

Pel company history



Pak Elektron was setup in 1956 as a Public Limited Company with the object of initially producing transformers, switchgears, and electric motors. AEG experts and PEL personnel carried out the designing and production of this equipment jointly.

After the conclusion of joint venture agreement with AEG Saigol Group acquired the PEL COMPANY in October 1978. The company floated its shares to the general public and was listed on Karachi Stock Exchange (KSE) and Lahore Stock Exchange (LSE).

In 1980, Appliances Division was established and in 1981 its starts the production of Window Type Air Conditioners with the technical collaboration of General Corporation of Japan. This air conditioner was well received in the market for its quality. Subsequently in 1987 the production of Refrigerators and Deep Freezers was started.

In 1993 the company has started the assembly of Compressors for Refrigerators and Deep Freezers under technical collaboration with Messrs. NECCHI COMPRESSORI of Italy.

It was in early 70s that PEL became known in overseas markets due to its quality. The company started its export to countries like Saudi Arabia, Abu Dhabi, Qatar etc. Later on PEL supplied electrical equipments to various other countries in the Middle East, Far East and Africa with great success.

1. 2 Vision

“ To providing engineering goods and services through continuous improvement”

1.3 Mission Statement

“ To provide quality products & services to the complete satisfaction of our customers and maximize returns for all stakeholders through optimal use of resources, To focus on personal development of our employees to meet future challenges, To promote good governance, corporate values and a safe working environment with a strong sense of social responsibility”

CHAPTER NO 2

BUSINESS OPERATIONS

This chapter has been divided in five section, Section one described the product in which PEL deal. In second section business operation analysis are given. In section third SWOT analysis is given. In fourth section future strategy is given. In fifth section competitive analysis is given.

2.1 Organizational Structure

2.1 Division of PEL

There are two division of PEL:

Power Division

Appliances Division

This division is comprised for four departments.

2.1.1 Power Division

The most powerful revenue generating business unit of PAK Elektron, produces Transformers, Switchgears and Energy Meters for the public sector such as KESC Karachi Electric Supply Corporation, LESCO and PESCO. They provide these three products:

Production Transformers

Production Switchgears

Production Energy Meters

During the year 2006, PEL retained its market leadership in the Power Equipment market, increasing its market share from 33% in 2005 to 36% in 2006 in the switchgear market and also maintained share of 35% in 2006 as well in the energy meters market. PEL's leadership in the Power Equipment market is largely due to its strong Research and Development knowledge and high product quality.

2. 1. 1. 1 Production Transformers

PEL has vast experience in design and manufacturing of standard and special purpose transformers up to 33kV and up to 6000kVA ratings.

PEL's transformers have been successfully type tested for Impulse voltage and short circuit tests at KEMA, (Holland), HV&SC Lab, Rawat (Pakistan), NIP (Pakistan) and UET (Pakistan).

2. 1. 1. 2 Production Energy Meters

Another successful and most powerful department of power division is its energy meter production department that manufactures Electro-mechanical Energy Meters under license from ABB-USA. The quality of PEL meters has been certified by KEMA Laboratories (Holland) and conforms to IEC 521, SGS Yarsley, and U. K, has certified PEL Energy Meter plant for ISO 9002.

Following types of meters are manufactured:

Electro mechanical

Single phase

Three phase_ Direct connected

STATIC /DIGITAL

Single Phase

Three Phase Directed connected

2. 1. 1. 3 Production Switchgears

Switchgears are one of the highly technical and specialized power products of PEL. They are produced for indoor and outdoor installations complying with international installation standards. A major customer for this product is WAPDA. The Company provides one year after sales service warranty to WAPDA, KESC and other customers. In Switchgear, PEL enjoys market share of 33 % while competitors are Alstom, Siemens and Fico.

2. 1. 1. 4 Power Transformers

Owing to massive growth in power sector, demand for power transformers is also growing proportionately for all ratings from 66KV to500 KV. PEL has stepped into this activity by starting the manufacturing of 132 KV transformers, being the most demanded rating, and for these purposes has formed a strategies partnership by signing the two agreements. Based on the demand forecast of Power Transformers for WAPDA, KESC and other

projects, PEL's market share is initially targeted to be 20%, growing in five years.

2. 1. 2 Appliances Division

The Appliances Division of PEL is the pioneer manufacturer of electrical goods in Pakistan. The Division's product portfolio comprises of air-conditioners, refrigerators, televisions, microwave ovens, and split air-conditions. PEL is one of the three leading players in the home appliances market.

The Company is engaged in the manufacturing and/or marketing of the following home appliances.

The Company's Appliances Division contributed significantly to its sales in 2005-06. The main reasons for this growth are increase in market sizes along with PEL's strong brand image accompanied with its extensive dealership network spread nationwide with over one thousand outlets and an after sales service network with over 100 workshops.

Another major reason for the increasing growth in the home appliances market is the easy availability of consumer financing at lower interest rates. PEL itself is involved in selling its products through a marketing wing for sales against consumer financing.

Availability of Chinese products at very competitive prices has not proven to be that big a threat to the local industry. This is because of the improved quality of the local products and cost efficiencies due to economies in

product and raw material purchases hence making the local products competitive with the Chinese imports.

In 2005-06, the Appliances Division contributed around 53% to the Company's sales whereas the Power Division made up the remaining 47%. Refrigerators and Split air conditioners were the main source of revenue in the Appliances Division, whereas transformers and energy meters are the main revenue drivers in the Power Division.

The Appliance Division accounted for 44% of Net Sales during the year ended June 30th 2007. Refrigerators and Split air conditioners were the main source of revenue in the Appliances. The Company is engaged in the manufacturing and/or marketing of the following home appliances.

Manufacturing Trading

Refrigerators Microwave Ovens

Air Conditioners (Split) Conditioners (Window)

Deep Freezer Floor Standing ACs

Generators Washing Machines

2. 2 Business Process Analysis (Industrial Analysis)

2. 2. 1 Transformers

PEL has vast experience in design and manufacturing of standard and special purpose transformers. New technical designs for improved efficiency and quality against special orders of non-standard transformers are

continuously being explored. These transformers are available for various applications.

- Distribution Transformers
- Auto Transformers
- Furnace Transformers
- Welding Transformers

Transformers are normally supplied in a period of 3 – 4 months after the receipt of orders from respective distribution companies of WAPDA and varied supply time for private customers. The Company provides one year after sales service warranty to WAPDA, KESC and private sector customers.

2. 2. 2 Energy Meters

PEL manufactures three types of energy meters; Single Phase and Poly Phase. The electro-mechanical energy meters are manufactured under license from ABB of USA. The quality of PEL meters has been certified by KEMA Laboratories of Holland. PEL meters are superior than others due to their ability to lower revenue losses through accurate & precise operation and reduction of maintenance expenses.

Single Phase energy meters provide maintenance-free operations over a long period and accurate measurement of electrical energy.

Poly Phase energy meters improve load performance and precision accuracy. The meters require minimum maintenance and can withstand abuse from surges and magnetic tampering.

Three phase digital electronic meter with dual tariff capability recently launched and supplies to WAPDA has begun this year.

Energy meter orders from WAPDA are received annually and their supply period is 9 -10 months. Energy meters to KESC are supplied in a period of 3 – 4 months. The Company provides one year after sales service warranty to WAPDA, KESC and Others.

2. 2. 3 Switchgears

Switchgears are one of the highly technical and specialized power products of PEL. They are produced for indoor and outdoor installations complying with international installation standards. A major customer for this product is WAPDA. The Company provides one year after sales service warranty to WAPDA, KESC and other customers.

2. 2. 4 Refrigerators

PEL Refrigerators were introduced in 1987 with features such as VCM (Vinyl Coated Metal) coating; stylish finishing and auto drain systems. PEL refrigerators carry compressor made by Danfoss of Germany.

The low noise compressor is extremely silent and keeps the refrigerator running smoothly. Furthermore, the compressor is resilient to fluctuations in voltage level, thereby proving to be a more durable product.

PEL is actively involved in the manufacturing and trading of refrigerators, which is a major source of consistent growth. The refrigerators business contributes to 48% of the Company's sales and this trend is expected

continue in years to come (which is reflected in the figures for 2005-06 in the table below).

2. 3 SWOT Analysis

2. 3. 1 Strengths

PEL has the following strengths and is in more competitive position in these areas than its competitors. Following are the main strong points of PEL.

2. 3. 1. 1 Strong Brand Image

PEL has created the strong brand image in the mind of the customers through higher quality and low price. The customers of the PEL always prefer to buy the PEL home appliances like WRAC split AC and refrigerators whenever they wanted to buy.

2. 3. 1. 2 Strong Dealer Network

It is also the plus point for the PEL that it has also developed the strong dealer network in the market. The dealers are always trying to sell the PEL appliance to the customers because they know there are high margin in the PEL products. They can get more money after selling the PEL products. The management of PEL also provides more incentives to their dealers than their competitors

2. 3. 1. 3 Free Customer Service

PEL provides free customer service for one year to its customers. So the customers always buy the PEL products due to its free service and it becomes loyal customer for the PEL. PEL always provides help to their customers for repWRAC, Refrigerators and other items. PEL always make efforts to satisfy the customers.

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2.3.1.4 Market Leader In WRAC (Window Room Air Conditioner)

It is another strong point that PEL is a market leader in WRAC. The window room air conditioner is more demanded by the customers than its competitor's air conditioners because it has more durability in operating systems and cools the room in few minutes. PEL always strives to provide the innovative features in WRAC. PEL air conditioner is cheaper and has a higher quality than others WRAC. That's why customers always purchase the PEL window air conditioner.

2.3.1.5 Leader In Power Division

In Pakistan the PEL is almost leader in power division. Almost all power division are provided by PEL to wapda.

2.3.2 Weaknesses

Overcome on these weaknesses then it can become a market leader in the home appliance. Like other companies PEL has some weaknesses in operating the business. If PEL loses some competitive edge in the following points:

2.3.2.1 Lack Of Advertisement

PEL was a very lack of advertisement according to other appliances companies. So it is a big weakness of PEL.

2.3.2.2 Lack Of Product Range

PEL has introduced more products of consumer items but there are more needs to develop new consumer items like PEL washing Machines, Vacuum cleaner and other items. Due to lack of product Range, Company cannot

earn more profit because consumers have high demand of these products and they say that if company is investing in these products then we can keep all PEL items and we never need to keep other's company products.

2. 3. 2. 3 Financial Problems

Sometimes PEL faces the financial problems because its stocks are so much piled up in the stores that create the problem of cash flow because when the stocks are not sold and the production is in process for 24 hours a day than the company faces such problems.

2. 3. 3 Opportunities

For the PEL there are more opportunities for expansion the business. If PEL realize that opportunities then it will be more fruitful and profitable for the company.

2. 3. 3. 1 Exploration of Market In Pakistan

PEL has the opportunity to explore the market in all over the Pakistan. Even though PEL introduce its products in all cities of Pakistan but there are so many places that have the capacity to absorb the PEL's products.

2. 3. 3. 2 Increase in Product Range

It is the main opportunity for the PEL that it can increase its product range that will be a more profitable for the company. There are more needs to develop new consumer items like PEL washing Machines, Vacuum cleaner and other items. Due to lack of product Range, Company cannot earn more profit because consumers have high demand of these products.

2. 3. 3. 3 Export Opportunity

PEL Company has also the opportunity to export their products in other international countries like UAE, SAUDI ARABIA, and other Arabic and African countries.

2. 3. 4 Threats

PEL Company in such a competitive era has many threats as well. These threats are for the present situations and future. Company should make its policies and strategies according to these threats. So following are the main threats for the PEL:

2. 3. 4. 1 Strong Competition

There is very strong competition for the home appliance in the market. So every company tries to come in the number 1 position for achieving the maximum shares in the market.

2. 3. 4. 2 China's Product

China's products are another threat for the Pakistani companies because these products are cheaper than the Pakistani products. An even china product not well in quality but it is comparatively in low prices than the consumer's home appliance that are manufactured by the indigenous company.

2. 3. 4. 3 Price War

As there is stiff competition in the home appliance market that will cause the price war. So every company reduces the prices of its products to increase the sales. It will not only reduce the profit margin of the company but also

reduce the quality of products. So price war is the main threats for all the companies, which are operating in these products.

2. 3. 4. 4 Instability Of Government

The rapid changes in governments will become threats for the companies because every government adopts its own policies for the industries. So it increases the uncertainty for the investors who want to invest heavy amount in their new projects.

2. 4 Future Strategy

PEL is one of the most widely recognized brands in the domestic refrigerator market. It is the second largest local manufacturer and one of the leading brands. For the past four years the Company's market share growth averaged 2% per annum.

With continuous efforts in R&D, PEL is concentrating on quality of product and cost minimization. The Company is considering technical collaboration for value addition through planned capital expenditures.

Increased sales of manufactured refrigerators coupled with sales of split air conditioners are the major factors contributing growth in the appliances business. Other products are also being introduced as a part of Company's strategy to broaden its product range.

2. 5 Competitive Analysis

The prices are concerned PEL is charging reasonable prices to its customer for all of its microwaves comparatively from others. Prices charged by National, which is a multinational firm, are very higher in comparison with

others because it uses special Japanese parts in its microwaves and ensures high quality and performance and only rich class shows interest in National Products.

According to the retailer's information, people are satisfied with the prices charged by PAK Elektron but still their preferences go along with Dawlence microwaves because of its highly created awareness.

CHAPTER NO 3

LEARNING AS STUDENT

This chapter has been divided into four sections In section one, I have discussed my duties as a internee during internship, In the second section, I mentioned accomplishments, In the third section I briefed my problems which I faced during internship and in the last and fourth section I offered that how this internship experience impact on my carrier.

3. 1 Learning and Duties

In finance department there are three sections.

Corporate section

Leasing and pledge

Budgeting

3. 1. 1 Corporate Section

In corporate finance I worked in different units. Firstly, I learned that how letter of credit works in PEL.

3. 1. 1. 1 L. C Section

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I started working for the Letter of Credit Section. They gave me an introduction and shared important points. Mr. Asad, Senior Executive supervised me in this section.

Letter of Credit: A document issued mostly by a financial institution, used primarily in trade finance, which usually provides an permanent payment undertaking.

The letter of credit can also be source of payment for a transaction, meaning that redeem the letter of credit will pay an exporter. Letters of credit are used primarily in international trade transactions of significant value, for deals between a supplier in one country and a customer in another. In such cases the International Chamber of Commerce Uniform Customs and Practice for Documentary Credits applies. The parties to a letter of credit are usually a beneficiary who is to receive the money, the issuing bank of whom the applicant is a client, and the advising bank of whom the beneficiary is a client.

There are different types of LC:

a) L. C at Sight: In L. C at sight, Our Company opens an L. C in a bank which provides a guarantee to the exporter that he will pay the due amount.

Now, the exporter takes these documents to his bank and asks the bank to give him money so that he can start working on the required contract. When he fulfills the contract, he goes to his bank and provides the required documents to prove that he has fulfilled the contract. Now his bank sends these documents to our bank and our bank ask us to confirm the clarity of

the documents and if cleared then these documents are called cleared documents. Then lastly we will pay the bank the due amount.

b) Usance L. C: In usance L. C the contract between the two parties require the importer to pay in a longer term e. g. 3 or 6 months after receiving the material from exporter. Our bank will pay the contract amount after the agreed period.

c) INLAND LC In land LC means LC open in a same country.

3. 1. 1. 2 Guarantees

I started working on the Guarantees, Leasing, Finance against Merchandise and Cash Financing Section. They just gave me an introduction and shared important points. Mr. Tahir Mahmood, Senior Executive supervised me in this section.

Guarantees Section: Secret behind PEL's success and increasing market share is its guarantees section that actively works to get every order either for appliances or for power of the company by speedily participating for the contract with the help of Tender Bonds of Guarantees.

Types of Guarantees

Tender guarantee (Bid guarantee)

Balance of payment guarantee

Advance payment guarantee

Performance bond guarantee

3. 1. 1. 3 Long Term Loans

PEL acquired a long-term loan to finance the import of machinery. Recently PEL has purchased some machinery from China for Digital Energy Meters.

The process for long-term loan is explained in following.

Preparation OF Feasibility Report: Following points are considered while preparing the feasibility report.

Financial Statement

Cost of the project. This includes operating assets (land, building, Vehicles, furniture, capital expenditure and means of finance)

Project profit and loss account

Projected statement of changes in financial position.

Financial Analysis

Pay back period of total investment

Ratio analysis

Breakeven analysis

Schedules

Sales forecast statement

Total production cost.

Working capital

Loan repayment schedule

Bank Feasibility Report

Bank studies the feasibility report and prepare report and prepare its own feasibility report to see where it would be feasible to sanctioned loan to company or not.

Offering the Letter: The bank, if it is satisfied with the feasibility report then send offering letter. It has,

Amount sanctioned

Mark up rate

Charge over fixed assets

Tenor

Installment periods

Interest payment period

Acceptance

If company accepts the terms, it must respond with this period.

Negotiation: Negotiation between bank and company takes place to change certain conditions of offer letter and it acceptable for both parties. A second draft of the offer letter is prepared with changes and signs of bank and CEO OF PAK ELEKTRON LIMITED.

Creation of Charges: A charge is created in favor of the bank to secure its loan with following documents affidavit. It is an undertaking by the company that will follow all conditions.

Form 10. It contains the particulars of assets against which charge is created.

All the above documents are submitted with registrar against whom a Certificate of Registration of Mortgage is issued.

Types of charges

Exclusive

Ranking

Pari passu

Loan Repayment Schedule: This schedule is prepared to show the mark up principal and total installment value for whole tenure.

3. 1. 1. 4 PRE-Shipment

Pre-shipment is the last section of the finance department. The pre-shipment report may be summarized in the following 5 tasks which are as follows:

Tender

Bidding

Acceptance

Purchase order

Inspection

3. 1. 2 Leasing Section

This section works in order to fulfill the corporate production, personnel and operational needs such as Machineries, Auto Mobiles and office equipments. It enters into the Buying Contracts always with the one who offers best terms and conditions as well as the best Internal Rate of Return to the Company.

3. 1. 2. 1 Direct Leasing

In case of auto mobiles, a bank makes the pay order and gives it to the dealer on the behalf of firm. Firm pay the principle plus interest in installment to bank.

PEL can do leasing with AL-Baraka bank. They paid approximately 15% interest on them.

3. 1. 2. 2 Indirect or Machinery Leasing

Machinery is imported from china and other countries e. g. USA etc. incase of imported machinery PEL has an LC opened by particular bank. The LC issuing bank deals with the exporter's bank and makes payment to it. In machinery dealing the import department of the company is involved. Import department informs finance that they do not have enough funds to make a lump sum payment of machinery, and then leasing facility is used. A third bank called the leasing bank (from whom PEL takes leasing facility) makes payment to issuing bank and acquires papers of the machinery. PEL then makes regular lease payments to the leasing bank and finally acquires the papers of the machinery. Leasing bank also sends external auditors to PEL to

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verify whether the machinery is actually of the value quoted, whether it is in proper condition, durability of the machinery etc.

3. 1. 2 Working Capital Finance

This type of loan is secured against:

Pledge

Hypothecation

3. 1. 2. 1 Pledge

It may be constructive or actual. Constructive pledge is that in which goods are not taken by bank rather keep them in company's good own under its own security.

In case of actual pledge, bank holds the possession of goods.

Logistics: The logistics department comprises a part of the finance department. It is headed by Mr. M. Hanif and further consists of a senior accounts officer, two junior executives and two accountants. The basic task carried out by the persons working in the logistics section is:

daily check on production

daily check on stock (materials and finished goods)

controlling the production plan for the future

control on orders in hand

Materials imported by PEL basically remains in bank custody. The bank makes payments for these materials to the foreign suppliers and releases them to PEL as per payments by them. The bank further higher mucaddam companies/clearing agents to watch over and monitor these materials. The materials are generally store in PEL premises. Material requirement for appliances and power good manufacturing are different hence their requisition are also different. PEL uses cash financing and various other credit facility provided by the bank.

Raw materials are imported using the different financing facilities. Materials are then use to make finished goods. The materials when enter the production cycle a term as work-in-process (WIP). WIP is hypothecated and loans taken against it. Then a portion of finished goods produced are further pledged and payments for raw materials are made through it.

The whole procedure must be carried out in a timely way with correct information reaching at the right time from factory to material section, so that materials may be requested and obtained at the right time without delay.

3. 1. 2. 2 Hypothecation Of Stock

In this the finance is given on work in process goods.

3. 1. 3 Budgeting Section

Getting started from the first day after formal introduction of staff, MR.

Masood Tahir, Manager Finance PEL assigned task to Mr. Amer Khawaja

(Manager Budgeting) and Sheikh Zaigham Ali (Finance Executive) Finance Budgeting section of my supervision. Forecasting for next year

He told me management prepared

Sales plan

Production plan

Material purchase plan

Direct labor

F. O. H (factory overhead)

Selling expense /administrative expense

Other income

Financial cost

Mr. Zaigham told me PEL has two Divisions

1st Power Division, which deals in the manufacturing of

Distribution Transformers

Power Transformer

Power Project

Electric meters

Switch gears

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2nd Appliances Division includes production of Refrigerators, Deep freezer, Micro-wave Ovens, Splits AC.

Trading items (Imported goods) water dispensor, washing machine, window AC, T . V, Generator.

Sales Plan

Sales plan made by marketing department for appliance and power division. Forecasting Base on last five year sales which is approved by marketing G. M.

Types of Sales

Export sales (Afghanistan , India)

C. M. D (Consumer marketing department e. g Govt employees)

Corporate sales (Institutional e. g hospitals , colleges etc)

Private sales (for bankers , G. M reference 50% discount)

Metro / Makro sales

Production Plan

Production plan made model wise for refrigerator, split AC, microwave oven and deep freezer.

Material Purchase Plan

For material purchase PEL open L/C.

Direct Labour:

Decide labor quantity required.

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Labor rate decided.

Other Income

Scrap sales

B pair goods

Financial Cost

mark -up on borrowing

demrage cost (pay extra amount after exceeding the shipment days)

The beginning of every year with the help of forecasts and then latterly throughout the year they compare it with the actual transactions of these two divisions. I did Afterwards, he showed me the budgets of both divisions which are prepared at some price and cost calculations of Transformers for him and I also did different ratio analysis based on last year results. Then, I was assigned to compare the production budget of refrigerator section of the production department with the actual results yet achieved which I performed and show to him the variances till date.

3. 2 Problems Encountered

There was no such problem but at same time it was very confusing because they mostly prefer to tell orally rather to practical work that make us ambiguous in some manner when we want to learn more and more.

3.3 Accomplishment

we were keen to know about different section of finance department specially in LC opening (letter of credit) how to get loan from banks and why made pledges. We frequently analyses the Lc.

3.4 How Experience Impact On My Career

During my internship I learned lot of knowledge that is helpful in my future planning and future career. I learned how to interact with senior management and get their experience that is helpful in my career. Due to my internship habit of regularity and punctuality.

3.5 Knowledge Acquired

I had chance of acquiring a lot of new knowledge because it was my first professional experience of working real world of financial brainstorming. It was great experience that how plans and decisions are made executed. It elaborate that how risk involve in each step of decision making and how efficiently management cope up themselves with their competencies.

Conclusion

In the nutshell, I want to bring some new idea that PEL should initiate some social benefit programs and try build their Goodwill by participating in the society.

I found that the people while purchasing for a certain item take great i