. Bank Alfalah Limited credited profit on term deposits of Rupees 563,861 and deducted withholding income tax on profit on term deposits of Rupees 56,386 from the above stated bank account. HTLL has deposited the net amount of Rupees 5,608,097 in bank account maintained at Bank Alfalah Limited from its own sources on 11 April 2016 as the aforesaid transactions were not covered under the purposes mentioned under Heading 5.5 'Expansion Plan' in Prospectus dated 28 December 2015.

Out of total expenditure on land of Rupees 60,618,100, supporting evidences of expenses amounting to Rupees 443,800 were not yet available with management of HTLL and are expected to be received shortly from the concerned person.

#### General

Because the above procedure does not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the utilization of the proceeds of the initial public offer of 29,001,000 ordinary shares at a price of Rupees 62.5 per ordinary share for the purposes mentioned in prospectus dated 28 December 2015 for the period ended 31 March 2016.

Had we performed additional procedures or had we performed an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and submission to the Securities and Exchange Commission of Pakistan and Pakistan Stock Exchange Limited and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of Hi-Tech Lubricants Limited, taken as a whole.

  
RIAZ AHMAD & COMPANY  
Chartered Accountants

Name of engagement partner:  
Mubashar Mehmood

Date: 11 APR 2016

LAHORE