


IFC Advisory Service in the Middle East and North Africa

Textile Fabric



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Acknowledgements

This segment booklet has been developed jointly by International Finance Corporation (IFC) and State Bank of Pakistan (SBP). We would particularly like to thank Kamran Hafeez (Partner, Head of Advisory Services) Anjum Asim Shahid Rahman (member firm of Grant Thornton International), who were commissioned by IFC to conduct this market research. Anjum Asim Shahid Rahman (AASR) is a leading firm of chartered accountants and management consultants committed to providing the highest quality of professional services in accounting, auditing, taxation and financial services consultancy.

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 Textile Fabric Industry overview is developed using information obtained from secondary and tertiary sources including industry associations and data available in public domain.

Segment 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 product templates that can be used by banks to design appropriate banking products for gaining access to the particular segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is also 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 strategy.

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 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 several major banks have conducted a secondary research and a primary survey of the SME businesses within the top ten SME segments / segments of Pakistan to determine banking and financial needs of the sector.

This booklet contains the findings pertaining to the manufacturing and services segment of “Textile Fabric” which includes the following:

- Preparation of Yarn and Thread
- Weaving process to interlace yarn and thread to prepare Textile fabric or cloth.

At present, the Textile Fabric segment in Pakistan is relatively organized and operating in clusters with sales primarily generated directly through customers with a strong financial and banking history. A large number of business owners also export to foreign countries in the Middle East, European Union and North American countries.



The Textile Fabric segment is largely dispersed across the country, although has well defined cluster specific locations, with significant exposure to financial institutions. Demand for this segment is expected to increase substantially, given strong historical sales, export orders and increase in population whereas some business owners face the threat of decline due to changing priorities of customers towards other countries like China, India and Bangladesh.

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 37 SME owners were conducted for *Textile Fabric* segment. The locations and classification of these SMEs are covered in Section 5.1 of this booklet under ‘Segment Demographic’. Number of employees under this segment is covered in section 5.2 ‘Owners Profile.’

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

Particular	Criteria	Rationale
Size	<ul style="list-style-type: none"> 250 detailed one on one interviews for 10 sub-segments 25 SMEs surveyed within each 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> <p>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</p> <ul style="list-style-type: none"> Small enterprises would be defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 MN Medium enterprises would be businesses with more than 20 employees and turnover in excess of PKR 75 MN for the purpose of classification and segmentation by banks. For the purpose of this research the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150MN which would be approximately double in size with the small entities as per new definition
Particular	Criteria	Rationale
Status	<ul style="list-style-type: none"> At least 60% will be informal businesses At least 20% will be formal businesses 	<ul style="list-style-type: none"> Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information in the absence of which banks do not offer them any credit based products A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal businesses enterprises within the same industry segment Moreover Small businesses have been assumed to have a maximum financing need of up to PKR 15 MN, which may not compel banks to require audited financial statements and advanced cash flow models. A basic system of book keeping and accounting will suffice for them to be able to qualify for a structured lending product. Formal businesses are those entities that are relatively larger in size and have a proper book keeping system. These are also registered businesses that are operating either under an association of businesses or under a formal regulatory license, with a fair amount of transparency in their accounting and book keeping systems Including the above gives us a fair representation of businesses that are eligible for all financial services being offered by banks and their extent of using banks as their main financiers and other service providers or are using banks for only holding their business operating accounts. Formal businesses have more structured requirements than those who use banks only for products such as fund transfers
Particular	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 segment are relatively understaffed owing to the small size of their business and ease of management Moreover businesses that have more than 20 employees will now be classified as medium sized hence we have covered a small portion of such entities as well
Particular	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

Segment Overview

Factors	Comments
Demand	The industry has been steadily growing but seems to be severely affected by the economic downturn over the last couple of years
Supply	Due to increase in raw material prices, economic conditions and energy shortages the industry is currently working below its capacity. Instability in raw material prices leads to fluctuation in selling prices which in turn affects the industry
Key Players	The key players in Textile industry include Nishat mills limited, Younus textile mills limited, Gul Ahmed textiles mills limited and Kohinoor mills limited. The key player of grey fabric manufacturers are Umar group, Shehtaj group, Ahmed fine, Nishaat group and ICC textiles
Trade Body	All Pakistan Textile Mills Association (APTMA)
Regulatory Body	Ministry of Textile, Ministry of Commerce and Trade
Recent Developments	The Federal Board of Revenue (FBR) in September 2009 has granted exemption of customs duty on import of a wide range of textile machinery and equipment. The European union has granted exemption for more than 75 textile related merchandise in the European market
Future Prospects	Exhibiting a long term potential subject to export demand, customer priority and rise in population. However, growth is susceptible to risks arising from economic climate, frequent fluctuation in raw material prices and power shortage

Demand

Textile Industry is one of the foremost and mature industries in Pakistan, despite its inherent strengths; the industry is losing its competitiveness to other countries, especially to South East Asian Countries. To cater to the rising demand and challenges the Industry is in urgent need of financial and technological investments.

The demand of textile products in Pakistan can be appraised and assessed by having a glance at the historical figures. According to recent official figures, the Pakistan textile industry contributes more than 60% to the country's total exports; the industry contributes around 46% to the total output produced in the country. In Asia, Pakistan is the 8th largest exporter of textile products. According to Economic survey of Pakistan the contribution of this industry to the total GDP is 8.5% it provides employment to 38% of the work force in the country, which amounts to a figure of 15 million. However, the proportion of skilled labor is very less as compared to that of unskilled labor.

All Pakistan Textile Mills Association is the chief organization that determines the rules and regulations in the Pakistan Textile industry. Pakistan textile industry is currently facing several challenges. There is a need for the industry to improve the quality of its products. There is also the need for greater value addition in its products.

The textile machinery used in Pakistan is imported mainly from countries like Japan, Switzerland, Germany, China and Belgium. Also, there is lack of efficient training and development program. Our main competitors in primary textile products with the advantage of large engineering segment in this region are China, Bangladesh and India.

The only country in this region without strong engineering base is Pakistan and our dependence upon outside Engineering Industry keeps our cost of production higher with low engineering skills. Looking into the future, strong competitors like China can be used to develop the industry with close cooperation and to start assembly plants under their guidance and cooperation.

The textile industry is also unable to meet local and international demand due to prevailing economic and political situation and the continuing energy crisis. The government needs to step ahead and assure consistent supply of all forms of energy to the textile segment of Pakistan.

Supply

The industry has grown rapidly over the years, but has faced downfall over the last decade with numerous textile mills and industries failing to contribute to the economy of Pakistan and sustain profitability, the textiles mills have faced acute power shortage and an increase in raw material price. The above has led to the closure of numerous textile mills in the Faisalabad region, creating unemployment and shift of customer preference to other South Asian countries namely India, Bangladesh and China.

The local customers in turn have faced shortages of textile merchandize in the market and faced unduly high prices for household commodities. Major challenges proving as a barrier to consistent supply in this industry are increasing prices of raw material, high excise and import duties on raw material and energy crisis.

The Government of Pakistan should launch and approve the development of a textiles vision to provide consistent supply of raw materials to revive the textile industry.

Key Players

The major players in the textile segment include Nishaat mills limited, Younus textile mills limited, Gul Ahmed textiles mills limited, Kohinoor mills limited, Al Abid mills limited, Al Karam Textile Private limited, Muhammad Farooq Textiles mills limited.

Some of the major players in weaving and grey fabric manufacturers include Umar Group, Shehtaj Group, Ahmad fine, Nishat Group, ICC textiles.

Trade Body

All Pakistan Textile Mills Association (APTMA) is

the premier national trade association of the textile spinning, weaving, and composite mills representing the organized segment in Pakistan

Future Prospects

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

According to market sources, general perception for Textiles segment is optimistic and they perceive that industry will experience increased growth in the next 5 years given the challenges faced by the industry are overcome with active support by the Government.

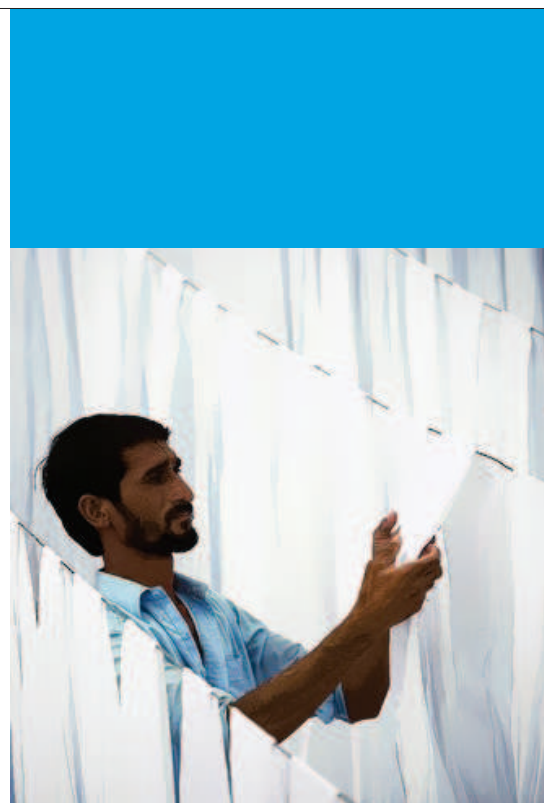
5 Market Assessment

5.1 Market & Demographic Profile

The services segment of “*Textile Fabric*” constitutes the following:

- Preparation of Yarn and Thread
- Weaving process to interlace yarn and thread to prepare Textile fabric or cloth.

At present, the Textiles segment in Pakistan is relatively organized with sales being primarily generated via exports and supply to local market retailers and wholesalers. They have a strong financial and banking history. Most businesses are family owned with members of one family serving different functions of business. However accounting, marketing and



administrative functions are undertaken by hired professional staff. Underlying issues inherent to the segment include:

- 1) Unable to Expand beyond certain limits
- 2) Lack of initiative on part of the Government
- 3) Raw material price fluctuation including cotton, yarn, thread and grey fabric
- 4) Inability to assemble and deploy intellectual, human and financial resources effectively
- 5) Lack of vision for growth
- 6) Restricted funding sources
- 7) Inability to invest in value addition
- 8) Labor turnover due to inconsistent demand and uncertainty
- 9) Shortage of raw material supply and reliance on multiple suppliers

The Textiles segment is largely dispersed across various cities of Pakistan, predominantly consisting of medium and large Textile mills in Faisalabad, Karachi and Lahore which continue to operate using outdated technology and labor intensive model. The use of technology is rather inefficient and the industry is working below capacity due to energy crisis.

The main reason for lack of automation or inefficient use of technology in small and medium setups in this segment is the unavailability of funds for purchase and installation 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, following tables presents a cluster wise location in 3 cities.

The list mentioned is not Exhaustive but identifies some prominent areas of the respective cities.

Locations for Textile Mills	
Area	No. of establishments
Karachi	
Korangi Industrial Area	400
Landhi Industrial Area	300
S.I.T.E Karachi	300
Nazimabad	250
New Karachi	150

Source: Trade Associations and Industry Sources

Locations for Textile Mills	
Area	No. of establishments
Faisalabad	
Jaranwala town	400
West Canal Road	300
AARI colony	200
Peoples Colony	200
Satyana Road	300
Khurrianwala	200
Nishatabad	200
Sargodha Road	100

Source: Trade Associations and Industry Sources

Locations for Textile Mills	
Area	No. of establishments
Lahore	
Mantgomery Road	200
Lahore, Sheikhpura, Faisalabad Road	200
Railway Road	100
Raiwind Road	100
Sunder Road	50

Source: Trade Associations and Industry Sources

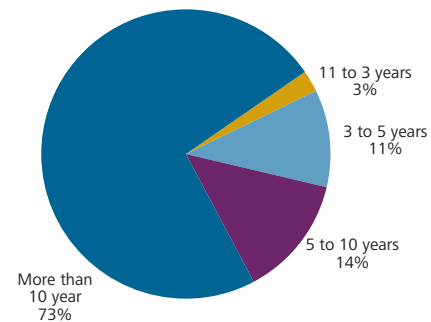
Segment Demographics

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.

The segment is predominantly operating with stable setups in Faisalabad, Lahore and Karachi.

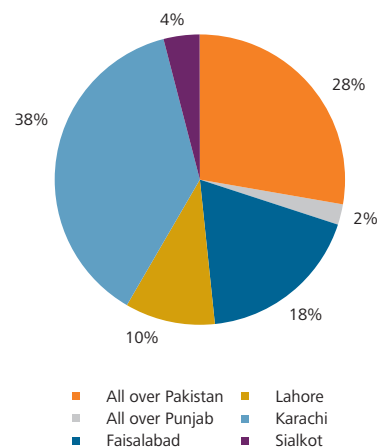
More than 70% businesses have been in operation for 10 or more years, reflecting that the selected sample has a stable setup with sound knowledge of the industry and economic factors affecting operations.

Number of years in Operation



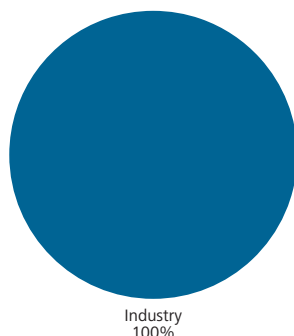
Source: Survey Findings

Location of Businesses



Source: Survey Findings

Classification of Businesses



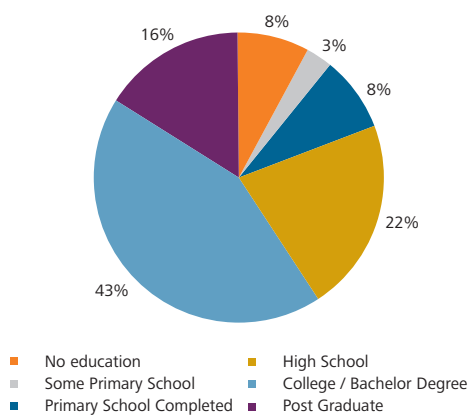
Source: Survey Findings

5.2 Owner Profile

More than 50% owners operate businesses as private limited companies, protecting themselves from liabilities arising as a consequence of business failure. The business owners consist mainly of people in the age group of 41-50 years. Due to the labor intensive and manual nature of work, education is not considered as a major factor for business owners to ensure operational efficiency. However they require highly skilled and technically competent supervisors and workers who have experience in handling textile machinery and equipment.

Predominantly businesses are run by families, preferring family members to undertake major organizational functions. However managerial and administrative work is carried out by hired staff.

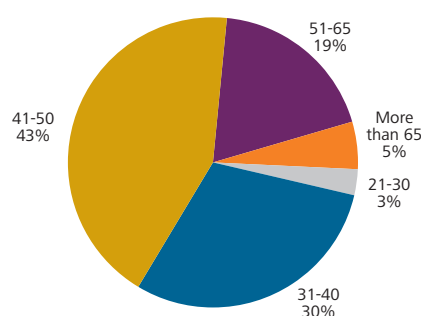
Education level of Business Owners



Source: Survey Findings

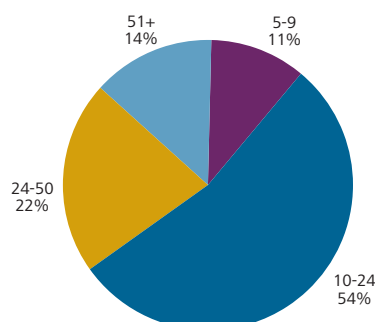


Age group of Business Owners

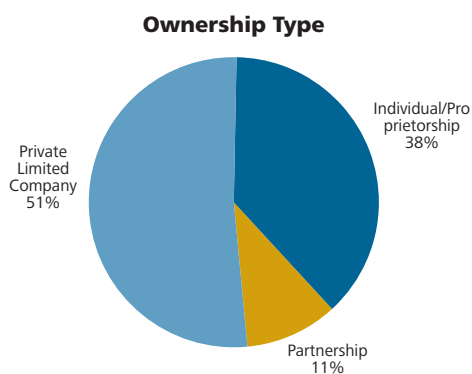


Source: Survey Findings

Number of Employees under Business Owners



Source: Survey Findings



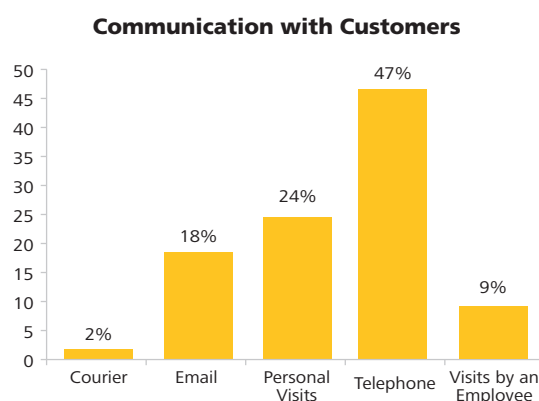
Source: Survey Findings

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	Textiles
Owners	Business growth, relief on import of raw material, export exemptions /opportunities and access to finance, awareness regarding lending products
Suppliers (grey, yarn, thread, acrylic)	Better terms, increased supply, consistent prices and lower risk
Customers	Product quality, reasonable pricing and turnaround time from large orders
Financial Institution	Debt servicing, Increase in deposits, utilization of services (payroll, debt collection)
Government	Expansion of taxation bracket, economic growth, benefit to community at large (creating job opportunity)

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. International customers are communicated via emails to carry out routine tasks.



Source: Survey Findings

Businesses in the segment are predominantly serviced by formal wholesalers, the percentage constitutes up to 76%, only a few rely on retailers or informal market channels to obtain supplies.

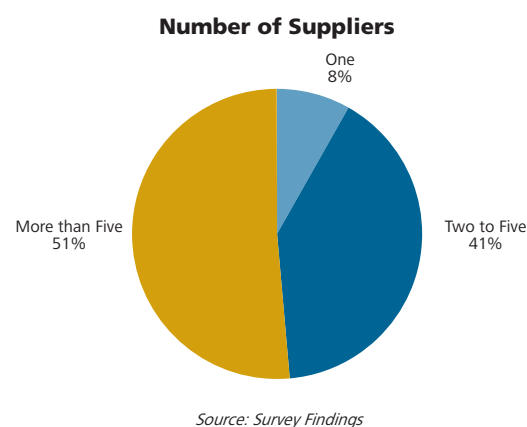
Some large establishments and key players that do not fall under the SME category are also vertically integrated making their own raw material and grey fabric. However in some instances even the large players have to buy from local market to satisfy customer needs.

Major supplies for segment include:

Textile
Yarn
Thread
Grey Fabric
Acrylic
Dyes / Bleach

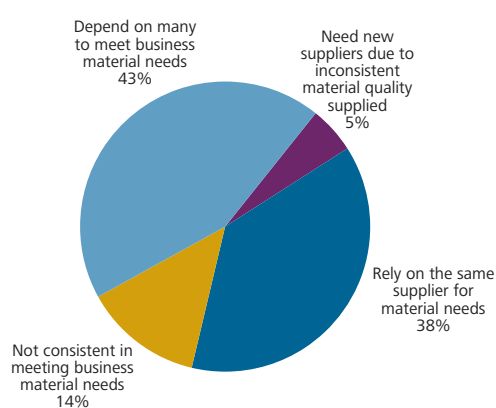
Most of the business owners depend on many suppliers to meet their business material needs, except for some who place reliance on only one or two suppliers.

Raw Material needs are met locally, buying from the same location or same city. In some instances owners buy supplies from other countries, although the number of suppliers mostly comprises of more than five, but predominantly the segment relies on same suppliers to meet their material needs.



Source: Survey Findings

Supplier Relationship



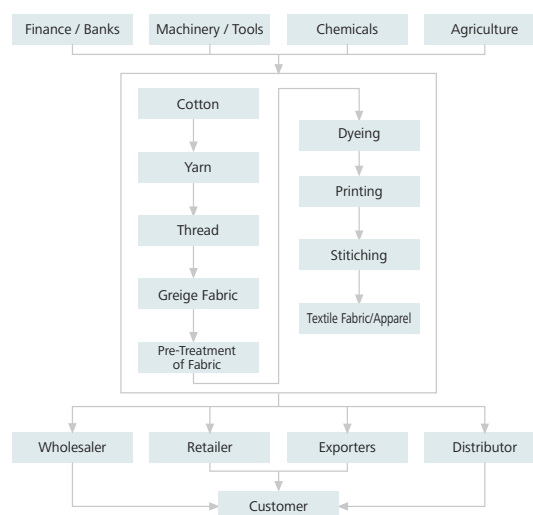
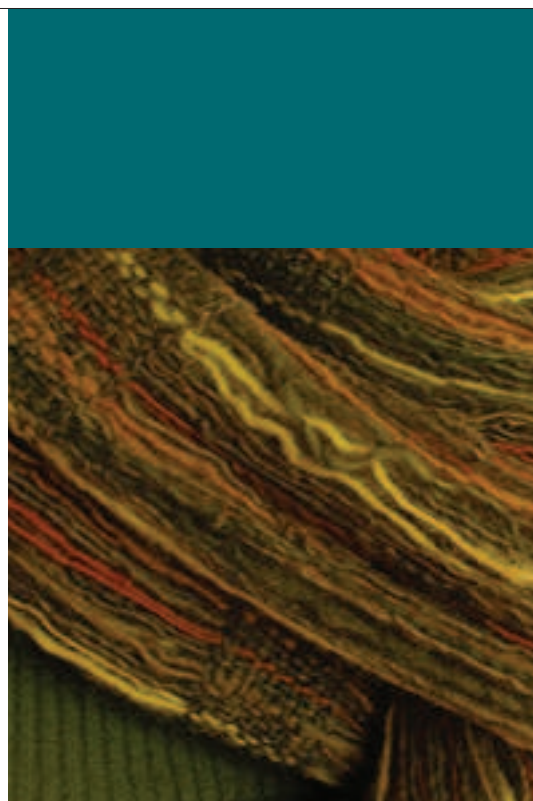
Source: Survey Findings

5.4 Business Cycle

The segment experiences cyclical trends due to seasonal sales, demand in the local market, rise or decline in demand for exports and fluctuation in raw material prices in the International and local market.

Businesses suffer from general increase in prices which in turn causes reduction in sales or is ultimately recovered from the end user, which in turn causes shortage of future orders and customer preference towards new markets.

The businesses mostly rely on existing customers and referrals from existing customers.

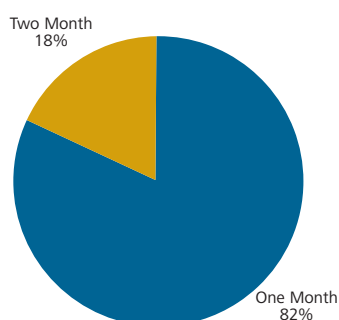


Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in Textile Fabric segment operate from their factories and sell on fixed margins. The businesses work on large orders and service less than 100 customers per annum in most instances.

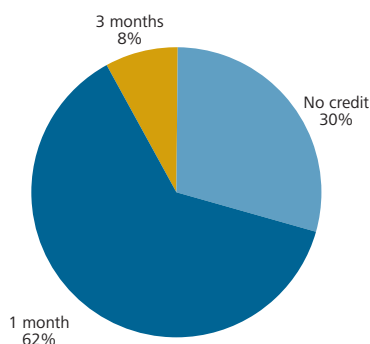
The segment works mainly on credit basis with suppliers of raw materials providing them at least up to 1 month's credit term, in some instances up to 3 months credit is also granted. These businesses in turn provide credit for 1 month, but in some cases up to 3 month of credit is also allowed to customers for large/reputable customer orders.

Repayment Terms offered by Suppliers



Source: Survey Findings

Repayment Terms for Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

Most Businesses in the segment prepare formal financial statements the percentage equals to 68%, while 54% business owners also have an audit of financial statement by accountants and managers. However, the remaining businesses do not prepare formal financial statements but they do prepare single entry records and/or cash registers for bookkeeping purposes. Owners/managers keep track of accounts themselves, their lack of accounting knowledge and experience presents a constraint for preparation and keeping an organized track of cash movement.

From primary research and interviews conducted from trade associations, it has been identified that profit margins are between 15-20%, with a great

number relying on higher sales volume for earning better profits.

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

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

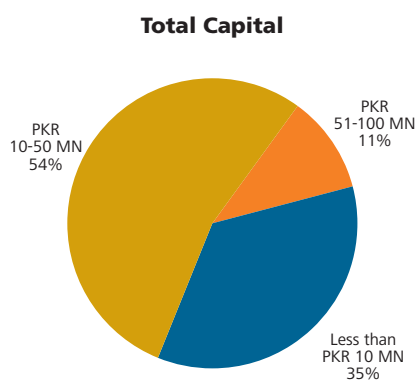
Conclusively it can be stated that despite the recent trend in growth of this segment there still exists an ample demand for textile business in Pakistan.

5.6 Financial Information

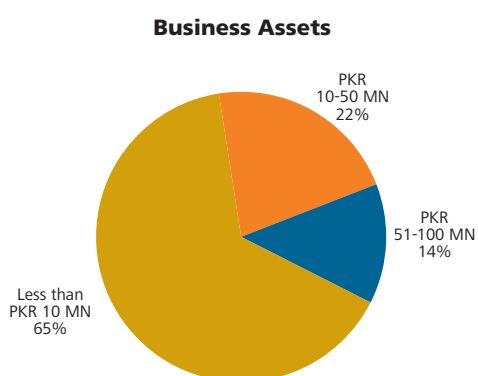
Primary survey findings portray the following outcome for segment under consideration. The results reflect Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

Survey findings demonstrate approximately 50% businesses operating with Total Capital of less than PKR 10 MN and 65% businesses with Total Assets less than PKR10 MN, reflecting that despite being a capital intensive business a number of businesses are operating with low initial investment considering their size.

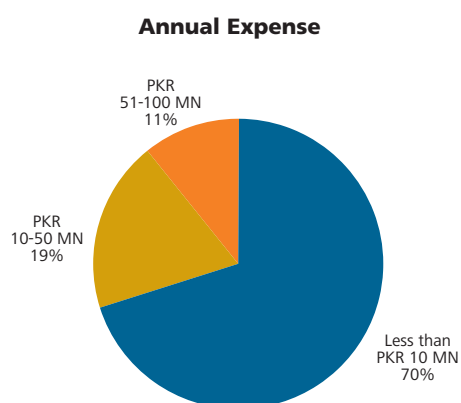
Total assets comprise of Machinery/equipment, plant/machinery, inventory, land/building and receivables, liabilities constitute trade payables and borrowing for working capital finance. Business related assets include specialized equipment and machinery for the textile industry.



Source: Survey Findings

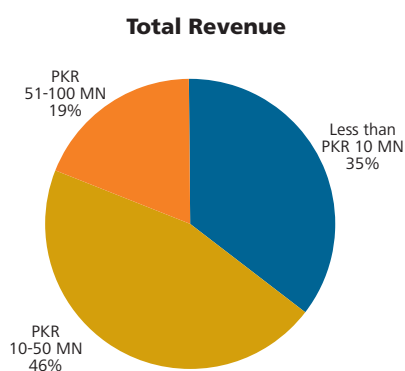


Source: Survey Findings



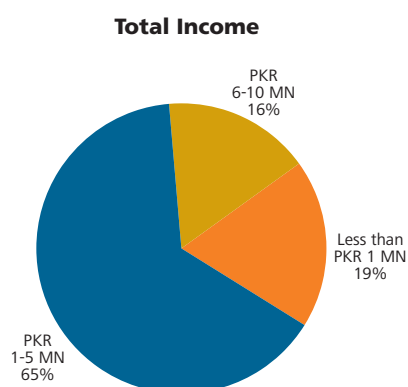
Source: Survey Findings

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



Source: Survey Findings

All businesses display healthy earnings, including some businesses that have experienced growth up to 25%. However our selected sample also witnessed 11% businesses with losses over the past three years, the identified reason for losses is the lack of resources to compete internationally rather than lack of demand for textiles products, whereas a significant 65% of businesses reported total earnings between PKR 1-5 million.



Source: Survey Findings

Benchmark Financial Ratios

Financial Information	PKR
Total Capital	32,391,892
Business Assets	25,851,351
Total Revenue	33,337,838
Annual Expense	20,581,081
Total Income	5,054,054
Key Financial Ratios	
Profit Margin	15%
Operating Expenses/ Revenue	62%
Asset turnover	123%
ROA	20%

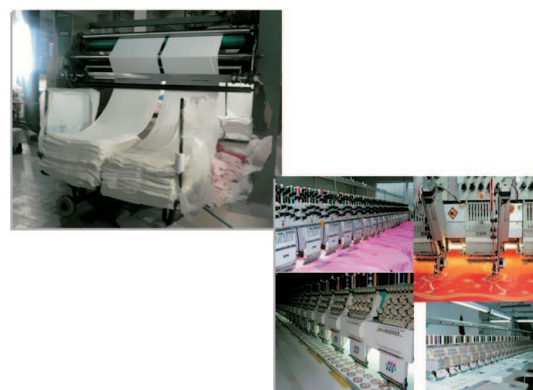
Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 37 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	Power Looms	3,000,000
2	Air Jet Looms	2,000,000
3	Sulzer Weaving Machine	1,500,000
4	Jacquard Looms	500,000
5	Ware House	5,000,000
6	Logistics Support	2,000,000
7	Installation of Machinery	500,000
8	Commercial Scale Washing Machinery	500,000



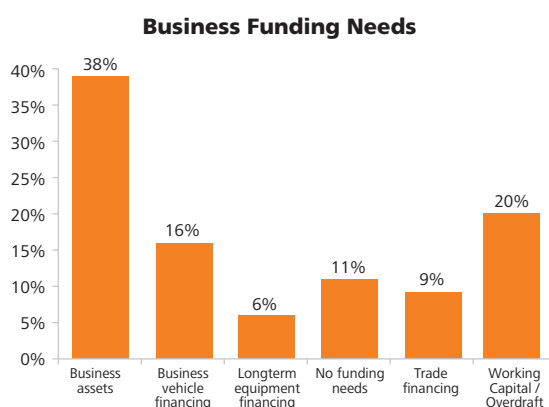
5.8 Financial Need Analysis

Funds are mostly managed by the owners themselves, where as large setups have managers, accountants, partners and directors responsible for managing funds. The funds are mainly required for business assets and working capital which is mostly fulfilled by their own personal savings or cash flows from the business, some businesses also use banks to meet funding needs. The percentage is relatively higher and encouraging as compared to some other business in Pakistan. Among the fixed assets, finance requirements mainly centered on machinery and equipment of the business.

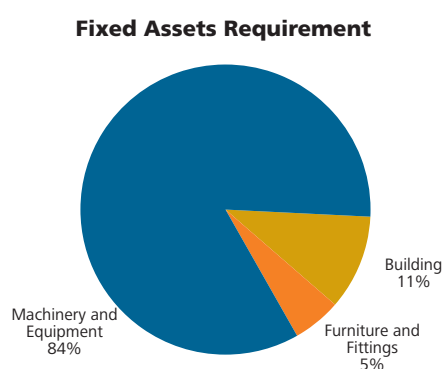
A large number of owners have fully stocked raw materials for carrying out smooth business operations in case of material shortage or unusual hike in prices which leads to the problem of tied up working capital. This issue pertains throughout the year as a minimum level of inventory is to be maintained for uninterrupted business operations

The segment is generally well aware and exposed to

financing and banking products and is keen to obtain financing/ lending products and have a more far reaching relationship with banks and financial institutions.



Source: Survey Findings



Source: Survey Findings

5.9 Usage of Banking Products

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

A large number of business owners use banks to meet banking and business needs availing the facility of business banking accounts.

The segment at large is keen to use financing or loan products to meet funding needs; they also proposed a number of specific loan products for the segment



financing needs at large including trade finance services, business credit cards, business overdraft / running finance, trade finance/letter of credit, and equipment financing and leasing facility.

A significant 37% of the segment is funded by Banks, more business owners can be driven to utilize banking products if they are educated in respect of how these banking products can be best used to manage funding needs. Business owners cited high interest rates, bank charges, documentation and religious reasons for not applying for a loan.

In addition to that it is also observed that other services such as payroll and cash management / collection are encouraged by the segment, both standing at 42%. Whereas the response for money transfer is also healthy, 17% business owners have displayed intent to avail the service.

Only 38% respondents do not pay for any of the proposed Insurance products which is very encouraging, also 30% of them are interested in availing proposed insurance products in future. The percentage can be improved by creating more awareness amongst business owners.

Only 5% of the segment is currently paying for any advisory service and has demonstrated lack of interest in obtaining advisory services from banks; significant 28% owners are willing to pay for advisory services, majority is of the opinion that banks have experienced staff but will have high charges for such services. The

textile segment can be informed regarding the advisory potential of banks to generate more opportunity and business for banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	68%
Term Deposits	41%

5.10 Segment Risk Considerations

The segment is relatively well developed as compared to some of the other businesses operating in Pakistan. The underlying reason is the existence of strong textile manufacturer clusters for more than 25 years now with stable operations; established businesses have generated healthy profits over the years. Businesses in the segment are largely private limited companies, with owners of the segment facing less risk as compared to sole proprietorships. More than one third owners are operating from owned premises. However some risks that pertain to the segment are discussed below.

Though segment is largely organized at national level represented under a strong trade association APTMA, but our selected sample demonstrates that one third of the businesses are not formally registered with any trade union or association, primarily because they relate to small establishments in the unorganized segment. More than 30% of the Businesses in the segment do not prepare financial statements whereas; only 50% of the remaining carries out an audit of financial statements. The ratio of skilled to unskilled workers is very low. 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 suppliers to meet material needs and have a limited customer base.

Risks inherent to the segment include:

- Uneven cash flows
- Raw material shortage
- Energy crisis

- Business uncertainty (shift of demand for textiles to other countries)
- Textile Policy issues

Possible Mitigates:

- Lending only to those businesses which have been operating for more than three years
- Proposing products to business with a verifiable banking history of more than one year
- Review of accounts and register of invoices
- Review of ownership documents of 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 “Textile Fabric” segment:

Asset Products:

- Overdraft / Revolving Finance Facility
- Textile Machinery leasing
- Business Vehicle Leasing
- Industrial Generator Leasing
- Trade Fair Financing

Liability Products:

- Business Bank Account

Other Products

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

Overdraft / Revolving Finance Facility	
Particulars	Details
Initial deposit	<ul style="list-style-type: none"> Minimum initial deposit of PKR 10,000
Salient Features	<ul style="list-style-type: none"> Loan amount will be directly transferred to suppliers' accounts against invoices Pre-approved suppliers of Thread and Grey fabric for Textile manufacturers will be provided with the facility
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
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 500,000 Maximum Limit - PKR 5,000,000 Loan limit will not exceed Raw Material Usage for up to six months determined on the basis of the average six months usage over the last three years
Documentation	<ul style="list-style-type: none"> One time documentation required for a period of one year
Repayments & Withdrawals	<ul style="list-style-type: none"> Flexible repayment conditions: lump sum payment on the due date or partial repayments Multiple withdrawals are allowed during the tenure of loan
Markup	<ul style="list-style-type: none"> As per prevailing KIBOR and spread
Markup charges	<ul style="list-style-type: none"> Mark up will be charged only on the amount utilized by the borrower
Renewal	<ul style="list-style-type: none"> Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and credit history
Penalty	<ul style="list-style-type: none"> No early repayment penalty will be imposed on the borrower

Textile Machinery Leasing	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> Minimum down payment of 20%
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 will be provided up to the limit of existing installed capacity Credit facility will be offered directly through pre approved equipment and machinery vendors
Tenure	<ul style="list-style-type: none"> 3-5 years
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 1,500,000 Maximum Limit - PKR 20,000,000
Documentation	<ul style="list-style-type: none"> Business Financial Statements Proof of business operation for last three years
Repayments & Withdrawals	<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



Business Vehicle Leasing	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> Minimum down payment of 20%
Salient Features	<ul style="list-style-type: none"> Business vehicle leasing will be provided for expansion capital only to businesses with an operational history of 3 or more years Leasing facility will be provided up to the limit of existing capacity Credit facility will be offered directly through pre-approved vehicle suppliers
Tenure	<ul style="list-style-type: none"> 3-5 years
Documentation	<ul style="list-style-type: none"> Business Financial Statements Proof of business operation for last five years
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 1,000,000 Maximum Limit - PKR 10,000,000 Minimum and maximum loan limits are reviewed annually
Repayments & Withdrawals	<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

Industrial Power Generator Leasing	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> Minimum down payment of 20%
Salient Features	<ul style="list-style-type: none"> Loan amount will be directly transferred to suppliers' accounts against invoices Credit facility will be offered directly through pre-approved generator suppliers
Tenure	<ul style="list-style-type: none"> 3-5 years
Documentation	<ul style="list-style-type: none"> Business Financial Statements Proof of business operation for last three years
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 500,000 Maximum Limit - PKR 3,000,000
Repayments & Withdrawals	<ul style="list-style-type: none"> Repayments will be based upon present 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 facility Requirement of the banks
Penalty	<ul style="list-style-type: none"> As per existing bank policies and cost of charges

Trade Fair Financing	
Particulars	Details
Indicative Tenure	<ul style="list-style-type: none"> 6 Months – 1 Year
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 300,000 Maximum Limit - PKR 1,000,000
Salient Features	<ul style="list-style-type: none"> Financing will be provided to business owners and exporters to attend trade fairs The facility will be provided through TDAP and event organizers by making payments to them directly and arranging a trip for trade fairs via authorized travel agents. Costs will include detailed expenses for travel as well as costs for set up product displays for export fairs
Documentation	<ul style="list-style-type: none"> Detailed documentation
Approval	<ul style="list-style-type: none"> Approved on basis of business proposal and RMG guidelines
Collateral	<ul style="list-style-type: none"> No collateral Will be based on business potential
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
Hidden Charges	<ul style="list-style-type: none"> No hidden charges as per SBP/GOP decision

SME Business Bank Account	
Particulars	Details
Minimum Deposit	<ul style="list-style-type: none"> PKR 50,000
Account Type	<ul style="list-style-type: none"> Non-remunerative Current Account
Documentation	<ul style="list-style-type: none"> 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	
Particulars	Details
Bancassurance	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> Mobile banking services for instance balancing check, bill payment and funds transfer
Utility Bill Payment	<ul style="list-style-type: none"> Service for easy payment of electricity, gas, telephone and cell phone bills
Advisory Services	<ul style="list-style-type: none"> Advisory services offered to business owners for structuring financing products for modernization of plant and working capital lending.

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 textiles for the past three years and hold a valid CNIC
Member of Trade Association	The business should be registered and be a member of the trade association such as APTMA for the past one year
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history

Indicators	Description
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 “Textile Fabric” segment are spread out in various locations all over Pakistan, however there are clearly identified cluster locations in major cities such as Karachi, Lahore and Faisalabad.

Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for Textile Fabric segment are as follows:

- Educate the Textile Fabric mill owners to create awareness for financial/ banking needs and banking products in the identified market regions
- Develop strategies to attract a large number of Textile Fabric owners interested in product schemes
- Design a comprehensive positioning strategy to create strong awareness of the Textile Fabric segment lending product in the market
- Organize promotional events in cluster locations or near business location to build strong image of the bank amongst the target audiences

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 in collaboration with APTMA to provide maximum exposure to small and medium business owners, as the business owners in Textiles follow up and look forward to ATPMA for industry specific issues.

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

- Direct Sales Agents
- Fairs at cluster locations
- Trade association backed seminars
- Branches
- Banners in segment locations and markets
- Access to trade fairs
- Identification of expansion opportunities through market sources

Distribution Strategy

To reach maximum percentage of target market, Banks needs to have a comprehensive distribution strategy. Banks aims to cater banking needs of Textile segment through its products on national basis in major cities of the country. Initially the bank will provide financing facilities in major cities only.

Banks will adopt conventional channels for effective distribution:

- **Branches:** Establishment of lending branches in textile cluster and regions with high growth potential to attract a large number of customers for SME lending 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.



Acknowledgement:

Provision of data, selection of 10 SME sectors and participation in meetings / focus groups by the following banks:

Allied Bank Limited
Askari Bank Limited
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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May 2011