

## DIRECTOR'S REPORT

Gentlemen Directors of the company are pleased to present Annual Report of Heavy Electrical Complex (Pvt) Limited (HEC) along-with audited Balance Sheet as at June 30, 2020 and Profit and Loss Account, Statement of Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity for the year ended on June 30, 2020 together with the notes forming part their off.

The company is under privatization for the 6<sup>th</sup> time since August 29, 2019 with the publishing of Expression of Interest (EOI) for appointment of Financial Advisor (FA) by the Privatization Commission (PC). Consortium led by M/s. Bridge Factor, NBP, Axis Law Chambers and RSM has been appointed as FA in December 2019. The FA has completed due diligence as well Transaction Structure for privatization of HEC. Currently the PC is in the process for finalization of EOI etc and then its publishing in the press for pursuing further privatization process.

On advice/directions by the privatization Commission and consent by Ministry of Industries and Production, the Financial Statements of the company for the year ended June 30, 2020 have been prepared incorporating revalued figures of land, buildings and plant and machinery. The comparative figures are given in the table below:

### **Operating Results and the related issues;**

Asset – Rs. 000	Fair Value	Net Book Value
Land	1,556,750	16,101
Building	385,019	20,622
Plant and Machinery	596,121	569,997
Total	2,539,890	606,720

The company has closed the year with sales of Rs. 221.801 million, Gross Profit of Rs. 93.940 million, Pre-Tax Loss of Rs. 43.356 million and After Tax Loss of Rs. 46.718 million as compared to sales of Rs. 305.780 million, Gross Profit of Rs. 3.745 million, Pre-Tax Loss of Rs. 117.445 million and After Tax Loss of Rs. 121.224 million for the last year. The company has rolled out 42 No. Power Transformers including 1 new and 41 rehabilitated during the year under review as against 5 new and 16 rehabilitated during the last year. The operating results are summarized as under;

Turn-over of the company for the year under review was lesser than the previous year and the company could not achieve higher turn-over because of Bank of Khyber - BOK (the only source of working capital for the company). The BOK curtailed required Financing Facilities since February 2019 and worked with HEC on very

Description – Rs. Million	2019-20		2018-19		% change 2018-19 Value
	Qty	Value	Qty	Value	
<b>New Production:-</b>					
20/26 MVA	-	-	2	82.400	-
31.5/40 MVA	1	49.200	3	142.500	(65.5)
<b>Repair</b>	41	172.601	16	80.880	113.4
<b>Sales Volume/Value</b>	42	<b>221.801</b>	21	<b>305.780</b>	<b>(27.5)</b>

Description – Rs. Million	2020	2019	% Change
Net Sales	222.801	305.780	(27.1)
Gross Profit	93.940	3.745	2,808.4
Operating Expenses	73.627	69.605	5.8
Operating Profit/(Loss)	20.313	(65.860)	130.8
Other Income	7.961	5.364	48.4
Financial Expenses	71.630	56.948	25.8
(Loss) Before Tax	(43.356)	(117.444)	(63.1)
(Loss) After Tax	(46.718)	(121.224)	(61.5)
Loss Per Share – Rs.	3.201	8.305	(61.5)

limited scale and that too against selective transactions with harsher conditionality. As a result, the company could not arrange required inputs to execute orders in hand.

The BOK has tightened its policy towards HEC because of losses of the company in the previous year as well as non-adjustment of its principal amount in the Running Finance Facility by the due dates. HEC in turn could not meet such commitments, because of reduced cash in-flows, as the DISCOs are reluctant giving advance against orders of new transformers. Moreover, payments from some of the DISCOs are delayed by many months.

Profitability of the company has increased because of higher repair activity than its activities relating to manufacturing new transformers.

Salaries & Wages in the cost of goods sold have increased due to routine increments as well. Freight in the cost of goods sold relates to transportation charges of power transformers and the related equipment, which increased due to increased repair orders.

Financial Expenses have increased mainly because of mark-up rate, which on average increased from 11.39% to around 13.63%.

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

Loss after tax of Rs. 46.718 million suffered during the year ended June 30, 2020 is proposed to be allocated as under;

	<u>(Rupees in Million)</u>
Loss after tax for the year	46.718
Accumulated Loss from the previous year	709.430
Accumulated Loss	756.147

#### **Dividend:**

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

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

Mr. Naveed Nazir Ahmad, GM-SEC replaced Syed Kaukab Mohyuddin as Director because of conclusion of his Contract on 04.07.2019. SEC BOD in its 102nd meeting had authorized Mr. Naveed Nazir Ahmad to exercise the powers of CEO SEC w.e.f 08.07.2019.

#### **Compliance Statements**

(a) The Board has complied with the relevant principles of corporate governance, and has identified the rules that have not been complied with, the period in which such non-compliance continued, and reasons for such non-compliance;

(b) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

(c) Proper books of account of the Company have been maintained;

(d) Appropriate accounting policies have been consistently applied (except deviations wherever indicated) in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;

(e) We recognize our responsibility to establish and maintain sound system of internal control, which is regularly reviewed and monitored; and

(f) The appointment of chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interests of the Company as well as in line with the best practices.

Key operating and financial data of last six years is summarized as under;

#### **Key Operating Data**

<b>F. Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Manpower - Nos	239	310	318	292	282	264
Transformer Workedon – Nos						
-New	7	34	22	4	5	1
-Repair	7	20	42	23	16	41
Total	14	54	64	27	21	42

#### **Key Financial Data**

<b>F. Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Net Sales	374.23	677.03	909.52	259.00	305.78	221.80
Cost of Goods Sold	380.59	552.32	799.40	229.90	302.04	127.86
Gross Profit/(Loss)	(6.36)	124.71	110.12	29.10	3.75	93.94
Operating Expenses*	49.95	50.26	48.86	55.90	54.61	58.63
Operating Profit/(Loss)	(56.31)	74.45	61.26	(26.80)	(50.86)	35.31
Fin Exp, SEC Charges, Bad Debts	103.26	51.45	48.11	51.86	71.95	86.63
Other Income	7.32	8.93	13.78	8.92	5.36	7.96
Profit/(Loss) for the Year	(152.25)	31.93	26.93	(69.74)	(117.44)	(43.36)

\* Service Charges paid to the holding corporation clubbed with Financial Expenses and Provision for Bad Debts.

<b>F. Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Non-Current Assets	760.66	704.80	678.45	660.11	643.55	2,563.89
Current Assets	741.17	928.85	839.29	840.79	970.32	1,081.29
Total Assets	1,501.83	1,633.65	1,517.74	1,500.90	1,613.87	3,645.18
Paid-up Share Capital	1,459.59	1,459.59	1,459.58	1,459.59	1,459.59	1,459.59
Revaluation Surplus						1,819.92
Accumulated Losses	(560.79)	(536.46)	(518.63)	(588.21)	(709.43)	(756.15)
Net Equity	898.80	923.13	940.95	871.38	750.16	2,523.36
Non-Current Liabilities	29.67	9.08	9.79	13.32	15.48	147.48
Current Liabilities	573.36	701.44	567.00	616.20	848.23	974.34
Total Liabilities	603.03	710.52	576.79	629.52	863.71	3,645.18

#### **Provident Fund and Pension/Gratuity Fund:**

There is HEC Employees Provident Fund in the company for regular employees. There were 19 members and value of fund as on 30.06.2020 was Rs. 14.349 million. Moreover, the company is member of State Engineering Corporation Management Pension Fund (SEC MPF) being maintained at the Holding Corporation – State Engineering Corporation. An amount of Rs. 14.979 million is payable by the company to SEC MPF as on 30.06.2020 on account of its contribution for terminal benefits of HEC Regular Employees.

**Board Meetings:**

Two Board meetings (68 to 69) were held during the year under review with full attendance by the members.

**Pattern of shareholding as on 30.06.2020:**

Shareholder	No Shares	Value – Rs.
Associated companies, undertakings and related parties;		
1. State Engineering Corporation	14,100,012	1,410,001,200
2. HEC Employees Empowerment Trust	495,835	49,583,500
Directors, Chief Executive, and their spouse and minor children		
1. Mr. Naveed Nazir Ahmad; for CEO SEC	2	200
2. Syed Arshad Hussain Musavi; CEO HEC (Director)	1	100
Total	14,495,850	1,459,585,200

**Important Issues after the close of Financial Year on 30.06.2020:**

Mr. Waqar Uddin Siddiqui, Joint Secretary (IF), Industries & Production Division has taken over additional charge of the post of Managing Director Heavy Electrical Complex from Syed Arshad Husain Musavi on 11.12.2020. Syed Arshad Hussain Musavi continued as CEO of the company after completion of his 3-year contract on 04.07.2020 with the consent of Board of Directors of the company.

**Outlook for the Year 2020-21:**

Orders of 23 new PTs valuing Rs. 1.203 billion from HESCO, FESCO, TESCO, LESCO, GTM and GEPCO, 4 no PTs for Manufacturing Services of Rs. 38 million and 13 No repairable PTs valuing Rs. 153 million were in hand as on 30.06.2020.

The budgeted target for the year 2020-21 is for manufacturing/supply of 16 Nos. new power transformers and repairing 13 power transformers for the sale value of Rs. 815.679 million.

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

  
Director

Islamabad; December 30, 2020