

Star

BUSINESS

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SCAN FOR DETAILS

BY THE NUMBERS

**44** companies have reserve over Tk **1,000cr** each

**24** of the companies are banks

**5** are fuel, power companies

**4** are pharmaceutical companies

**3** are engineering firms

**Rest** are from telecom, tourism and miscellaneous

**FIRMS WITH HIGHEST RESERVES**
SOURCE: SHANTA ASSET MANAGEMENT

Walton
Tk **9,042cr**

Square Pharma
Tk **7,999cr**

Titas Gas
Tk **5,983cr**

Beximco Ltd
Tk **5,818cr**

Islami Bank
Tk **4,962cr**

REASONS FOR KEEPING RESERVE

Future expansion
Absorbing future shock
Strengthening companies' capital base
Regulatory payment
Debt repayment

INVESTORS SAY...

- Companies keeping funds excessively higher than needs
- Some companies' directors misuse the funds
- Bank deposits yield reduced interest earnings

**The companies can keep the reserve for the sake of future expansion, but there should be logic as sometimes they build up the reserve excessively.**

Shahidul Islam
CEO of VIPB Asset Management Company

STOCKS		WEEK-ON-WEEK
DSEX ▼	CASPI ▼	
0.69% 6,515.01	0.70% 19,141.02	

COMMODITIES		AS OF FRIDAY
Gold ▲	Oil ▲	
\$1,675.22 (per ounce)	\$85.57 (per barrel)	

ASIAN MARKETS				FRIDAY CLOSINGS
MUMBAI	TOKYO	SINGAPORE	SHANGHAI	
▼ 1.82% 58,840.79	▼ 1.11% 27,567.65	▲ 0.01% 3,268.29	▼ 2.30% 3,126.40	

FOREIGN TRADE

Businesses welcome move to allow yuan

STAR BUSINESS REPORT

Businesses yesterday welcomed Bangladesh Bank's clearance to settle payments for international trade through Chinese yuan to cut excessive dependence on the US dollar but said implementation will be challenging.

To address issues related to currency conversion and the exchange rate between Bangladesh's taka and yuan, one suggested dialogue with the Chinese central bank.

Bangladesh Bank on Thursday said local banks would be able to maintain accounts in Chinese yuan or renminbi with their corresponding lenders or branches abroad to enable local businesses to settle transactions for foreign trade using the currency.

The move comes more than one-and-a-half months after various chambers, such as the Metropolitan Chamber of Commerce and Industry, urged the central bank to allow multiple currencies for international trade settlements to cut Bangladesh's over-reliance

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Listed firms build huge reserve of Tk 153,000cr

Analysts say it's a strength but should have logic

AHSAN HABIB

Listed companies in Bangladesh have built up reserves of Tk 153,000 crore collectively from their respective earnings for use in expansion and to weather out rainy days, when they would otherwise be forced to raise fresh funds from investors or borrow from lenders.

Of the 298 listed companies that have kept reserves, 44 set aside more than Tk 1,000 crore each from their profit while 28 have a reserve of Tk 500 crore each, according to their published financial data compiled by Shanta Asset Management Company.

Local electronics giant Walton Hi-Tech Industries holds the highest reserve of Tk 9,042 crore followed by Square Pharmaceuticals with Tk 7,999 crore and the Titas Gas Transmission and Distribution Company with Tk 5,983 crore.

A reserve and surplus fund is a liquid asset that is normally set aside from the company's profit to meet any future costs, including expansion projects, and financial obligations such as debt repayments.

Analysts say that maintaining reserves is a good practice worldwide as companies can use these funds to tackle any unforeseen shocks as well.

Companies in Bangladesh have similar intentions for their reserves but some investors are sceptical in this regard as some firms are not expanding even though they have held a good amount of reserve for several years.

In addition, the real income from reserve funds kept in banks

can talk about it in during the annual general meeting," he said.

"All the companies should not be blamed for the actions of a few that have been accumulating reserves year after year without expanding," added Islam, also a former chairman of the Bangladesh Securities and Exchange Commission.



or invested in other securities is low at times when inflation is high.

AB Mirza Azizul Islam, former finance adviser to a caretaker government, said general investors want an immediate cash dividend and so, they do not like the idea of retained earnings.

On the other hand, companies always think about the future, so they want to keep a portion of their profit for use in case of emergency or expansion, he said.

"But if investors have any qualms about the reserve, they

Echoing the same, Shahidul Islam, chief executive of VIPB Asset Management Company, which manages Tk 280 crore worth of mutual funds, said there should always be a logical reason to keep reserves.

Some companies are keeping huge sums of money as reserves each year even if their capital expenditure and rate of expansion is low.

"So, their dividend activities are totally puzzling," he added.

Besides, some companies with good performance records and

good profit growth are making investments but the size of their reserves is much too high considering their needs, he said.

"I asked for an explanation in this regard from a company's directors during their annual general meeting last year but they did not give an answer," Islam said.

Of the 44 companies with a reserve of more than Tk 1,000 crore each, 24 are banks and non-bank financial institutions, five are fuel and power companies, four are pharmaceutical companies, three are engineering companies and the rest are from other sectors.

Anis A Khan, a veteran banker who is a former managing director of Mutual Trust Bank, said banks have to have high amounts of capital to increase their lending. Moreover, they need to have a large reserve against default loans, he said.

"So, banks are always hungry for raising capital," he added.

As banks cannot lend more than a certain percentage of their capital to a single borrower, it tries to increase its capital so that the lending limit increases as well, he said.

Having high amounts of capital also helps increase the trade finance limit with foreign banks, he said.

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Imported steel still visually assessed for duty Leads to underinvoicing

MOHAMMAD SUMAN, Chattogram

The National Board of Revenue (NBR) has no definite guideline on grading steel, prompting duty evasion through underinvoicing and adoption of other unfair means by dishonest importers, depriving the government of hundreds of crores of taka in revenue each year.

Currently, the duty is imposed based on the import value of two types of qualities of steel, prime and secondary, which again can be divided into 10 sub-categories.

The purchase prices claimed by importers are quite different from international market prices, and there are no guidelines for prime and secondary steel, said customs officials.

As a result, unscrupulous steel importers resort to underinvoicing to evade tax and also bring prime steel declaring those as secondary steel, which is cheaper.

Underinvoicing is an act or practice of stating the price of goods on a letter of credit (LC) as being less than the price actually paid.

Custom House, Chattogram (CHO) seized more than one lakh tonnes of imported steel products between May and July this year and collected around Tk 400 crore in additional revenue through bank guarantees from those importers through a temporary assessment.

The goods were brought under the declaration of being secondary steel but a laboratory report of the Bangladesh University of Engineering and Technology (Buet) identified it as prime steel.

According to the NBR, the minimum price cap of imported prime steel products is \$820 per tonne while it is \$400 for secondary steel.

Import duty on steel products ranges from 38 per cent to 52 per cent depending on the price of the goods, according to the NBR.

The customs officials said they fail to conduct a proper assessment due to the absence of proper guidelines regarding prime and secondary steel products.

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Bring MNCs to stock market: analysts

STAR BUSINESS REPORT

Stock market analysts yesterday urged the government to encourage multinational companies and local ones with good performance records to get listed to boost stock investors' confidence and ensure "fair distribution" of profits.

They spoke at a roundtable titled "Present and future outlook of capital market of Bangladesh" organised by Bangladesh Merchant Bankers Association (BMBA) and Capital Market Journalists' Forum (CMJF) at The Westin Dhaka.

Prof Abu Ahmed, a former chairman of economics at the University of Dhaka, said most of the companies which were allowed to enter the stock market over the past one decade did not have that good of a performance record.

"Unilever, Nestle, and MetLife are working in the country for years and logging huge profits every year... Why are they not sharing their

RECOMMENDATIONS

Rein in share price manipulation

Establish good governance in companies

Ensure transparency, accountability in financial reports

Well-performing firms should get good price in IPO

Corporate tax gap between listed and non-listed firms should rise

Long-term loan by banks should be discouraged

profits with the people?" he asked.

Many of those are listed in neighbouring India and Pakistan but not here. The government should think about it, he said.

The National Board of Revenue

(NBR) reduced the corporate tax gap between listed and non-listed companies by 2.5 percentage points to bring it to 7.5 percentage points, said Ahmed.

However, stock market analysts had repeatedly urged lifting the gap to 20 percentage points from the then 10 percentage points, he said.

"Who did this, on what basis, I cannot understand it," he said.

However, Faruq Ahmad Siddiqi, a former chairman of the Bangladesh Securities and Exchange Commission (BSEC), questioned the rationality of companies coming to the stock market for funds when they can easily avail long-term ones from banks.

Unless the easy, long-term loans are stopped and good governance ensured, the companies will not come to the stock market. Unless companies with good performance records get listed, the stock market will not get developed, he added.

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Inauguration of Relocated Bashundhara Branch

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