



**JOHNSON & PHILLIPS (PAKISTAN) LIMITED**

# **BUSINESS REVIVAL PLAN**

December 27<sup>th</sup> 2019



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## **INTRODUCTION**

### **A. HISTORY**

The story of electricity and the history of Johnson & Phillips have been linked for more than one hundred and forty years. Johnson & Phillips ("J&P") started as a small company in London in 1875 set up for the manufacture and sale of telegraph cable and associated equipment. As the use of electricity increased, J&P expanded its activities to meet the needs of this new industry. In 1905 J&P handled its first large switchboard contract consisting of 6.6.KV remote control oil circuit breakers. By 1918, J&P was supplying a complete range of high tension oil circuit breakers and low tension switchboards. Some of the products supplied by J&P in 1918 are still in operation today. J&P's journey in Pakistan started in 1948. The company was renamed Johnson & Phillips (Pakistan) Limited in 1958. It was incorporated as a public limited company in 1961.

### **B. J&P (PAKISTAN)**

Johnson & Phillips (Pakistan) Limited has been an innovator and pioneer in electrical technology in Pakistan. As a leader in the industry, J&P's products such as Transformers, Switchgear, HT Panels, Vacuum Circuit Breakers, Potential and Current Transformers, etc. have had significant demand and are still recognized in the industry as being of very high quality. J&P products are in use in over 30% of industry in Pakistan today.

Since 2007 J&P has faced many challenges. The geo-political, economic and labor conditions in Pakistan have seen J&P lose its edge in the market place, directly affecting its performance and results. In addition, these challenges could not be effectively addressed due to failure of government owned buyers to pay for products on time. This led to serious liquidity issues. Matters were further exacerbated by several strikes by Trade Unions.



# EXECUTIVE SUMMARY TABLE

CENTRAL CHALLENGE	KEY STRATEGY	PRIORITY AREAS FOR ACTION	FINAL (5-YEAR) OUTCOMES
Shortage of working capital primarily due to adverse working environment and economic conditions	<p>a) Selling of Company to new sponsors with strong financial profile. This has been duly completed vide Share Purchase Agreement (the “SPA”) dated February 14, 2019.</p> <p>b) The new management/sponsors intend to continue the existing business of transformers and bring in new business related to textile sector.</p>	<ul style="list-style-type: none"> <li>Company premises are heavily flooded due to recent rains. New management is currently addressing this issue though cleanup, performing necessary repairs and drying of premises.</li> <li>Inject working capital to support the existing business and developing the new business.</li> <li>Allocate resources towards core product lines</li> <li>Work with strategic partners in textile sector to develop the new business.</li> </ul>	<ul style="list-style-type: none"> <li>Improved sales</li> <li>Better cash flow</li> <li>Diversification of business of the company to hedge/minimize risk</li> </ul>

The Business Revival Plan (**BRP**) is a document which has been developed exclusively on the request of the new Sponsors. This in essence is a plan to not only revive the existing business but adopt risk mitigating measures through diversification. The BRP gives a bird's eye view along with projected Profit or Loss Statement presenting a growth strategy in the overall financial health of the Company.

### **CHALLENGES**

Clearly, the worsening economic situation, toughening market conditions, shortages of skilled labor and the ever increasing compliance requirement in Pakistan have affected all industries. All these factors impacted J&P's ability to:

- (a) Maintain its market share and edge as an innovator and leader.
- (b) Manufacture its products in a safe, secure and economically viable environment.
- (c) Design new products to compete.
- (d) Meet delivery deadlines to its customers resulting in a failure to attract repeat orders.
- (e) Generate sustainable profit to ensure survival and a healthy return to its shareholders.



(f) Diversify into new business segments

As a result J&P has been incurring losses over the last several years. Accumulated losses for the year ended June 30, 2019 were Rs. 413.028 million. Moreover, J&P has been unable to maintain its sales revenues from its main product line which includes panels and VCBs and transformers. Its sales have dropped to as low as Rs. 4.078 million for the year ended June 30, 2019. Notwithstanding these challenges, the company consolidated its position by paying off its loans. It is no longer liable to any bank or DFIs. Labor issues have also been resolved and the company has succeeded in reducing Labor Union strength to a manageable level.

To tackle the various challenges faced by the Company, a Share Purchase Agreement (**SPA**) has been executed to give effect to the takeover by the new sponsors who will bring fresh perspective along with injection of working capital to improve the financial health of the company. The new sponsors will also look to diversify the business of the Company. The profile of the new sponsors is enclosed as Annexure A. The executed SPA along with the addendum is enclosed as Annexure B.

### **BUSINESS REVIVAL PLAN AND OPPORTUNITIES**

The management has been considering several options in the past few years to address the challenges. It has now been resolved to take actionable measures and improve the financial position of the company. The first phase of this plan includes selling off the company to a strong third party which would be the first key strategy as explained earlier. The second phase of the plan involves continued activity in the area related to the existing business segment of the company – i.e. in the electrical equipment industry and simultaneously diversifying in the textile sector which will include manufacturing of textile/garments, buying, selling and redistribution of pre-owned textile machinery business being the expertise of the new sponsors. With regards to this sector, the new sponsors have the expertise since 1980's, and have been serving customers for the past 4 decades. The new sponsors have a strong skillset, experienced industry professionals who provide tailored services to meet the equipment and operational needs of the customers. The new sponsors are also financially strong and are in an

excellent position to support the company financially and strategically.

### **EXECUTION STRATEGY & MANAGEMENT TAKEOVER**

As explained earlier the first phase of the business has been successfully implemented (vide the executed **SPA**), with a few regulatory compliances to be completed. Once the takeover has been completed, the new management will clean up the company, settle the outstanding liabilities, and inject the required working capital for existing business and the new businesses. It is pertinent to mention that the takeover has already been disclosed to the PSX and all the requisite approvals from Securities & Exchange Commission of Pakistan (**SECP**) have been obtained.

### **FINANCIAL PROJECTIONS**

Please find enclosed Annexure C for the projected Profit or Loss for the existing business and the textile business. The said financial projections are tentative and are subject to be adjusted according to the economic situation in the textile and transformer businesses.



JOHNSON & PHILLIPS (PAKISTAN) LIMITED

## **FINANCIAL PROJECTIONS**

Please find enclosed Annexure C for the projected Profit or Loss for the existing business and the textile business. The said financial projections are tentative and are subject to change after takeover by the new management is completed.



## **ANNEXURE A**

### **SPONSOR PROFILE**

#### **Muhammad Anis Mianoor**

Mr. Anis has rich experience of more than four decades in the textile related industry in Pakistan and in other countries. His vast repertoire in this field ranges from manufacturing to the trading of textiles and its related machinery which has helped him acquire deep insight and expertise into the trading of textile machinery and the manufacturing sector as well.

He has been responsible for the up-gradation of the technology for various Pakistani textile groups ranging from top corporate entities to independent manufacturers. He is known in the industry for rehabilitating sick industrial units abroad (from USA and Europe) by relocating those to local companies and thus aiding in the up-gradation of technology and the overall industry.

He possess a rich global experience in the trading of used machinery and complete manufacturing units along with manufacturing of textiles/garments and its operations.

## ANNEXURE C

### Johnson & Phillips (Pakistan) Limited Projected Statement of Profit or Loss ('000)

	Yearly Projections					Yearly Projections				
	2019-20	2020-21	2021-22	2022-23	2023-24	2019-20	2020-21	2021-22	2022-23	2023-24
	Existing Segment					Textile Segment				
Net revenue	14,006	37,837	50,785	66,223	83,708	149,864	179,837	215,805	258,966	310,759
Cost of Sales	(11,606)	(15,949)	(14,546)	(16,321)	(18,202)	(134,878)	(152,862)	(183,434)	(220,121)	(264,145)
Gross (Loss) / Profit	2,400	21,888	36,239	49,901	65,506	14,986	26,976	32,371	38,845	46,614
Distribution Cost	(747)	(1,398)	(1,766)	(2,201)	(2,692)	-	-	-	-	-
General & Administrative Expenses	(13,661)	(20,735)	(25,115)	(30,293)	(36,169)	(10,491)	(10,790)	(11,869)	(12,948)	(15,538)
Total Overheads	(14,408)	(22,133)	(26,881)	(32,494)	(38,861)	(10,491)	(10,790)	(11,869)	(12,948)	(15,538)
Operating (Loss) / Profit	(12,008)	(245)	9,357	17,408	26,645	4,496	16,185	20,501	25,897	31,076
Other Income	-	-	-	-	-	-	-	-	-	-
(Loss) / Earnings Before Financial Charges & Taxes	(12,008)	(245)	9,357	17,408	26,645	4,496	16,185	20,501	25,897	31,076
Finance cost	(41)	(41)	(41)	(41)	(41)	(1,499)	(1,798)	(2,158)	(2,590)	(3,108)

<b>(Loss) / Earnings Before Tax</b>		<b>(12,049)</b>	<b>(286)</b>	<b>9,316</b>	<b>17,367</b>	<b>26,604</b>		<b>2,997</b>	<b>14,387</b>	<b>18,343</b>	<b>23,307</b>	<b>27,968</b>
Taxation		(210)	(568)	(762)	(993)	(1,256)		(719)	(3,309)	(4,036)	(4,894)	(5,594)
<b>(Loss) / Earnings After Tax</b>		<b>(12,259)</b>	<b>(854)</b>	<b>8,555</b>	<b>16,373</b>	<b>25,348</b>		<b>2,278</b>	<b>11,078</b>	<b>14,308</b>	<b>18,412</b>	<b>22,375</b>
<b>EPS</b>			<b>(0.16)</b>	<b>1.57</b>	<b>3.00</b>	<b>4.65</b>		<b>0.42</b>	<b>2.03</b>	<b>2.63</b>	<b>3.38</b>	<b>4.11</b>
<b>Combined EPS (Existing plus New)</b>			<b>1.88</b>	<b>4.19</b>	<b>6.38</b>	<b>8.76</b>						

**EPS will improve significantly - a major relief for the shareholders. The combined EPS is projected to reach PKR 8.76 per share by the year 2023-24.**



# Johnson & Phillips (Pakistan) Limited

## Revenue (Rating wise Transformer Movement)

### Revenue Assumptions (as per Management) - Existing Segment

Quantitative		Projection				
S. No	Rating (Transformers)	Year	Year	Year	Year	Year
	( KVA )	2019-20	2020-21	2021-22	2022-23	2023-24
1	50	1	1	3	5	10
2	100	2	2	5	5	5
3	150	10	15	20	25	35
4	200	1	1	5	5	5
5	250	10	15	30	45	70
6	400	3	3	3	5	5
7	500	2	2	5	10	10
8	750	4	4	10	10	10
9	1000	4	4	8	15	25
10	1250	1	1	3	3	3
11	1500	1	1	3	3	3
12	2500	1	1	2	2	2
Total		40	50	97	133	183
Unit Rate - (PKR)		Projection				
S. No	Rating	Year	Year	Year	Year	Year
	( KVA )	2019-20	2020-21	2021-22	2022-23	2023-24
1	50	50,000	52,500	57,750	64,969	73,090
2	100	65,000	68,250	75,075	84,459	95,017
3	150	70,000	73,500	80,850	90,956	102,326
4	200	80,000	84,000	92,400	103,950	116,944
5	250	100,000	105,000	115,500	129,938	146,180
6	400	150,000	157,500	173,250	194,906	219,270

7	500	175,000	183,750	202,125	227,391	255,814
8	750	200,000	210,000	231,000	259,875	292,359
9	1000	325,000	341,250	375,375	422,297	475,084
10	1250	400,000	420,000	462,000	519,750	584,719
11	1500	500,000	525,000	577,500	649,688	730,898
12	2500	750,000	787,500	866,250	974,531	1,096,348

Value - (PKR)		Projection				
S. No	Rating	Year	Year	Year	Year	Year
	( KVA )	2019-20	2020-21	2021-22	2022-23	2023-24
1	50	50,000	52,500	173,250	324,844	730,898
2	100	130,000	136,500	375,375	422,297	475,084
3	150	700,000	1,102,500	1,617,000	2,273,906	3,581,402
4	200	80,000	84,000	462,000	519,750	584,719
5	250	1,000,000	1,575,000	3,465,000	5,847,188	10,232,578
6	400	450,000	472,500	519,750	974,531	1,096,348
7	500	350,000	367,500	1,010,625	2,273,906	2,558,145
8	750	800,000	840,000	2,310,000	2,598,750	2,923,594
9	1000	1,300,000	1,365,000	3,003,000	6,334,453	11,877,100
10	1250	400,000	420,000	1,386,000	1,559,250	1,754,156
11	1500	500,000	525,000	1,732,500	1,949,063	2,192,695
12	2500	750,000	787,500	1,732,500	1,949,063	2,192,695
Total		6,510,000	7,728,000	17,787,000	27,027,000	40,199,414
PKR ' 000		6,510	7,728	17,787	27,027	40,199

Revenue (Switchgear)		Projection				
S. No	Product	Year	Year	Year	Year	Year
		2019-20	2020-21	2021-22	2022-23	2023-24
1	Oil Circuit Breakers	126,500	253,000	284,625	320,203	368,234
2	Medium Voltage Switchgear	866,500	1,733,000	1,949,625	2,193,328	2,522,327
3	Low Voltage Switchgear	235,000	470,000	528,750	594,844	684,070

<b>Total</b>		<b>1,228,000</b>	<b>2,456,000</b>	<b>2,763,000</b>	<b>3,108,375</b>	<b>3,574,631</b>
<b>Other Components</b>		<b>800,000</b>	<b>1,600,000</b>	<b>1,800,000</b>	<b>2,025,000</b>	<b>2,328,750</b>
<b>Allied Products</b>		<b>Projection</b>				
S. No	Product	Year	Year	Year	Year	Year
		2019-20	2020-21	2021-22	2022-23	2023-24
1	Generators Repair & Maintenance	120,000	720,000	810,000	931,500	1,117,800
2	Engineering & Consultancy Services	150,000	168,750	189,844	218,320	261,984
3	Annual Maintenance Contracts	250,000	281,250	316,406	363,867	436,641
<b>Total</b>		<b>520,000</b>	<b>1,170,000</b>	<b>1,316,250</b>	<b>1,513,688</b>	<b>1,816,425</b>
SRB sales tax @ 10%		<b>52,000</b>	<b>117,000</b>	<b>131,625</b>	<b>151,369</b>	<b>181,643</b>
<b>Net Sales</b>		<b>468,000</b>	<b>1,053,000</b>	<b>1,184,625</b>	<b>1,362,319</b>	<b>1,634,783</b>
<b>Other Products</b>		<b>Projection</b>				
S. No	Product	Year	Year	Year	Year	Year
		2019-20	2020-21	2021-22	2022-23	2023-24
1	Generators- Used Sales & Rentals	5,000,000	10,000,000	11,500,000	13,800,000	15,180,000
2	Trading & Indenting	-	15,000,000	15,750,000	18,900,000	20,790,000
<b>Total</b>		<b>5,000,000</b>	<b>25,000,000</b>	<b>27,250,000</b>	<b>32,700,000</b>	<b>35,970,000</b>
<b>Total Revenue</b>		<b>14,006,000</b>	<b>37,837,000</b>	<b>50,784,625</b>	<b>66,222,694</b>	<b>83,707,578</b>
<b>PKR ' 000</b>		<b>14,006</b>	<b>37,837</b>	<b>50,785</b>	<b>66,223</b>	<b>83,708</b>



**Johnson & Phillips (Pakistan) Limited**  
**Revenue Assumptions – Textile Segment**

Description	Operational Capacity @ 60% - Year 2019-20	Estimated Sale Price / Piece (Rs.)	Sales Revenue (Rs.)
Civil Style Stitch	45,072	1575	70,988,400
Ready Made Style Stitch	105,168	750	78,876,000
<b>TOTAL</b>			<b>149,864,400</b>
<b>Year-over-Year Growth</b>			<b>20%</b>



