# Business assessment report- An investigation of eight most widely practiced businesses by Kashf's clients.

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## Hypothesis

Kashf's General Loans (GL) provides opportunity to various low-income households to increase the productivity of their small businesses/enterprises. The GL acts as an injection of capital that allows households to a) setup a productive income generating economic activity or b) increase the productivity of their existing economic activity. Hence, the GL acts, primarily, as a catalyst that increases the income-generating capacity and ultimately the living standards of a household.

This report aims to analyse the businesses/enterprises GL clients undertake and tabulate the returns they earn from them. In particular, this report will analyse whether the return on investment is less than, equal to more than the 20 per cent service charge the clients pay on the loan they take and whether these activities will sustain over the medium term in terms of their potential for growth.

## Methodology

In order to test this hypothesis a methodology was developed that aimed to encompass relevant details about client businesses so that accurate data on business returns can be formulated. The methodology employed to understand these businesses and their returns is as follows:

Data on the most commonly undertaken business by Kashf's clients was gathered from five mature branches, namely Siraj Pura , Bedian , Chungi , Green Town and Bhaghban pura. This data was tabulated and a list of eight most popular businesses was drawn; these are those businesses that are most commonly practiced by Kashf's clients. They are:

- Plastic Moulding
- Shoe making
- Jewelry making
- Hand embroidery
- Running a Grocery (parchoon) shop
- Tailoring / stitching clothes
- Running a beauty parlour
- Vegetable selling

For the purpose of standardization, all of the businesses assessed were in their third loan cycle and had equal amounts of capital injections from Kashf's general loan. This enabled us to homogenize the data across the range of businesses under study. Data collection was carried out by conducting interviews with clients. This type of interviewing facilitates open-ended discussions and important pointers such as type of management and entrepreneurship and credit input from sources other than Kashf's GL can be noted for more accurate risk assessment.

## Challenges faced in collecting data

Since a business assessment is based upon detailed information about the financial situation of the client it is important to know figures such as monthly salary,

expenditures, costs of goods sold etc. Most of the clients felt uncomfortable talking about their financial situation and the intricacies of their businesses. They were fearful that if their income was substantially high Kashf might plan to increase the service charge; they also feared that if it was revealed that their business was not doing well then the organization might not give them a loan in the next year. Hence, the basic challenge was convincing the client that questions were asked only for research purposes and would in no way effect their loan cycles.

In some cases, it was hard to get in touch with the sons or husbands of Kashf's clients since they worked in workshops or centers away from the client's home. In these cases it was difficult and time consuming to not only convince the client of the authenticity and purpose of this study but also manage to meet her husband/son who were better aware of the situation of their business.

## Assumptions

In order to gauge the exact worth of the business it was essential to impute the cost of labour and rent. In those cases where the business was run inside the house and employed family members as labour an imputed or proxy cost was generated to estimate the actual operating costs of the business. These proxy costs were estimated by researching rental prices for rooms in the areas where clients ran their businesses and cost of skilled as well as unskilled labour employed in the business. Two to three estimated costs were obtained from branch managers and loan officers of the selected areas and an average proxy cost was imputed.

## Business assessment of the most widely practiced businesses of Kashf's clients

Following is a business assessment of eight businesses undertaken by Kashf's clients. An analysis of their cash flow, profitability and risk assessment shows that of the eight businesses only two businesses (artificial jewelry manufacturing and running of beauty parlour) are expected to close down by next year or in the medium term primarily as a result of their inability to cover their operating costs. The other six businesses are in good financial health and are expected to continue generating profits in the medium term. All the businesses are well-managed and only two businesses undertake credit sales. None of the businesses buy raw material on credit.

## Manufacturing: Manufacturing of plastic funnels/boxes

Sajida Baji has been utilizing Kashf's microfinance services for a little over 3 years now. She resides in Shaadi pura – a grim locality near Siraj pura marked by overflowing open drains, garbage heaps and stagnant puddles of rain water. This year her general loan amount is Rs. 18,000 and the overhead monthly service charge is Rs. 300. The loan amount has been utilized in a plastic moulding business run by her husband. He handles the technicalities of manufacturing and production whilst Sajida contributes to the business by providing it with credit injections from Kashf's loans.

The business was established three years ago when Sajida first took Kashf's general loan and has been running smoothly with cash injections of Rs. 10,000 and Rs. 13,000 in the

subsequent 2 years. She has not taken loans from any other source and has not invested capital other than the one from Kashf's GL in the business. This means that over the last three years Sajida Baji has invested a total loan amount of Rs. 30,000 into her husband's business. This report is going to assess the returns on Sajida's business investment and determine whether these returns cover the monthly service charges.

**Financial Analysis**

| | |
|---|---|
| **Monthly Sales** | |
| *Keef* | 72,000 |
| *Dubi* | 8000 |
| **Credit Sales** | 0 |
| **Total Sales (Rs.)** | **80,000** |
| | |
| **Monthly Costs** | |
| **Cost of Goods Sold(COGS)** | |
| *Mortex* | 27,600 |
| | |
| **Monthly Gross Profit (Rs.)** | **52,400** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 3500 |
| Rent | 1500 |
| Utlity Bills | 500 |
| Depreciation cost of machinery | 4500 |
| Transport | 1000 |
| Service charge for Kashf GL | 300 |
| **Monthly Total Expenses** | **11300** |
| | |
| **Net Profit (Rs.)** | **41,100** |
| | |
| **Net Profit Margin (%)** | **51.375** |
| **Gross Profit Margin (%)** | **65.5** |

Sajida's husband manufactures plastic funnels, also known as *keefs*, and plastic boxes through the process of plastic moulding. The process involves melting of plastic sheets and shaping the plastic in moulds to form specified containers of shapes. His liaison with retail dealers entails that he sell them a fixed number of manufactured products on a weekly basis. The plastics funnels are more in demand than the small boxes and the sale of the two products amounts to Rs. 80,000 per month. Moreover, Rs. 27,600 is spent on buying Mortex, a material used is the making of the mould and constitutes the cost of goods sold (COGS). Utility bills of the workshop are Rs. 500 per month, transport costs in buying material and selling manufactured products to dealers is Rs. 1000 and the service charge for the loan invested in the business is Rs. 300 per month. Adding these expenses to the imputed cost of labour and rent and the depreciation cost of machinery gives the total expenses for the business which are Rs.11,300 per month.

With these figures the gross profit and net profit for the business are Rs. 52,400 and Rs. 41,100 respectively. Similarly, the gross profit margin and net profit margin are 65.5% and 51.3% respectively. The gross profit margin is a key indicator of a business's profitability and in Sajida's plastic moulding business it is clear that with a gross profit margin of 65.5% the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. Furthermore, a net profit margin of 51.3% indicates that for every Rs. 100 generated in sales Sajida's business has a net profit of Rs. 51.3. This means the business is effectively converting revenue into actual profit after taking care of all the expenses.

**Business Prospects**

A liaison with dealers has ensured that the sales of plastic funnels and boxes remain steady over the whole year. Therefore, it is safe to assume that with steady sales and maybe a marginal increase in COGS this business will continue to generate a net profit margin of at least 50% over the next year and the business will remain financially healthy. Moreover, in a six member household with two earning members and three school-going children, Sajida's business, according to Sajida herself, is bringing in enough revenue to support a comfortable standard of living: her children are well fed and clothed and attend school regularly, the family has recently bought a television and are planning to set up a proper *pucca* kitchen in the near future.

## Manufacturing: Shoe making (Manufacturing *Peshawari Chappal)*

Sakina Baji has been Kashf's client since three years. Since the first year she has been investing the general loan in her family's shoe making business. This business was run by her husband in the first two years and was not as profitable as Sakina and her husband intended it to be. Since the last one year the business has been under the supervision of their eldest son who decided to streamline the manufacturing process and now manufactures only men's *peshawari chappal* instead of a whole range of women's *chappals* which were not selling. The results have been encouraging and the returns on the business have been high. The family resides in Naseerabad in a three bedroom house and has ten members, four of whom are working.

Sakina invested Rs. 6,000, Rs. 10,000 and Rs. 14,000 of Kashf's general loan in the shoe making business. She has not taken loans from any other MFI or money lender and neither has she invested any capital other than the one from Kashf's loans in the business. This means that a total of Rs. 30,000 has been invested in the business in the last three years. An assessment of the returns on the business for a one month period is as follows.

**Financial Analysis**

| | |
|---|---|
| **Monthly Sales** | |
| *Peshawari Chappal* | 101,250 |
| **Credit Sales** | **100,000** |
| **Total Sales (Rs.)** | **201,250** |

| | |
|---|---|
| **Monthly Costs** | |
| **COGS** | |

| | |
|---|---|
| Artificial Raxin | 5000 |
| Cloth | 2000 |
| Leather | 4000 |
| PBC | 6000 |
| Solution | 1000 |
| Glue | 2500 |
| Buckle & Rings | 1200 |
| Flexible sheet | 3000 |
| Thread | 100 |
| **Total COGS (Rs.)** | **24800** |
| | |
| **Monthly Gross Profit (Rs.)** | **176,450** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 90000 |
| Rent | 1500 |
| Utility Bills | 800 |
| Transport | 500 |
| Service charge for Kashf GL | 300 |
| **Total expenses (Rs.)** | **93100** |
| | |
| **Monthly Net Profit (Rs.)** | **83,350** |
| | |
| **Gross Profit Margin** | **87.677019** |
| **Net Profit Margin** | **41.416149** |

The total monthly sales of *Peshawari Chappals* are Rs. 201,250 out of which Rs. 100,000 are credit sales. There are nine types of materials used in the making of these *chappals* and the total cost of good sold in one month come out to be Rs. 24,800. The gross profit from the business for one month, hence, comes out to be Rs. 176,450. Sajida's business also employs eight labourers and together with other expenses of utility bills, transport and service charge on Kashf's general loan, the total expenses come out to be Rs. 93,100. Hence, the monthly net profit for the business comes out to be Rs. 83,350.

The gross profit margin and net profit margin are 87.7 % and 41.5 % respectively. The gross profit margin is a key indicator of a business's profitability and in Sakina's shoe manufacturing business it is clear that with a high gross profit margin of 87.7 %, the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. Furthermore, a net profit margin of 41.5 % indicates that for every Rs. 100 generated in sales Sakina's business has a net profit of Rs. 41.5. This means the business is converting revenue into actual profit after taking care of all the expenses.

**Business prospects**

Moreover, Sakina's son has established an understanding with three retail dealers at the *Masti Gate* market and receives a fixed number of orders every week. Considering that the orders have been coming in steadily over the last one year, it is safe to assume that

sales will not fall and net profit margin will remain at or around 41% over the next year. Also, the streamlining initiatives undertaken by Sakina's son and the positive changes brought about by those initiatives foretell that the business will continue to function profitably with this entrepreneurship. Hence, it is safe to forecast that Sakina's shoe-making business will generate profit over the next one year and will not shut down.

## Manufacturing: Manufacturing of Artificial Jewelry

Jewelry making is one of the popular business' Kashf clients undertake. Raheela baji from Mohalla Shah Gurhbaad has been taking Kashf's general loan over the past four years and investing it in her son's jewelry making business. The business involves manufacturing of copper rings in different sizes and shapes and is run by her eldest son. The workshop is inside the family owned house and the business employs two other labourers besides Raheela's son. The manufacturing is done by hand and does not involve the use of machinery.

The business had existed before Raheela started borrowing from Kashf. However, since the past three years Raheela Baji has been investing Kashf's general loan in her son's jewelry making business. This means that there have been three injections of capital to the business amounting to a total of Rs. 30,000 over the last three years. Following is an assessment of the returns of the business for a one month period.

### Financial Analysis

| | |
|---|---|
| **Monthly Sales** | |
| Rings/*Challas* | 35000 |
| **Credit Sales** | **0** |
| **Total sales (Rs.)** | **35000** |
| | |
| **Costs** | |
| **COGS** | |
| Copper | 8500 |
| Silver strip/*Peetal* | 4000 |
| *Kali tanka* | 4000 |
| **Total COGS (Rs.)** | **16500** |
| | |
| **Monthly Gross Profit (Rs.)** | **18500** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 12000 |
| Rent | 2000 |
| Utility Bills | 0 |
| Transport | 500 |
| Service charge for Kashf GL | 300 |
| **Total Expenses (Rs.)** | **14800** |
| | |
| **Monthly Net Profit (Rs.)** | **3700** |

| | |
|---|---|
| **Gross Profit Margin** | **52.85714** |
| **Net Profit Margin** | **10.57143** |

The total monthly sales for the business are Rs. 35,000. The cost of goods sold is a sum of the cost of copper, silver strip/*peetal* and *kaali tanka* used in making artificial rings and come out to be Rs. 16,500 per month. Consequently, the monthly gross profit for the business is Rs. 18,500. The operating cost of the two labourers employed plus the imputed cost of labour for Raheela's son is Rs. 12,000 per month. Adding the imputed cost of rent, utility and transport bills and the service charge for Kashf's General Loan, the total operating cost/expenses for one month comes out to be Rs. 14,800 and the net profit per month is a considerably low Rs. 3700.

The gross profit margin and net profit margin are 52.8 % and 10.5 % respectively. The gross profit margin is a key indicator of a business's profitability and for Raheela's jewelry manufacturing business it is clear that with a gross profit margin of 52.8 %the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. However, a net profit margin of 10.5 % indicates that for every Rs. 100 generated in sales Raheela's business has a net profit of Rs. 10.5. This means the rate at which her business converts revenue into actual profit after taking care of all the expenses is low; the operating costs/expenses are high and even though the business is currently making a nominal profit, its financial health seems to be precarious.

**Business Prospects**

In Raheela's business, high operating costs are largely a product of high labour costs. Raheela's son does not want to increase his operating costs further by hiring new labour and cannot take up new orders because the number of men presently working for him cannot take up more work than they already have. Consequently, he cannot take up new orders from fresh retailers. Keeping in view the information that sales are not expected to rise in the near future and labour costs will increase, a risk assessment for this business indicates that if current indicators persist and operating costs do not go down substantially the business will collapse by the next year.

## Cottage Industry: Embroidery - Hand embroidery of cloth

Zakia baaji is a robust woman who has been single-handedly running a hand embroidery business since the last four years. She buys cloth from the market, embellishes it with various embroidery designs and sells it to a number of boutiques in Anarkali and Ichraa. It has been three years since she has been borrowing from Kashf and all of the cash injections have been made to this business. She has not borrowed from any other source and although she invested an initial amount of savings in the first year of business, she has not invested money from any source other than Kashf's GL in the last three years.

The total amount invested into the business by borrowing from Kashf's general loan in the last three years is Rs. 30,000. The cash injection in the first year was Rs. 6,000 and it has been Rs. 10,000 and Rs. 14,000 in the subsequent years. An assessment of the returns on Zakia's business based on her cash flows for one month is as follows.

## Financial Analysis

| | |
|---|---|
| **Monthly Sales** | |
| Hand embroidered cloth | 80000 |
| **Credit sales** | **0** |
| **Total Sales (Rs.)** | **80000** |
| | |
| **Monthly Costs** | |
| **COGS** | |
| Mooti | 1000 |
| Stones | 6000 |
| Cut danna | 1500 |
| Cloth | 2500 |
| Thread | 250 |
| **Total COGS (Rs.)** | **11250** |
| | |
| **Monthly Gross Profit (Rs.)** | **68750** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 50000 |
| Rent | 0 |
| Utility bills | 0 |
| Transport cost | 1200 |
| Service charge for Kashf GL | 300 |
| **Total Expenses (Rs.)** | **51500** |
| | |
| **Monthly Net Profit (Rs.)** | **17250** |
| | |
| **Gross Profit Margin** | **85.9375** |
| **Net Profit Margin** | **21.5625** |

The total monthly sales of hand embroidered clothes are Rs. 80,000. There are five types of materials used in the making of these hand embroidered clothes and the total cost of goods sold in one month comes out to be Rs. 11,250. The gross profit from the business for one month, hence, comes out to be Rs. 68,750. Zakia's business also employs a hundred part-time labourers and together with other expenses of utility bills, transport and service charge on Kashf's general loan, the total expenses come out to be Rs. 51,500. Hence, the monthly net profit for the business comes out to be Rs. 17,250.

The gross profit margin and net profit margin are 86% and 21.5 % respectively. The gross profit margin is a key indicator of a business's profitability and in Zakia's hand embroidery business it is clear that with a high gross profit margin of 86 % the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. Furthermore, a net profit margin of 21.5 % indicates that for every Rs. 100 generated in sales Zakia's business has a net profit of Rs. 21.5. This means the business is converting revenue into actual profit after taking care of all the expenses.

**Business Prospects**
Zakia has handled her business remarkably well. Her entrepreneurial skills have helped her in keeping the business financially stable over a period of three years. Moreover, she sells a wide range of embroidery work and even though some of the work is demand based and seasonal, most of the embroidery work types can be sold to boutiques and in the market all year round. Assuming that the cost of expenses do not rise beyond a nominal degree and sales do not fall, keeping in mind Zakia's entrepreneurial skills, a risk assessment of her business indicates that it will continue to generate a net profit of at least 20% in the coming year and will remain financially healthy.

## Services: Grocery (*Parchoon*) Shop

Zoohra Baji and her husband Abdul Rashid have been running a *parchoon* shop since the last five years. They are a family of four and, according to Zoohra Baji, the income generated from the *parchoon* shop provides for a comfortable living. Zoohra baji has been Kashf's client for three years and plans to borrow Rs. 18,000 from Kashf next year as well.

She or her husband have not borrowed from any other MFI or money lender and do not use savings to invest in the shop. The only capital injections made in the business in the last three years from Kashf's GL. In the last three years the total amount invested into the business by Zoohra Baji through borrowing from Kashf's general loan is Rs. 30,000. The cash injection in the first year was Rs. 6,000 and it has been Rs. 10,000 and Rs. 14,000 in the subsequent years. An assessment of the returns on Zoohra baji's business based on her cash flows for one month is as follows.

### Financial Analysis

| | |
|---|---|
| **Monthly Sales** | |
| Grocery | 24500 |
| **Credit Sales** | **0** |
| **Total Sales (Rs.)** | **24500** |
| | |
| **Monthly Costs** | |
| **COGS** | |
| Grocery products | 10000 |
| **Total COGS (Rs.)** | **10000** |
| | |
| **Monthly Gross Profit** | **14500** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 1200 |
| Rent | 1000 |
| Utility Bills | 150 |
| Transport | 200 |
| Service charge for Kashf GL | 300 |
| **Total Expenses (Rs.)** | **2850** |

| | |
|---|---|
| **Monthly Net Profit (Rs.)** | **11650** |

| | |
|---|---|
| **Gross Profit Margin** | **59.18367** |
| **Net Profit Margin** | **47.55102** |

The total monthly sales from her *parchoon* shop are Rs. 24,500. There are numerous grocery products sold at the shop and the total cost of the products sold in one month come out to be Rs.10,000. The gross profit from the business for one month, hence, comes out to be Rs. 14,500. Adding the imputed cost of labour and rent to other expenses of utility bills, transport and service charge on Kashf's general loan, the total expenses for running the business come out to be Rs. 2,850. Hence, the monthly net profit for the business comes out to be Rs. 11,650.

The gross profit margin and net profit margin are 59 % and 47.5 % respectively. The gross profit margin is a key indicator of a business's profitability and in Zoohra's *parchoon* shop business it is clear that with a high gross profit margin of 59 % the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. Furthermore, a net profit margin of 47.5 % indicates that for every Rs. 100 generated in sales Zakia's business has a net profit of Rs. 47.5. This means the business is converting revenue into actual profit after taking care of all the expenses.

**Business Prospects**

Zoohra baji has been managing the grocery shop wisely. She refuses to sell even the smallest item on credit and handles all transactions herself. Her management skills have helped her in keeping the shop running smoothly over a period of three years. The shop faces competition from two other *parchoon* shops in the neighborhood. Nonetheless, sales remain regular throughout the year with few or no bad days. Assuming that the revenue will increase with an increase in the cost of goods sold and keeping in mind Zoohra baji's management skills and decision-making capacity, a risk assessment of her business indicates that it will continue to generate a net profit of at least 47% in the coming year and will remain financially healthy.

## Services: Tailoring / Stitching clothes

Parveen Baji lives near the Bhatta Chowk on Bedian Road. She has been borrowing from Kashf since the last three years and has established a tailoring business with this money. The business is small scale and is run by both her husband and herself. It is, however, a supplementary business for the family since her husband is running a large-scale machine embroidery business as well.

Parveen Baji has been investing money from Kashf's loan into her tailoring business only. Since the past three years she has borrowed thrice and the total amount borrowed and is Rs. 30,000. Out of this capital Rs. 7500 was required to buy two motorized sewing machines. The rest of the capital has been invested in the business. An assessment of the returns on the business based on cash flows for one month is as follows.

## Financial Analysis

| | |
|---|---|
| **Monthly Sales** | |
| Stitched dresses | 8084 |
| **Credit Sales** | **0** |
| **Total Sales (Rs.)** | **8917** |
| | |
| **Monthly Costs** | |
| **COGS** | |
| Cloth | 800 |
| *Bookram* | 300 |
| Thread | 212 |
| **Total COGS (Rs.)** | **1312** |
| | |
| **Monthly Gross Profit (Rs.)** | **7605** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 2500 |
| Rent | 0 |
| Utility Bills | 200 |
| Depreciation cost of sewing machines | 1500 |
| Transport | 0 |
| Service charge for Kashf GL | 300 |
| **Total Expenses (Rs.)** | **4500** |
| | |
| **Monthly Net Profit** | **3105** |
| | |
| **Gross Profit Margin** | **85.28653** |
| **Net Profit Margin** | **34.82113** |

The total monthly sales from stitching clothes are Rs. 8,917. The cost of goods sold per month is Rs. 1,312. The gross profit from the business for one month, hence, comes out to be Rs. 7,605. Adding the imputed cost of labour and rent to other expenses of utility bills, transport, depreciation cost of machines and service charge on Kashf's general loan the total expenses for running the tailoring business come out to be Rs. 4,500. Hence, the monthly net profit for the business comes out to be Rs. 3,105.

The gross profit margin and net profit margin are 85.2 % and 35 % respectively. The gross profit margin is a key indicator of a business's profitability and in Parveen Baji's tailoring business it is clear that with a high gross profit margin of 85.2 % the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. Furthermore, a net profit margin of 35 % indicates that for every Rs. 100 generated in sales Parveen's business has a net profit of Rs. 35. This means the business is converting revenue into actual profit after taking care of all the expenses.

**Business Prospects**

Although Parveen's is a small-scale business earning her only Rs. 4,605 per month, it is in excellent financial health. The gross and net profit margins indicate that the business is cost-effective and lucrative. Also, Parveen is adept at management. She takes only as many orders as she can stitch in the given time and ensures that stitched clothes are delivered on time. Moreover, since she has developed a sustainable relationship with a clientele based in the upper income residential area of D.H.A. Based on her good work and reputation she has survived competition from tailoring shops in D.H.A and local tailors in her own residential area. Keeping in view her management skills, the business's profit margins Parveen's will to expand the business further by taking another loan from Kashf next year, a risk assessment of the business indicates that it is stable and will continue to generate profits next year as well.

## Services: Running a Beauty Parlour

Yasmin Baji established a beauty parlour near her home three years ago with the money from Kashf's general loan. It is situated in the commercial area of Bhatta chowk, Bedian road and caters to women only. Yasmin runs the beauty parlour single handedly and contributes to the household income along with her husband who runs a mobile shop nearby.

Yasmin Baji has been investing money from Kashf's loan into her beauty parlour business as well as her husband's mobile shop. Since the past three years she has borrowed thrice and the total amount borrowed is Rs. 30,000, whilst the amount invested into her beauty parlour is 20,000 in three years time. An assessment of the returns on the business based on cash flows for one month is as follows.

### Financial Analysis

| | |
|---|---|
| **Monthly Sales** | |
| Providing services | 8542 |
| **Credit Sales** | **0** |
| **Total Sales (Rs.)** | **8542** |
| | |
| **Monthly Costs** | |
| **COGS** | |
| Beauty products | 2700 |
| **Total COGS (Rs.)** | **2700** |
| | |
| **Monthly Gross Profit (Rs.)** | **5842** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 1500 |
| Rent | 2000 |
| Utility Bills | 700 |
| Transport | 250 |
| Service charge for Kashf GL | 300 |
| **Total Expenses (Rs.)** | **4750** |

| | |
|---|---|
| **Monthly Net Profit** | **1092** |

| | |
|---|---|
| **Gross Profit Margin** | **68.391477** |
| **Net Profit Margin** | **12.783891** |

The total monthly sales from providing services to women are Rs. 8,542. The cost of goods sold per month is Rs. 2700. The gross profit from the business for one month, hence, comes out to be Rs. 5,842. Adding the imputed cost of labour and rent to other expenses of utility bills, transport and service charge on Kashf's general loan the total expenses for running the beauty parlour come out to be Rs. 4,750. Hence, the monthly net profit for the business comes out to be Rs. 1,092.

The gross profit margin and net profit margin are 68 % and 13 % respectively. The gross profit margin is a key indicator of a business's profitability and in Parveen Baji's tailoring business it is clear that with a gross profit margin of 68 % the business has considerable control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. A net profit margin of 13 %, however, indicates that for every Rs. 100 generated in sales Yasmin's business has a net profit of Rs. 13. The net profit margin indicates that the profit generated in Yasmin's business is barely enough to cover the expenses. If one or more of the operating costs increase the business will not be able to generate enough revenue to cover the total costs and still make a profit.

**Business Prospects**

Keep the above situation in view we can draw a risk assessment of the business. Even though it is generating a net profit of 13 % currently, the situation may become precarious next year with inflation in the cost of rent and labour. Yasmin realizes that her business faces competition from beauty parlours nearby but is hard-pressed for money and cannot expand or improve upon the quality of services she provides at her beauty parlour. Therefore, we can conclude that even though the business is generating net profit currently, it is liable to flounder in the near future.

## Trade: Vegetable & fruit selling

Yasmeen Baji runs a vegetable and fruit shop in front of her house on Bedian road. She established the shop five years ago and it has been three years since she has borrowed from Kashf and invested in the shop. According to Yasmeen, the loan helped her in sustaining the business when it had stopped generating profits and no other option but to close the shop. The reason for decreasing profitability was that the shop was generating only enough revenues to cover the costs and the family could not generate any income through it.

**Financial Analysis**

| | |
|---|---|
| **Monthly Sales** | |
| Sales from selling vegetables & Fruits | 10250 |
| **Credit Sales** | **16000** |
| **Total Sales (Rs.)** | **26250** |

| | |
|---|---|
| **Monthly Costs** | |
| **COGS** | |
| Cost of buying vegetables and fruits | 12000 |
| **Total COGS (Rs.)** | **12000** |
| | |
| **Monthly Gross Profit (Rs.)** | **14250** |
| | |
| **Operating Costs/Expenses** | |
| Labour | 1000 |
| Rent | 500 |
| Utility Bills | 600 |
| Transport | 0 |
| Service charge for Kashf GL | 300 |
| **Total Expenses (Rs.)** | **2400** |
| | |
| **Monthly Net Profit** | **11850** |
| | |
| **Gross Profit Margin** | **54.28571429** |
| **Net Profit Margin** | **45.14285714** |

The money from Kashf's loan has only been invested in her vegetable and fruit shop. Since the past three years she has borrowed thrice and the total amount borrowed, and consequently invested into the business, is Rs. 30,000. An assessment of the returns on the business based on cash flows for one month is as follows.

The total monthly sales from selling vegetables and fruits are Rs. 26,250. Out of this Rs. 16,000 are credit sales that are not recovered before 4 – 6 months. The cost of goods sold per month is Rs. 12,000. The gross profit from the business for one month, hence, comes out to be Rs. 14,250. Adding the imputed cost of labour and rent to other expenses of utility bills, transport and service charge on Kashf's general loan the total expenses for running the shop come out to be Rs. 2,400. Hence, the monthly net profit for the business comes out to be Rs. 11,850.

The gross profit margin and net profit margin are 54% and 45 % respectively. The gross profit margin is a key indicator of a business's profitability and in Yasmeen Baji's fruit and vegetable shop it is clear that with a gross profit margin of 54 % the business has efficient control over its COGS; there is sufficient margin to cover the total expenses including Kashf's service charges. Furthermore, a net profit margin of 45 % indicates that for every Rs. 100 generated in sales Yasmeen's business has a net profit of Rs. 45. This means the business is converting revenue into actual profit after taking care of all the expenses.

**Business Prospects**

However, credit sales are adversely affecting the financial health of Yasmeen's shop. She has immense trouble recovering the money and does not want to put a stop to credit sales. She is easy going in this matter and says, "If I don't help my neighbours and relatives

who will?" Her shop does have the advantage to being the only shop selling fruits and vegetables in the locality and despite the credit sales Yasmeen generates enough revenue through her shop to cover costs and supplement her husband's income at home. However, the situation may turn precarious if Yasmeen cannot recover the credit sales even in four months time. In this case, her business can run into the same situation as was encountered before she started borrowing from Kashf. Increased credit sales are a threat to business sustainability and profitability. Therefore, a risk assessment of her business would be that even though it is stable at the moment it is likely to encounter decreased profitability in the medium term and may shut down in the next two years.

## Conclusion

An investigation of the most popular businesses undertaken by Kashf clients reveals interesting points. We can see that of the eight businesses at least five are in good financial health. Plastic moulding, show manufacturing, hand embroidery, running of *parchoon* shop and tailoring are generating net profit margins of between 50% and 20%. There risk assessment reveals that in the medium term these businesses will continue to generate profits and will remain financially stable. The two businesses of manufacturing of artificial jewelry and running a beauty parlour are generating a net profit margin of between 10% and 12%. Their risk assessment reveals that they will not be able to survive by next year primarily because of high operating costs which are manifest in their low net profit margins. Vegetable and fruit selling is the last of the eight businesses which is generating substantial net profit with a net profit margin of 45%. However, risk assessment of this business reveals that despite the current profitability, indicators such as entrepreneurship and management reveal that the business will not survive in the medium term in face of high credit sales.

It is concluded that of the eight businesses this study analyzed, five have been success stories and forecasts for the medium term show that these businesses will continue to be profitable in the coming years. This study is, therefore, indicative of the fact that injections of micro-credit not only increase the productivity of a small business but also increase its sustainability over the medium term. Once a credit impetus is received small businesses such as the ones analyzed in this study tend to produce higher returns. These returns continue to increase as more credit is added and the business itself also increases in scale. Furthermore, this financial analysis reveals that small entrepreneurs have strong business acumen and can manage their businesses well but require credit injections.

This study also helps Kashf understand the role its microfinance services are playing for the small enterprises its clients run. It clarifies the returns some of the most popular businesses make and also explains the extent up to which the service charge is covered by these returns. As a microfinance institution Kashf can learn from this study that regular and timely credit injections are crucial for the productivity of a business and that it is paramount to continue providing these credit injections in the medium term if the enterprise has to generate returns and grow.