

IFC Advisory Service in the Middle East and North Africa

Other Non-Metallic Mineral Products – Glass and Ceramics



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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 sub 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 by banks as a starting point for development of program based lending products for tapping the underutilized potential for providing financing products to small business owners.

The Other Non-Metallic Mineral Products - Glass and Ceramics 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 a typical business entity in the segment.

Product Suite

Proposed banking product suite provides a number of potential core banking products templates that can be used by banks to design appropriate banking products for gaining access to the particular sub segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is also highly recommended that the product development and the business line team work together to conduct a quick market research of a small sample in order to validate the results of this study. The methodology, questionnaire, sampling plans and results tables from this study are available with IFC for further reference.

Marketing and Distribution

Market and Distribution considerations are indicative and have been based on the assumption that banks will employ their individual marketing and distribution strategy for product development. However, information presented can be utilized by banks for developing certain hypothesis to be validated for developing their marketing and delivery strategies.

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 sector remains largely unbanked owing to the following 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.

In this context, International Finance Corporation (IFC) in partnership with State Bank of Pakistan (SBP) and in consultation with 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 of *“Other Non-Metallic Mineral Product – Glass and Ceramics”* which includes the following as the name suggests:

- Ceramics Industry (Roof tiles and sanitary wares)
- Glass Industry

At present, the roof tiles sub segment in Pakistan is fairly organized with sales being primarily generated via customers with a strong financial and banking history. Sanitary ware is relatively an unorganized sub segment with low banking history.



The Glass segment is largely dispersed and severely underserved by financial institutions. However, demand for this segment is expected to increase substantially, given strong historical sales growth as well as better future prospects.

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 25 SME owners were conducted for *Other Non-Metallic Mineral Products - Glass and Ceramics Industry* segment. The locations and classification of these SME's 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 sub 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 segments 25 SMEs surveyed within each segment. 	<ul style="list-style-type: none"> Sample size is sufficient enough to gather relevant qualitative and quantitative information on each 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 sector 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 sector 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	Demand for glass and ceramics products show a steady increase over the years both locally and internationally
Supply	High potential for increased production level using the existing capacity, but due to surge in power prices, stoppages and gas shortages the industry is currently working below its capacity
Key Players	Karam Ceramics, Swat Ceramics, Master Tiles, Shabbir Tiles, National Tiles and Emco Industries are the key players in the ceramics industries. Master Group and Tariq Glass industries play a major role in the glass industry.
Trade Body	Pakistan Glass Manufacturers Association (PAGMA), Sanitary Merchants and Manufacturers Association
Regulatory Body	Ministry of Commerce and Trade

Recent Developments	In the past six months alone around 25 units closed down in Gujarat and Gujranwala, which is the only SME cluster of this segment
Future prospects	Unavailability of international standard machines in the ceramics sub-segment poses a grim picture for its future growth at local and especially at international level. Glass industry's future depends substantially on the supply of gas and power. If the government is able to handle these shortages, strong growth can be expected in future for the glass sub segment in terms of exports

Demand

Ceramics

Pakistan's ceramic sub-segment can be divided into 2 major categories:

- Roof Tiles
- Sanitary ware

Roof tiles is a fairly organized sub-segment and has gained popularity, especially with the lower income segment of the population due to their low cost, durability, easy installation and maintenance as compared to concrete roofs.

Demand for construction remains constant throughout the year. However, construction activities slow down in some parts of the country where weather is extremely cold in winters.

Ceramics sanitary wares and tiles are essential consumer items in the urbanized areas of the country. With rapid urbanization and new construction, the demand for tiles and sanitary wares has increased manifold over the last three years. It is however a relatively unorganized sub-segment and is dependable on the quality of raw material available to it.

According to Pakistan Ceramics Manufacturing Association, ceramics industry has been unable to meet foreign and local demands due to slow manufacturing process and shut down of many units.

Glass

Glass manufacturing are well known energy intensive industries comprising of manufacturers in the organized sub-segment, producing 90% of indigenous production. Demand for glassware has shown a rising trend due to the increase in population and income levels.

Pakistan exported glass products worth Rs 60 million to Rs 120 million per annum during 2005-2010, according to Pakistan Glass Manufacturer Association (PAGMA). Pakistan also imports glass products which are used in high quality table wares for export and during the past five years, imports of various glass products increased from Rs 975 million to Rs 1,782 million, showing an increase of 83%.

Supply

Ceramics

The industry consists of small, medium and large corporations involved in the manufacturing of the ceramics. The annual capacity of large enterprises vary largely to 2,000 Sqm and above, while in the SME enterprises, annual capacity ranges between 800 Sqm and below.

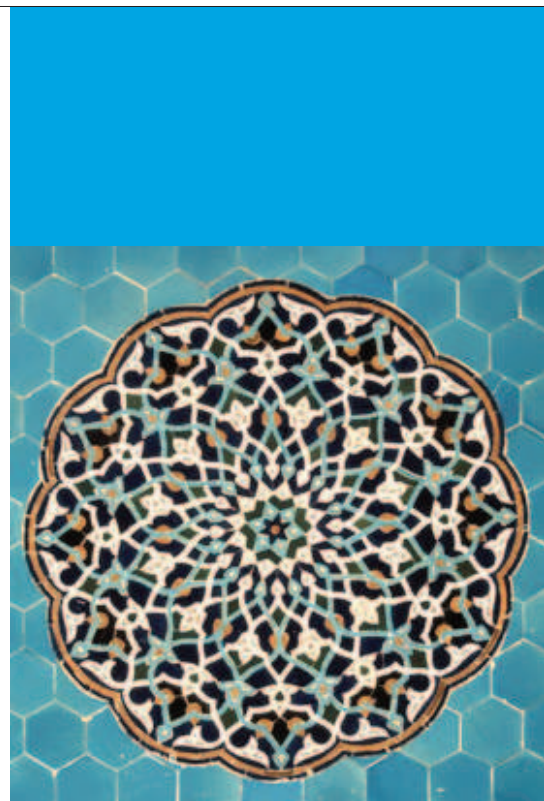
There are seven ceramic tile manufacturing industries with installed capacity of 22 Million Sqm per year and production of 18.7 million Sqm per year. The production figure has risen from 10.6 million Sqm in 2003-04 to the 18.7 million in 2009-10, depicting significant potential for further growth.

Poor quality of raw material and old techniques involved in production has seriously affected exports as well as imports of ceramics. The unavailability of international standard machines also led to inferior production quality and low capacity. Furthermore due to non availability of gas supply, the industry is barely able to meet its local demands.

Glass

During 2009-10, the sub-segment produced glass products worth USD 134.50 MN and production of all types of glass containers has grown at an average annual rate of 5% during the past five years.

In this year alone, glass industry has undertaken production worth USD 81 MN, contributing 1.9 percent to the total manufacturing sector's value. There are more than 35 glassworks in Pakistan producing sheet glass, glass containers, electric glass tubes and bulbs, neutral glass tubing and glassware. The production capacity ranges between 15 tons and 250 tons per day. Most of the units are located near



the sources of raw materials.

Gas is the primary fuel used in production of glass; over 80% of manufacturers rely on natural gas. The industry suffers from decreased production in winters on the back of fuel shortages of natural gas and electricity. More than 50% of glass industry has suspended its activities while the remaining units are on the verge of closure due to gas and power load shedding.

Key Players

The major competitors of ceramics industry are Karam Ceramics, Swat Ceramics, Master Tiles, Shabbir Tiles and Emco Industries.

Glass industry is dominated by Master Group and Tariq Glass Industries, due to higher production capacity and well-developed distribution network as compared to other small and medium units.

Trade Body

Ceramics sub-segment is governed by Sanitary Merchants and Manufacturers Association and Pakistan Ceramics Manufacturing Association. Pakistan Glass Manufactures Association (PAGMA) looks after the affairs of the glass industry.

Recent Developments

According to Pakistan Ceramics Manufacturing Association, around 25 units in ceramics sub-segment closed down in the last six months due to no supply of gas. The industry is severely suffering and unable to fulfill their customer's orders.

Future Prospects

Ceramics

Ceramics sanitary wares and tiles are essential consumer items in the urbanized areas of the country. With rapid urbanization and new construction, the demand for tiles and sanitary wares has increased manifold over the last three years.

Glass

According to Pakistan Glass Manufacturers Association, Pakistan can compete with international market, if given a consistent supply of gas, due to which billions of rupees of revenue and employment is lost.

Increasing growth and expansion is expected however, there is a great dependency in stable economic and political environment to prevail in order to boost this sub-segment to new growth levels.

5 Market Assessment

5.1 Market & Demographic Profile

The manufacturing segment of “*Other Non-Metallic Minerals Products – Glass and Ceramics*” constitutes following:

Ceramics Industry

Manufacturing units in the sub segment are densely populated in Gujranwala and Gujrat areas due to ready availability of raw materials. Demand for ceramic products is predominantly dependent upon economic activity, which drives the income levels of potential customers. Most businesses are family owned with members of one family serving different functions of

business. Underlying issues inherent to the sub segment include:

- 1) Inconsistent demand
- 2) Fuel shortages
- 3) Primitive methods of manufacturing
- 4) Inability to assemble and deploy intellectual, human and financial resources effectively
- 5) Lack of vision for growth
- 6) Limited perception of business requirements
- 7) Restricted funding sources

Glass Industry

This sub-segment is largely dispersed in the Punjab consisting of few SMEs in clusters since most units are spread out all over. High production cost and limited supply of gas are the major issues faced by the industry.

The underlying causes for limited operations are as follows:

- 1) Lack of vision for growth
- 2) Fuel shortages
- 3) Limited perception of business requirements
- 4) Inability to deploy technology based equipment
- 5) Restricted funding sources
- 6) Lack of technology and training
- 7) Inability to identify and explore new ideas

Market Sizing and Lending Potential

Businesses in the sub segment are widespread throughout various locations in rural and urban regions in the country.

The following table indicates the areas where SMEs in ceramics and glass industry are located in what we may term as clusters, which primarily consist of smaller units compared to medium sized which are closer to larger urban centers. According to our primary surveys and interview with the trade associations, ceramics SME clusters are present only in Gujrat and Gujranwala with the remaining establishments falling under the large organizations in Karachi and Lahore.

Cluster Locations for Ceramic Industry	
Area	No. of establishments
Gujranwala and Gujrat	100

Source: Trade Association and Primary Research

Cluster Locations for Glass Industry	
Area	No. of establishments
Punjab	25
NWFP	7
Sindh	2

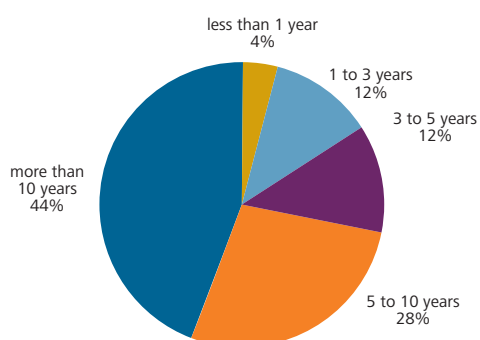
Source: Trade Association and Primary Research

Segment Demographics

This segment is widely spread out across various regions of the country. Demographic information is attained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan.

The owners have been running the businesses in this segment for more than 10 years or between five to ten years showing this segment to contain established businesses. The industry is in stabilized phase with very few entrants in the market in the last few years.

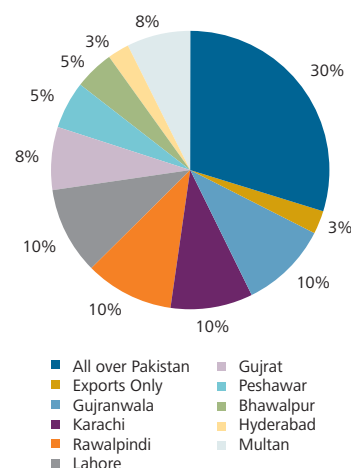
Number of years in Operation



Source: Survey Findings

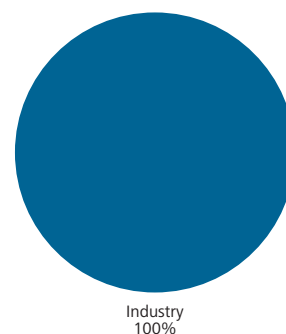


Location of Businesses



Source: Survey Findings

Classification of Businesses



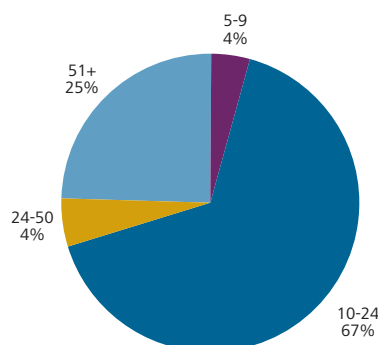
Source: Survey Findings

5.2 Owner Profile

The business owners consist mainly of people in the age group of 31-40 years. Due to the nature of the manufacturing industry, education is not considered as a major factor for business owners. Majority of owners, nevertheless are graduate. Predominantly businesses are run by partnerships, preferring family members to undertake organization functions.

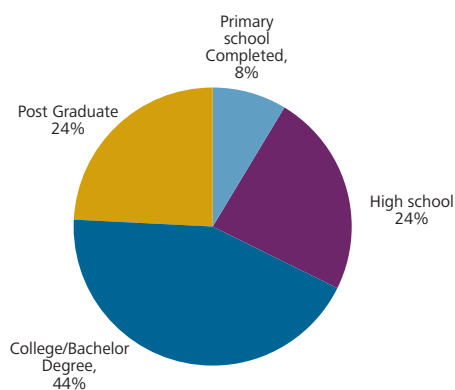
Majority of the business are run on either partnership or individual/proprietorship with 10-24 employees working under one owner. However there are 26% of the businesses employing above 61 employees as this segment is both machine and labor intensive.

Number of Employees Under Business Owners



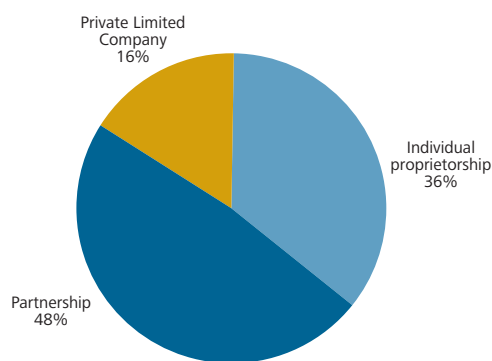
Source: Survey Findings

Education level of Business Owners



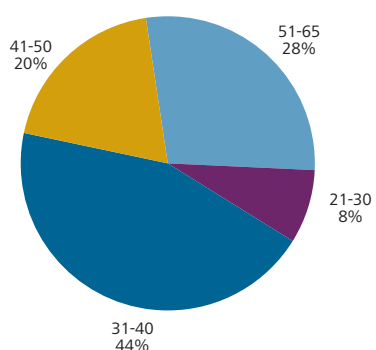
Source: Survey Findings

Ownership Type



Source: Survey Findings

Age group of Business Owners



Source: Survey Findings

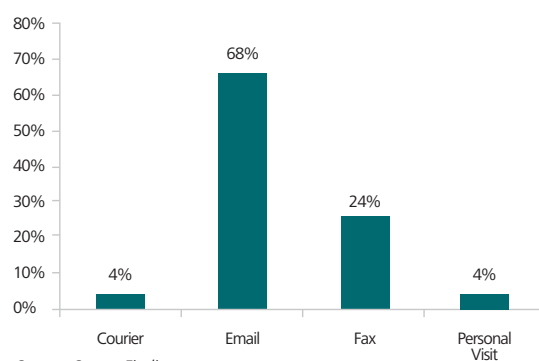
5.3 Business Linkages

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

Stakeholder	Ceramics / Glass Industry
Owners	Growth and access to finance, training and technology
Suppliers (Chemicals and organic substances like Clay)	Better terms, increased supply and lower risk
Customers	Service quality, reasonable pricing, turnaround time
Financial Institutions	Debt servicing, Increase in deposits
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 its highly impersonal nature; emails and fax are most widely used amongst them for receiving orders placed by the international customers. Local customers are mainly retail shops which are preselected, to whom their products are sold off as per agreement.

Communication with Customers

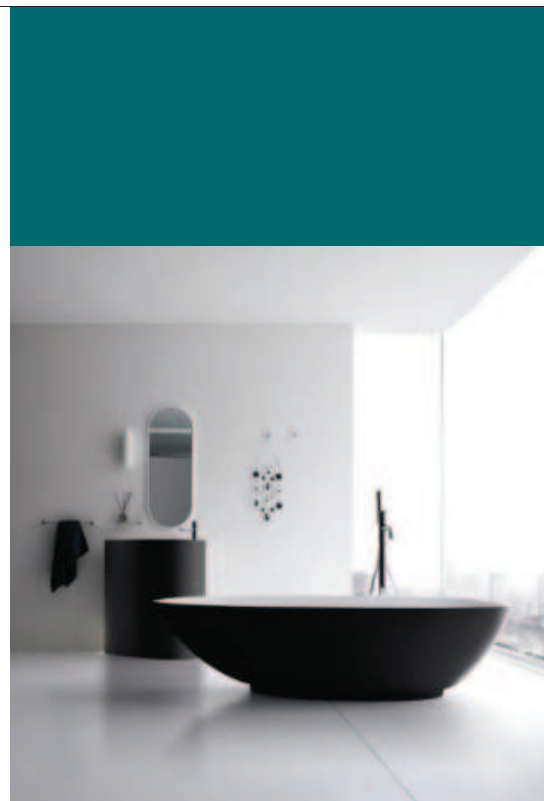


Businesses in the segment are predominantly serviced by formal wholesalers and informal markets / individuals as their primary resource for supplies, according to research findings they stand at 58% and 42% respectively.

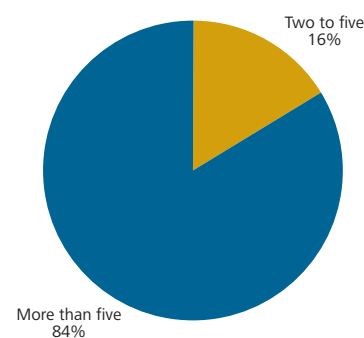
Ceramics	Glass
Clay	Limestone
Chemicals like Zinc, Barium, Zirconium etc	Soda Ash
Color pigments	Zinc and Phosphorus

Most of the business owners rely on the same suppliers to meet their business needs, save for few, of around 16%, who have to rely on different suppliers to meet their business need.

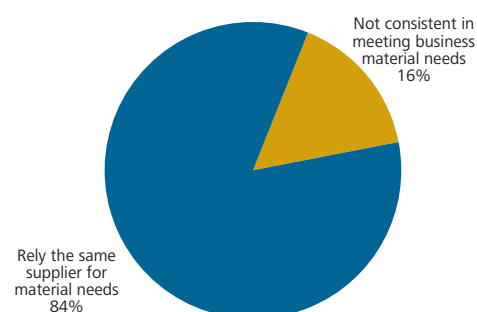
In conclusion, it has been observed in our primary survey findings that supplier relations of glass and ceramics industry are similar. They have consistent suppliers who they rely on to meet their business needs. Due to a number of raw materials required in ceramics and glass industry, each of different nature, separate suppliers are relied on for it, increasing their numbers to more than five. Suppliers pay personal visits to businesses on need basis to sell the raw materials. Therefore timely raw material delivery is of great importance. Only 4% businesses from our surveys find their suppliers not consistent in delivering their raw materials.



Number of Suppliers



Supplier Relationship

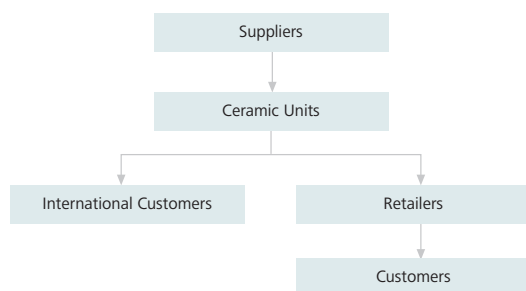


5.4 Business Cycle

Ceramics Industry

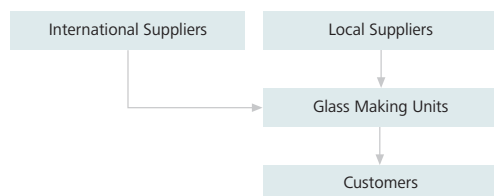
This sub segment does not experience seasonal fluctuations and is fairly dependent upon business conditions. The business suffers from lack of technology and good quality raw materials which affects the quality of the product to great extent. Therefore this sub-segment has a heavy reliance on their suppliers and most of the businesses rely on more than five suppliers according to our primary survey.

According to Pakistan Ceramics Manufacturing Associations, the businesses in this sub-segment approach their customers, which are retail shops, by paying personal visits and arrange agreements. Most of the businesses have preselected retailers to whom they sell their products. Only about 10% have their own retail shops.



Glass Industry

This sub-segment experiences business cycles due to fluctuation of power and gas shortages which increases manifolds during winters. The prices of raw materials are relatively low and seldom fluctuate and generally the availability of multiple suppliers results in their limited leverage over the glass manufacturers.



The glass sub-segment also services few international clients with whom they have long term contracts. Our primary survey reveals that the international customers place orders on need basis with low

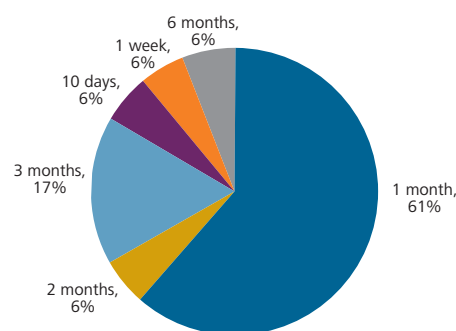
frequency as the cost of labor and raw material is inexpensive in Pakistan.

Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Ceramics sub-segment operates on payment from retailers and wholesalers and in some instances they export directly to international market.

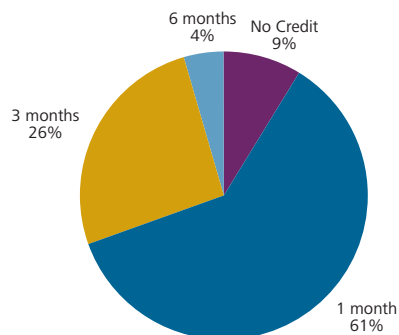
As evidenced from primary research, 61% of businesses have payment terms offered to customers and received from suppliers are within one month, overall indicating a short working capital lifecycle.

Repayment Terms offered by Suppliers



Source: Survey Findings

Repayment Terms for Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

Half of the businesses in this segment do not prepare formal financial statements. However; they do prepare single entry records and/or cash registers for bookkeeping purposes. About 44% of them claim to prepare financial statements from which only 5% get their accounts audited from chartered firms. 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.

As per research findings, none of the business owners in the segment had carried out a formal assessment 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.

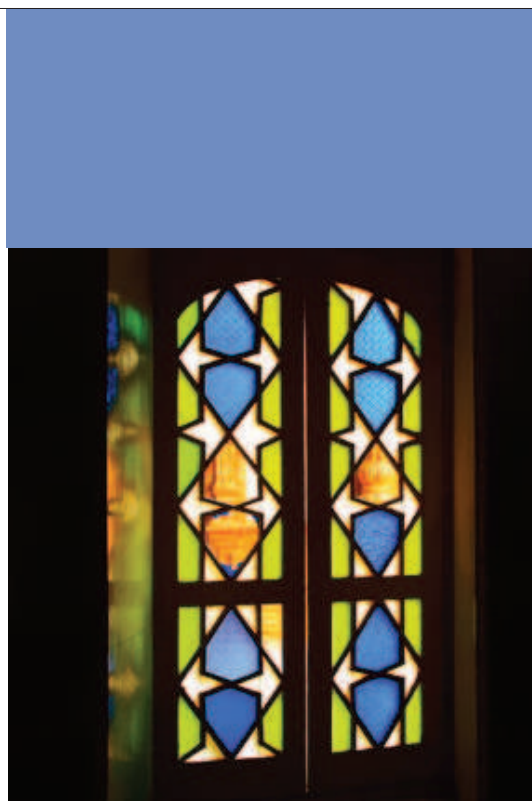
Business owner's reluctance and non availability of proper accounting records presents an issue for calculation of segment's benchmark financial ratios. Devising from the information attained in the course of primary research, the indicative ratios will be an estimate at best and cannot be utilized to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

Conclusively it can be said that there exists an ample demand for good quality ceramics and glass products and can compete well in international markets. The existing scenario provides ample opportunities for entry into this business.

5.6 Financial Information

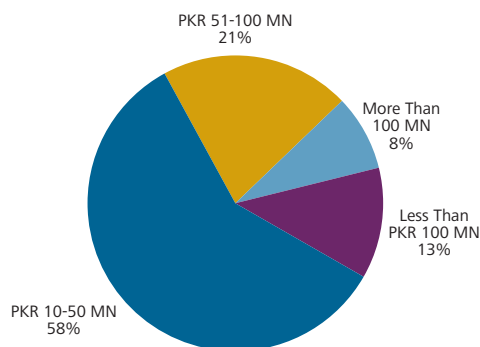
Primary survey findings portray the following outcomes for sub segment under consideration. The results depict Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

Survey findings demonstrate approximately 50% of the businesses are operating with Total Capital and Total Assets between PKR 10 – 50 MN, exhibiting a relatively low initial investment for startup. High preference is given to working capital overdraft. 30% of respondents need funds for business assets which



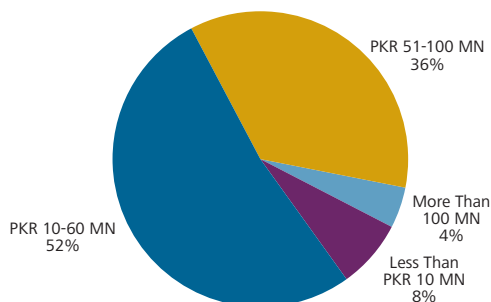
comprises of land and building and plant and machinery.

Total Capital



Source: Survey Findings

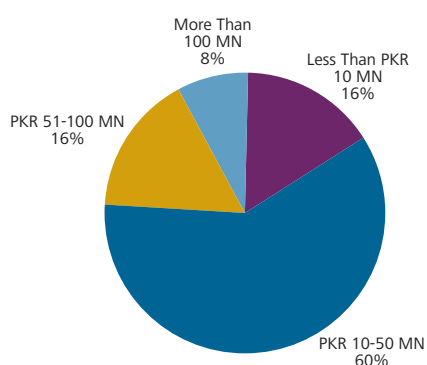
Business Assets



Source: Survey Findings

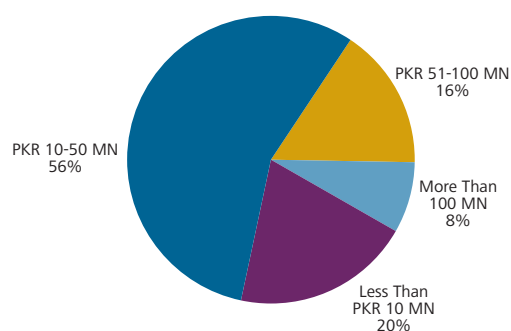
Annual revenue is predominantly between PKR 10-50 MN throughout the segment; expenses primarily represent employee cost, material and interest expenses against borrowings.

Total Revenue



Source: Survey Findings

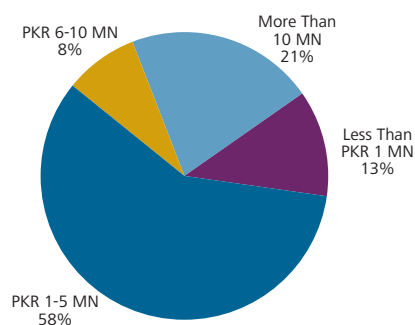
Annual Expense



Source: Survey Findings

All businesses display relatively low earnings. Around 58% of businesses earn between PKR 1-5MN, with only 21% earning above 10 MN. Lack of bargaining power due to inferior goods especially compared to international market, are the prime cause for low income levels of these businesses.

Total Income



Source: Survey Findings

Benchmark Financial Ratios

Financial Information	PKR
Total Capital (Net Worth)	47,625,000
Business Assets	51,740,000
Total Revenue	41,440,000
Annual Expense	32,360,000
Total Income	5,190,833
Key Financial Ratios	
Profit Margin	13%
Operating Expenses/ Revenue	78%
Asset turnover	80%
ROA	10%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 25 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	Furnace	2,000,000
2	Grinding (Ball Mills)	25,000-1,000,000
3	Killons	2,500,000
4	Pug Mill	250,000
5	Motors	20,000

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 borrow from friends and family or cash flows from the business. Among the fixed assets, finance requirements mainly centered on machinery and equipment of the business.

Around 56% businesses have no fixed asset requirements as majority of them face issues related to availability of power and supply of gas, which are considered major constraints for growth. However, these businesses show a high requirement for working capital/overdraft requirement. The remaining 44% require fixed asset from which majority require finance for machinery and equipment.

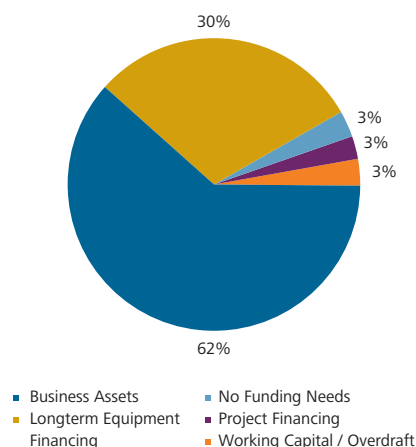
The segment is generally underserved with respect to financing and banking products. The businesses operating in the segment are hesitant to obtain financing and to have a closer and longer term relationship with banks and financial institutions due to lack of awareness.

SMEs in glass industry segment have great reliance on the supply of gas and electricity. Due to load shedding, the furnace needs to be reheated at a very high temperature which not only delays the production process but also adds high cost to manufacturing.

Ceramics industry requires good quality raw material for the manufacturing of its products. However this means purchasing the raw material for higher cost than the average which adds serious cash flow problems to the business. Working capital financing can provide the SMEs in the segment with further room for growth with by allowing them to purchase new merchandize when a new vehicle or motor cycle model arrives in the market.

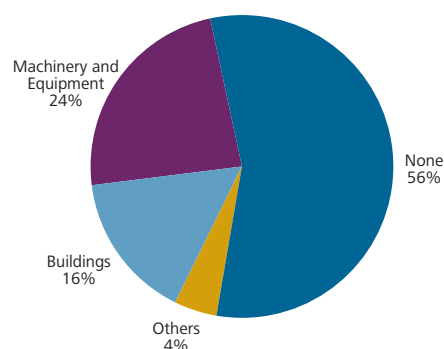


Business Funding Needs



Source: Survey Findings

Fixed Assets Requirements



Source: Survey Findings

5.9 Usage of Banking Products

The owners are mostly unaware of any SME sector specific efforts made by the Government of Pakistan. However some business owners are aware of loan products offered by banks and have availed the facility of it for business funding needs.

A large number of business owners 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.

The segment at large is not very keen on using any financing or loan product to meet funding needs and neither do they propose any specific loan product for the sub-segments financing needs at large, which is generally the case due to their limited awareness of potential products that may be offered.

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 healthy.

72% of the respondents do not pay for any of the proposed Insurance products and 84% of them are not interested in availing any insurance product in future.

The segment currently is not paying for any advisory service and has demonstrated lack of interest in obtaining advisory services from banks; only 8% owners are willing to pay for it, a majority is of the opinion that such services are not the core functions of the bank.

Banking Product	Usage Percentage
Deposit (Checking) Account	94%
Term Deposits	5%

5.10 Segment Risk Considerations

Businesses in this sub-segment are largely based on partnerships, having this business as the only source of income and operating from rented premises which increase the risk from the view point of the lender.

The segment consists of more than 44% of businesses that have been working for more than ten years with majority of the SME's operating with both skilled and unskilled labor; also half of the businesses are not formally registered with any trade union or association.

More than half of the Businesses in the segment do not prepare financial statements and very few of the remaining has an audit of financial statements, about 20% of them. Our primary research survey analysis shows 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 the same supplier to meet material needs and have a relatively regular stream of customers.

Large proportions of SME's in the segment use Banks to meet their business needs and are not paying for any insurance products.

Risks inherent to the segment include:

- Uneven cash flows
- Business uncertainty
- Lack of succession planning

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 two years
- Review of accounts and register of invoices
- Review of ownership documents of shop/business premises

6. Proposed Banking Product Suite

6.1 Products Features

Based on our primary and secondary research we propose the following for social and economic growth of “Other Non-Metallic Products – Glass and Ceramics Industry” sub segment:

Asset Products:

- Working Capital Finance Facility
- Machinery & Equipment leasing

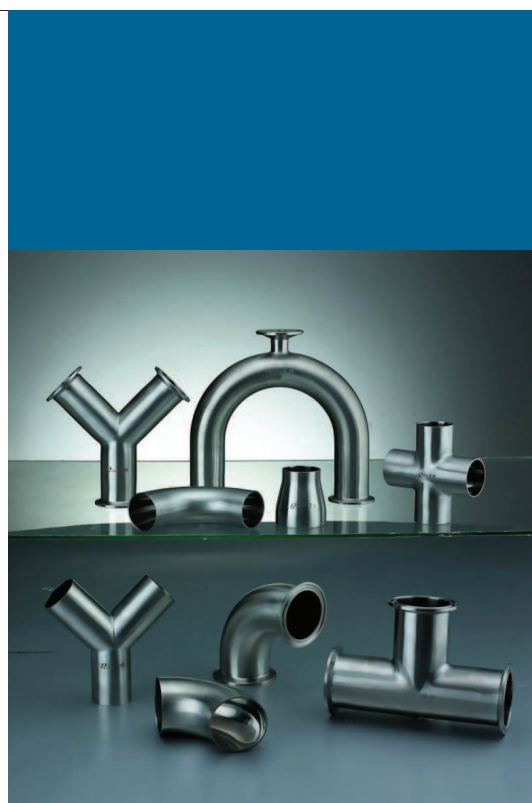
Liability Products:

- Business Bank Account

Other Products

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

Working Capital Finance for Raw Material Facility	
Factors	Comments
Initial deposit	<ul style="list-style-type: none"> ▪ Minimum initial deposit of PKR 50,000
Salient Features	<ul style="list-style-type: none"> ▪ Loan amount will be directly transferred to suppliers' accounts against invoices ▪ Pre approved suppliers of clay, chemicals, zinc, zirconium and color pigments for ceramic manufacturers ▪ Pre approved suppliers of limestone, sand, soda ash, zinc and phosphorous for glass manufacturers
Pre approval suppliers	<ul style="list-style-type: none"> ▪ Three major suppliers will be pre approved by banks based on supply arrangements to major manufacturers
Tenure	<ul style="list-style-type: none"> ▪ One year renewable with monthly servicing of Markup
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 500,000 ▪ Maximum Limit - PKR 3,000,000 ▪ In case of each borrower estimate of total working capital facility offered will be based on average 6 month usage of raw materials from three largest suppliers determined on raw material usage for the last three years
Documentation	<ul style="list-style-type: none"> ▪ Business Financial Statements ▪ Proof of business operation for last three years
Repayments	<ul style="list-style-type: none"> ▪ Flexible repayment conditions: lump sum payment on the due date or partial repayments
Markup	<ul style="list-style-type: none"> ▪ As per prevailing KIBOR and spread
Markup charges	<ul style="list-style-type: none"> ▪ Markup will be charged only on the amount utilized by the borrower



Working Capital Finance for Raw Material Facility	
Factors	Comments
Renewal	<ul style="list-style-type: none"> ▪ Renewal will be on the basis of fresh application, including repayment history and clearance of markup and credit history
Insurance	<ul style="list-style-type: none"> ▪ Mandatory Insurance facility Requirement of the banks
Penalty	<ul style="list-style-type: none"> ▪ No early repayment penalty will be imposed on the borrower

Machinery & Equipment Leasing for Capacity Expansion	
Particular	Details
Down Payment	<ul style="list-style-type: none"> ▪ Minimum initial down payment of 30%
Salient Features	<ul style="list-style-type: none"> ▪ Equipment & machinery leasing will be provided for expansion capital only to businesses with an operational history of 3 or more years ▪ A pre approved list of equipment and machinery manufacturers will be developed based on information received from trade association and market reputation ▪ Leasing facility amount not to exceed total machinery value of current business ▪ Credit facility will be offered directly through pre approved equipment and machinery vendors
Tenure	<ul style="list-style-type: none"> ▪ 3 to 5 years
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 1,000,000 ▪ Maximum Limit - PKR 3,500,000 ▪ The value of machinery lending to any borrower will not exceed current value of machinery installed therefore expansion capital cannot exceed current deployed capital with respect to machinery value used by borrower
Documentation	<ul style="list-style-type: none"> ▪ One time documentation required for a period of three years ▪ Financial Statements
Repayment & withdrawal	<ul style="list-style-type: none"> ▪ Repayments will be based upon preset Equal Monthly Installments
Markup	<ul style="list-style-type: none"> ▪ As per prevailing KIBOR and spread
Insurance	<ul style="list-style-type: none"> ▪ Mandatory Insurance Requirement of the banks
Penalty	<ul style="list-style-type: none"> ▪ As per existing bank policies and cost of charges

SME Business Bank Account	
Particular	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	
Particular	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 glass and ceramics for the past three 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
Individual Criteria	The primary applicant should not be less than 30 years of age and should not exceed 55 years Existing business history should be at least 3 years and overall history of working or in business should be 5 years
Financial Limits	Financial limits will be assigned on the basis of effective valuation of current operating and deployed capacity. In case of working capital facility average raw material purchase for the last three years to be determined and working capital facility offered up to raw material purchase from three major suppliers for 6 months In case of leasing facility the new equipment being leased from approved vendors will not exceed in value to the existing valuation of machinery and equipment deployed.

Indicators	Description
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 “*Other Non-Metallic Mineral Products – Glass and Ceramics*” are spread out across the cities in various locations, therefore, a single location of delivery for banking products cannot be proposed.

Entry strategy for this segment is listed below:

Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for glass and ceramics industry are as follows:

- Conduct seminars with Pakistan Glass Manufacturers Association and Sanitary Merchants and Manufacturers Association at cluster locations of glass and ceramics industry to create awareness of the banking products available for them
- Through vendors, major preselected suppliers of clay and chemicals of ceramics and soda ash, limestone, Zinc and Phosphorus for glass are also to be involved in seminars to be promoted in the market
- RM teams are to visit the glass and ceramics cluster location to gain an understanding of the industry requirements and introduce them the means for their capital expansion
- Industry focused advertisements are to be carried out in glass and ceramics industry to create awareness of banking products available to them

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 trade associations to provide maximum information on potential products and other assistance that banks may be able to provide directly to the businesses

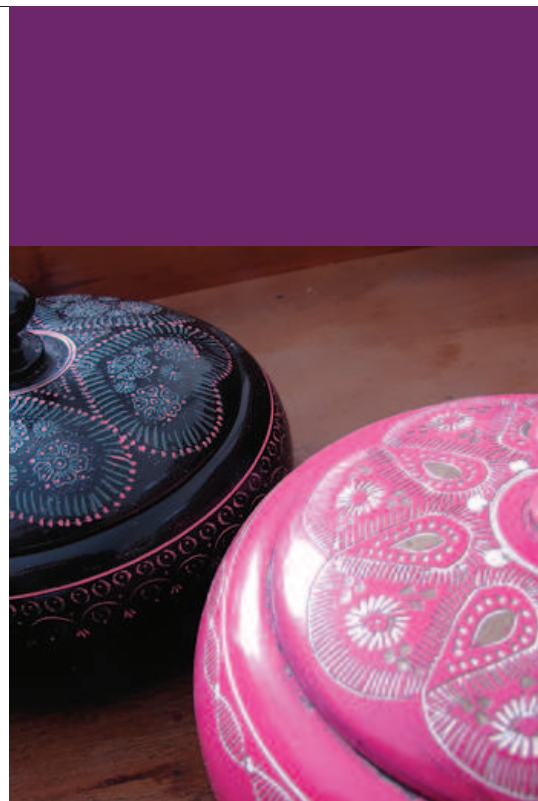
Banks can service these SMEs through the following proposed channels *(Please note that this list is not exhaustive)*:

- Direct Sales Agents
- Trade association backed seminars
- Brochures distribution in the cluster location

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 ceramics and glass industry segment through its products on national basis in major cities of the country. Initially the bank will provide financing facility only for medium sized businesses in major cities. However, banks will penetrate into other small business market after establishing strong presence in major cities.

Banks will adopt a multi channel strategy utilizing both conventional and technology based alternate delivery channels.



Conventional Channels

- **Branches:** Establishment of lending branches in ceramics and glass segment cluster and 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 cities to influence potential customers and create awareness of the product & features being offered under SME Products Suite

Technology Based Alternate Delivery Channels

- **Short Message Service (SMS):** Marketing team can send out mass messages in Urdu or English to Glass and ceramics segment for advertising bank's products

Acknowledgement:

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Allied Bank Limited
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Bank Alfalah Limited
Bank Al Habib Limited
Faysal Bank Limited
Habib Bank Limited
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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