

# KATKO ELECTRONICS INDUSTRIES LIMITED

*Dr Malik Muhammad Ehsan\**

In 1985, Sultan Khan, the Chairman of Katko Electronics Company, Japan, purchased a sick Glass Sheet Manufacturing Unit and in 1986, he decided to invest a huge amount in the equity of wholly owned subsidiary Pindi Electronics Industries Ltd to expand his business.

Katko Electronics Industries Ltd, which manufactures/assembles television and audio equipment of the 'Katko' brand disclosed its accounts for the year ended December, 1990. That presented almost an unbelievable picture. The aggregate losses for 1990 were so frightening as to send chill down the spine. Sultan Khan wondered how the company would be able to pull itself out of the deep financial morass in the foreseeable future.

## KATKO'S BACKGROUND

Sultan Khan, a member of one of the leading business families in Pakistan, decided to commence his own business separately in 1980. He bought the license from a multinational electronics company of Japan to assemble and manufacture the T.V. sets in Pakistan in the early eighties.

The company started assembling/manufacturing T.V. sets by the end of 1980 with the technical assistance of Japanese engineers during 1981-82. Japanese engineers also trained the local technical engineers and made them capable of handling the unit independently. The company was converted into a Public Ltd company and listed on the KSE and LSE in December 1987. The company had been in its fortune in the quarter of a century earlier to listing, but post listing record had been far from satisfactory and the latest year 1990 had been the darkest in the series.

The production capacity of the T.V. plant was 1,00,000 sets. Actual production stood reduced by 45.08% to 32,104 (1989 : 58,460) sets.

Even though the number of T.Vs assembled were fewer than last year, the company managed to sell 37,010 sets (4906 from last year's output). The number of T.V. sets sold last year have not been given but the Chairman admitted in his report that the improved sale revenue represented "comparatively stable market and increased pricing of the product". The exceedingly gloomy bottom line, under the circumstances, did come as a shock. The adverse factors listed are : disturbed political conditions particularly in Karachi, lack of required product mix owing to disrupted supplies and suppliers' difficulties and the working capital constraints.

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\* Assistant Professor, Hailey College of Commerce, University of Punjab, Lahore, Pakistan.

## PINDI ELECTRONICS INDUSTRIES LTD AND GLASS SHEET MANUFACTURING UNITS

- (a) Pindi Electronics Industries Ltd, wholly owned subsidiary, was established near Rawalpindi. The advantages of this investment, directors explained, would be the entitlement of dividends of that company; marketing and technical supervision fee and local vending business to be extended for T.V. assembling cum manufacturing at Rawalpindi. It was very strange from the fact that the subsidiary just commenced production. Pindi Electronics would sure enough distribute the dividends but that would be if and when it earned profits.
- (b) The glass sheet manufacturing unit was mainly based on 'Furnace', one of the major parts of the factor. (Silica Sand, Soda Ash, Dolomite and Cobalt oxide and Feldspar are the components of glass sheet mixture which is put in the furnace for making the glass sheets).

The furnace had technical installation fault which was found during the process. Sultan Khan consulted the Furnace engineers in Pakistan to remove the fault but remained unsuccessful. Most of the Pak engineers suggested the Chief Executive to bring Furnace engineers from China or any other country where Furnace is manufactured. Eventually, Chinese engineers were consulted to remove the fault of the said furnace. The Chinese took into account their skills and made all possible efforts but could not succeed. Since 1975, when it was installed, it had been working occasionally and most of the times, had remained inoperative. The Chinese engineers found that installation had been done by nontechnical hands and owing to installation fault, the factory would never give the estimated production.

## MARKETS

The company had about nine markets in different cities of the country and it used to distribute its products by its own Sales Managers in all markets. Karachi and Lahore were the big markets of T.V. sets as compared with other markets. Organisational chart is shown in *Exhibit 1*.

Karachi had greater demand for T.V. sets without remote control in contrast to Lahore. The company was making T.V. sets with and without remote control upto 1990.

In early 1990, sale of T.V. sets without remote controls was affected because of the political environment in Karachi and the company had to send T.V. sets without remote control to Lahore and other markets.

Alam, the Sales Manager of Lahore market distributed T.V. sets to the dealers with his own efforts and good relations despite refusals by the dealers as there was no demand of such T.V. sets in the market. The company offered 5 years warranty as an incentive to the buyers to improve the sales. Meanwhile, the Principal of Japanese Electronics Co. decided to sell service rights to another company as Katko Electronics Ltd, had slipped so badly that speedy recovery was impossible.

Sultan Khan is now earnestly stirring to revive the Katko Electronics Industries Ltd in a way to overcome the future instabilities.

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## QUESTIONS FOR DISCUSSION

1. Was it a good decision by Sultan Khan to purchase a sick unit and to invest money in Pindi Electronics Industries Ltd., to expand his business?
2. Why did the Principal of Katko Co., Japan sell service rights to another company in Pakistan?
3. How should Sultan Khan overcome the current crises?

*Note:* The actual names of the companies are not given on purpose. Financial statements of the companies are also not available.

### Exhibit 1 ORGANISATIONAL CHART

