

## DIRECTOR'S REPORT

Gentlemen Directors of the company are pleased to present Annual Report of Heavy Electrical Complex (Pvt) Limited along-with audited Balance Sheet as at June 30, 2018 and Profit and Loss Account, Statement of Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity for the year ended on June 30, 2018 together with the notes forming part their off.

### Operating Results and the related issues:

The company has closed the year with sales of Rs. 259.000 million, Gross Profit of Rs. 29.104 million, Pre-Tax Loss of Rs. 69.734 million and After Tax Loss of Rs. 69.579 million as compared to Sale of Rs. 909.518 million, Gross Profit of Rs. 110.116 million, Pre-Tax Profit of Rs. 26.931 million and after tax Profit of Rs. 17.836 million for the last year. The company has rolled out 27 No. Power Transformers including 4 new and 23 rehabilitated during the year under review as against 22 new and 42 rehabilitated during the last year. The operating results are summarized as under;

Description	2017-18		2016-17		% change 2016-17
	Actual		Actual		
<b>New Production:-</b>	Qty	Value	Qty	Value	
10/13 MVA	1	33.152	-	-	100.0
20/26 MVA	2	78.500	14	555.410	(85.9)
31.5/40 MVA	1	48.000	8	249.100	(80.7)
<b>Repair</b>	23	99.366	19	105.008	(5.4)
<b>Sales Volume/Value</b>	27	<b>259.000</b>	64	<b>909.518</b>	<b>(71.5)</b>

Description – Rs. Million	2018	2017	% Change
Net Sales	259.000	909.518	(71.5)
Gross Profit/(Loss)	29.104	110.116	(73.6)
Operating Expenses	70.023	60.855	15.1
Operating Profit/(Loss)	(40.919)	49.261	(183.1)
Other Income	8.916	13.781	(35.3)
Financial Expenses	37.731	36.111	4.5
Profit/(Loss) Before Tax	(69.734)	26.931	(15.6)
Profit/(Loss) After Tax	(69.579)	17.836	(358.9)
Profit/(Loss) Per Share	(0.048)	0.012	(500.0)

The above results are against the budgeted target for manufacturing/supply of 23 Nos. new Power Transformers (PTs) and repairing of 11 Nos. PTs for the value of Rs. 1,109.629 million. As such the company could achieve only 23% of the targeted sales.

Main reason for the lesser turn-over in 2017-18 was that HEC received no order from DISCOs since Dec 2016, except for one 20/26 MVA Power Transformer from FESCO in Jan 2018 despite being lowest in 7 Tenders for 32 Power Transformers valuing over Rs. 1.483 Billion opened as early as 28.02.2017.



- The reason for reluctance of DISCOs placing orders on HEC was that one of the bidders M/s. Jaffer Brothers (Local Agent of Chint T&D, China) complained to FESCO on 08.04.2017 that type test report of HEC manufactured transformer was not according to NTDC Specs. The purpose of this complaint was to wipe-out the local suppliers of power transformers from the Pakistan Market and flood it with Chint Transformers on the exorbitant prices of their choice as most of power transformers supplied by PEL had failed in the field as a result further order could not be placed on it.
- In order to defend, HEC had to run to pillar to post for fourteen months having bundles of correspondence and innumerable meetings with the concerned quarters. Ultimately, HEC even had to go the Federal Minister for Energy for the addressing the matter. Federal Minister of Energy constituted Inquiry Committee on 13.03.2018 under convener ship of GM(S&I) PEPCO. It took the committee three months to complete its findings in June 2018. The committee negated the complaint of the bidder and declared that type test of HEC's transformers are valid. The report was sent by the Ministry of Energy to all DISCOs for their necessary action in June, 2018.
- Following this Inquiry Report HEC has received two orders of 4 and 10 transformers from HESCO and PESCO valuing Rs. 190 and 470 million respectively. Further LOI has also been received from FESCO for 4 No 31.5/40 MVA transformers valuing Rs. 196 million and HEC is expecting orders valuing Rs. 82.4 million (02 Nos. 26 MVA PTFs) from FESCO shortly.

Salaries & Wages in the cost of goods sold were lesser than the previous year mainly because of reclassification of expenses of a senior officer from manufacturing to administration. The related expenses in the administration group increased due to appointment of a full time CEO which was earlier managed on additional charge basis. Depreciation was lesser than the previous year because of comparative lesser capacity utilization which has been the base for calculating depreciation on plant and machinery. Moreover, the policy for charging depreciation has been changed to 2.5% on reducing balance method for w.e.f the year under review.

#### **Appropriation of Total Profit/Loss:**

Loss after tax of Rs. 69.579 million suffered during the year ended June 30, 2018 is proposed to be allocated as under;

	<u>(Rupees in Million)</u>
Loss after tax for the year	69.579
Accumulated Loss from the previous year	518.626
Accumulated Loss	588.205

#### **Dividend:**

In view of accumulated loss the company is unable to pay any dividend;

### **Board changes during the Financial Year:**

We would like to place on record our appreciation for the contributions of the outgoing directors namely Mr. Arif Ibrahim Ex- Sr. JS. MOI&P as well as Mr. Saif Ullah, JS (Power), MOE.

We also would like to welcome Syed Arshad Hussain Musavi – CEO, HEC, Mr. Sajjad Haider Yaldram, JS(Dev) MOE and Mr. Naeem Jan Khan JS(IID), MOI&P on Board of the company and are sure that their contribution would be of immense value to the company.

### **Outlook for the Year 2018-19:**

The budgeted target for the year 2018-19 is for manufacturing/supply of 23 Nos. new power transformers and repairing 8 power and various distribution transformers for the sale value of Rs. 1,132.614 million.

Orders of 18 No new PTs valuing Rs. 856.4 million and 7 No repairable PTs valuing Rs. 47.5 million are in hand. Moreover, orders of 12 No new PTs valuing Rs. 449 million from FESCO, TESCO, HESCO, Kohinoor Mills and Aujla & Associates and 4 repairable PTs valuing around Rs. 100 million from GENCO(Gudu), NTDC and WAPDA (Mangla) are also expected.

At the end we would like to take this opportunity to express our appreciation to the management, officers and staff for their dedication and devotion for the company.

We also express our gratitude to the Auditors - M/s BDO Ebrahim & Co, Chartered Accountants, State Engineering Corporation, Ministry of Industries & Production and Securities and Exchange Commission of Pakistan for extending full cooperation to the company in connection with related matters.

  
Chief Executive

Islamabad; October 26, 2018

  
Director  
24/10/2018