Look beyond corporate clients

Prime Bank MD stresses need to divert resources to areas where return on investment is higher

MD FAZLUR RAHMAN

LOCAL banks should pay more attention to retail clients and small and medium enterprises for sustainable growth instead of relying on large corporate groups, a top banker said.

"We need to divert more resources to SMEs and retail banking where the return on investment is higher, even though the profit margin is lower. It will still be prudent capital allocation if we can do that," said Ehsan Khasru, managing director of Prime Bank Ltd.

"We have to go for it. Otherwise, banks will face sudden erosion in their capital if the large borrowers face difficulties in repaying loans," he told The Daily Star in an interview in Dhaka recently.

He said large industries account for more than 60 percent of loans in the banking sector, while the remaining goes to retail and SMEs.

"But the return on capital from the corporate clients is not at expected levels. On the other hand, whenever there is a crunch, it does not affect the SMEs and retail clients to a large extent."

"This does not mean that banks will not go for corporate banking. Of course, they will finance the large borrowers, but on the basis of risk adjustment and return on capital."

"Ultimately, banks will have to give value and safety and security to all stakeholders, including shareholders and depositors."

The managing director said his bank plans to expand operations in SMEs and retail banking.

Currently, Prime Bank's corporate loans account for 80 percent or Tk 11,000 crore of its total loan portfolio. The bank has given loans worth Tk 1,800 crore to the SME sector and Tk 1,200 crore to the retail sector.

He said corporate loans are the best

Ehsan Khasru

as long as the company performs well. "But if one company faces problems, the bank's foundation shakes."

He blamed ignorance on the banks' part for the sector's failure to go for substantial SME financing.

Khasru also pinpointed some problems in lending practices.

"In Bangladesh, a bank's relationship managers do not know where the loans are going. Whenever a relationship manager demands to know how the loan is being used, some borrowers not only decline to cooperate, but also say that they will not take loans in the future."

"So, our alternative is to lend to the SME and retail sector. The sector is huge but the size of the loan is not that high."

Khasru said implementation of the BASEL-II is now underway, and bankers would have to think beyond the box.

"Banks take into account expected shocks while calculating risks. But they do not take unexpected events into account."

"Capital allocation should be done considering those unexpected factors."

The career banker said non-performing loans have shot up from a single digit to double digits across the sector, which has hit profits hard.

He said the profitability of all banks would be affected this year because of the non-performing loans, as provisions that inflict losses on the banks are very high.

Prime Bank faced losses in the first quarter in 2013, recorded a profit in the second quarter with some cumulative losses, and returned to black again in the third quarter.

"If the NPL factor remains static in the last quarter, Prime Bank will make good profits at the end of the year," said Khasru, who leads the bank to manage a fund of Tk 40,000 crore.

Khasru said the future leaders in the banking sector would have to be experts on risk management. Otherwise, bankers would not be able to run the business successfully.

He said a number of scams in the banking sector have occurred. "It is not a problem of the system. It could not have taken place if there was no collusion between employees of an individual bank and their clients."

Khasru, who joined the bank in September 2011, said syndication loans, a growing practice in the country's banking sector, are also a part of risk management.

Prime Bank has recently arranged a syndication loan of Tk 396 crore, the biggest in the country's history, to set up a ceramic tiles and sanitary-ware manufacturing project in Habiganj.

Khasru also blames unhealthy competition among banks who rush to net big clients in order to fatten their profit margin. He gave an example of a Chittagong-based corporate house that received financing from over 40 banks before becoming bankrupt.

"The client is now blaming the banks for giving excessive loans. So, bank leaders will have to introduce capital management, otherwise, the banks will face serious problems."

An MBA degree holder from Institute of Business Administration, Dhaka University, Khasru said the bank has received commitments for lending support from international organisations such as Asian Development Bank and International Finance Corporation.

A community of 'crowd funding' is brewing

STAR BUSINESS REPORT

INTERNET is no more a communication tool; it has become a way of making money and is being used by millions across the world for business purposes. Bangladesh is also not lagging behind.

Within Dhaka's population of 16 million, an exciting community of 'crowd funding' is brewing and it is being led by a small group of people. By forging a startup community and with the power of internet, these people are out to prove that despite many problems, they are building new and exciting businesses.

But their stories are unknown to many. In an effort to bring their successful ventures to the limelight, an art film maker is producing a documentary on them.

"Working with the local startup community in the recent past, I was amazed by the talented young minds creating new businesses within the constraints of an emerging market. So I decided to bring their stories to life through this documentary so that people are inspired and encourage others to join," said Mustafiz Khan, the film maker.

"The concept of a formal or institutionalised crowd funding is not very familiar and so we decided to use this method for our film funding to popularise it locally," he said.

Crowd funding is, by definition, "the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the internet."

"We want to share their experiences with the world, and inform the world that there are lots of exciting things happening in Dhaka, unlike the headlines that catch global attention for the wrong reasons. We want to show the future of Dhaka city through the lens of this brewing startup community," said Khan, also the founder and rebel leader at Startupdhaka.com and previously head of Brand Sponsorship Channels at HSBC Singapore.

"I am making this documentary for three reasons. Firstly, to tell the world that there are some amazing people working on some fantastic ideas right here in Dhaka. Secondly, to build a startup community and thirdly, to tell all local startups that Startup Dhaka is here to help."

He and his associates are also using 'crowd funding' to raise funds to make the documentary, styled "Startup Dhaka" that will cost $8,500.

They launched the fund raising campaign recently through Indiegogo (http://igg.me/at/StartupDhaka), a global crowd funding site.

People who want to support the film individually or institutionally can contribute to this project by donating as little as $10 or less. The funding will remain open till October 31. One can also find more on the project at StartupDhaka.com or Facebook/Startupdhaka.

The documentary will be released in November, during the "Global Entrepreneurship Week" on YouTube and Channel i, a local television station.

It will also be copyright free, so anyone can use this documentary for personal use or share with others to promote the stories of possibilities.

Japan posts record string of trade deficits

AFP

Shipping containers are unloaded from an international freighter while another cargo ship (R) arrives at the international cargo terminal in Tokyo yesterday.

AFP, *Tokyo*

JAPAN posted a record 15th consecutive monthly trade deficit in September, as data on Monday showed the country's energy bill soaring, but exports to China rebounded after a territorial row last year hurt demand for Japanese goods.

While the yen's sharp decline is generally seen as a plus for Japan's export picture, the overall volume of shipments turned down last month as an uncertain US economic recovery held back growth.

Sky-high energy bills from imports of pricey fossil fuels -- made more expensive by the weak currency -- also weighed on the nation's trade balance.

Energy imports surged after the 2011 Fukushima crisis forced the shutdown of Japan's nuclear reactors, which once supplied a third of the nation's power.

There is little public appetite to turn the reactors back on although Japan's conservative government has said a restart was all but certain once safety is assured.

"Japan will continue to rely on energy imports, and any boost to exports from the weaker yen won't be enough to turn around the trade deficit," said RBS Securities chief economist Junko Nishioka.

The dollar was at 98.12 yen in afternoon Tokyo forex trading, up from 97.72 yen in New York Friday afternoon, which helped the Nikkei 225 stock index to end 0.91 percent higher.

The finance ministry said Monday that Japan recorded a deficit of 932.1 billion yen ($9.5 billion), 64.1 percent higher than a 568.2 billion yen deficit a year earlier. It also marked the 15th straight month of deficit, the longest spell since comparable data started in 1979.

The value of exports rose 11.5 percent to 5.97 trillion yen, helped by shipments to China -- Japan's largest trading partner -- which rose 11.4 percent from a year earlier.

The improving figures come after a territorial dispute over a set of islands in the East China Sea set off protests in China and a consumer boycott of Japan-branded goods.

The unrest last year forced Japanese businesses to temporarily shutter operations in China, while the Asian neighbours' trading relationship took a huge hit.

"Exports to China are on a gradual recovery path," Masahiko Hashimoto, economist at Daiwa Institute of Research, told AFP.

Shipments to the key US market were up 18.8 percent on year, but analysts said growth appeared to be stalling, after a two-week government shutdown threatened to send the US into a debt default.

"US consumer sentiment isn't great because of the government shutdown," Junichi Makino, chief economist at SMBC Nikko Securities, told Dow Jones Newswires.

Demand for Japanese goods from emerging Asian economies, which then sell to the United States, was also lacklustre, Makino said.

"Exports to Asian emerging economies such as South Korea, Taiwan, Singapore, India and Thailand won't recover unless the US economy improves further," he added.

Overall, imports jumped 16.5 percent to 6.90 trillion yen owing to the higher energy costs and rising demand for some electronic equipment and smartphones such as Apple's iPhone.

China's economic growth picks up speed in third quarter

BBC

CHINA'S economic growth picked up pace in the July-to-September period, the first rise in three quarters.

The world's second-biggest economy grew 7.8 percent from a year earlier, up from 7.5 percent expansion in the previous quarter.

The official figures also showed growth in industrial output, retail sales and fixed asset investment.

After years of blistering growth, China has seen its pace of expansion slow recently and there have been fears that growth may slow further.

China has set a growth target of 7.5 percent for the year. Analysts said the latest numbers indicated that it was likely that Beijing would meet this.

"This is an indication that China's economic growth is holding up in a range which is within the comfort zone of both the Chinese policymakers as well as global watchers," said Song Seng Wun, a senior economist with CIMB Research.

Over the past few decades China has relied heavily on its exports and manufacturing sectors as well as government-led infrastructure spending to help boost growth.

However, a slowdown in key markets such as the US and Europe has hurt demand for its exports.

As a result, it has been trying to spur domestic demand to offset the decline in foreign sales and also to rebalance its growth.

Earlier this year, it unveiled fresh measures to help boost the economy.

From 1 August, China has suspend value-added tax (VAT) and turnover tax for small businesses with monthly sales of less than 20,000 yuan ($3,257; £2,125).

AFP

A Chinese hawker sells sweet potatoes beside a roll of new telecommunications cabling in Beijing yesterday. China's economy expanded 7.8 percent year-on-year in July-September.

The cabinet said the move would benefit more than six million small companies and boost employment and income for millions of people.

Policymakers said they would also implement measures to simplify customs clearance procedures, cut operational fees and facilitate the exports of small and medium-sized private enterprises.

The cabinet also announced plans to completely open China's railway construction market to private investors to develop the sector further.

It said it would set up a railway development fund, with the initial money coming from the government.

Analysts said the moves were starting to have an impact on the growth numbers.

New-look Philips lights up profits

AFP, *The Hague*

DUTCH group Philips, which has transformed itself away from some of its traditional businesses, reported an almost three-fold surge in third-quarter net profit on Monday.

The company also announced that later in the day it would begin to buy back its own shares under a programme totalling 1.5 billion euros ($2.0 billion).

Philips has experienced great difficulties in recent years and has responded with a restructuring which has involved reducing and refocusing its lighting, and phasing out its television businesses.

Chief executive Frans van Houten said in a statement that "this was another solid quarter for Philips, especially in light of the challenging global economic environment."

The Eindhoven-based company specifically is a market leader in LED lighting technology. This business said grew by 33.0 percent and now accounted for 30.0 percent of its lighting sales.

Philips announced that it had been selected by Dubai's municipality to instal environmentally-friendly LED lighting systems, which it said would lead to a 50.0-percent saving in energy.

In New Zealand, the company was installing a similar energy-efficient LED system in a brand of local fuel filling stations.

The group has diversified into medical equipment and healthcare which offer higher margins.

A highlight included a deal in with Singapore's largest health and beauty chain to screen citizens across the Asian country for obstructive sleep apnea(OSA).

OSA is a sleeping disorder which causes breathing to stop for short periods at night and can lead to severe drowsiness during the day, among other symptoms.

The group's traditional household appliances activities had come under strong pressure from competitors, notably in Asia.

However, the latest results showed that the part of the business which grew the fastest was the household appliance division where sales on a comparable basis surged by 9.0 percent, and mainly in emerging markets where sales rose by 10.0 percent.

In Japan, Philips recently introduced an air-based fryer which cuts out the use of cooking oil, while in Latin America, it launched an instant soup maker that combines a cooker and a blender in one.