

# ‘Marble and Marble Products’



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This report contains market research and proposed banking products, based on primary research survey results and secondary sources, carried out for SME segment "Marble and Marble Products" by Corporate Development Partners (CDP).

The purpose of this research report is to provide segment specific credible information for the commercial banks to facilitate them in designing and delivery of banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner.

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## **1 Guidelines for using this Research Report**

The '*Marble and Marble Products*' Segment Research Report provides indicative business and financial characteristics based on the information evident from a sample of business owners via primary research survey. It can be used by banks/DFIs 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 '*Marble and Marble Products*' Industry overview is developed by using information obtained from secondary and tertiary sources, including industry associations and data available in public domain.

### **1.1 Market Assessment**

This section contains analysis based on primary findings of survey exercise conducted in main cities of Pakistan, main Rawalpindi, Karachi and Islamabad among others; the information can form the basis of identifying the characteristics of a typical business entity in the segment.

### **1.2 Product Suite**

Proposed banking product suite provides a number of potential core banking product templates that can be used by Banks/DFIs 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.

### **1.3 Marketing and Distribution**

Marketing 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

According to the latest data cited in SMEDA and Economic Survey Reports 2010-2011, Small and Medium Enterprises (SMEs) account for approximately 40% to GDP contribution of Pakistan and play a major role in spurring economic activity with a contribution amounting to 80% of non-agriculture GDP of Pakistan. Few businesses in this segment use banks to meet their business needs owing to the following impediments:

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

SMEs present immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns, however there is a need to further 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 this SME segment.

In this context, State Bank of Pakistan (SBP) has mandated Corporate Development Partners to conduct a secondary research and a primary survey of ten major SME subsectors of Pakistan to determine banking and financial needs of the sectors.

This research report contains findings pertaining to the segment of "*Marble and Marble Products*" which includes marble processing units mostly scattered in the main cities such as Karachi, Lahore, Islamabad and Rawalpindi.

Manufacturing sector in Pakistan has been the major contributor towards promoting economic growth, but lack of research and development and inadequate investments in marble sector have restrained its growth to the full potential.

The '*Marble and Marble Products*' Sector consists of:

- *Quarrying*: extraction of raw material in blocks
- *Transportation*: Specialized touch flat bed
- *Processing units*: consist of small, medium and large scale.
- *Warehousing*: Storage till exporting of the marble and marble products

The marble processing units are spread all over Pakistan but their major concentrations are mostly in the main cities. Raw material reserves are mainly located in KPK, tribal belt and Baluchistan; therefore, quarrying units are set up in these areas. Raw materials, after quarrying, are transported to cities where the marble processing units are located. This sector has great growth potential for exports and therefore, requires investment in its quarrying techniques, to

ensure less loss of raw material. A better support from financial institutions will enhance growth within this sector.

## **2.1 Limitations of the Study**

- 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 quantitative primary research but are based on knowledge of the market and best practices.
- Some of the questions in the questionnaire, especially in the financial information section were considered too personal by many business owners; therefore, many of them refused to answer. Hence, the responses in this regard may be evasive and cannot be verified with respect to their accuracy.

## 2.2 Sampling Plan

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

Table A: Sampling Plan

Particulars	Criteria	Rationale
<b>Size</b>	<ul style="list-style-type: none"> <li>1,000 detailed one-on-one interviews for 10 sub-sectors</li> <li>100 SMEs surveyed within each sub sector.</li> </ul>	<ul style="list-style-type: none"> <li>Sample size is sufficient enough to gather relevant qualitative and quantitative information on each sub sector</li> <li>Increase in the sample size will only add marginal value to the overall information collected from the survey exercise</li> </ul> <p><b>Change of Definition of SME by SBP</b></p> <ul style="list-style-type: none"> <li>Small enterprises are defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 million</li> <li>Medium enterprises are businesses with more than 20 employees and turnover above PKR 75 million and up to PKR 400 million for the purpose of classification and segmentation by banks</li> <li>For the purpose of this research, the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150 million (i.e. two times the sales of Small Enterprises)</li> </ul>

Particulars	Criteria	Rationale
<b>Status</b>	<ul style="list-style-type: none"> <li>At least 60% will be informal businesses</li> <li>At least 20% will be formal businesses</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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 business enterprises within the same industry segment.</li> <li>Moreover as per revised SME Prudential Regulations, Small businesses are allowed financing up to PKR 15 million without the audited financials. This regulatory change will enable SMEs to qualify for a structured lending product by maintaining the basic system of book keeping and accounting.</li> <li>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</li> <li>Including the above businesses gives us a fair representation of entities 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 only for holding their business operating accounts</li> <li>Formal businesses have more structured requirements than those who use banks only for products such as fund transfers</li> </ul>

Particulars	Criteria	Rationale
<b>Turnover</b>	<ul style="list-style-type: none"><li>▪ At least 50% with turnover less than PKR 75 million</li><li>▪ At least 20% with turnover more than PKR 75 million</li></ul>	<ul style="list-style-type: none"><li>▪ 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</li><li>▪ 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</li></ul>
<b>Employees</b>	<ul style="list-style-type: none"><li>▪ 60% will have less than 20 employees</li><li>▪ 40% will have more than 20 employees</li></ul>	<ul style="list-style-type: none"><li>▪ SMEs that are not in the manufacturing segment are relatively understaffed owing to the small size of their business and ease of management</li><li>▪ Moreover, businesses that have more than 20 employees are classified as medium enterprises hence we have covered a substantial portion of such entities as well</li></ul>

Particulars	Criteria	Rationale
<b>Banking history</b>	<ul style="list-style-type: none"><li>▪ At least 70% with banking history</li><li>▪ At least 10% with no banking history</li></ul>	<ul style="list-style-type: none"><li>▪ As per SBP prudential regulations any business operated by an individual as a proprietor, but meets the classification criteria of the regulations will be termed under SME</li><li>▪ 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)</li><li>▪ 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</li><li>▪ However, a very small portion of the totally unbanked SMEs in the sub-sector is also covered during our survey to understand their reasons for not availing the banking services and fulfilling their needs for financial services through other, more expensive, informal channels</li></ul>

### 3 Economic Overview

Pakistan's economy has shown resilience despite challenges which include domestic factors such as political instability during the last few years, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan (2013-14), after a period of slow growth due to floods and law and order crises, the economy showed a significant growth in 2013-14 on the back of immense recovery from the industrial sector along with moderate growth in agriculture and service sectors. With industrial sector expanding by 5.84% when compared to last year figure of 1.37%, while the economy grew by 4.14% in FY-2014.

**Table B: Economic Considerations**

<b>Positives</b>	<ul style="list-style-type: none"><li>▪ Heavily populated, (over 180 million people) translating into strong future potential for improvement in work force as well as purchasing power, leading to growth in consumer related segments.</li><li>▪ Despite many challenges faced by the country, Pakistan has performed better than many developing countries with the GDP growth rate of 4.14% in FY 2014 which is highest in the last three years when compared with GDP growth in FY 2013 and FY 2012 of 3.7% and 3.84% respectively.</li><li>▪ 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.</li><li>▪ The industrial sector showed a huge growth of 5.84% compared to previous year of 1.37% which has been a huge boost to the economy as it contributes to 20% of the GDP. It is also a major source of tax revenue.</li><li>▪ Investment activities are continuing to take place, backed by the fact that public investment has recorded a remarkable growth of 17.12% while last year it had a negative growth of 0.35%.</li><li>▪ Foreign Direct Investment (FDI) has also shown a remarkable increase from USD 1,277 last year to USD 2,979 in the period July – April 2013-14, an increase by 133%. Major portion of FDI was for oil &amp; gas exploration, electricity &amp; power, financial business and chemicals.</li><li>▪ Positive trend of remittance over the last 10 years has greatly</li></ul>
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supported the country's balance of payment position.

**Challenges**

- National saving is showing a decline, with 12.9% of GDP in FY14 while in FY13 it was reported 13.5% of the GDP. Covering the saving-investment gap remains to be a challenge.
- The FY 2013-14 has shown slight improvement in fiscal deficit which reduced by 3.2% compared to previous year. Structural weakness in tax system however still prevails with low tax to GDP ratio while the expenditures continue to exceed the revenues.
- Balance of payments has shown a surplus of USD 1,938 million compared to last year deficit of USD 2,090 million in FY 2013-14. However despite that, the current account balance further showed a deficit of USD 2,162 million in July-April 2013-14 compared to last year in the same period.



#### 4 'Marble and Marble Products' Industry Overview

Table C: Summary of Industry Overview

Factors	Comments
<b>Demand</b>	Pakistan is one of the largest exporters of marble and marble products and the demand for its products continue to rise in both the international and domestic market, especially due to increasing use in construction for both commercial and residential purposes
<b>Supply</b>	The country has access to high quality marble reserves in KPK, FATA and Baluchistan. But due to lack of modern quarrying techniques, electricity crises and bad law and order situation, marble industry continues to face challenges and losses.
<b>Key players</b>	The Heritage Mall, Stonyx Pvt, Limited, Eastern Stone, Ghazali Handicraft
<b>Trade Bodies</b>	<ul style="list-style-type: none"> <li>• All Pakistan Marble Mining Processing Industry and Exporters Association (APMMPIEA)</li> <li>• All Pakistan Marble Industries Association</li> </ul>
<b>Regulatory Body</b>	Ministry of Industries
<b>Recent Developments</b>	The government is taking interest in introducing quarrying machines that will meet the international standards and reduce waste of raw material caused due to improper extraction and blasting of mines.
<b>Future prospects</b>	Marble industry promises high growth potential as it has one of the highest marble reserves and has rising exports despite many issues in the industry. With better quarrying techniques, marble industry will provide higher supplies and export prospects.

## 4.1 Demand

Marble is gaining popularity due to its increasing usage in construction industry. Today almost all the modern architectural designs of houses and plazas include the final touch of marble in exterior as well as interior portions due to its attractive look.

Due to modern architectural designs, use of marble steps/strips/tiles and slabs in the construction industry has been increasing. The growing housing industry as well as reconstruction efforts in earthquake hit areas like Manshera, Abbottabad and Islamabad, has further increased the marketing potential of the marble industry.



Pakistan is one of the major marble-exporting countries of the world although the industry also faces various problems like power shortages and the unfavorable law and order situation in selected areas of the country, where major reserves are located. China is the biggest importer of marble from Pakistan, however, the marble exported to China also includes semi-processed marble, which is then re-exported from China after value addition, which is hurting Pakistan's marble industry to a significant extent. Pakistan also exports to Saudi Arabia, UAE and Italy. Other major problems of this industry, as mentioned above, includes power outages, strikes and law and order situation in many parts of the country which create hurdles in the timely export of finished and semi-finished marble products according to APMMPPIEA and continues to create obstacles in processing due to worsening electricity shortages.

However, despite such challenges, during July to September 2012 export of finished and semi-finished marble products reached to USD 12.5 million compared with previous year in the same period, with exports reaching just USD 6.6 million<sup>1</sup>, while in period July to September 2014 alone, Pakistan exported marble and marble products worth USD 51.74 million<sup>2</sup>. The export of all marble products has increased by 200% according to APMMPPIEA in the year 2014<sup>2</sup> as the demand from the Middle East increased manifold as compared to demand from USA and European nations. The average industry growth rate over the last 3 years was 35 percent<sup>2</sup>, primarily on account



<sup>1</sup> <http://archives.dailytimes.com.pk/business/18-Sep-2012/marble-products-export-hits-record-high-in-july-sept-15>

<sup>2</sup> <http://www.dailytimes.com.pk/business/11-Mar-2014/export-of-marble-products-reaches-51-74m-in-july-feb-2014>

of reconstruction activities in Middle East and Afghanistan. This depicts a great potential for Pakistan to raise its export multiple times with the use of proper quarrying techniques.

## 4.2 Supply

Nearly 30 kinds of marble are found in the KPK and adjoining tribal belt. The most famous of these are Ziarat marble, super-white, off-white, Badal, Zebra, pink, Nowshera, Jet-black, Bampokha and golden marble.

Swat, Buner, Chitral, Kohistan, Mardan, Hazara, Nowshera and Kohat divisions are high potential areas for quality marble in the province. Mohmand, Khyber, Bajaur, Orakzai and Kurram Agencies from Federally Administered Tribal Areas (FATA) also have huge marble reserves.

Despite the fact that Baluchistan has more than half of the national prospective geology for minerals, it contributes just over one-fifth to the national mining GDP and leads only in the production of coals. Around 200 marble products manufacturing units are in the largest marble industrial cluster of the country in Karachi and are running at half of their capacity, thus incurring a production loss of over PKR 27 million a day<sup>3</sup>. This is due to the marble industry suffering from load-shedding, law and order problems, use of outdated quarrying techniques, inconsistent supplies of raw material, lack of proper infrastructure, lack of value addition and absence of public-private cooperation/ coordination. Around 200 quarries remained closed for more than two years in the Baluchistan province owing to feuds among different clans.



## 4.3 Key Players

The major key players of marble products sector are The Heritage Mall, Stonyx Pvt, Limited, Eastern Stone, and Ghazali Handicraft.

## 4.4 Trade Bodies

- All Pakistan Marble Mining Processing Industry and Exporters Association (APMMPIEA) - have been established under the Ministry of Industries and Production as a public private partnership. It is a not for profit organization incorporated under Section 42 of the

<sup>3</sup> [http://www.dailytimes.com.pk/default.asp?page=2012\01\05\story\\_5-1-2012\\_pg5\\_16](http://www.dailytimes.com.pk/default.asp?page=2012\01\05\story_5-1-2012_pg5_16)

Companies Ordinance, 1984 as subsidiary of Pakistan Industrial Development Corporation.

- All Pakistan Marble Industries Association - plays a vital role in identifying and solving marble industry related problems, creating cohesiveness among the group, resulting in improved quality of work.

#### 4.5 Recent Developments

Pakistan Stone Development Company (PASDEC) is playing an integral role in the marble sector by continuously exploring and starting new projects. PASDEC has recently established 29 prototype projects of marble and granite, 2 warehouses at Gaddani and Risalpur for storage of raw stone and finished products of marble and granite and 2 machinery pool projects established at Gaddani and Risalpur are serving mine owners and lease holders to acquire modern quarrying<sup>4</sup>. USAID is also focusing on the marble industry of Pakistan to make it globally competitive<sup>5</sup>.



#### 4.6 Future Prospects

Measures are being taken to do justice to the much neglected marble sector of Pakistan. The government has devised a road map, on the front of which a new company has been formed under the name of Sindh Stone Development Company, whose prime responsibility is to revive the marble industry in Pakistan. Marble city would offer great opportunity for the businessmen to take advantage of value addition to the stone mineral resources, mainly found from Sindh. It will also create both direct and in direct jobs related to the marble industry.

Pakistan Stone Development Company (PASDEC) will establish three Marble Cities at Mohmand Agency (FATA)<sup>6</sup>, Risalpur and Loralai to facilitate processing with trained work force and latest processing machinery and infrastructure.

Many investors from European countries such as Italy and UK, Japan, Saudi Arabia, Korea



<sup>4</sup> <http://archives.dailytimes.com.pk/business/06-Sep-2012/pasdec-scores-29-projects-of-marble-granite-schemes>

<sup>5</sup> <http://www.thenewstribune.com/2012/06/23/usa-id-focuses-on-pakistans-marble-sector/>

<sup>6</sup> <http://www.brecorder.com/pakistan/business-a-economy/77153-marble-export-increasing-by-25-pc-annually-.html>



and China have shown great interest in Pakistan's quality marble reserves and desired to participate in joint ventures projects.

#### **4.7 Marble Product Making Process**

Raw materials for the marble processing units come in the form of irregular blocks from the quarrying mines which are transported by trucks to the marble processing units. These marble blocks are cut, shaped, polished and are distinguished by their color and size and used in various building construction projects.

*Squaring machine:* Large stones of irregular shapes are squared or leveled from one side so it can be placed in proper manner on Gang Saw machine and maximum square feet can be processed.

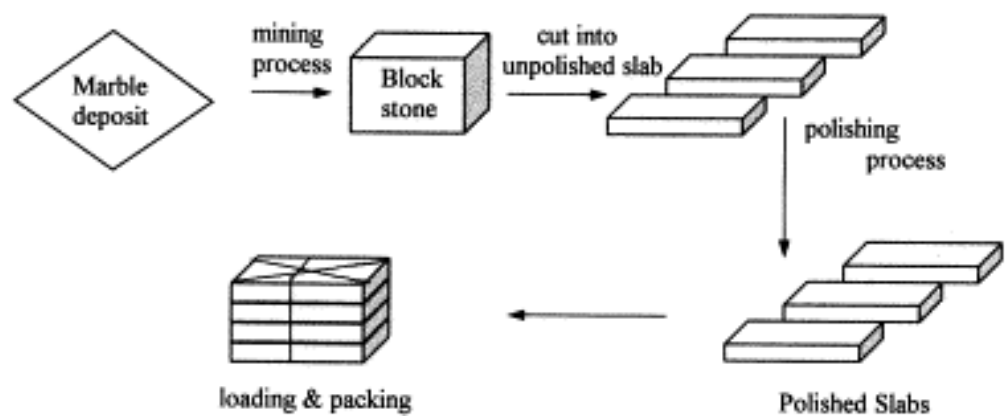
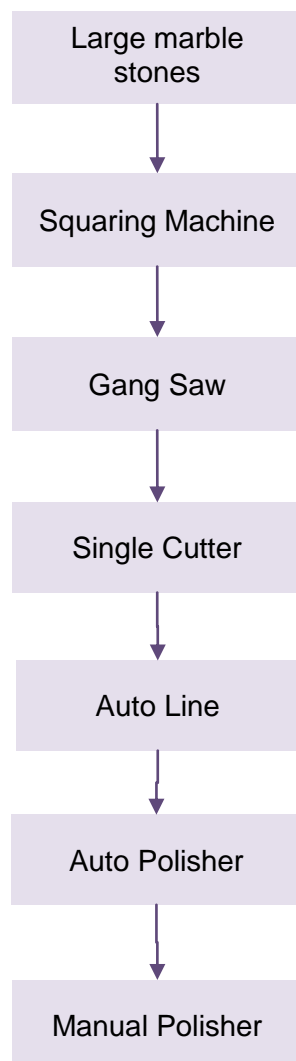
*Gang Saw:* Processed or unprocessed stone is cut into large slabs.

*Single Cutter:* The large slabs are further cut into saleable sizes which can be in the form of slabs, tiles, patti etc.

*Auto Polishers:* These shaped marbles are then polished to give it an attractive look to the products.

*Manual polishing:* some products are further polished such as small items after various handicrafts work is carried out on them.

**Figure 4.7-a: Marble Product making Process**

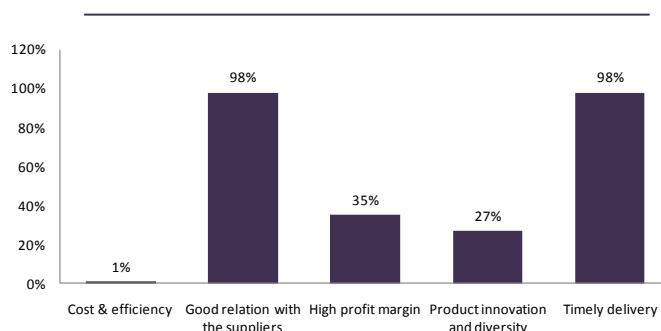


#### 4.8 Success and Survival of the Businesses in this Sector

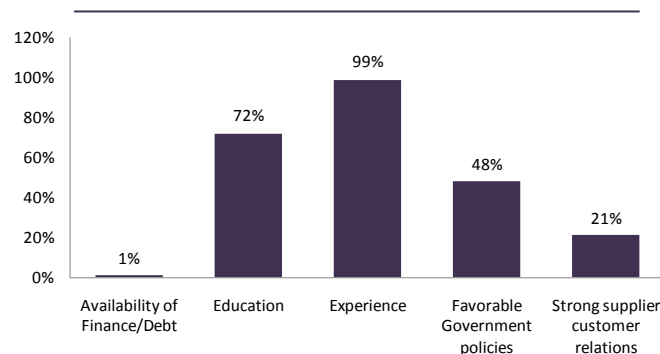
From the survey interviews (**Figure 4.8-a**), almost all of the business owners (98%) felt that good relations with the suppliers and timely delivery of the finished goods was the major success factor for the businesses in this sector, as this ensured consistent supply of raw material and so no loss of orders.

In order to survive as an SME (**Figure 4.8-b**), 99% of the business owners believe that experience was the most essential element, followed by education (72%). However 48% of the business owners also felt that due to favorable government policies their SME businesses managed to survive.

**Figure 4.8-a: Indicators of Business Success**



**Figure 4.8-b: Key means of survival as an SME**



Source: Survey Findings

## **5 Market Assessment**

### **5.1 Market & Demographic Profile**

At present, the retail sales segment in Pakistan is relatively organized. Most businesses are family owned with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Limited access to intellectual, human and financial resources
- 2) Limited avenues for funding sources
- 3) Lack of innovation and research within the sector
- 4) No structured Government initiative and policies for the sector
- 5) No official quality certification and testing facilities available

The '*Marble and Marble Products*' segment is largely dispersed across various cities and the rural parts of the country. The raw material reserves are mostly scattered in KPK, tribal belt and Baluchistan and therefore, the quarrying sub sector is mostly located in these areas. This sub-sector still deploys outdated quarrying techniques, due to non-availability of funds, with only few large manufacturers using sophisticated technology. The other issues faced by the sector includes law and order issues like militant occupancy in marble reserves rich areas, which led to hampering of the quarrying resources. Energy crisis is also a major problems faced by this sector which leads to decline in its production.

The marble processing units are mostly located in the main cities of Pakistan. This makes it convenient for the sales and distribution of the finished products to their customers.



### 5.1.1 Market Sizing and Lending Potential

As mentioned before the marble processing businesses in this sector are scattered in the main cities. The following table (**Table D**) shows cluster locations along with rough estimate of registered marble processing units.

<b>Table D: Cluster Locations for 'Marble and Marble Products'</b>	
Area	No. of establishments
Rawalpindi	201
Karachi	191
Islamabad	174
Lahore	96
Gujranwala	47
Peshawar	45
Quetta	18
Nowshera	5
Faisalabad	2



Source: Trade Associations and Industry Sources

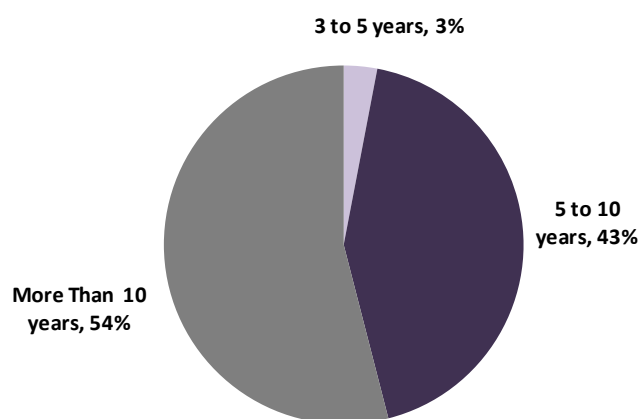


### 5.1.2 Segment Demographics

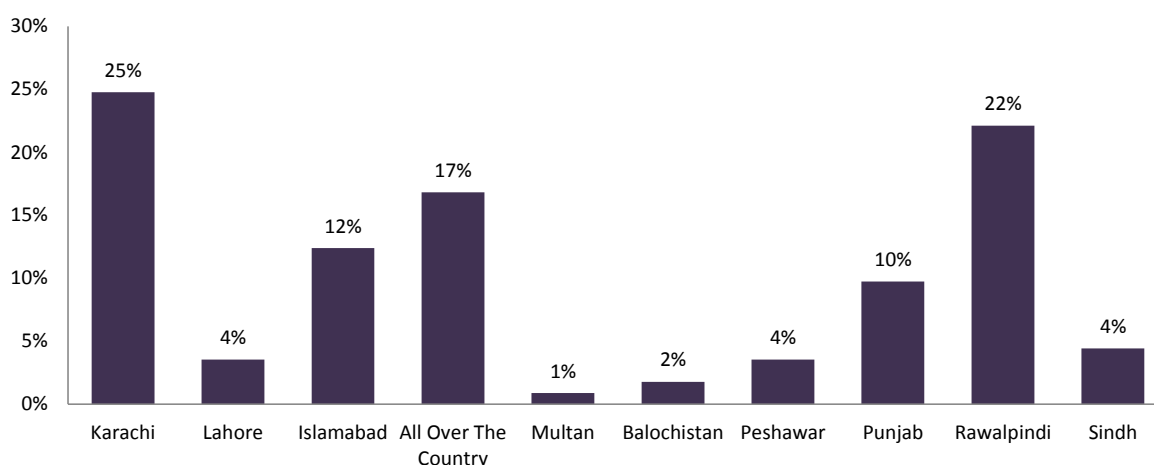
The segment is widely spread out across various regions in the country with highest concentration in the main cities like Karachi, Lahore and Islamabad. Demographic information is obtained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan. The businesses covered in the survey caters customers all over the country with majority having their products sold in Karachi (25%), followed by Rawalpindi (22%) while cater 17% have their customers all over the country (**Figure 5.1-b**).

More than half of the businesses (54%) have been operating for more than 10 years while 43% have been running for 5 to 10 years. Very few businesses (3%) have started their operations 3 to 5 years ago (**Figure 5.1-a**).

**Figure 5.1-a: Number of years in operation**



**Figure 5.1-b: Customers' presence within the country**

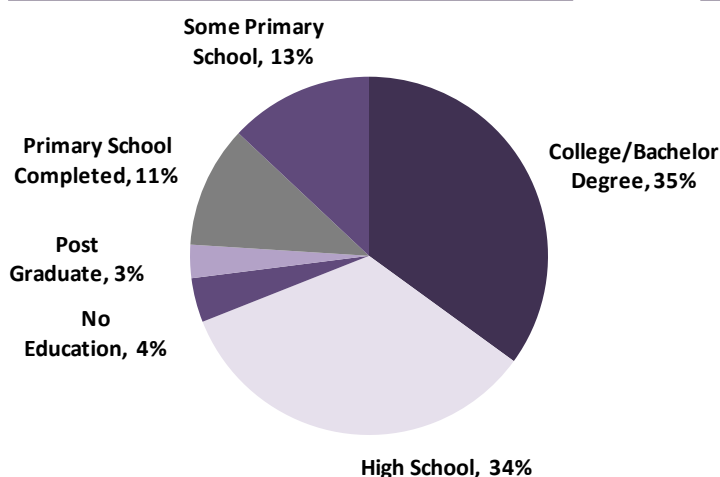


Source: Survey Findings

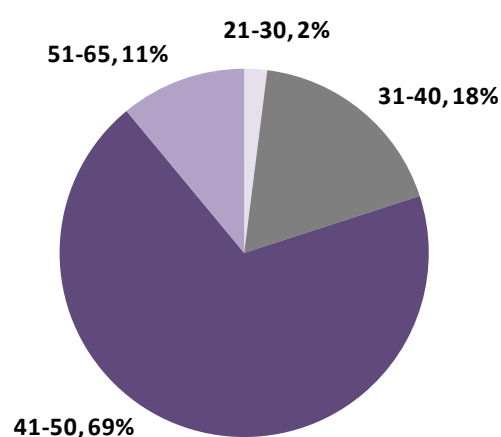
## 5.2 Owners Profile

The business owners consist mainly of people in the age group of 41-50 years (69%) who have been working for many years as most of the businesses are established for more than 10 years (**Figure 5.2-a**). This indicates that the business owners are well experienced in their industry. Due to the nature of work, higher level of education is not considered as a major factor for business owners but despite that 35% have bachelor degrees (**Figure 5.2-b**). Predominantly businesses are run by families, preferring family members to undertake organization functions, with 81% of the businesses established as sole proprietors (**Figure 5.2-d**). 49% of the businesses have between 10 to 24 staff members, with 25% having 25 to 50 staff (**Figure 5.2-c**).

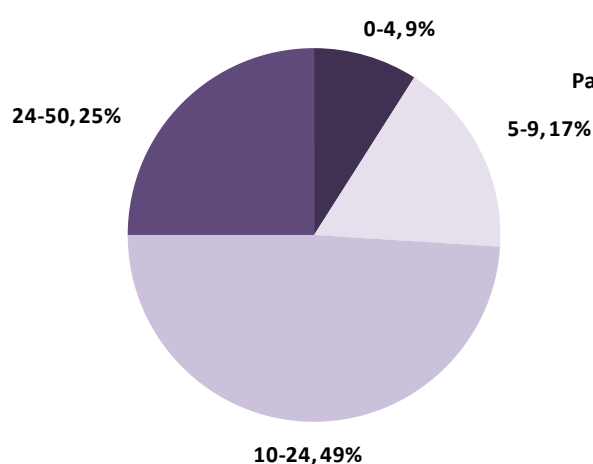
**Figure 5.2-b: Education level of business owners**



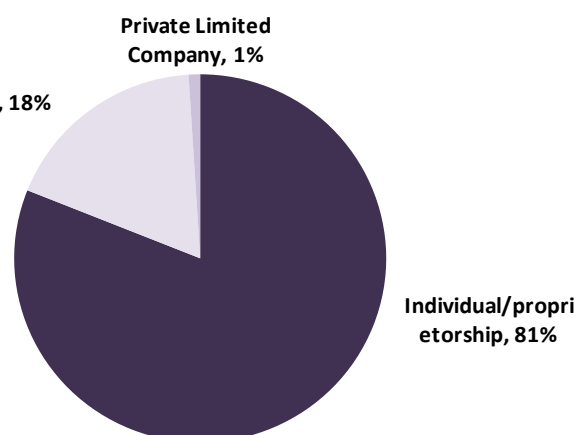
**Figure 5.2-a: Age group of business owners**



**Figure 5.2-c: Number of employees under business owners**



**Figure 5.2-d: Ownership type**



Source: Survey Findings

### 5.3 Business Linkages

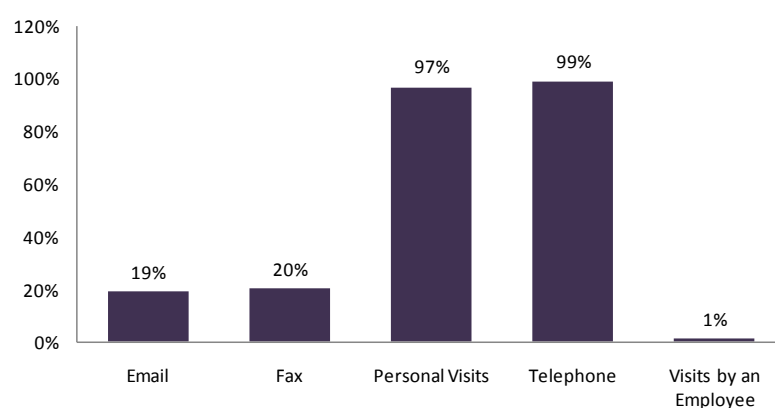
Businesses in the segment are connected to various institutions, which are directly or indirectly affected by the business operations, primary stakeholders and their interests are enlisted in the following table (**Table E**):

*Table E: Stake Holders and Their Interests*

<b>Marble and Marble Products</b>	
<b>Stakeholder</b>	<b>Interest</b>
<b>Owners</b>	Growth, government initiative and access to finance
<b>Suppliers</b> (quarrying and transport)	Better terms, increased supply and proper loading and transport of raw materials, consistent pricing and lower risk of payment defaults
<b>Customers</b>	Product quality, reasonable pricing and consistent supply
<b>Financial Institutions</b>	Lending products and increase in deposits
<b>Government</b>	Economic growth, employment and increase in exports

Businesses employ various mediums as means of communication with its customers (**Figure 5.3-a**) however, due to the personalized nature of work; personal visits by customers and telephone are widely utilized. These businesses are highly competitive and provide services to about 51-100 customers or even more than that annually. Most of the local customers include building constructors, however few customers also purchase for private residential construction.

**Figure 5.3-a: Communication with customers**



Source: Survey Findings

turing units includes (**Table F**):

**Table F: Raw Material for 'Marble and Marble Products' Sector**

Marble stones

Soapstone

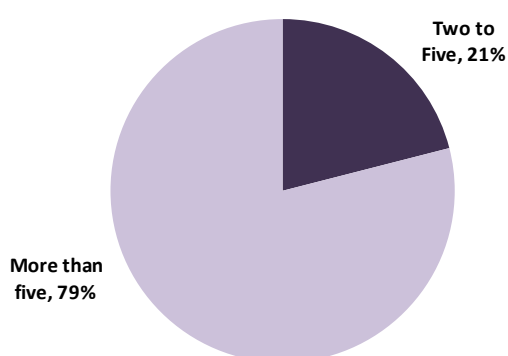
Granite



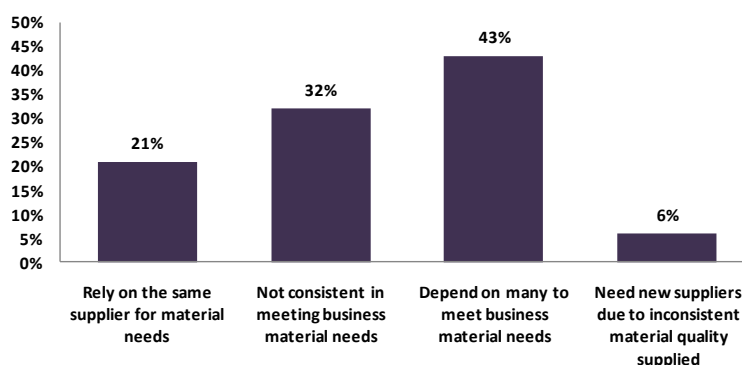
Majority of the businesses (43%) depend upon many suppliers to meet their raw material needs to ensure consistent supplies are available without dependency on one supplier (**Figure 5.3-b**). 21% of the businesses, however, rely on the same supplier for years which in some cases may owe to good quality of raw material supplied or long term supply contract. Few businesses are not consistent in purchasing raw material from same suppliers or need new suppliers, due to inconsistent material quality with percentages resting at 32% and 6% respectively. 79% of the businesses rely on more than five suppliers for their raw materials (**Figure 5.3-c**). This indicates that risk of raw material supplies also exists in this sector.

Material needs are met locally, buying from the same location or same city from local dealers or wholesalers. Quarrying units are located in suburban areas from where the marble processors transport marble slabs to the city to the main marble processing units. In cities the sale of processed marble to the customers also results in convenience.

**Figure 5.3-c: Number of Suppliers**



**Figure 5.3-b: Supplier Relationship**



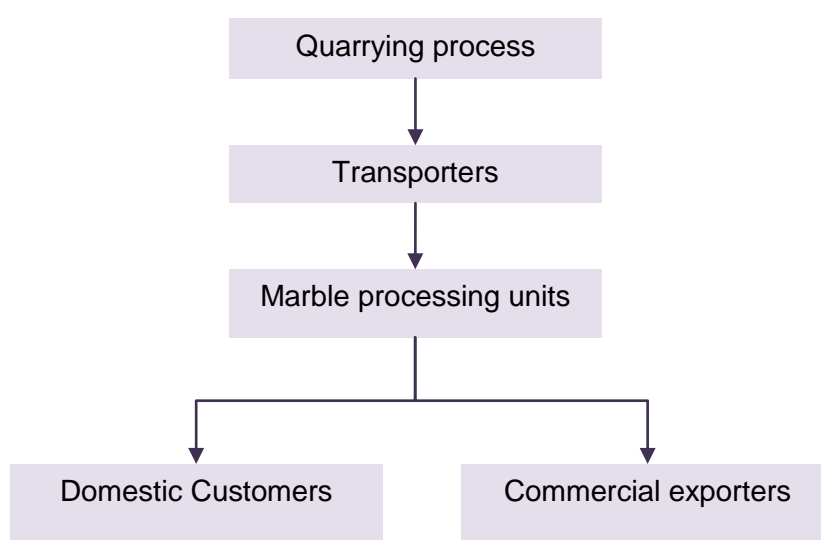
Source: Survey Findings

## 5.4 Business Cycle

This sector is not seasonal, however, it is severely affected by the political situation in the country. Due to militancy in the tribal areas and military operation in KPK, quarrying process and transportation of marble blocks to processing units located in cities can get seriously hampered.

The businesses do not experience cyclical trends as such however; sales are to an extent dependent upon quarrying activities.

**Figure 5.4-a: Business Model**



In marble quarrying segment, marble units are established in clusters near marble reserves where blasting is carried out for extraction. The marble blocks are then loaded and transported by trucks to the cities where marble processing units are established. In processing units these marble blocks are crushed, cut, and polished and then sold to



the local and international market either as blocks or in the form of various handicraft products such as decoration pieces, lamps, bowls, etc. The customers vary from small stores to road construction, railway ballast, in private housing, public infrastructure and industrial construction.

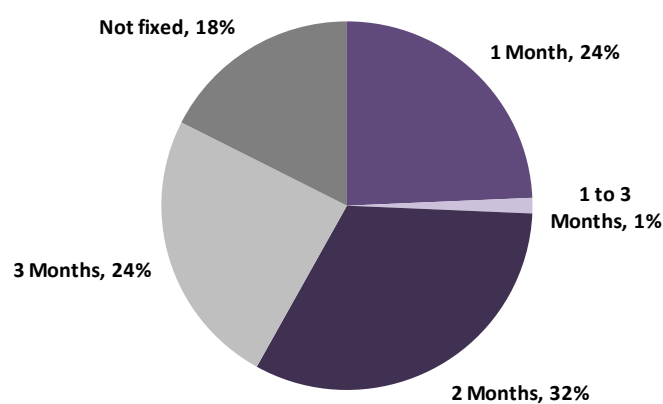
### 5.4.1 Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in marble sector operate by processing marble for different industries like construction, housing, etc.

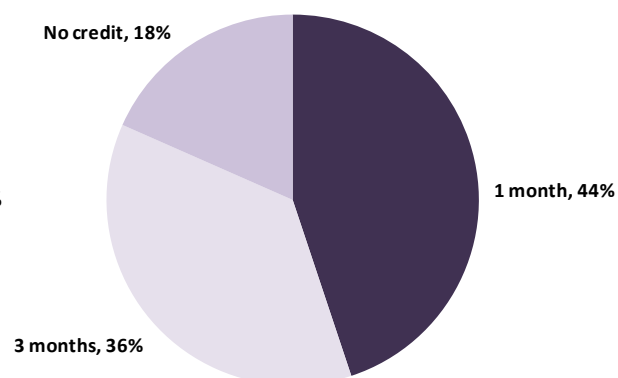
The segment works mainly on cash basis with suppliers of marble blocks mostly giving credit time of two months (32%) while few (24%) extend their credit terms upto three months as well (**Figure 5.4-b**). These businesses also allow up to 1 month credit (44%) for large/reputable customers in most of the cases due to strong client/customer base, however in some instances receivables may take up to three months (**Figure 5.4-c**).

The repayment periods provided by the suppliers are more or less consistent with the repayment period given to customers. This helps the business owners in dealing with their payments to suppliers.

**Figure 5.4-b: Repayment terms offered by suppliers**



**Figure 5.4-c: Repayment Terms for customers**



Source: Survey Findings



## 5.5 Financial Assessment and Profile

All the businesses in this segment prepare Financial Statements, however, only 44% of the business owners stated that they have their financial statements audited.

More than half of the business owners/managers keep track of accounts themselves, though because of higher level of education in this sector, the owners have accounting knowledge and experience which ensures to some extent that they are able to prepare reliable Financial Statements and keep a good and organized track of their cash movement.

From primary research and interviews conducted from trade associations, it has been identified that retailer margins are variable which in recent years have been rising, with a great number relying not only on higher sales volume for earning better profits but also struggle for higher investment which is required for marble mining and quarrying segment.

As per research findings, none of the business owners in the sector were willing to disclose their financial data with regards to capital invested. A rough estimate was given by the business owners regarding business assets employed, annual revenue, income and expenses.

Business owners' reluctance for sharing financial information presents an issue for calculation of segment's accurate benchmark financial ratios. The following table (**Table G**) provides key financial ratios of this sector which have been calculated on the average value of the financial range provided to us by the businesses covered in the survey. These ratios are an estimate at best and cannot be utilized to assess the performance of the businesses prevailing throughout this sector.

*Table G: Sector Financials Snapshot*

Financial Information	PKR
Business Assets	87,000,000
Total Revenue	89,565,000
Annual Expense	76,880,000
Total Income	10,720,000
<b>Key Financial Ratios</b>	
Profit Margin	12%
Operating Expenses/ Revenue	86%
Asset turnover	1.03 times
ROA	12.32%

Conclusively, it can be said that despite many businesses reporting profit in this sector, expenses are also high compared to the revenue generation and so businesses generally report a lower return on assets. This may pertain to out dated equipments being used by the marble sector businesses.



## 5.6 Financial Information

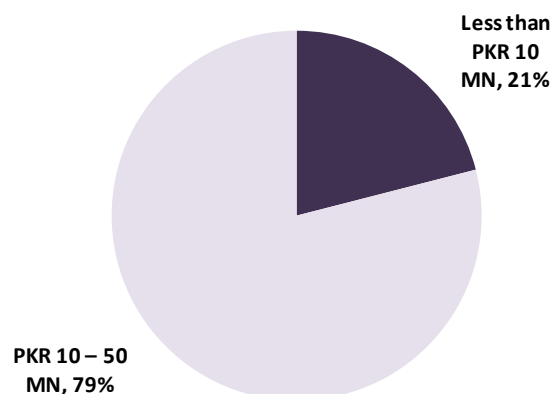
Due to non cooperation of the businesses in disclosing their financial information, the following financial information is provided in range which may give some idea of their financial position.

Primary survey findings reflect the Revenue, Expenses, Income and Capital Expenditure under the selected sample for the sector.

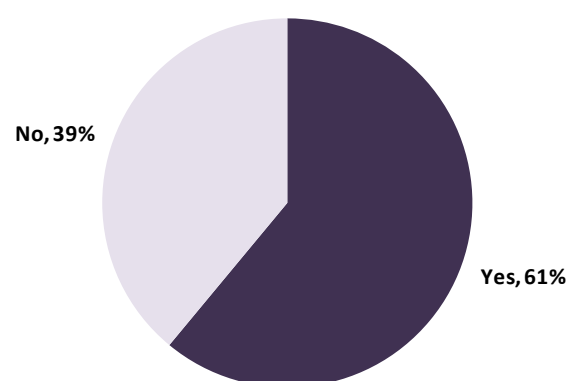
Survey findings demonstrate approximately 79% businesses operating with Total Assets between PKR 10-50 million (**Figure 5.6-a**) exhibiting a relatively high initial investment for startup. Total assets comprise of plant and machinery, land and building, inventory and receivables. Liabilities constitute trade payables and borrowing for plant & machinery and vehicles.

Business related assets constitute manufacturing equipment and specialized machinery for marble processing. 39% of the business owners in the marble and marble product sectors did not incur any capital expenditure in the past five years (**Figure 5.6-b**).

**Figure 5.6-a: Business Assets**



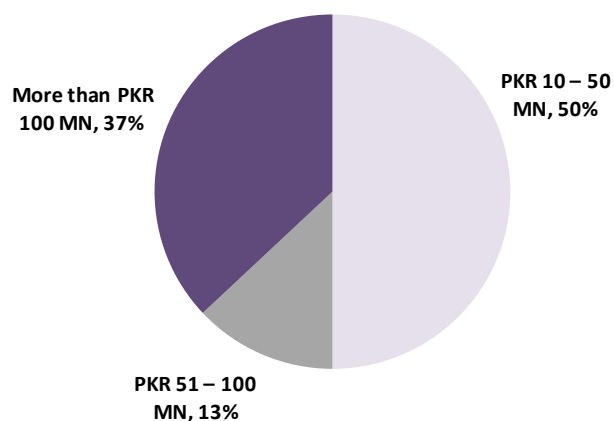
**Figure 5.6-b: Capital Expenditure**



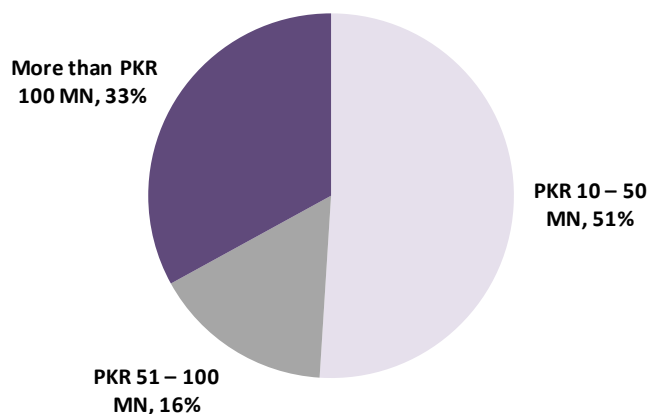
Source: Survey Findings

Annual average revenue is predominantly between PKR 10-50 million throughout the sector, with percentage at 50%. 37% businesses have claimed to have revenue of more than PKR 100 million; expenses primarily represent material, employee salaries and interest expenses against borrowings.

**Figure 5.6-c: Total Revenue**



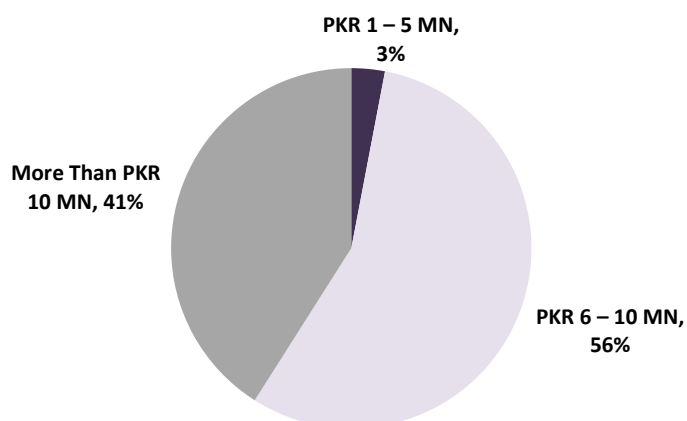
**Figure 5.6-d: Annual Expense**



Source: Survey Findings

Almost half of the businesses owners earn between PKR 6-10 million while 41% claim to earn more than PKR 10 million of average income for the last three years (**Figure 5.6-e**). Only 3% of the business owners' show earnings in the range of PKR 1-5 million annually.

**Figure 5.6-e: Total Income**



Source: Survey Findings

## 5.7 Indicative Business Requirements

The following table (**Table H**) lists the business equipment required by the businesses in the marble sector. 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 provides only an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

<b>Table H: Indicative Equipment Requirement</b>	<b>Cost PKR</b>
Gang Saw Machine	14,700,000
Block Cutters	3,000,000
Slab Cutters ( <i>depending on number of blades</i> )	490,000 – 4,900,000
Marble Drilling Machine	55,000
Marble Polishing Machine ( <i>depending on size</i> )	500,000 – 8,000,000
Stone Edge Polishing	500,000
Marble Carving Machine	300,000
Marble Engraving Machine	7,500,000
Beveling Machine	900,000
Marble Shaping Machine	500,000 – 2,500,000

These equipment are imported mostly from China and Turkey. A range of prices are provided for some machinery as prices vary according to the specification of that machinery including features like automation.



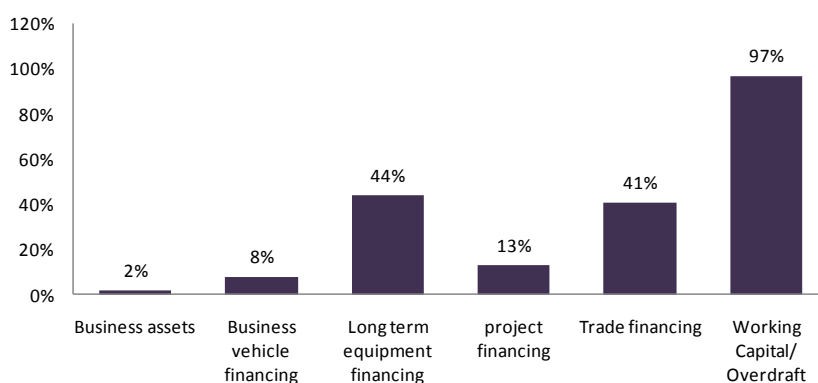
## 5.8 Financial Need Analysis

Mostly, business owners themselves or accountants are in charge of the business funds, with percentages resting at 53% and 45% respectively. These funds are mainly required for working capital/overdraft in 97% of the businesses interviewed (**Figure 5.8-a**). Many however, also require funds for trade financing and long-term equipment financing by 44% and 41% of the business owners respectively.

Very few business owners suggested business assets as their primary funding requirement but amongst fixed assets, finance requirement mainly centered around machinery & equipment and building for almost all of the businesses, with percentages being 99% and 97% respectively (**Figure 1.1-a**).

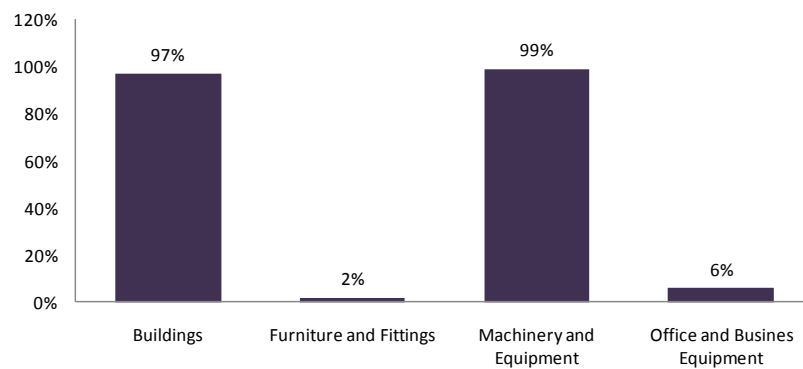
This segment shows a strong reliance on banks for their funding needs. Almost half of the businesses use banks or their own savings to fulfill their business funding requirement. Working capital financing can provide the SMEs in the segment to assist in further room for growth.

**Figure 5.8-a: Business Funding Needs**



Source: Survey Findings

**Figure 5.8-a: Fixed Assets Financing Requirements**



Source: Survey Findings

## 5.9 Usage of Banking Products

Very few owners are aware of SME segment specific efforts made by the Government of Pakistan; however, businesses in this sector have shown interest in potential loan products offered by banks and have also availed the facility of loan products for business funding needs.

More than half of the business owners listed the key driver in choosing a certain bank being family bank and convenience of location/proximity to business. Most of the owners are not keen to propose any feature or product to be offered by the bank. Very few suggested loan with lesser mark up would be favourable for them.

Business owners who have never used a bank to fund their business cited high interest rates as the main reason for not using banks, followed by religious reasons which prevents them from using interest bearing loans from banks as a source of finance for the business.

In addition to that, it is also observed that other services such as cash management and money transfer facility are also used by the segment. Money transfer accounted for 96% while cash management / collection services are desired by only 18%.

59% of the respondents do not use any insurance products; while remaining few have insurance for office equipment, travel insurance and legal insurance. Almost none of the business owners are interested in availing any insurance product from the banks as they prefer to avail such products directly from insurance companies.

4% of the businesses avail advisory services and pay for it, the rest avail it from their family members, business colleagues. 97% of the businesses are satisfied with their current source of advisory services. Only 3% of the business owners are willingly to pay for such services if provided by the banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	73%
Term Deposits	34%
Loan Product	23%

### 5.10 Segment Risk Considerations

The sector is moderately less risky as compared to some of the other SMEs in Pakistan. The underlying reason is the country's high reserves of raw material sources. More than half of the owners are operating from owned premises. However, some risks that pertain to the segment are discussed below:

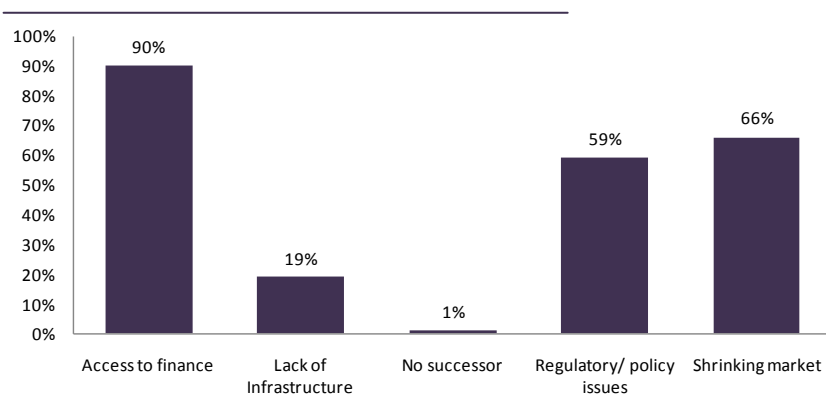
Businesses in the segment are largely individual proprietors, having this business as the only source of income. Strangely, the sector mostly listed scarce and disruptive supply of raw material as their biggest risk to the business, followed by customer credit risk, with the percentage resting at 95% and 78% respectively. This can be due to the fact that prices and lack of adequate funding sources make it difficult for the small businesses to buy raw material.

97% of the businesses address these risks through more capital investment (**Figure 5.10-b**). Other businesses also choose product innovation/cost reduction and/or reduce their profit margin, by 41% and 46% respectively. Some, however, focus on inventory management with percentage being 34%.

All businesses in the sector prepare Financial Statements but less than half of the businesses have gotten them audited. The analysis demonstrates that the segment operates in a highly competitive market with almost all of the businesses having more than ten competitors. Some businesses are not meeting their material needs by any consistent supplier which indicates that raw material needs are not met with ease.

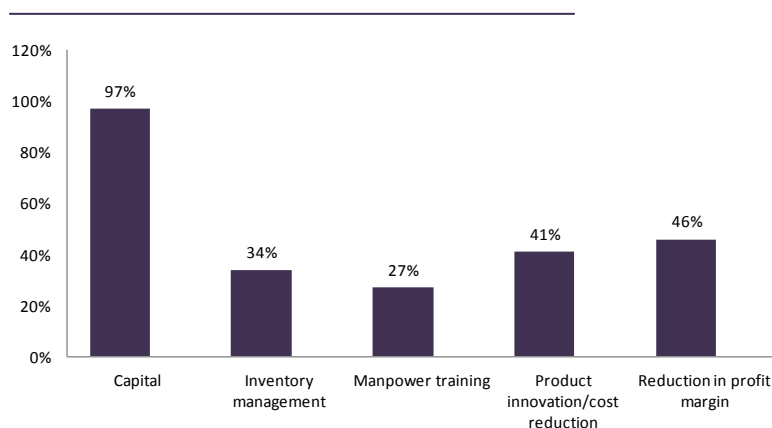
A large proportion of SMEs in the segment do not use banks to meet business funding needs and are not paying for any insurance products. More than half of business owners have also mentioned strict regulation as major problem faced in exporting their product, followed by the fact that the products are expensive compared to the products in the international market. 90% of the business felt that due to low access to finance their business has not been able to grow further (**Figure 5.10-a**).

**Figure 5.10-a: Business Expansion  
Restraints**



Source: Survey Findings

**Figure 5.10-b: How Business Risk Addressed**



Source: Survey Findings

Following are the strengths and weaknesses inherent in this sector:

#### *Strengths*

- Raw material locally available
- High capacity for increase in production
- Huge export potential

#### *Weaknesses*

- Outdated technology
- High transportation cost
- Lack of skilled labor for quarrying
- No waste management policy
- Electricity outages hinders business growth

Further, the risks inherent to the segment include:

- Uneven cash flows
- Inconsistent supply of raw material
- Unaudited financial statements of many businesses
- Electricity outages which paralyzes the production process

Possible Mitigating Factors:

- 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 business premises
- Review to export and import registration documents



## **6 Proposed Banking Product Suite**

### **6.1 Product Features**

Based on our primary and secondary research we propose the following growth of '*Marble and Marble Products*' sector:

*Asset Products:*

- Working capital/overdraft Finance Facility
- Marble processing machinery leasing
- Business vehicle Leasing
- Industrial Power Generator Leasing
- Export Refinance

*Liability Products:*

- Business Bank Account

*Other products*

- Banc assurance
- Branchless Banking (Mobile)
- Utility Bill Payment

<b>Table I: Working capital/Overdraft Finance Facility</b>	
<b>Particular</b>	<b>Details</b>
<b>Initial deposit</b>	Minimum initial deposit of PKR 10,000
<b>Tenure</b>	3 years with no requirement of Annual Cleanup for principle amount. However, regular payment of markup is must for renewal of limit.
<b>Loan Limit</b>	<ul style="list-style-type: none"> <li>• Minimum Limit - PKR 2,000,000</li> <li>• Maximum Limit - PKR 50,000,000</li> <li>• Minimum and maximum loan limits are reviewed annually</li> </ul> <p>Total loan limit offered will not exceed an average six months of usage determined over a period of the last three years</p> <p><i>(Maximum limit is set based on 50% mark-up of average revenue estimated for this sector)</i></p>
<b>Documentation</b>	One time documentation (as required by banks) for a period of three years
<b>Repayments &amp; Withdrawals</b>	<ul style="list-style-type: none"> <li>• Flexible repayment conditions: lump sum payment on the due date or partial repayments</li> <li>• Multiple withdrawals are allowed during the tenure of loan</li> </ul>
<b>Cleanup</b>	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
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Markup charges</b>	Mark up will be charged only on the amount utilized by the borrower
<b>Renewal</b>	Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and satisfactory credit history
<b>Penalty</b>	No early repayment penalty may be imposed on the borrower (subject to banks discretion)
<b>Insurance</b>	Mandatory insurance as per SBP guidelines
<b>Security</b>	Raw material stock. Mortgage of business premises for those who operate from owned premises.

<b>Table J: Marble Processing Machinery Leasing</b>	
<b>Particular</b>	<b>Details</b>
<b>Down Payment</b>	Minimum down payment of 20%
<b>Salient Features</b>	<ul style="list-style-type: none"> <li>• Equipment &amp; machinery leasing will be provided for expansion capital only to businesses who have been operating for 3 or more years</li> <li>• A list of pre-approved equipment and machinery manufacturers will be developed based on information received from trade association and market reputation</li> <li>• Credit facility will be offered directly through pre-approved equipment and machinery vendors</li> </ul>
<b>Tenure</b>	3 - 5 years
<b>Loan Limit</b>	<ul style="list-style-type: none"> <li>• Minimum Limit - PKR 1,000,000</li> <li>• Maximum Limit - PKR 50,000,000</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• One time documentation required for a period of three years</li> <li>• Financial Statements</li> </ul>
<b>Repayments &amp; Withdrawals</b>	Repayments will be based upon preset Equal Monthly Installments
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Penalty</b>	As per existing bank policies and cost of charges
<b>Insurance</b>	Mandatory insurance as per SBP guidelines
<b>Security/Collateral</b>	5% of invoice as security deposit and hypothecation of leased assets. Provision of collateral as per satisfaction of the bank

<b>Table K: Business Vehicle Leasing</b>	
<b>Particular</b>	<b>Details</b>
<b>Down Payment</b>	Minimum down payment of 20%
<b>Salient Features</b>	<ul style="list-style-type: none"> <li>• Business vehicle leasing will be provided for expansion capital only to businesses with an operational history of 3 or more years</li> <li>• Leasing facility will be provided up to the limit of existing capacity</li> <li>• Credit facility will be offered directly through pre-approved vehicle suppliers</li> </ul>
<b>Tenure</b>	3-5 years
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Business Financial Statements</li> <li>• Proof of business operation for last three years</li> </ul>
<b>Loan Limit</b>	<ul style="list-style-type: none"> <li>• Minimum Limit - PKR 1,000,000</li> <li>• Maximum Limit - PKR 10,000,000</li> <li>• Minimum and maximum loan limits are reviewed annually</li> </ul>
<b>Repayments &amp; Withdrawals</b>	Repayments will be based upon preset Equal Monthly Installments
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Insurance</b>	Mandatory Insurance facility
<b>Penalty</b>	As per existing bank policies and cost of charges
<b>Insurance</b>	Mandatory insurance as per SBP guidelines
<b>Security/Collateral</b>	5% of invoice as security deposit. Hypothecation of Vehicle till satisfactory repayment of the loan

<b>Table L: Industrial Power Generator Leasing</b>	
<b>Particular</b>	<b>Details</b>
<b>Down Payment</b>	Minimum down payment of 20%
<b>Salient Features</b>	<ul style="list-style-type: none"> <li>• Loan amount will be directly transferred to suppliers' accounts against invoices</li> <li>• Credit facility will be offered directly through pre-approved generator suppliers</li> </ul>
<b>Tenure</b>	3-5 years
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Business Financial Statements</li> <li>• Proof of business operation for last three years</li> </ul>
<b>Loan Limit</b>	<ul style="list-style-type: none"> <li>• Minimum Limit - PKR 500,000</li> <li>• Maximum Limit - PKR 10,000,000</li> </ul>
<b>Repayments &amp; Withdrawals</b>	Repayments will be based upon present Equal Monthly Installments
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Insurance</b>	Mandatory Insurance facility as per SBP guidelines
<b>Penalty</b>	As per existing bank policies and cost of charges

<b>Table M: Export Refinance</b>	
<b>Particular</b>	<b>Details</b>
<b>Initial deposit</b>	Any form of collateral which the banks feel fit.
<b>Tenure</b>	Depends on the contract terms of LC
<b>Documentation</b>	One time documentation required for a period of one years which may include financial statements, company legal registration documents etc.
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Penalty</b>	As per existing bank policies and cost of charges
<b>Insurance</b>	Mandatory insurance as per SBP guidelines
<b>Security</b>	As per the requirement and satisfaction of bank.

<b>Table N: SME Business Bank Account</b>	
<b>Particular</b>	<b>Details</b>
<b>Account Type</b>	Non- remunerative Current Account
<b>Documentation</b>	CNIC/smart NIC, completion of KYC requirements as per SBP Regulations
<b>Facilities</b>	<ul style="list-style-type: none"> <li>• Cheque Book</li> <li>• Upgraded ATM facilities</li> <li>• Business Visa Debit Card</li> <li>• Phone Banking</li> <li>• Mobile Banking</li> <li>• Internet Banking</li> <li>• Monthly account statement</li> </ul>

<b>Table O: Other Products</b>	
<b>Particular</b>	<b>Details</b>
<b>Banc assurance</b>	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
<b>Branchless Banking (Mobile)</b>	Mobile banking services for instance balance check, bill payment and funds transfer
<b>Utility Bill Payment</b>	Service for easy payment of electricity, gas, telephone and cell phone bills

## 6.2 Eligibility Criteria for Asset Products

Table P: Asset Products Criteria

Indicators	Description
<b>Borrower Eligibility Analysis</b>	During assessment of customers, take into account the total indebtedness of the potential borrower, his disposable income and ensure that the total financing to customer does not exceed the prescribed limits as laid down in approved policies of bank. Borrower should be in business of ' <i>Marble and Marble Products</i> ' for the past three years and hold a valid CNIC/smart NIC.
<b>Business Analysis</b>	To assess the Borrower's position, verification of their revenues can be verified by the bank. Business premises ownership documents should be verified against name of the owner.
<b>Credit worthiness</b>	Credit worthiness of the borrower may be ascertained by collecting information from e-CIB or other credit information bureaus.
<b>Financial parameters</b>	To assess average expenses, income generated and repayment capacity of the borrower.
<b>Adherence to Lending Standards</b>	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities.
<b>Banking History</b>	Verifiable banking history of more than one year with active accounts
<b>Business Operations</b>	Business should be in operation for more than three years. If the business is involved in exporting their finished goods then they should be involved in export business for the last 3 years.
<b>Trade body membership</b>	Business should be a member of the sector's trade body.

## 7 Distribution and Communication Considerations

SMEs in '*Marble and Marble Products*' are spread out in rural areas as well as in urban cities of the country; therefore they can be reached and targeted in major clusters to promote banking products of marble processing segment in the urban cities.

### 7.1 Marketing Objectives of Banks

Marketing objectives for building and promoting the brand image of SME Products for '*Marble and Marble Products*' are as follows:

The banks may:

- Work with the marble industry associations for events, generate better understanding of the sector and create awareness
- Educate the marble processors, create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of marble processors to avail banks' lending/financial products
- Increase direct interaction of Relationship Managers with marble processors to promote more direct and close interaction with the business owners and to assist small businesses in navigating difficult economic and business conditions
- Provide sponsorships for trade fair and exhibitions which link the promotion of bank's brand image with SME businesses product exposure locally and worldwide

### 7.2 Promotional Activities by Banks

To create awareness of SME specific products in the target market, the banks may aggressively advertise their banking products through various promotional programs and events:

- Conduct Workshops in coordination with All Pakistan Marble Industries Association and APMMPIEA to provide more interaction to business owners with trade associations to enhance communication between them regarding industry specific issues.
- Organize promotional events in cluster locations or near businesses to build strong image of the bank among the target audiences

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

- Direct Sales Agents
- Tele Sales
- Trade association backed seminars
- Branches in cluster locations
- Identify opportunities for expansion through market sources



- Involvement in trade fairs and exhibitions

### 7.3 Distribution Strategy for Banks

As primary means of customer service and sales interaction, distribution channels play a central role in the customer relationship, which further increases growth. Banks' challenge is to improve and integrate their multiple distribution channels to consistently deliver an enhanced experience and foster better customer relationships. Top priority should be placed in attracting and retaining customers within and across these channels.

In order to target maximum market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of marble and marble product sector through their products on national basis where marble processing units are located. Initially the banks may provide financing facility in main cities of the country, and gradually penetrate in rural areas.

Banks may adopt following conventional channels for distribution:

- **Branches:** Establishment of lending branches in '*Marble and Marble Products*' cluster regions with a potential to attract large number of customers.
- **Direct Sales Agent:** This activity may be outsourced and a trained marketing team should periodically visit identified areas within the cities, to educate potential customers and create awareness of the products and services being offered under SME Products Suite.
- **F2F interactions:** A deeper level of interaction may provide an integrated customer focus, by relationship managers involved in face to face interaction, which will become critical in helping better communication for product awareness and in addressing hesitations faced by the business owners.

Following Technology based alternate delivery channels can also be adopted for distribution

- **Short Message Service (SMS):** Marketing team can send out mass messages in Urdu or English to '*Marble and Marble Products*' segment for advertising bank's products
- **Internet Banking:** With technology up gradation mobile phones have become sophisticated and capable of handling advanced applications and services, so banking via mobile phones appeal to consumers on multiple fronts.