International Business News

AIG to pay $725m to settle fraud case

REUTERS, *New York*

American International Group Inc agreed to pay $725 million to settle a long-running securities fraud lawsuit led by three Ohio public pension funds, in one of the largest class action settlements in US history.

AIG, which is nearly 80 percent owned by the US government, would pay $175 million within 10 days of preliminary court approval of the settlement with a class of AIG shareholders.

The company may fund the remaining $550 million through a stock offering or other means, including cash, when it decides it is commercially reasonable to make such an offering.

The litigation, which began in October 2004, involved allegations that AIG engaged in accounting fraud, bid-rigging and stock price manipulation, said Ohio Attorney General Richard Cordray, who represented the Ohio funds.

The settlement resolves allegations of AIG's wide-ranging fraud from October 1999 to April 2005 and brings the expected recovery for AIG shareholders to about $1 billion, Cordray said.

AIG, which was bailed out in September 2008 from near-collapse with a $182.3 billion taxpayer-funded rescue package, said it was "pleased to have resolved this matter."

Smartphones boost Sony Ericsson

REUTERS, *Stockholm*

Mobile phone maker Sony Ericsson pinned its hopes on further growth in the smartphone segment on Friday as it posted a second consecutive quarterly profit, driven by sales of the more expensive gadgets.

Sony Ericsson, owned jointly by Ericsson and Sony Corp and which is the world's fifth-biggest handset maker, has cut costs and revamped its portfolio with more phones such as the Xperia X10 offering PC-like functions and links to social networking sites.

After a dismal 2009 when consumers cut back on gadgets like new phones, the outlook for the industry has started to improve and Sony Ericsson returned to profit this year after reporting seven straight quarterly losses. Yet further growth will depend on more success in the smartphone segment.

However, competition here -- especially from Apple Inc's iPhone -- is intense.

Nokia Oyj, the world's biggest handset maker, issued a profit warning in June saying its smartphones were struggling against the iPhone, while BlackBerry maker Research in Motion has reported disappointing quarterly shipments.

AFP

Pedestrians cross a road in the busy Mong Kong district of Hong Kong yesterday. Hong Kong said recently that its unemployment rate rose to 4.6 percent in the March to May period, as continued turmoil in the world economy left employers nervous about hiring.

Essar mulling IPO of Vodafone Essar stake

REUTERS, *Mumbai*

Indian steel-to-shipping conglomerate Essar Group has been in talks with banks to explore options, including an initial public offering, for its stake in telecoms firm Vadafone Essar, according to three people familiar with the matter.

Essar is British firm Vodafone's partner in India's No. 3 mobile firm, Vodafone Essar, in which it holds a 33 percent stake.

The talks are preliminary, and Essar has not yet appointed banks to handle the process, said the sources, who declined to be named as they were not authorised to speak with the media.

Essar and Vodafone declined to comment.

In 2007, Vodafone bought a controlling stake in Hutchison Whampoa Ltd's mobile business in India, in which Essar had been a partner.

The deal gave Essar the option to sell its entire 33 percent stake in the telecom venture to Vodafone for $5 billion between the third and fourth years after the deal's completion.

Daimler won't be split in two: trucks chief

REUTERS, *Frankfurt*

Daimler's trucks boss Andreas Renschler said there are no plans to split the German company into a passenger carmaker and a truck maker, according to Euro am Sonntag newspaper.

"We think that we can lift the value added in the current constellation as well," he said in an excerpt of an interview to be published by the weekly paper on Sunday.

Analysts had said the company's valuation was 25 percent below the valuation of its parts, raising concerns over whether the current company structure was appropriate, the paper said.

Daimler said on Friday it would increase its 2010 operating profit outlook as part of its second-quarter report on July 27, after unveiling strong preliminary results powered by its Mercedes-Benz luxury car brand.

Renschler also told Euro am Sonntag the trucks business' recovery was that in the broader market.

INTERVIEW

Apparel maker aims big

Generation Next rolls out Tk 500cr investment plan, eyes stockmarket to raise funds

SARWAR A CHOWDHURY

Generation Next Fashions Ltd aims to double exports to Tk 200 crore this year, with even bigger dreams for 2015 -- to hit Tk 1,000 crore in exports.

The composite knit-manufacturer specialises in producing high-value fashion fabrics, such as ladies wear.

But to turn dreams into reality, the textile maker needs huge investment, and so, it chalked out a Tk 500 crore investment plan for the next three years to expand operations.

In Bangladesh, most entrepreneurs depend on banks for a source of finance. But the entrepreneurs of this company are an exception. They are eying the stockmarket as a major source of finance.

It will go for an initial public offering (IPO) using the book-building method, a modern pricing mechanism in public offers.

"The cost of financing in the apparel industry in Bangladesh is extremely high, as the bank interest rate is high," says Javed Chaudhury, chief executive officer of Generation Next that started its journey in 2006.

"We are going to source a major portion of our required investment from the public in an effort to cut financing costs substantially," he says, sitting at his office in Baridhara DOHS.

Besides, he says, raising capital from the stockmarket will reduce the company's debt and ensure economies of scale. In other words, the per unit production cost will be low.

A stockmarket is an important source of funds for companies.

Chaudhury says his company will float 3 crore ordinary shares worth Tk 10 each under the book-building method. "We hope to raise around Tk 180 crore through the public offer."

The book-building method ensures profitability of a company, which does not want to go for IPO under the fixed-price method, to get higher prices for shares.

Generation Next recently appointed BRAC-EPL Investments as issue manager for the forthcoming IPO. Khaled Yusuf Farazi, chief executive officer of BRAC-EPL, and Chaudhury signed an agreement to this effect recently.

Javed Chaudhury

Presently, 27 textile companies are listed on the stockmarket. As of Thursday on the Dhaka Stock Exchange, market capitalisation of the textiles sector was around Tk 6,000 crore, which is more than 2 percent of total market capitalisation at Tk 2,77,611 crore.

Chaudhury says his company became profitable just a year after it started operations. "The journey was not easy. We had to work day and night to bring this company to its current stage."

After graduating from the University of London on Management and Industrial Relations, Chaudhury came back home as he saw huge potential in the textiles business. He joined Generation Next as a director.

"The apparel industry is the largest export earner in Bangladesh, and there is scope for us to explore new export markets," he says. "We are simultaneously focusing on high value added products as well as customers."

A rebound in apparel exports helped Bangladesh to attain 2.48 percent growth in overall exports in the first 11 months of the fiscal 2009-10, from the same time a year ago.

During July-May, of total exports worth $1,449 crore, Bangladesh fetched $585 crore from knit exports and $539 crore from woven.

Reminiscing the early days, the 25-year old says his first assignment was in human resources. He had to recruit and create a better workforce for the company. "Then, I looked after procurement to effectively source raw materials. I spent 6 months in these two areas."

In the next year and half, he focused on operations, to improve the supply chain management, enhance productivity and set effective systems and procedures from the ground level.

"Later, I looked at the marketing side, to bring maximum yield through maximum capacity utilisation," says Chaudhury, who is now the chief executive.

"We are now efficient, productive and we can produce the right products for the right customers."

Generation Next supplies to top retailers from the US and Europe, such as Tesco, Primark, Asdac, Carrefour, Walmart, United Colors of Benetton, Matalan and George.

Chaudhury thinks the main advantages for Bangladesh's apparel industry is a hard-working working population and competitive labour costs, while the high bank interest rate is the major bottleneck.

On the recent violence in the readymade garments sector, he says, "I don't think the labour unrest is fully because of workers' wages." He however does not elaborate on the issue.

"We are not a family organisation. We are a professionally run business entity and we want to be the market leader."

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BANKING

US banks eye higher fees to boost revenue

AP, *New York*

Big banks facing big drops in revenue are looking to Main Street to make up the difference.

Checking accounts, bank statements, even popping into your local bank branch could carry a hefty cost as the nation's mega-banks scramble to offset expected damage from the sweeping financial overhaul. The uncertain future has overshadowed otherwise strong second-quarter earnings at JPMorgan Chase & Co, Citigroup Inc and Bank of America Corp.

All three companies beat expectations this week with profitable results. Yet their stocks tumbled, helping send the wider market sharply lower Friday.

The reason: Investors are worried about banks' future earning power after Thursday's passage of the most dramatic rewriting of banking rules since the Great Depression. Adding to the pessimism are falling trading profits -- which all three banks mentioned in the their earnings reports -- and weak US loan demand.

The worries are well-founded. Bank of America said Friday it could lose up to $2.3 billion in annual revenue alone just from new restrictions on debt card "swipe" fees, or the money banks charge merchants who accept debit cards. All told, the bill's passage will reduce the value of Bank of America's lucrative credit card business by a staggering $7 billion to $10 billion.

"This is going to cause a significant reduction in revenue in the future," Bank of America CEO Brian Moynihan said of the restrictions after his bank reported a second-quarter profit of $2.78 billion, up 15 percent from a year ago.

The second-quarter results, driven by a sharp drop in losses from failed loans, would have given Bank of America's stock a nice bounce in the past. Instead, investors anxious about the future swiftly dumped the shares, which fell 9 percent.

Wells Fargo & Co, Goldman Sachs Group Inc and Morgan Stanley report earnings next week and are expected to see the same trend of declining loan losses but weaker revenue from trading and from financing stock and bond offerings. Analysts are also looking for estimates of the hit banks expect to take under the financial overhaul.

"The easy time of generating revenue will be restricted with regulations," said Alois Pirker, research director at Aite Group.

Yet banks are already moving to recoup any losses. One approach: making traditionally free services premium offerings. A Bank of America pilot program in Georgia, for instance, charges customers $8.95 a month to get paper statements or use bank tellers. The bank could start the program nationally as soon as next month.

Bank of America is also considering raising minimum balances on some accounts and charging customers who fall below it, Moynihan told analysts during a conference call.

Other banks are considering doing away with the once ubiquitous free checking accounts long used to lure new customers.

"Checking accounts are a potential source of income. That's the No. 1 thing that banks are looking at to recoup some of these costs," said Shannon Stemm, a financial services analyst with Edward Jones.

The changes reflect the new reality of the US banking industry in the aftermath of the 2008 financial crisis. The overhaul approved by Congress on Thursday and soon to be signed into law by President Barack Obama tightens rules on everything from simple debit card transactions to the most complex securities.

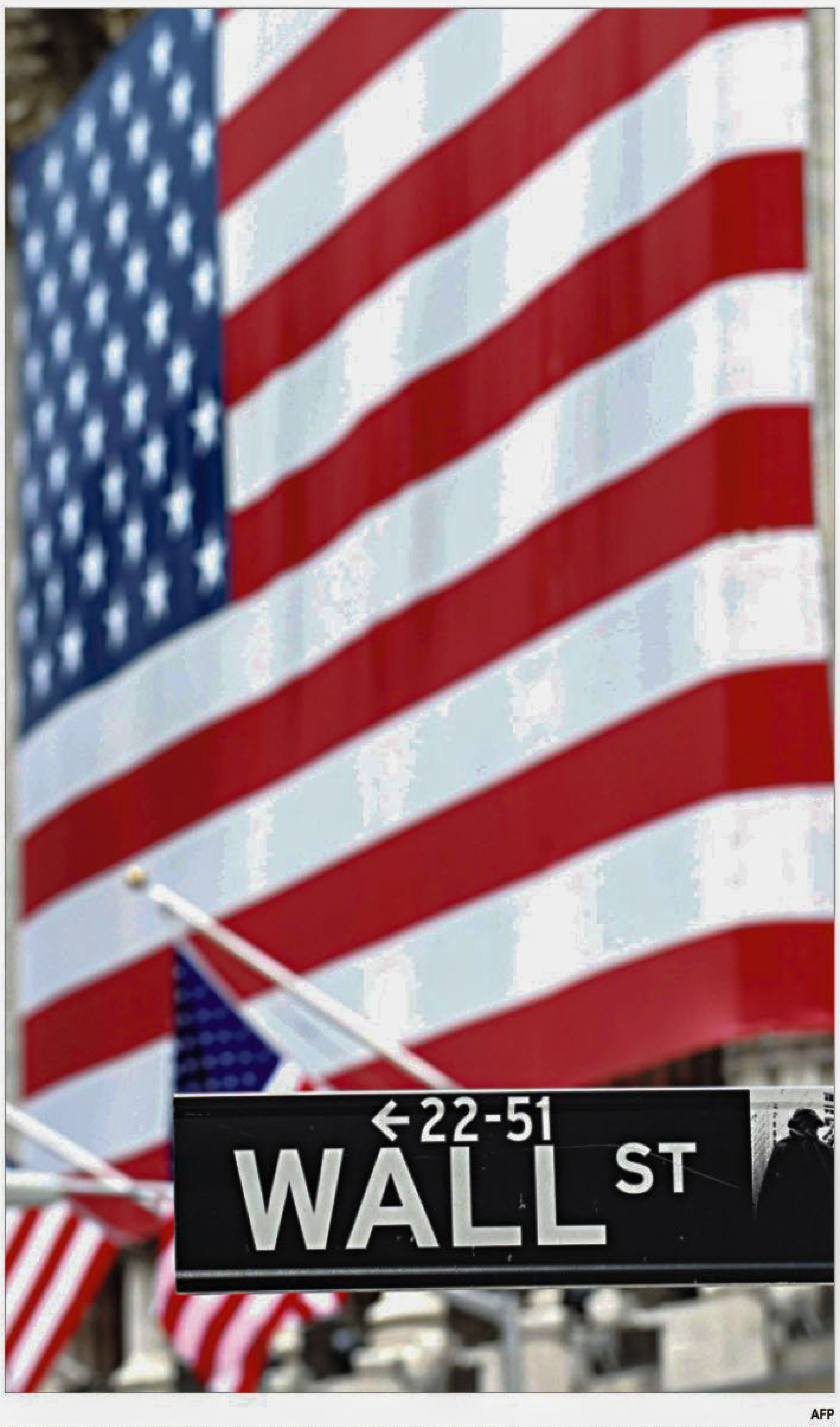
Staying nimble and adjusting their business models accordingly is crucial for the big banks to stay competitive. And bank CEOs are making no apologies for the defensive moves.

"If you're a restaurant and you can't charge for the soda, you're going to charge more for the burger," JPMorgan Chase CEO Jamie Dimon said Thursday after his company reported a $4.8 billion second-quarter profit. "All these (regulations) will eventually get priced into the business."

While overdraft and other types of fees became overly "punitive" for some customers, other services have been a relative bargain and must be paid for through higher fees, Dimon said.

"A checking account ... costs us $300 a year. For that, you get ATMs, branches, debit cards, access to cash," Dimon said. "You get all of these. You have to charge for all that."

And new fees may only be the beginning. Big banks that cater to the masses may start offering more services to the wealthy -- and thus command even higher fees -- as well as scale back operational costs, analysts say. CreditSights analyst David Hendler said in a report Friday that Bank of America may have to eventually close up to a third of its 6,000 branches nationwide.



AFP

A Wall Street sign is pictured in front of the New York Stock Exchange. Big banks, hurt by big drops in revenue, look to Main Street to make up the difference.