


IFC Advisory Service in the Middle East and North Africa

Motor Vehicles and Trailers- Auto Parts Manufacturing



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

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



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1. Guidelines

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

The Motor Vehicles and Trailers-Auto Parts Manufacturing Industry overview is developed using information obtained from secondary and tertiary sources including, industry associations and data available in public domain.

Market Assessment

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

Product Suite

Proposed banking product suite provides a number of potential core banking products templates that can be used by banks to design appropriate banking products for gaining access to the particular 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 strategies.

2. Introduction & Objectives

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

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

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

In this context, International Finance Corporation (IFC) in partnership with State Bank of Pakistan (SBP) have conducted a secondary research and a primary survey of the SME businesses within the top ten SME segment / subsegment of Pakistan to determine banking and financial needs of the segment.

This booklet contains the findings pertaining to the segment of *“Motor Vehicles and Trailers - Auto Parts Manufacturing”* which include the following:

- Auto Parts manufacturing for Automobiles (Assemblers, manufacturers and aftermarket)
- Auto Parts manufacturing for Trailers (Assemblers, manufacturers and aftermarket)

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

The Auto parts manufacturing segment is largely dispersed and severely underserved by financial



institutions; however, demand for this segment is expected to increase substantially, given strong historical sales of new/imported vehicles and strong medium term forecasts.

Limitation of the Research

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

Sampling Plan

In total, interviews with 25 SME owners were conducted for *Motor Vehicles & Trailers Auto Part Manufacturing* segment. The locations and classification of these SME's are covered in Section 5.1 of this booklet under 'Segment Demographic'.

Number of employees under this segment is covered in section 5.2 'Owners Profile'.

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

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

Particular	Criteria	Rationale
Status	<ul style="list-style-type: none"> At least 60% will be informal businesses At least 20% will be formal businesses 	<ul style="list-style-type: none"> Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information in the absence of which banks do not offer them any credit based products A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal businesses enterprises within the same industry 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 that 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

Sub Segment Overview

Factors	Comments
Demand	The industry is closely linked with sale of motor vehicles and trailers, which after a massive downturn in 2008, is now in recovering phase with demand for vehicles now indicating considerable improvement. The segment reflects strong potential for growth in the coming years.
Supply	The segment faces a serious threat from auto parts coming into Pakistan from grey channels or unofficial / smuggled imports, The segment has strong potential for increased production level using the existing capacity, but due to increase in raw material prices and power shortage, the industry is currently working below its capacity.
Key Players	Thal engineering, Agri autos, Razi sons, Sherani motors, Yousuf autos and Umer jibran autos

Factors	Comments
Trade Body	Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPM)
Regulatory Body	Ministry of Industries
Recent Development	Government of Pakistan has allowed import of five year old motor vehicles which will certainly enhance the demand for auto parts, where as the Land transport segment of Pakistan has been growing over the last decade generating more demand for auto parts manufacturing.
Future prospects	The segment has shown significant progress over the years and is expected to continue to reflect growth in the coming years due to increase in demand for new and used cars.

Demand

The auto parts manufacturing industry is not able to cater the increasing demand of automobiles spare parts in the country. The demand for auto parts exists at local as well as international level. According to PAAPAM a trade body for auto part manufacturers, Pakistan manufactures only 0.4% of the total annual global production of auto parts, the export numbers are not very encouraging as compared to import of spare parts which is approximately double.

Pakistan's automobile manufacturing segment has a significant presence in the local market, which manufactures and assembles cars to meet the local need; thereby the manufacturers of these cars have outsourced the procurement of auto parts from local vendors, in turn the local vendors are not able to satisfy the local and International demand for spare parts.

The demand could be met by better availability of resources aiding infrastructure development and thereby capacity development and expansion of existing vendors. This will help Pakistan to emerge as a global manufacturer of auto parts in the international market.

Supply

The unorganized segment of Auto parts manufacturers constitutes more than 1200 establishments; SMEs comprise more than 90% of the segment. The units produce a wide range of parts for the replacement market.

The Auto parts segment of Pakistan constitutes more than 400 organized units, most of which are registered vendors to assemblers and manufacturers of automobiles.

These units efficiently manufacture sophisticated engine and body parts like piston, engine valves, gaskets, camshafts, shock absorbers, struts, steering mechanism, cylinder head, wheel hubs, brake drums, wheel bumpers, instruments and instrument panel, gear of all types, radiators, cylinder liners, blinkers and light/lamps, door locks and auto air conditioners.

Many of these are bound to supply only to assemblers and manufacturers as per their agreements, which creates a short fall for the replacement market. The shortfall is mostly met by import of auto parts from China, Thailand, Malaysia and Japan. The demand for auto parts is also fulfilled by obtaining engine and body parts through gray channels

Key Players

There are three major passenger car assemblers in the market; Pak Suzuki, Indus Motors and Honda Atlas. Pak Suzuki, the biggest local car assembler, sold 79,993 with a market share of 53%. Indus Motors recorded highest ever sales of 50,823 with market share of 36%.

Large trailers and truck assemblers include Hino, Isuzu and Daewoo.

The Manufacturers obtain auto parts from local vendors among which key players identified by the trade association PAAPM are as follows:

- Thal Engineering
- Agri Autos
- Razi Sons
- Sherani Motors
- Yousuf Autos
- Umer Jibran

Trade Body

Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPM) *'to promote progressive manufacture of automotive parts for passenger cars, light commercial vehicles, heavy commercial vehicles, motorcycles, auto rickshaws, farm tractors in the country along with developing the growth potential of this segment to towards exports'*.



Future Prospects

Increasing growth and expansion is expected however, there is significant dependence on stable economic and political environment to prevail in order to boost this segment to improving growth levels. Some business owners are also concerned regarding the power shortage that they believe is the underlying reason for performing below capacity.

According to market sources, general perception of auto parts manufacturers is optimistic and they perceive that the segment will experience increased growth in the next 5 years. Some however, are concerned about the economic and political outlook of the country citing government support and friendly policies, which are imperative for the growth of this segment in the future.

5 Market Assessment

5.1 Market & Demographic Profile

The services sub segment of *"Motor Vehicle and Trailer - Auto Parts Manufacturing"* constitute the following:

- Auto Parts manufacturing for Automobiles (Assemblers, manufacturers and aftermarket)
- Auto Parts manufacturing for Trailers (Assemblers, manufacturers and aftermarket)

At present, the retail sales segment in Pakistan is relatively organized with sales being primarily

generated via authorized dealers, importers, formal wholesalers and retailers, most of which have financial and banking history. Most businesses are family owned with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Inability to assemble and deploy intellectual, human and financial resources effectively
- 2) Lack of vision for growth
- 3) Limited perception of business requirements
- 4) Restricted funding sources
- 5) Inability to identify and explore new ideas
- 6) Lack of Government Initiative and policies
- 7) Lack of Technical Institutions and skill development Programs
- 8) Quality certification and testing facilities

The Auto parts manufacturing segment is largely dispersed across various cities predominantly consisting of clusters in large cities of Pakistan. The major cluster is located around Lahore and adjoining areas with more than 50% of Pakistan's informal establishments.

The businesses use an outdated manual and labor intensive model with only large manufacturers using sophisticated technology whereas medium and small manufacturers employ limited technology. The main reason for lack of automation and mechanization in this segment is due to unavailability of funds to the small manufacturers for purchase and installation of such equipment.

Market Sizing and Lending Potential

Businesses in the segment are widespread throughout various locations in rural areas. The Lahore and Karachi auto parts cluster are highly decentralized and varied in terms of size and location. The small and unorganized units are located in congested areas mentioned below:

Cluster Locations for Sale of Motor Vehicles	
Area	No. of establishments
Karachi	
Hub Chowki	30
Port Qasim	25
Landi	25
Korangi Industrial Area	25

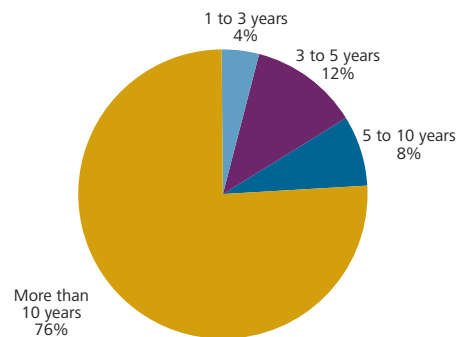
Cluster Locations for Sale of Motor Vehicles	
Area	No. of establishments
Lahore	
Badami Bagh	100
Mecleod Road	100
Bilal Gaang	75
Kot Lakhpat	40
Thokar Niaz Baig	30
Multan Road	30

Source: Trade Associations and Industry Sources

Segment Demographics

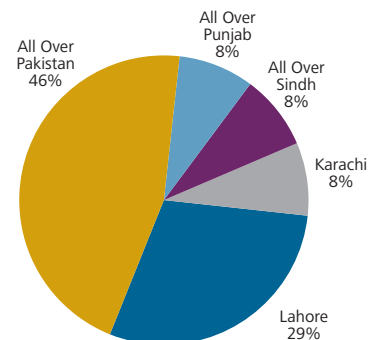
The segment is widely spread out across various regions in the country, demographic information is attained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan.

Number of years in Operation



Source: Survey Findings

Location of Businesses

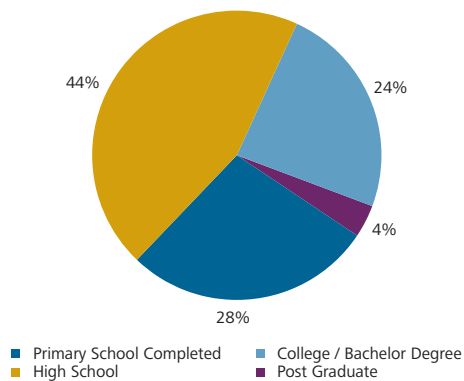


Source: Survey Findings

5.2 Owner Profile

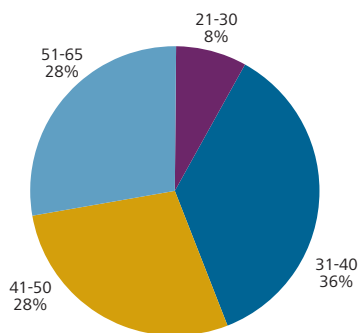
The business owners consist mainly of people in the mid age group of 31-40 years. Due to the nature of work, high level education is not considered as a major factor for business owners. Predominantly businesses are run by families, preferring family members to undertake organization functions.

Education level of Business Owners



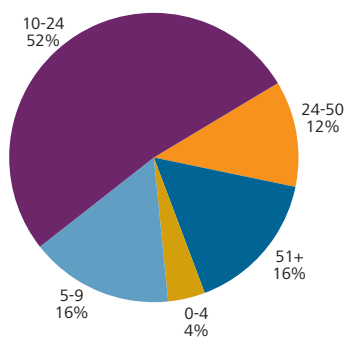
Source: Survey Findings

Age group of Business Owners



Source: Survey Findings

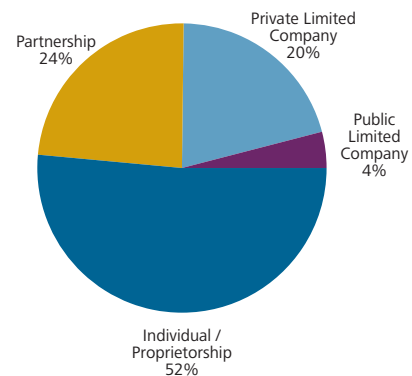
Number of Employees under Business Owners



Source: Survey Findings



Ownership Type



Source: Survey Findings

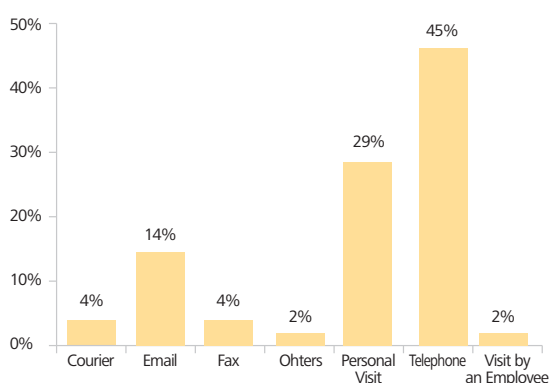
5.3 Business Linkages

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

Stakeholder	Auto Parts Manufacturing
Owners	Growth, government initiative and access to finance
Suppliers (Steel, copper, aluminum and plastic)	Better terms, increased supply, consistent pricing and lower risk
Customers	Product quality and reasonable pricing
Financial Institution	Debt servicing, new products, increase in deposits
Government	Expansion of taxation bracket, economic growth, benefit to community at large

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

Communication with Customers



Source: Survey Findings

Businesses in the segment are predominantly serviced by wholesalers and formal retailers though a small number of business owners utilize informal market and individuals as their primary resource for supplies.

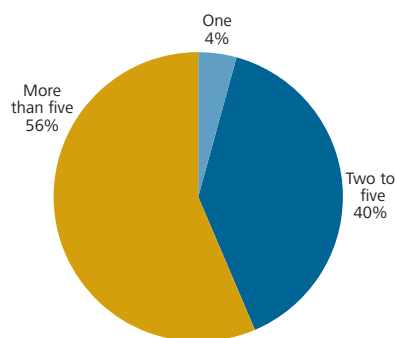
Major supplies for segment include:

Auto Parts Manufacturing
Steel
Aluminum
Copper
Plastic

Most of the business owners rely on the same suppliers to meet their business needs, except for some, who place reliance on many suppliers or are not satisfied with their suppliers.

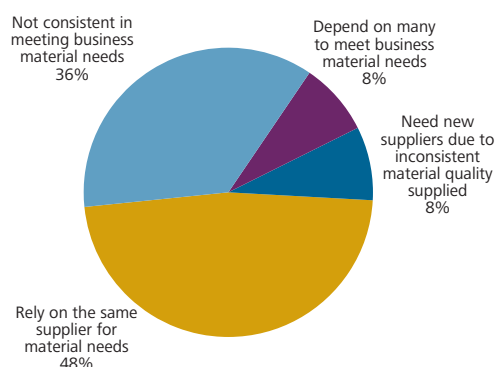
Material needs are met locally buying from the same location or same city from local dealers or wholesalers. In most cases large and medium establishments buy steel supplies from Pakistan Steel Mills, the numbers of suppliers used to fulfill business needs are more than 5, but predominantly the segment relies on same suppliers to meet their material needs.

Number of Suppliers



Source: Survey Findings

Supplier Relationship

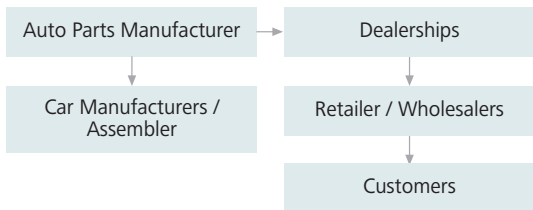


Source: Survey Findings

5.4 Business Cycle

This segment experiences business cycles due to fluctuation in prices of raw materials for producing auto parts, variation in import policies and duties, oscillation in interest rates for financing. The businesses suffer from general increase in prices which in turn causes reduction in sales due to the customers shifting from newly manufactured auto parts to used auto replacement parts.

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



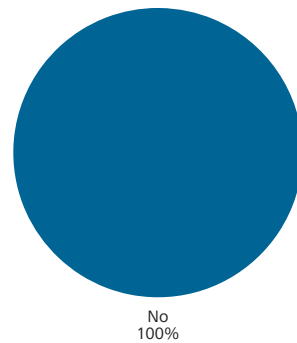
The Auto parts manufacturing segment of Pakistan also serve large reputable companies, with whom they have long term contracts, the manufacturers are not allowed to serve the replacement market in turn and are bound to produce and supply auto parts only for the assemblers and manufacturers only. Such contracts bring about a constant stream of income for business owners over the years.

Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in auto parts manufacturing segment operate by manufacturing for different companies.

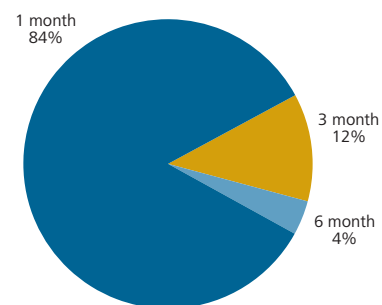
The segment works mainly on cash basis with suppliers of auto parts and equipments providing them no credit time period for repayment, however these businesses allow up to 1 month for large/reputable customer in most of the cases due strong client/customer base, however in some instances receivables may take up to three or six months.

Repayment Terms offered by Suppliers



Source: Survey Findings

Repayment Terms for Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

A considerable number of businesses in the segment prepare financial Statements, the percentage rests at 72%, an even split of owners who prepare financial statements have them audited.

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 retailer margins are average, with a great number relying on higher sales volume for earning better profits.

As per research findings, none of the business owners in the segment had an accurate 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 for sharing financial information and non availability of proper accounting records presents an issue for calculation of segment's benchmark financial ratios. Devising from the information attained in the course of primary research, the indicative ratios will be an estimate at best and cannot be utilized to assess an appropriate position of the businesses operating in the segment.

Conclusively it can be said that there exists an ample demand for quality auto parts manufacturing in Pakistan and also that the existing scenario provides conducive opportunities for entry into this business segment.

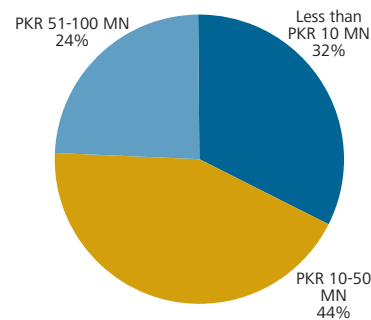
5.6 Financial Information

Primary survey findings reflect the Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample for the segment.

Survey findings demonstrate approximately 40% businesses operating with Capital (Net Worth) and Total Assets less than PKR10-50 MN 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 working capital finance.

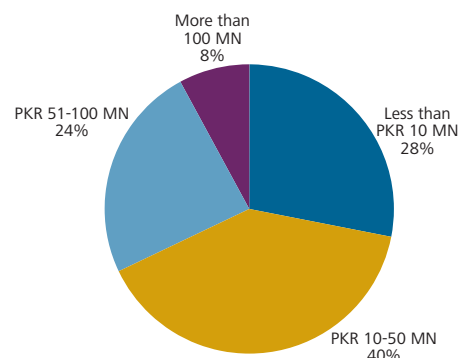
Business related assets constitute manufacturing equipment, specialized machinery and office equipment.

Capital (Net Worth)



Source: Survey Findings

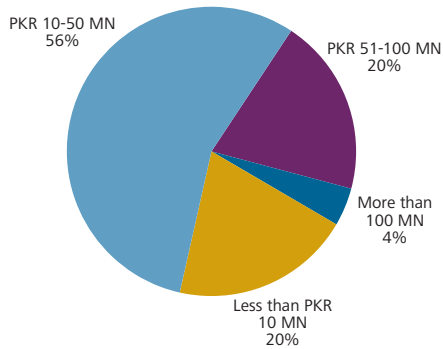
Business Assets



Source: Survey Findings

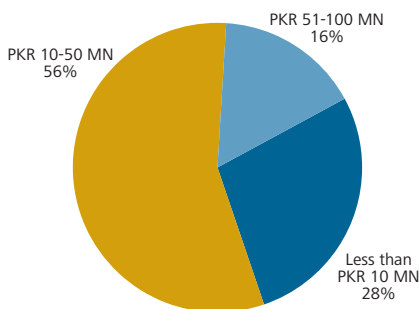
Annual revenue is predominantly between PKR 10-50 MN throughout the segment; expenses primarily represent material, employee cost and interest expenses against borrowings.

Total Revenue



Source: Survey Findings

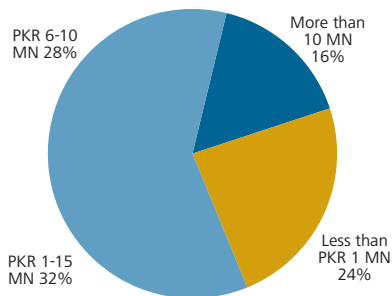
Annual Expense



Source: Survey Findings

All businesses display healthy earnings. Only 4% owners experienced decline over the last year. One third of the respondents earn between PKR 1-5 MN.

Total Income



Source: Survey Findings



Benchmark Financial Ratios

Financial Information	PKR
Total Capital (Net Worth)	33,540,000
Business Assets	31,280,000
Total Revenue	41,580,000
Annual Expense	21,740,000
Total Income	6,494,240
Key Financial Ratios	
Profit Margin	16%
Operating Expenses/ Revenue	52%
Asset turnover	133%
ROA	21%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 25 entities in this sub segment. Such ratios will of course substantially vary for different sample sizes for each establishment individually.

5.7 Indicative Business Requirements

Business owners require equipment and civil works for startup 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	Diagnostic Equipment	500,000
2	Civil work for Equipment Installation	200,000
3	Tools & other peripherals	50,000
4	Spare Parts Inventory	50,000
5	Press and Dye	100,000
6	Welding Plant	50,000
7	Surface Grinding Machine	200,000
8	Specialized Machinery	200,000-2,000,000
9	Molding Plant	300,000
10	Power Generator	100,000



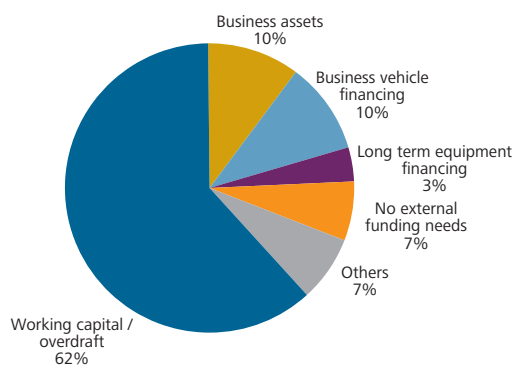
5.8 Financial Need Analysis

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

Business owners have well stocked parts and raw materials. Immediate availability of parts supports the manufacturing and assembling units by allowing them to turnaround jobs without any stoppages.

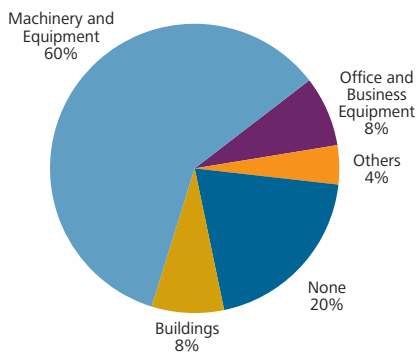
The segment is keen to use banks for routine business needs but the segment at large is generally underserved with respect to financing and banking products. The businesses operating in the segment did not have significant awareness and therefore did not have an encouraging response to lending products or to have a more far reaching relationship with banks and financial institutions. This sort of reluctance with respect to bank financing products can primarily be attributed to lack of communication between the business owners and banks and limited knowledge of such potential customers with respect to existing or potential products that may be offered by banks. The bank can successfully expand their potential market by educating the business owners to utilize banking products which need to be structured to suit the needs of the business.

Business Funding Needs



Source: Survey Findings

Fixed Assets Requirement



Source: Survey Findings



5.9 Usage of Banking Products

The owners are mostly unaware of any SME segment specific efforts made by the Government of Pakistan; however some business owners are receptive to potential loan products offered by banks and have also availed the facility of loan products for business funding needs.

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

More than 50% of the segment is funded by Banks which in comparatively encouraging. Business owners cited high interest rates, strict demand for collateral, 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 cash management, money transfer, and payroll are encouraged by the segment, the majority of subsegment shows an intent to avail cash management services, the percentage rests at 46% whereas money transfer and payroll services are desired by 23% each respectively Interestingly 8% respondents require an interest free Islamic mode of financing.

35% respondents do not pay for any of the proposed Insurance products, the rest have insurance for motor

vehicle, equipment, pension/provident fund, personal accident and property insurance. More than two third are not interested in availing any insurance product in future.

The subsegment is evenly separated between respondents who are paying for any advisory service and has demonstrated some interest in obtaining advisory services from banks; although only 25% owners are willing to pay for it but the owners can be made aware of banks advisory potential. A majority is of the opinion that banks have experienced staff but will have high charges for such services.

Banking Product	Usage Percentage
Deposit (Checking) Account	92%
Term Deposits	5%

5.10 Segment Risk Considerations

The segment is moderately less risky as compared to some of the other businesses operating in Pakistan. The underlying reason is the existence of auto parts manufacturers' cluster for more than 25 years and in some instances, established businesses have generated healthy profits over the years. More than two third owners are operating from owned premises. However some risks that pertain to the segment are discussed below:

Businesses in the segment are largely sole proprietorships having this business as the only source of income. The segment consists of more than 30% SME's operating with unskilled workers, also one third of the businesses are not formally registered with any trade union or association.

Nearly one third of the Businesses in the segment do not prepare financial statements, only half of the remaining have an audit of financial statements. The analysis demonstrates that the segment operates in a highly competitive market with a maximum amount of businesses having more than ten competitors. The majority of business entities in the segment rely on the same suppliers to meet material needs; unavailability of raw material from the selected suppliers can cause a problem if required to switch to a new supplier.

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.

Risks inherent to the segment include:

- Uneven cash flows
- Limited resources for expansion
- Business uncertainty due to changing import policies
- Unaudited financial statements
- Single entry accounts
- Employee turnover
- Lack of succession planning

Possible Mitigates:

- Lending only to those businesses which have been operating for more than five years
- Proposing products to business with a verifiable banking history of more than two years
- Review of accounts and register of invoices
- Review of ownership documents of 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 “Motor Vehicle and Trailer (Auto Parts Manufacturing)” sub segment:

Asset Products:

- Overdraft / Revolving Finance Facility
- Bill Discounting Facility
- Auto parts Machinery leasing

Liability Products:

- Business Bank Account

Other Products

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

Overdraft / Revolving Finance Facility	
Particulars	Details
Initial deposit	▪ Minimum initial deposit of PKR 10,000
Tenure	▪ 3 years with a stipulation of Annual Cleanup along with mark-up as mentioned below
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 500,000 ▪ Maximum Limit - PKR 5,000,000 ▪ Minimum and maximum loan limits are reviewed annually Total loan limit offered will not exceed an average six months of usage determined over a period of the last three years
Documentation	▪ One time documentation required for a period of three 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
Cleanup	▪ Borrower is liable to clear the entire loan amount, both principal and markup, once in a year on a date indicated by the borrower & mutually agreed by the bank
Markup	▪ As per prevailing KIBOR and spread
Markup charges	▪ Mark up will be charged only on the amount utilized by the borrower
Renewal	▪ Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and credit history
Penalty	▪ No early repayment penalty will be imposed on the borrower
Insurance	▪ Mandatory Insurance Requirement of the banks



Auto Parts Manufacturing Leasing	
Particulars	Details
Initial deposit	▪ Minimum initial deposit of PKR 50,000
Tenure	▪ 3 - 5 years
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 500,000 ▪ Maximum Limit - PKR 10,000,000
Documentation	▪ One time documentation required
Repayment & withdrawals	▪ Repayments will be based upon preset Equal Monthly Installments
Markup	▪ As per prevailing KIBOR and spread
Penalty	▪ As per existing bank policies and cost of charges
Insurance	▪ Mandatory Insurance Requirement of the banks

Bill Discounting Facility	
Particulars	Details
Indicative Tenure	▪ 5 years
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 1,000,000 ▪ Maximum Limit - PKR 5,000,000 ▪ Minimum and maximum loan limits are reviewed annually Loan limit will not exceed more than six months of sales to approved vendors determined over a period of last three years. More than 50% of sales of business have to be under contract to approved vendors.
Documentation	▪ Detailed documentation
Approval	▪ Approved on basis of business proposal and RMG guidelines
Collateral	▪ Invoices payments directly to Bank
Penalty	▪ As per prevailing KIBOR and spread
Hidden Charges	▪ No early repayment penalty will be imposed on the borrower
Insurance	▪ Mandatory Insurance Requirement of the banks

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

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

6.2 Eligibility Criteria for Asset Products

Indicator	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 auto parts manufacturing for the past three years and hold a valid CNIC
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from CIB and other banks operating in the region.
Financial parameters	To assess average expenses, income generated and repayment capacity of the borrower.
Adherence to Lending Standards	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities.
Banking History	Verifiable banking history of more than one year with active accounts
Business Operations	Business should be in operation for more than three years

7 Distribution and Communication Considerations

SMEs in “Motor Vehicle and Trailer-Auto Parts Manufacturing” are spread out Karachi and Lahore in various clusters; therefore they can be reached and targeted in major clusters to promote banking

products.

Marketing Objectives

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

- Educate the auto parts manufacturers , create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of auto part manufacturers interested in product schemes
- Design a comprehensive positioning strategy to create strong perception of the auto part segment lending product in the market
- Organize promotional events to build strong image of the bank among 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 to create awareness amongst auto parts segment business owners with trade associations to provide maximum exposure to business owners

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

- Direct Sales Agents
- Tele Sales
- Trade association backed seminars
- Branches in cluster locations



Distribution Strategy

To reach maximum percentage of target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of auto parts manufacturing segment through its products on national basis in major cities of the country. Initially the bank will provide financing facility only for medium sized businesses in major cities; however, banks will penetrate into other small business markets after establishing strong presence in major cities

Banks will adopt conventional channels for distribution:

- **Branches:** Establishment of lending branches in auto parts segment cluster and regions with high growth potential to attract a large number of customers for SME Products
- **Direct Sales Agent:** This activity will be outsourced and trained marketing team will periodically visit identified areas within the cities to influence potential customers and create awareness of the product & features being offered under SME Products Suite.

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Bank Alfalah Limited	National Bank of Pakistan
Bank Al Habib Limited	NIB Bank Limited
Faysal Bank Limited	Soneri Bank Limited
Habib Bank Limited	Standard Chartered Bank (Pakistan) Ltd
Habib Metropolitan Bank Limited	United Bank Limited
KASB Bank Limited	

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