

Capital market for industrial development

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WHenever we talk about the capital market, most people in our country visualise share trading at the secondary market. That is why it is a generalised perception that the capital market does not contribute to economic development in the country.

Historically, the secondary market is considered the barometer to gauge the importance of the capital market. However, the capital market's main role is to raise capital for industrial development.

In Bangladesh, formation of capital through the market is insignificant compared to bank loans. Most businesses in Bangladesh depend on bank borrowing and equity financing. The total fund raised from the market is low compared to bank financing.

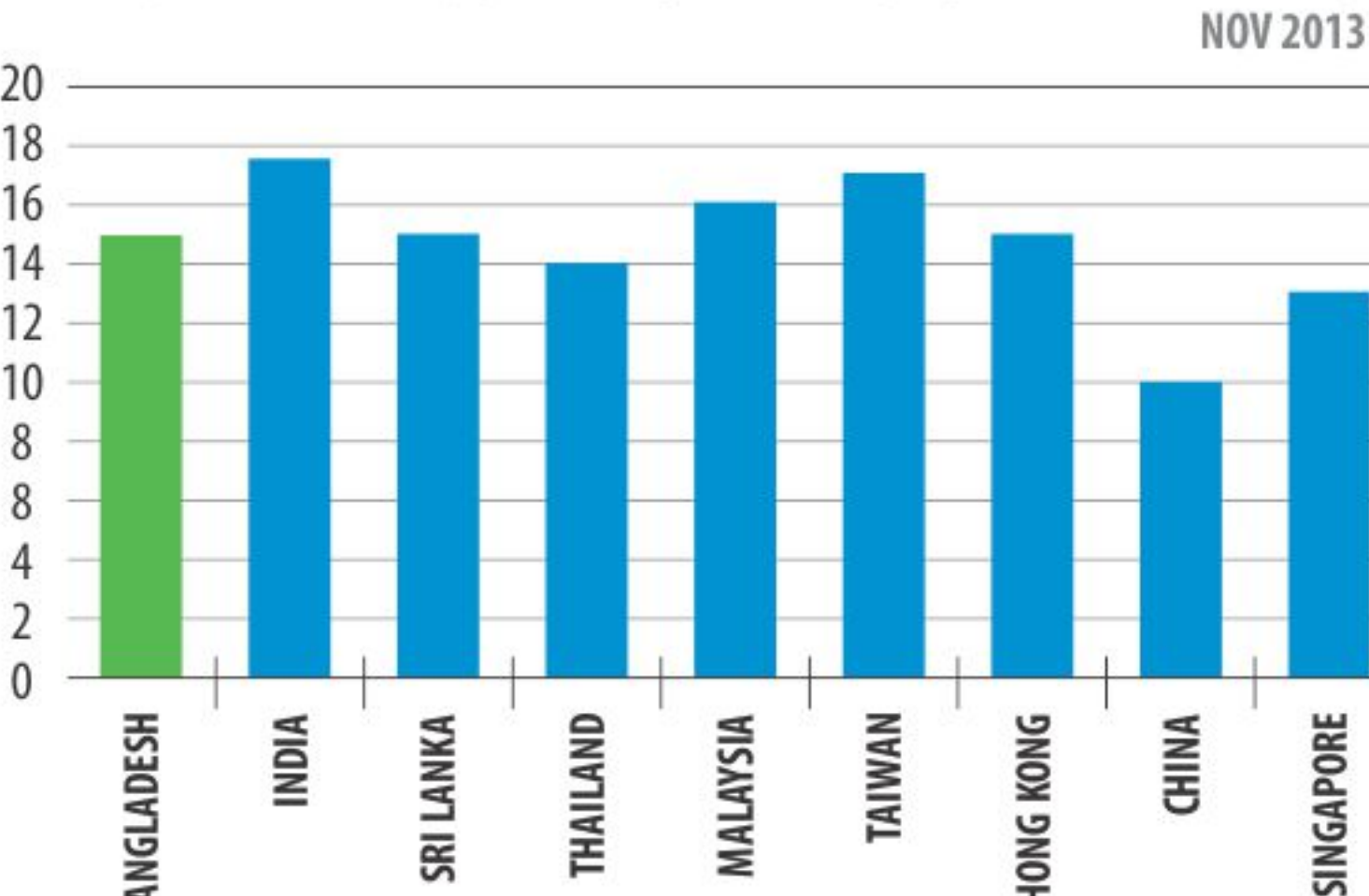
In recent years, even though market activity has increased, the contribution of the capital market in channelling capital for industrial development has been very low.

In 2013, 14 companies raised Tk 8.38 billion through the capital market; loans and advances from scheduled banks accounted for Tk 388.71 billion.

Since 1996, the capital market attracted investors and people have invested their savings. The secondary market has developed to some extent. There were times when the market was flooded by new funds and excess demand from the investors highly overvalued the market.

The market tapped new fund as returns from the capital market

PRICE EARNINGS RATIO IN REGIONAL MARKETS



YEAR	NUMBER OF INITIAL PUBLIC OFFERS	TOTAL FUND RAISED FROM CAPITAL MARKET (TAKA/BILLION)	FUND RAISED BY LOANS & ADVANCE (TAKA/BILLION)
2010	4	2.46	483.95
2011	5	2.41	638.41
2012	10	7.74	646.48
2013	14	8.38	388.71

were rewarding compared to deposits or returns on savings certificates or other instruments.

However, excess funds over a span of time created a bubble. Unfortunately, we cannot channel the excess fund to industrial development through a large number of IPOs. As a result, the market crashed and most people lost their hard earned money.

With too much money chasing a limited number of stocks, the market rose with no justification. That is why the market price earnings ratio (P/E) was historically very high at the DSE.

In 2009-10, the market weighted average P/E ratio reached 24.08 and in 2010-11, the market saw a heavy downfall once

the broad economic indicators started performing poorly compared to the last few years. The overvaluation of the market in 2010 took a heavy charge and most new investors lost their money.

Thus, the secondary market has also not been sustainable and the market framework remained weak. We could utilise the funds that have been attracted to capital market in recent times. Whenever there was excess funds in the market, entrepreneurs could tap the fund by raising funds through IPO. We could float a large number of IPOs at that time and the market could channel funds to industrial development.

The total issued capital by the

listed companies is Tk 398.012 billion. On the other hand, bank financing in the economy is around Tk 4,646.06 billion.

Historically, the secondary market in Bangladesh is relatively vibrant compared to regional peers. In 2010, market turnover velocity reached a high of 140.87 percent from 60.54 percent in 2007. However, the pace in velocity has not sustained and after the market crash in 2010-11, velocity dropped significantly.

Turnover velocity at DSE dropped to 36.07 percent in November 2013. However, liquidity in the market is still good and we should utilise our vibrant secondary market to float more IPOs.

There are many reasons behind slow IPO floatation; one reason is pricing. Entrepreneurs most often think they are not getting proper prices of their stocks, even though they are getting a 10 percent tax advantage.

They overleverage their balance sheets by taking bank loans. Another reason for slow IPO market growth is the time needed to float an IPO. Most entrepreneurs think that raising funds through an IPO is a cumbersome and time consuming process.

Regulators, on the other hand, are often reluctant to make quick approvals on IPOs, considering a negative impact on the secondary market and the demand side of the primary market. Presently, even though IPOs get oversubscribed, the capacity to absorb large IPOs on a frequent basis is not there. So regulators ration IPO approvals. To improve this situation, the demand side needs to be further increased.

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Nobel peace laureate Muhammad Yunus speaks in a discussion on the future of capitalism with Sir Richard Branson and Microsoft founder Bill Gates at the World Economic Forum in Davos on January 23. Former British prime minister Tony Blair moderated the discussion.

Yunus backs business with human connections

STAR BUSINESS DESK

BUSINESS should be something that "will not do harm to people, will not do harm to planet, will not exploit people, will have no corruption and no deception", Professor Muhammad Yunus said recently.

The Nobel peace laureate said there is a need to bring human identity back to the business.

Yunus spoke at a discussion at the three-day World Economic Forum (WEF) in Davos on January 23.

At WEF, he participated along with Sir Richard Branson and Bill Gates on the future of capitalism. The discussion was moderated by former British PM Tony Blair.

Professor Yunus said he is creating a space between business and philanthropy - which he terms as social business. "This is dedicated to solve problems, not to make personal money."

Yunus was invited to the lunch hosted by Prime Minister Shinzo Abe of Japan, where he was asked to make comments by

WEF founder Klaus Schwab.

Professor Yunus briefed the premier about the Japanese companies doing social business, including clothes retailing giant Uniqlo, while explaining the concept.

The Nobel laureate proposed for Japan to dedicate huge dormant account funds in Japan, which lie unutilised, towards creating a social business fund.

Abe was very happy to hear about these ideas and particularly about Uniqlo's involvement in social business.

Yunus participated in a high level meeting attended by UN Secretary General Ban Ki Moon, World Bank President Jim Kim, moderated by US Vice President Al Gore on global climate change.

He was invited to have a meeting with Minister of International Trade and Industry of Malaysia Mustapa Mohammed to discuss the details of launching of social business fund in Malaysia. The fund was announced by the Malaysian Prime Minister Mohammad Najib during the Social Business Summit in Kuala Lumpur in November 2013.

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An Indian Tata Nano car is seen during an independent crash test in India on Friday. The Tata Nano, billed as the world's cheapest car, and a host of other top-selling small models from India have failed their first independent crash tests. The five entry-level vehicles—including Suzuki-Maruti Alto 800, as well as the Ford Figo, the Hyundai i10 and the Volkswagen Polo—scored no stars out of five for protection in the tests carried out by the New Car Assessment Programme,

Fed draws criticism from abroad as emerging markets still reeling

REUTERS, Mumbai/New York

THE Federal Reserve's decision to keep trimming its economic stimulus drew fire on Friday as the Reserve Bank of India's chief said Americans should be more attuned to the global impact of their policies, and the IMF called for vigilance given strains in financial markets.

The push-back came on Fed Chairman Ben Bernanke's last day on the job and two days after the US central bank reduced the pace of its huge asset purchase program. The Fed made the move on Wednesday despite a bruising selloff in emerging markets that was prompted in part by the prospect of less US monetary support.

With the turmoil in currencies and stocks spreading into more emerging markets on Friday, Fed officials, addressing the rout for the first time, offered no hint the sell-off would influence their policy stance unless the US economy were threatened.

But in Mumbai, India's central bank chief Raghuram Rajan said the United States "should worry about the effects of its policies on the rest of the world."

"We would like to live in a world where countries take into account the effect of their policies on other countries and do what is right, rather than what is just right given the circumstances of their own country," he said at an event organised by The Times of India newspaper.

Argentina and elsewhere have boomed in recent years as the Fed's measures to bolster economic growth at home - including asset purchases and ultra-low interest rates - encouraged investors to seek higher returns in emerging economies.

As the Fed began to talk of unwinding its policy last year, the money began to flow back out, a trend that ramped up again in the last two weeks on signs that China's economy is slowing.

Rajan, a former chief economist at the International Monetary Fund, is well respected by central bankers globally as being among the few who spoke out about signs of trouble in markets well before the 2007-09 financial crisis set off the Great Recession.

His comments were echoed by the IMF, which on Friday called on central banks to ensure that a financial market rout in the developing world does not lead to an international funding crunch.

"The turbulence also underscores the need for vigilance among central banks over liquidity conditions in international capital markets," an IMF spokesman said.

The pressure, however, is unlikely to dissuade the Fed from ramping down its asset purchases by later this year unless the turbulence starts to derail recent momentum in the US economy. Fed policymakers did not mention emerging markets in a statement on Wednesday, when they unanimously decided to trim bond-buying by another \$10 billion per month.

Wal-Mart outlook hit by store closings

REUTERS, New York

WAL-MART Stores Inc cut its quarterly profit outlook because of a host of issues, including reduced food stamp benefits for millions of Americans, the restructuring of Sam's Club unit in the United States and the closure of stores in Brazil and China.

The announcement comes the day before Doug McMillon, who had been chief executive officer of the Walmart International unit, becomes president and CEO of the Bentonville, Arkansas-based company.

After decades of robust growth, Wal-Mart now faces fierce competition in the United States from dollar stores, Amazon.com Inc and other retailers as well as challenges abroad as it adjusts its big-box model.

"We have had some reorganisation within the global finance organisation," spokesman Randy Hargrove said in an email, "and as the new leaders reviewed the processes and procedures, we have uncovered some issues that we are addressing today."

The world's largest retailer expects to provide more details when it reports quarterly results on February 20.

Wal-Mart said Friday that it expected to report earnings for the fourth quarter ending on January 31 at or slightly below the low end of its previous forecast of \$1.60 to \$1.70 a share.

"Wal-Mart caters to lower-income consumers which have been hit disproportionately hard," said Morningstar analyst Ken Perkins.

About 20 percent of the company's shoppers are food stamp users, according to Cowen analyst Tal Lev. Wal-Mart did not respond to calls for details on the number of shoppers who use food stamps at its stores.

About one in seven Americans, or 48 million, took a hit in 2013 when the federal government food stamps program was cut by more than \$5 billion. Additional cuts are expected this year.

Wal-Mart is also facing serious competition from dollar stores and other small-format chains, Perkins added.

The retailer now expects to



Wal-Mart says bad weather and reduced food stamp benefits in the United States had dragged down comparable-store sales in the fiscal fourth quarter, more than offsetting a positive bump from the holiday season.

report a decline in fourth-quarter sales at stores open at least a year for Walmart US and Sam's Club. It had previously expected same-store sales to be relatively unchanged at Walmart US and flat to up 2 percent, without fuel, at Sam's Club.

For the fiscal year, the company said it expected earnings at or slightly below the low end of its prior outlook of \$5.11 to \$5.21 a share.

The company's shares closed down 0.09 percent at \$74.68. Analysts tied the muted stock activity on Friday to the fact that many other US retailers have already warned about tepid sales during the key selling season.

Wal-Mart joins a long list of US retailers that in recent weeks cut their outlooks, laid off workers and closed stores. Faced with shoppers worried about their job prospects and modest economic growth, retailers offered more discounts during the holiday season than a year earlier.

Amazon.com, the world's largest online chain, on Thursday missed Wall Street estimates for the holiday season and warned investors about a possible operating loss.

Perkins said he planned to take a closer look at the charges tied to

Wal-Mart's international operations but still cared more about the retailer's US business.

"When you look at the long-term drivers of Wal-Mart's business and their competitive advantage, the US business is still the strongest business," he said. "If they can get that back on track, then I think that gives them more options to right the wrongs or improve the international business as well."

Wal-Mart International's profitability has suffered from an aggressive expansion and lags that of the overall company. The unit is also the focus of a costly bribery probe.

The company said it had closed about 50 stores in Brazil and China. In October, Wal-Mart said it would close up to 25 small and mid-size stores across Brazil, where it operates about 560 locations and employs about 80,000 people. It also said it would end the year with 22 new stores and 44 renovated ones there, at a total investment of nearly 1 billion reais (\$413.2 million).

The Brazilian market is showing signs of weakness as the economy enters what is widely expected to be its fourth straight year of sluggish growth.

Wal-Mart Brasil, which is on its

third CEO since 2008, has remained mired in third place behind French rivals Carrefour and Casino, which controls market leader Grupo Pão de Açúcar SA. The US company's "everyday low price" business model never fully caught on with Brazilian consumers, who are accustomed to hunting for big sales in the competitive retail market.

"They can't just do the Walmart way in each and every country it trades," said Stephen Springham, an analyst with Planet Retail in London.

The company has not done enough to understand some of the finer nuances of the international markets in which it operates and adapt accordingly, Springham added.

For instance, many Chinese customers prefer to shop small and often for groceries during the week. That is unlike many of their US counterparts who prefer bulk shopping so they can make fewer trips, he said.

Wal-Mart's growth in India has been hindered by still-evolving rules on foreign investment, an internal bribery probe and the breakup of its partnership with New Delhi-based Bharti Enterprises in October.