- Mondelēz: Coming to a shaadi, and eid near you. At least that's what they're hoping for
PAGE-07
- How one of Pakistan's oldest banks cleaned up its act
PAGE-13
- How one of Pakistan's oldest banks cleaned up its act
PAGE-23

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Mondelēz

Coming to a shaadi, and eid near you.

At least that's what they're hoping for

Is an endless balance sheet, and demographics enough to shift cultural trends?

By Daniyal Ahmad

Mondelēz is out for halwai blood. Over the course of the past year or so Cadbury's parent company has been on a warpath trying to position itself as a player in a very important market: the wedding industry.

You see, when it comes to gifting sweets, some distinctions are clear. Cake is for birthdays, chocolates are for Valentines, kheer is for Eid, and mithai is for weddings. In fact, the role of mithai is central and historic to weddings in this region. But for a very long time Modelez has felt they can position Cadbury in a way that can challenge this. After all, the concept is 'mou meetha karna' — something that can be achieved as easily with chocolate as with mithai.

That is why Modelez has produced products such as Cadbury Celebrations which are conveniently packaged and giftable. The concept has been in the mind of Modelez execs for some time now. In a 2012 TVC directed by Asim Raza which was part of Cadbury's "Kuch Meetha Ho Jaye", the focus was chocolate replacing mithai in wedding festivities. People in the typical colourful clothes surrounded by traditional regalia were carrying around bars of cadbury on silver trays serving them to guests.

Now, more than a decade later, Modelez is sending Cadbury out to war again. And if they can market it enough, the mithai makers might not even know what hit them.

What is Mondelēz doing then?

An American multinational food company, Mondelēz is famous for the brands that fall under its umbrella: Oreo, LU, Cadbury, Tang, and Toblerone to name a few. Now onto the product this piece is centred on.

Cadbury Occasions. A box of seven Cadbury Dairy Milk chocolates. Three regular milk chocolates, two bubblies, one fruit and nut, and one roast and almond. 163 grams of chocolate for under Rs 1,000 as of writing. Barring any special gift pack they release — this is what you get. In all honesty, you'd be correct to ask if this even merits an entire story. However, there's two aspects that make this interesting: Mondelēz putting their weight behind this, and their advertising campaign itself.

Let's start with the former, why is Mondelēz even doing this?

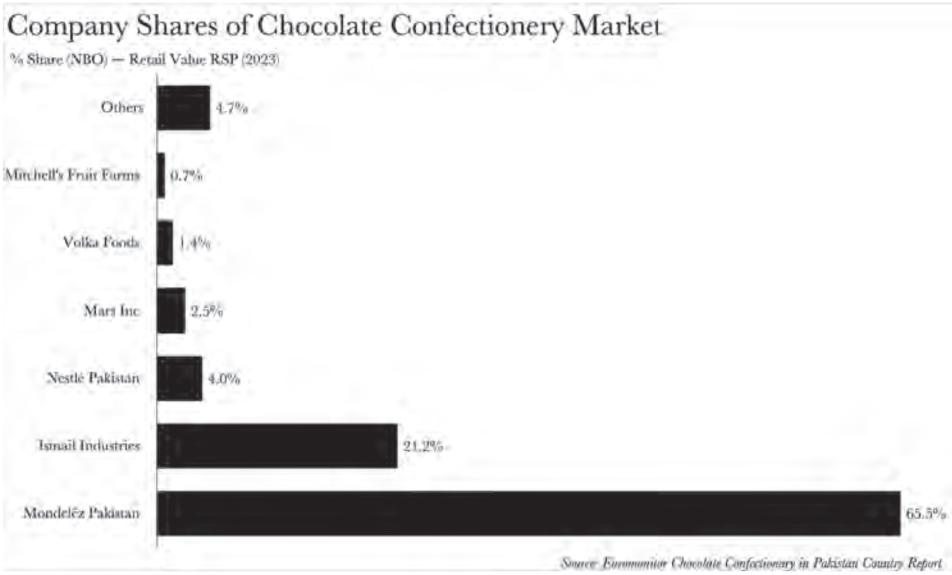
Why on earth do they want a bite of this new market?

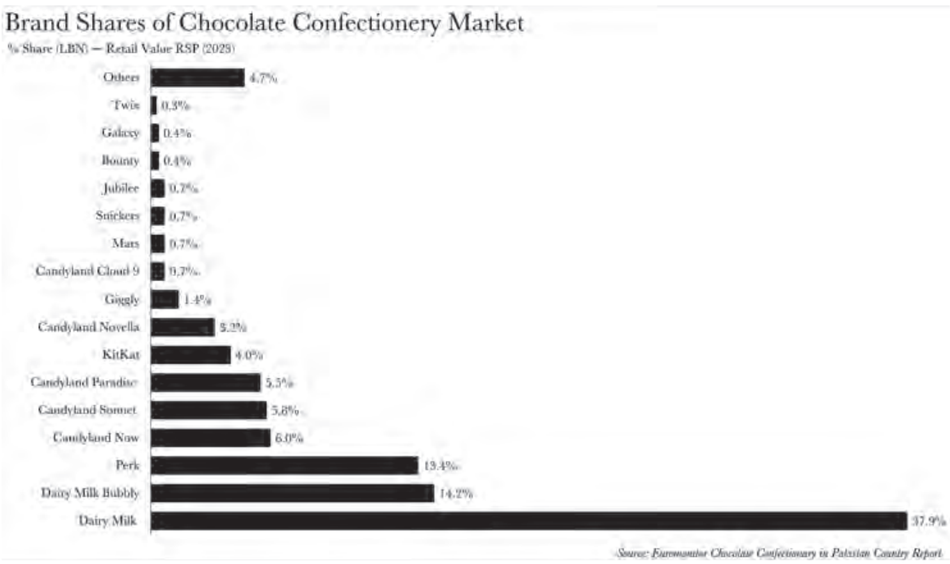
The efforts from Mondelēz materialised from a place of internal reflection. According to the company's Senior Brand Manager, Gohar Syed, chocolate is a niche product in Pakistan. "We're discussing grand occasions here — Eid, Bakra Eid, Shaadis, and other locally significant events. Rarely would you find chocolate taking centre stage in these events," he says.

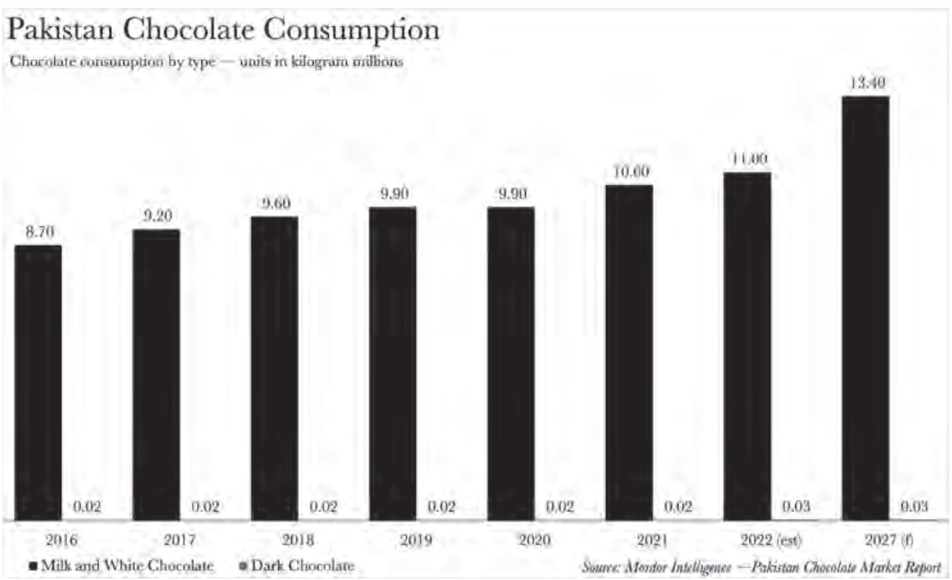
That much is true. Chocolates are not a local product and mithai is dominant in all regions and by all accounts. According to Modelez's own estimations, the market for mithai stands at roughly Rs 40 billion.

In the face of this, Modelez's conundrum is obvious. It finds itself as the most formidable entity in a relatively confined market. Per the latest report by Euromonitor on Pakistan's chocolate confectionery landscape, Mondelēz already commands an overwhelming 65.5% of the entire market. Its brands, Dairy Milk, Dairy Milk Bubbly, and Perk, also reign supreme in terms of sales.

Its aspiration to penetrate the mithai market — or the gifting sector for that matter, reveals a stark reality: Pakistani consumers may have reached their saturation point in terms of chocolate indulgence. Mordor Intelligence approximates that Pakistan devoured 11.03 million kilograms of chocolate in 2022. When divided by a population size of 207 million, based on the 2017 census, Pakistan's per capita consumption amounts to a modest 50 grams. To put that into perspective, the Centre for the Promotion of Imports from Developing Countries estimates the global average per capita consumption of chocolate to be 900 grams per annum.







While this does illustrate potential growth for the chocolate industry, it goes without saying that the chasm between us and the global average is colossal. Could it be that we're inherently not a nation with a penchant for chocolate?

There is only one real way to increase per capita consumption according to Syed. "Either you start offering more chocolate to those who already savour it, or you start introducing more chocolate to those who don't." It appears that Mondelēz has opted for the latter strategy. At surface level, Mondelēz's strategy does make sense.

When juxtaposed with the traditional mithai market, the chocolate market seems rather insignificant. Euromonitor pegs the chocolate confectionery market at Rs 35.2 billion, dwarfed by the Rs 40 odd billion quoted by Syed for the mithai market. While the report projects retail sales to escalate at a current value compound annual growth rate (CAGR) of 15% (2023 constant value CAGR of 8%), culminating in Rs 71 billion by 2028, it doesn't necessarily imply that mithai can't maintain its dominance.

But the million-dollar question is: can Mondelēz pull off this audacious endeavour? Well, before we attempt to answer that, we need to scrutinise their primary proposition to customers.

The anatomy of an ad copy

There are two main ad copies relevant to us: one centred around a wedding, and the other revolving around Eid. There exists a third advertisement concerning Valentine's Day, however, despite its significance, it is not pertinent to our current discussion.

Both advertisements feature protagonists presenting a box of Cadbury Occasions amidst an atmosphere of uncertainty, deviating from the expected tradition of offering conventional confectioneries. Yet, in both instances, the recipients of these unconventional gifts commend the unexpected choice.

"When I first encountered this, it didn't strike me as surprising," states Umair Saeed, the Chief Operating Officer at Blitz Advertising. "India has been following this trajectory for a while now, and Cadbury, being a multinational corporation, tends to employ similar strategies across culturally analogous clusters," Saeed adds.

Look at it this way. Both creatives involve a younger individual introducing the product in the presence of an older individual who initially exhibits scepticism towards their unconventional choice. Now this is very important. Mondelēz has tactically selected a youthful figurehead for their campaign, and

> The lion's share of a chocolate bar category invariably belongs to the younger demographic, however, the appeal of chocolate transcends generational boundaries and cultural subtleties, necessitating a degree of mass targeting as well
>
> **Umair Saeed,** Chief Operating Officer at Blitz Advertising

it's not merely due to the hackneyed belief of younger individuals being impressionable.

An impressive 56.64% of the demand for chocolate in Pakistan is driven by individuals who are 24 years or younger, per the data from Mordor Intelligence. Furthermore, with the median age in Pakistan being a mere 20.6 years, as stated by the United Nations Department of Economic and Social Affairs, it's clear that half the population is below this age. By connecting these facts, it becomes evident that Mondel□z has zeroed in on a potentially lucrative market segment.

"The lion's share of a chocolate bar category invariably belongs to the younger demographic," claims Saeed. "However, the appeal of chocolate transcends generational boundaries and cultural subtleties, necessitating a degree of mass targeting as well."

"They've endeavoured to persuade the family's decision-maker through their advertisements that this is an integral part of celebrations." He further expounds on how this aligns seamlessly with the cultural significance of these events — "the need to purchase, gift, and bring something sweet."

Now, Cadbury's brand ethos of disseminating joy is not a particularly distinctive brand position. Numerous other brands have made comparable propositions. However, their emphasis on cultural events is likely astute, given that these occasions are arguably the most reliable family gatherings throughout the year. If there's ever a time when one would need to bring something sweet, it would be during these instances.

Mondel□z is also acutely aware of this.

"We've observed this shift already commencing, with consumers transitioning from mithai to cakes. Now, we aim to facilitate that switch," Syed affirms. This nugget of information is perhaps the most intriguing insight uncovered by Profit. It appears that mithai might not be the only target in Mondel□z's crosshairs.

Replicating what cakes did

It seems like a foregone conclusion now, but how did cakes manage to get on a similar level to mithai at all? "Cakes began to carve out their niche in the 1990s, but the real crescendo was witnessed in the 2000s," begins Ali Hussain, the Director of Business Development at Kitchen Cuisine. "It resonated with the gustatory preferences of the younger generation, and offered unparalleled convenience."

Hussain then shifts his focus to the transformative role of social media. "The industry has reaped substantial dividends from social media. A casual scroll through Instagram or Snapchat would reveal a cornucopia of visually enticing and vibrant food items. However, these offerings often deviate from traditional culinary norms. Just look at the tidal wave of cafés we are currently witnessing." He observes, "In yesteryears, Gloria Jeans might have been a solitary contender, but now there's a plethora of options that defy enumeration.These establishments serve as popular venues for casual rendezvous or business interactions."

Despite this Mondel□z is confident in its ability to go above and beyond — especially in Pakistan's smaller cities. In fact, Syed claims that the company is projecting a significant uptick in conversions in smaller cities. This is because in larger cities consumers are spoilt for choice. There are a number of chocolatiers, imported brands, and bakeries offering tantalising cakes. Just look at Karachi and Lahore where local chocolate specialists such as Laals or imported products such as Quality Street are considered up-market while Cadbury is more of a casual gift.

This isn't the case in smaller cities, where Cadbury is the most alluring and accessible option. It is highly probable that individuals in Thatta and Karachi are consuming remarkably similar content on their social media platforms. Mitigating for algorithmic adjustments, the majority of the content could well be identical. Content that gains popularity in Karachi could potentially create a ripple effect that extends to those of us endlessly scrolling in Thatta. It's not as if YouTube, Netflix or various local content creators are churning out bulk content tailored specifically for each city across Pakistan.

In fact, the more remote the area, the greater the potential benefits for Cadbury. To illustrate with our example of Thatta, it's more likely for residents to come across Cadbury throughout the city than say Lindt or Chashni.

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> We're discussing grand occasions here — Eid, Bakra Eid, Shaadis, and other locally significant events. Rarely would you find chocolate taking centre stage in these events
>
> **Gohar Syed,** Senior Brand Manager at Mondelez International, Pakistan

Understanding limits

At this juncture, one might naturally be inclined to inquire: why have the mithai establishments remained conspicuously reticent in our story? Despite our earnest attempts, we could not elicit a comment from them. Profit reached out to Bundu Khan, Chashni, Rehmat-e-Shereen, and Fazal Sweets, but our overtures were met with silence. However, a potential response can be inferred from the resilience of mithai in the face of the bakery boom.

How exactly has mithai managed to maintain its relevance amidst the burgeoning popularity of cakes?

Allow us to propose a query. Would you, dear reader, contemplate presenting a cake to your grandmother? Or at an engagement ceremony? Or perhaps at the birth of a child? While some of you might affirmatively nod, others would undoubtedly shake their heads. This dichotomy underscores how mithai has successfully withstood the onslaught of cakes.

"The selection of sweets is contingent upon the recipient's predilections. Barring those with a particular penchant for mithai, these confections have become occasion-centric. This is precisely why mithai has not receded into oblivion. It continues to be a staple for certain occasions, and is sold in substantial quantities when those occasions arise," explains Hussain.

"Whether it's weddings, baby announcements, nikkah celebrations, family events, or congratulatory gestures — mithai remains the preferred choice. Mithai establishments are acutely cognisant of this trend and have doubled down on their efforts over the past decade. They've refined their packaging specifically for these occasions and seize every opportunity that comes their way."

This is where the whole categorisation problem comes in. Cakes are typically bought for casual meetups, or sometimes business dealings. If you're visiting a family of four or five with whom you're not particularly intimate you're likely to opt for a cake or mithai. It's a safer option and would be perceived more as a gift. As the gravity of the situation escalates, so does the seriousness of the gift. Conversely, you're more likely to present chocolates to a close friend who actually likes them. At the same time, some of the new mithai places are coming up with fancier and more expensive products to reflect this seriousness.

Assuming there is a hierarchy, what are the odds that Cadbury might actually end up even subsidising marketing efforts for the bakeries? Similarly, what if they do inspire a gift giving movement, but instead people also realise the hierarchy and opt for the product at the very top — mithai.

All of this then boils down to, can Mondelēz pull this off and how much money are they willing to burn in the process?

Can they pull this off?

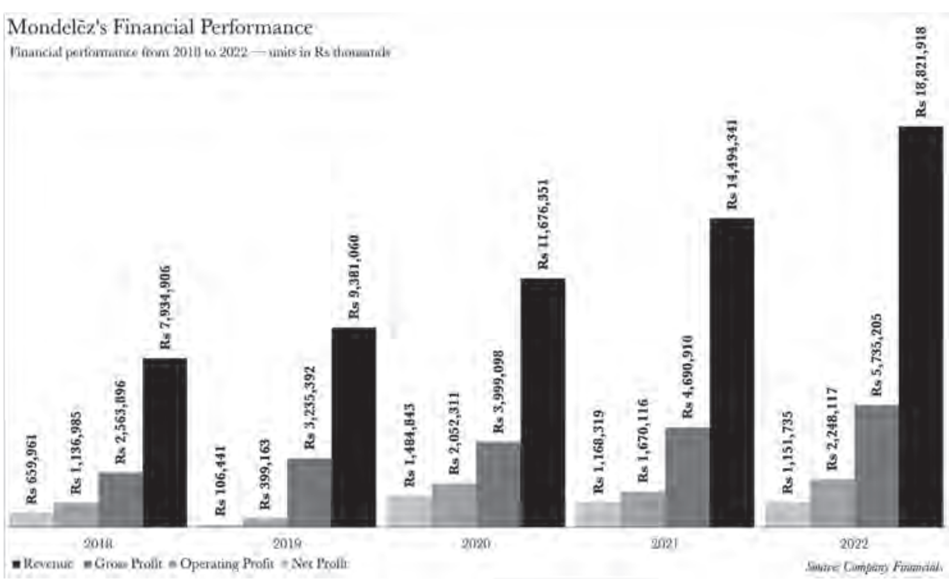
It would be rash to leap to conclusions at this stage, as Mondelēz has just begun to intensify its efforts in this realm. However, that does not bar us from indulging in some educated guesswork.

First and foremost, let us not disregard that Mondelēz is a financial colossus. Between 2018 and 2022, the company amassed an average sales revenue of Rs 12.5 billion, culminating in a staggering Rs 1.15 billion in earnings last year. While these figures are arduous to compare with those of mithai companies and bakeries, due to a scarcity of available data, one thing is glaring: Mondelēz is a force to be reckoned with.

Mondelēz already rules the chocolate industry. This venture into the gifting space is a bold move beyond their habitual turf. Even if they stumble in this new market, they have little to squander and deep pockets to fall back on.

In fact, according to Syed, even if Mondelēz manages to capture just 5% of the gifting market, that's going to be a hefty sum given the enormity of the industry. In other words, any market share seized in this new space is a coup for Mondelēz.

So should the old guard of the gifting market be shivering in their boots? Quite possibly. There's a well-established order within the confectionery gifting market, and Mondelēz has the resources to either abide or overthrow it. One thing is indisputable: there's a giant on the prowl, and any mayhem it might unleash is not going to be in its own house. ■



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How one of Pakistan's oldest banks cleaned up its act

Despite a dearth of problems ranging from bureaucratic issues to getting banned from engaging in business altogether, the bank managed to stand tall and steered itself from a state of losses to profits

By Mariam Umar

Even for most discerning readers, the Punjab Provincial Cooperative Bank Limited (PPCBL) would be a vague concept. Established in 1924 it is one of the oldest banks in the country and has for most of its existence survived as a specialised bank catering to the needs of housing and agricultural cooperatives.

Like most provincial cooperative banks, a concept introduced during the British Raj, the PPCBL spent the first few decades post-partition being an important avenue for agricultural lending. Except as time went by the bank's financial performance dipped and it was mired in a multitude of challenges, ranging from bureaucratic entanglements to outright bans on conducting business

That is until now.

From the brink of losses and unimpressive numbers the bank has managed to not just keep its head above the water but chart a course towards profitability. Even more remarkable is that this turnaround has taken less than two years. So how does a bank that has nearly a century of baggage clean up its act?

Part of it may have to do with the rising fortunes of agricultural lending in Pakistan. In recent times large commercial banks have changed their stance on agri lending, particularly in the livestock sector. As a dedicated institution with tailored products and services now is an ideal time for the PPCBL to return to its glory days. The bigger reason is the fast unfolding events of the past few years. To understand those, we must go back to the very beginning.

Understanding the history

The PPCBL was first established in 1924 and was under the control of the Central Cooperative Bank. The concept of cooperatives was relatively new but wildly successful at this point. Cooperative societies, or 'co-ops' as they are contemporarily known, started emerging around the turn of the 18th and 19th centuries. As industrialisation pushed people away from rural areas and into cities, they were no longer able to grow their own food. Instead they were reliant on stores that sold essential food items at exorbitant prices. To manage this, many people banded together to form societies which would pool their economic resources and buy products in bulk directly from suppliers to keep costs low for their own members.

While cooperatives are a concept found even in antiquity, they took shape by this name after the Industrial revolution. Very plainly put, co-ops are when a group of people with common economic goals join together to do everything they can to achieve it. Soon co-ops began appearing not just for food supplies but also for housing, agriculture, education and other fields.

British colonial administrators all over the world felt cooperatives were a smart and efficient idea. Because of their success in Europe, co-ops were encouraged in the Indian subcontinent as well. And one of the targets was founding financial institutions that served both as co-ops and catered to co-ops.

"The cooperative movement literally means 'bahami amdaad'. Let's say you and ten others each have one acre of land. Individually, your holdings might not meet the bank's criteria for granting a loan. However, by forming a cooperative society, pooling your lands together, and presenting yourselves as a group seeking a loan, you increase your collateral value. This joint collateral gives you a better chance of securing a larger loan from the bank," explains Asma Shakeel, Head Legal, Strategy and Secretary to the bank's Board of Directors.

After the partition, many cooperative banks became part of India and grew into substantial institutions comparable to major commercial banks we have in the country today. Pakistan only got one cooperative bank at the time of partition. This was the Central Cooperative Bank which then had further provincial subsidiaries that it operated.

However, in 1976, this bank was dissolved, and its assets were absorbed by the provincial cooperative banks. Each province had its own cooperative banks, such as the Sindh Cooperative Bank, Frontier Cooperative Bank (KPK), Balochistan Cooperative Bank, and the Punjab Cooperative Bank. There were also affiliated Azad Kashmir Government Co-operative Bank and Northern Areas Provincial Co-operative Bank.

Cooperative bank governance

This is where things start to get a little tricky. Now that the provincial cooperative banks were on their own, the cooperative banking ecosystem was also brought under the federal government's control. At first, the Federal Bank for Co-operatives (FBC) was established in 1976 as a regulator for cooperative banks. The FBC used to arrange financing by borrowing from the SBP. And while the central bank was lending to them at a nominal rate, the benefit was not being passed down to the end consumers.

Resultantly, neither the benefit of cost-free funds reached the ultimate users nor did it in any way help in the promotion of the co-operative movement in the country. Eventually the SBP was sick and tired of this and suggested the FBC be dissolved in June 2000. During the 24 years it was on the scene the FBC managed to damage the cooperative movement in Pakistan significantly. The Sindh and Balochistan chapters of the bank had barely gotten any of the SBP money and end-consumers were given very little as well because of poor products and policy decisions.

The banks operated as government departments running on typical federal handouts. From here on out the SBP stepped in and directly financed provincial cooperative banks. The banks were happy with this as well. The state bank would provide cost-effective funds which would be used to grant loans. But then other problems began emerging. Because the banks had been so lax for the past three decades, many of their clients were giving them a bad name. As a result, the SBP halted funding.

"The government of Punjab had to step in and extend loans. Eventually, these loans were transformed into equity amounting to Rs 7.8 billion, as you can observe in our balance sheet," says Tahir Yaqoob Bhatti, CEO of PPCBL. All the provincial cooperative banks had serious financial and management problems, partly, because of insurgencies made in their operations by the co-operative bureaucracy and partly because of the political influences. Consequently, all except Punjab Provincial Cooperative Bank dissolved.After the SBP's decision to stop financing, it emerged that many of these banks would shut down. The Frontier Cooperative Bank of KP was abolished in 2001 and the Sindh Cooperative Bank was absorbed into the Sindh Bank in 2011. In between this all of the other cooperative banks closed down one by one except the one in Punjab.

The PPCBL's slump story

So how did the PPCBL manage to survive while all other cooperative banks in the country perished? The answer lies in the fact that the Punjab's chapter of the bank was always sort of independent. The bank's primary focus has been on the agricultural sector. They have an array of agricultural loans tailored for purchasing essential crop inputs such as seeds, fertilisers, pesticides, and other related expenses, all within shorter time frames.

But aside from this the PPCBL also gained the status of a scheduled bank as early as 1955 taking on a dual identity and serving also as a regular commercial bank. Because of this the bank became one of the preferred banks of the agriculturalists in Punjab. With a notable presence spanning over 151 branches across 9 zones, encompassing various tiers from Tehsil to Sub-Tehsil levels, this historic institution has run on its own inertia for most of the past few decades.

The biggest blow to cooperative banking in the country came in 1997. Back then an anti-corruption investigation banned the registration of new cooperative societies. This was tied directly to the real estate market in Pakistan. A number of real estate developers over the years had established "cooperative" housing societies. Most of these went to the cooperative banks because of the good terms. A large number of those were fraudulent. Once a ban was placed on the establishment of all new cooperatives the banks also lost out on a number of new customers. Remember, this was also around the time where the SBP was mulling over whether to abolish the FBC as well.

"We were serving customers (borrowers) from previously registered cooperative societies, but the halt in registration of new cooperative societies created a significant gap in our lending activities", lamented Aqsa Shakeel.

Consequently, the bank obtained authorisation from a competent authority to begin offering agricultural loans directly to individual farmers. The bank's CEO told Profit that as a result society members simply began borrowing as individuals. "This led to the establishment of a favourable reservoir of customers for us. This move played a crucial role in ensuring our survival during that period. If we had remained solely reliant on the cooperative societies, our prospects would have been severely constrained."

Despite this, governance issues persisted because of government control. "If you look at our shareholding, 95% of the share is with the Government of Punjab and the remaining 5% is with the Cooperatives Society. This increased bureaucracy led to delays in approvals", lamented Shakeel. "Besides, each entity has a board that takes decisions regarding key matters of the organisation. However, the Punjab Provincial Cooperatives Board was dissolved in 2005 by the State Bank of Pakistan," adds Shakeel.

These political issues, and inefficiencies that continued to exist led to the accumulation of non-performing loans (NPLs). And according to the bak's management this was a constant drain on their market share. Perhaps the final nail to the coffin came around in 2020 when the SBP imposed sanctions on the bank, citing non-compliance with Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) conditions. As a result, the SBP directed the bank to halt its lending activities. During this time, no new accounts could be opened, and no new credit limits could be issued. "This situation, where a financial institution cannot initiate new business or open accounts, essentially marks the end of its operations. A penalty of Rs 124 million was also imposed", lamented Bhatti.

A change in guard

So here is where the situation stood. Cooperative banking as a concept started off during the British Raj. After partition there were some successes but largely the banks sort of just stuck around and did very little. Around the year 2000, many of them started shutting down. The only provincial cooperative bank to survive was in Punjab where the government decided to bankroll it rather than let

> Following my arrival, I assessed the bank's situation and immediately initiated the implementation of a core banking system. This task was complex given the existing data challenges and the decentralised nature of the bank's operations, with no information sharing
>
> **Tahir Yaqoob Bhatti**, CEO of PPCBL

it die. But that decision proved disastrous when the SBP imposed sanctions on the bank and essentially forced it into a position where it had no choice but to shut down.

That is where the survival story begins. In 2021, then prime minister Imran Khan directed the Punjab law ministry to activate the Punjab Cooperative Department (PCD) to ensure financial assistance to farmers. Thereafter, the Punjab Provincial Cooperative Bank (PPCB) was slated for substantial restructuring to actively contribute to agricultural enhancement and farmer welfare.

In December of the same year, Tahir Yaqoob Bhatti took over as CEO of PPCBL. A career banker with over three decades of experience, Bhatti had been part of the senior management teams of Askari Bank, Allied Bank Limited, and Faysal Bank. Within a week of joining, Bhatti presented a comprehensive proposal to the SBP to remove the existing embargo on the bank. The SBP responded positively, offering a conditional six-month monitoring period during which the bank's performance would be assessed. If the bank demonstrated improvement, further assistance would be considered.

"When I assumed the role in December 2021, my primary challenge was to lift these restrictions," recalled Bhatti. "The embargo was put in place for three main reasons: first, to appoint a professional president, as there had been no president for the past seven years before I joined; second, to address AML and CFT issues by implementing specified transaction management systems; and third, to constitute a new board. Over a short span of time after my arrival, almost all three conditions were fulfilled. The first condition was met upon my appointment".

Implementation challenges

Recalling the time when he joined, Bhatti told Profit, "Following my arrival, I assessed the bank's situation and immediately initiated the implementation of a core banking system. This task was complex given the existing data challenges and the decentralised nature of the bank's operations, with no information sharing."

However, the bank successfully introduced this system and also made strategic personnel appointments. "Implementing a system is not possible without a proper team. And you need experienced people who have worked in different fields and have banking experience. So we brought 7 people – 5 in the head office. These include Operations Head, Business Head, Strategy Head, Compliance Head, Chief Financial Officer who is a chartered accountant. And 2 Zonal Heads from the market", added Bhatti. Apart from that, the new CEO empowered its human resources and initiated incentives that improved the morale of people. Salaries and pensions after a very long time were increased in July 2022. This resulted in an extra Rs 27 crore cost for the bank. However, these factors led to increased motivation.

The bank also lacked talent density. Employees lacked relevant qualifications. "Some of the managers had only studied till matriculation. Although their skills had improved with experience, qualification also matters", remarked Bhatti. Most of the employees that were working in the bank were those that had been working in this organisation since they started working. "By 2025 most will be retiring and by 2030 all will be retired. So we needed to onboard more people. Especially young people that are more familiar with IT. Consequently, we hired 2 batches of 100 each on merit basis through tests. This young force is helping us in implementing core banking and other systems because older generations' IT skills are very weak", he added. "We strategically positioned employees in their hometowns.This meant that someone originating from Haroonabad was appointed there only, leveraging their deep connection with the community. This approach proved highly effective for us", Bhatti further explained.

The road to profitability

This bank had been accumulating losses yet if you look at the income statement of the bank, it would show you profits. So what is going on here?

"Some of the entries were mistreated," Shakeel told Profit.

PPCBL's pension fund woes contributed to the accrual of these losses. "The history of these accumulated losses is that in 2013, when the bank prepared its financial statements, it failed to account for the pension fund," explains Shakeel. Banks typically create financial statements with certain provisions. However, this bank did not. It was incurring losses. To mask these losses and show a profit, the bank only made provisions for that year, neglecting to set aside provisions for the following years. "If we deducted these provisions from the financial statements of those respective years, we would have been revealed as a loss-making entity," elaborated Shakeel.

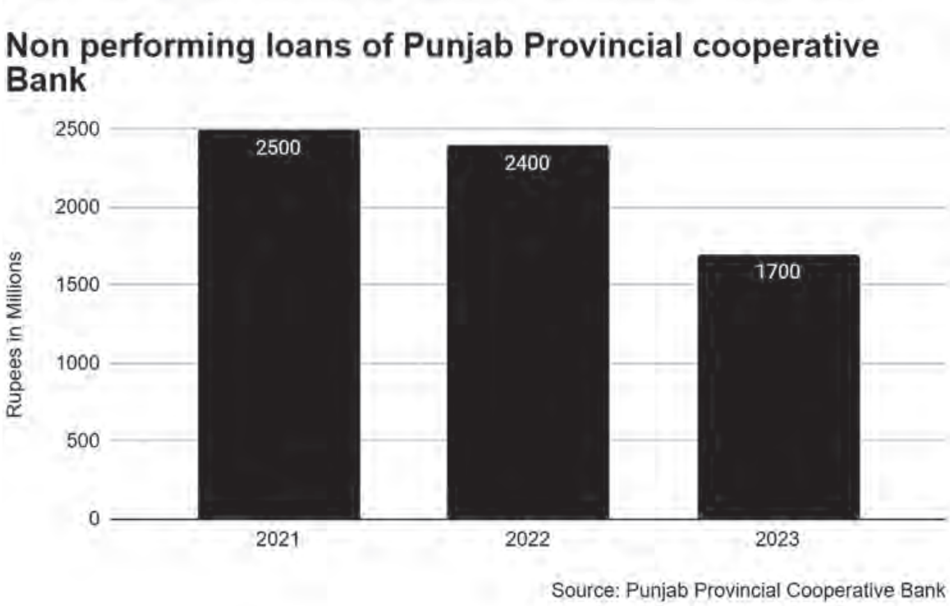
"As I've mentioned before, there was a gap in the financial competence of the senior team. For many years, we did not have a chartered accountant overseeing the accounts," explained Bhatti.

"We are addressing this issue now. However, it's important to note that there are no major issues that could threaten the bank's continuity", he added. "When I joined, the interest income earned on loans was categorised under 'other assets' and 'other liabilities.' It was merely done to inflate the balance sheet's size. We have rectified what needed to be corrected. In the coming days, you will observe improvements in the balance sheet."

The Bank has also hired a qualified Chief Financial Officer from A. F. Furgosen who will oversee these matters.

• Recovering bad debts

"When I joined this bank I had 2 targets – first to recover the NPLs as much as we can because it is the lifeline of the bank. Liquidity can only be generated by recovering NPLs since no other organisation would inject capital. Second, generating enough revenues to cover operational costs and run the business. There were about 1500 to 1600 employees and around 1200 pensioners. That makes around 2700-2800 people. Their salaries and pensions accounted for approximately Rs 1.3 billion a



year which has now increased to Rs 1.5 billion."

Thus, PPCBL orchestrated a synchronised strategy to start recovering NPLs. "Our NPL principal was around Rs 2.5 billion which had started piling up in the last 20 years. So we made a strategy – we forged recovery teams for recovery. We forged synergies with our branches and dispatched teams into the field without distinguishing which personnel had given this loan or whether this loan was given 10 years ago or 25 years ago." The result? A triumphant recovery of these long-dormant loans.

"Every week, I monitored the whole team – including all zones and all division heads – at each step and each branch. We would discuss progress in each fortnight or 10 days."

This granular approach bore fruit, and by the time June 2023 arrived, the daunting figure of Rs 2.5 billion had elegantly dwindled to a resurgent Rs 1.7 billion. With palpable enthusiasm, Bhatti conveyed, 'We not only reclaimed substantial principal amounts, but also recouped accrued interest. This greatly helped us with profitability".

• Gains from property revaluation

Beyond these achievements, a treasure trove of gains emerged through the revaluation of our fixed assets.

"One of the biggest strengths of this bank that was not realised earlier on was that we have close to 116 properties all across Punjab – all very lucrative and expensive. When I got these assets revalued, they more than doubled and went up to Rs 15 billion from Rs 7 billion. This figure only includes the price of the land, and not the buildings", stated Bhatti.

Illustrating with a vivid instance, Bhatti chimed in, "We sold one property in a small town. Its book value was Rs 50 lakhs but we sold it at Rs 2.1 crore. So that's how we made capital gain".

Hence, the bank was generating profitability from various sources apart from the markup income. Recovery of previous loans resulted in immediate reversals as the provisions decreased.

What worked for PPCBL that does not seem to be working for other banks catering to the agriculture sector?

As we mentioned earlier, Punjab Provincial Cooperative Bank is focussed on the agricultural sector. Microfinance banks also cater to this sector and are supposedly their competitors. While PPCBL managed to not only remain profitable but also decrease their non performing loans, microfinance banks are swamped with losses related to non-performing loans, so much so that after writing off their loan books, most of them are looking for capital injection to improve asset quality.

How come PPCBL has not only remained profitable but also managed to recover previous loans?

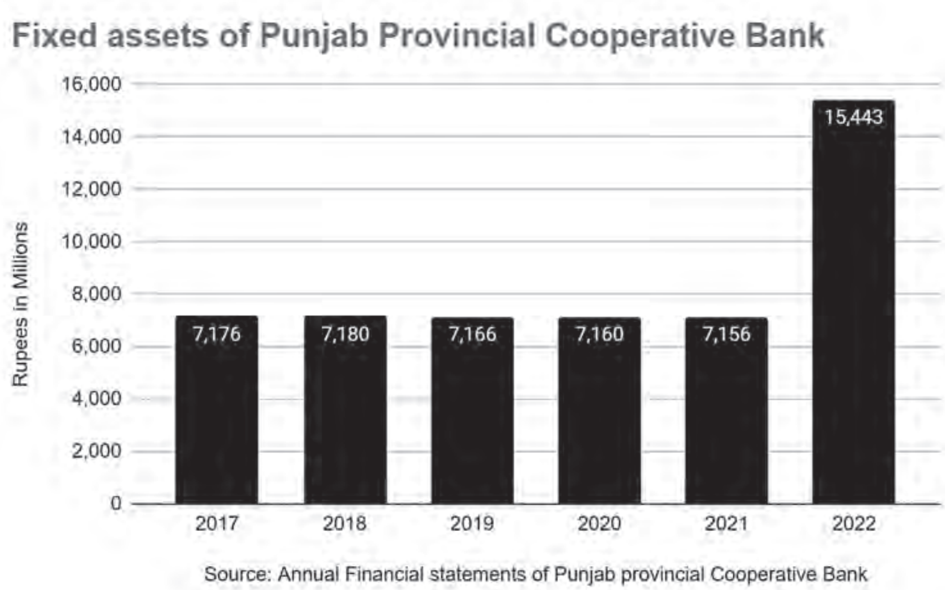
Bhatti explained, "Our presence is around 100 years old, whereas microfinance banks are a recent phenomenon. Besides, people working with us are in their fourth generation now. Our staff knows the market and the market knows our staff. Similarly, we have a Cooperative department which has also been here for around 100 years. There are 1500 sub-inspectors in this department. Their main job is to recover the loans disbursed by PPCBL"

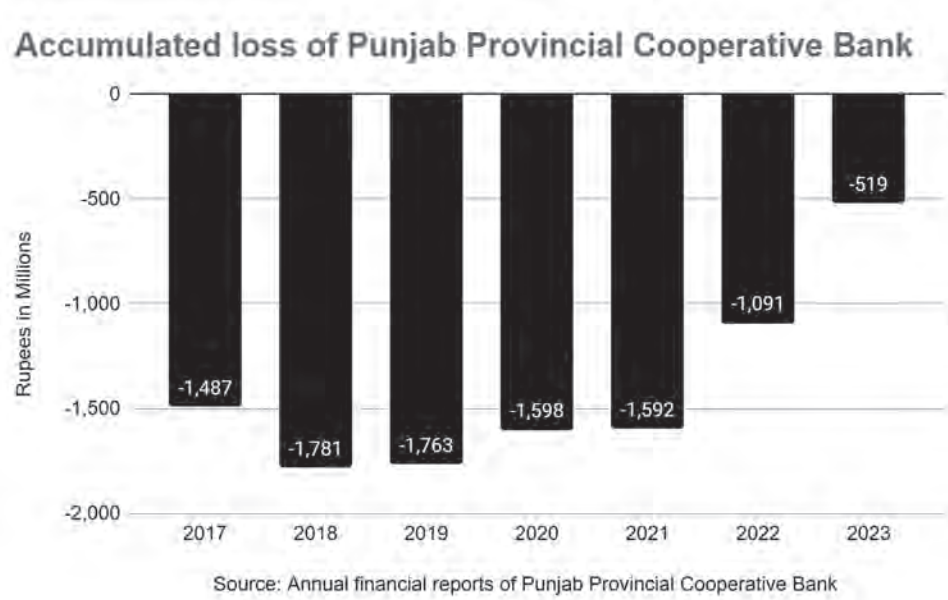
The Cooperative department is a body under the provincial government. The Registrar of this department registers the cooperative societies. Their role is crucial as loans, and renewals if loans are granted on their recommendations

Bhatti weighed in on the pricing aspect, expressing his concern over the sky-high rates imposed by microfinance banks, which hover around a staggering 50%. "This is a recipe for disaster as nobody would be able to pay back their debts", he commented. He proudly highlighted his own institution's markedly different approach, boasting interest rates are less than 25%.

Adding another layer to this financial conundrum, Bhatti emphasised the unique challenges his customer base faces. "Our customers' lack financial literacy. They can neither calculate nor comprehend markup rates. So they find out after taking loans that they do not have the capacity to pay".

He added, "We exercise meticulous discretion in the selection of our customers, relying on the trusted recommendations of the Cooperatives Department. Moreover, our front-line staff comprises local individuals who are intimately acquainted with the ebb and flow of the market, enabling us to make





informed decisions. You will be surprised to know that of the fresh loans extended, the overdue portion is hardly 2%".

Future of PPCBL

Within the arsenal of this bank lie remarkable strengths.

• Spearheading Financial inclusion

The bank has a significant opportunity for advancing financial inclusion.

"Our mission is not to make a profit. Our main job is the economic uplifting of rural communities. Our bank holds the unique advantage of being able to achieve levels of inclusion that no other bank can owing to our presence at the grassroots level in tehsils and sub tehsils, and our legacy of 100 year. We are actively pursuing this goal and making strides in that direction.

• Financial prospects

"Balance sheet wise, this is one of the strongest banks in the country", declared Bhatti. The bank's liabilities include deposits of Rs 6 billion only. Against this figure, the bank has investments of around Rs 6 billion in government securities, advances of Rs 10 billion and fixed assets of Rs 15 billion. "The bank's capital adequacy ratio stands at an extraordinary 62%, which is a rarity in this industry", added Bhatti.

"Steering the bank away from losses while expenses were rising was a significant challenge. However, thanks to our dedicated employees, we are on a path to recovery. The SBP's decision to lift the embargo was a pivotal moment, and we haven't looked back since,"-exclaimed Bhatti.

Prior to the embargo, there were no new loans issued, but in the two years following its lifting, the bank successfully disbursed Rs 6 billion, encompassing both rollovers and new loans. However, a noticeable gap remains, particularly in deposits. Despite achieving a record deposit figure in fiscal year 2023, marking our 99-year journey, there is still ample room for improvement.

Bhatti shared with Profit that the SBP recently conducted a thorough audit of their bank, spanning three months and involving visits to every branch. Initially, their Composite Risk Rating (CRR) was at the lowest level. However, they have now progressed to a moderate rating, which serves as a testament to their improvements and acknowledgement of their accomplishments.

Conversion of Non-banking Assets to Banking assets

The bank is in the process of converting non-critical non-banking assets into banking assets. Being a cooperative bank, PPCBL adheres to cooperative society bylaws, which not only allow the bank to own non-banking assets but also generate income from them.

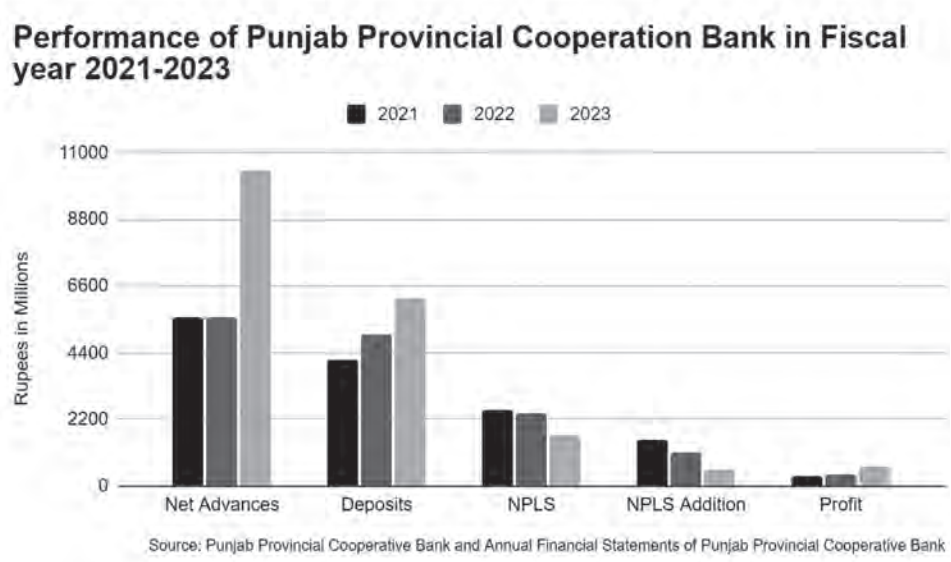
While the bank has leased around 80 shops, it's important to note that property isn't their primary focus. Thus the bank plans to convert non-critical non-banking assets, such as buildings, into banking assets. The generated funds will be directed toward their core activities: lending and investments. Although this process will take time, they are actively working on it.

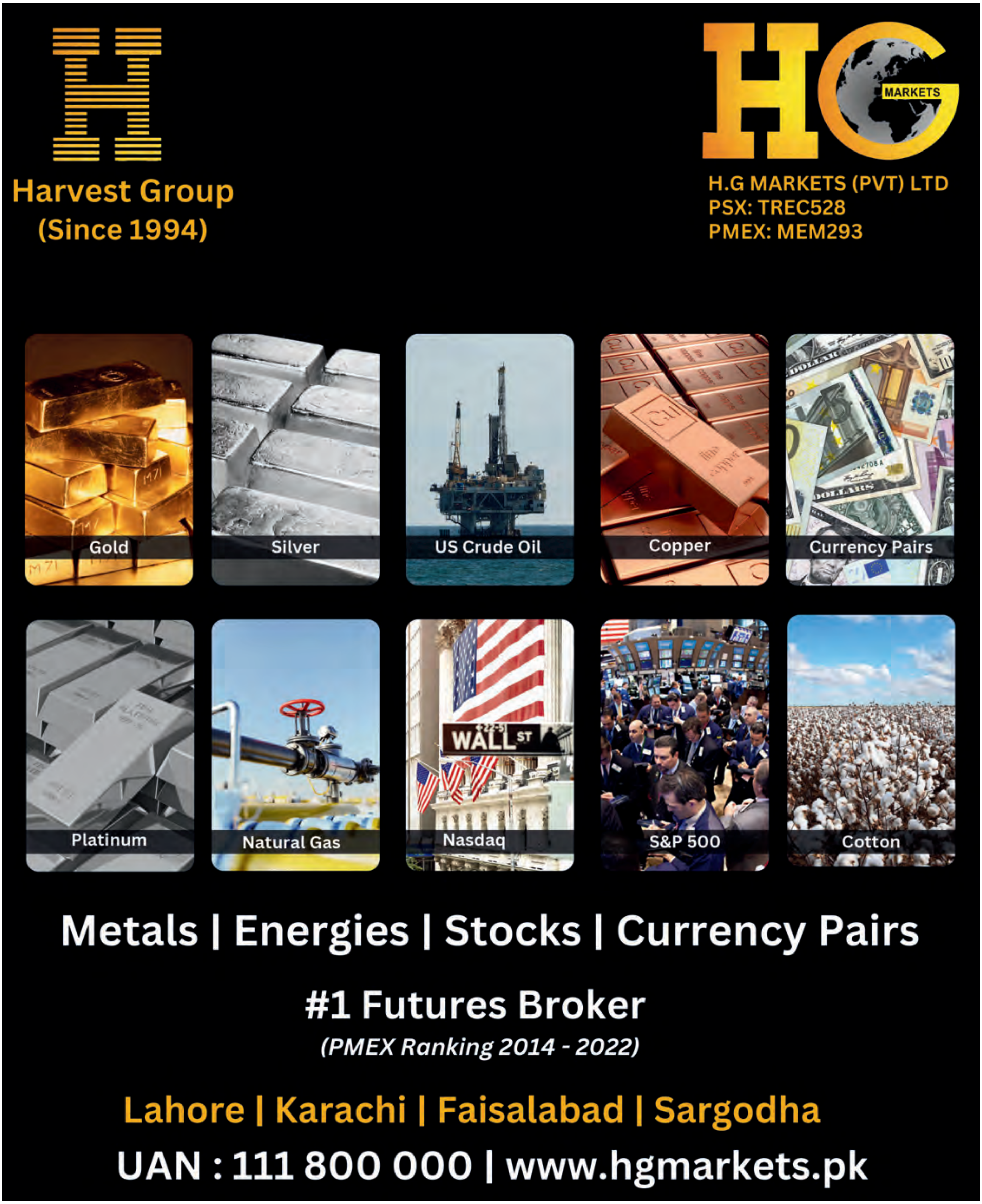
The way forward

The bank is currently in the midst of a significant transformation. It is enhancing their database, upgrading existing branches, and constructing new ones. It is implementing a centralised core banking system.

"PPCBL was a member of 1LINK, but our membership was suspended. We are now going to renew our membership so that we can introduce digital banking services like Interbank fund transfer (IBFT), RAAST, and Real time gross settlement (RTGS)," shared Bhatti. Other initiatives include establishing ATMs and mobile banking.

The bank has also engaged in negotiations with the Pakistan Credit Rating Agency (PACRA) and is poised to initiate the credit rating process once the audited financial statements become available in September. The bank is optimistic about receiving a favourable rating from PACRA. ■

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TRADITIONAL REAL ESTATE SCAMS ARE BECOMING DIFFICULT TO PULL OFF. SO WHAT!

People are no longer investing their savings in real estate projects. But has the frustration led some real estate players to go the traditional Ponzi route?

By: Shahab Omer

Where do you park your money in this economy? With the interest rate at 22% and rumours abound that the State Bank is about to raise it to 24% one would think putting cash in a savings account would be enough. But these are not normal times. With the inflation rate hovering around 30%, volatility in the stock market, and foreign currency short in money exchanges, avenues for investment seem dormant at the moment.

Even real estate, Pakistan's national mode of investment, seems to be in the doldrums. Property markets in traditionally safe regions have been tanking. People with plots that they had bought as investments in areas like DHA Lahore and DHA Multan are finding it hard to get buyers and property prices have dropped.

So what do you do? One argument would be to get into an early stage ponzi scheme. One thing people might forget about pyramid schemes is that as long as more money is coming in than going out the scheme will stay alive. And that means a lot of people, at least in the initial stages of the scheme, will make a buck or two off of it.

But in the absence of a (very obvious) ponzi scheme, one up and coming real estate company claims they have the answer. Billing themselves as a 'real estate marketing agency' (a suitably vague enough term), Aetmaad is promising new clients guaranteed annual returns ranging from 30-48% with investments starting at Rs 10 lakh. In a nutshell, high returns with little to no risk. Sounds too good to be true? It is.

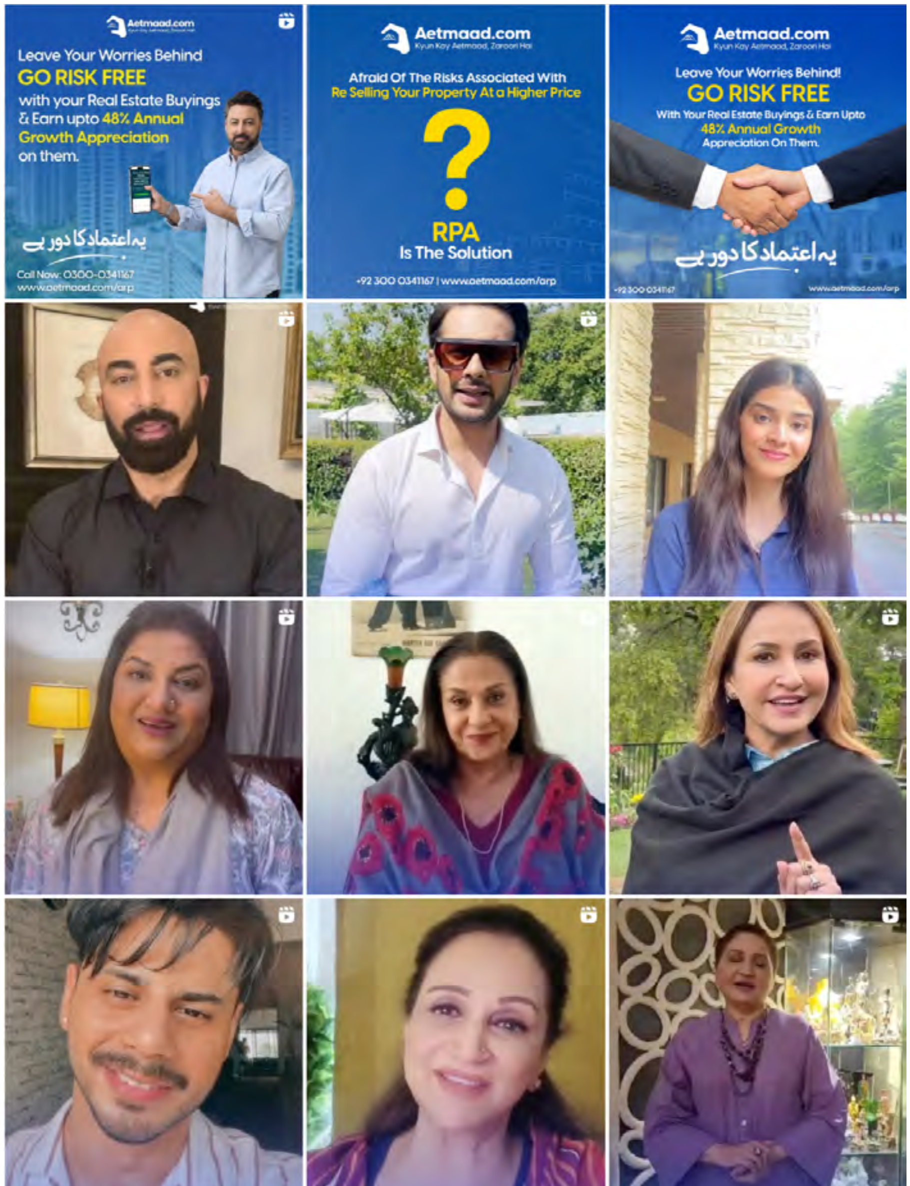
The plot thickens

So how does Aetmaad work exactly? To start off let us get a few things straight. The company is not a real estate developer. That means they do not buy undeveloped land and build real estate projects on them. What they are essentially are a real estate marketing agency — a fancy way of saying property dealers.

According to their representatives and senior officials, Aetmaad 'represents numerous real estate projects, both commercial and residential'. On their website Aetmaad has listed Lake City, Serena Homes, Bahria Town, Zaitoon City, New Lahore City, Etihad Town, Kings Town, and Dream Housing and other notable real estate projects in and around Lahore as falling under their umbrella.

But what exactly does being under their 'umbrella' mean? Essentially, Atemaad claims to have bought property in a number of different real estate projects across Lahore. According to their management the company has around 200 plots under its wing. Using these plots as leverage and as collateral Aetmaad promises rich returns. So when a customer comes to Aetmaad, they ask their client to make a partial payment on one of the plots they already own.

At the time that this partial payment is made, Aetmaad promises that in one year's time they will buy back the same property from that client at a set rate of return. The rate list for this is set. This means if you come in and make a down payment of Rs 25 lakh on a plot worth Rs 1 crore in New Lahore City, you do not have to pay the full amount. Instead after one year, the company will buy back that Rs 25 lakh from you at a predetermined high rate of return.



Do these celebrities know what exactly they are endorsing?

The playbook

Something doesn't quite add up about this, but aggressive marketing, rosy pictures, and salesmen as sweet as honey seem to have been enough to rope a number of people in. People in Pakistan are worried right now. The middle and upper middle classes are worried about what to do with their savings and guaranteed returns of up to 48% are far too attractive to let go.

In fact, if you walk into their offices, the rates of return are almost all too enticing. At an investment of Rs 10 lakh Aetmaad promises a return of 30% for example. This would mean a year later Aetmaad would return Rs 13 lakh to this investor. Similarly the company promises as 40% return on investments of Rs 20 lakh and 48% return on investments of Rs 25 lakh and more.

The company's claim is that because property values appreciate and they pick prime locations in prime real estate projects they manage to make these returns and keep a small percentage for themselves as well. The only problem is that they are making this claim in a real estate environment that is very much in a slump.

In an attempt to understand the 'business model' better, Profit spoke with Syed Bilal, Chief Operating Officer of Aetmaad. The crux of what he explained is that Aetmaad facilitates property purchases for its customers. He explained that their operation basically revolves around a buyback option for the customer.

"When we take Rs 10 lakhs, it serves as a down payment for a property. If a buyer wishes to complete the purchase after making the down payment, they can pay the balance in fixed instalments. Alternatively, if someone makes a booking with the intention of investing in the property, we provide them with the opportunity to sell the same property back to us after one year if they desire and we offer them a fixed profit in this case. If they choose not to sell to us and find a better offer elsewhere, they are free to sell to whomever they prefer," Bilal explained.

But there are serious problems with this. For starters, what Bilal's statement essentially means is that Aetmaad collects investments and has 200 plots in different real estate projects in Lahore as collateral. It gives these plots as collateral in exchange for these investments. However, while Aetmaad does its own paperwork, these plots are never legally transferred to this new investor. That means there is never really any guarantee for the investor in case the investment goes wrong. Then there is the other problem. If the plot is not actually being transferred and Aetmaad's own paperwork holds no legal weight, how many investors is Aetmaad promising each plot as collateral to? After all they only really have 200 plots so does that mean they cannot have more than 200 clients at any given time?

When someone pays Rs 10 lakhs, the plot is not legally transferred to that person until it has been paid in full. If someone can afford to buy the plot within a year after making the down payment, why would they go through Aetmaad? Why not simply use the conventional channel of going to a developer through an estate agent?

When Aetmaad offers to buy back the property from the customer after a year, what exactly is the customer selling back to Aetmaad? Through what instrument is Aetmaad generating enough profit to offer a 'fixed return on investment' to its customers? Property trading? Which housing society project in the country is offering 30% to 48% return on investment within a year and why is Aetmaad the only 'real estate marketing company' privy to this information? More importantly, with no property in their ownership, what 'property' is Aetmaad handing over to these investors?

Bilal had no answer to any of these questions. Instead, he simply took a curt line and emphasised that Aetmaad does not collect investments "but engages in the safe and reliable buying and selling of properties"

Marketing mayhem

So this is what we have. There is a real estate company operating in Lahore which apparently does not have any property. They are not developing any projects. They have no products to offer. And they are promising returns ranging from 30-48% at a time when the entire country's economic system is overheating and malfunctioning.

So with all these red flags, how are they getting people to bite? The answer lies in aggressive marketing techniques. You see Pakistanis are obsessed with buying land as an investment. Over the decades this has inflated property prices in the country leaving huge amounts of capital laying around uselessly. And as a result of this obsession real estate has also gotten the reputation of being a dirty business occupied by kabza groups and Double Shahs.

That is why real estate companies pick names like Aetmaad. It is also the reason they embark on elaborate marketing campaigns by getting celebrity endorsements and plastering their name and project details all over posh localities. A simple drive around Lahore's DHA in recent days will reveal the aggressive marketing approach that Aetmaad has taken.

Normally these marketing techniques are employed by new housing societies. These are those projects where the developer buys a partial amount of land and offers to sell "files" for plots that will be developed in the future. People fall for this thinking they will be "allotted" a plot later when in reality the developer has not even bought the land that is to be developed yet and is simply collecting investments. If a government permit does not go through or the project goes kaput that money is lost as part of the failed or stalled project.

In Aetmaad's case they don't even have this partial land or a project. Instead, they have employed different actors and prominent personalities to promote themselves. Actors such as Babar Ali, Bushra Ansari and Samina Ahmed have lent their names to Aetmaad's citywide promotional campaign.Some of the endorsements have also featured celebrated fashion designer Hussain Shehreyar Yasin as well.

There is one problem in all of this. Many of the people that have invested with Aetmaad have gotten the promised returns. But in this real estate environment, how are they making this much money? With only 200 plots in their arsenal, we also know that no real estate project is giving them these kinds of returns. One possibility is that Aetmaad is playing a risky game and investing in some high volatility stocks and making enough of a return to pay their clients and also take a cut. After all, their returns at 48% are believable. The other possibility is that they could be moving money from one place to another.

If the shoe fits ...

Let us forget about Aetmaad for a moment. To take a quick recess from the complexity of this story it might be worth revising an important concept in the world of business: ponzi schemes. Here's how it works in simple terms:

The Promise: Someone, let's call them the "Ponzi schemer," tells people they have a fantastic investment opportunity. They promise to make them rich quickly and with very little risk.

Investment: People who believe this promise give their money to the schemer to invest. They think they're putting their money into a legitimate business or investment.

Fake Returns: Instead of actually investing the money, the schemer takes the new money from investors and uses it to pay returns to earlier investors. They make it look like the investments are doing really well by giving people their promised profits.

Attracting More Investors: When the earlier investors see their money growing, they tell their friends and family about this amazing opportunity. This brings in even more people who invest their money.

The Problem: The scheme can only keep going as long as there are new investors bringing in fresh money. Eventually, there are not enough new investors, and the schemer can't pay returns to everyone.

Collapse: When the scheme can't pay out anymore, it collapses. Many people lose their money, and only a few who got in early may have made some profits.

The key idea here is that the scheme relies on using new investors' money to pay off earlier investors. It's like a financial house of cards that eventually falls apart, leaving most people with losses and only benefiting the schemer and a few early participants. Very basically speaking, the money put in by new investors is used to pay returns to older investors. As long as new investors keep coming in, the older ones are happy. Ponzi schemes when managed well can go on for ages. The American financier Bernie Madoff famously kept a massive ponzi scheme running for 17 years before it caught up with him.

Classic signs of a ponzi scheme include:

- Bold promises made on the back of a vague product
- Get rich quick claims
- Aggressive sales pitches

The 200 plots problem

For just a moment, set aside the glitz of the marketing and the stink of suspicion and take Aetmaad's claims at face value. Let us put aside the sceptic's glasses and really try and understand what they are claiming to do. Aetmaad's entire schtick revolves around their 200 plots. Just to estimate the amount of capital required to make such a purchase, we calculated the average price of a 5 marla plot in both housing societies.

There are no details available about which plots Aetmaad has purchased but even when one assumes, for sake of argument, it bought just one plot in New Lahore City, a more expensive society are at around an average price of Rs 1.18 crore and 199 plots in New Lahore City at a rate of Rs 72 lacs, the total spend comes to around Rs 1.44 billion, by no means a small investment in a stagnated sector of an economy that is crashing.

In fact, any combination of quantities of the plots bought in each society provided a figure that corset the 1 billion rupees mark.

Additionally, Aetmaad claims that they have managed to attract and gather capital from three hundred investors up until now. But there are only two hundred plots. Aetmaad has sold something it does not own.

If, hypothetically, Aetmaad was to abscond with the investors' funds, it could potentially lead to a situation where the three hundred investors turn against each other instead of going after Aetmaad. This is because the same plot might have been used as collateral and transferred to multiple investors under the company's agreement; a potential disaster.

A property dealer, wishing to remain anonymous, familiar with prices and transactions involving plots and files in New Lahore City dismissed Aetmaad's claim. He pointed out that these types of housing societies don't typically deal with actual plots but files, and according to him, Aetmaad hasn't grown into a significant enough player to purchase two hundred plots.

Aetmaad's 200 Plots (An assumption)

	Zaitoon	New City Lahore
Plots bought	1	199
Average Price	11,800,000	7,200,000
Total	11,800,000	1,432,800,000
Grand total		*1,444,600,000*

Regulatory problems

Since Aetmaad is in the business of making investments with other peoples' money, it is required to obtain certain licences and permissions from the Securities Exchange Commission of Pakistan (SECP).

As per SECP, such licences are issued to companies that deal with or manage investments, and such companies may undergo audits perhaps twice a year. However, Aetmaad does not possess such a license.

On the regulatory aspect of the business, Bilal argued that they are not asking for any form of investment from individuals. He claimed that their business plan does not include any intention to raise any kind of investments, and that they fully adhere to SECP rules.

However, the only two options mentioned under the 'purpose' section of its sign up page on the company's website are "buy a property" and "investment". But more importantly, why is Aetmaad guaranteeing exorbitant returns to investors who work with them? That is the definition of investing on behalf of another individual. Mr Bilal's argument does not make much sense in this respect.

Aetmaad's COO claims they do not ask for 'investment' despite there being concrete evidence to the contrary. The SECP feels differently. According to the commission's spokesperson, Sajid Gondal, Aetmaad lacks the required licence for such activities. It's noteworthy that a company named Aetmaad Projects Limited is indeed registered with SECP.

However, even this registered entity does not possess the essential licence for soliciting investments. This scenario, where a company is collecting investments from individuals without proper authorization, is characterised as both unauthorised and illegal according to SECP regulations.

It is pertinent to mention here that SECP issues a stern warning to the public regarding various forms of fraudulent investment schemes. To ensure the safety of potential investors, SECP outlines several common types of schemes that investors should approach with caution. One prevalent type is Ponzi Schemes, which entice investors with the promise of high returns. These schemes operate by using funds from new investors to pay off earlier ones. However, these unsustainable practices eventually lead to a collapse when the influx of new investors diminishes.

Not the only ones

Regrettably, Aetmaad is not an isolated instance of an allegedly illegal and unauthorised real estate investment company operating within Pakistan. A multitude of analogous companies and websites are exploiting people by masquerading as legitimate investment opportunities.

Another example of the same is 'Ismartindustries', affiliated with the ISMMART Group of Industries. This website asserts to have bases in Dubai and Islamabad and is also touting returns comparable to Aetmaad's in the real estate domain.

With a specific focus on one of its ventures, Tower 17, an incomplete high-rise structure situated in Islamabad,Ismmart is looking for investments. It promises profits to investors based on this ongoing project.

According to the website's claims, it guarantees a return on investment for this incomplete venture. It offers a fixed monthly rental rate of 1%, accompanied by an annual increment of 10%. This offer pertains to a project that remains in an unfinished state. Additionally, the same website extends its promise of a "Guaranteed Monthly Rental Payment" from the time of booking for another incomplete project named Crystal Tower, situated within Park View City in Islamabad.

At the end of the day, Aetmaad's fundamental function is to deliver a promised rate of return on the money entrusted to them by their customers. There are no assets being purchased or sold by either party in the transactions that Aetmaad is making here. It seems like a cash-based operation being run under the guise of 'real estate property management'.

It isn't a terrible idea to get into this business as an investor as long as you are early. It is usually the tail end of investors that get the short end of the stick in such shady investments; the ones without a chair when the music abruptly stops.

But there are still two aspects to consider here. Firstly, gauging from what Aetmaad has been doing and what it plans to continue on doing, whoever is an early investor and gets paid back with profit, it's likely not generated through 'returns from the real estate sector' and is more likely someone else's money. This is an ethical dilemma, even though one is making money.

Secondly, it is still a high risk investment. There are plenty of more legitimate high-risk, high-reward investment options available in the market providing a level of transparency Aetmaad simply cannot and does not want to for obvious reasons.

Like the SECP spokesperson said, exercise caution, read the small print. And if we may add, use your brain! ■

The company that cried IPO

Dalda, the largest player in Pakistan's edible oil industry, has wanted to go public for years. What is stopping them?

By Nisma Riaz

The largest edible oil producer in a country that has one of the highest per capita consumption of edible products announcing an Initial Public Offering (IPO) would normally be big news. In Pakistan, however, it must be taken with a grain of salt. Dalda has over the past few months been teasing an IPO on the Pakistan Stock Exchange (PSX).

Back in January the company, which has been operational since before the formation of Pakistan, said it was looking to raise between Rs 3.3 billion to Rs 4.6 billion in a share sale. This would account for 15% of shares in Dalda and at Rs 4.6 billion could prove to be the largest ever IPO by a consumer staple company.

The only problem is that the news of Dalda looking for a massive injection of public money is not new. In fact, it has been in the works for more than six years. Dalda first expressed an interest in going for an IPO back in 2017. The company had announced they were looking to issue 8.25 crore shares via a book-building process at the floor price of Rs 85 per share.

Back in 2017 the company had stated they wanted the injection of money to expand their seed extraction plant and increase their seed crushing capacity by an additional 500 tonnes a day. In January, the company again announced it would go for

> IPO proceeds will be utilised towards expansion of existing business i.e. enhancement of seed crushing capacity from 400 tons per day to 900 tons per day
>
> **Ammad Tahir,** Director Investment Banking at Arif Habib Corporation

an IPO with the same intention. According to Aziz Jindani, the CEO of Dalda, the company was looking towards expanding its Port Qasim facility, referring to the company's factory at one of the country's busiest shipping ports. The proceeds could more than double its capacity in Karachi to extract oil from seeds.

But then they delayed their January announcement again. Rumours were back about a Dalda IPO in March before dying out until now. So will Dalda finally do it or is this another moment of testing the waters and not taking the plunge?

The Dutch origins of Vanaspati Ghee

Our story starts in 1930 when a Dutch company called Dada, in association with Lever Brothers in London, now known as Unilever, collaborated to import cheap vanaspati ghee to the Indian subcontinent. Ghee had long been an ancient staple of the rich in the Indian subcontinent, used sparingly to make delicacies on festive occasions.

Traditionally, ghee is made from clarified cow milk, which is very expensive. Some European investors discovered a method to hydrogenate vegetable oil and turn it into a substance that convincingly mimicked the taste and function of ghee. Dada and Lever brothers, under the brand name Dalda, brought this new alternative called Vanaspati Ghee to the Indian market.

There is a long story as to how Dada and Lever Brothers came to an agreement to launch Vanaspati Ghee under the brand name 'Dalda' Ghee — and you can read more about it here. But when the first tins of this product hit the market, they made an impression because of the bright green palm tree logo on yellow that they used.

The vegetable oil being used to make Vanaspati Ghee came from the seeds of the palm tree. That is a legacy that we have inherited to this day. In Pakistan, the most commonly used edible oil is Vanaspati Ghee – significantly more so than cooking oil used by most upper class families in domestic cooking. All of this comes from palm tree oil. And it isn't just Pakistan. Since the early 20th century, the oilseeds of the palm tree along with Soybeans have dominated global demand, with countries like Indonesia and Malaysia centering a large part of their economies around the production of these oilseeds.

In Pakistan, nearly 90% of the import of oilseeds is constituted by palm and soybean oilseeds. This places Dalda in a unique position and it makes sense why they would want to increase their oil pressing capacity. According to the SBP report, global consumption of oilseeds has increased manifold since the 1980s, with more than 600 million tons consumed in 2019. On the cooking oil end of the equation, Pakistan in particular is a country with a high-dependency, even compared to other countries with similar dietary preferences like Sri Lanka and India.

Edible oil consumption in Pakistan has increased significantly over the last few decades: from 0.7 to 4.7 million tonnes between 1981 and 2020. The main demand drivers are rising population, dietary preferences and increase in per capita income. According to the recent SBP report: Pakistan's per capita edible oil consumption is already higher compared to economies with similar income levels. In addition, increasing income levels may also translate in increased per capita consumption of edible oil, as will population growth. According to the UN's World Population Prospect 2019, at constant-fertility, the country's population in 2025 is set to reach 245 million, and 328 million by 2040.

This implies that demand for edible oil will continue to increase noticeably. According to estimates by the Pakistan Oilseed Department, total demand for edible oil in the country is conservatively expected to grow to 5.9 million tonnes in 2025-26, from 4.7 million tonnes in FY21. As this demand increases the crushing and processing capacity must also increase. This is what Dalda wants to prepare for with their IPO and by increasing their oil pressing capacity.

Dalda's expansion through the years

Unilever continued to own and operate Dalda in India and Pakistan after partition. Up until 2003, Dalda accounted for over 19% of Unilever's revenues in Pakistan, when they decided to sell it. In 2003, Unilever decided to sell Dalda and the Westbury Group emerged as the successor of the company. Dalda saw immense growth under Westbury, which was quite well-known in Karachi's trading and financial community, however, was not so well-known for being a manufacturing or consumer goods powerhouse. The company, run and owned by two Karachi-based brothers, Bashir Janmohammed and Rasheed Janmohammed, primarily operated as a commodities trading firm headquartered in Karachi.

While engaging in the trade of various commodities, their most significant focus was on palm oil, which serves as the primary raw material for vanaspati ghee production. In fact, at the time of the acquisition, Westbury held the position of being Pakistan's largest importer of palm oil.

Despite being in the commodity business for decades and knowing it inside out, the brothers were not so familiar with the business of manufacturing and selling directly to the consumers. So, they retained the Unilever management team that had been running Dalda before the ownership had changed.

The post-acquisition growth included organic expansion, acquisitions, and diversification.

The first and most prominent expansion move that proved to be a successful venture happened in 2005, with the sale of Dalda's products to the substantial expatriate Pakistani communities in the UK, Canada, and the US. Meeting the rigorous food quality standards of the European Union was a significant departure from their traditional Pakistani customer base, making this accomplishment a point of pride for Dalda's management.

The following year, Dalda, in order to

address an important market gap, introduced a new cooking oil brand called Manpasand. The management believed that Dalda primarily catered to the upper middle-class market and recognized the untapped potential in the middle-income segment.

The next phase of Dalda's strategic, and needless to say substantial, growth occurred in 2007 through the acquisition of a controlling stake in Wazir Ali Industries. This was a struggling publicly listed edible oil manufacturer that owned the Tullo brand. This acquisition added another household brand to Dalda Foods' portfolio. Then CEO, Perwais Khan has informed Profit that Tullo, which had faced difficulties, was successfully revitalised and had become one of the fastest-growing brands in the edible oils category.

In 2007, during a period of immense economic growth and the emergence of a substantial upper middle class, the newly emerged income group sought products beyond what Dalda currently offered. In response, Dalda Foods introduced Dalda Olive Oil, imported from Spain.

Beyond brand expansion, the company also made strategic investments to increase its manufacturing capacity. In 2011, they completed a new edible oil processing and seed crushing plant in Port Qasim, Karachi, increasing daily production by 300 tons. In 2012, a new edible oil neutralisation and bleaching plant with a 100-ton daily capacity was added. These enhancements improved the company's ability to use locally sourced sunflower seeds instead of solely relying on imported oilseeds.

The initial eight years following the acquisition were marked by a whirlwind of efforts aimed at successfully expanding the business. From 2005 to 2012, Dalda Foods experienced an impressive annual revenue growth rate of 28.1%. This growth occurred despite an average inflation rate of 11.8% per year and resulted in the company's revenue reaching Rs 22.6 billion by 2012.

Fast Forward to 2017, Dalda announced that it was going public, which did not happen due to "unfavourable market conditions," according to their brokerage firm Arif Habib Corporation.

Finally walking the PSX ramp?

After striking one gold mine after the other, Dalda's expansion spree came to a standstill for six odd years. Until early 2022, when the topic of the company potentially going for an IPO came up once again.

Summer 2023 was supposed to be a time when Dalda finally did a public offering. However, despite getting their financial accounts audited and approved by regulatory bodies, like the PSX and the SECP, Dalda did not go through with the IPO in June 2023.

> "Dalda is conducting audits of their FY2023 accounts and also monitoring the market situation and will go for an IPO on the basis of FY23 audited accounts if the market is feasible"
>
> **Spokesperson at Arif Habib Corporation**

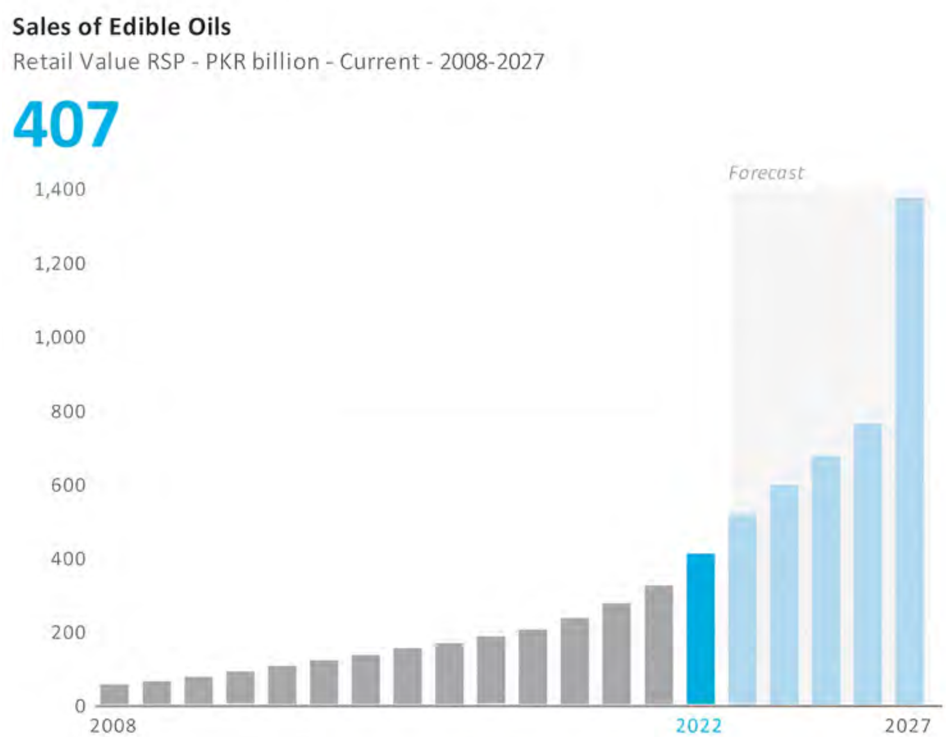
Profit asked the underwriters of Dalda's IPO at Arif Habib Corporation what caused this delay, in response to which they informed, "Pakistan was not part of the IMF program yet, which made it a bad time to go ahead with the IPO. The market conditions were still quite unfeasible. Now that the IMF bailout has been received, the market sentiment has also improved. The company is likely to go for an IPO after the audit of June 2023."

However, it is still unclear as to when exactly one might be able to bid for a share in Dalda. Upon inquiry, Profit was told that "Dalda is conducting audits of their FY2023 accounts and also monitoring the market situation and will go for an IPO on the basis of FY23 audited accounts if the market is feasible."

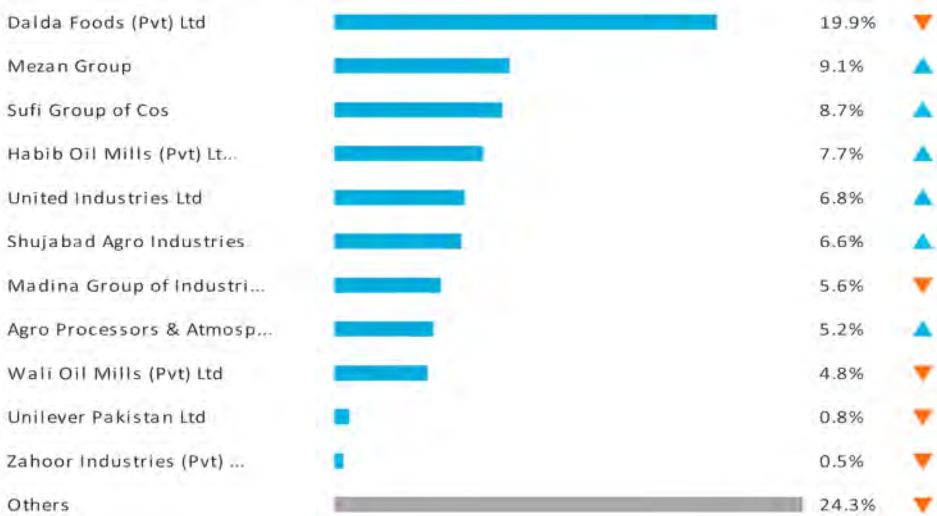
Well, the market has seemingly not been feasible for Dalda to do an IPO for the last six years. The 50 million shares that might be up for sale soon, are expected to be valued between 3.3 billion to 4.6 billion.

Dalda aims to raise capital for one main reason. Expansion of their oil refinery and seed crushing plant at Port Qasim. "IPO proceeds will be utilised towards expansion of existing business i.e. enhancement of seed crushing capacity from 400 tons per day to 900 tons per day," Ammad Tahir, Director Investment Banking at Arif Habib Corporation enlightened Profit.

So, Dalda is essentially aiming to increase their plant's capacity by 125%. According to analyst Waqas Ghani, the capacity utilisation of this plant was already at an optimum 79% in 2022. If Dalda successfully expands their capacity after the IPO, these numbers will increase exponentially. According to Tahir, the demand for edible oil has been growing in the range of 2 to 3% in the past five years. The rise in demand can be attributed to the country's increasing urbanisation and improving health consciousness among consumers. "The annual consumption of edible oil and fats is estimated to be around 4.5 million tons," shared Tahir.



Company Shares of Edible Oils
% Share (NBO) - Retail Value RSP - 2022



Dalda Foods (Pvt) Ltd
Company Performance vs Market
% Growth 2013-2022

Top 5 Companies in Cooking Ingredients and Meals
Retail Value RSP - PKR

The anatomy of the giant

Let's get one thing straight: Dalda is huge. Perhaps a bit too huge for its competitors' liking.

The present market division in Edible Oils between Dalda and its competitors is quite uneven, with Dalda taking up a considerable chunk of the pie already. According to reports released by Euromonitor, Dalda had a 19.9% retail value share in edible oil sales in 2022.

Now, you might be thinking that almost 20% is still not that big of a number. Well, think about it this way; the sheer size of the edible oils market was more than Rs 400 billion in terms of retail value in 2022.

Moreover, no other competitor including Mezan, Sufi and Habib has a market share of more than 10% in the edible oils and alternatives market.

Secondly, Dalda is also the third biggest company in the Dairy Products and Alternatives market after Nestle and Engro, with a 6.1% market share in the formal dairy (packaged milk and dairy products) category. It had a retail value of Rs 36 billion in dairy products, in 2022.

Thirdly, Dalda Foods Ltd is ranked at number 1 in the Cooking Ingredients and Meals category, with Rs 81 billion in sales at retail value and a market share of 18.4%.

What happens when it gets even bigger?

If Dalda's IPO finally sees the light of day and turns out to be a successful one, its competition has another thing coming at them. Competitors have been unable to catch up with Dalda or its rapid growth while it is still a privately owned company.

And when we say competitors, we don't just mean those in the edible oils market, but others like cooking ingredients and dairy products as we have mentioned above. Dalda has its hands in more pots of oil than what first comes to mind.

The IPO will not only help Dalda takeover a bigger share, perhaps even driving some competitors in the edible oil market out of the scene, but the company might also benefit in the several other markets that it operates in.

Considering that it already has a diverse set of operations and sectors within the Food market, Dalda's growth opens questions for the players in the other industries. What happens when Dalda has conquered more of the edible oil market? Will it use the extra resources, and perhaps greater revenues to compete in the other markets it already exists in? ■

OPINION

Ishrat Hussain

Governance system for local governments - Part 1

Devolution, decentralization and financial delegation

Why local government? The World Bank in its 1997 report asserts that governments are more effective when they listen to businesses and citizens, and work in partnership with them in deciding and implementing policy. Where governments lack mechanisms to listen, they are not responsive to people's interests.

The devolution of authority to local tiers of government and decentralization can bring in representation of local business and citizens' interests. The visibility of the results achieved by the resources deployed in a specific geographic area maintains pressure on government functionaries. Public–private partnerships. including NGO–public partnerships have proved to be effective tools in fostering good governance.

The World Development Report (WDR 2004) has argued that the accountability of governments to local communities and marginalized social groups will increase by assigning service delivery functions to politicians who are closer to the people and make them electorally accountable.

The 1973 constitution did specify only two tiers of government – federal and provincial. It is only after the 18th Amendment in 2010 that a new clause – Article 140A – was introduced which states that "Each province shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments."

The Supreme court has asserted and directed the holding of elections of local governments on several occasions. Unfortunately, unlike the detailed distribution of powers between the federal and the provincial governments clearly defined in the constitution, there is no such provision for local governments. This vagueness and ambiguity has been used by the provincial governments which have been struggling to come to some reasonable piece of legislation since 2010 on the functions and powers of this tier.

Logically, once the provincial governments were devolved, adequate powers accompanied by sufficient financial allocations out of the divisible tax pool and grants from the federal government there should have been similar decentralization and delegation to the local governments. How is it possible for Punjab, with a population of 110 million people and 36 districts covering an area of 205000 sq km, to respond to the disparate needs of citizens in the delivery of essential services? DG Khan and Faisalabad, for example, have very different requirements and a uniform one-shoe-fits-all approach that is the characteristic of an overcentralized system won't simply work.

The present culture of concentrating authority in power centres at Islamabad, Lahore, Karachi, Peshawar and Quetta has not only alienated the population living in the peripheries, but reduced its productive potential also – and to no small extent. It is little surprise then that our research found 80 districts whose ordinary citizens are living in miserable conditions, according to the Deprivation Index, and remain almost criminally starved of their most basic needs.

The political parties that introduced this article in the constitution do not realize that meaningful empowerment of communities through decentralization and delegation of authority, in which the local government system plays a crucial role would in the long run promote greater trust, cohesion and harmony in our society and ensure access to basic public services in an efficient and equitable manner. These outcomes will not only help mobilize additional resources at the local level but also improve the efficiency of resource utilization.

The present state of disaffection and discontentment with the government would also be mitigated if public goods and services of everyday use to the citizens become available to them at the grassroots level. Local communities know their problems and their solutions much better than anybody else. It has also been found that for direct delivery by the government, the transfer of responsibility for these services to lower tiers of governance improves access by the poor.

Local government management of schools and hospitals involving communities and demand-side

The writer is a former governor of the State Bank of Pakistan

subsidies to the poor, monitored and under the oversight of government result in a favourable outcome in education and health. As these political parties will also contest elections, they will be represented at that tier of government too. Thus, the credit for citizen satisfaction, efficient allocation of resources and better access to essential services would go to the political parties themselves.

However, the myopic and self-centred approach adopted by all major political parties and resistance to empowerment and strengthening local governments is highly incomprehensible as in actual fact it simply entails the transfer of power from the provincial and national legislators and the ministers to the locally elected nazims or mayors of the districts. Those seeking to preserve their status, clout and influence should opt for local nazim positions rather than becoming MPAs or MNAs.

The 2001-2009 period: It would be useful to make an objective assessment of the local government system that existed in Pakistan between 2001 and 2009. There were many flaws in the 2001 system, including the fact that the functions of law and order, revenue records, and land administration and disaster management should have remained with neutral civil servants and not transferred to the nazims. In that event, the offices of the deputy/assistant commissioner should not have been abolished, thereby diluting the writ of the state.

The executive authority of the newly created post of district coordination officer – DCO – was diluted as magisterial powers were taken away from him or her although s/he was expected to perform duties relating to maintenance of law and order, removal of encroachments, price controls, and the like. As the powers of recruitment, transfers, postings, and disciplinary actions continued to remain vested in the provincial departments, the diarchy proved to be fatal for the effective functioning of the devolved departments.

The gap between law and actual practice remained wide to the detriment of the public at large. Corruption at the district government level could not be contained given the inadequate supervisory arrangements evolved by the provincial governments. The provincial secretaries retained considerable administrative authority over the district bureaucrats and used these powers to undercut the efficacy of the elective nazims. A tripartite confrontational mode in which the provincial ministers and secretaries aligned themselves against the district nazims was responsible for most of the practical difficulties faced by the citizens in access to services.

The degree of fiscal decentralization remained limited because the districts continued to depend upon the province for resources, didn't have the powers to collect new taxes, and didn't have the capacity to levy service or user charges. On the expenditure side, the fixed and growing expense of salaries, wages, and allowances paid to the staff devolved to the district governments (although they continue to be provincial servants) did not leave much surplus for either maintenance, operational, and development expenditure.

Over 90 per cent of expenditure of local governments was financed by transfers from the provincial governments. Lack of enhancement in local fiscal powers was a major weakness in the process of fiscal decentralization.

The share of local governments in the provincial allocable pool was about 40 per cent but their share in total public expenditure was only 13 per cent. Resource mobilization at the provincial and local levels remained substantially under-exploited. Land revenue accounted for less than one per cent of the agricultural income while the effective rate of property taxation of rental incomes was about five per cent as opposed to the statutory rate of 20 per cent or more.

The fragmentation of development projects into small schemes catered to the narrow interests of the local communities without any sense of priority, linkages, or widespread coverage.

Ideally, the transfer of resources from urban to rural areas should be a welcome move but such a transfer in the absence of a district-wide plan without specifying the goals to be achieved and assessing the cost-benefit of the approved schemes can be counterproductive. Urban-rural integration did not recognize or cater to the needs of growing urbanization.

Hasnain concludes on the basis of his study that in order to keep his voters happy, the district nazim would have very little choice but to acquiesce to the pressures exerted by the union and tehsil Nazims to allocate resources equally. The difference between 'equal' and 'equitable' distribution of resources should be understood as it is at the crux of the problem.

Under an 'equal' distribution scheme there is no clear relationship between the needs of the community and the intended interventions. Rich and poor communities will receive the same amount irrespective of the intensity of their need. 'Equitable' distribution takes into account the differences in the initial endowments and conditions of the intended beneficiaries. Those who are poor, marginalized, live in remote or geographically disadvantaged areas and cannot earn decent incomes on their own should receive higher allocations than those who are better off. Public resources thus supplement the private incomes of the poor to help out of poverty.

Two innovative features of the 2001 system are worth mentioning. The reservation of one-third seats for women and others for peasants, workers, minorities, the marginalized classes of our society, was an extremely commendable step. Similarly, the integration of the rural and urban administrative units at the tehsil level would have allowed the rural areas to benefit equally from the larger envelope of pooled resources available to the Tehsil Council. Even if the underlying patron-client relationship persists, the scope for inclusion of clients who were traditionally denied access under a MNA/MPA centred system, will be much wider under a decentralized and devolved system.

However, despite these flaws, empirical studies and surveys point to the net positive achievements of the local government system. The Social Audit Survey 2009-10 of 12,000 households drawn from 21 districts in all four provinces found that 56 per cent favoured the continuation of the local government system with high proportions in Punjab and Sindh. The level of satisfaction with the union councils was 33.8 per cent but the situation regarding support and social acceptability of women's participation seemed to have improved. Sixty per cent of female union councilors were of the view that people in their constituencies were happy with them.

The satisfaction levels of households with various public services varied but by 2009-10 satisfaction with roads, sewerage and sanitation, garbage disposal, water supply, health and education had improved although in percentage terms only less than half of the households expressed satisfaction with the services. Public education, at 58 per cent, showed the highest level of satisfaction.

The Social Policy Development Centre (SPDC) carried out a survey of 12 districts in the four provinces and found that the rate of enhancement in literacy of the population and access to water supply and sanitation had perceptibly increased during the post-devolution period. However, there were no indications of any impact of devolution on health indicators. The process of devolution was beginning to contribute to a quicker improvement in enrolment at the primary level and literacy in Pakistan.

At a micro level, Cheema and Mohmand analyzed a dataset of 364 households in the rural tehsil of Jaranwala in Faisalabad District to gain some insights regarding the types of households which gain and lose through electoral decentralization and whether the change in the post-reform provision between different household types is equitable. The empirical results of their study showed that increased access to development funds and heightened mandates for union nazims have resulted in a significant increase in union level provisions within a short span of time. They further found that the increase in the post-reform provision in nazim villages is less elite-based as it encompasses small peasants, minority peasant biradaris, and non-agricultural castes.

Hasnain reports on the basis of a survey carried out in 2005 that over 60 per cent of the households stated that they would approach a union councilor or Nazim to resolve their problems in comparison to only 10 per cent who said they would approach members of the provincial or national assembly. This reflects the increase in accessibility of policymakers after devolution. A system in which bureaucrats control the development departments provides neither access nor accountability. Having a system of elected nazims and councilors who remain responsive to the needs of their citizens is better because these officials are liable to lose their offices if they do not fulfil their responsibilities and duties. The best one can do with a recalcitrant bureaucrat is to transfer him out of a particular district but that does not resolve the inherent problem of access to the poor.

Cheema, Khawaja and Qadir in their study found that three types of changes were brought about by the 2001 devolution. One, changes in the decision-making level of the service – from provincial bureaucrats to district level bureaucracy. Two, changes in the decision-maker's accountability – from bureaucrats to elected representatives at the district level; and three, changes in the fiscal resources available to the service.

The education department, primary healthcare and the management of district and tehsil hospitals experienced a change of the first type, where the decisions previously made by the provincial secretariat and the provincial cabinet were transferred to the district nazim and executive district officers.

The municipal services provided by the local government, the rural development department, and the public health engineering departments of the provincial government became the sole functional responsibility of the tehsil municipal administration. This was a fundamental change because the power to allocate resources, prioritize projects, and deliver results moved away from 48 provincial departments to 6000 units of local government whereas prior to devolution, the deconcentrated provincial bureaucracy at the district level was accountable to their non-elected provincial secretariat. The 2001 devolution made them accountable to the elected heads of districts and tehsil governments. Under the previous system, the de-facto head of the district administration was the district commissioner who would report to the non-elected commissioner while after devolution he reported to the elected district nazim (mayor).

Their study also found that a 'rule-based' fiscal transfer system between the provinces and the local governments was established under the 2001 Devolution Plan. Approximately 40 per cent of the provincial consolidated fund was distributed among local governments with due weightage given to backwardness in order to ensure some form of equity across districts in the allocation of development funds. The other innovation was that these budgetary transfers did not lapse at the end of the year but continued to be retained by the relevant local governments, providing for flexibility and presumably some improvement in the efficiency of resource allocation

Proposed governance system for local governments: In light of the experience of the 2001 LGO, let us now examine what needs to be done to avoid the weaknesses of the previous system and implement the spirit of Article 140A using political, administrative and financial dimensions of devolution. ■

The remainder of this piece will be published in next week's issue.

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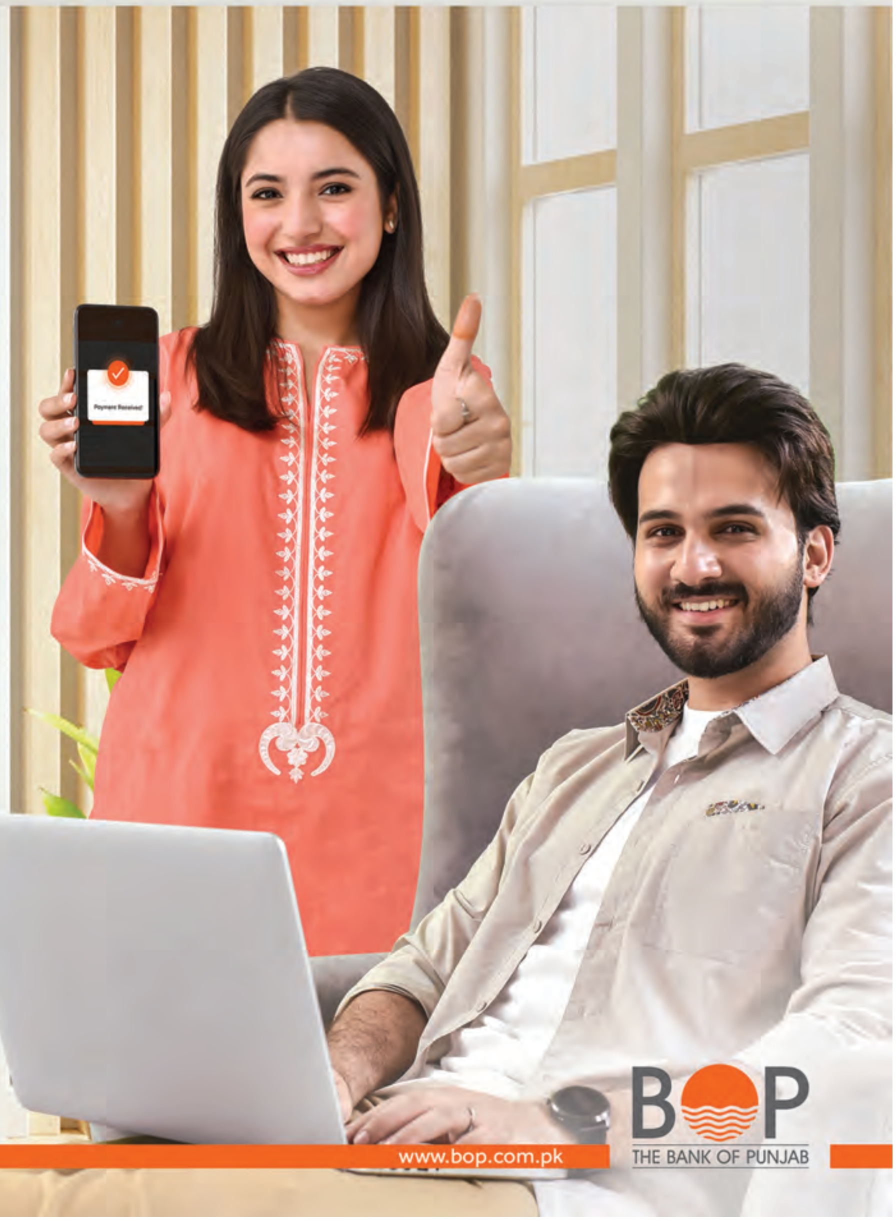

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