FIRM GROWTH STATUS AFTER IPO IN POWER SECTOR AND CIRCULAR DEBT CRISIS IN PAKISTAN

MOHAMMAD FARHAN BASHIR
MBA
Lahore Business School
The University Of Lahore

AMIR RAZI
ASSISTANT PROFESSOR
Lahore Business School
The University Of Lahore

HASSAN SARDAR CHATHA
MBA
Lahore Business School
The University Of Lahore

MOHAMMAD KAFEE RAFFEEQ
MBA
Lahore Business School
The University Of Lahore

ALI JUNAID
MBA
Lahore Business School
The Univeristy Of Lahore

SYED WAQAR DANISH
MBA
Lahore Business School
The University Of Lahore

MOHAMMAD ABDUL RAUF
MBA
Lahore Business School

ABSTRACT:
The main reason or purpose of this research is to find out the correlation of IPO’s of companies on their financial growth. After giving a lump sum trend of Global IPO market (USA AND CHINA), the two biggest stock markets with most IPO’s ever, we thinned our research on PAKISTANI Power sector, as it is impossible to tackle the global IPO market because of its diversified nature, shortage of time and impossibility of examining the IPO market globally. This study includes secondary data evaluation from various resources, which we have collected by personally visiting the related personals. By the thorough study of annual reports of power generating companies, their prospectus when they gave their IPO, and by observing their EPS for 5 years that what are the factors in economy that are
continuously changing the EPS of the companies, we further did our PEST analysis to analyze the factors responsible for the continuous changing in the EPS and the profit of firms in power sector. Also, previous researches on IPO helped us to design our literature review, got that researches from various resources, like book reading, internet, and other electronic sources. After that, we did statistical analysis to prove our data that includes correlation analysis on the IPO of KAPCO. NPL is the second firm we took in this perspective but NPL is the firm that started its operations by IPO, so its impossible to correlate it. Graphically plotting the data, we observed the great variation in growth of firm (KAPCO). Finally, we observed and proved by correlation analysis that there is a relation of IPO’s or going public decision on financial growth of the firm. So, finally we accepted our H1 that there the IPO and the financial growth of the firm are correlated to each other.

**Keywords:** FIRM GROWTH STATUS ; IPO ; POWER SECTOR ; CIRCULAR DEBT CRISIS ; PAKISTAN

**INTRODUCTION:**

IPO (Initial Public Offering) is a major change for a firm which goes through this process of going public. Company goes public when it needs to raise its capital through financing leaving company with two main sources of financing,

- **INTERNAL FINANCING**
- **EXTERNAL FINANCING**

Internal financing includes:

- Accumulated profit
- Ordinary shares or IPO

Whereas external financing includes,

- Preference shares
- Debentures
- Bank loan

It’s easy for a company to raise its capital through internal sources rather than enhancing it with external sources which include detailed documentation, verification and so many typical steps, beyond this, there is an easy way for the company to go public through IPO, which is the main reason that why private companies offer its IPO.

In order to raise its capital, a company must have to do whether external or internal financing. Offering an IPO to the general public at a price lower than its market price is one of the tactics of internal financing, so that public buys the shares of company from the company’s public offer rather than buying it from stock exchange. So, it’s an easy and short way for a company to raise its capital by offering its shares to general public.

Globally IPO trends are getting diverse and wide day by day, also according to most of the researchers and venture capitalists at market, when a private company grooms and going high day by day, it becomes ideal to go to public. Now, if we take a look at the
trends of the global IPO market in 2012, we can see that worldwide IPO market is making a rapid recovery after 2007’s financial crisis. However, not expecting another unforeseeable crisis in 2013, global IPO markets are expected to be even more dynamic than in 2010-2012.

GLOBAL IPO MARKET:

Out looking the Asian IPO market in 2013, clearly China is the giant and leading the Asia in terms of IPO market, and is looking set to maintain its leadership of global IPO market which China is holding from the last five years. China is then followed by India with 8% GDP growth rate. With healthy earnings it is expected that India’s IPO markets will continue their dramatic recovery in 2013 also, as more than 100 companies have already gone public through IPO in India in 2012. Year wise trend of U.S IPO’s and the last year trend of CHINESE IPO’s are given below.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO OF IPO'S IN U.S</th>
<th>AVERAGE IPO OFFERED AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>57</td>
<td>$78.6 MILLION</td>
</tr>
<tr>
<td>2006</td>
<td>57</td>
<td>$89.8 MILLION</td>
</tr>
<tr>
<td>2007</td>
<td>86</td>
<td>$120.1 MILLION</td>
</tr>
<tr>
<td>2008</td>
<td>6</td>
<td>$78.4 MILLION</td>
</tr>
<tr>
<td>2009</td>
<td>12</td>
<td>$136.8 MILLION</td>
</tr>
<tr>
<td>2010</td>
<td>75</td>
<td>$101.4 MILLION</td>
</tr>
<tr>
<td>2011</td>
<td>36</td>
<td>$189.7 MILLION</td>
</tr>
<tr>
<td>2012</td>
<td>117</td>
<td>$36 BILLION</td>
</tr>
</tbody>
</table>
POWER SECTOR OF PAKISTAN:

The two key companies of this sector that made their IPO’S early in their life cycle, and then are playing a vital role in the power sector of PAKISTAN are “KAPCO” (KOT ADDU POWER COMPANY LIMITED), and NISHAT POWER MILLS, and in order to study KAPCO and NPL, we further have a need to study “PPL” (PAKISTAN PETROLEUM LIMITED), PSO (PAKISTAN STATE OIL) and “OGDC” (OIL AND GAS DEVELOPMENT CORPORATION OF PAKISTAN) in order to make our background base, because these three companies are the key sources of input for the entire power generation sector of PAKISTAN.

Pakistan, a 65 year old state on the face of world has still not yet managed to meet its demand of power generation. Power sector of PAKISTAN is working continuously to meet the increasing demand of electricity day by day. When PAKISTAN came into existence, only hydel generation of electricity was available of just 10.7 MW. Thermal power plants were rarely available and those which are available, needs great attention to be in working condition.

Pakistan in 2011 is still not sufficient enough to meet the increasing demand of its electricity and the country is facing the worst power crisis in history. At present, electricity in PAKISTAN is generated only by three modes:

- THERMAL (65%)
- HYDEL (33%)
- NUCLEAR (2%)

There are four major power producers in country which include Water & Power Development Authority (WAPDA), Karachi Electric Supply Company (KESC), Independent Power Producers (IPPs) and Pakistan Atomic Energy Commission (PAEC). The total power generation capacity of PAKISTAN is almost 19855 MW and the country is still falling short by almost 4500 MW. The growing demand of electricity is increasing by 9% per year and the supply is going up with a slow value of almost 7%.

Hydel power generations include Mangla dam and Tarbela dam contributing 1750 MW and 900 MW respectively in the national grid, two nuclear reactors are producing 425 MW of electricity each. The rest of the power is coming from the thermal power stations. There are almost 29 thermal power plants in PAKISTAN in which, WAPDA operates 11 stations, KESC operates 4 stations and the 14 stations are the IPP’s i.e. operating independently. Rental power plants are contributing 200-300 MW each making them plants with combined capacity of just 1000-1200 MW according to PEPCO.

So, the thermal energy is contributing 65% in the power sector of PAKISTAN and most of the thermal power plants already made their IPO to enhance their capital for the procurement of plant and machinery. Thermal power plants including KAPCO, ATLAS POWER PLANT, JAPAN POWER GENERATION, NISHAT POWER SECTOR, AES LALPIR LIMITED, AES PAKGEN LIMITED, SEPCOL (Southern electric power company limited), and SITARA ENERGY LIMITED have already made their IPO’s back in past.

KAPCO offered 88,025,000 ordinary shares which is approximately 10% of its total capital, at an offer price of RS.30 / share, including its premium of RS.20 / share, leaving its par value of RS.10 / share, whereas the market value of its shares at that time was RS.64 / share. People pro actively responded to this offer because in its background, there is PPL (PAKISTAN PETROLEUM LIMITED) and OGDC (OIL AND GAS DEVELOPMENT CORPORATION OF PAKISTAN), the two major sources of input for
KAPCO, that are already gone public in 2002 and 2004 respectively and people enjoyed some great benefits in terms of dividend and market share. NPL on the other side offered 22.5 million shares at RS. 10 / share, which represented 10.05% of the NML’s total shareholding at that time in the company and 6.05% of the total, paid up capital of the company. People responded proactively in this case also as NPL is one of the leading chains of companies in PAKISTAN and is the one to whom people can trust.

OBJECTIVES:

- What is the current status of Pakistani power sector?
- Is an IPO and financial growth of a company are correlated to each other or not?
- What is circular debt crisis in Pakistan, how did that happened?
- What are the alternatives and fast ways of meeting electricity needs in Pakistan?

LITERATURE REVIEW

Broad and extensive researches have been done on the topic of IPO (INITIAL PUBLIC OFFERING) in the past elaborating many of the country’s local IPO’s. Researchers have covered almost every single aspect regarding IPO’s and their long term and short term effects in the firm that is going to be public through initial public offering. Many researchers have done their best in order to find out that, why firms go public, and how IPOs perform in the long run.

For a company, that move from private to public status through an initial public offering (IPO) is a major change. On a country or national level, high IPO activity is a sign of a well functioning public market. A well functioning public market and an active IPO market improve the chances and possibilities for the rapid growth of company, rather than other possibilities. While there has been a considerable amount of research into specific aspects of IPOs, especially the market performance of IPO stocks and the go public decision, my this very research is thin on analyzing the role or impact of IPO’s of companies on economy and economic growth.

Zingales (1995) quoted the very first formal theory of IPOs’ or going public decision. He observed that it is much easier for one who is potentially acquiring to gain a potential takeover in a market when it is public, rather than doing it in private. In contrast to Zingales, Black and Gilson (1998) pointed out that entrepreneur often regain control from the venture capitalists in venture-capital-backed companies at the IPO. In short, according to Black and Gilson (1998), IPO’s are not for entrepreneurs or potential acquirers especially, because they are basically for venture capitalists.

(Röell 1996), found out and explained in detail that the decision of companies to utilize the public market varies greatly between countries. According to Ellis, Michaely, and O’Hara (2000), from 1980 to 2000, the number of IPO’s in the United States exceeded one per business day. The number of initial public offerings (IPOs) has varied from year to year, from 1980 to 2000 including some years seeing fewer than 100 IPOs, and others seeing more than 400 or 500. These IPOs raised more than $488 billion in just
a year of 2000 in gross, an average of $78 million per deal. So, we can say that 1980 to 2000 and particularly 2000 was the year of IPOs. This survey is according to the recent figures from Enrst and Young and according to Ellis, Michaely and O’ Hara (2000). Ritter (2002) and especially Jenkinson and Ljungqvist (2001) give extensive coverage and importance to international patterns and practices rather than national, regarding IPO’s. According to Ritter (2002), the 1980’s saw modest IPO activity of about $8 billion per year. In the 1990’s, this issuing volume roughly doubled to $20 billion per year during 1990 to 1994, doubled again from 1995 to 1998, $35 billion per year, and then doubled again from 1999 to 2000 , $65 billion per year, before falling to $34 billion in 2001. So, again its proved from Ritter also, that 2000 was the year of IPOs.

According to Fulghieri (1999), another theory born, that early in its life cycle, a firm should be private, but if it grows dramatically and sufficiently large, it becomes ideal to go public. Maksimovic and Pichler (2001) figured it out and quoted that a high public price can attract product market competition. Public trading is itself a great value for the firm, because it really affects the decision of investors, customers, creditors, and suppliers.

Another statement from Pichler (2001) is that, if you are the first in your type of industry to go public then sometimes you will have a first-mover advantage. But, taking a real life example, Spyglass was a browser company that went public just two months before Netscape, another browser company and quickly faltered under Netscape’s competition, as Pichler said sometimes there is a first mover advantage, “sometimes”. Mostly, formal theories of IPO, issuing the role or impact of IPO’s of companies on economic growth are difficult to test. This is because usually researchers only observe the firms actually going public, and not the economic growth produce as a result of them going public. Also, they do not observe how many private firms could have gone public.

Now, according to Kerri Shannon (2011), “Despite bad market conditions and strange ups and downs in market and after a really shaky economic recovery, the global initial public offering (IPO) market for 2011 is on track to hit a record high and 2012 is expected to continue the hot streak, in fact more than just a hot streak”. Ernst & Young group (2011) observed that funds raised in market through global IPOs are expected to exceed $300 billion in 2010, overtaking the breath taking record of 2007, i.e. $295 billion. From January 2011 to November 2011, IPO’s collected the record payment of $255.3 billion in almost 1200 deals, setting a new peak of record, according to a survey by an accounting study group, Enrst and Young (2011). New IPO’s are registering continuously all around the globe and a huge backlog has built up as companies await greater macroeconomic stability, said Gregory Erickson (2011), Ernst & Young’s global vice chairman for strategic growth markets. As, according to Gregory Erickson, “We expect the current IPO momentum to continue and increase its upward trend in 2011, 2012 and 2013.” Kerri Shannon (2011) observed that the strong global IPO market in the year 2011 was mostly backed by rapid growth in Asia, especially in the financial and insurance sector. The overall Asian market accounted for 64% of total IPO funds raised in the year 2011. It’s exceeding the surveyed value of 1999 by 12%. Due to relatively low interest rates and developed markets and also due to abundance of liquidity in market, investors are rapidly investing in Asia and the relative emerging markets, rather than investing in
Europe and Africa, who are being drive by high interest rates as compared to Asian markets, resulting in high growth in Asian IPO markets in last 11 months, said Enrst and Young’s vice chairman, Erickson (2011).

China, the current IPO giant in the world, which a year before has accounted for more than 45% of the global IPO in total, so is the reason that investors try to catch up high growing companies in China such as the Agricultural Bank of China Ltd and Xongfeng Ltd. The $22.1 billion offering of Agricultural Bank of China made it the world’s largest IPO ever, by contributing more than 9% of 2011’s global IPO in total. So, in other words, we can say that China is firmly holding the future of the world in terms of IPO. Another Asian giant, India also got its biggest IPO ever in the history of IPO’s a year before and is awarded the world’s largest coal producer, Coal India Ltd. collecting $3.5 billion in October, 2011. Pakistan, on the other hand is still seeking for an opportunity to be seized.

Fitz Gerald (2011) observed and pointed out that, unbelievable demand and for IPOs in Asia has reduced the Europe’s and specially U.S.’s share of the global IPO market to an all-time low; China is the new giant and won the field by raising the most money of any single country in history. Fitz-Gerald advices to the U.S. Federal Reserve to keep interest rates low as compared to Asia and specially China, in order to emerge the market as the victorious one or at least comparable to China’s market. The IPO market shows the double tracked global economy with Europe and the U.S. trailing behind Asia, where GNP is running ahead," said David Wilkinson, U.K. IPO leader at Ernst & Young. According to him, "I think 2012 and 2013 will be a similar story regarding IPO, China will be the leader but we can expect perhaps more action from Latin America, especially Brazil. South America has recovered slowly from the recession as compared to China and India, but is now running and rebounding strongly toward its target. So, U.S can give competition to the new IPO giant, China, if Federal Reserve keeps the interest rates low and the country tries to rebound strongly and efficiently as China and India did recently." While, as expected, Asia will continue to boost next year's IPO market, analysts now express mixed thinking and sentiments on Europe's expected performance in 2013 regarding IPO sector. With its economies continuing to expand and getting bigger in 2011-12, analysts strongly expect Asia to maintain high standards of IPO issues into the 2013.

According to Ernst & Young's Teigland (2011), “This is unbelievable that the IPO giant took over more than 66% of the transactions for 2010 until November 2011 and 62% from January 2012 to January 2013. No big change is expected in 2013 as the giant (CHINA) is making progress by leaps and bounds, developing around and doing its business aggressively, Tiegland’s perception told that continue to bet on Asia, the growth markets in China and India are really coming out strong.”

**METHODOLOGY**

**DATA SAMPLING:**
We have visited LAHORE STOCK EXCHANGE, LAHORE CHAMBER OF COMMERCE AND INDUSTRY, and with the thorough surfing on internet as well as by analyzing company’s annual statements and their financial status, we collected the data regarding our topic. We reviewed the prospectus of KAPCO, of the year 2005 when it gone public through IPO
and the financial data of the company for the next 7 years, right from 2005 to 2012. Also, in order to make our research possible, we also have done a PEST and SWOT analysis on Power generation sector and especially on KAPCO and NPL, in order to find out their growth after their IPO and also in order to find out the reasons of circular debt crisis in Pakistan. We analyzed the power generation sector that what was the impact of power plants who already made their IPO in the 5 years after their IPO, and what are the impact of financial position of the company in the preceding years of company gone public, and we observed some great variations in the financial data of the company, and the clear mark was spotted that after IPO, KAPCO can clearly be seen in profit for the year in which it gone public, also we tried to find out that what are the determinants of this continuous changing financial data of power sector and what are the factors that are changing the financial data of the IPO’s in power sector of PAKISTAN so rapidly.

VARIABLES:
INDEPENDENT VARIABLE(X):
“IP0 (Initial Public Offer) is independent”
DEPENDENT VARIABLE(Y):
“Company’s financial growth is dependent”

** IPO is independent variable in my research because financial growth of the organization is dependent on the financial resources which are available at the disposal of the organization and IPO is a source of internal financing.

HYPOTHESIS:

H₁: There is a positive correlation between IPO’s and company’s financial growth.

DATA ANALYSIS

YEAR WISE IPO’s IN PAKISTAN:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>IPO’s</th>
<th>AMOUNT SUBSCRIBED</th>
</tr>
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<tbody>
<tr>
<td>2005</td>
<td>19</td>
<td>11,020.254 MILLION</td>
</tr>
<tr>
<td>2006</td>
<td>9</td>
<td>8,266.807 MILLION</td>
</tr>
<tr>
<td>2007</td>
<td>14</td>
<td>32,054.897MILLION</td>
</tr>
<tr>
<td>2008</td>
<td>10</td>
<td>14,956.569 MILLION</td>
</tr>
<tr>
<td>2009</td>
<td>4</td>
<td>984.593 MILLION</td>
</tr>
<tr>
<td>2010</td>
<td>6</td>
<td>3,351.289 MILLION</td>
</tr>
<tr>
<td>2011</td>
<td>2</td>
<td>1.1 BILLION</td>
</tr>
<tr>
<td>2012</td>
<td>4</td>
<td>850 MILLION</td>
</tr>
</tbody>
</table>
### IPO's in Pakistan

![IPO's in Pakistan Chart]

#### Power Sector Summary in Pakistan Stock Exchange:

<table>
<thead>
<tr>
<th>Total Power Generators Turnover in Pakistani Stock Market</th>
<th>IPO's Power Generators Turnover in Pakistani Stock Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,450,479 (in million)</td>
<td>1,419,812 (58%) (in million)</td>
</tr>
</tbody>
</table>

#### IPO's in Power Sector of Pakistan and Their Capacity:

<table>
<thead>
<tr>
<th>Company</th>
<th>Capacity Before IPO</th>
<th>Capacity After IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakgen Power Spot</td>
<td>365 MW</td>
<td>365 MW</td>
</tr>
<tr>
<td>KAPCO</td>
<td>1550 MW</td>
<td>1638 MW</td>
</tr>
<tr>
<td>SEPCOL</td>
<td>135 MW</td>
<td>144 MW</td>
</tr>
<tr>
<td>Kohinoor Energy</td>
<td>120 MW</td>
<td>131 MW</td>
</tr>
<tr>
<td>Japan Power</td>
<td>120 MW</td>
<td>120-135.6 MW</td>
</tr>
<tr>
<td>Atlas Power</td>
<td>220 MW</td>
<td>220-225 MW</td>
</tr>
<tr>
<td>Nishat Power Ltd</td>
<td>225 MW</td>
<td>225 MW</td>
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</table>
Where NPL and ATLAS power are the power producers that begin with IPO.

**EPS OF KAPCO:**

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<tbody>
<tr>
<td>EPS</td>
<td>6.90</td>
<td>7.41</td>
<td>5.78</td>
<td>6.44</td>
<td>9.05</td>
<td>5.67</td>
<td>6.04</td>
<td>9.14</td>
<td>7.88</td>
<td>7.42</td>
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</table>

**EPS OF NPL:**

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<tbody>
<tr>
<td>EPS</td>
<td>5.752</td>
<td>5.307</td>
<td>0.135</td>
<td>0.297</td>
<td>0.002</td>
</tr>
</tbody>
</table>
(PEST ANALYSIS):

POLITICAL IMPACT:
Politically a firm can have many of the obstacles as well as opportunities available in the market. Political disturbance, new government agenda, political policies, government’s own decision, strict and flexible monetary policy from government, all these factors have the potential to influence a company’s decision of going public or not.

- When KAPCO was gone public in 2005, the public was enjoying good times then, with less expensiveness and much industrialization, the reason for the KAPCO to go public, as it was ideal for it to increase its capital through financing at that time.

- NISHAT POWER LIMITED, had gone public in 2007 (at the beginning of its life cycle) and also enjoyed well and good response from public as the newly elected government hold the charge at that time, and there was no as such political disturbance in the economy.

- AES PAKGEN LIMITED had gone public through IPO on June 1st 2011, public didn’t responded so actively like they responded in 2005 and in 2007 in case of KAPCO and NISHAT POWER MILLS, the reason is the political instability, strict monetary policy from the government and the continuously and stock market crisis in 2008 general public to go for shares when they are not even getting proper food, shelter and clothes.

- By going public through IPO, companies try to penetrate into the market and when they successfully penetrate themselves into the local market, then they can influence the political decisions especially in power sector, like KAPCO and NISHAT power limited are now contributing a major part in power sector, they can easily influence the politics and economy for example by saying that meet our demands, otherwise we will not generate power anymore, now who affords to leave more than 2300 MW of electricity in such crisis, so, through IPO or listed publicly, a company can have a greater impact politically, rather than doing it independently or privately as IPP's.
**ECONOMICAL IMPACT:**

- Government in 2005 introduced flexible monetary policy which helped industrialists to groom day by day at that time, resulting in higher demand for power generation companies, so companies’ gone public at that time like KAPCO in the power sector enjoyed greater benefit in terms of input as well as output.
- Squeezing purchasing power of general public also comes under this head that they can’t afford such hype of electricity but company has to buy expensive furnace oil.
- Also, the closing of stock exchange in Pakistan from November 2008-January 2009 gave huge negative impact on the investors as well as the current firms in Pakistan.

(KAPCO):

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<tbody>
<tr>
<td>EPS</td>
<td>6.90</td>
<td>7.41</td>
<td>5.78</td>
<td>5.67</td>
<td>6.04</td>
<td>9.14</td>
</tr>
<tr>
<td>DUE TO</td>
<td>Political instability, over corruption, dollar price to almost Rs.98 hence most expensive raw material in history. Circular debt crisis made it difficult for PSO to continue the supply of furnace fuel</td>
<td>Hype of dollar price, expensive raw material for power generation</td>
<td>Political instability and fixed quantity of crude oil to rental power plants</td>
<td>Record high petroleum price in international market, $148/barrel, expensive input</td>
<td>Strict monetary policy of government, expensive loans, hence less industrialization, resulting in low output prices for power sector</td>
<td>Due to IPO, for the enhancement of capital, rapid recovery from 7.08 to 9.14</td>
</tr>
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NISHAT POWER LIMITED (NPL):

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<td>0.002</td>
</tr>
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DUE TO
- Still recovering and increasing its profits after listed public through IPO, enjoying great benefits and cashing in the goodwill of NISHAT.
- Though hype of dollar price but the firm penetrated into the market very well by going public early in its life cycle, huge recovery after IPO and counting.
- Due to political scenario/conflict with owner mian mansha who is the major shareholder of NPL.
- Due to IPO, for the enhancement of plant and machinery in order to penetrate into the market, rapid recovery. Started operations in 2009.
- NML Started their group of power company in early 2007, so needed some time for establishment.

KAPCO:
- In the EPS table of KAPCO, in 2005 after going public, EPS of KAPCO, suddenly rises to 9.14 from 7.88, because company offered its shares to general public in 2005 in order to raise its capital, public responded proactively, resulting in higher earnings per share than last year.
- In 2006, EPS of KAPCO drops to 6.04 from 9.14; the reason is the strict monetary policy from government. Monetary policy was made strict by government in 2006 rather than in 2005. So, due to this strict monetary policy of government, loans became expensive resulting in much less industrialization than previous years, resulting in lowering the output of KAPCO, but the input was coming at same level and with same velocity, that results in dropping the EPS down to the level of 6.04.
- Another major reason for this drop was the continuous increase in petroleum prices. Petroleum prices started to rise in 2006 globally with a lightning speed, petrol price was recorded in 2007 was $148/ barrel. That was the record high price of petroleum in history, which results in rapid decreasing of EPS of the company which further falls to 5.67 in 2007.
- The reason again was the record high petroleum prices which are the major input for KAPCO, input became expensive; output was delivering at the same price as industrialists refuse to pay the higher prices for the power delivered from the pumps of KAPCO. So, EPS drops down to 5.67 from 6.04 in 2007 as a result of the hype petroleum prices.
- In 2008, the EPS of company jumps and again touches the level of 9.05 from 5.67, which was a major improvement, resulting from the globally low petroleum prices, whose price started to fall early in 2008, and gone down to a record breaking low price that equals the 1987 price, $36/ barrel. Due to this effect, raw material or input for KAPCO became cheap, even cheaper than they think; also new government took charge of PAKISTAN in 2008 at the right time when we
started our electricity crisis due to some mismanagement of the previous government.

- New government started their election campaign and won the elections by using electricity crisis game plan, so newly elected government tried initially to eliminate the temporary energy crisis from PAKISTAN, government took some important steps and made an agenda to eliminate the crisis that played an important role in driving the economy towards success and left a clearly seen temporary impact on economy.

- Due to this good impact on economy as a result of new government agenda, industry flourished temporarily resulting in decrease of load shedding in country, and for the removal of this load shedding government really need some extra energy that made the output of KAPCO to maximize in industry further resulting in greater profit for KAPCO and hence a greater earnings per share was concluded in 2008.

- In 2009, due to continuous increase in dollar price, raw material became expensive resulting in higher crude oil price that goes to $64/ barrel from $34/ barrel. Increasing with the level of almost 100%, i.e. $30/ barrel, due to this expensiveness automatically it has an impact on power generation.

- KAPCO, who uses crude oil as its raw material, so will have to increase the price of its generated output, which industrialists had refused to accept, so resulting in lower earnings per share than 2008, i.e. EPS drops down to 6.04 from 9.05, a major demotion in EPS resulting as a mutual affect of increasing dollar price and expensiveness of crude oil in global market.

- From March 2008, to September 2008, dollar price goes up to RS.92 from RS.60, which greatly affected the crude oil companies and the power generation companies all around the globe especially in PAKISTAN.

- Talking about the latest facts and figures, in 2011 and 2012, the EPS of KAPCO was 7.41 and 6.90 respectively. Over looking it as respect to previous years and as according to current situation and conditions, company is still doing very well with factors of expensiveness present like over hype of dollar price, most expensive crude oil, current status of power sector, it almost looks impossible to survive in such conditions independently without the help of the public. Kapco still somehow maintained its EPS to a level much appreciable than that before of IPO, when Pakistani power sector was enjoying very good times, as compared to that era of happiness, KAPCO in this era of tensions is still doing very well with the help of the public.

CIRCULAR DEBT CRISIS:
Circular debt crisis is floating in PAKISTAN since 2008 that came with the arrival of newly elected democratic government due to which power generation companies became indebted to petroleum companies because of expensive crude oil and cheap generated power output that disturbed the cash flow of petroleum companies which reduced their import of petroleum products. All this cycle started when PEPCO stopped the payment to power generation companies due to mismanagement at upper level in government, due billing of the huge houses and resorts of MNA’s and MPA’s, president and prime minister houses which then pursue the power generation companies to stop the payment of petroleum products to petroleum companies resulting in a worst petroleum shortage in history of PAKISTAN in 2009. PSO (PAKISTAN STATE OIL) publicly announced in 2009
that their payment of almost RS. 130 billion had been stuck in this circular crisis of debt due to which it is expected that their L/C will get dishonored in Kuwait petroleum, from where they are importing the petroleum products. PSO warned that if the immediate payment is not made to the shipping company in Kuwait, L/C will get dishonored and shipment won’t be released. After this warning, government made a lump sum payment of about RS. 20 billion to PSO. Other 128 billion is still stuck in the ongoing circular debt crisis, which the government is still paying just in records as installments or we can say mini installments. From 2009 until now, not half payment yet made to PSO, so how is it possible for PSO to import the petroleum products so fluently according to the demand, resulting as a major gap between demand and supply of petroleum products affecting not just the power generation companies, but also affecting the general market and as a result, playing a major role in the increase of load shedding and shortage of power.

FACTORS OF CIRCULAR DEBT CRISIS:
Factors responsible for rise of circular debt are,
- Delay in subsidy payments from government
- High bad debts
- High T&D losses
- High dependence on furnace oil for electricity needs

Now, in accordance to the latest facts and figures of KAPCO, in 2011 and 2012, the earnings per share of KAPCO were 7.41 and 6.90 respectively. Now this downward bias of EPS in 2012 is because due to the mismanagement at upper level of bureaucrats and government. At the end of 2009, government of PAKISTAN rented out the power plants to the American companies rather than giving an electricity project to China or Iran and supply of furnace oil has been confirmed by the government to these rental power plants and if it fails to do so, the plants can charge penalty to the government, which government had already paid Rs. 1 billion according to the order of supreme court in July 2011. Now, after the confirmed and assured level quantity of furnace oil to the rental power plants, government had two ways. 1st one is to import a huge quantity of furnace and crude oil from other countries, which we can’t as discussed above that the petroleum companies are already stuck in circular debt crisis and power generation companies are yet indebted to petroleum companies. 2nd way is to reduce the quantity of furnace oil to the local power generation companies and to give the assured quantity of oil to the rental power plants rather than giving them oil plus penalty. So, government used the 2nd and easy way to get through, which reduced the input for KAPCO, NPL and other power generation companies resulting in even lower output, so the EPS falls down to such level of 6.90 but the positive point is that still company is actually making a profit and according to my analysis that’s because of going public decision. Suppose KAPCO still works independently without listed public, where are watching it then? In my point of view, six feet under.

INTREPRETATION OF NPL’S DATA:
In case of NPL, started its operations in 2009 after its IPO and their EPS goes up to 0.297 from 0.002, but it again drops to 0.135 in 2010 because of the rental agreements of government with rental power plants to supply them the fixed quantity of crude and furnace oil as we already discussed it in detail.
But the 2011 and 2012 gave NML power a huge recovery as it finally found a way to penetrate in to the market of power generators by cashing in the goodwill of NISHAT
GROUP. Public also responded pro-actively of NPL’s going public decision because of the reputation NISHAT GROUP is enjoying for years, but overall we can say by the facts and figures that after IPO or listed public, NPL is performing very well in the power sector and arguably the best producer in the current power sector of Pakistan according to WAPDA AND LESCO.

Projection:
Now, with 2013 going hard for the businesses especially for the power sector, trend directs that the EPS of power generation companies will drop down further and may be drop down to the lowest one in history. Without the change in government policies, newly elected government with some power generation policies, no upward rise is expected according to us in near future, if power sector wants to survive in PAKISTAN without relying entirely on government, it’s an ideal chance for the remaining power companies to give out their IPO. By listed publicly company can penetrate into the market with bigger influence and with these circumstances, independent power producers don’t look so good. Also, government should avoid circular debt crisis by giving IPP’s permission to import furnace oil by their own according to their needs. With this combination, it will go perfect for everyone.

SOCIAL IMPACT:
Socially, there is a cycle related to the going public decision of the company through IPO (cycle is discussed in conclusion).
- By going IPO, company enhances its capital through internal financing, which in long run directly or indirectly increases the disposable income of general public
- This then further improves their standard of living. Public goes for new and better houses, new cars, air conditioners, in short they move to needs from necessities and then from needs to luxuries. New schools for their children, new bag packs, so here starts the overall social cycle, i.e. new schools want more fee, by giving more fee, teacher are getting more salary, so their standard of living is also improving, they further buy some stuff, giving value to others, improving further people’s standard of living directly or indirectly, so this social cycle is the impact companies have on economy after going public.

TECHNOLOGICAL IMPACT:
Talking about technological factors, there is a lot of mismanagement at upper level in PAKISTAN that is preventing our country to be prospering. If we talk about power sector, other than economical factors, there are some also technological factors that really have the potential to rise and fall the EPS of the company.

GLOBAL TRENDS:
If we observe the global trends, there are many third ward countries that already solved their problem of power generation and are now in list of developing countries. On the other hand, developed countries like USA, UK, CANADA, AUSTRALIA etc, have up to date power generation techniques rather than relying on just some ruthless power plants. Quoting an example of Las Vegas, Nevada, (a USA state), is the city with most casinos in the world. For these casinos they are getting the power fluently by producing electricity from nearby desert in Texas. Now, what they did is, they placed solar panels in the desert with pipe fittings under these solar cells in which the heating oil is placed. This heating oil when heats up, move towards the turbine which puts a life in turbine, and it start moving and producing electricity, now they are benefiting from each and every
natural source available. In the day time, they get electricity from the solar panels placed in desert and at night, heating oil and turbine movement produces great amount of electricity, which they are using and getting the power without a single second of load shedding. According to a survey, Las Vegas, Nevada is the state and city with the highest level of consumption of electricity around the globe, and they are managing it without any power plant and without a single moment of load shedding.

TECHNOLOGICAL TREND IN PAKISTAN:
On the other hand, in PAKISTAN, we are still using the traditional and old method of generating power, power plants, and not only power plants; we are also using rental power plants. These power plants are capable of producing great, expensive and minimally available electricity. The most efficient power plant in PAKISTAN is under KAPCO and is 55% efficient, which means, that it is taking cost of 100 mega watt of electricity and in return is producing just 55 mega watts of electricity. This is the highest capable and efficient plant in PAKISTAN, other than that, all plants have got less than 55 % efficiency, and the plant with lowest efficiency is a rental one and is just 15% efficient. All this is due to mismanagement at the upper level, otherwise if we observe and survey, there are many more available natural sources of producing electricity in PAKISTAN.

COAL POWER:
1st one is the sufficient amount of coal available in THAR, BALOCHISTAN. In accordance to survey report, if we start making electricity from that coal in THAR, it is in so much quantity that one can produce fluent and continuous power for more than 500 years from that coal naturally available under ground in BALOCHISTAN. Other than that, PAKISTAN is blessed with so many natural resources, such as coal, natural gas, minerals etc.

WIND ENERGY:
Now if sensible and mature management is available, we can generate power even from our coastal areas with the beach line more than 432 km long, right from Gawadar to Pasni. The distance between Gawadar to Pasni in a beach line is approximately 432 km’s, where the wind with great velocity flows 24/7 due to sea effect. From there wind energy can be produced sufficient for SINDH and BALOCHISTAN without a bit of load shedding.

FALLS ENERGY:
Also, canals and barrages in every city have more than sufficient falls from where power can be produced for the nearby areas, quoting an example of PATTOKI canal, during its way the canal has more than 12 falls and in every fall there is enough space to place 5 turbines from where power can be produced easily for nearby villages and towns. Talking more, there are many of the waterfalls in northern areas of PAKISTAN, which can play a vital role in generating the power for economy. So, there are a lot of methods and ways for power generation other than relying on old methods of production. These are some of the technological factors that have the potential to influence economy and the economical factors that are causing the EPS of power generation companies to go down and down day by day, even after their IPO (but overall it’s a positive impact that still in such era of expensiveness, IPOs’ firms are still generating some income). That concludes my PEST analysis.

SOLAR ENERGY:
Solar energy is another energon source of electricity generation in Pakistan. Our country which remains under 9 months of summer can produce huge amount of power if solar panels are placed in wide and coastal areas like Thar Desert, cholistan etc.
IPO CYCLE AND CONCLUSION:

Above given is a sketch of IPO cycle according to our analysis. Company goes public through IPO for the enhancement of capital for their extension of fixed assets like plant and machinery, when increased results in higher output as compared to before which then further results in two ways, extra dividend to shareholders and increased employment for the general public. Due to both of these factors, overall economic consumption increases that result is production increase. Due to this increase in production employment opportunities arises and people avail this opportunity and hence employment increases which then increases the disposable income of general public resulting in a major change in their social behavior and interaction. Now, changing social behavior and values need some money and hence increasing the consumption of people that further have two effects:

- In long run, production increases and
- In short run, inflation increase
In case of inflation, cycle will be reversed, hence decreasing the disposable income of people and employment opportunities which ultimately decreases the overall economic consumption. That concludes IPO cycle and **DATA ANALYSIS**.

**STATISTICAL DATA ANALYSIS:**

**CORRELATIONAL ANALYSIS OF KAPCO (Before and After IPO):**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>EPS before IPO</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.381</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.352</td>
<td></td>
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<tr>
<td>N</td>
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*Since there is a positive correlation between IPO and company’s financial growth, so $H^1$ is accepted.*

**FINDINGS OF OUR STUDY:**

- **IPO** is a best source of internal financing for a company that want to enhance its capital, as the money floated through IPO inside the company, it has to pay no interest on the money rather than acquiring it through some kind of bank loan or other type of external financing.

- IPO really have the potential to groom the growth of the company, but there are some factors in the economy that can drive the company towards profit or loss in the later years even after going IPO.

- In PAKISTAN, there are many firms that have gone public, through this study we came to know about them, studied one firm gone public thoroughly, and to make our background, also studied two other firms gone public through initial public offering before KAPCO.

- By visiting stock exchange and chamber of commerce and industry, we came to know about many technicalities regarding IPO’s and also what makes them decide to whether go for public or not.

- Also studied about a company recently issued their prospectus for the allotment of shares to general public named, PAKGEN POWER LIMITED, and we are going to apply for the shares of PAKGEN, who is going public through IPO somewhere in November, and issued its prospectus on June $1^{st}$ 2011.
LIMITATIONS OF MY STUDY:

- Time limitation, time was very limited for this kind of study and research.

- There are so many technicalities we have faced during the data collection of my research, like related personals didn’t responded, or if somehow responded then responded too late.

- Our main topic was GROWTH OF FIRM AFTER IPO, as its impossible for anyone to elaborate even the trends of the IPO market globally, restricting us to study only in PAKISTAN power sector.

- Unavailable data, critical data sources and unintentional actions of related personals made us to focus just on secondary data rather than asking them questions personally.
References


