AB Bank sets sights on restoring lost glory

The private commercial bank targets to cut NPL aggressively, improve corporate governance

STAR BUSINESS REPORT

AB Bank Ltd has stepped up efforts to cut non-performing loans and improve corporate governance as the country's first private commercial bank desperately seeks to become one of the top lenders again.

"We were number one in many areas. We want to regain the leading position," said Tarique Afzal, president and managing director of AB Bank.

AB Bank has been a pioneer in private sector banking in Bangladesh since its inception in 1982. It was the first private commercial bank to start banking operation, introduce teller systems in branches and give out syndication finance to Biman Bangladesh Airlines.

In a first, it also offered first financing in shipbuilding, used international payments network SWIFT and opened merchant banking wings.

AB Bank was the first lender to have a financial house abroad, open an overseas branch in Mumbai, have a representative office in Myanmar and first to invest in Sri Lanka.

But the burden of a dead mobile operator, Citycell, widespread loan fraudulence, mismanagement and influence of a sponsor director have pulled the once sound AB Bank down in recent years.

However, since taking over the helm in July this year, Afzal set his priority to make AB Bank compliant, protect public money, recover bad loans and increase deposits and profitability.

"We have made it a priority to recover NPLs. We have made significant improvements since December 2018," he said.

Since then, the lender has reduced its NPL by at least 30 percent: from Tk 7,900 crore at the end of December 2018 to below Tk 5,000 crore now. It plans to bring it down further to Tk 4,000 crore by this year.

"We will completely get away from it by 2020."

The bank's deposits rose to Tk 28,000 crore in September this year from Tk 24,000 crore in December last year.

He said the bank has carried out aggressive recovery and parted ways with some bad clients. The bank is mainly following the Negotiable Instruments Act to recover bad loans as fast as possible, since having cases settled at money loan courts takes time.

"I think the door for talks has been shut for clients who have not been repaying their loans for two to three years. I don't see any other way other than litigation to recover the loans."

Arrest warrant has been issued against a large group and a legal notice has been served against another group. Similar steps are underway against some more borrowers, he said.

The tough stance is bearing fruit.

"We are seeing significant results in recovery. People who have not paid us in the last two years are coming back and paying us. I think there has been a great impact among purposeful defaulters."

"Our stance on purposeful defaulters is very clear: we think that they are the criminals of the society and they are irresponsible. They have taken banks' money and have not paid back."

"If we can maintain this aggressive attitude, we will be able to establish that money has to be repaid to banks."

Afzal credited the new board and the management for the new-found confidence.

"Under the board's guidance and supervision, we want to regain our lost glory," he told The Daily Star in an interview recently.

Tarique Afzal

Afzal says he does not think that all businesses are the same. There may be unintentional defaulters.

"But our position is very tough against the borrowers who are not paying back purposefully or using the money for unintended purposes."

Afzal joined AB Bank in 2018 as deputy managing director and head of corporate, legal and regulatory affairs.

Prior to joining the bank, he was the CEO of Sonali Polaris Financial Technology, a joint venture of Sonali Bank and Polaris, India. He was the CEO of Dun & Bradstreet Rating Agency in Bangladesh.

Previously, he worked for Credit Union in Canada and ANZ Grindlays Bank, Standard Chartered, Bank Alfalah, and Brac Bank in Bangladesh.

AB Bank has reduced its focus on large loans and diversified loan portfolios, increasing attention on relatively less risky segments such as SMEs and retail.

However, large loans still dominate the bank's portfolio, standing at about 60 percent and the bank is working to bring it down to 30 percent to 35 percent.

"We are not giving out fresh large loans. We are focusing on SME and retail lending because in SME and retail banking, the risk is less and the premium is high."

It introduced some new products that have been able to attract depositors and small borrowers.

The bank is also setting up new banking booths. The AB Direct is allowing customers to carry out banking online.

"We are repositioning ourselves with ATM locations as well. There are locations where we don't have presence. We are going to increase and reallocate ATM booths."

It is focusing on agent banking. Currently, it has more than 50 agents under the platform and plans to go past 200 by this year and grow it 10 times by next year.

"We are also increasing our customer service focus. It used to be a weak area of the bank and also in the banking sector.

The bank has 104 branches – a number that may not seem large, but Afzal said it is adequate if used efficiently and they can help lending grow by at least 30 percent.

Its full-fledged branch in Mumbai and the representative office in Hong Kong are both profitable, he said.

According to Afzal, every bank has its ups and downs and AB Bank is no exception.

He said the bank's condition is not that bad: It pays employee salary on the 20th day of a month.

"Our clients, whether state-run agencies or individuals, can withdraw any amount of money any time. We have no history of cheque dishonour. We have not caused delays even for an hour in case of correspondence banking."

Speaking about the banking sector, he thinks that the government has taken the right step for the financial sector.

"We are gradually moving towards 9 percent lending rate and 6 percent deposit rate. I think the banking sector is heading towards stability."

An unhealthy competition exists among banks on attracting deposits and it should be brought to an end. Otherwise, the sector would not be able to achieve the targets on the lending rate and deposit rates.

Banks should explore ways to strengthen the economy further and stand by entrepreneurs in a bigger way, he said.

Afzal insists that AB Bank does not face any liquidity crisis. The bank's advance to deposit ratio is within the central bank's limit. In September, the ADR ratio was 84.5 percent, below the central bank ceiling of 85 percent and its peak of 98 percent.

The bank is not lagging behind other banks when it comes to efficient branch and workforce and its interest rate is at par with the market. The bank is far ahead of many banks in case of SME lending and women entrepreneur lending.

"We still keep government deposit. We can give Tk 100 crore to Tk 200 crore in a one-hour notice."

AB Bank is the top collector of bills on behalf of state-run Bangladesh Rural Electrification Board.

AB Bank has higher NPL compared to other banks largely because some loans were given in the absence of good corporate governance and proper reporting in the past, Afzal admitted.

"We had weakness in governance issues and we have put in place good governance practices. However, the NPL is not hampering our banking operations."

India's retail inflation surges, rate cut hopes still high

REUTERS, *New Delhi*

INDIA'S retail inflation rose close to the central bank's medium-term target of 4 percent in September for the first time in 14 months, but analysts still predict a sharp economic slowdown will prompt a sixth consecutive interest rate cut in December.

Annual retail inflation rose to 3.99 percent last month, driven by higher food prices, up sharply compared with 3.21 percent in the previous month and higher than the 3.70 percent forecast in a Reuters poll of analysts.

Retail food prices, which make up nearly half of India's inflation basket, increased 5.11 percent in September from a year earlier, compared with 2.99 percent in August.

Subdued inflation and an economic slowdown have allowed the Reserve Bank of India (RBI) to cut interest rates by a total of 135 basis points this year, including a 25-basis-point cut earlier this month, making it the most aggressive central bank in Asia.

The RBI said it expected inflation to stay below its medium-term target through to the early months of the 2020-21 fiscal year, while lowering its economic growth forecast to 6.1 percent for the current year ending March 2020, from an earlier estimate of 6.9 percent.

Economists said economic growth could fall as low as 5.8 percent, dragged down by a slump in consumer demand and investment, encouraging the RBI to cut rates for the sixth consecutive time at its next meeting in December.

Garima Kapoor, economist and vice-president at Elara Capital, said the arrival of the new crop in the market could ease food prices and so calm inflation, providing the RBI with the headroom to cut rates further.

"We expect the MPC (Monetary Policy Committee) to cut the policy repo rate by another 50 basis points until March-2020 with a 25 basis points cut in December," she said, referring to the central bank's benchmark interest rate.

Separately, figures released on Friday showed industrial output shrank 1.1 percent in August, the worst performance in nearly seven years.

Annual wholesale price-based inflation eased to 0.33 percent in September, from 1.08 percent in the previous month, while economists in a separate Reuters poll said the central bank was not yet done with rate cuts.

India's unemployment rate was 7.16 percent in September, compared with 6.47 percent a year ago and 8.2 percent in the previous month, estimates from the Centre for Monitoring Indian Economy, a Mumbai-based think-tank, showed.

The next decision from the RBI's monetary policy committee (MPC) is due on Dec. 5.

India's passenger vehicle sales slumped 23.7 percent in September, the 11th straight month of declines, prompting an industry body to flag more job cuts if sales failed to pick up soon.

China's crackdown on sugar smuggling leaves global storage headache

REUTERS/FILE

A man sprays pesticides at a sugar cane field at a village in Menghai county, China.

REUTERS, *London/Beijing*

A crackdown on sugar smuggling into China has left abundantly supplied markets in Asia and beyond struggling to absorb excess supplies, causing a wider storage problem for global markets.

Vast tonnages of sugar smuggled into China are believed to be produced mostly in India or Thailand and shipped to Myanmar, Laos or Vietnam before entering the Chinese mainland.

Those flows should more than halve this year to about 800,000 tonnes versus previous years when between 1.5-2.8 million tonnes would be smuggled in, according to Wang Weidong, a sugar analyst based in southern China.

The crackdown comes as Beijing faces pressure from industry to extend hefty sugar import tariffs beyond 2020 and keep growth in licensed imports into China historically low.

"Chinese authorities have really clamped down on that (smuggling trade) this year. It's been shut down for all intents and purposes," said a source a London-based sugar trader with ties to Asia.

Traders and analysts in London and Beijing said they expect the clamp-down to continue.

International Sugar Organization (ISO) figures show the global market will record a deficit of nearly 5 million tonnes in the 2019/20 season, meaning Asia will be able to absorb some of the excess resulting from China's crackdown.

However, following two straight years of surplus, the world market has some 95 million tonnes of stock to absorb, the ISO said. That is equivalent to about six months worth of demand and is disproportionately concentrated in Asia.

China's tariffs should leave official sugar imports into the country little changed this year at around 3 million tonnes, said Justin Liu, China-based senior sugar analyst at Chaos Research Institute.

The lack of growth is unusual for a developing economy like China which has a sugar deficit, and shows Beijing is serious about protecting its domestic industry.

"With the domestic output and imports under the quota, China's domestic demand can be met. Supply and demand is balanced. If China opens its market completely, the domestic sugar industry will be doomed," said Weidong.

"Everyone is speaking from their own interest. Why produce so much when you can't consume it?" he added.

China in May 2017 hit major exporting nations with hefty tariffs on sugar imports, and started to levy extra tariffs on out-of-quota sugar imports from all origins in August last year.

The measures, with the smuggling crackdown, have helped push Chinese white sugar prices up some 20 percent this year, after they sank to near four-year lows last year.

China's smuggling crackdown has also contributed to a build-up of stock in Thailand, some of which made its way onto global markets mid this year via record deliveries against ICE futures contracts.

Analysts Green Pool said Thailand, the world's second largest exporter, was sitting on nearly 7 million tonnes of stock at end-September, 1.1 million tonnes more than last September and nearly 3 million more than the previous two years.

"In an ideal world they would have sold all their stock by September," Green Pool analyst Tom McNeill said. A large proportion of this stock will have to be cleared by the end of the year to make way for the new crush, he added.

Trade war rejuvenates 'Silicon Valley' firms in Malaysia

REUTERS, *Penang, Malaysia*

YEARS after resisting pressure to move to China, Lee Hung Lung says his bet has paid off. Sales at his Malaysia-based Hotayi Electronic are surging, it's hiring more workers, considering an expansion, and picking and choosing orders.

Lee is the founder and CEO of Hotayi, whose two factories manufacture and assemble circuit boards and other electronics products. The plants are located in the coastal state of Penang, once called the "Silicon Valley of the East" for its massive 47-year-old electrical and electronics (E&E) industry before it lost its shine to China.

Then came the trade war between the world's biggest two economies, pushing mostly US companies to look for factories outside China to escape retaliatory tariffs, and leading to Penang's resurgence after what a fund manager described as "a decade of sleepiness".

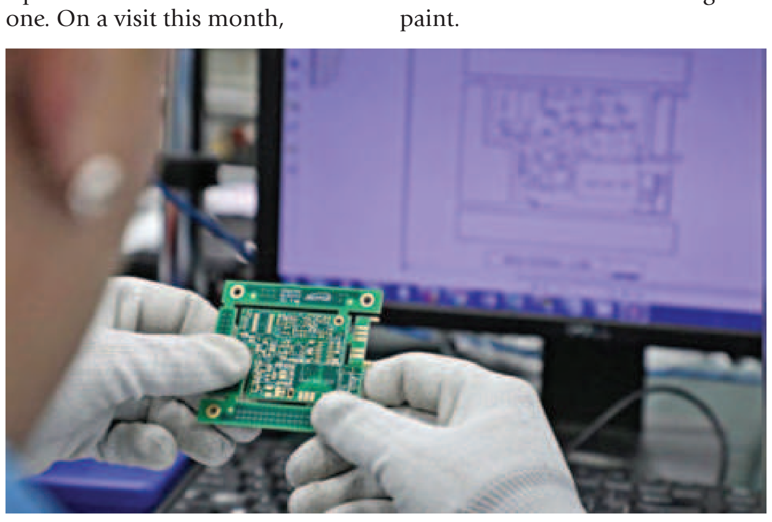
Penang is just one of the areas across Asia competing for supply chains seeking a new location and lower tariffs.

But its two industrial zones have the advantage of a long-established ecosystem of suppliers and customers in one place and cheaper labor than regional rival Singapore. The two zones are connected by a 24 km (14.9-mile) bridge over the Malacca Strait.

The other factor going for Penang is that many semiconductor and other electronics products from Malaysia do not attract US tariffs, unlike the 25 percent rate for China.

In June, Hotayi opened its second plant - which at 350,000 square feet is five times the first one. On a visit this month, employees were testing equipment that will help build products for clients that include Samsung, LG and Sharp.

"Around 2007, I was facing big pressure even from my management because China was cheaper than Malaysia - up to 30 percent in labor costs," said Taiwan-born Lee, taking off his striped white factory suit as he settled down for an interview in a conference room still smelling of paint.



REUTERS/FILE

An employee of the automated test equipment designer and solutions provider Aemulus Holdings Berhad inspects a printed circuit board at a production facility in Penang, Malaysia.

"I instead decided to go for more smart, which means more investment on IT, software. Today Hotayi is becoming more, more and more big," he said. "Because of the trade war, customers are transferring their complete production lines from China."

Foreign direct investments into Penang leaped 11 fold to about $2 billion in the first half of this year - much more than it has attracted in any other full year. The government expects second-half numbers to be as strong, but declined to give any estimate of jobs generated.

In its federal budget for next year presented on Friday, Malaysia said it would provide tax incentives to further promote high value-added activities in its E&E industry.

US companies such as chipmaker Micron Technology and iPhone supplier Jabil Inc are building factories in Penang. The state is urgently freeing up more land, including through reclamation, to make space for new plants, said its top elected official, Chief Minister Chow Kon Yeow.

Penang shot to the limelight in 1972 when Intel built its first international manufacturing plant there. Intel was followed by many other big US names such as Broadcom, Dell and Motorola.