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Higher lending rates weigh on businesses

SAJJADUR RAHMAN

Manufacturers have warned that rising bank interest rates are going to hit their business growth at a time when the global and domestic economy is on a slow growth path.

After the withdrawal of cap on lending rates by the central bank on January 4, commercial banks have started hiking interest rates for both new and existing customers at their will.

Now banks charge as low as 15.5 percent interest for term loans and the rate goes up to 20 percent depending on customers.

"A sudden rise in interest rates has become a burden on us. It'll dampen demand and production," said Nasir Uddin Biswas, chairman and managing director of Nasir Group, an industrial conglomerate with an annual turnover of Tk 3,000 crore.

Although Biswas has a good reputation for his excellent loan repayment records, he also has to pay more for higher bank interest rates.

"I have to pay 15.5 percent interest for a loan of Tk 80 crore from a foreign bank instead of previously agreed 12.5 percent," said Biswas.

He has to pay an additional Tk 2.4 crore annually as interest only due to a rise in interest rate by 3 percentage points.

"If one combines high energy, labour and transport costs with high interest rates, entrepreneurs can't make returns on their investment," Biswas said.

High interest rates affect businesspeople, including manufacturers and exporters who have set up their industries with bank loans. They heavily depend on funds from banks instead of the capital market to run and expand their business.

So, a rise in interest rates pushes up their costs of doing business.

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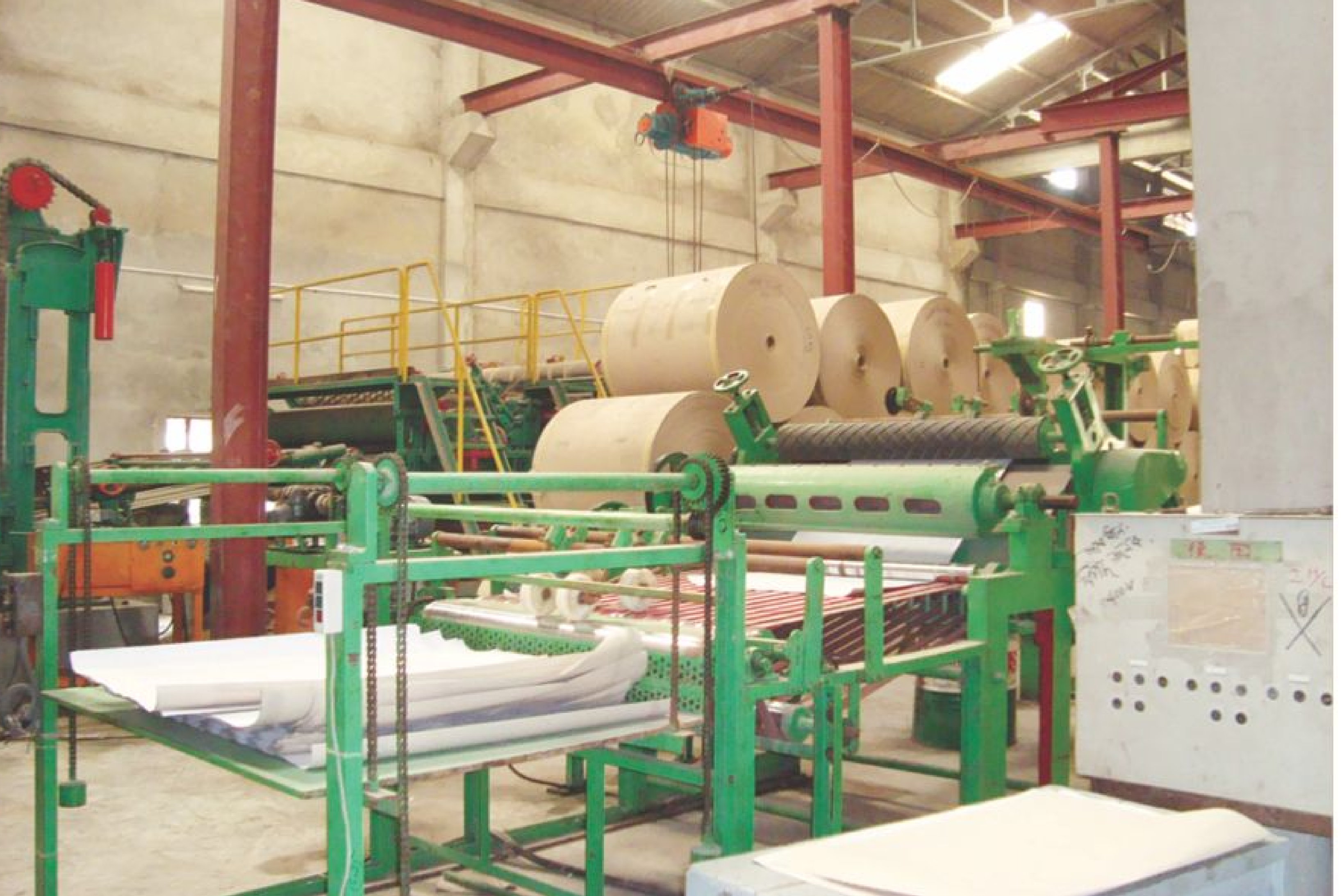

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A packaging unit of Meghna Group of Industries is pictured. High lending rates along with spiralling prices of raw materials are taking a heavy toll on the manufacturing sector.

Bangladesh finally gets undersea cable back-up

ABDULLAH MAMUN

Bangladesh has finally got the much-needed back-up for the lone undersea cable by way of terrestrial connectivity, with commercial operation due in September.

An international terrestrial cable (ITC) company, 1Asia Communication (BD) Ltd, was physically connected with Indian terrestrial cable company TATA Communications through Benapole in mid-August.

Bangladesh's telecommunication services until now have been through the international submarine cable network, SEA-ME-WE 4, disruption of which at point in the world goes on to seriously handicap Bangladesh.

Addressing the issue, the government in February provided six ITC licences to provide back-up to the submarine cable network.

A connectivity test is due tomorrow, with commercial service is scheduled to start towards the end of September, said Mirza Mohammad Helal, chief executive officer of 1Asia Communication.

"ITCs will be able to provide voice, data and video services simultaneously."

Investments worth millions of dollars -- for business process outsourcing (BPO), contact centres and various IT-enabled services -- are currently stuck due to the absence of an international terrestrial connectivity.

Investments worth millions of dollars for business process outsourcing (BPO), contact centres and IT-enabled services are currently stuck due to the absence of a back-up

The equipment 1Asia Communication is setting up can support 10-gigabits per second, Helal said.

"A back-up of the lone submarine cable is very urgent for the country's call centres," said Zia Ahmed, chairman of Bangladesh Telecommunication Regulatory Commission.

The ITCs will also create competition for bandwidth prices in Bangladesh, Ahmed added.

The regulator has recently allowed the ITC companies to export bandwidth to neighbouring countries such as India, Nepal, Bhutan and Myanmar, said another BTRC official.

In April, the Indian government asked Bangladesh for 'virtual transit' so that it can connect Tripura with Paschimbanga and Chennai with cables and provide new voice and internet service routes.

No dividends from 12 mutual funds

GAZI TOWHID AHMED

Twelve mutual funds failed to declare any dividend for the unit holders for the last fiscal year, due to a prolonged downtrend in share prices.

And the dividends announced by other funds were far from impressive, as the net asset value (NAV) of the units did not allow them to declare a healthy dividend.

The zero-dividend by the mutual funds was expected as their NAV dropped below their face values, according to fund managers.

"Fund managers failed to declare dividend for the unit holders due to a relentless fall in share prices since last year," said Yawer Sayeed, managing director of AIMS of Bangladesh, a pioneer in private sector mutual fund operations.

The benchmark General Index of Dhaka Stock Exchange fell 26 percent last year, while the value and volume dropped by 74 percent and 59 percent respectively.

The NAV of a mutual fund shows its ability to give dividends to the unit holders. When the NAV of a fund rises beyond its face value, it is more able to give dividends.

A mutual fund is a professionally managed collective investment scheme that pools money from many investors and invests it in stocks, bonds and short-term money market instruments.

Of the 41 mutual funds currently listed on the premier bourse, 22 declared dividends, 12 announced zero dividend and three are yet to make any dividend declaration, while the rest of the four have not completed their accounting year.

Sayeed said the stockmarket regulator allowed too many mutual funds to operate in the market without considering the capacity of the market.

"It created an unhealthy competition in the sector," he said. "As a result, profitability of the funds declined sharply, especially in the bearish market."

"A downtrend in the broad market can mainly be attributed to the underperformance of mutual funds," said Md Ashaduzzaman Riadh, head of research at LankaBangla Securities.

FUNDS WITH NO DIVIDEND

- Janata Bank First Mutual Fund
- ABB First Mutual Fund
- AIBL First Mutual Fund
- DBH First Mutual Fund
- EBL NRB Mutual Fund
- Green Delta Mutual Fund
- ICB Third NRB Mutual Fund
- IFILIS First Mutual Fund
- MBL First Mutual Fund
- NLI First Mutual Fund
- PHP First Mutual Fund
- Popular First Mutual Fund

"NAV of many funds went below their face value and they could not declare any dividend."

Also many funds could not beat the market due to high exposure in different underperforming sectors which should have been predicted earlier as investors assume that those funds are managed by skilled professionals, he said.

Only the fund managed by the Investment Corporation of Bangladesh (ICB), a state-owned enterprise, declared a handsome dividend.

The zero-dividend would cast a negative impact on the market, as retail investors have already started losing interest in mutual funds, especially those with poor performance, analysts said.

"Investors have lost enthusiasm for mutual funds and now prefer to take direct exposure in the underlying assets rather than passively holding those underperforming derivatives like instruments," Riadh said.

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Falling prices cut into RMG makers' profits

REFAYET ULLAH MIRDHA

Increasing pressure from international buyers to lower prices, together with escalating production costs, is squeezing the readymade garment manufacturers' profit margins already dogged by Europe's debt crisis and sluggish recovery of the US economy.

To lessen the pressure on profit margins readymade garment (RMG) manufacturers are increasing the volume of production, industry insiders said.

"The cost of production has been increasing by 8 percent to 12 percent a year, but the prices, in comparison, did not increase," said an insider. "And in some cases, it even fell."

Inconsistent gas and power supply, hike in yarn prices, implementation of minimum wage for workers, higher freight charges, transport costs and prices of capital machinery have been held responsible for the increase in production costs.

In contrast, the export price of garments remained more or less constant in the last three fiscal years.

RMG export takes place in dozens, and the prices of a dozen of garment recorded by the Export Promotion Bureau (EPB) in fiscal 2008-09, 2009-10 and 2010-11 are $26.81, $26.84 and $26.02 respectively.

AVERAGE PRICES OF WOVEN AND KNITWEAR GARMENTS

PER DOZEN

2008-09	2009-10	2010-11
$26.81	$26.84	$26.02

SOURCE: EPB

"A T-shirt which sold at $5 in 2010 is now selling at $3.50," said Ahsan Kabir Khan, managing director of Gzipur-based Interfab Shirts Manufacturing Ltd, adding that buyers have lowered the unit price of garments.

In fact, the price of a dozen of garment fell in fiscal 2010-11, by 3.06 percent, as the abovementioned data from EPB showed.

Owing to the dire state of the economy retailers in Europe are selling at a discounted rate.

"The knock-on effects of discount selling in Europe are being felt in our factory prices now," he said.

Although buyers have been shifting their orders from China to Bangladesh of late, the RMG manufacturers insist that if the prices slide any further it would eat into the competitiveness of Bangladeshi wares.

"The erosion of profit is not felt in the day-to-day running of the business due to rolling-in of bank loans. But if you sit down and analyse the figures, the effect is evident," said Fazlul Hoque, former president of Bangladesh Knitwear Manufacturers and Exporters Association.

He added that manufacturers have resorted to enhanced efficiency and cost-cutting measures to offset the losses.

"Our market share has increased in global garment trade and we became more competitive," said Ahsan H Mansur, executive director of Policy Research Institute. "Now need to increase our productivity."

Escalating prices in China, the world's largest apparel manufacturer, has presented a golden opportunity to Bangladesh.

"Grabbing even a fraction of the Chinese orders would do wonders to our export figures and our sector by and large. We must seize the opportunity," he added.

Buyers are becoming ever more demanding of labour rights and factory conditions, and yet they would not increase the unit price to garments to accommodate their cost-intensive conditions, industry people said.

Bangladesh's woven garment exports in fiscal 2011-12 stood at $9.60 billion, a 13.89 percent rise from the previous fiscal year.

While the knitwear exports, at $9.49 billion, did not experience as big a jump in the fiscal year, a mere 0.05 percent.

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Maruti may double capacity at new India plant

AFP, *New Delhi*

Japanese-owned Maruti Suzuki may double capacity at its planned car plant in India's Gujarat state, a report says, as it reviews strategy following deadly labour unrest at another major factory.

The Gujarat plant -- due to open 2015-16 -- will be the first for India's biggest carmaker outside the northern state of Haryana, where a riot by workers last month at its Manesar factory led to the death of a manager and injury to 96 supervisors.

Dow Jones Newswires, quoting an unnamed senior Gujarat state official, said initial capacity of the new plant could be as high as half a million cars per year -- twice what Maruti originally envisioned.

Discovering Value in Capital Markets