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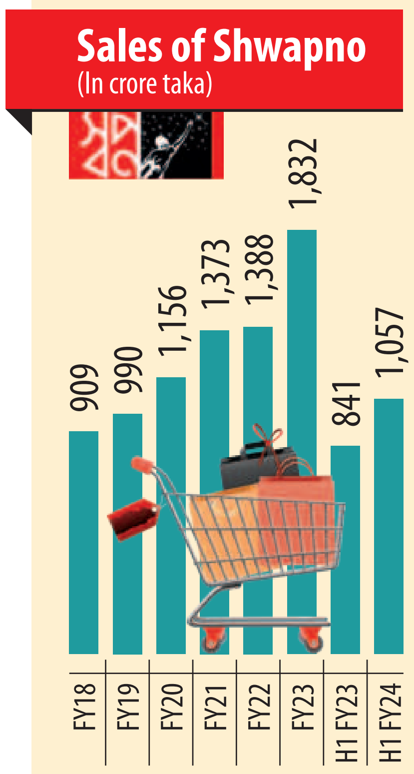
Story on B3

Shwapno's loss spirals to Tk 1,600cr in 15 years as finance cost gets heavier

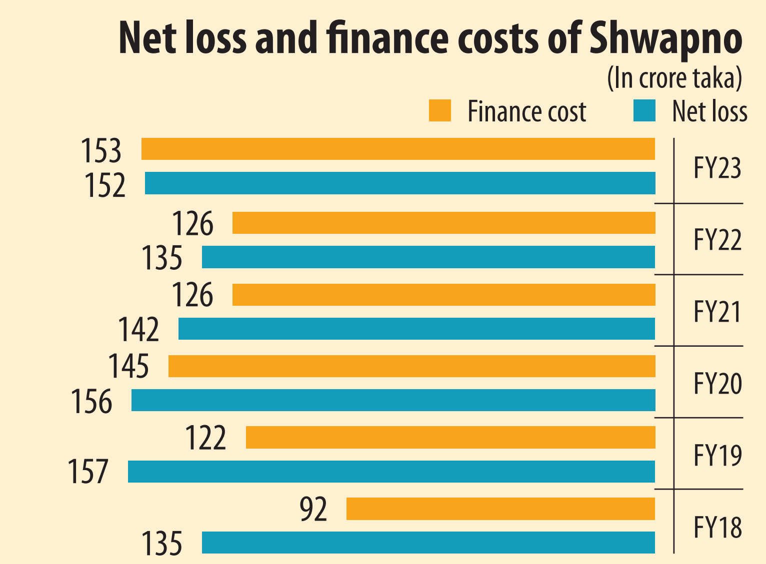


Debt-equity ratio in some global retail chains

Brand	Country	Ratio
Shwapno	Bangladesh	44
CP ALL (7-Eleven)	Thailand	2.3
Big Bazaar	India	9.34
Walmart	USA	0.49

REASON BEHIND HIGHER LOSS

Higher amounts of loans raised finance costs



SOURCE: FINANCIAL REPORTS

AHSAN HABIB

Shwapno, the leading retail chain brand in Bangladesh, started making operating profit, but its loss accumulated to Tk 1,661 crore over the past 15 years largely due to mammoth loans that are pushing up finance costs every year.

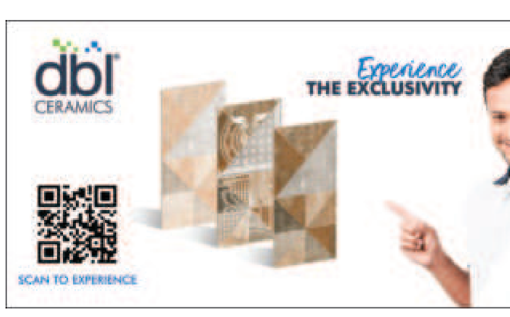
The company's short-term loan from banks was Tk 118 crore in 2022-23 while the long-term debt was Tk 425 crore. The inter-company loan amounted to Tk 1,163 crore, according to the financial reports for the year that ended in June.

Established in 2008, Shwapno has become a household name in cities, particularly the capital, among those who prefer to carry out shopping from a single store. At present, the brand is operating through a network of more than 440 outlets.

In 2016, Shwapno was recognised as the Best Retail Brand in Bangladesh jointly by Kantar Millward Brown and the Bangladesh Brand Forum.

"Shwapno is making operating profits but it is incurring a net loss as it had huge finance costs for the loans," said Sabbir Hasan Nasir, executive director of ACI Logistics, which owns Shwapno.

The net finance cost was Tk 153 crore in FY23, up from Tk 126 crore a year earlier, the financial report showed. Thus, the retail chain incurred a loss of Tk 152 crore in the last fiscal year against Tk 135 crore in 2021-22.



Nasir said Shwapno is counting compound interest on the loans, so the finance cost is going up every year and hitting the bottom line.

Shwapno's debt to equity ratio, which compares a company's total liabilities to its shareholder equity, is 44 while it is 2.3 for Thailand's CP ALL, the owning company of Southeast Asian country's popular retail chain 7-Eleven.

India's Big Bazaar's debt to equity ratio was 9.34 in 2022 while it is 0.49 for the world's largest retail chain Walmart, according to their annual reports. Most of the global chain shops have a ratio that is less than 1.

The optimal debt-to-equity ratio varies by industry, but it should not be more than 2, according to Investopedia.

Nasir says if the inter-company loans of Shwapno are converted into equity, the finance cost will not soar and the company can start making profits.

"The huge leverage is the main reason for the loss because higher loans are increasing the finance costs," said Kazi Ahsan Maruf, managing director of Ekush Wealth Management, an asset management company that invests funds in the stock market.

ACI Logistics is the subsidiary of ACI Ltd, which has been listed with the stock market since 1976. Due to the mounting losses incurred by some subsidiaries including ACI Logistics, the group was in the red in recent quarters.

"As Shwapno's business is based on high volume and low margin,

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WEEKLY INTERVIEW

Md Mamunur Rashid

Gas crisis choking ceramics factories

JAGARAN CHAKMA

The persistent gas crisis in Bangladesh has been severely hindering the nation's ceramics industry over the past three to four months, leading to a roughly 20 percent drop in overall production quality in the sector.

There are currently 68 establishments in the local ceramics sector, the market for which is worth over Tk 7,000 crore, according to industry people.

These manufacturers are largely reliant on gas-fired kilns, which offer precise temperature control, thereby reducing energy consumption and enhancing product quality.

However, only 80 percent of the manufactured products are reaching the quality threshold at present due to the gas crisis, with the rest being discarded as waste.

This greatly increased the cost of production, which was already spiralling due to hikes in gas prices, and the depreciation of the local currency against the US dollar.

"The cost of gas increased by 136 percent during the last year. Meanwhile, we could only increase the price of the products by 10 percent, that too across two phases," said Md Mamunur Rashid, senior vice-president of

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Investors flock to risk-free treasury bills for higher returns

MD MEHEDI HASAN

Government treasury bills, popularly known as T-bills, have become a lucrative tool to park funds for investors and savers driven by a record spike in yields in recent months.

The yield of all genres of treasury bills has gone past a record 11 percent, way higher than the interest rates of bank deposits as the government's internal borrowing – from financial institutions and individuals – climbed after the suspension of securing loans from the central bank.

During separate auctions on January 29, the government raised Tk 4,098 crore by selling the 91-day treasury bills. The 182-day and 364-day securities fetched Tk 413 crore and Tk 1,357 crore respectively, central bank data showed.

The Bangladesh Bank has suspended printing money for the government since the beginning of the current financial year as high-powered funds stoke inflation, which is already at a record level.

This forced the government to accelerate its borrowing from financial institutions and individuals, making treasury bills an automatic choice for them since the tool is considered lucrative globally for investors looking for a relatively safe place to grow their savings.

Between July 1 and January 25 this fiscal year, the government borrowed Tk 29,353 crore from scheduled banks against treasury bills and bonds and it repaid Tk 31,737 crore to the central bank, BB data showed.

It took around Tk 98,000 crore from the BB in 2022-23, which accounted for 73 percent of its total borrowing from banks and non-banks.

Banks and non-banking financial institutions are also interested in investing in treasury bills and bonds thanks to the higher return and they are a more secure investment than lending.

At the end of FY23, commercial banks invested Tk 301,560 crore in treasury bills and bonds, making up 37 percent of the total investment in the two securities.

The BB parked Tk 130,889 crore and financial institutions invested Tk 948 crore, central bank data showed. Retail investors bought treasury bills and bonds to the tune of Tk 1,102 crore.

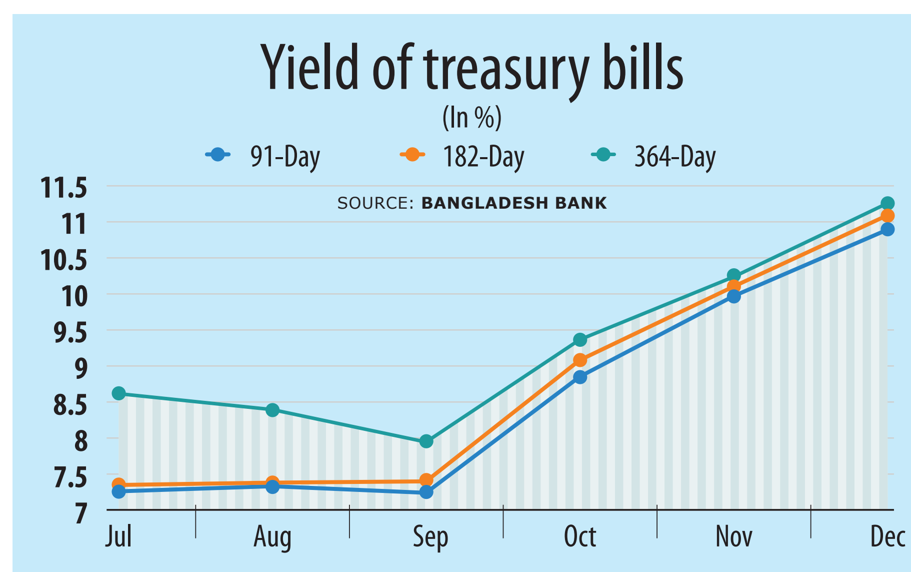
A central banker said individual investors are also diverting their funds from banks to treasury bills and bonds for higher returns.

The yield of the 91-day bills stands at 11.35 percent, the 182-day at 11.40 percent and the 364-day at 11.60 percent, up from 6.95 percent, 7.25 percent and 8.30 percent respectively, in June last year.

On the other hand, commercial banks offer 6 to 9 percent interest rates against fixed deposit products, a return that is lower than the 9-plus percent inflation Bangladesh has witnessed since March. The escalated inflation has rendered the return from the deposit schemes largely negative.

"Individual investment in treasury bills and bonds is growing thanks to the interest rate hike," said Emranul Huq, managing director of Dhaka Bank.

This is because both individuals and corporate depositors can receive more than 11 percent interest in just 91 days, he explained. "The rate is higher than the deposit rate at banks."



Since investors are leaning towards treasury bills and bonds, it would be tough to mobilise deposits for banks, according to Syed Mahbubur Rahman, managing director of Mutual Trust Bank.

"Even some depositors are withdrawing funds from banks and are investing in treasury bills since the interest rates against the latter are more than two percentage points higher than the former."

The stock market is yet to become savers' top choice owing to the absence

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Despite measures, FDI flow into Bangladesh is low

JAGARAN CHAKMA

Despite developing economic zones and adopting one-stop services to attract foreign direct investment (FDI), Bangladesh has failed to get as much as it targeted.

Not only global economic giants like India, even small economies in the South Asian region such as the Maldives and Sri Lanka are ahead of Bangladesh in terms of FDI attraction.

According to UNCTAD's World Investment Report 2023, Bangladesh ranks fourth among South Asian nations in terms of FDI inflow as a percentage of gross domestic product (GDP) despite being the second-largest economy in the region.

From 2017 to 2022, Bangladesh received an annual average of $2.92 billion in FDI.

In 2022, Maldives received $722 million in FDI, which equated to around 11.70 percent of its GDP.

Meanwhile, Sri Lanka, which endured a severe economic crisis in 2022, fetched $898 million from foreign investors, equating to 1.20 percent of its GDP.

THE WEEKLY VIEW

While Bangladesh received more FDI than either nation in terms of US dollars, both countries outpaced Bangladesh when considering FDI as a percentage of GDP.

Bangladesh's FDI inflow amounted to only 0.75 percent of its GDP, according to the UNCTAD report.

But even in US dollar amounts, the FDI would amount to less than half of the requirement.

As per 'Vision 2041', the government's plan to turn the nation into an advanced economy by 2041, Bangladesh needs to get FDI equivalent to 1.66 percent of its GDP annually.

This reveals that the nation, which has registered around 6 percent annual economic growth over the past two decades, is failing to create enthusiasm among foreign investors despite taking several steps.

Numerous economic zones were established and the authorities framed a law to provide fast services through one-stop services over the past decade and a half. But the level of FDI did not grow as expected.

This ultimately begs the question: What's wrong? Why does a $450 billion economy fail to get the desired amount of foreign investment?

One of the major problems is that facilities at the port for handling cargoes and containers, alongside transport and logistic facilities, are not up to the mark, lagging behind facilities developed by Bangladesh's competitors in South Asia.

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