


IFC Advisory Service in the Middle East and North Africa

Sale, Maintenance and Repair of Motor Vehicles and Motorcycles



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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 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 Sale, Maintenance and Repair of Motor Vehicles and Motorcycles 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 atypical 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 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 segment 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 segment 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 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 segment.

This booklet contains the findings pertaining to the services segment of “*Sale, Maintenance and Repair of Motor Vehicles and Motorcycles*” which include the following:

- Retail sales of car, buses, trucks, jeeps, pickups and motorcycles
- Repair and maintenance of car, buses, trucks, jeeps, pickups and motorcycles at mechanical workshops

At present, the retail sales sub-segment in Pakistan is relatively organized with sales being primarily generated via authorized dealers with a strong financial and banking history.



The repair and maintenance sub-segment is largely dispersed and severely underserved by financial institutions; however, demand for this sub-segment is expected to increase substantially, given strong historical sales of new/imported vehicles and strong medium term forecasts.

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 34 SME owners were conducted for *Sale, Maintenance and Repair of Motor Vehicles and Motorcycles* 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 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 sub sector Increase in the sample size will only add marginal value to the overall information collected from the survey exercise Change of Definition of SME by SBP 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	Criteria	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	Criteria	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	The industry is in its recovering phase after a massive downturn in 2008 with demand for vehicles indicating considerable improvement
Supply	High potential for increased production level using the existing capacity, but due increase in raw material prices, the industry is currently working below its capacity.
Key Players	Pak Suzuki, Indus Motors and Honda Atlas are the major car producers in the country. Pak Suzuki has almost complete monopoly in the small cars segment
Trade Body	Pakistan Automotive Manufacturers Association
Regulatory Body	Ministry of Commerce and Trade

Recent Developments	Government of Pakistan has recently allowed import of five year old motor vehicles
Future prospects	Exhibiting a medium term potential subject to rise in population/number of vehicles on road, however, growth is susceptible to risks arising in economic and political climate

Demand

Sales of costly big cars (1,300cc and above) have risen and surpassed the sales of small cars (800-1,000cc) resulting in big cars sales figure jumping by 57.42%. The key factor which plays in Pakistan automotive segment is that only few companies are manufacturing cars locally which are only for domestic consumers and not exported. Despite that, around 50% of sales of car are dominated by foreign cars with Toyota corolla sales reaching the highest of 43,510 units.

According to data released by Pakistan Automotive Manufacturers Association (PAMA), Car sales during the closing fiscal year (FY) 2009-10 have witnessed an increase of 49% to reach 123,957 units as against 82,844 units in FY2008-09.

While the vehicle sales and production figures in 2009/10 may have appeared impressive in percentage y-o-y terms, they are less impressive when viewed against historical figures (and a very low 2008/09 base). The sales volumes had declined to 6.2% in 2007-08 and further fell to 48% in 2008-09 according to Pakistan Automotive Report.

Unstable economic and political situation, higher interest rates for leasing and financing and significant depreciation of Pak Rupee against Japanese Yen and US Dollar is affecting the auto market.

Due to high import tariff and increase in the prices of raw material, the prices of car is increasing which is making difficult for the middle class to afford it.

Supply

The production of vehicle witnessed an increase of 44% to reach 121,647 units compared with 84,308 units last year.

Due to increase in raw material prices and inflation, the industry is currently working below its capacity. The industry was operating at 37% of its installed capacity of 273 thousand units per annum in FY2009, however it is expected to increase through higher production by assemblers utilizing the existing capacity.

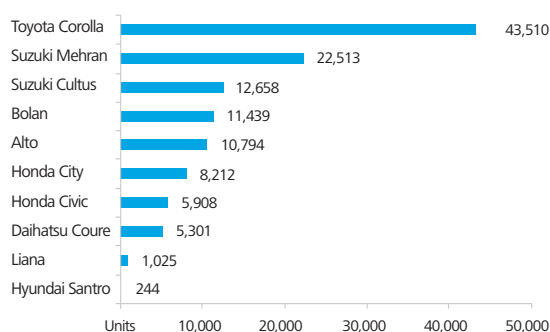
There is, however, a need to set up a specialized technical training centre to serve as a common facility for capacity-building of the automotive segment in Pakistan. Vendor industry in Pakistan should be supported to upgrade its technologies through joint ventures and technology tie-ups.

Key Players

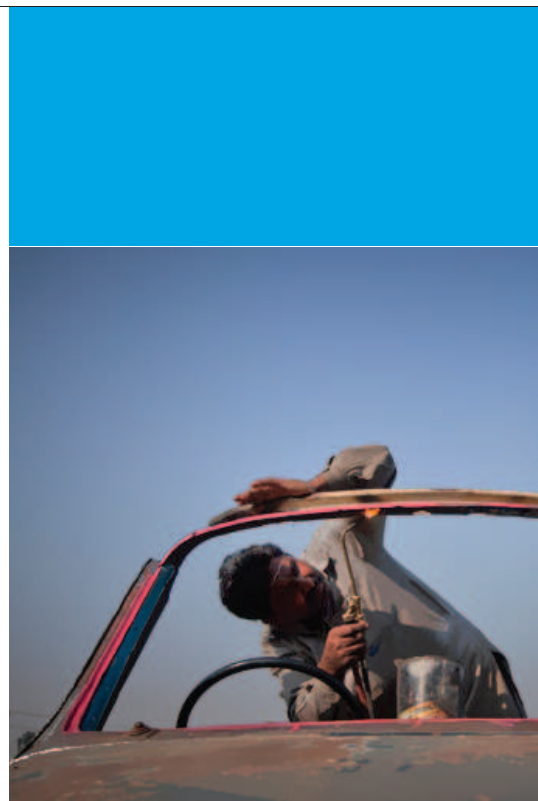
There are only three major passenger car assemblers in the market; Pak Suzuki, Indus Motors and Honda Atlas. Pak-Suzuki has an almost complete monopoly in the small car sub-segment as it faces almost no competition other than the single odd Daihatsu Cuore produced by Indus Motors.

Pak Suzuki, the biggest local car assembler, sold 79,993 with a market share of 53%. Indus Motors recorded highest ever sales of 50,823 with market share of 36% in FY10 PSMC was the primary beneficiary of improvement in auto financing schemes due to a stronger correlation with its lower end products.

Sales figure of Key Players



Source: Pakistan Automotive Manufacturing Association (PAMA)



Trade Body

Pakistan Automobiles Manufacturing Associations (PAMA) is a trade group of auto manufacturers with the objective 'to promote progressive manufacture of automotive vehicles (passenger cars, light commercial vehicles, heavy commercial vehicles, motorcycles, auto rickshaws, farm tractors in the country'.

Future Prospects

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

According to data gathered from research, general perception of auto dealers is optimistic and they perceive that industry will experience increased growth in the next 5 years. Some however, are concerned about the economic and political outlook of the country citing government support and friendly policies, which are imperative for the growth of this industry in the future.

5. Market Assessment

5.1 Market & Demographic Profile

The services segment of “Sale, Maintenance and Repair of Motor Vehicles and Motorcycles” constitute the following:

Retail sales of car, buses, trucks, jeeps, pickups and motorcycles

At present, the retail sales sub-segment in Pakistan is relatively organized with sales being primarily generated via authorized dealers with strong financial and banking history. 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) Inability to assemble and deploy intellectual, human and financial resources effectively
- 3) Lack of vision for growth
- 4) Limited perception of business requirements
- 5) Restricted funding sources

Repair and maintenance of car, buses, trucks, jeeps, pickups and motorcycles at mechanical workshops

The repair and maintenance sub-segment is largely dispersed across various cities of Pakistan, predominantly consisting of small mechanical workshops which continue to operate using an outdated manual and labor intensive model with limited or no use of technology. The underlying causes for deploying primitive methods and having limited operations are as follows:

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

A large amount of mechanical workshops operate on a manual and labor intensive model without the use of modern technology. The main reason for lack of automation and mechanization in this sub-segment

is due to unavailability of funds to the small workshop owners for purchase and installation of such equipment as well as to a certain extent lack of proper training with the absence of effective vocational and technical training centers for usage and operation of such equipment.

Market Sizing and Lending Potential

Businesses in the segment are widespread throughout various locations in rural and urban regions in the country. The following table presents a cluster wise location of these businesses in Karachi and Lahore.

Cluster Locations for Sale of Motor Vehicles	
Area	No. of establishments
Karachi	
University Road	200
Khalid Bin Walid Road	250
Shara-e-Faisal	10
Korangi Road	10
Gulshan-e-Iqbal	10
Shahrah-e-Quaideen	20
Lahore	
Jail Road	50
Mall Road	30
Gulberg	20

Source: Trade Associations and Industry Sources

Cluster Locations for Repair of Motor Vehicles	
Area	No. of establishments
Karachi	
Saddar	150
Rashid Minhas Road	100
Jamshed Road	100
Tariq Road	50
Garden Town, Saddar	30
Gizri	30
Phase II Extension, DHA	20
Korangi Town	10
Shah Faisal Town	30
Lahore	
McLeod Road	30
Jail Road	20
Mall Road	20
Gulberg	20

Source: Trade Associations and Industry Sources

Cluster Locations for Sale of Motorcycles	
Area	Locations
Karachi	
Akbar Road, Saddar	400
Regal, Saddar	50
Nagan Chowk, North Karachi	15
Shah Faisal Colony	10
Korangi Town	10
Lahore	
McLeod Road	100
Mall Road	20
Gulberg	20

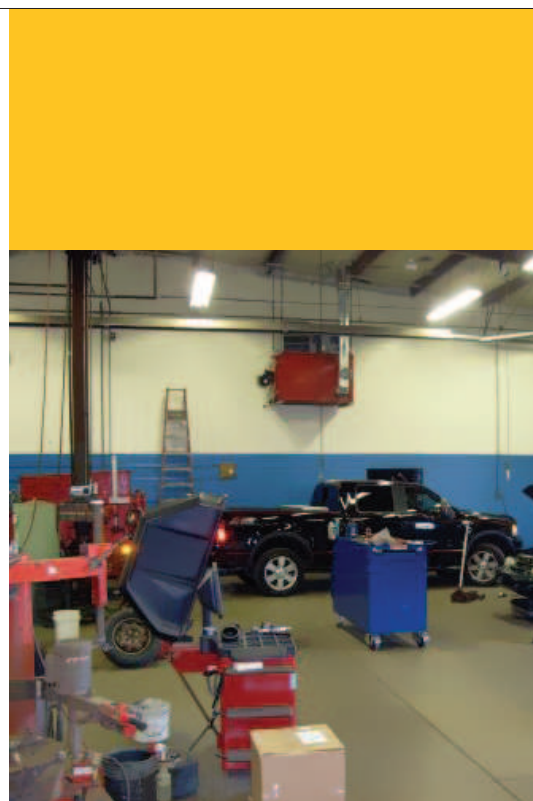
Source: Trade Associations and Industry Sources

Cluster Locations for Repair of Motorcycles	
Area	Locations
Karachi	
Saddar	150
Rashid Minhas Road	100
Jamshed Road	100
Tariq Road	50
Lahore	
McLeod Road	30
Mall Road	20

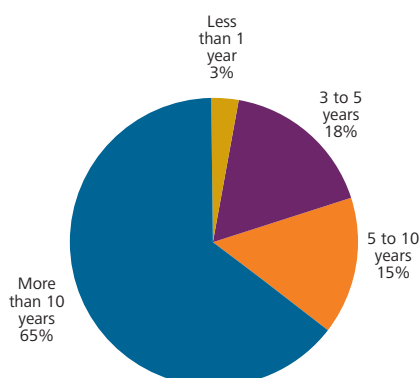
Source: Trade Associations and Industry Sources

Segment Demographics

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

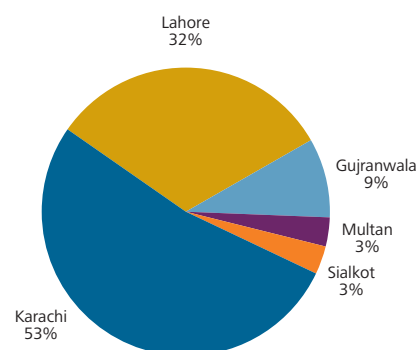


Number of years in Operation



Source: Survey Findings

Location of Businesses

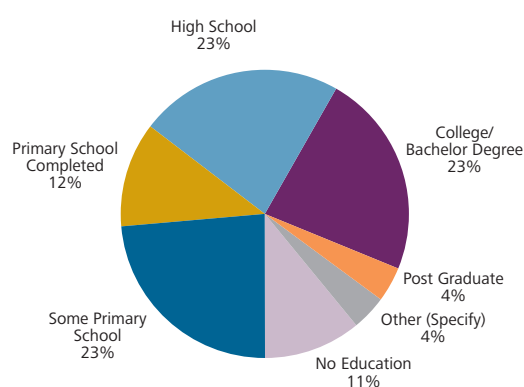


Source: Survey Findings

5.2 Owner Profile

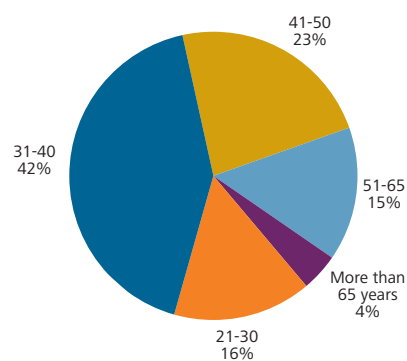
The business owners consist mainly of people in the age group of 31-40 years. Due to the labor intensive and manual nature of work, education is not considered as a major factor for business owners. Predominantly businesses are run by families, preferring family members to undertake organization functions.

Education level of Business Owners



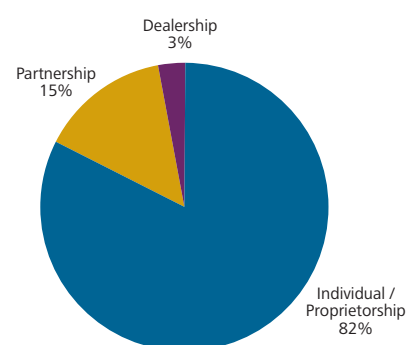
Source: Survey Findings

Age group of Business Owners



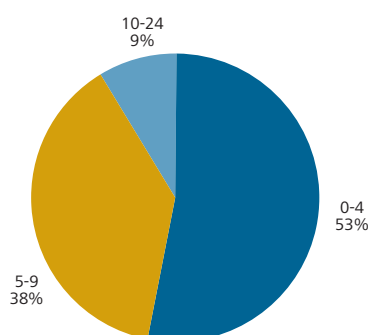
Source: Survey Findings

Ownership Type



Source: Survey Findings

Number of Employees under Business Owners



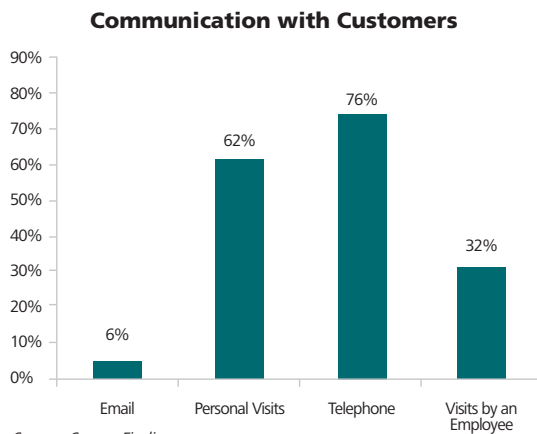
Source: Survey Findings

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	Sales of Vehicles	Repair and Maintenance of Vehicle
Owners	Growth and access to finance	Growth, access to finance, training and technology
Suppliers (Manufacturers, Importers, Auto Parts suppliers)	Better terms, increased supply and lower risk	Better terms, increased supply and lower risk
Customers	Service quality, reasonable pricing, turn around time	Service quality, reasonable pricing, turn around time
Financial Institutions	Debt servicing, Increase in deposits	Debt servicing, Increase in deposits
Insurance Companies	High security and low risk	High security, consistent income and low risk
Government	Expansion of taxation bracket, economic growth, benefit to community at large	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 service, personal visits by customers and telephone are widely utilized.



Businesses in the segment are predominantly serviced by formal suppliers and wholesalers while some utilize informal market and individuals as their primary resource for supplies.

Major supplies for sub segments include:

Sale	Repair and Maintenance
Motor Vehicles	Auto Parts
Motor Cycles	Lubricants
Auto Parts	Auto Paints
	Wheels, Accessories and other peripherals

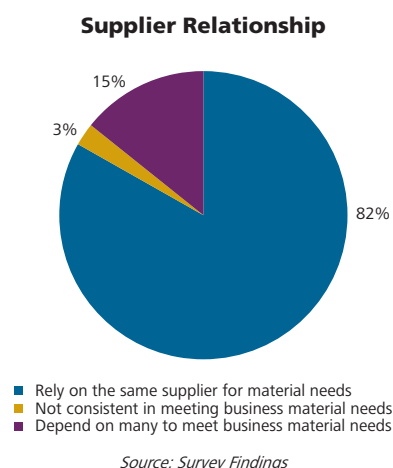
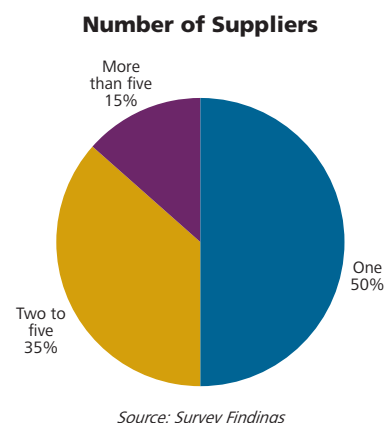
Most of the business owners rely on the same suppliers to meet their business needs, except for some, who place reliance on many suppliers.

Our survey findings reveal that insurance companies have long term contracts and strategic alliances with different motor mechanics in separate cities all over Pakistan. Insurance companies compensate the workshop owners for the repair works carried out on their behalf. The payment to the repair workshops may take up to 45 days.

Reputable corporations have strategic alliances with motor mechanics for company owned cars under the use of company officials. Regular maintenance and repair of company cars is carried out on frequent basis at workshops which ensures a consistent stream



of income for these mechanics. Similarly Rent-a-Car and Cab Agencies have contracts with auto workshops for routine repair and maintenance which is later compensated by those agencies.



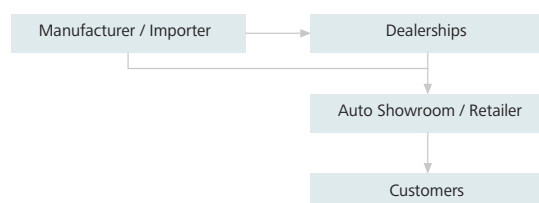
It has been observed in our primary survey findings that supplier relations of auto dealerships and auto repair are entirely different. Auto dealerships have consistent supplies through major manufacturers such as Suzuki, Toyota and Honda, whereas, auto repair businesses obtain supplies of motor parts and equipment through auto parts markets and individual shops.

5.4 Business Cycle

Sale of Motorcycles and Motor Vehicles

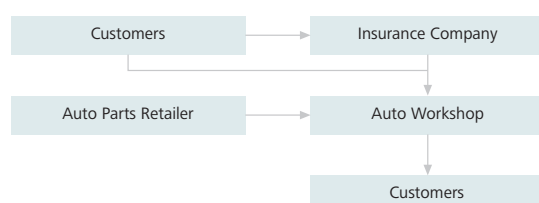
This sub-segment is affected by fluctuation in prices of raw materials for producing cars, variation in import policies and duties, oscillation in interest rates for financing and fluctuation of fuel prices. The businesses suffer from general increase in prices which in turn causes reduction in sales.

The business does not experience cyclical trends, as such. However, sales are to an extent dependent upon launch of new vehicle models by manufacturers.



Repair & Maintenance of Motor Vehicles and Motor Cycles

The sub segment does not experience seasonal fluctuations and is fairly dependent upon business conditions, from our primary survey findings customers usually visit workshops for meager routine maintenance and tuning of their vehicles. The businesses rely on referrals by existing customers and recurring customers depending mainly on word of mouth.



Repair and maintenance sub-segment also service customers approaching by way of insurance companies. The survey findings reveal that insurance companies have long term contracts and strategic alliance with different motor mechanics in separate cities all over Pakistan.

Customers with motor vehicle insurance visit workshops according to convenience/location proximity for repair works and later the compensation is made by insurance companies to workshop owners, the payments may take up to 45 days.

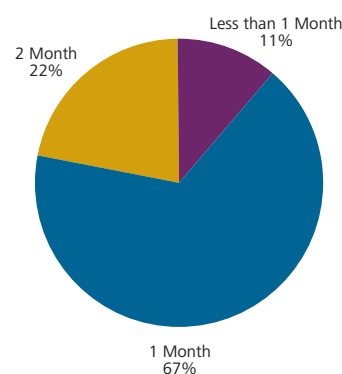
Similarly different corporations, logistic services, etc. have such contracts or terms with business repair and maintenance establishments.

Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in the sale of vehicles sub segment operate on commission based income from margins received from manufacturers or other owners, though in some instances they have to purchase vehicles from manufacturers and importers for selling from their display centers/showrooms. They provide no credit period to their customers.

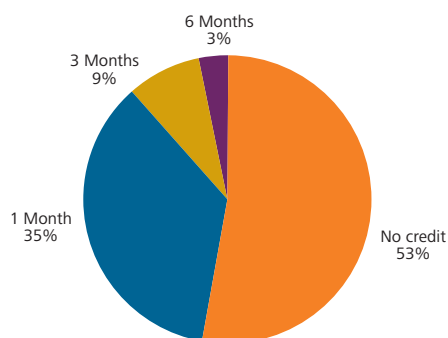
Repair and maintenance sub segment works mainly on cash basis with suppliers of auto parts and equipments providing them with diminutive time period for repayment, these businesses in turn provide limited or no credit period to its customers.

Repayment Terms offered by Suppliers



Source: Survey Findings

Repayment Terms for Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

Businesses in the segment do not prepare formal financial statements. However, 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 average sale margins are 2% to 5%, with a great number banking on higher sales volume for earning better profits.

As per research findings, none of the business owners in the segment had an absolute 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 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.

Conclusively it can be said that there exists an ample demand for quality repair and service workshops in Pakistan and also that the existing scenario provides conducive opportunities for entry into this business venture.

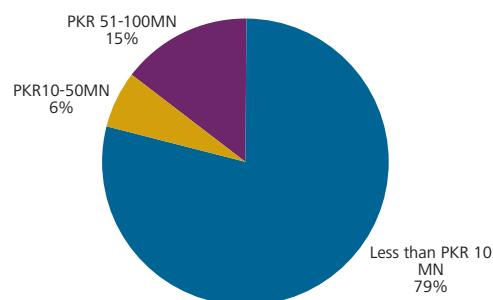
5.6 Financial Information

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

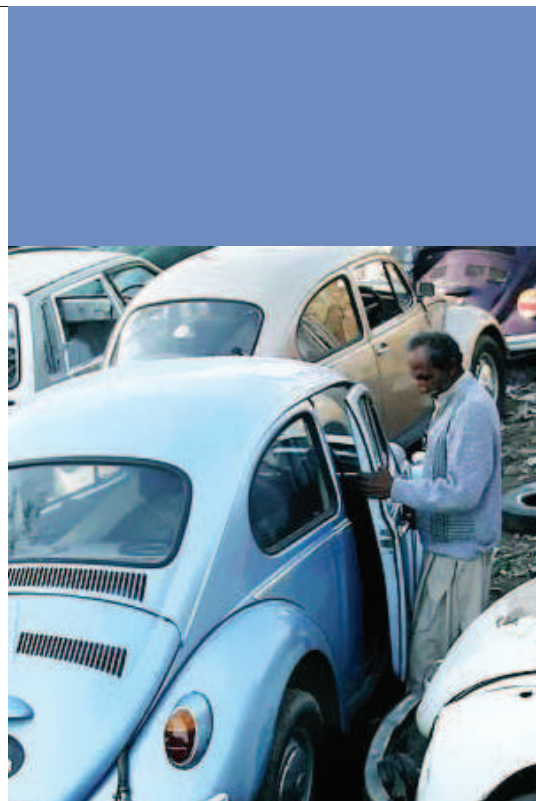
Survey findings demonstrate approximately 80% businesses operating with Total Capital and Total Assets less than PKR10 MN exhibiting a relatively low initial investment for startup. Total assets comprise of land and building, plant and machinery, inventory and receivables, liabilities constitute trade payables and borrowing for working capital finance.

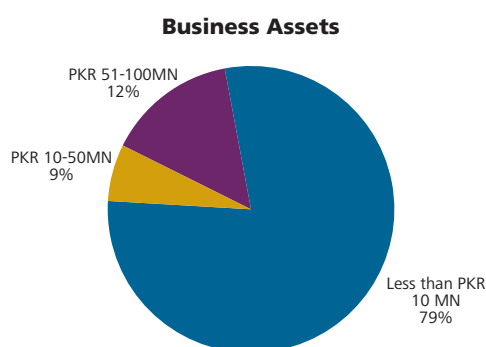
Business related assets constitute Cars, Compressor, Denting Equipment, Specialized equipment and Spray Machines.

Capital (Net Worth)

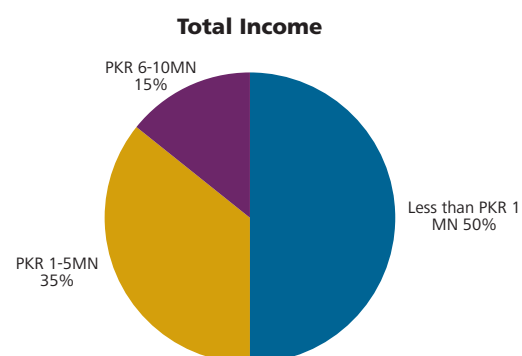


Source: Survey Findings



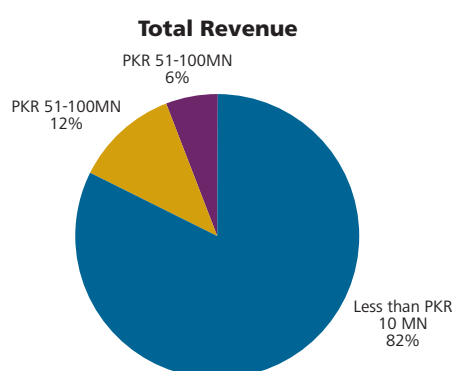


Source: Survey Findings

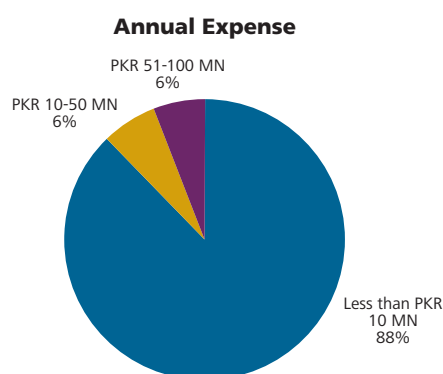


Source: Survey Findings

Annual revenue is predominantly less than PKR 10 MN throughout the sector; expenses primarily represent employee cost, material and interest expenses against borrowings.



Source: Survey Findings



Source: Survey Findings

All businesses display healthy earnings. However only 9% owners experienced decline over the last year. 50% respondents earn less than or equal to PKR 1 MN annually.

Benchmark Financial Ratios

Financial Information	PKR
Capital (Net Worth)	14,827,941
Business Assets	17,195,588
Total Revenue	14,750,000
Annual Expense	5,695,588
Total Income	3,165,000
Key Financial Ratios	
Profit Margin	21%
Operating Expenses / Revenue	39%
Asset turnover	86%
ROA	18%

Source: Survey Findings

These are the benchmark financial ratios calculated on the average value of financial information obtained from the sample of 34 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.

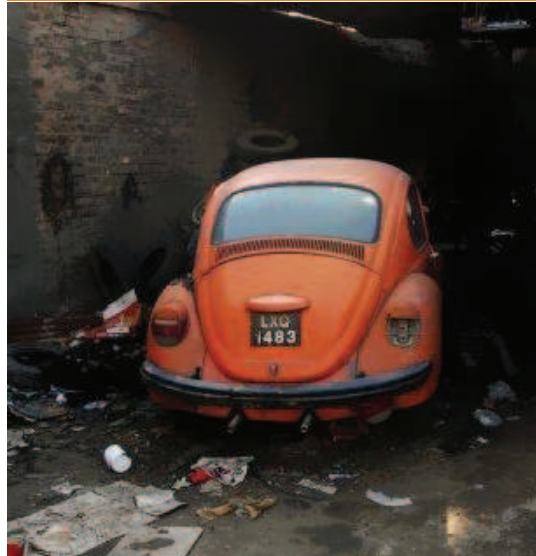
S.No	Indicative Equipment Requirement	Indicative Cost (PKR)
1	Emissions & Diagnostic Equipment	500,000
2	Mechanical Repairs Equipment	100,000
3	Lathe Machine	150,000
4	Denting Equipment	100,000
5	Painting Equipment	50,000
6	Bake Paint Equipment	100,000
7	Civil Works for Bake Painting	300,000
8	Wheel Alignment Machine	500,000
9	Wheel Balancing Machine	400,000
10	Civil Works for Alignment & Balancing Equipment	400,000
11	Vehicle Lifts	300,000
12	Civil Works for installation of vehicle lifts	200,000
13	High Pressure Cleaning Equipment	500,000
14	Civil work for pressure cleaning system	200,000
15	Tools & other peripherals	50,000
16	Spare Parts Inventory	50,000



5.8 Financial Need Analysis

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

Very few of the establishments surveyed have fully stocked parts in order to avoid stuck up capital in case of non-utilization of these parts. However, quick availability of parts more particularly with retailers and vendors in close vicinity, support the service and repair departments by allowing them to turnaround jobs at a faster rate than the competition. Wheel alignment and balancing facilities are also provided

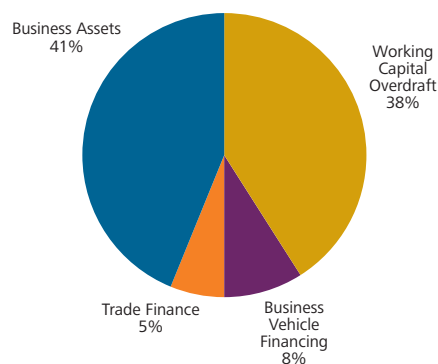


by many large scale workshops along with their primary services.

The segment is generally underserved with respect to financing and banking products. As evidenced from primary research, business owners were not inclined towards obtaining finance. However their interests may develop if banking products are more specific and suited to their needs.

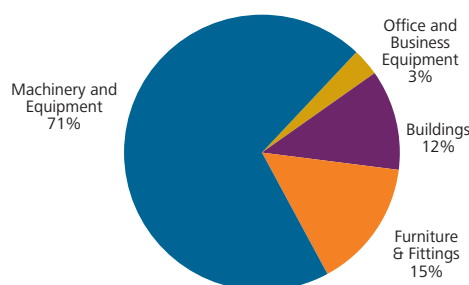
SMEs in sale of motor vehicles and motor cycles sub-segment have to buy merchandize (motor vehicles or motor cycles) for their businesses and doing so results in blockage of funds until more capital is injected or existing merchandize is sold. Working capital financing can provide the SMEs in the segment with further room for growth 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 Requirement



Source: Survey Findings

5.9 Usage of Banking Products

The owners are completely 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 even availed the facility of loan products 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 either not aware or are not keen to propose any feature or product to be offered by banks.

The segment at large is reluctant to use any financing or loan product to meet funding needs neither do they propose any specific loan product for the sub segment financing needs at large. This phenomenon is primarily due to the fact that most of the business owners are uneducated and a better developed approach in terms of understanding their financial needs is required by banks and financial institutions. More so they are largely unaware of the potential benefits of specific products or services their business. Only 3% of the segment is funded by Banks and Business owners cited high interest rates, bank charges, complicated documentation and religious reasons for not applying for a loan.

In addition, 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. 20% business owners have shown an intent to avail the service.

80% respondents do not pay for any of the proposed Insurance products and 90% 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 banks have experienced staff but will have high charges for such services.

Banking Product	Usage Percentage
Deposit (Checking) Account	80%
Term Deposits	4%

5.10 Segment Risk Considerations

Businesses in the segment are largely sole proprietorships 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 sample consists of more than 50% businesses that have been working for less than 1 year with almost half of the SME's operating with unskilled workers and two third of the sample are not formally registered with any trade union or association.

More than half of the Businesses in the sample do not prepare financial statements and none of the remaining have an audit of financial statements. The 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 sample relies on the same supplier to meet material needs and do not have a regular stream of customers.

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

Risks inherent to the segment include:

- Uneven cash flows
- Business uncertainty
- Single entry accounts
- Employee turnover
- 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 Product Features

Based on our primary and secondary research we propose the following for social and economic growth of “Sale, Maintenance and Repair of Motor Vehicles and Motorcycles” segment:

Asset Products:

- Overdraft / Revolving Finance Facility
- Workshop Equipment leasing
- Business Loans

Liability Products:

- Business Bank Account

Other Products:

- Bancassurance
- Branchless Banking (Mobile)
- Payment Solutions

Overdraft / Revolving Finance Facility	
Factors	Comments
Initial deposit	▪ Minimum initial deposit of PKR 10,000
Tenure	▪ 3 years with a stipulation of Annual Cleanup along with mark-up as mentioned below
Loan Limit	▪ Minimum Limit - PKR 100,000 ▪ Maximum Limit - PKR 2,000,000 ▪ Minimum and maximum loan limits are reviewed annually
Documentation	▪ One time documentation required for a period of three years
Repayments & Withdrawals	▪ Flexible repayment conditions: lump sum payment on the due date or partial repayments ▪ Multiple withdrawals are allowed during the tenure of loan



Overdraft / Revolving Finance Facility	
Factors	Comments
Cleanup	▪ Borrower is liable to clear the entire loan amount, both principal and markup, once in a year on a date indicated by the borrower & mutually agreed by the bank
Markup	▪ As per prevailing KIBOR and spread
Markup charges	▪ Markup will be charged only on the amount utilized by the borrower
Renewal	▪ Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and credit history
Insurance	▪ Mandatory Insurance Requirement of the banks
Penalty	▪ No early repayment penalty will be imposed on the borrower

Workshop Equipment Leasing	
Particular	Details
Initial deposit	▪ 30% down payment of the total cost of equipment
Tenure	▪ 3 years
Loan Limit	▪ Minimum Limit - PKR 100,000 ▪ Maximum Limit - PKR 2,000,000 ▪ Minimum and maximum loan limits are reviewed annually
Documentation	▪ One time documentation required for a period of three years
Repayments & Withdrawals	▪ Repayments will be based upon preset Equal Monthly Installments
Markup	▪ As per prevailing KIBOR and spread
Insurance	▪ Mandatory Insurance Requirement of the banks
Penalty	▪ As per existing bank policies and cost of charges

Business Loans for Workshop / Display Center	
Particular	Details
Indicative Tenure	<ul style="list-style-type: none"> 5 years
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 1,000,000 Maximum Limit - PKR 5,000,000 Minimum and maximum loan limits are reviewed annually
Documentation	Detailed documentations
Approval	Approved on basis of business proposal and RMG guidelines
Collateral	<ul style="list-style-type: none"> Land Building Equipment <p>Only offered as improvement of facilities for existing owners of premises with established business for sale and repair of motor vehicles and motor cycles.</p> <p>Approved PBA value for valuation of premises certified by relevant RM for processing of loan</p>
Markup	As per prevailing KIBOR and spread
Insurance	Mandatory Insurance Requirement of the banks
Penalty	No early repayment penalty will be imposed on the borrower
Hidden Charges	No hidden 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	<ul style="list-style-type: none"> 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 / her 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 auto maintenance or sale 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.
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.
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 “*Sale, Maintenance and Repair of Motor Vehicles and Motorcycles*” are spread out across the cities in various locations, therefore, a single location of delivery for banking products cannot be proposed.

Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for auto sale and repair are as follows:

- Educate the auto workshop and auto dealers, create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of workshop/dealers interested in product schemes
- Work in close coordination with major workshop equipment suppliers to avail and

- market potential for equipment leasing directly to workshops
- Design a comprehensive positioning strategy to create strong perception of the auto sector lending product in the market

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 / meetings will be conducted to create awareness amongst auto sector business owners with trade associations to provide maximum exposure to business owners

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

- Direct Sales Agents
- Tele Sales
- Fairs at cluster locations
- Trade association backed seminars
- Branches
- Billboards in sector locations
- Newspapers

Distribution Strategy

To reach maximum percentage of target market, Banks need to have a comprehensive distribution strategy. Banks aim to cater banking needs of auto repair and maintenance sub-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 auto 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 auto segment for advertising bank's products.

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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
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