

Global perspectives

CorporateWorld

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Basmati, banks & cement

UK conglomerate Bestway has taken London's North Circular to the Khyber Pass...and back again.

Britain's largest trade-only wholesaler, owner of Pakistan's second-largest cement company and majority owner of Pakistan's number-two bank: Bestway Group looks simultaneously like an iconoclastic emerging markets investment group and one of the great houses that once dominated British trade in the post-war period.

Or to Asia watchers, one of the diversified conglomerates that loom large in China, India, Japan and Korea. And that's just fine with Bestway CEO Zameer Choudrey. When asked if he sees his company as more like Wal-Mart or the Tata Group, Choudrey smiles and says, "The Tata Group – in fact Ratan Tata is one of my role models, although I've never sought him out, I'm not a groupie."

The Tata way has paid off. In its June 2012 annual results, Bestway Group's annual turnover rose to £2.5bn from £2.3bn. >>





The group employs more than 24,000 employees globally and is the UK's 14th biggest private company and seventh largest family business.

Diversification has been a welcome cushion against slower growth in the UK. "Lucky we are a group – lately cement has been coming good and banking is growing well which helps us to carry the weight when we aren't making as much headway at home," Choudrey explains.

Profits before-tax in the wholesale business were down 3.3% at £58.2m on steady trading which saw turnover up 5.7% at £2.3bn. But with before-tax profits for the group as a whole up 45.5% to £173.2m, any argument about the logic of diversification overseas and by sector is won at the bottom line.

Architect of diversification

Choudrey is the architect of Bestway's diversification strategy, which in 2013 will see the group gain its first presence in Tanzania through its investment in United Bank Ltd.

"We are fortunate we're not a plc because our emerging market investments wouldn't work if our performance was judged every quarter," says Choudrey. "To be in emerging economies you have to be a long-term player, you need patience especially in a cyclical business like cement."

"Some investments have a long gestation period and that's the main challenge we face as an emerging-markets investor."

Back in 1995 when Choudrey first began diversifying abroad, Bestway was a bustling, medium-sized, cash-and-carry wholesaler run by founder Sir Anwar Pervez, who continues at the helm today as Group Chairman. Then Finance Director, Choudrey was asked to look at new avenues for growth.

"Initially we started trading in basmati rice in 1990. That got us more familiar with business in Pakistan and we're now the biggest importer of basmati rice into the UK under the White Pearl brand," he says.

"We then had the opportunity to bid for a cement plant being privatised by the Pakistani government but our research wasn't up to it and we didn't win.

"After a while we lost patience waiting for another plant to be privatised and commenced construction on a greenfield site in 1995."

Bestway now operates four plants in Pakistan and despatched 4.2m tonnes of cement in the year to June 2012. The company's investments in cement, and later banking, rest on Pakistan's impressive demographic and growth statistics which represent substantial opportunities for investors able to tolerate a risky political and security environment.

Around 60% of Pakistan's population of 175 million is under 25 years old: the sort of demographic statistic that made BBC – banks, breweries and cement – a popular emerging market investment strategy. Young people mean high demand for



60%

Pakistan's population under 25 years old



housing, banking and, if culturally appropriate, beer.

"We expect Pakistan will turn in growth of around 4% in 2013 but the long-term average trend is around 6.5%," says Choudrey. "Cement grows at four-to-five percentage points above GDP so we expect to average around 10–11% annual growth."

The company's strategy to deal with Pakistan's security situation is to keep a low political profile. "We have not annoyed anyone and don't meddle in politics," Choudrey says. Bestway's status as Pakistan's biggest outward direct investor gives the group some protection from political interference.

"We've been quite lucky, occasionally we have damage to the windows or equipment of a bank branch after a political demonstration," Choudrey says. "In the medium term, we think the security outlook for Pakistan is good. With the Americans drawing down in Afghanistan the level of violence in Pakistan should subside and law and order should improve," he says.

"Any remaining violence would be localised to Afghanistan."

Bestway's cement is also exported throughout the Middle East and South Africa. The company is the largest cement exporter to Afghanistan and



PRIVATE AND PROUD

"In Britain, there is still very much a family and mid-sized business culture in wholesaling," says Bestway Group's CEO, Zameer Choudrey. "British businesspeople don't feel that you must have an IPO to 'prove' your idea."

While Bestway Cement and United Bank are listed on the Karachi Stock Exchange and United Bank Global Depository Receipts trade in London, the Bestway CEO says his own company remains securely in family hands and that the group has no plans for a public listing.

"One day the family might look at an IPO. It might be the next generation or sooner within 10 years but no-one has any need to cash out at the moment." ●

“To be in emerging economies you have to be a long-term player”

India which are key markets. Increased demand for cement in the domestic market in 2012 helped in lifting turnover by 27% to £158.0m and yielding a profit of £25.8m, up from £2m in 2011.

"Since we are the largest exporter to Afghanistan and our deliveries are fairly routine, I wouldn't be surprised if some of the American bases in Afghanistan were built with our cement," Choudrey says.

"India is actually more difficult, because of the politics involved. Delhi hasn't quite made up its mind to truly trade with Pakistan but when it does there will be huge growth potential."

United Bank Ltd, in which Bestway acquired a majority ownership stake in October 2002, recently gained a banking licence in India, adding to a network of nearly 1,300 branches in Pakistan. The bank also has

a significant presence in the Middle East; subsidiaries in UK and Switzerland; a branch in New York; and representative offices in China and Kazakhstan.

"We chose to go into banking by buying majority control in United Bank from the Pakistan government," Choudrey says. "The positives were established controls, access to an established customer base and brand loyalty. The negatives were staff needing proper training, badly located branches, and inheriting a culture rather than starting with our own."

The bank's total assets were US\$9.38bn at the end of 2012, an increase of 19.69% on the year before with deposits rising 19.71% to US\$7.37bn. Capital adequacy was 14.71% – a ratio that would be envied by many banks in Europe.

Opportunities in Pakistan

Bestway has looked at other investments in Pakistan – the next sector could be wholesaling. "We tried to go into telecoms in Pakistan in 2004 but we felt we needed a partner with expertise – Vodafone wasn't interested and Telenor wanted to go in alone."

"We also looked at wholesaling but the product range isn't there yet, just basic commodities with low margins. It's not in the works right now but could be in two, three or four years' time," Choudrey says.

Growth in Pakistan has not distracted Bestway from its activities in Britain. Along with the basmati-rice trade, 25,000 further items from Bestway's wholesale product lines are exported to 49 countries. The value of exports increased by 26% in the past year.

Along with White Pearl and other ethnic specialities, the company's Best-in own label range of British products are also in demand abroad. The company can justifiably boast that it is on "the world's shopping lists everywhere from Afghanistan to Zanzibar."

A combination of organic growth and acquisitions including the £100m purchase of Batley's in 2005 have made Bestway the largest UK trade-only wholesaler.

In recent years, the company has expanded into pet foods and developed several franchise networks with 3,000 combined members under the Best-one, Xtra Local, Best-in Local and Bestpets brands. Its internet-sales channel launched in 2012 is growing and online sales are now around £2.5m per week.

"There's still head room in the wholesale market in the UK, and opportunities for growth through acquisitions," Choudrey says.

Consolidation is still possible because the majority of businesses are, like Bestway, family owned. "Sadly opportunities arise often only after founders have passed away," says Choudrey.

Likewise the group is happy with its split between UK and Pakistan. "These are two countries we understand well, and we believe there is plenty more mileage for growth and new investments," Choudrey says. **cw**



26%

Rise in Bestway's food exports in 2012