

**“WORKING FOR REGISTRATION AND LISTING OF  
MANUFACTURING CONCERN”**



**By:**

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**(BS Accounting and Finance)**

**Supervisor:**  
**(Ma'am Urooj Azhar)**

**Department of Management Studies  
Bahria Business School  
Bahria University Islamabad  
Fall-2021**

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# Final Project Submission Form

## Viva-Voce Examination

Viva Date \_\_/\_\_/\_\_\_\_\_

**Topic of Research:** ( *WORKING FOR REGISTRATION AND LISTING OF MANUFACTURING CONCERN* )

**Names of Student(s):**

Enroll #

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## **Dedication**

We dedicate our work to our families and our teachers. A special feeling of gratitude to our loving parents, whose words of encouragement and push for tenacity ring in our ears.

## **ABSTRACT**

The purpose of this project was to highlight the possible challenges faced by an original equipment manufacturer (OEM) Precision Mates for a prospective issue of listing.

We knew it would be erroneous to consider the listing of the company as a less risky or challenge free initiative. In Pakistan, listing is made through a prospectus approved by the Securities and Exchange Commission of Pakistan (SECP) under the Securities Act, 2015. For Precision Mates we performed extensive research and developed an in-depth understanding of all the risks involved of this process and covered the aspect of financial issues, corporate governance and other frameworks.

The focus of our project was on the original equipment manufacturers of value adding resellers (VARs) like Suzuki, Honda, Wapda and Haier. As OEMs rely on their ability to drive down the cost of production through the economies of scale, we believed that listing of the company and an eventual IPO would help the company expand its current operations, raise additional capital and establish a trading market for its shares in addition to meeting the financial needs for new projects and ventures.

We concluded in our findings that, Precision Mates will have to go through many challenges that are mentioned below. The focus of our project was to cover all these issues described below including book building procedures, framework, corporate governance and other major listing requirements that will be necessary for the company if it aims to go for the process of listing in the future.

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# CHAPTER 1

## INTRODUCTION

### 1.1 About the Company

Precision Mates was formed in 2005 as a partnership firm. The aim of the company was to create value for the customers and orient the market and the customer demands with the principle of honesty and enthusiasm. The business started, with producing disposable plastic cutlery (spoon, knife, forks etc.) along with plastic containers for ice creams and other food packaging. After nearly thirteen years in business, the company has diversified its product line with the main aim being that there is not going to be any compromise on quality ( Precision Mates, 2021).

After one year of business in 2006 the company started the production of Auto Air conditioners parts for their client Denso Pakistan. In 2007 the company started assembling automobile products for Sanden Pakistan. In 2008 a strategic decision was taken and the company became a vendor of technology intensive products for the expanding automobile industry and other assembly units.

After their continuous operations and hard work of many years the company in 2012 got approved as a supplier for Honda Atlas Pakistan. The production for Honda Atlas started in 2014 and today creates fifty percent of the business for the company. The company was given ISO-9001 certification in 2013. ISO 9001 is the international standard that specifies requirements for a quality management system (QMS). Organizations use the standard to demonstrate the ability to consistently provide products and services that meet customer and regulatory requirements. It is the most popular standard in the ISO 9000 series ( Precision Mates, 2021) (Percision Mates, 2021).

The company with its growing customer base upgraded its production capacity by installing new machinery and replacing the old ones. This gave them addition of Garn and CTR Console of 25V. Further focus was given to the assembly while keeping a quality check keeping in mind the growth of the company which was staggering throughout these years. The production capacity was enhanced up to 2200T.

The company aims to set a record of zero maintenance rate in mold industry and deliver the products in the shortest time. They have set out their vision of becoming a global phenomenon with emphasis on high quality and creating benefits for customers. The company operates tirelessly to give customers satisfaction quality as it is the top priority of the management.

Precision Mates now has a portfolio of varied products with a large client base. Supplies are made to assemblers and manufacturers of Cars, Air Conditioners, Electronic Equipment, Food and Pharmaceutical items, Home appliances components etc. Our products are known for quality and reliability. We have the know-how and the capability of using engineering plastics enabling us to manufacture products to meet the special requirements and standards of our customers.

It is ensured that every batch of the components that leaves the factory strictly conforms to our standards of quality. The company ensures regular supplies according to the delivery schedules given to us by our customers.

The manufacturing process consists of four steps which are designing, tooling, processing and assembly. The entire flow of operations is undertaken keeping in mind that the quality of the product is not compromised. The company is not a part of any group nor does it have any subsidiaries. The company is looking to expand its operations by going public and aiming to become a worldwide phenomenon (Precision Mates, 2021).

## **1.2 Visit to the Premises**

Our company representative in Precision Mates was Mr. Faseeh Rohan, he is currently working as Director Human Resource for the company. He has been working in Precision Mates for more than five (5) years now. He knows all the major and minor details of the company, as this is a family owned business and his uncle is the CEO of the company, therefore Mr. Rohan takes care of the daily operations of the current plant and has a very strong insight about the company, its competitors and the market conditions. He was the right person to get in contact with, the quality of the information he shared with us was up to date and authentic. He shared a lot of personal data of the company and gave a better view of the market also, although major financials of the company were not shared with us but we were given a brief overview of the financial ratios and the minimum requirements which company had to meet for listing on SECP and PSX. We visited the company head office and plant for three days which were 7<sup>th</sup> to 9<sup>th</sup> December, 2021.

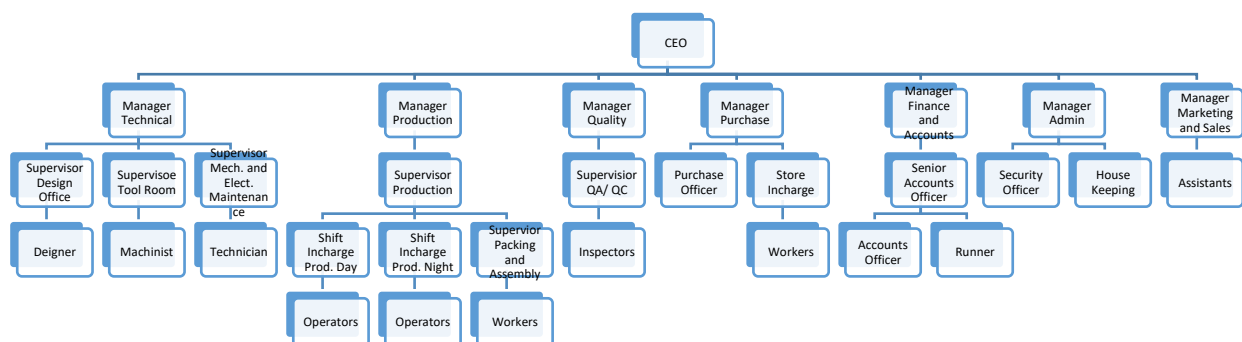


### 1.3 Finance

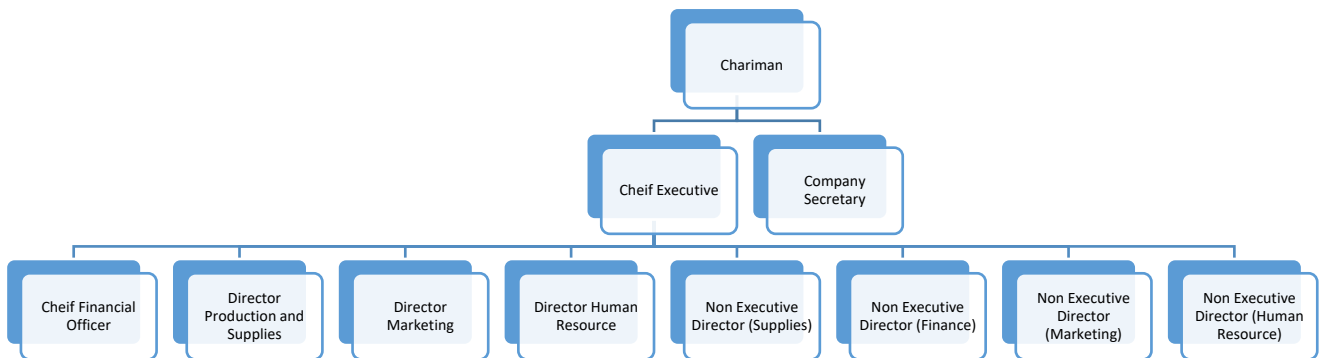
Our methodology started by understanding, analyzing and modifying (where necessary) the finance, operations and organizational chart of the company. Starting off from the finance side, first step was to check whether the company financials (paid up capital) were meeting the minimum requirements of SECP and PSX for listing process? It was found that their current financial status allowed them to apply for listing process with SECP and PSX, the company is planning to expand its business and production capacity in coming five years, more cash will be injected in the company's equity, therefore there are no hurdles for the company to meet the minimum requirements of SECP and PSX when it plans to get listed (PSX, 2022).

### 1.4 Organizational Hierarchy

Next step was to analyze the present organizational chart and then shaping that according to the section 174 of Companies Ordinance 1984, which states that "Every listed company shall have not less than seven directors to be elected in a general meeting in the manner provided in this Ordinance". We gave them a new hierarchal structure for the formation of the Board of Directors of the company according to the Ordinance with the consent and approval of the company representative. Positions for three executive directors, four non-executive directors (NEDs), Chairman, CFO were created in the new organizational chart. Names and profiles of the directors, NEDs, chairman, CEO and CFO are provided in the company prospectus. Names for the Audit committee, Human Resource and Remuneration committee, Nomination committee and Risk Management committee will be decided later, all these four committees will be formed and work in accordance with Chapter X of SECP's Listed Companies Corporate Governance Regulations 2017, SRO 1216 (I)/ 2017. The current organizational chart of the company as follows:



The proposed Organizational Charts.



### 1.5 Plant and Setup

Moving on to the plant and machinery of the company. All the eleven (11) machines installed are brand new with a mark to market value of PKR 80,000,000, they are imported from China through letter of credit. All the machines are made in Guangzhou, China. The molds being used in the machinery are custom made, they are provided to the company by a Honda’s vendor, but recently a private vendor by Precision Mates has been recommended to Honda for their molds, company can save cost by using this vendor as they have better understanding with this private vendor. Present machinery was bought in 2014 when Honda launched their new models for city, civic and accord. Other than this they are also producing OEM’s for Honda’s BR-V. the cost of the machinery being used is double than the previous machinery the company was using, the old machinery was Japanese made but it was second hand. Quantity was same, the only price difference is because of the quality as the present machinery is brand new (Percision Mates, 2022).

### 1.6 Company Financing

There is no external financing in the company, all the capital belongs to the family. Total cost of the project is almost PKR 300,000,000, and in the first eight (8) years all the profits made by the company were reinvested, which means the for the first eight years after the company’s incorporation the retention ratio was 100%. Reason for such a high retention ratio was to avoid bank loans and the management wanted the company to grow faster. The only gearing which company currently have is from Honda, this gearing is used for procurement of machines. This

gearing is not more than the 25% of the total cost of the machinery, company payback this loan to Honda through invoices of the products supplied and at the end of the project, sometimes earlier, the machine is fully owned by the company and there is no debt remaining. To diversify the investments made from the profits earned, company buys lands, for instance Mr. Faseeh told us that they bought land 10 years ago, and now when the business would need cash they will sell that land, this is a good technique to invest the profits by the company management, as selling this land will give them huge benefit in terms of capital gain. Another way through which they secure their extra finance is by giving out loans, to counter for the default risk of the borrower they give out loans to only the individuals they trust and know that they will return the loan under the given deadline. There is no regular or fixed manner of investing the extra cash or profits followed by the management. They need extra financing when there is a need to change the model or procurement of new machines, molds or when they have to invest in a new project. For this purpose, they save up to 25% of the cost as reserve and divest when required. The investment horizon of the company is of 5 years.

### **1.7 Project Implementation Schedule, Trial production and Commercial Production**

All the molds are made in China, and there first trial run is also made in China, the second trial run of the molds is done in Pakistan and trial three is actually making the final product. All of these trials where possible, are made in front of the customers for their satisfaction and confirmation of the order. After all the trials, etching of the molds is done, if necessary etching is done before trial two of the molds, there are special cranes for the process of etching. These are all handmade and the machineries are also imported, therefore there are no cranes for the bigger molds that is why there etching is done outside Pakistan. In Pakistan, there are some cranes available for etching purposes but these are the smaller ones, so the etching of smaller molds is done here.

### **1.8 Standards**

All of the work is being documented, even the meetings are recorded, management circulates a memo of the daily meetings, to all the related employees, for standardization of quantity produced and the scheduling purposes, all of this gets attached in the records of the company. Company was already ISO 9001 certified, but recently the management has requested the team

of auditors to visit them and this was a successful visit for the company as they now have been given the status of certified ISO 9001 (2015 version) (QMS International, 2022).

ISO compliance has its perks, all the OEM customers of the company wants is safety assurance, and this certification gives them that safety assurance.

## **1.9 Project Implementation Schedule**

Company is shifting to a new unit, in Kasur, within few months that is, in, mid of 2022. Within almost two years, company's new unit will be ready and within three years all the machinery will get shifted to the new facility. The new place is much bigger in size than the present facility. All of the OEM customers are out of Lahore, near the new facility, this will be a plus point for the company to move there. Another benefit is, company will get cheap labor for packaging, the major portion of the labor is always needed in the packaging department, so a lot of costs will be saved. Machine labor is willing to move to the new facility with the company, for them management is making quarters to live in, this will help labors to save more, therefore it's a win-win situation for both, the company and the management.

There are a lot of cost benefits of shifting to a new facility. The total cost which will incur for moving the setup has been estimated up to 6 crores, but there are long term benefits associated to it. New model of Honda will be released in 2022, therefore in the next tier all of this amount will be recovered. Company is earning handsome profits on Honda's BRV and City, all of these earnings are added into reserves and when the time of shifting comes, this money or reserves will be utilized by the company, benefits will start coming in less than three years after shifting. Another factor is electricity, it is cheaper in that area. There will be no warehousing cost after shifting, currently company is forcing its customers to collect their orders immediately after the completion of the order, they have very less space for warehousing, shifting to new facility will provide them much bigger warehousing space and customers will then become more satisfied. Even the production capacity will increase in the new facility, this is the one of the major problems company is facing currently, as they have bottleneck production capacity right now.

### **1.10 Why should an Investor Invest in the Company?**

When companies win awards, they move up in the rankings. There is a government sector where companies are listed known as SMEDA, they give out trainings to the managements of different companies on cost reduction. Precision Mates management received a mail from SMEDA and they invited their team to check their cost saving methods and techniques, after their visit the SMEDA's team told the management that they are doing just fine to save their cost and they do not need to arrange training sessions for them furthermore they gave a certificate to the company (SMEDA, 2022). This is one case where company is doing good, there are many more awards and certificates which the company won and these awards and certificates will help the company sell out its shares in the market.

### **1.11 Customer Profile**

Company depends on Honda for most of its sales, more than 50% of the company's dependency is on Honda. The rest of the major customers are 14 in number and rest of 50% dependency is equally distributed among them. This 50% dependency on Honda is dangerous for the company, as if the customer changes its supplier the revenue stream of the company will get a huge negative impact, therefore, to diversify its customers, company is making efforts and trying to take Suzuki and FAW on board with them. Currently company has a bottleneck capacity and is not catering the major needs of Toyota but the after machinery is moved to the new facility, company will achieve the desired diversification level of customers and will start the supply of Toyota too.

### **1.12 Competitors Profile**

Company is ranked 2<sup>nd</sup> in the OEM market according to the company officials. Omar Jibran is the top OEM supplier of Honda. Honda have provided a space to Omar Jibran right next to their plant in Karachi and also making investments in them, but the company is not facing any kind of threats from this competitor as company get 5-year contract of the new models of Honda cars and these contracts are fixed (OJ, 2021).

Another major competitor is PEL, as they have the ability to make and sell home appliances in the market which company is making, this is the biggest competitor in the home appliances industry of the company.

### **1.13 Financial reporting**

All transactions are recorded in the company's present registry system. A gate pass is issued for every item purchased when it reaches the company's location which goes to the accounts department for its record. A cheque is made in the name of the supplier from whom the item was purchased and payment is done. Precision Mates already has trusted suppliers who have been associated with the company since its inception. The company follows a credit-based purchase system at present and has been managing it efficiently until now.

According to SECP's (Securities and Exchange Commission of Pakistan) requirements, the firm must appoint signatories to the issue, one of whom is a Book Runner. At present, Sheikh & Chaudary acts as Precision Mates' book runner to the issue in case of using the book building method. Mr. Akram Saleem has been providing the services of lead consultant and legal advisor to Precision Mates since 2005. The company's present management wishes to let Mr. Saleem continue his services after the company's listing on PSX (SECP, 2017).

### **1.14 Initial Public Offering (IPO)**

If the company, Precision Mates, considers to go public through an IPO, it shall have to hire more experienced personnel and some Chartered Accountants as well to set the companies accounts straight.

At present, Mr. Naeem, a Chartered Accountant and a relative of the HR Director Mr. Faseeh, has an experience of 20 years as a CFO in a Peeko (zig zag sewing) factory. The company shall consider to appoint him as one of its Non-executive because of his vast experience in the field. He has previously been managing Gymkhana Lahore's accounts as well and has an experience in land purchasing and management of the corporate housing societies here in Pakistan.

The appointment of first CEO of the company shall be done within 15 days of incorporation of company in accordance with the rules laid down in the Companies Ordinance, 1984 whereas

the first auditor's appointment shall be done by the directors of the company within sixty days of its incorporation at an annual general meeting through voting by the directors of the firm.

Appointment of external auditor decided upon meeting called by the government after 6 months of the company's listing as a public limited firm in accordance with governmental regulations. The government requires the audit to be done by a registered firm. Company makes a list of a number of auditing and consultancy firms that it would like to have its accounts audited from. Government's concerned department selects the auditor for the applicant firm and a meeting is arranged with the appointed auditor to discuss further matters related to the entire plan (SECP, 2016).

## **CHAPTER 2**

### **LISTING REQUIREMENTS**

#### **2.1 Guide for Listing of Companies Through IPO - 2014 (published by SECP)**

We consulted this guidance provided by the Securities and Exchange Commission of Pakistan to spell out the entire process for the general public and to assist Issuers. For each given situation, we will resort to the Companies Ordinance of 1984.

##### **2.1.1 Major Legal Requirements**

Eligibility for listing (section 4 of the Major Legal Requirements for Initial Public Offerings and Listings)

To be listed on the Pakistani stock exchange, a limited liability company must have a paid-up capital of two hundred million rupees (Rs. 200 million). Precision Mates meets this criterion, making it eligible for listing on the PSX (PSX, 2021).

##### **2.1.2 Issue Size and Allocation of Capital (sub section 6)**

According to the set benchmark of 200 million paid-up capital, the issue size and allocation of capital, for companies seeking listing, to various categories of investors is done as:

- i. For PKR 500 million post issue paid-up capital of the issuing company, 25% of this capital to be offered to the general public
- ii. If the post issue paid-up capital of the company exceeds PKR 500 million, public offer should be made at least of PKR 125 million or 12.5% of that post issue paid-up capital whichever is higher. The company shall also have to increase the quantum of its public shareholding within a period of four years after its listing to 25%

A further 20% of the issuance size can be allotted to overseas Pakistanis, with the remaining 5% going to the issuing company's employees. The criterion for allocation to retail investors might be adjusted as judged suitable by the Securities and Exchange Commission of Pakistan, taking into account the appetite for Initial Public Offerings, the nature of the issuer's business, the offer price, and so on (SECP) (PSX, 2021).



### **2.1.3 Application for Listing to the Stock Exchange (sub section 1)**

An issuer wanting to list any of its securities on the stock exchange must file an application under Section 9 of the Securities and Exchange Ordinance, 1969. The format of the application as well as the other essential documents are listed in the references..

### **2.1.4 Issue of Shares by a Company Through IPO (sub section 2) - Approvals & Listing**

It provides securities to various classes of investors as well as the general public to raise funding for the company's financial needs or profile. Following SECP clearance, Section 57 of the Companies Ordinance, 1984 must be followed to produce, disseminate, and publish a Prospectus for collecting money from the general public. Annexure-II contains the format of the application that complies with section 57 of the Ordinance, as well as other papers that must be presented.

### **2.1.5 Prospectus – Disclosure, Circulation, Publication (sub section 5 & 7)**

The Prospectus must be produced and published in line with the Ordinance's section 53 (part-V). The sources provide instructions for preparing a prospectus.

The stock exchange must approve the dates for the publication of the prospectus, the start of the bidding period, and the start of the public subscription period after the securities exchange has given its permission. After the prospectus is published, the term of publication should be between 7 and 30 days, but not more than that.

The prospectus will also be distributed to the stock exchange where Precision Mates will be listed (or proposed to be listed) as well as the issue's bankers. In accordance with section 53 of the Ordinance, it should be published in abridged form in at least one daily Urdu and English newspaper.

Signatories to the prospectus (issuers, book runners, lead consultants, legal advisors, and so on) must examine the check list on the contents of the prospectus found in Annexure-IV of SECP's guidance for IPOs on the exchange. They must also ensure that there are no inaccuracies in the prospectus and that no material has been left out or omitted.

## **2.2 Companies Ordinance, 1984**

### **2.2.1 Provisions Related to Making of Prospectus:**

In reference to Section 45 (part IV of the Ordinance), a Prospectus or statement in lieu of prospectus is to be filed by the private company if it wishes to convert itself into a public company.

Section 52 of Part V of the Ordinance states that a Prospectus which is issued by or on behalf of the company to be listed, shall be dated and that date must be recorded as the date of the publication of the prospectus unless proved otherwise.

1. Further matters that are to be included in the prospectus should be in compliance with the rules set out in section 53, part V of the Companies' Ordinance, 1984 which says that every issued prospectus must include all the matters ( the contents of the memorandum of association and details of signatories to the memorandum, description and nature of the business, remuneration of the directors and their details including their addresses, descriptions, occupations of the proposed directors, chief executive, managing agent and secretary, date and time of the opening and closing of the subscription list, names of the underwriters, names and addresses of the auditors and legal advisers, right of voting at meetings of the company and rights related to the capital or any dividends attached to the shares, principal purposes for which the net proceeds of the issue are intended to be used , any pending legal proceedings to which the company or any of its subsidiary is a party, etc.) that are specified in section 1 of part I of the Second Schedule of the Ordinance. All the reports that have to be set out (reports made by auditors named in the prospectus) must comply with the provisions of section 2 of part I of the Second Schedule of the Ordinance (SECP, 1984).
2. Regarding the approval, registration and issue of the prospectus, given section 57 of the Ordinance is to be referred to where it says that no company seeking listing can issue, circulate or publish its prospectus without obtaining the approval of the Commission within sixty days prior to the date of its issue.

## **2.3 Listing of Companies and Securities Regulations from PSX Rulebook-2017**

A draft Prospectus is to be submitted for approval to the Pakistan Stock Exchange (PSX) before application of its approval is made to the Securities and Exchange Commission of Pakistan (SECP) in accordance with sub-regulation 5.5.7 (a) of the PSX rulebook. The prospectus must conform to the requirements and provisions of the Securities Act, 2015 as stated clearly in sub-regulation 5.5.7 (b) and then an application is made to the Commission (SECP) for approval of getting listed on the Exchange. The application made by the applicant company, as provided in Form I attached with the rulebook published by PSX stated (5.2.2 (a)), and a copy of it is submitted to the commission for its record along with the approval given by the Exchange. After this the Board or listing committee reviews and approves the prospectus and listing application after examining the proposed issue and checking its eligibility as mentioned in sub regulation 5.2.1(b).

### **2.3.1 Undertaking**

An undertaking is also provided by the applicant company to abide by all the regulations of the Exchange (5.3.1), the format of which is given in form II attached with the rulebook, because without it the company's listing cannot be approved.

### **2.3.2 Book Building**

For the issue of the shares of the company through book building, it must comply with the requirements of \*Public offering Regulations 2016 in accordance with section 5.4.6. of the rulebook.

### **2.3.3 Prospectus**

To get registered under the Ordinance as a public limited company, the company must have a minimum paid up capital of PKR 200 million and it should make sure that it makes the public issue subscribed by at least 500 applications as stated in sub-sections 5.5.1 and 5.5.3.

Section 5.5.6 is to be followed for the disclosures to be made in all the Prospectuses/offer of sale like the audited accounts, shares' break-up value, brief write ups of the entire management (CEO and directors) and any other disclosures as required by the Exchange.

### **2.3.4 Listing Fee**

An initial listing fee has to be submitted by the applicant (company) which must be equivalent to one tenth of one percent of the paid-up capital of Two million and five hundred thousand. This is in reference to sub-section 5.18.1(a) of the PSX guide. The process for the listing fee payment is done in compliance with sub regulation 5.18.2, i.e. the exchange dues are to be paid by cheque or bank drafts payable to Exchange.

### **2.3.5 Code of Corporate Governance**

Precision Mates, like all other companies shall comply with the code of corporate governance given in sub regulation 5.19 regarding guidance for the composition of board, maximum number of directors to be appointed, filling up of casual vacancies, responsibilities of the directors, corporate and financial reporting framework, director's remuneration and internal and external audit, board meetings, etc.

\*Public Offering regulations: The book building method shall be used for the public offer of shares of Precision Mates.

It is a mechanism for price discovery of shares through the bidders who make bids at floor price or within the price band. The bids that are received are then listed in descending order of price showing demand for shares at different price levels (at floor price or within the price band). This is in accordance with section 4(2) of the Public Offering Regulations, 2017 regarding the public offer of shares of a company.

Section 7 of chapter V of the Public Offering Regulations shall be consulted for guidance regarding the conditions for the offer of shares through the book building method. The regulations states that the offer size must not be less than 25 million shares and 250 million rupees, 75% of which (the offer size) is allocated to book building the remaining to retail investors. The company must not be provisionally listed whose shares are issued using the book building method. Section 8 provides guidance about the procedure for public offer of shares through the book building method non-compliance with which will be considered as violation of the law.

## **2.4 Book Building Regulations**

### **2.4.1 Eligibility and Procedure for Book Building**

For eligibility to issue or offer shares for sale to the public through this method the company must be an unlisted company or body corporate that intends to make itself public as stated in section 3 of the Regulations, 2015.

Section 4 of the Regulations, 2015 provides guidance regarding the conditions for the offer of shares through the book building method shall be used by the Issuer or the offeror in addition to section 7 of chapter V of the Public Offering Regulations.

Section 5 and its sub-sections lay down the procedure for the issue of shares through book building. The bidding must take place electronically and shall remain open for two consecutive working days minimum. A copy of the prospectus shall be placed by the issuer on the websites of the securities exchange, book runner and that of the issuer's two days prior to the commencement of the bidding.

### **2.4.2 Withdrawal of Issue by the Issuer**

According to Section 5(6) of the regulations, the offer shall be cancelled if the issuer does not receive bids for the number of shares allocated under Book Building Portion at the floor price and the bidders shall be refunded with their margin money within two days of the closing of the bidding. While the process shall get cancelled if the company receives less than forty bids according to section 5(7).

### **2.4.3 Basis of Allotment**

Basis of allotment of shares shall be done with bid made at the highest price as per section 7. In case accommodation for all the bids made above the strike price is done with still some shares left then such available shares shall get allotted on time priority basis.

### **2.4.4 Rejection of Bids by the Book Runner**

The decision of the book runner shall not be changeable by the bidder or its associates as stated clearly in section 21(5) of chapter V. The book runner has the right to reject the bids but he must disclose the reason for it in writing to the bidder.

#### **2.4.5 Restrictions**

For restrictions on related employees, Section 11 of the regulations, 2015 states that any employees related to the issuer of the shares, book-runner or sub-book runner cannot participate in the bidding.

For restrictions regarding the eligible investors, Section 10 (1) and (2) is to be followed according to which the eligible investor cannot bid below the floor price or more than 10% of the shares allocated through the book building. The investor also shall not make more than one bid or a consolidated bid. If any of the investors were allotted shares at a price lower than the strike price through the pre-IPO placement or any other mode, then those shares shall not be available for sale for six months.

#### **2.4.6 Book Runner**

If the person seeking to be registered as a book runner is a registered broker, a scheduled bank or any financial institution approved by the State Bank of Pakistan or any other institution approved by the commission then he is eligible to be appointed as book runner according to regulation 15 and 16 of the Regulations, 2015. For registration, an application along with other documents will have to be submitted to the commission (form-A and annexure-A attached with the book building regulations, 2015 for reference).

The book runner shall be responsible for various responsibilities that involve collecting margin and subscription money, ensuring the transparency and smooth working of the electronic bidding system, ensuring that the software used for the book building is based on Dutch Auction Method, maintaining records of all the bids received, etc. as stated under sub-section (2) of section 20 in chapter IV of the book building regulations, 2015.

#### **2.4.7 Procedure for Bidding**

Chapter V, section 21 of the Regulations states that the bid can be either at limit price or be a step bid and investors can place their bids through any bid collection center. The person at the center shall vet the applications for bids and accept only the duly filled ones that are supported by a bank receipt. The bidding commences from 09:00 a.m. till 05:00 p.m. of all bidding period days. At the close of the bidding period, the strike price is determined through the Dutch Auction Method. Bidders that make bids above the strike price are allotted shares at strike price whereas the ones who made at strike price shall be allotted shares in accordance with section 7(2) of the book building regulations.

#### **2.4.8 Refund of Margin Money**

Section 21(11) of the Regulations which states that the money shall be refunded within five working days of the close of the bidding period for bidders who do not qualify for the allotment of shares.

Further disclosures (required under the Securities act) that are made in the prospectus are made in compliance with regulation 4 (vii) and 5(3) of the regulations that cover:

- Dates and timing of opening and closing of the bidding period
- Particulars of the book runner and the bankers to the issue
- Mechanism for determination of strike price
- Addresses and contact details of the bid collection centers in the manner described in the Book Building Regulations, 2015(appendix – A).
- Interest of the book runner to the issue and the issuer other than its role as a book runner.
- Separate statements by the chief executive and chief financial officer of the issuer certifying that the prospectus constitutes a full, true and plain disclosure of all material facts relating to the shares offered by the prospectus.

#### **2.5 Corporate Governance Rules**

To understand the Corporate Governance across a company planning to go public, we thoroughly went through the rules and regulations provided by the Companies' Ordinance, 1984 in its section concerning the Directors under the part VIII about Management and Administration's registered office, publication of name, etc. and further consulted its sub-section Chief Executive and sub-section Audit, discussing the appointment of company's first CEO and its auditors respectively.

1. Sub-section 2 of Section 174 states that the listed company should have at least seven directors and not less than that to be elected in the general meeting according to the procedure laid down in the Ordinance. Our concerned company, Precision mates, has 9 directors at present who shall hold office and perform their appointed duties until the expiry of their term and their successors are elected.
2. For the election of eligible directors, section 178 of the ordinance states that the acting directors must fix the number of new elected directors of the company within thirty-five days before the general meeting is called at which election for those directors shall

be done. The number of the elected directors shall not change without the permission of the company's general meeting. The notice of the meeting at which the election of the directors shall be done must state clearly the fixed number of new elected directors and the names of those retiring. Sub sections under section 178 to be followed for reference into further matters related to the procedure of election of directors.

Following Section 180 of the Ordinance for guidance into term of office of directors, a member who is elected director shall hold his position for three years unless he decides to resign earlier, becomes disqualified to continue being a director or ceases to hold the office.

Regarding the ineligibility of members to get nominated for becoming director, section 187 clearly states that no person shall be considered eligible to be appointed as the director of the firm if he is a minor, or is of an unsound mind, is an undischarged insolvent, has been convicted of a crime involving moral turpitude by the court, has betrayed lack of fiduciary behavior, has been declared as a defaulter by the court of law or is not member of that firm. The person shall also not be a representative of a creditor, a chief executive, a government representative or a company director who is also the company's employee.

#### **2.5.1 Voting Rights and Demand for Poll - Section 167**

At any general meeting, any resolution that needs to be passed shall be decided upon a show of hands, the result of which is declared by the chairman of the meeting. The demand for a poll may also be made or withdrawn at any time in accordance with the provisions of section 167 of the Companies' Ordinance.

#### **2.5.2 Powers of Directors - Section 196**

A company's directors shall exercise their powers and manage the business of the company in compliance with the rules mentioned in section 196 of the Ordinance. They are responsible for making expenditure for promotional purposes and registration of the company. The directors are responsible for exercising their powers for various other functions on behalf of the company like making calls to shareholders to discuss money matters, issuing shares, make loan payments, approve bonuses, incur capital expenditure, invest company funds, declare interim dividends (if any) and many other administrative tasks.



### **2.5.3 Appointment of the First Chief Executive Officer - Section 198**

For every company, its directors shall appoint any individual they think most eligible for holding the office of the chief executive of the company from the date of commencement of the business or as from a date not later than the fifteenth day after the date of its incorporation, whichever is earlier according to rules laid down in this section and those in Section 199. The chief executive shall hold his office until the first general meeting unless he resigns earlier or if a shorter period is fixed by the directors of the company when he was appointed or ceases to hold office.

### **2.5.4 Auditors- Section 252-255**

Appointment of auditors and the responsibilities that shall be assigned to them is done according to the provisions of section 252 to 255 of the Ordinance. The first auditor's appointment shall be done by the directors of the company within sixty days of its incorporation. The directors may also fill any casual vacancy for the position of an auditor until the next annual general meeting. Regarding the qualification/disqualification of the auditors to be appointed, he should be a Chartered Accountant as defined by the Chartered Accountants Ordinance, 1961. If the person has been (or is) the employee of the company for the past three years, the spouse of any of the company's directors, indebted to the company, a partner or in the employment of any director or officer or employee of the company, etc. then he cannot be appointed as an auditor for the company and becomes disqualified for the post.

The appointed auditor shall have access to books, accounts, vouchers or any documents of the company and has the right to demand any information that he deems necessary for the performance of his duties as an auditor.

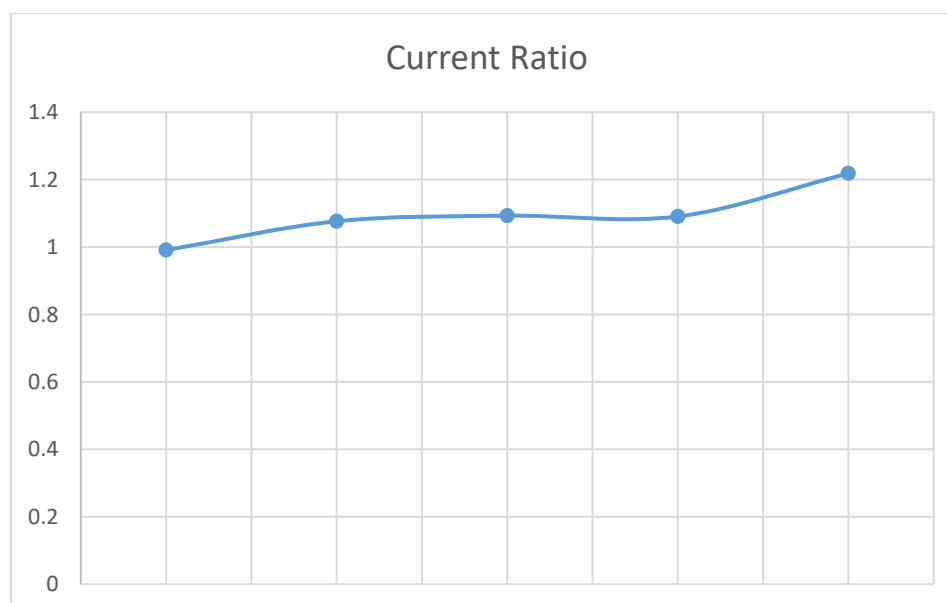
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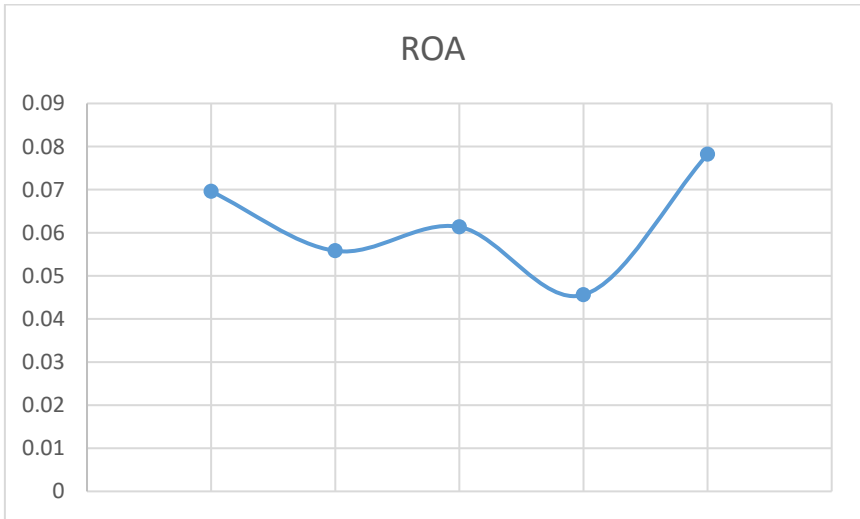
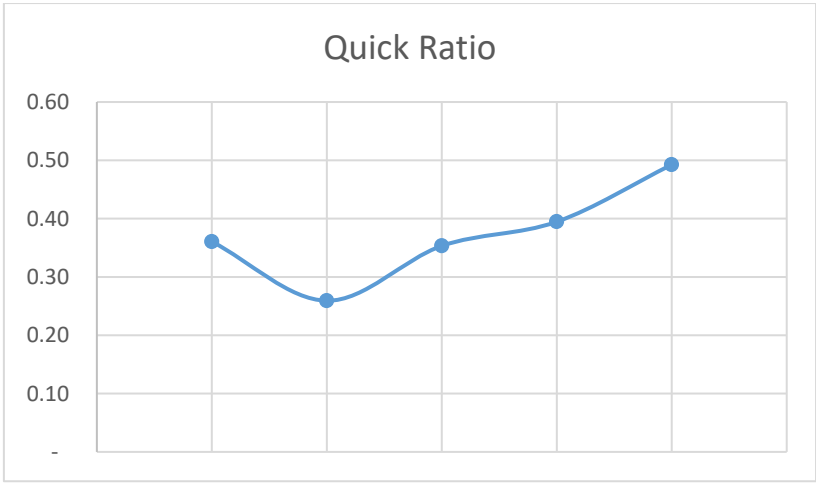
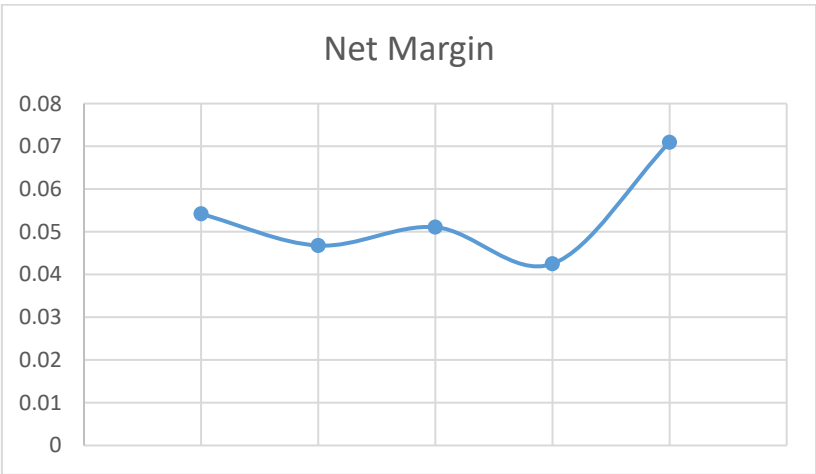
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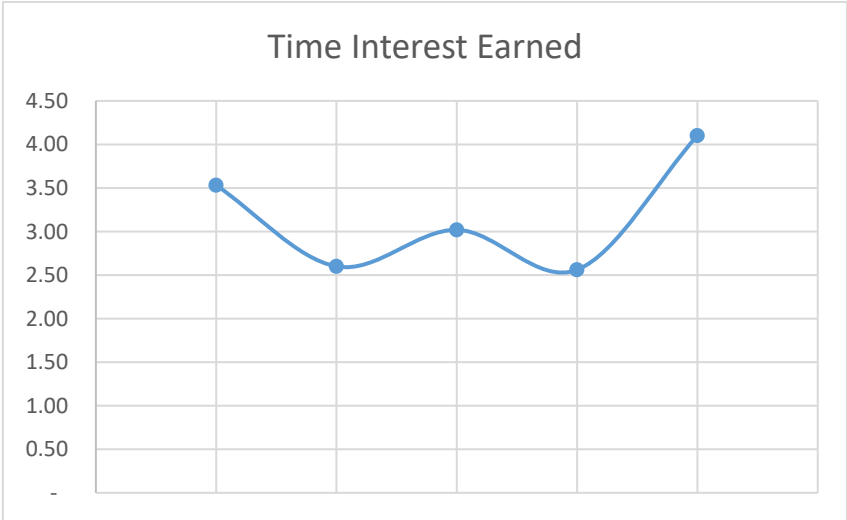
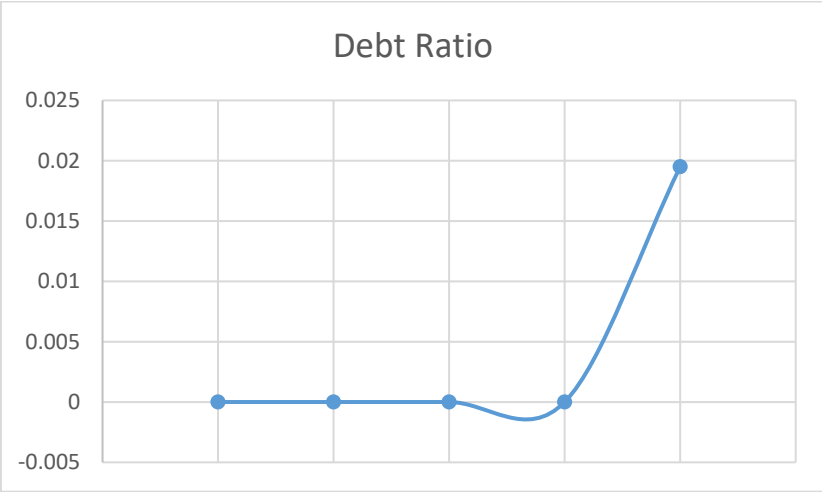
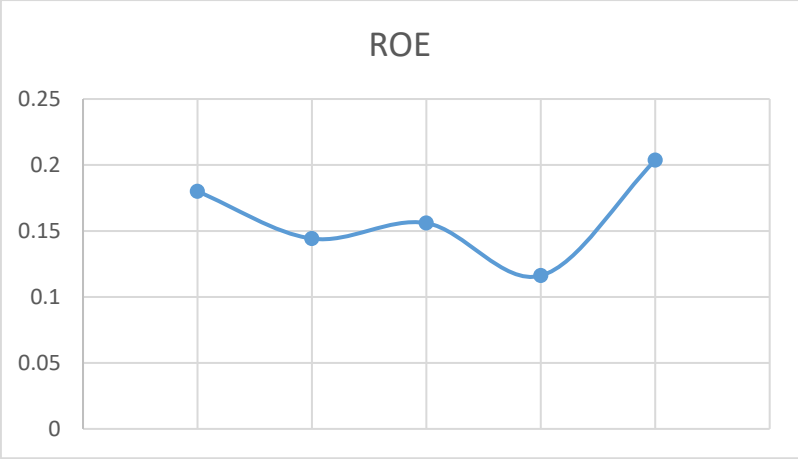
We used SPEL here as a financial proxy for Precision Mates (PM) as the company is very much similar to SPEL for the following reasons. How can we see or judge that the two companies are even fit to be proxies for one another, for this we firstly saw that the companies had to be 1: in the same sector and even after being in the same sector they had to be doing the same type of work, in the current sector we see companies like SPEL and also Baluchistan Wheels. Now the sector is automotive accessories but if we see the companies working in it then it can be seen that a wide variety of auto accessories manufacturers are in the field. First reason is that SPEL and Precision Mates both have the same product portfolio, including spoons, jug lids, cups, bottle caps, car bumpers, car inner and outer garnishes, inside panels and more. The list is diverse but more importantly both the companies have a similar profile. Major partners are also former SPEL employees. Both the companies also have somewhat same clients as well. Further if we see the financials we can compare that in 2010 SPEL was making revenue of 91.5 million a month that makes up to 1,098 million a year with a PAT of 59 million annually. In comparison as of 2017 PM makes 80 million revenue a month that is 960 million annually and a PAT of 90 million. When SPEL went public the company was making 1,718 million a year with a PAT of roughly 121-122 million a year. That is essentially a 56% increase in revenue and 89% increase in PAT. Whereas PM is aiming and according to new client deals and production schedules is hoping for a 100-200% increase in the next 5 years as the expansion is underway with the new facility.

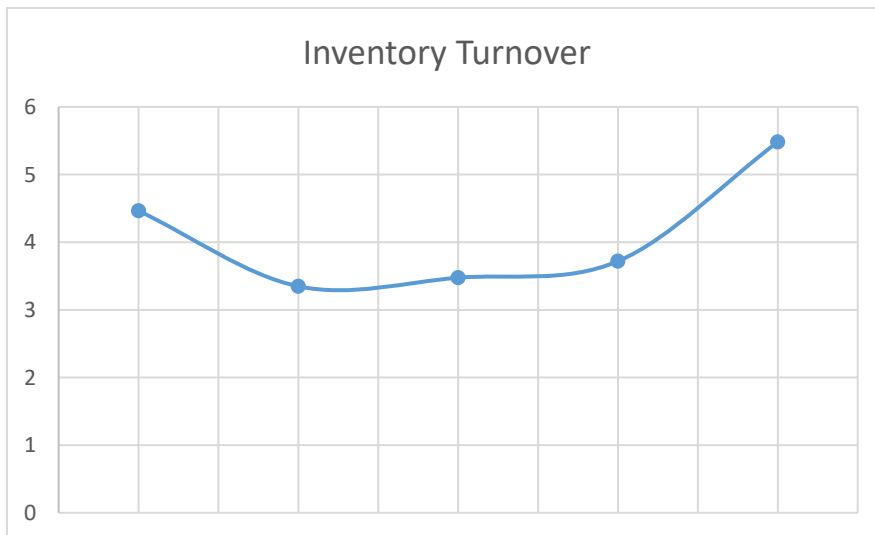
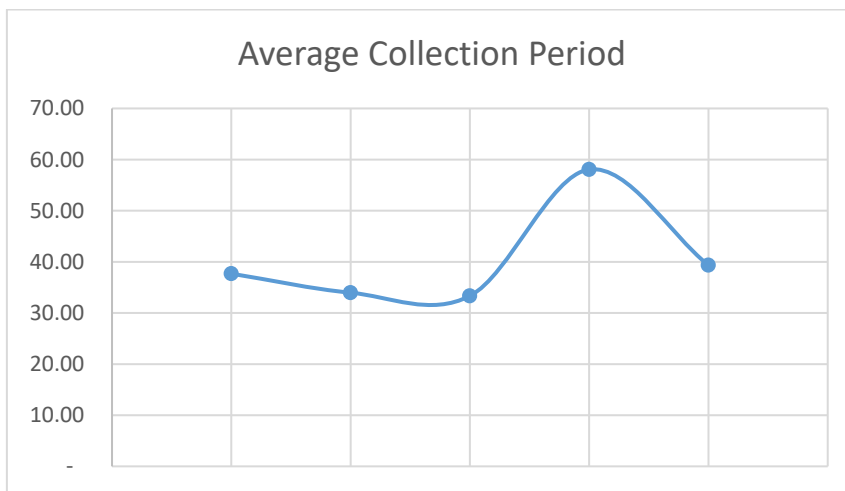
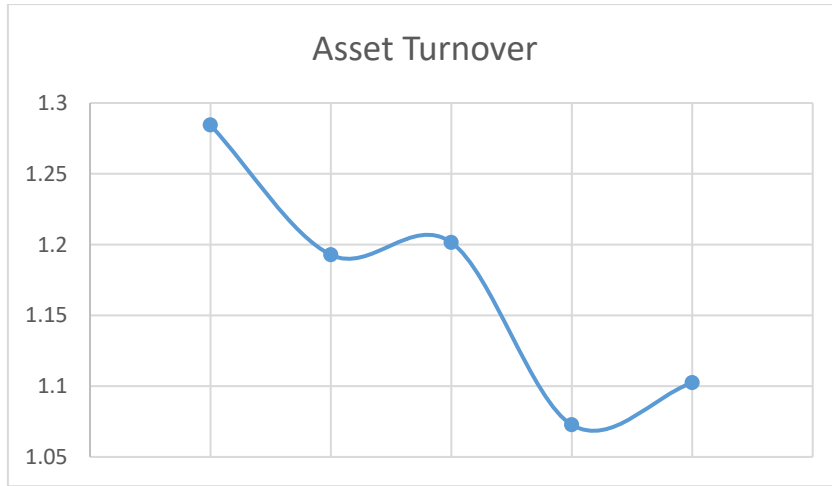
Year	2016	2017	2018	2019	2020
Current Ratio	0.990925	1.07646	1.092959	1.090633	1.218309
Quick Ratio	0.36	0.26	0.35	0.39	0.49
Net Margin	0.054184	0.046784	0.051075	0.042511	0.07095
ROA	0.069595	0.055803	0.061365	0.045601	0.078217
ROE	0.179962	0.144225	0.155983	0.116129	0.203564
Debt Ratio	0	0	0	0	0.019499
Time Interest Earned	3.53	2.60	3.02	2.56	4.10
Asset Turnover	1.284422	1.192767	1.201467	1.072691	1.102419
Average Collection Period	37.68	33.97	33.33	58.07	39.34
Inventory Turnover	4.46376	3.348125	3.475106	3.719705	5.481586

Year	2016	2017	2018	2019	2020
Current Asset	418,920,413	491,978,734	649,513,443	670,608,521	653,328,952
Current Liabilities	422,756,758	457,033,798	594,270,861	614,880,184	536,258,978
Cash	38,971,908	7,582,586	82,181,722	17,436,171	78,903,027
Marketable Securities	-	-	-	-	-
Account Recievable	113,456,987	110,922,051	127,769,862	225,236,159	185,227,576
Net Income after Tax	59,545,608	55,763,437	71,455,122	60,187,667	121,932,514
Net Sales	1,098,952,635	1,191,921,675	1,399,020,319	1,415,829,018	1,718,561,027
Total Assets	855,600,763	999,291,120	1,164,426,470	1,319,884,829	1,558,899,956
Share Holders Equity	330,878,264	386,641,701	458,096,823	518,284,490	598,989,521
Long Term Debt	-	-	-	-	11,679,995
Net Income before Tax	94,049,267	80,897,553	96,547,432	78,602,511	175,119,884
Interest Expense	37,154,812	50,571,281	47,812,649	50,351,570	56,461,988
COGS	880,607,611	977,547,570	1,145,326,421	1,183,530,463	1,372,627,788
Inventory	197,279,352	291,968,644	329,580,316	318,178,548	250,407,056









## **CHAPTER 4**

### **CORPORATE GOVERNANCE**

#### **4.1 Importance of Corporate Governance According to SECP**

Enterprises contribute significantly to Pakistan's Gross Domestic Product (GDP). Providing employment for the vast majority of the country's workforce. Corporate governance is critical to a company's long-term viability and expansion. Whether a company is publicly traded or not, corporate governance principles are critical to its success. The Securities and Exchange Commission of Pakistan (SECP) creates a corporate governance agenda for Pakistani enterprises. Listed companies are essential for Pakistan's economic growth and job creation. The Corporate Governance Code applies to both public and private organisations in Pakistan. Many privately held companies are owned and operated by a single person or family. Strong corporate governance, in this context, is more concerned with adherence to established standards and regulations than with interactions between the board of directors and external shareholders (as in publicly traded companies). It's more about developing a set of organisational practises and attitudes that add value to the company, help it build a brand, and secure its long-term success and stability. Company governance is extremely important to NLC shareholders. Because they are committed to sticking with the company for the medium to long term, such shareholders have few options to sell their ownership shares.

Precision Mates will have to concentrate on fulfilling their corporate responsibilities to their stakeholders in a climate when societal criticism of the business sector is on the rise.

A sound governance framework defines the duties and responsibilities of shareholders, the board of directors, management, and other stakeholders, as well as an agreed-upon power allocation. It's worth emphasising that, after Precision Mates is listed, it will no longer be the founders' personal property, but rather a significantly more developed version of its original self.

Precision Mate decides whether or not to follow the corporate governance framework principles entirely on its own. Thirteen excellent governance principles are presented using a dynamic phased manner that takes into account the size of each organisation. Precision Mates' decision to expand its board of directors to include external directors is a significant step forward in the company's governance development.

Precision Mates will adopt corporate governance concepts in its governance plan. Precision Mates will be able to apply these concepts for the duration of their agreement.

## **4.2 The SECP Governance Principles for Precision Mates**

Governance principles are given in a dynamic progressive manner, which reflects their nature. This method took into account the company's unique characteristics in terms of size, complexity, and maturity. The Securities and Exchange Commission of Pakistan has identified two categories of corporate governance concepts that have been proposed.

### **4.2.1 Phase 1 Principles**

The Phase 1 Principles are widely applicable and do not necessitate the establishment of bureaucratic or costly governance systems. These ideas form a solid foundation of fundamental governing principles that any mate can apply in some capacity. Basic governance principles such as external transparency, checks and balances, and external control are clearly difficult to achieve in an owner-managed corporation, or any organisation with a single owner or decision maker. Owners must be convinced that adhering to such Principles would generate a significant return and help their company thrive in the long run.

### **4.2.2 Phase 2 Principles**

The Phase 2 Concepts are more advanced corporate governance ideas that are important for the public benefit and major businesses. Precision mates are especially essential since companies preparing for future public offerings are scrutinising them.

The choice to select independent directors to the board of directors is the most crucial of the phase 2 Principles. This would represent a watershed moment in the company's history. It typically indicates a strong commitment to corporate governance and is likely to have an immediate impact on boardroom culture. The formality of the company's governance arrangements is projected to improve with the implementation of phase 2 Principles. However, in larger and more complicated organisations, this is usually a required step in order to give owners or external creditors the necessary confidence about the company's long-term viability. In conclusion, the SECP Principles provide a balanced approach to corporate governance, both in terms of implementing individual principles and transitioning from phase 1 to phase 2 Principles.

The SECP Principles, we believe, are intended to assist Precision Mates in the development of a governance structure. They aren't meant to be used as a strait jacket. The corporation may



use its right to alter a few aspects of their implementation to ensure that their reaction is proportionate and customised to their organization's specific needs.

### **4.3 Code Principles**

Our recommendations to the company include the establishment of the code of best practice. The code has to be based upon the principles of integrity, openness and accountability. These three principles go hand in hand. Openness on the part of the companies within the limits set by the SECP shall provide the essence of the confidence that needs to be asserted between the management and the stakeholders of the company. An open approach in disclosing the relevant information shall help Precision Mates gain efficiency in the competitive industry of OEMS, enable the board to initiate effective measures and encourage the shareholders to scrutinize the company more thoroughly.

Integrity is the company being straightforward in their dealings and reporting. The financial reports should be balanced and provide a fair view of the company's dealings. This principle highly depends upon the people who shall be responsible for the preparation of such reports.

The company must be held accountable in front of the law and its shareholders. Both management and shareholders must participate in order for accountability to be effective. Shareholders must do so by exercising their ownership obligations, and boards of directors must do so by the quality of information they offer to them.

Now for the company there needs to be a clear understanding of the responsibilities and open approach as this shall help them in making their strategies and gathering support from the stakeholders. This will also assist in increasing operations of the company and increase confidence of the shareholders and the auditors, hence their confidence in the business shall increase. If the company doesn't set the bar high for best practices there will be lack of confidence between the shareholders and the management and thus the company might face many problems down the line.

### **4.4 Training of Directors**

The weight of responsibility that all directors carry, as well as the increased dedication required by their tasks, highlights the significance of how they prepare for their roles. Given the diverse backgrounds, qualifications, and experience of directors, it is strongly recommended that they all participate in some form of internal or external training; this is especially important for

directors who have never served on a board before, whether executive or non-executive. Newly appointed board members are also entitled to a full introduction to the company's operations. As a result, individual directors are responsible for staying current on their legislative and other responsibilities.

The importance of director training and development is crucial to good governance, and it is one of the issues we advise the organisation to consider.

#### **4.5 Conclusion of Our Recommendations**

The Code is based on the most up-to-date practises. They should, we hope, promote good corporate governance without strangling entrepreneurial creativity. The corporation must keep in mind that no corporate governance structure is totally immune to fraud or incompetence. The goal will be to see how far such anomalies can be prevented and how quickly they can be detected. The risks can be reduced by holding all players in the governance process to the highest level of accountability feasible. The formation of board committees, the separation of chairman and CEO responsibilities, vigilant shareholders, and financial reporting and auditing mechanisms that allow for full and timely disclosure are all critical safeguards.

Despite the fact that the vast majority of companies are adequately administered and audited under the current system of corporate governance, it is commonly acknowledged that corporate governance standards must be strengthened.

The way forward is to define responsibilities and for everyone engaged to recognise that the greatest levels of efficiency and integrity are demanded of them.

Shareholders, directors, and auditors are expected to respond in kind as expectations for corporate governance rise. Precision Mates includes all of the essential tools. All that is required is a desire to improve its effectiveness after being listed.

This will necessitate a stronger sense of accountability and responsibility at all levels: accountability from the board of directors to their shareholders, responsibility from all shareholders to the corporation, and accountability from professional officers and advisers to those who rely on their judgement. Precision Mates' corporate system will be developed in the future, and all three organisations will have a similar interest in working together to build it.

## CONCLUSION

Precision Mates was founded as a partnership in 2005. The objective of the organisation was to provide value to customers while also guiding the market and customer expectations in the right direction. The company began producing automobiles for Sanden Pakistan in 2007. The company decided to become a high-tech supplier to the rapidly increasing automobile sector and other assembly plants in 2008. Precision Mates presently has a diverse product portfolio with a big client base, and they create the fibre component of supplies to assemblers and makers of automobiles, air conditioners, electronic equipment, food and pharmaceutical goods, home appliance components, and so on.

Company is ranked 2<sup>nd</sup> in the OEM market according to the company officials. Omar Jibran is the top OEM supplier of Honda. Honda have provided a space to Omar Jibran right next to their plant in Karachi and making investments in them, but the company is not facing any kind of threats from this competitor as company get 5-year contract of the new models of Honda cars and these contracts are fixed. Company is doing good, there are many more awards and certificates which the company won, and these awards and certificates will help the company sell out its shares in the market. For the company to expand its limits the concept of IPO is important and for this the company has to get register in SECP and PSX for which we recommended them the major changes in firm that are required by the SECP and PSX.

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