

## Budget Review: FY 2014-15

June 05, 2014

- ✓ The budget aims at achieving 7.3% GDP growth. In addition, inflation was targeted to reduce further from existing level of 7.4%
- ✓ No major change in capital market related policy level
- ✓ Textile, Pharmaceutical, Bank, Engineering, Ceramics and Energy sector are expected to be benefited while; ICT and Tobacco are expected to be negatively affected from the proposed budget.

### Capital Market Implications

Recognizing importance of capital market in economic development, the budget has declared several incentives (Table 3) which are expected to ensure a well-functioning capital market, in future. We believe that declared incentives, added with the existing ones, will contribute for capital market development.

**Table 3: Capital Market Incentives**

<p><b>Capital Market Incentives to be continued with some additional incentives</b></p>	<p>Alongside earlier incentives for capital market, following additional incentives have been proposed in Budget 2014-15,</p> <ul style="list-style-type: none"> <li>✓ Tax exempted dividend income threshold has been raised to BDT 15,000 from BDT 10,000</li> <li>✓ Tax Exemption facilities for 5 years for demutualised stock exchanges in graduated rate</li> </ul>
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### Sectors/Industry – Positively Affected

<p><b>1. All Sectors –</b></p>	<ul style="list-style-type: none"> <li>✓ Extension of existing tax holiday facilities from June 2015 to June 2019</li> <li>✓ Accelerated Depreciation Facilities reinstated as an alternative to Tax holiday for new investors</li> <li>✓ On cash incentive, Tax Reduction at source has been reduced from 5% to 3%</li> <li>✓ Raw materials of Paper, Glass, Ceramics, Rubber, Furniture, Paint, Electrical &amp; Plastic industries will have lower customs duty, from existing 10% and 25% to 5% and 10%, respectively</li> </ul>
<p><b>2. Bank</b></p>	<ul style="list-style-type: none"> <li>✓ Government of Bangladesh (GOB) targets for borrowing BDT 312.21 bn from banking system in 2014-15</li> <li>✓ Trading Business Income: <ul style="list-style-type: none"> <li>I. For local LC &gt; BDT 5 Lakh, Deduction Rate at source reduced from 5% to 3%</li> <li>II. Not to deduct at source for consumer staples including rice, onion, dal, turmeric, chili, maize, flour, salt, edible oil, sugar</li> <li>III. On deemed commissions, tax rate reduced from 5% to 3%</li> </ul> </li> <li>✓ As GOB borrowing continues significantly, treasury market may continue its vibrant tone</li> <li>✓ Reduced taxes in LC may bolster trade business, which will positively affect non funded income of banks</li> </ul>

<p><b>3. Textile</b></p>	<ul style="list-style-type: none"> <li>✓ Exemption of duty in import of building materials to increase safety in Factories</li> <li>✓ Duty chargeable to a few raw materials used in the textile sector is proposed to be reduced from 10% to 5%</li> <li>✓ This may improve margins of respective companies in the textile sector</li> <li>✓ Reduction of Duty in import of Flex Fiber from 10% to 5% and in Artificial Staple Fiber from 5% to 3% may benefit <b>SAIHAMTEX</b></li> <li>✓ Reduction of SD from 60% to 40% would facilitate garments factories, may benefit <b>DSHGARME, GENNEXT</b> etc.</li> </ul>
<p><b>4. Pharmaceuticals</b></p>	<ul style="list-style-type: none"> <li>✓ 40 Anticancer raw materials will have full exemption on customs duty, which may be advantageous for <b>BEACONPHAR</b></li> <li>✓ 40 basic raw materials will have lower supplementary duty, which may have positive effect in cashflows of pharmaceuticals companies</li> <li>✓ Erythromycin ethyl succinate, Erythromycin stearate and Azithromycin will have higher import tax rates, which may provide competitive advantage to <b>ACTIVEFINE</b></li> <li>✓ Certain food imports for poultry &amp; livestock will have tax exemption, which may benefit <b>RENATA</b>, having its subsidiary in poultry business</li> <li>✓ Soap, Detergent will have lower supplementary duties from 20% to 15%</li> <li>✓ Lower duties on soap &amp; detergents may facilitate local manufacturers like <b>KEYACOSMET</b></li> </ul>
<p><b>5. Energy</b></p>	<ul style="list-style-type: none"> <li>✓ Import duty on LPG cylinders to raise from 5% to 25% which may be beneficial for local LPG cylinder manufacturers</li> </ul>
<p><b>6. Engineering</b></p>	<ul style="list-style-type: none"> <li>✓ Exemption on billet manufacturing raw materials such as sponge iron and reduced iron</li> <li>✓ Import tax rate for Billet &amp; Ingot raised to BDT 5,000/MT from BDT 3,500/MT</li> <li>✓ Bar &amp; Rods will have higher import tax rate, at 25%, from existing 10%</li> <li>✓ This may be beneficial for steel companies with backward linkage facilities, like <b>BSRM</b></li> </ul>
<p><b>7. Food &amp; Allied</b></p>	<ul style="list-style-type: none"> <li>✓ Fish &amp; Shrimp products will have lower Supplementary Duties from present 20% to 10%-15%</li> <li>✓ Sweet Biscuits, Waffles, Wafers, toasted products, Potato Chips, Fruit Juices, Sauces, Ice Cream will have lower supplementary duty</li> <li>✓ Local exporting companies may benefit from such reductions</li> </ul>
<p><b>8. Other</b></p>	<ul style="list-style-type: none"> <li>✓ Custom duties of 10% and 25% on raw materials of ceramics, glass and paints are being proposed to be re-fixed at 5% and 10%, respectively</li> <li>✓ This may improve margins of ceramic, glass and paint producing companies</li> <li>✓ Reduction of SD on certain raw materials from 20% to 15% may facilitate tannery industry. <b>APEXFOOT, APEXTANNRY</b> and <b>BATASHOE</b> may benefit from it</li> </ul>

## Sectors/Industry – Negatively Affected

1. All Sectors	✓ 1% percent 'Environment Protection Surcharge' or 'Green Tax' on ad-valorem basis will be charged on all kinds of products manufactured in Bangladesh by the industries which pollute the environment
2. ICT	✓ BDT 100 as replacement SIM tax for each piece which may affect telecommunication companies like <b>GP</b>
3. Tobacco	<ul style="list-style-type: none"> <li>✓ Tax incidence has been upward revised from existing one</li> <li>✓ 1% percent 'Health Development Surcharge' on all imported and domestically produced tobacco products</li> <li>✓ These may affect tobacco companies like <b>BATBC</b></li> </ul>
4. Other	✓ Land Development & Building Construction sectors will have higher VAT, at 3%, from existing 1.5% & 2% respectively. This may affect companies like <b>EHL</b> and <b>BDBUILDING</b>

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