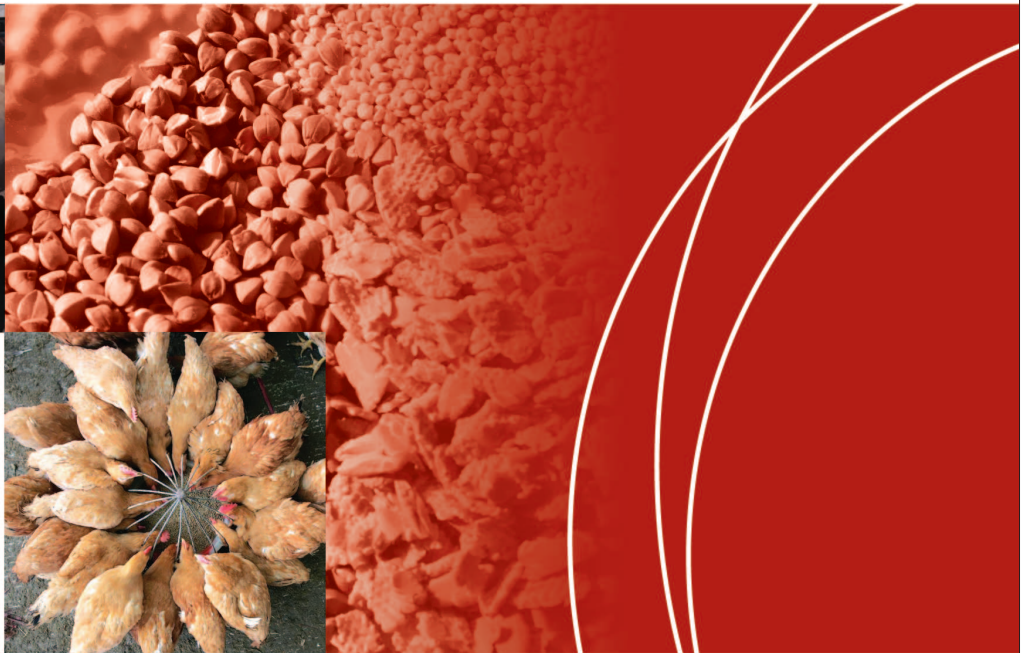



IFC Advisory Service in the Middle East and North Africa

Manufacturing Segment- Grain Mill Products and Animal Feeds



In partnership with: Canada, Denmark, Netherlands, Islamic Development Bank, Switzerland, United Kingdom and the United States.



IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private segment development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments. This report was commissioned by IFC through its Bank Advisory Services program which, helps build capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner.

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The project was conceived and implemented by IFC's Bank Advisory Services team, in partnership with State Bank of Pakistan (SBP) and in consultation with several major banks in Pakistan. Bank Advisory Services program, builds the capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner. Particularly, IFC works to increase the volume of SME lending, the number of banks with SME banking operations, and the number of businesses that have access to banking services.

SBP's SME Finance Department provided critical facilitation and oversight for this initiative. State Bank of Pakistan is the Central Bank of the country. Like a Central Bank in any developing country, State Bank of Pakistan performs both the traditional and developmental functions to achieve macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilization of a country's resources.



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1. Guidelines

This segment booklet provides indicative business and financial characteristics based on the information evidenced from a sample of business owners via primary research survey, it can be used for development of program based lending products for tapping the underutilized potential for providing financing products to business owners.

The Manufacturing Segment-Grain Mill Products and Animal Feeds Industry overview is developed using information obtained from secondary and tertiary sources including industry associations and data available in public domain.

Market Assessment

The section contains analysis based on primary findings of survey exercise conducted in major cities of Pakistan; the information can form the basis of identifying the characteristics of an average business owner in the segment.

Product Suite

Proposed banking product suite provides a number of potential banking product features that can be used to design specific banking products for gaining access to market and addressing the financial requirements of the segment. However, it is highly recommended that product development undergoes the general practice and protocols employed by the bank.

Marketing and Distribution

Market and Distribution considerations are indicative and have been based on the assumption that banks will employ their individual marketing strategy for product development. However, information presented can be utilized by banks for launching and maintaining sales of their financial products.

2. Introduction & Objectives

Small and Medium Enterprises (SMEs) account for approximately 70% of businesses in Pakistan and play a major role in spurring economic activity with a contribution amounting to 78% of non-agriculture GDP of Pakistan, as per State Bank of Pakistan. However, the segment remains largely unbanked owing the following key impediments:

- A different risk profile
- Lack of substantial collateral
- Conservative approach adopted by financial institutions
- Lack of awareness and willingness to bank

The SME sector presents immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns. However there is an imminent need to understand the dynamics of this segment in order to enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of the SME sector.

Keeping in view the above, International Finance Corporation (IFC) in liaison with State Bank of Pakistan (SBP) and in consultation with several major banks have conducted a secondary research and a primary survey of the SME businesses within the top ten SME segments / sub-segments of Pakistan to determine banking and financial needs of the sector.

This booklet contains the findings pertaining to the “*Manufacturing Segment-Grain Mill Products and Animal Feeds*” which include the following:

- Grain Mills Products
- Animal Feeds Mills

At present, the Grain Mill Products and Animal Feeds segment in Pakistan is relatively unorganized with sales primarily generated via shops/premises and as in case of other such SME segments, having limited financial and banking history.

The Grain Mill Products and Animal Feeds segment is largely dispersed around the areas where they have high demand of their products. Animal Feed Mills



are mostly located near poultry farms and Grain Mills are located close to their raw materials. This segment has limited exposure to financial institutions; however, demand for this segment is expected to increase substantially, given strong historical sales and increase in population.

Limitation of the Research

- The Sample may not be geographically exhaustive.
- The sampling plan may not suit the requirements of every bank.
- Some of the recommendations are not backed by qualitative primary research but are based on knowledge of the market and best practices.

Sampling Plan

In total, interviews with 27 SME owners were conducted for *Grain Mill Products and Animal Feeds* segment. The locations of these SMEs are covered in Section 5.1 of this booklet under 'Segment Demographic'. Number of employees under this

segment is covered in section 5.2 'Owners Profile'.

The primary research exercise conducted for identifying the financial needs of the SME segment was based on the following sampling methodology.

Particular	Criteria	Rationale
Size	<ul style="list-style-type: none"> 250 detailed one on one interviews for 10 sub-segments 25 SMEs surveyed within each sub-segment. 	<ul style="list-style-type: none"> Sample size is sufficient enough to gather relevant qualitative and quantitative information on each sub-segment Increase in the sample size will only add marginal value to the overall information collected from the survey exercise <p>Change of Definition of SME by SBP</p> <ul style="list-style-type: none"> SBP is planning to revise their classification criteria for Small enterprises as compared with Medium enterprises within the new draft prudential regulations being proposed for regulating banking services to the SME segment Small enterprises would be defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 MN Medium enterprises would be businesses with more than 20 employees and turnover in excess of PKR 75 MN for the purpose of classification and segmentation by banks For the purpose of this research the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150MN which would be approximately double in size with the small entities as per new definition

Particular	Criteria	Rationale
Status	<ul style="list-style-type: none"> At least 60% will be informal businesses At least 20% will be formal businesses 	<ul style="list-style-type: none"> Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information in the absence of which banks do not offer them any credit based products A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal businesses enterprises within the same industry segment Moreover Small businesses have been assumed to have a maximum financing need of up to PKR 15 MN, which may not compel banks to require audited financial statements and advanced cash flow models. A basic system of book keeping and accounting will suffice for them to be able to qualify for a structured lending product. Formal businesses are those entities that are relatively larger in size and have a proper book keeping system. These are also registered businesses that are operating either under an association of businesses or under a formal regulatory license, with a fair amount of transparency in their accounting and book keeping systems Including the above gives us a fair representation of businesses that are eligible for all financial services being offered by banks and their extent of using banks as their main financiers and other service providers or are using banks for only holding their business operating accounts Formal businesses have more structured requirements than those who use banks only for products such as fund transfers



Particular	Crietaria	Rationale
Turnover	<ul style="list-style-type: none"> At least 60% with turnover less than average PKR 75 MN At least 20% with turnover more than average PKR 75 MN 	<ul style="list-style-type: none"> The corresponding sample mix has been adopted to ensure majority coverage of small businesses in the overall sample size since these would be the primary candidates for programme lending products However for the purpose of understanding the financial needs of medium sized entities that are close to the threshold point of small and medium we have covered a minor portion to understand their requirement for structured loan products as well as other financial services generally required by businesses that are relatively mature and larger sized than small enterprises
Employees	<ul style="list-style-type: none"> At least 60% will have less than 20 employees At least 20% will have more than 20 employees 	<ul style="list-style-type: none"> SMEs that are not in the manufacturing segment are relatively understaffed owing to the small size of their business and ease of management Moreover businesses that have more than 20 employees will now be classified as medium sized hence we have covered a small portion of such entities as well

Particular	Crietaria	Rationale
Banking history	<ul style="list-style-type: none"> At least 80% with banking history At least 5% with no banking history 	<ul style="list-style-type: none"> As per SBP prudential regulations any business operated by an individual, but meets the classification criteria of the regulations will be termed under SME On account of above a majority of sample in the market are operating their businesses through a bank account (either in the name of the proprietor or in the name of the business) Most of the financial needs and preferences that are objectives of this assignment, have been obtained from the above sample who are using a bank for their businesses operating needs However a very small portion of the market is totally un-banked which is also touched during our survey to understand their reasons for not banking and fulfilling their needs for financial services through other, more expensive, informal channels

3. Economic Overview

Pakistan's economy has shown resilience against shocks of high intensity which include domestic factors such as political uncertainty, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan, macroeconomic stability has been attained over the past two years leading to moderate recovery in the economy, despite one of the most serious economic crises in the country's recent history. The economy grew by 4% in FY2010, after a modest growth of 1.2% in FY 2008-09.

Indicator	Economic Considerations
Positives	Heavily populated, (over 170MN people) translating into strong future potential for improvement in purchasing power, leading to growth in consumer related segments
	Structural reforms have accelerated economic growth with strong momentum of real GDP growth of 7.0% from FY03 to FY08, although this is unlikely to be attained over the next few years due to economic slowdown and political uncertainty
	Rising rates of urbanization – with the UN forecasting the proportion of city dwellers climbing from 34.9% of the population in 2005 to more than 50% by 2035 – should continue to serve as a key driver of economic growth.
Challenges	Low level of foreign reserves, thereby enhanced vulnerability to external shocks
	Heavily dependent on funding from multilateral institutions and bilateral partners
	Despite rapid economic growth in recent years, poor per capita income just USD 1046
	Balance of payments portrays a bleak picture in light of rising oil prices, with oil imports of more than 50 MN barrels per year for catering local demand for fuel products

4. Industry Overview

Sub Segment Overview

Factors	Comments
Demand	Being a major cost for livestock and dairy farming, demand for animal feed has been on a constant rise; however, nutrients available under the present pattern of feed utilization do not meet the requirements of existing livestock population
Supply	Approximately 40 million tones of crop residues are produced annually in Pakistan of which 22% is contributed by wheat and 53% by rice
Key Players	Chakwal Feed Mills, Al Hafiz Cattle Feed Industries, Madina Cattle Feeds
Trade Body	Pakistan Flour Mills Association (PFMA) for Grain Mills, Pakistan Animal Feed association for Animal Feeds Mills

Factors	Comments
Regulatory Body	Pakistan Rice Exporters Association
Recent Developments	With the increasing number of more established controlled shed, animal feeds face a more stable and organized business.
Future prospects	The business expects strong growth in future as the poultry industry is growing and transforming into a more organized livestock segment.

Demand

Animal feed industry has not yet developed to any sizeable extent in Pakistan. Feed is a major cost, of about 70% in livestock and dairy farming and its demand is continually increasing.

Most of the farmers have about 75% of small land holdings on which most of the livestock population is concentrated. With growing trends towards the establishment of structured and corporate dairy cattle and buffalo farms in semi-urban areas of Pakistan, there is a substantial requirement of high quality animal feed.

The nutrients available under the present pattern of feed utilization do not meet the requirements of Pakistan's existing livestock population. There is comparatively poor nutrient composition of indigenous feed ingredients due to differences in varieties and use of improper soil fertilizers.

Grain Mills is an organized segment which faces consistent demand throughout the year. It has strong export demands however unluckily their products are sold at low prices in order to gain a bigger share in the international market.

Supply

Our research indicates that Pakistan has 215 feed mills, but only a few are preparing compound feed for livestock. Approximately 40 million tones of crop residues are produced annually in Pakistan of which 22% is contributed by wheat and 53% by rice. The industry is currently working under 70% of its installed capacity.

Due to lack of proper storage facility, various agricultural products when produced have quite high moisture content and become liable to be affected with insect damage, auto-oxidation and fungal contamination. Improper storage, transfer, grading,

feed milling and mixing of feed ingredients also affect the quality of feed. Therefore feed mills have to regulate their production schedule according to the effective demand from the livestock farm.

There are approximately 915 Wheat Mills all over Pakistan with the milling capacity of 77275 M. Tones daily. However due to economical and political situation, the country has faced serious flour shortages in the recent years. Rice Mills is a comparatively steady business with consistent supplies in the market.

Key Players

The major competitors of Animals Feeds Mills are Chakwal Feeds Mills, Al-Hafiz Cattle Feed Industries and Madina Cattle Feeds.

Grain Mills are dominated by Conagra Foods Inc and General Mills Inc. due to well developed manufacturing units and distribution networks.

Recent Development

Over the past couple of years, controlled sheds have made a growing presence in the poultry segment which has improved this segment tremendously. This in turn has increased the demand of animal feeds to a great extent.

Recently, according to our primary findings, rice exports have significantly reduced which has affected the grain mills industry.

Future Prospects

Investment in dairy and livestock sector is increasing day by day and quality feed is a pre requisite in profitable dairy and livestock farming. However there is a dire need of investments in animal feeds as this industry is so vital for the growth of livestock through good quality feeds.

Grain Mills industry is showing steady improvement, however a lot depends on the economic and political situation of the country in the next few years.



5. Market Assessment

5.1 Market & Demographic Profile

The “*Manufacturing Segment of Grain Mill Products and Animal Feeds*” constitutes the following:

- Grain Mills
- Animal Feeds Mill

Grain mill is an organized sub-segment with consistent local demand and supply with sales being mainly affected by the export demand. At present, the Animal feeds mill sub-segment in Pakistan is relatively unorganized with sales being dependent solely on the poultry and livestock sector. Most of these businesses are family owned with members of one family serving different functions of business. Underlying issues inherent to each of the sub-segments include:

- 1) Willingness to Expand
- 2) Inability to assemble and deploy intellectual, human and financial resources effectively
- 3) Vision for growth
- 4) Limited perception of business requirements
- 5) Restricted funding sources
- 6) Inability to deploy technology based equipment

The grain mills products and animal feeds segment

is mostly dispersed in Punjab and few in Sindh near to poultry farms. The segment predominantly consist of small and medium size enterprises which operate on costly machinery and labor intensive model, with few still using outdated technology. The main reason for lack of automation in this segment is due to unavailability of funds to the owner for purchase and installation of such equipment.

Market Sizing and Lending Potential

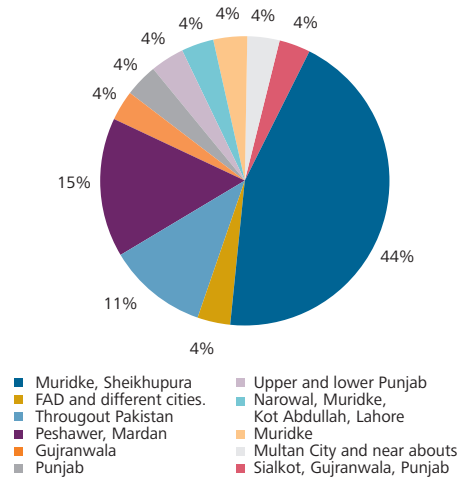
Businesses in the Animal Feed sub-segment are mainly spreadout in Punjab and in some places of Sindh where there is high number of poultry farms located. Grain mills are located in rural areas, with close proximity to raw material sources.

Cluster location data was unavailable for these sub-segments from trade bodies and other secondary and tertiary sources.

Segment Demographics

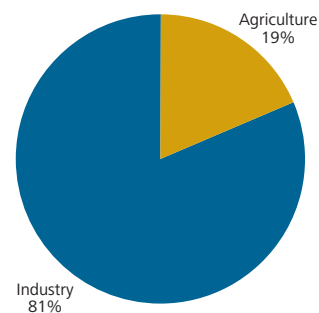
The segment is widely spread out across various regions in the country but their major cluster is in Punjab and Gujranwala where the biggest cluster of poultry farms is located, which is feasible for these mills to carry their businesses. Demographic information is attained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan.

Location of Businesses



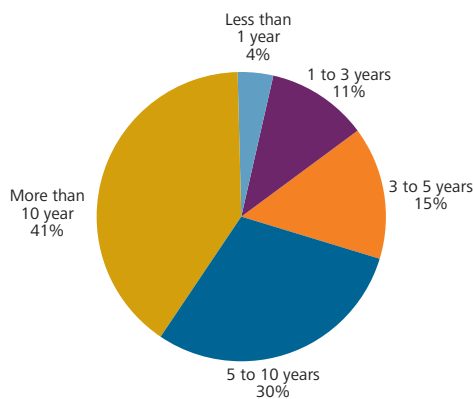
Source: Survey Findings

Classification of Businesses



Source: Survey Findings

Number of years in Operation



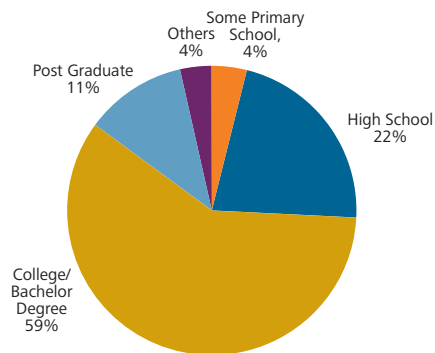
Source: Survey Findings

5.2 Owner Profile

The business owners consist mainly of people in the age groups of 31-40 years and 41-50 years. Due to the labor intensive and manual nature of work, education is not considered as a major factor for business owners and they require a mixture of both skilled and unskilled workers. Predominantly businesses are run by families, preferring family members to undertake organization functions.

Majority of businesses are run on partnership basis, which accounts for 56%, with family members undertaking organization function who later take over businesses.

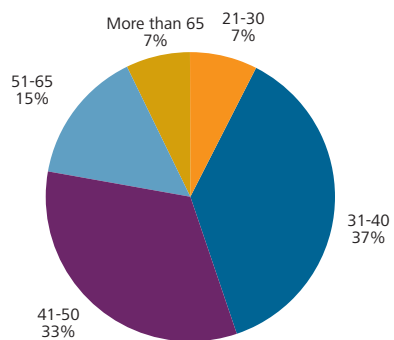
Education level of Business Owners



Source: Survey Findings

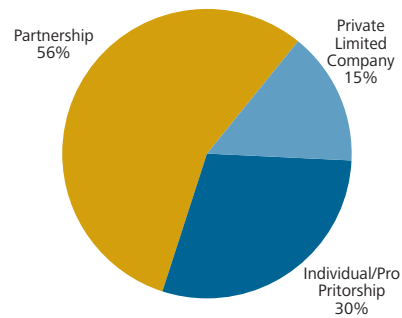


Age group of Business Owners



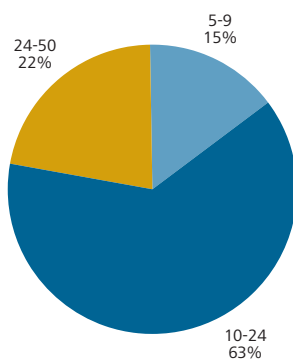
Source: Survey Findings

Ownership Type



Source: Survey Findings

Number of Employees under Business Owners



Source: Survey Findings

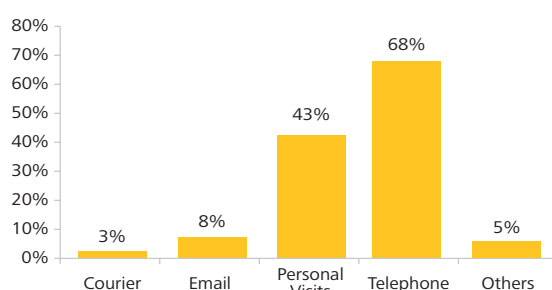
5.3 Business Linkages

Businesses in the segment are connected to various institutions that are directly or indirectly affected by the business operations, primary stake holders and their interests are enlisted in the following table:

Stakeholder	Grain Mill Products and Animal Feeds
Owners	Business growth and access to finance, awareness regarding lending products
Suppliers (Cereal, Maize, Wheat Bran)	Better terms, increased supply, consistent prices and lower risk
Customers	Product quality and reasonable pricing
Financial Institution	Debt servicing, Increase in deposits, utilization of services
Government	Expansion of taxation bracket, economic growth, benefit to community at large

Businesses employ various mediums as means of communication with its customers however, due to the personalized nature of businesses; personal visits by customers and telephone are widely utilized.

Communication with Customers



Source: Survey Findings

Businesses in the segment are predominantly serviced by formal wholesalers and market/individuals. According to our primary survey 49% are serviced by formal wholesalers and 40% by market/ individuals. Though a small number of business owners utilize formal retailers as their primary resource for supplies.

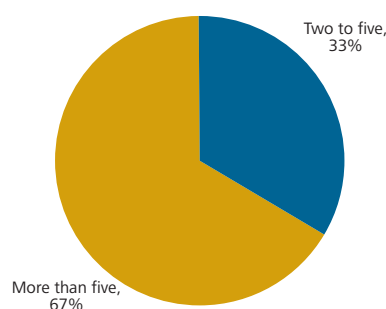
Major supplies for sub-segments include:

Animal Feeds	Grain Mills
Grain residue	Rice paddy
Oil cakes	Mungi
Fodder crops	Grains
Crop residues	Wheat
Fish meats	Malt

Most of the business owners, around 67% rely on the more than five suppliers to meet their business needs. The rest rely on between two to five suppliers which account for 33%. This segment depends on many suppliers for their raw materials and therefore not dependent on specific suppliers in meeting their business needs.

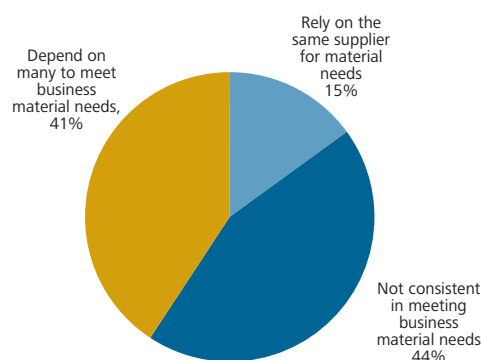
In animal feeds sub-segment raw material needs are met locally from buying in the open market from the same locality, however some of the business import raw materials, especially buying from the same location or same city, although the number of suppliers mostly comprises from two to five or even more, but predominantly the sub-segment relies on same suppliers to meet their material needs. Grain Mills sub-segment rely on many suppliers for their raw materials on random basis who pay personal visits to them to sell their produce.

Number of Suppliers



Source: Survey Findings

Supplier Relationship



Source: Survey Findings

5.4 Business Cycle

Grain Mills

Grain mills sub-segment experiences sales throughout the year. Most of the businesses have contract agreements with small retail shops, which pay personal visits to them. They have strong supplier relations with some, while with others it is on random basis.

For export purposes the products are sold to agents through whom it is sent to countries like Dubai and other Middle East countries. The agents buy it on market prices which are usually less than their costs.

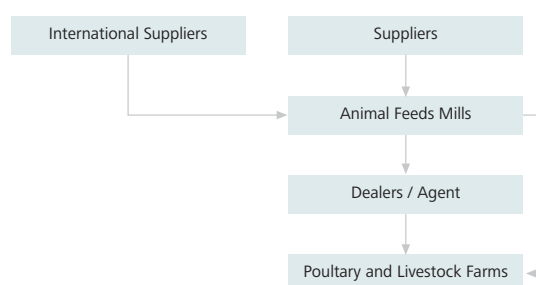
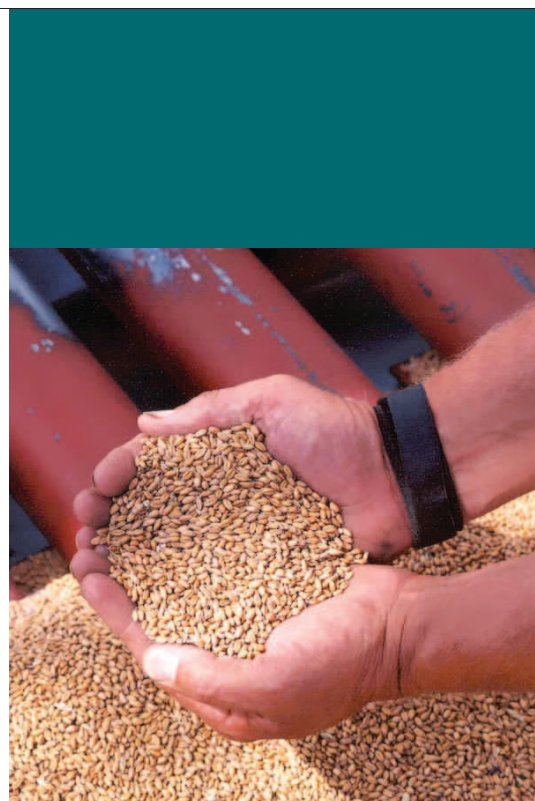


Animal Feeds

The sub-segment used to experience cyclical trends due to high number of animal casualties in winters. Controlled sheds in Pakistan has improved the condition of poultry farm to a great extent.

This sub-segment is greatly affected by the fluctuations in the raw material prices for producing animal feeds. The businesses alter their production level according to the level of demand in livestock farming and so it is feasible for such businesses to personally visit such poultry farms to analyze the livestock count and so the feed requirement. In 50% of the cases the businesses sell their products to dealers who further sell them to poultry farms which are located in far areas.

Many SMEs in this segment have their own farms to cultivate their raw materials such as crops for which they import crop seeds as they are unavailable in Pakistan. Crop seeds are imported from all over the world but mostly from America and France.

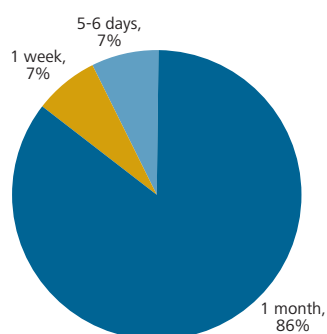


Working Capital

Working capital is dependent upon payment terms offered to customers and from suppliers, businesses in Grain Mills and Animal feeds operate on payment terms offered by agents or livestock farms themselves. The usual term offered to the customers is one month, however in very few instances three months credit term is also offered depending on how large the order is. Few work on total cash based payment, which is 18% as per our survey result.

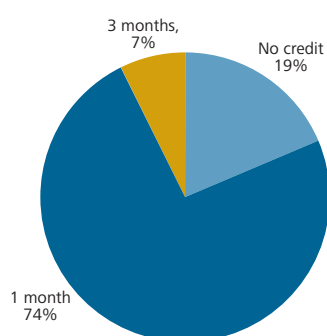
Similar credit terms are offered from suppliers in the open market with 86% suppliers offering one month credit term. The remaining either offer one week or approximately five to six days.

Repayment Terms offered by Suppliers



Source: Survey Findings

Repayment Terms for Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

Most Businesses in the segment prepare formal financial statements, while some business owners also have an audit of financial statement by accountants and managers however, the remaining businesses do not prepare formal financial statements but they do prepare single entry records and/or cash registers for bookkeeping purposes. Owners/managers keep track of accounts themselves, their lack of accounting knowledge and experience presents a constraint for preparation and keeping an organized track of cash movement.

From primary research and interviews conducted from trade associations, it has been identified that

Sale margins are between 15-20%, with a great number relying on higher sales volume for earning better profits.

As per research findings, business owners in the segment had a fair idea of their financial positions with regards to capital invested, business assets employed, annual revenue, income and expenses. The information gathered was an estimate provided to us by the interviewees.

Business owner's reluctance regarding accounting records presents an issue for calculation of segment's benchmark financial ratios. Devising from the information attained in the course of primary research, the indicative ratios will be an estimate at best and cannot be utilized to assess an appropriate position of the businesses operating in the segment.

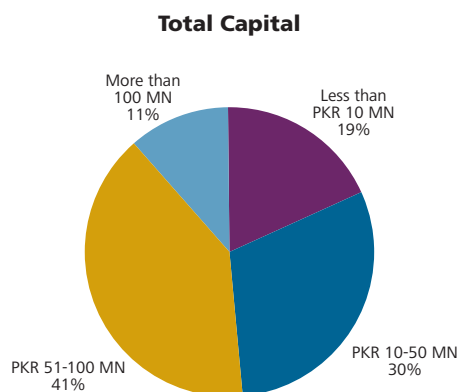
Conclusively it can be stated that despite the recent trend in growth of this segment there still exists an ample demand for Grains end products and quality animal feeds in Pakistan and provides favorable opportunities for entry into this business segment.

5.6 Financial Information

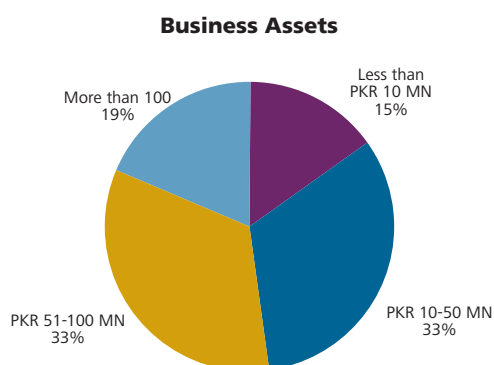
Primary survey findings portray the following outcome for sub-segment under consideration. The results reflect Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

Survey findings demonstrate that 60% businesses are operating with total capital between PKR 51-100 MN and around 30% with PKR 10-50 MN, exhibiting a relatively high capital requirement as this sub-segment is highly dependent on machines and equipments for its product processing.

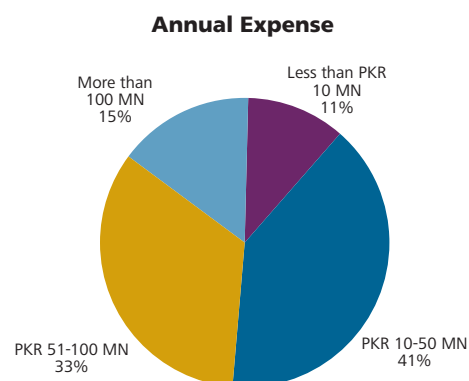
Total assets comprise of Machinery and Equipment, Furniture and Fixtures, Office equipment and building, liabilities constitute trade payables and borrowing for working capital finance.



Source: Survey Findings

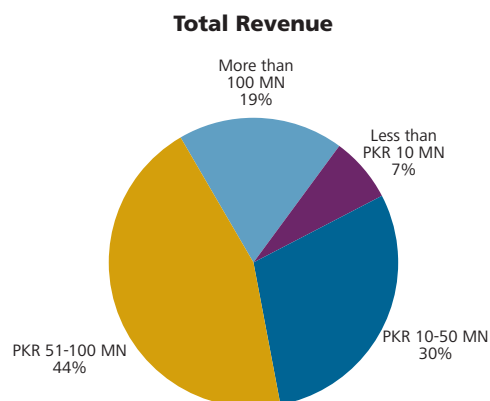


Source: Survey Findings



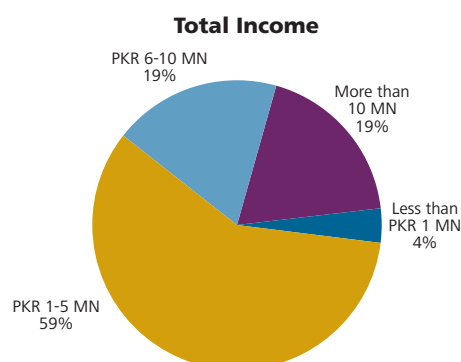
Source: Survey Findings

Annual revenue is predominantly between PKR 51-100 MN throughout the segment; expenses primarily represent raw material, machinery repair and interest expenses against borrowings.



Source: Survey Findings

All businesses display average earnings, with 44% businesses facing growth between 1-5% and 37% facing growth between 6-10%, as per our survey. 68% of the businesses have total earnings between PKR 1-5 MN. However there are 19% of the businesses which show an earning between PKR 6-10 MN.



Source: Survey Findings



Benchmark Financial Ratios

Financial Information	PKR
Total Capital	65,685,185
Business Assets	76,296,296
Total Revenue	64,037,037
Annual Expense	57,518,519
Total Income	6,937,037
Key Financial Ratios	
Profit Margin	11%
Operating Expenses/ Revenue	90%
Asset turnover	84%
ROA	9%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 27 entities in this sub segment. Such ratios will of course substantially vary for different sample sizes for each establishment individually.

5.7 Indicative Business Requirements

Business owners require equipment and civil works for start up or expansion. The values provided below are susceptible to volatility in market prices. In addition, individual business owners will have distinctive requirements as per their business needs. The table below is neither comprehensive nor specific and presented only to provide an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

S.No.	Indicative Equipment Requirement	Indicative Cost (PKR)
1	Palet mills	10-50 MN
2	Mixer	0.5-25 MN
3	Hammer Mills	10-20 MN
4	Roller Body	400,000
5	Elevators	Above 500,000
6	Paddy Cleaner	1 MN
7	Rubber Ruler	500,000
8	Husking Machine	200,000 – 300,000

5.8 Financial Need Analysis

Funds are mostly managed by the owners themselves, mainly required for business assets and working capital which are mostly fulfilled by their own personal savings or borrowed from the banks. Among the fixed assets, finance requirements mainly centered on machinery and equipment of the business.

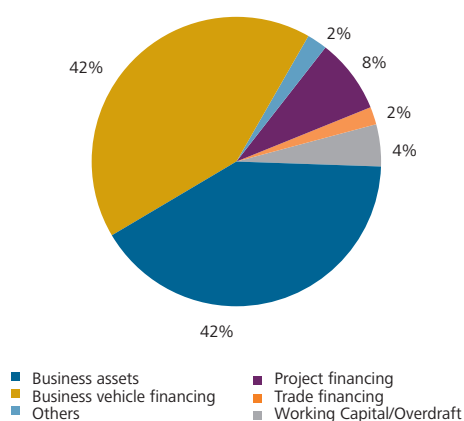
A large number of owners have fully stocked raw materials for carrying out smooth business operations in order to mitigate shortage or unusual hike in prices. This issue pertains throughout the year as a minimum level of inventory is to be maintained for uninterrupted business operations.

The Grain mills sub-segment is generally more open to banking products and is keen on obtaining financing and a more far reaching relationship with banks and financial institution. However in this sub-segment they do face a difficulty in loans payoff due

to which they are willing to export their products at even lower prices to generate cash flows.

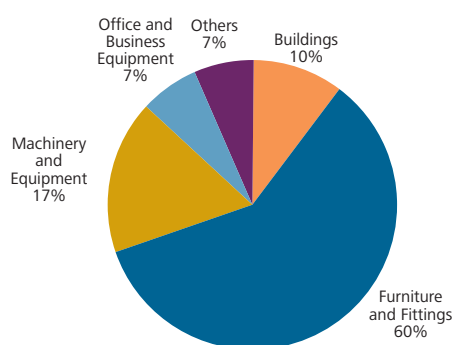
Animal Feeds sub-segment is underserved with respect to financing and banking products, the businesses owners were not inclined towards obtaining finance, however their interests may develop if banking products are more specific and suited to their needs.

Business Funding Needs



Source: Survey Findings

Fixed Assets Requirement



Source: Survey Findings

5.9 Usage of Banking Products

The owners are mostly unaware of any SME segment specific efforts made by the Government of Pakistan however some business owners display awareness of loan products offered by banks and have availed the



facility of loan products for business funding needs.

A large number of business owners in grain mills and animal feeds use banks to meet banking and business needs availing the facility of business banking accounts but the owners are not keen to propose any feature or product to be offered by the bank.

However this segment at large is not aware of any specific products or services that may be suited to their needs and therefore not willing to use any financing or loan product to meet funding needs. Due to lack of awareness they do not propose any specific loan product for the segment financing needs.

In addition to that it is also observed that other services such as payroll and money transfer are discouraged by the segment whereas the response for cash management and collection services is relative fair, 36% business owners have displayed an intent to avail the service.

22% respondents do not pay for any of the proposed Insurance products and 48% of them are not interested in availing any insurance product in future.

Nearly 36% of the segment is currently paying for some kind of advisory service; however they have demonstrated willingness to avail such services from bank as they feel that banks may have more experience in finance and have experienced staff. Around 14% feel that banks will have high service charges with 21% of opinion that it is not the core function of banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	96%
Term Deposits	4%

Possible Mitigates:

- Lending only to those businesses which have been operating for more than five years
- Proposing products to business with a verifiable banking history of more than three years
- Review of accounts and register of invoices
- Review of ownership documents of shop / business premises

5.10 Segment Risk Considerations

Businesses in the segment are largely based on partnership, having this business as the only source of income and around 78% operate from owned premises which reduce the risk from the view point of the lender.

30% of the businesses are not formally registered with any trade union or association. 63% of the businesses in the segment do not prepare financial statements whereas, 15% of the remaining have an audit of financial statements. Analyses show that the segment operates in a highly competitive market with a maximum amount of businesses having more than ten competitors. The majority of segment relies on more than five suppliers who are not consistent in meeting and do not have a regular stream of customers. The businesses have no control on the pricing policy for their exports, which is government set, usually below the costs incurred by the mills.

A large proportion of SMEs in the segment use Banks to meet business needs and but are not paying for any insurance products.

Risks inherent to the segment include:

- Uneven cash flows
- Fluctuations in raw material pricing and market pricing
- Business uncertainty
- Limited resources
- Lack of succession planning

6 Proposed Banking Product Suite

6.1 Products Features

Based on our primary and secondary research we propose the following products for social and economic growth of “*Manufacturing Segment Grain Mills Products and Animal Feeds*” segment:

Asset Products:

- Overdraft/Revolving Finance Facility

Liability Products:

- Business Bank Account

Other Products

- Bancassurance
- Branchless Banking (Mobile)
- Utility Bill Payment



Overdraft / Revolving Finance Facility	
Particulars	Details
Initial deposit	<ul style="list-style-type: none"> ▪ Minimum initial deposit of PKR 50,000
Tenure	<ul style="list-style-type: none"> ▪ 3 years with annual renewal along with mark-up as mentioned below
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 1,000,000 ▪ Maximum Limit - PKR 5,000,000 ▪ The loan limit offered will not exceed the cost for average six month of raw material usage determined over a period of last three years.
Documentation	<ul style="list-style-type: none"> ▪ One time documentation required for a period of three years
Repayments & Withdrawals	<ul style="list-style-type: none"> ▪ Flexible repayment conditions: lump sum payment on the due date or partial repayments ▪ Multiple withdrawals are allowed during the tenure of loan
Markup	<ul style="list-style-type: none"> ▪ As per prevailing KIBOR and spread
Markup charges	<ul style="list-style-type: none"> ▪ Mark up will be charged only on the amount utilized by the borrower
Renewal	<ul style="list-style-type: none"> ▪ Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and credit history
Insurance	<ul style="list-style-type: none"> ▪ Mandatory Insurance Requirement of the banks
Penalty	<ul style="list-style-type: none"> ▪ No early repayment penalty will be imposed on the borrower

SME Business Bank Account	
Particulars	Details
Minimum Deposit	▪ PKR 10,000
Account Type	▪ Non-remunerative Current Account
Documentation	▪ CNIC and business registration documents as per SBP guidelines
Facilities	▪ Cheque Book ▪ Upgraded ATM facilities ▪ Business Visa Debit Card ▪ Phone Banking ▪ Mobile Banking ▪ Monthly account statement

Other Products	
Particulars	Details
Bancassurance	▪ Bancassurance products such as Business Premises Insurance, Personal Injury Insurance, Equipment and Vehicle insurance can be proposed by banks through its channels offering reasonable rates and servicing through banking channels such as direct debit
Branchless Banking (Mobile)	▪ Mobile banking services for instance balancing check, bill payment and funds transfer
Utility Bill Payment	▪ Service for easy payment of electricity, gas, telephone and cell phone bills

6.2 Eligibility Criteria for Asset Products

Indicators	Description
Borrower Eligibility Analysis	Assessment of type of customers to take into account the total indebtedness of the borrower and his disposable income and should ensure that the total financing to a borrower does not exceed the reasonable limits as laid down in approved policies of the bank. Borrower should be in business of grain mills and animal feeds mill for the past five years and hold a valid CNIC
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from CIB and other banks operating in the region
Financial parameters	To assess average expenses, income generated and repayment capacity of the borrower
Adherence to Lending Standards	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities
Security	To assess the quality, market position, and realizable value of the collateral being offered Property will be valued by PBA approved Valuers, fairness of the value will be certified by Bank Manager/RM
Banking History	Verifiable banking history of more than one year with active accounts
Business Operations	Business should be in operation for more than three years

7 Distribution and Communication Considerations

SMEs in “*Manufacturing Segment-Grain Mills Products and Animal Feeds*” are spread out across the cities in various locations, however major concentration is in rural Punjab and Sindh. The SME teams need to work closely with the Agri teams to identify prospective customers and structure products jointly.

Entry strategy for this segment is listed below:

Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for grain mills and animal feeds are as follows:

- RM teams are to visit the Grain mills and animal feeds locations to gain an understanding of the industry requirements and introduce them the means for their capital expansion
- Reference to be obtained from Agri dept. of bank where applicable to identify potential customers for SMEs
- Through vendors, major preselected suppliers of rice paddy, mungi, grains, wheat and malt for grain mills and cereal, oil cakes, crops residue and fish meat for animal feeds mills are to be verified by the RM teams.

Promotional Activities

To create awareness of SME specific products in the target market, the management will aggressively advertise various promotional programs and sponsored events:

- Workshops will be conducted to create awareness amongst business owners with Agriculture finance unit of the bank



Banks can service these SMEs through the following proposed channels (*Please note that this list is not exhaustive*):

- Direct Sales Agents
- Relationship teams to create awareness

Distribution Strategy

To reach maximum percentage of target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of grain mills products and animal feeds segment through its products on national basis with focus on agri based areas in rural Punjab and Sindh.

Banks will utilize conventional channels for the same.

Conventional Channel

- **Branches:** Offering products through branches in grain mills and animal feeds segment primarily in rural and agri-based regions with high growth potential to attract a large number of customers for SME Products
- **Direct Sales Agent:** This activity will be outsourced and trained marketing team will periodically visit identified areas within the areas to influence potential customers and create awareness of the product & features being offered under SME Products Suite.

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Habib Metropolitan Bank Limited
KASB Bank Limited

MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Ltd
United Bank Limited

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