

International Business News

Vedanta buys Cairn India stake for up to \$9.6b

AFP, London  
London-listed Vedanta Resources said Monday it had agreed to acquire a majority stake in energy explorer Cairn India for up to 9.6 billion dollars in cash, building on its core mining business.

"The proposed acquisition significantly enhances Vedanta's position as a natural resources champion in India," Vedanta's Indian tycoon owner Anil Agarwal said in a statement.

The news sent the share prices of Vedanta and Cairn Energy -- the majority-owner of Cairn India -- to the top of London's benchmark FTSE 100 index.

Cairn India is the country's fourth-largest oil and gas company, thanks to a massive energy find in the western Indian desert state of Rajasthan.

"Cairn India's Rajasthan asset is world class in terms of scale and cost, delivering strong and growing cash flow," said Agarwal.

"The company has a proven management team and very significant further resource potential. Cairn India will benefit from Vedanta's track record of acquiring and growing world class companies, especially in India."



People walk in front of a boutique in Tokyo's Shinjuku shopping district yesterday. Japan's economy grew at a much weaker than expected pace and was overshadowed by China in the second quarter, data showed, amid further signs the global recovery is losing steam.

Malaysia Airlines posts second-quarter loss

AFP, Kuala Lumpur  
National carrier Malaysia Airlines said Monday it sank into the red in the second quarter, due to losses on fuel hedging and higher fuel prices.

The airline said it made a loss of 535 million ringgit (168.29 million dollars) compared to a net profit of 875.5 million ringgit in the same period a year ago, for the quarter ended June 30.

The losses came despite total revenue climbing 26 percent to 3.21 billion ringgit in the quarter from 2.54 billion ringgit a year, weighed down by a fuel hedging loss of 217 million ringgit, it said in a statement.

A 44 percent rise in fuel costs caused operational gains to be wiped out and resulted in an operating loss of 285.6 million ringgit in the second quarter, it said.

"While we are doing the right things and this is reflected in the improved operational performance in the second quarter, which is traditionally our weakest quarter, we have instituted additional measures to recover more of the fuel cost increases," chief executive officer Azmil Zahrudin said.

Novartis inches towards closure of Alcon deal

REUTERS, Zug Switzerland  
Swiss drugmaker Novartis AG moved another step closer to securing its buyout of Alcon after shareholders of the U.S. eyecare group voted Novartis-nominated directors onto the Alcon board.

Novartis is seeking to buy the remaining 23 percent of Alcon after exercising an option earlier this year to buy Nestle's majority stake, which will bring its holding in Alcon to 77 percent.

The backing of the Novartis candidates means the drugmaker will have a majority on the Alcon board, making it a lot easier for the group to push through its buy out of minority shareholders despite facing strong resistance from Alcon's independent director committee (IDC).

The IDC has repeatedly dismissed Novartis' offer for the minority stake as "grossly inadequate" and is putting pressure on Novartis to raise its offer.

Novartis has offered Alcon minority shareholders a share swap and at current share prices the bid would be worth around \$141 per Alcon share, below the average price of \$168 per Alcon share paid to Nestle and Alcon's share price of \$156.

India inflation slows to single digits

AFP, New Delhi  
India's inflation rate has fallen below 10 percent, its lowest level since February, data showed Monday, giving the central bank room to slow down its aggressive monetary tightening policy.

The decline came as welcome news to the Congress government which has been under relentless opposition attack over inflation that has caused huge hardship, especially to the 450 million Indians below the poverty line.

The widely watched wholesale-price index -- India's main inflation measure -- increased 9.97 percent in July from a year earlier after a 10.55 percent jump posted in June, the commerce ministry reported.

The slower inflation on the back of falling food prices underhot financial market expectations of a 10.4 percent year-on-year jump.

Economists said the slowdown meant the central Reserve Bank of India might pause after hiking its main interest rates earlier this month for the fourth time this year.

STOCKMARKET

Need for new listings

SARWAR A CHOWDHURY

The average price-earnings (PE) ratio on the Dhaka bourse is the highest among the major regional stockmarkets.

The PE ratio is a company's current share price compared to its earnings per share. In general, a high PE ratio means investors expect higher earnings in future, or there is a strong chance they will be able to make a capital gain by selling the stock. In other words, the value of the share will increase and the investor will be able to sell it for more than what he paid for.

At the end of July, the average PE ratio on the Dhaka Stock Exchange (DSE) stood at 24.55, according to the latest monthly review by the premier bourse.

It means if an investor buys a share of a company on the Dhaka market, it will take 24.55 years on an average before the company earns enough profit to equal the value of the investment.

The PE ratio in India is now just slightly over 20.5, while the ratio is only 8 in Pakistan, 21.62 in Sri Lanka, 12 in Thailand, 16 in Malaysia, 23 in Taiwan, 19 in Hong Kong and 14 in Singapore.

However, a high PE ratio can sometimes be a good indicator of future returns, as investors are overoptimistic in forecasting earnings.

The reason behind the higher PE ratio on the Dhaka bourse is mainly a mismatch between demand and supply. There is a

REGIONAL MARKETS: JULY 2010		
Country	Index	PE
Bangladesh	DGEN	24.55
India (as of June)	BSE 100	20.74
Pakistan	Karachi 100	8
Sri Lanka	CSE All Share Index	21.62
Thailand	SET	12
Malaysia	KLSE Composite	16
Taiwan	Taiwan Weighted	23
Hong Kong	Hang Seng	19
Singapore	Straits Times	14

Source: DSE Monthly Review

huge demand for new shares now.

Since January, thousands of investors entered the market everyday with crores of taka in cash.

In contrast, the market listed only four new securities, except for some mutual funds and a convertible zero coupon bond, since January.

Investors chase a limited number of shares regardless of the risk factors, thus increasing the PE, as the companies' earnings and share prices do not see matched growth.

Analysts and market operators identify the dearth of new

securities as the only reason behind the high market PE.

"It is apparent that the market is being heated due to a dearth of new shares, resulting in a high PE," said Salahuddin Ahmed Khan, professor of finance at Dhaka University.

The government and the market intermediaries should immediately launch a special drive to bring new issues, said Khan, also a former chief executive of the DSE.

"If necessary, the existing rules should also be amended or relaxed so new companies become interested to join the market," he said, referring to the

IPO rules.

IPO (initial public offering) rules now allow a company with at least Tk 40 crore paid-up capital, including the IPO offer size; and no company is allowed to offer shares less than 40 percent of its paid-up capital.

Many companies would be willing to list if these rules were relaxed, said issue managers.

However, the Consultative Committee of the Securities and Exchange Commission last week recommended that companies with at least Tk 25 crore in paid-up capital, including the IPO offer size, should be allowed in

the market.

The total number of listed securities on the DSE is 452, of which 245 are companies, 26 are mutual funds, eight are debentures, 171 are treasury bonds and two are corporate bonds.

Treasury bonds and the debentures were never traded on the floor, meaning it is an inactive bond market.

"Our stockmarket's PE ratio is the highest among the major regional stockmarkets", and it's because that the investors have no sufficient options," said a merchant banker.

"The investors have to choose investable securities from a little basket," he said, adding that the market is expanding gradually, but the supply side remains poor in comparison with the growing demand of the investors.

A high PE ratio also indicates how much a stockmarket is overpriced, and the July figure showed that the Dhaka market is marching towards an alarming position, said an asset manager.

The regulator stepped in several times during the last couple of months, but succeeded only in cooling the markets briefly.

Each time the market reacted negatively to the cooling measures with record-level falls, and recovered the losses within two days.

Such a failure or the rising trend also reminds that no measures can calm the market in absence of new issues.

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COLUMN

Sub-standards and testing

BSTI reform via private partners

HABIBULLAH N KARIM

On August 5, the commerce minister and the prime minister's economic adviser shared views with members of the Metropolitan Chamber of Commerce and Industry on the impediments in the path of bolstering exports to India, our largest neighbour with whom we happen to have a very hefty trade deficit.

Despite bilateral negotiations and even some unilateral trade concessions from India, our exports remain a fraction of the more than \$3 billion that India annually exports to us. Does this mean we don't have anything the Indians want? Nothing can be farther from the truth -- as seen in the quantity of products Indian traders informally take back across their border. The problem lies elsewhere.

Many entrepreneurs blame non-tariff barriers, such as cumbersome product testing and certification, inadequate land-port facilities and lack of pass-through traffic for trucks and cargo containers. Entrepreneurs claim product testing and certifications alone account for 70 percent of the export bottleneck.

If so, the imbalance in trade can be mitigated by getting products testing and certifications from Bangladesh Standards and Testing Institution (BSTI), recognised by its Indian counterpart.

But does India have confidence in the standards and testing competence of BSTI? It may hurt our national pride to admit it, but the BSTI needs to improve its capabilities and ensure the integrity of testing and certification.

As a result, Jamdani sari exported to Kolkata now gets stuck at the land port for up to six months, waiting for textile testing done only in Chennai. And the Indian bureaucracy is



A man checks the quality of yarn at the laboratory of a spinning mill in Gazipur. Analysts say the cost of setting standards can be largely borne by pro-bono professional inputs from private sector organisations.

responsible for this and many similar examples that remain thorns in our shoes. But the BSTI itself is also at fault. It lacks both the technicians to carry out sophisticated tests and assessments and often also the equipment for modern product testing. Most damaging is the common perception that certifications can be purchased and test results manipulated by greasing palms.

Over the past 20 years, I have had many policy-level interactions with the BSTI and its ministry (Industries). I know the government is aware of BSTI shortcomings and has, over the years, undertaken many

programmes to ameliorate the BSTI -- some funded locally but most funded by development partners, such as the European Union and International Trade Centre.

Despite this, the local business community has little confidence in the institute, so we can hardly fault India for taking issue with its certifications. India even included an upgrade project of BSTI facilities on the list of 14 projects to be funded by its \$1 billion loan agreement. Yet such technical enhancements have done little to allay the business community perceptions of corruptibility and lack of professionalism at BSTI

thus far.

To break the BSTI free from the clutches of nonchalant bureaucrats, rent-seeking syndicates and incompetent technical staff, we need public-private partnerships (PPPs). Product testing and certification jobs are revenue generators. The cost of setting standards can be largely borne by pro-bono professional inputs from private sector organisations. Many private technical organisations, industry-specific trade organisations and universities would find it financially feasible and expedient to form PPPs with the BSTI, and to raise its services world-class levels in testing, certifica-

tion and standards-setting. International bodies can even vet (or cross-certify) these, for instant recognition overseas.

Local and foreign entrepreneurs in Bangladesh would pay for such professional services. Such PPP arrangements ensure investment in: proper equipment; capable hired hands; market-based, demand-driven training; and professionalism among top management. Instead of being a blemish on Bangladesh's image, the BSTI would then actually be a driver of growth.

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