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IDLC MONTHLY

BUSINESS REVIEW

STEEL AND RE-ROLLING INDUSTRY OF BANGLADESH

Strengthening Country's Infrastructural Development

IDLC Finance Limited
financing happiness

contents

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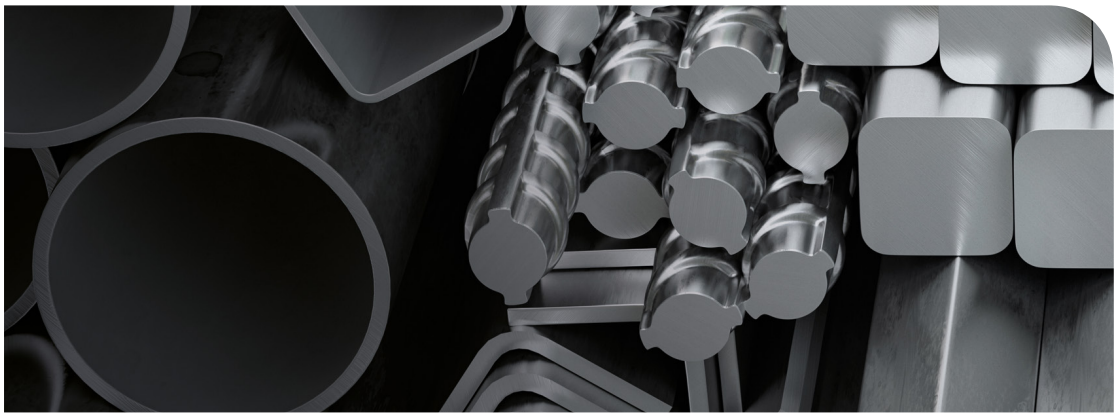
FROM THE

EDITOR



Steel and Re-Rolling industry: fast paced recovery from pandemic on the cards

The Steel and Re-rolling industry, one of the prominent growth drivers of Bangladesh, has had its fair share of hit by the Covid-19 pandemic. This has been reflected on numbers as world crude steel production recorded a 3.2% decline compared to figures recorded in the same time period last year. As a developing nation with increased focus on to infrastructural development and lined up mega projects, Bangladesh sees massive growth potential in the Steel industry. With a market size of around BDT 450 billion the local Steel market employs nearly 1 (one) million people directly or indirectly across the country. The market has been growing at a rate of 15%-20% for the past 2 years and contributes largely to the country's GDP. However, the market for steel is turning into a perfectly competitive one from an oligopolistic structure as small players are now gaining efficiency and reaching competitive levels of their larger peers such as AKS, BSRM, KSRM etc. With the growth of the smaller companies, it is safe to say that the challenges that come with surviving in the Steel industry – such as, abundant supply of power and gas, availability of raw materials etc. are being well taken care of.

The Steel industry strategically runs on overcapacity. It is seen that the utilization is around 75% of total capacity which came down to 40% due to the pandemic wave. The prices of raw materials and finished goods are also seen to fall. However, as a resilient nation, Bangladesh is adapting fast to the new challenges that came with the pandemic. And, as we look towards a new normal, companies in the Steel industry must work in collaboration with regulators in order to sustain the growth and maintain the level of efficiency reached prior to the pandemic.

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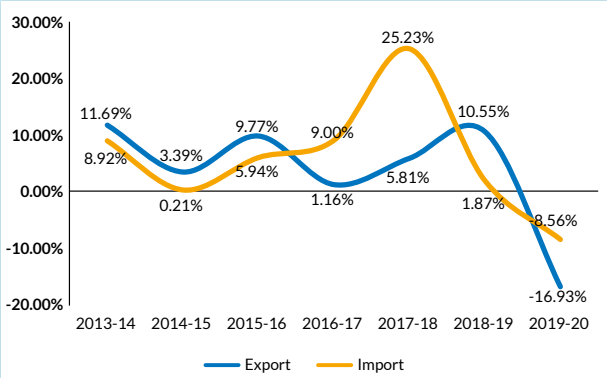
ECONOMY AT A GLANCE

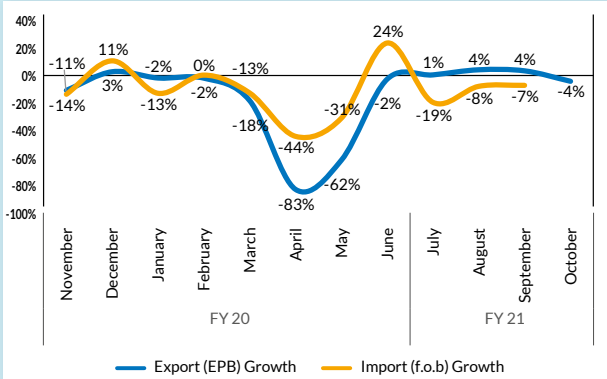
Prepared by IDLCSL Research Team

EXPORT-IMPORT

Growth in Export Imort Trade (Last 7 Years)

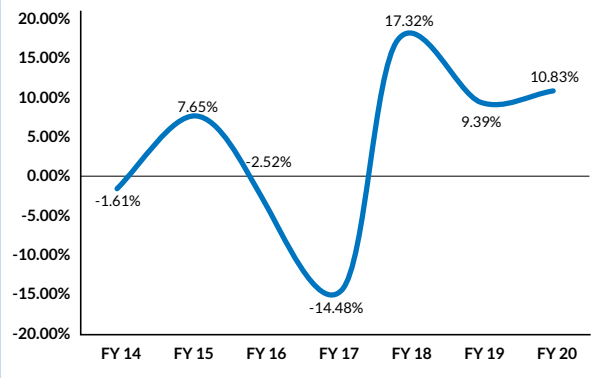


Export & Import Growth

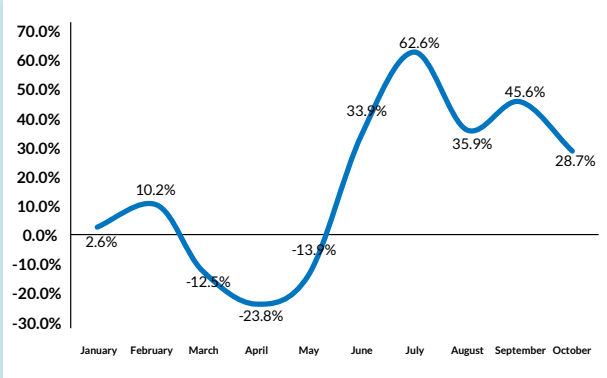


REMITTANCE

Remittance Growth of Last 7 years

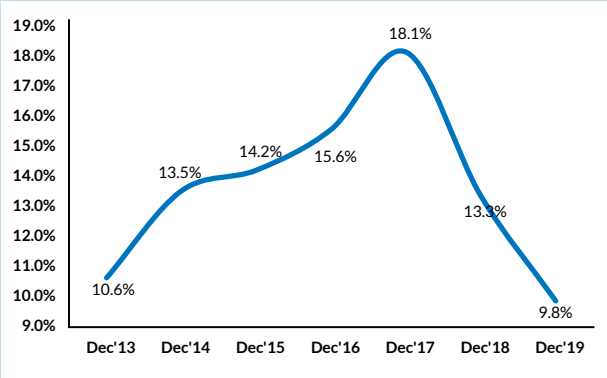


Remittance Growth (Last 10 Months)

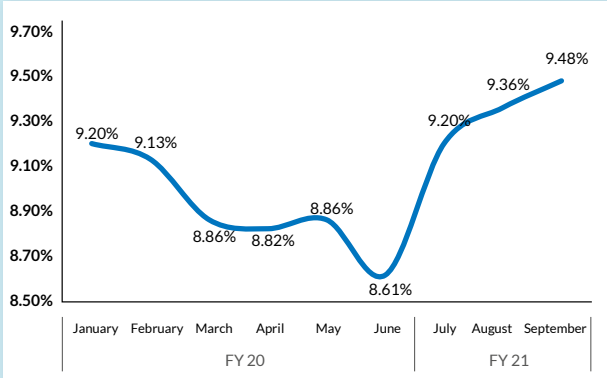


PRIVATE SECTOR CREDIT GROWTH

Private credit growth of last 7 years



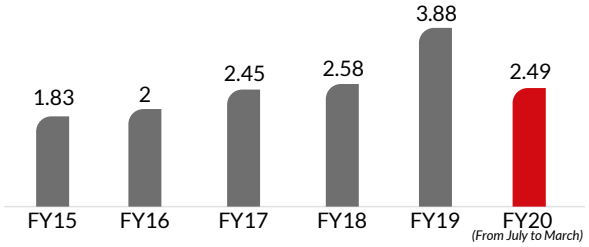
Private sector credit growth (Last 9 months)



MONTH IN BRIEF

● **The value of greenfield investment project announcements,** an indicator of future foreign direct investment trend – fell by 78% in Bangladesh in the first eight months of 2020 because of the coronavirus pandemic.

FDI Flow to Bangladesh *(In Billion USD)*



● **Bangladesh's current account** surplus exceeds USD 3.5 bn.

● The National Board of Revenue (NBR) collected BDT 198.3 bn **as tax, an 11% increase compared to the same period a year ago, when it was BDT 179.04 bn, according to the NBR's provisional collection data.**

● Bangladesh has maintained a steady progress in tackling hunger as the country **has moved 13 notches up in the 2020 Global Hunger Index (GHI) ranking 75th out of 107 qualifying countries in the 2020 GHI with a score of 20.4**

● **Apparel exports** to promising Asian markets take a tumble.

● **Bangladesh's total external debt stock was** USD 25.3 bn in 2009 which rose to USD 57 bn in 2019, an increase of 125% in 10 years.

● The government has decided to use **the country's ballooning foreign exchange reserves to implement development projects.**

● **In eight months of the current year, products worth BDT 1666.16 bn were sold** through e-commerce which is 26% higher compared to those during the entire year of 2019.

● **World Bank sees U-shaped recovery** for Bangladesh's economy, forecasting 1.6% growth in FY2020-21.

● The export of jute and jute-made products **posted 39.26% year-on-year growth in the first quarter of the current fiscal year, despite state-run jute mill closures and the fallout of the novel coronavirus pandemic.**

THE FDI DECLINE IS MORE DRASTIC THAN WE EXPECTED, PARTICULARLY IN DEVELOPED ECONOMIES. DEVELOPING ECONOMIES WEATHERED THE STORM RELATIVELY BETTER FOR THE FIRST HALF OF THE YEAR

James Zhan, Investment and Enterprise director, UNCTAD on greenfield investment.

The government is carrying out a study to select the probable projects where forex reserves will be invested

AHM Mustafa Kamal, Finance Minister on using the forex reserve.

The Covid-19 pandemic has ended a two-decade streak of steady global progress in poverty reduction, pushing up to 150 million people into extreme poverty by 2021

David Malpass, President, World Bank on increasing the foreign debt.

Expeditious procurement, engaging good consultants and contractors, effective contract management, properly managing land acquisition and resettlement, sound financial management, and prudent project design can help achieve better project outcomes

Manmohan Parkash, Country Director, Asian Development Bank on faster project execution.

E-COMMERCE INSTITUTES ARE NOW USING TECHNOLOGIES LIKE BLOCKCHAIN, DATA ANALYSIS, ARTIFICIAL INTELLIGENCE, INTERNET OF THINGS, AUTOMATION AND CLOUD COMPUTING

Mohd Khalid Abu Naser, Director, Bangladesh Competition Commission on e-commerce sales growth.

FOR RESILIENT RECOVERY, THE GOVERNMENT NEEDS TO CONTINUE TO SAVE LIVES, PROTECT THE POOR AND VULNERABLE, SAVE ITS DEBT AND FISCAL POSITIONS, BUILD FINANCIAL SECTOR HEALTH AND CREATE A CONDUCIVE ENVIRONMENT FOR PRIVATE SECTOR DEVELOPMENT AND JOB CREATION

Mercy Tembon, World Bank's country director for Bangladesh on U-Shaped recovery from the pandemic.

WORLD ECONOMIC INDICATOR

PREPARED BY IDLCSL RESEARCH TEAM

Country	Nominal GDP: October, 2020 (USD in billion)	Real GDP Growth: April 2020 (yearly % Change)	Inflation Point to point (%)	Inflation (%) As of	Current Account Balance: (% of GDP)	Interest Rates (%), Ten years treasury bond	Currency Units (per USD)
Frontier Market							
Sri Lanka	81.1	-4.55	4.00	Oct, 20	-3.63	7.54	184.47
Vietnam	340.6	1.60	2.47	Oct, 20	1.61	2.53	23,176.50
Kenya	101.0	1.05	4.84	Oct, 20	-4.90	11.87	108.90
Nigeria	443.0	-4.28	13.71	Sep, 20	-3.65	4.11	380.75
Bangladesh	330.1	5.24	6.44	Oct, 20	-0.02	5.63	84.80
Emerging Markets							
Brazil	1,363.8	-5.80	3.14	Sep, 20	0.27	7.44	5.69
Saudi Arabia	680.9	-5.44	5.70	Sep, 20	-2.51	n/a	3.75
India	2,935.6	-10.29	7.34	Sep, 20	0.33	5.87	74.27
Indonesia	1,088.8	-1.50	1.44	Oct, 20	-1.30	6.44	14,210.00
Malaysia	336.3	-6.00	-1.40	Sep, 20	0.94	2.68	4.14
Philippines	367.4	-8.26	2.50	Oct, 20	1.61	3.07	48.20
Turkey	649.4	-4.99	11.89	Oct, 20	-3.66	14.23	8.49
Thailand	509.2	-7.15	-0.50	Oct, 20	4.17	1.31	30.58
China	14,860.8	1.85	1.70	Sep, 20	1.30	3.22	6.62
Russia	1,464.1	-4.12	3.70	Sep, 20	1.17	5.90	77.42
Developed Markets							
France	2,551.5	-9.76	0.00	Oct, 20	-1.92	-0.38	0.84
Germany	3,780.6	-5.98	-0.20	Oct, 20	5.75	-0.65	0.84
Italy	1,848.2	-10.65	-0.30	Oct, 20	3.23	0.61	0.84
Spain	1,247.5	-12.83	-0.90	Oct, 20	0.54	0.08	0.84
Hong Kong	341.3	-7.47	-2.20	Sep, 20	4.35	0.48	7.75
Singapore	337.5	-6.00	0.00	Sep, 20	14.98	0.78	1.35
United States	20,807.3	-4.27	1.40	Sep, 20	-2.12	0.77	1.00
Denmark	339.6	-4.50	0.60	Sep, 20	6.37	n/a	6.29
Netherlands	886.3	-5.40	1.20	Oct, 20	7.56	-0.54	0.84
Australia	1,334.7	-4.16	0.70	Sep, 20	1.85	0.76	1.38
Switzerland	707.9	-5.30	-0.60	Oct, 20	8.48	-0.55	0.90
Britain	2,638.3	-9.76	0.50	Sep, 20	-2.05	0.22	0.76

Bangladesh data: GDP size and real GDP are sourced from Bangladesh Bureau of Statistics as per 2019-20 data. Calculation Method of CA Balance (%of GDP): CA balance of FY19-20 / GDP of FY19-20. Interest rate (%) 10 years TB as per September, 2020, Inflation as per October,2020 and Currency Unit (per USD) as per 6th November,2020 are sourced from Bangladesh Bank.

Nominal GDP: Data of all countries apart from Bangladesh is sourced from IMF estimates of 2020 data (October, 2020 Outlook).

Real GDP Growth and Current Account Balance: Data of all countries apart from Bangladesh is sourced from IMF estimates of October, 2020 data (World Economic Outlook, October 2020).

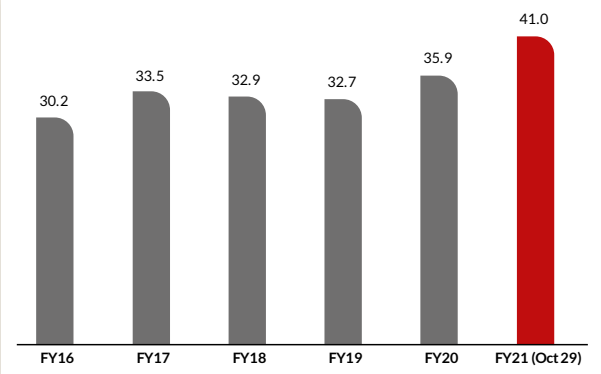
Inflation: Data of all countries apart from Bangladesh is sourced from tradingeconomics.com as per 6th November, 2020.

Interest rates 10 years TB and Currency Unit: Data of all countries apart from Bangladesh is sourced from Investing.com as per 6th November,2020.

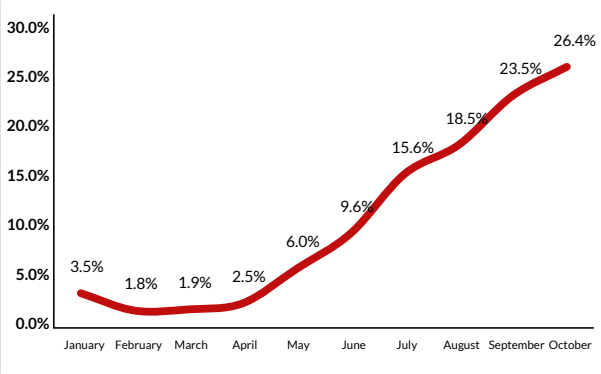
BANKING DATA CORNER

Prepared by IDLCSL Research Team

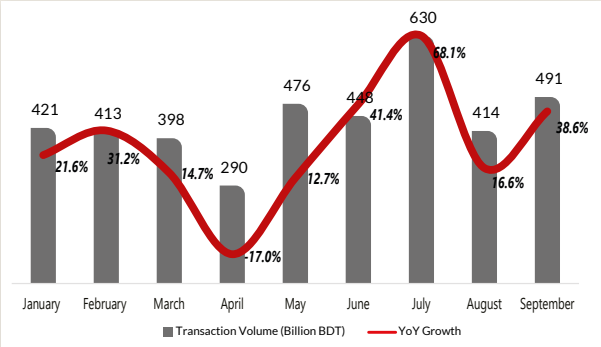
Foreign Exchange reserve (In million USD)



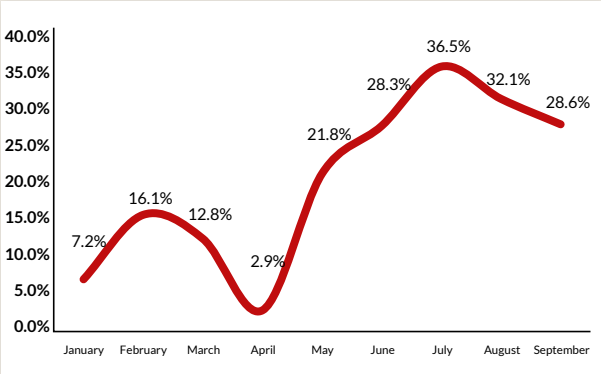
Foreign Exchange Reserve YoY Growth 2020



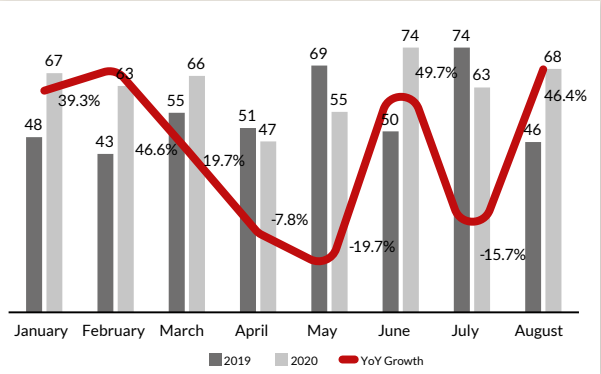
MFS Total Transaction Volume 2020
(BDT Billion and YoY Growth)



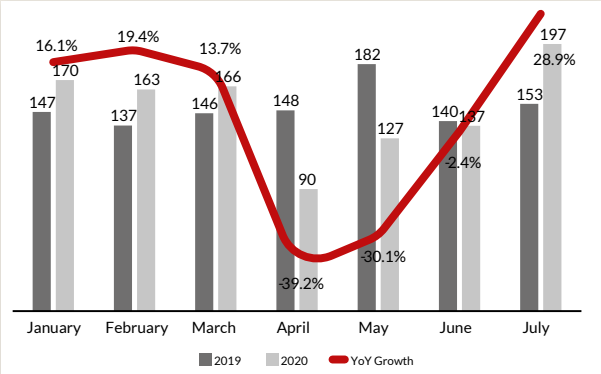
MFS No. of Total Transaction YoY Growth 2020



Total Amount of Internet Banking Transaction
(BDT Billion and YoY Growth)



Total Amount of Card Transaction
(BDT Billion and YoY Growth)



Source: Bangladesh Bank

BECOMING A DATA ANALYST

K. M. Saqiful Alam
Program Manager for Trust and Safety, South Asian Region at TikTok (Singapore)

Analytics Adviser, Intelligent Machines Limited & Upskill

Ex- Senior Lecturer, North South University

Interviewed By
Bonnishikha Chowdhury, MBR Team

Khan Muhammad Saqiful Alam is a BBA graduate from IBA, DU who went on to pursue a Master's degree in Operations, Project Management and Supply Chain from the University of Manchester in the year 2011. However, after a slight prompt from one of his professors, his interest spurred towards the field of analytics – simulation and credit risk modelling. He came to Bangladesh and joined as a lecturer, and later became a senior lecturer, at North South University – teaching Operations management, applied statistics and financial risk management.

Applied statistics introduced Mr. Saqiful Alam to the coding software R. In the year 2016, he went to Perdue University where he was a research scholar and started working in a project with MIT. The project, referred to as 'The Billion Prices Project' was where he first got exposed to the concept of Big Data and the different dimensions of Big Data such as machine learning, data science etc.

After a year he came back to Bangladesh and tried to introduce the concept of decision making using data analytics. He revamped the course of Decision Support System in NSU and took sessions on training for Light Castle, Upskill, IBA Certification programs such as ACMP, covering the analytics module in those and quite a few other courses.

In the year 2018 he joined as an analytics advisor at Intelligent Machines Limited which works with AI and Data Driven Solutions. That is how he has been trying to help the industry be more data driven. Right now he is in Singapore where he is doing a research on machine learning applications for strategy and at the same time, working as a data strategist and a Trust and Safety program manager at TikTok.

MBR: How do you recognize the prospect of a Data Analyst both in Bangladesh and globally?

K. M. Saqiful Alam: Globally Data analytics has been termed as a 'hot topic'. The whole world has understood the value of data and they are slowly transforming themselves to be a data driven – that is, they have developed collection processes, data pipelines, data dashboards etc. In a nutshell, organizations are pushing their management and strategy to be more evidence and data driven. They want their management to support their experience and their intuition with data supported insights. This is happening mostly in developed countries.

Developing countries too, such as Bangladesh, is leveling up since there are massive prospects in this arena. If not all, some companies have definitely recognized the importance of data analytics. For example, companies like Pathao or bKash are already data based. Again, companies such as BRAC, GP, Robi etc. have collected their required data and are building their capacities to utilize them using advanced methods. And then there are companies that have identified the prospects but are yet to utilize the benefits. Overall, there is a huge prospect for Bangladesh in the field of data analytics as making decisions are effective using these processes. This field can be expected to reach its peak in a tentative time span of 4-5 years.

MBR: We often mix up Data Scientist with Data Analyst. Can you please specify the difference for us?

K. M. Saqiful Alam: Since it's a very new field, the roles don't exactly have formal definitions. But, overtime, different patterns have been identified that assist in creating some differentiation.

University of California, Berkley summarizes the role of a data scientist as having 5 parts: Collection, Storage, Processing and preprocessing, Analysis, and Communication.

- **Data Collection:** Collection of data is, essentially, pipelining the data using any method of data collection into the system's data base. The focus on this step is to make sure that the right insights are collected, and the limitations of collection are properly communicated to the users of this data.
- **Storage:** Next, the data is stored in a data lake, a data cloud, big data platforms etc. This step also deals with how access to the data will be designed, how data will be eventually delivered to the analyst and some more necessary work. Here the focus in on efficiency and cost minimization – as each query in the cloud server costs the companies.
- **Processing and preprocessing:** Processing deals with cleaning up data, improving the data quality, and reporting the data properly.
- **Analysis:** Analyzing the data involves extracting the data from the dashboards and pipelines, running analysis on them, using statistical and machine learning tools to generate insights and to aid in decision making.
- **Communication:** Finally, communicating the data effectively across the team, and also to external and internal stakeholders, is an important step which is often overlooked.

Now, a data scientist is someone who has a deeper idea of the 5 steps and is more focused towards answering questions and running scientific research with a data that is provided to them. They end up designing deeper, long term strategies. For instance, a data scientist at Pathao was assigned, not to get busy with day to day problems, rather to use data to optimize the route suggestions and pricing strategies. This enables a data scientist to go deeper into the aspects of data collection and analysis, and get less distracted by the day to day firefighting.

On the other hand, a data analyst is someone who stays more at par with the managerial role. This person has to support the day to day or week to week management strategies – which are essentially mid-level strategies. However, they do act as advisors to higher level strategists. A data analyst needs to get data from a data engineer or a cloud storage using which the analysis is made.

Simply put, the task of a data analyst involves looking at data dashboards and taking day to day or mid-level decisions. Ad hoc and weekly problems are catered by them. At times they run machine learning models, but the focus is to support an immediate issue. Whereas, a Data scientist has to go much deeper in order to build a tool or build an overall system or a high level strategy. For example, Netflix has both data scientists and data analysts. A Data scientist in Netflix designs efficient algorithms to effectively recommend the users what to watch, and a Data Analyst looks at the dashboards to see which shows are being rated highly or watched more by the users and analyze the genre of shows that have higher popularity.

MBR: Will you please discuss the steps of becoming a Data Analyst with us?

K. M. Saqiful Alam: In order to be a data analyst, one needs to have expertise in 3 areas.

First, it has to start with the basic understanding of statistics. Beyond dashboards and visualizations, statistical analysis is most necessary. Basic concepts of statistics such as probability, margin of error, confidence interval etc. are some of the things one must have pre knowledge on. Statistical knowledge is necessary to interpret the output of the data analysis. Some sources to achieve this statistical knowledge are: Khan Academy, YouTube channel Data Quest, different courses available in Coursera such as 'Statistics using R' – a course by Duke University.

The second step involves getting idea about analytics tools, such as dashboard tools like Tableau (paid access), Power Bi (Free access), Google Data Studio (free access). Looking into the software and language

aspect, one needs exposure to programming language such as R or Python.

Finally, the person will need domain expertise if he/she has a pre-determined area of preference to work in. An important property of an analyst is the ability to truly understand and interpret the data. And for that one needs the domain expertise.

Now, how to get domain expertise?

A person can attain domain expertise by going through data sets available in Kaggle, Google Cloud, UCI Machine Learning depository etc. Kaggle has discussion sections where learners can see how people are analyzing the data and finding insights. The core idea is to read and work on projects in a specific area to get exposure and build domain knowledge.

MBR: What are the roadblocks in general a Data analysis pursuer faces and how to mitigate those?

K. M. Saqiful Alam: Roadblocks and mitigation methods would be:

- Overcoming the fear that engulfs the thought of being a data analyst – People fear that their educational backgrounds and concentrations will stand as constraints in the process of pursuing a career in data analytics. These are usually never major roadblocks in this case.
- Time and commitment- There is no easy way to becoming an expert in this field. Investment in the form of time and commitment will result in expertise. An enthusiast can easily self- learn by enrolling in the different analytics courses available in online learning platforms such as Coursera or Khan academy, or join different training sessions arranged by the organizations such as Upskill, LightCastle and many others etc.

MBR: With time Data Analysis is getting more popularity in the country. What is your opinion regarding this?

K. M. Saqiful Alam: From around 1990 to almost 2010 organizations were in the stage of data collection. In the process, many companies have set up their ERP and MRP systems and collected data for their operational necessity. And as processes became digitized such as payment processes, more and more information got stored. Example: Daraz, by nature of being an ecommerce website, ends up collecting a lot of data related to website visits, customer behavior in the website. Eventually people started to understand that they can use this vast amount of data to make business decisions in order to better design campaigns, better understand customers, predict customer beahvior and dig further into their capability.

MBR: How Data Science can impact core banking business activities like lending, client service, credit rating etc.?

K. M. Saqiful Alam: Talking from experience, I can say that I have worked with a bank in Indonesia for their credit risk analysis department where I looked into the purchasing patterns of their credit card clients. This gave me access to a wide variety of customer specific information such as the customer's monthly tax payments, their loans, their failures to pay, their company information from where we got an idea of the size of the company as well, their years of experience, home address and a lot more relevant information. Coupled with the existing calculations for credit risk in the bank, the data is used to come up with credit predictions that can determine the probability of a certain person defaulting.

Another example is the offerings given for cards and accounts. For instance, a specific bank in Singapore is planning the launch of a card called "Your Card" which can be defined as the ultimate personalized card. This card will suggest the card holders' different offers based on their transaction patterns.

In case of customer service, customer specific suggestions and customer charts can be analyzed to predict how many customers might leave or return, or why they are leaving or staying. Lifetime value calculation of customers can also be done. Previously customers would have to be clustered but now, because of data science, we can have one specific campaign designed for one specific customer; a campaign which is machine designed.

STEEL & RE-ROLLING INDUSTRY OF BANGLADESH: STRENGTHENING COUNTRY'S INFRASTRUCTURAL DEVELOPMENT

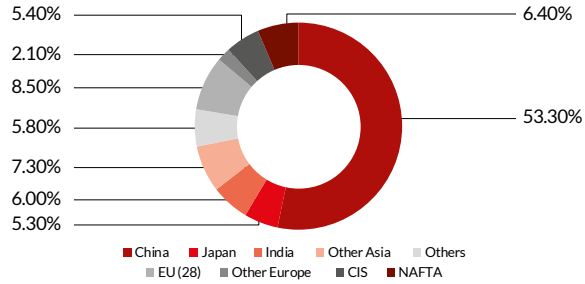
MD. MEHEDI HASAN
Senior Manager
Credit Risk Management - SME

The growth in the production and use of steel is considered as a key indicator of development for any country. Especially consumption of steel directly indicates how fast the infrastructure is developing. Steel industry plays a fundamental role not only in driving economic development but also in other complementary industries like transport, energy, heavy engineering and construction. Over the years, the steel & re-rolling industry of Bangladesh has contributed immensely in the country's overall infrastructure development by providing long steel products such as rebar, angel, beam and channel. Moreover, self-sufficiency in billet production enabled the industry to go beyond the border and export finished goods.

The Emerging Global Market

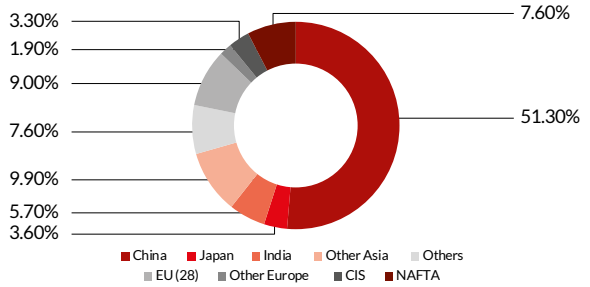
World crude steel production for the 64 countries reporting to the World Steel Association was 156.4 million tonnes (Mt) in September 2020, a 2.9% increase compared to September 2019. World crude steel production was 1,347.4 Mt in the first nine months of 2020, down by 3.2% compared to the same period in 2019. The downward growth in the first nine month caused due to pandemic since some major steel producing countries were under lockdown. However, China has been the largest producer and user of steels for past several years. China produced 92.6 Mt of crude steel in September 2020, an increase of 10.9% compared to September 2019. On the other hand, India produced 8.5 Mt of crude steel in September 2020, a decrease of 2.9% on September 2019.

Crude Steel Production in 2019
(World total: 1 869 million tonnes)



Source: World steel association.

Use of Finished Steel Products in 2019
(World total: 1 767 million tonnes)



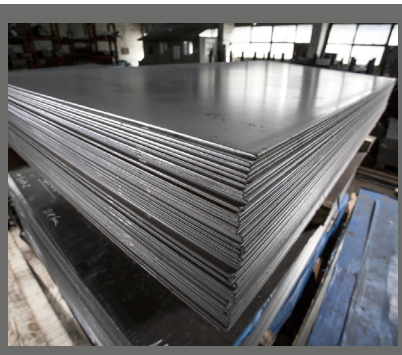
Source: World steel association.

Top 5 steel-producing companies 2019

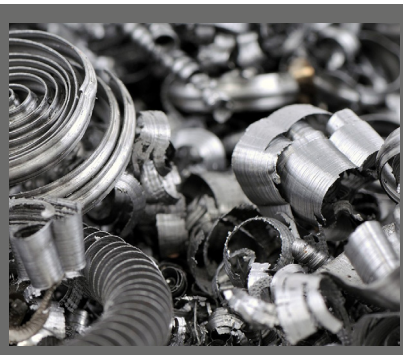
Rank	Company	Tonnage *(In million tonnes)*
1	ArcelorMittal	97.31
2	China Baowu Group	95.47
3	Nippon Steel Corporation	51.68
4	HBIS Group	46.56
5	POSCO	43.12

Source: World steel association.

FINISHED PRODUCT



FLAT PRODUCT



SCRAP

Top 5 still Producing Countries in 2019

Rank	Company	Tonnage *(In million tonnes)*
1	China	996.3
2	India	111.2
3	Japan	99.3
4	United States	87.8
5	Russia	71.9

Source: World steel Association

Top 5 Steel Using Countries: y-o-y growth rates (%)

Rank	Country	2019	2020(F)
1	China	8.5	8.0
2	India	6.1	-20.2
3	USA	-2.1	-15.8
4	Japan	-3.4	-19.6
5	South Korea	-0.9	-8.2

Source: World Steel Association.

Bangladesh steel Industry Overview:

- Demand for long steel has increased sharply in recent years – currently 7.5 million MT which was merely 2.5 million MT in a decade ago.
- The market size of steel is around BDT 450 billion. The local steel market grew at a rate of 15%-20% in last two years from 8-10% per year previously.
- Per capita consumption of steel stands at 45kg which was only 25kg in 2012. Lower per capita consumption compared to global standard indicates huge industry prospect. However, the per capita consumption is expected to be 73kg by 2022.
- The industry employs nearly 1.00 million people directly or indirectly throughout the country.
- Among 400 steel and re-rolling mill of the country only 45 steel mills are the members of Bangladesh Steel Manufacturers Association (BSMA) who manufacture over 80% of the steel products in the country.
- The country's combined present installed capacity is 9 million MT.
- Industry capacity is higher than the domestic demand. On an average 70-75% capacity utilization is termed as optimal by the industry players

Key players in the country

Bangladesh's steel industry is growing at a rapid pace on the back of increasing steel demand for the mega infrastructure projects lined up in the country in this decade. In terms of production capacity for both finished and semi-finished (billet) steels Bangladesh is now self-sufficient. However, the country's steel industry is turning into a perfectly competitive market from an oligopolistic one. Three big steelmakers BSRM, Abul Khair Steel (AKS) and KSRM had long been continuing their dominance in steel market and controlling more than 50% of the market. However, in last few years small players are also growing aggressively to cater the growth in demand.

Major Players in Steel Market	Present Capacity (Values in thousand MT)
Abul Khair Steel (AKS)	1,400
BSRM Group	1,240
Kabir Steel Rolling Mills Ltd. (KSRM)	800
GPH Ispat Limited (GPH)	760
Mohsteel Limited *	500

*updated data not available. Source: EBLSL Research December 2019

Major Players in Flat Steel Market	Capacity in Million MT
Abul Khair Steel (AKS)	760,000
PHP Steels	250,000
KDS group	120,000 (CR Coil), 50,000 (GS Coil), 25,000 (CR Closed Annealed), 60,000 (NOF-GS)
Appollo Ispat	120,000 (CRM), Galvanizing Line 200,000 MT
S.Alam Group	120,000 (CR Coil), 72,000 (NOF)
Karnafully Steel (T.K Group)	80,000 (CR Coil)

Source: EBLSL Research December 2019

In terms of both revenue as well as capacity Abul Khair group is the largest steel producer in the country. The company's capacity utilization is ratio is roughly

80%. BSRM Group is the pioneer in the steel industry of Bangladesh and currently the second largest in the market. BSRM Steel has decided to set up a BDT 7000 million plant to raise annual MS rod production capacity by another 0.5 million tonnes to meet its growing market demand. To cater to the growing demand in coming days, KSRM has also increased its capacity from 0.45 million MT to 0.8 million MT recently. Another industry player, GPH Ispat has just increased its production capacity by more than 6 times. Moreover, very recently GPH has already exported 25,000 MTonnes of MS billet to China.

KEY INFO

- Demand for long steel has increased sharply in recent years from **2.5 million** MT in a decade ago to **7.5 million** MT in recent years.
- The country's combined present installed capacity is **9 million** MT.
- Government consumes **40%-60%** of the total steel productions.
- GPH Ispat has already exported **25,000** MTonnes of MS billet to China.
- Sales of this sector have dropped by **60%** during lockdown.
- Rapid urbanization, real estate development, implementation of government mega infrastructure projects are ensuring this sectors potential overall growth.

Challenges of doing steel business

- **Availability of raw-materials:** Billet is considered as the prime raw-materials for producing steel products among the crude steel products. Due to large investment by major steel manufacturing groups, the billet industry has itself become big along with the finished steel industry. Thus, import of billet has declined sharply in recent years. However, as billet millers in Bangladesh mostly serve as the backward linkage for their own re-rolling mills, some steel makers still import billet. Most importantly, to produce billet, steel companies need to import 90% raw materials (metal scrap) from US, Canada, Italy, the UK and Australia which have gone into partial or full lockdown since the beginning of March due to pandemic. In addition, majority of the chemicals used in the production also need to be imported. Thus, the insufficiency of raw materials in our country and the volatility of raw material prices in the international market greatly affect the industry.

  Especially during the lockdown, the industry had to suffer as there was a major halt in import and export worldwide. On the other hand, only 74 ships were imported in the first six months of this year, a record low in the last six years, while ship-breaking yards at Sitakundo upazila in Chittagong cut away more than 200 ships on an average per year. As per Bangladesh Steel Mills Owners Association, over the last six months, the sector's losses have amounted to around BDT 6,000 crore

- **Availability of power and gas:** Uninterrupted power supply and large volumes of gas are mandatory for steel production. Thus, any adverse changes to electricity regulations, shortage of gas supply or high pricing of energy have direct impact on the operation. To solve the problem, the big producers have built their own power plant.
- **Project inefficiency:** As government consumes 40%-60% of the total steel productions, steel makers are expanding their businesses in anticipation of a high demand from the government sector. Thus, smooth and rapid progress of the mega projects is a very important growth stimulator for the industry. It ensures fair working capital projection and consumption. However, if the project does not run well according to their time proposal, delay of a project may affect the company's financial health.
- **Changes in regulations and rates:** Lack of business-friendly policies such as customs laws, income tax, value added tax etc. may adversely affect the business of steel companies. A huge amount of working capital that was paid as refundable advance tax (AT) on imports is still being held back by the government. The total amount owed to the steel sector could be over BDT 800 crore which includes the AT and advance income tax (AIT) paid by producers for the last

four or five years. This is unnecessarily slowing the industry's momentum since manufacturers could use this money for their economic activities and boost growth.

- **Price Competition:** As large companies are capable of price cutting to capture the market sometimes it becomes hard for the relatively small companies to sustain in such highly competitive price war.

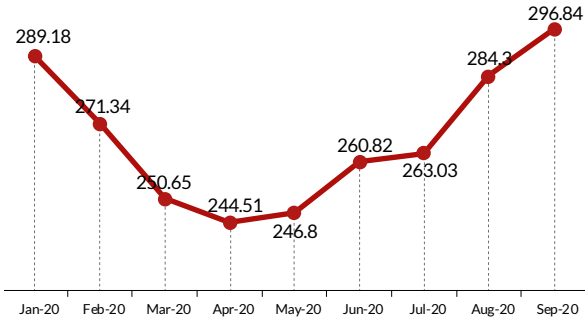
Pandemic Impact on Steel Pricing:

The pandemic of COVID-19 has taken a toll on this industry, like all other businesses. The decline in steel demand in the first half of 2020 is predictable but perhaps more painful as the expected growth is much lower after lockdown ends. Pricing structure of steel product amid the lower market demand are depicted here to understand the scenario.

- **Raw Materials:**

  Scrap Price: In the local market steel scrap price is around BDT 30,000/- to BDT 34,000/- per MT now. However, in international market price is below USD 300 per MT. Though Bangladeshi steel makers ordered 27,000 MT of HMS 1&2 (80:20) deep sea bulk cargo from an Australian exporter at USD 313.5 per MT in October 16, 2020, Steel scrap future price (Month 1) in London Metal Exchange is hovering around USD 286 per MT. To maintain the profit margin on the sales of a steel in current context, Bangladeshi steel makers need to purchase the scrap within USD 300 per MT.

LME Steel Scrap: Historic Settlement Prices *(USD/Mt)*



Source: London Metal Exchange

  Billet Price: Currently, local ispat mills produce around 6 million tonnes of billet annually, enough to manufacture 5.5m lakh tons of high-quality rods. Around 35 mills make billet by importing scrap. Though steel mills are producing billet for their own consumption, limited amounts are also traded in the market on need basis. Recently, GPH Ispat exported 25000 MT of billet to China on USD 407 per MT price. In local market Billet price is around BDT 41,000/- to BDT 42,000/-.

- **Finished Goods:**

  From the market survey it is assumed that breakeven price for the quality steel millers is almost BDT 48,000/- to BDT 48,500/- per MT now (it may vary depending on the financing cost and operating efficiency). However, market shows a downward price pressure after lockdown.

  Selling price/MT of TMT bar manufacturers in CTG:

Company	Before Lockdown	Current Price
BSRM	60,000	55,000
Abul Khair Steel	58,000	53,000
KSRM	58,000	53,000
GPH	56,000	53,000

Source: Officials of BSRM and KSRM, and wholesalers of TMT bar/MS rod

In Dhaka and surrounding area price per MT (sold by manufacturers) is BDT 50,000/- to BDT 55,000/-

Current Market Scenario Analysis:

The industry strategically runs on overcapacity. It is seen that the utilization is around 75% of total capacity. In April and May, the industry's overall capacity utilization came down to a 40% level, as many were running in a limited capacity, and others had to stop completely due to pandemic. It started to pick-up from the beginning of June with the demand increasing and the return of employees to the manufacturing plants. But the industry is still dwindling because of below mentioned reasons -

- Yet to start government mega projects in full swing which consumes 4.5 million MT or 60% of total production.
- Generally, in rainy season, the demand is comparatively lower than usual which was also intensified by recent flood across the country

resulting in lowest consumption in household sector which consumes 1.88 million MT or 25% of total steel consumption.

- This ongoing corona virus crisis caused huge havoc in private sector economic growth resulting in low infrastructure development in commercial buildings sector which consumes 1.13 million MT or 15% of total steel consumption.
- Local steelmakers largely depend on international market for their raw material requirements and these companies are now exposed to shocking disruption in global trade due to COVID-19 crisis. If there is a shortage or price hike of raw materials then production cost will increase which could affect profit margin that is already soured. Currently, port facility in Bangladesh is inadequate and for that scrap carrying big vessels cannot enter into the Chittagong and Mongla port.
- Giant six steelmakers (BSRM, AKS, KSRM, GPH Ispat, Rahim Steel, RSRM) dominate the market providing almost 59% of country's total demand. Amid the sluggish demand of steel products, GPH Ispat expanded its production Capacity and went for large volume production (640,000 MT out of total production capacity of 760,000 MT) resulting low price for steel products in the country.
- Generally, we observed a quicker Cash Conversion Cycle (CCC) in the steel industry of Bangladesh. But during this pandemic, slow collections from receivables converted this shorter CCC into a longer CCC resulting tight cash inflow. Consequently, to ensure cash inflow steelmakers continue clearing stock at lower prices.
- The sector has suffered losses amounting to BDT 60 billion over the last six months of the outbreak of the Covid-19 pandemic. Meanwhile, sales in the sector have dropped by 60%.

Way outs

As a resilient nation, people of Bangladesh are adapting fast with the new normal which prevailed after the pandemic had hit the world. Amid the downward demand and price pressure steel millers still manage to maintain operating margin with the advantage of lower scrap price. As winter is the peak season for the steel products in Bangladesh, upward demand as well as upward price adjustment is expected within next couple of months. However, potential for overall growth in the sector is bright in the near future in terms of increasing demand due to rapid urbanization, Real estate development, Implementation of Government mega infrastructure projects such as Padma Bridge, Metro Rail, Nuclear Power Plant and several economic zones. Recent inclusion of Bangladeshi iron & steel products in duty free access list in the Chinese market also a bonanza for the steelmakers amid the ongoing pandemic.

In order to support the industry, retrieve its losses, the regulators can play a more supportive role now by increasing the repayment tenure for loans from the stimulus packages and industry friendly AIT,VAT policy.

Mr. Aameir Alihussain

Managing Director,
BSRM Steel Ltd and Bangladesh Re-rolling mills Ltd.

Interviewed By
Bonnishikha Chowdhury, MBR Team

MBR: How do you see the impact of pandemic on the industry and how are you planning on overcoming the damages caused by this?

Mr. Aameir Alihussain: Pandemic caused supply, demand, procurement and financial shock to the economy. High uncertainty & short-live forecasts made the situation adverse for manufacturing industries. For overcoming the damage, we are planning with short term decisions by which we are preserving and creating value for long term for all our stakeholders. What was lost in in April to June quarter, will never come back but we are already trying to overcome the situation by being more efficient, cost effective adjusting faster to the changed market situation.

MBR: How do you see the contribution of your company in the growth process of the industry and what are the goals you want to achieve in future?

Mr. Aameir Alihussain: Consumption of steel has been rising for the last few years riding on the increasing gross domestic product (GDP) of the country and government spending on infrastructure. For supporting the economy, we are giving our fullest effort to satisfy the demand of the customer. Our goal is to improve consistently in terms of quality of products and services, efficiency of processes and profitability of our business. We are working on building our internal capability by improving our processes and optimizing our overheads and and hold our position of being the number one steel expert in the country. Throughout the steel industry history, we have tried to innovate and bring better products for the market and set new standards in the steel industry. This has always been the passion. Just recently we have launched a new, better product of steel rod called Xtreme 500 DWR which is a safer, better and tougher product than its predecessor Xtreme 500 CWR. For a long time, structural engineers were demanding a product which has better tensile to yield properties and we developed this product to perfection and launched it in the market. Most construction in the country will be using this product as it has better earthquake resistance properties. Over time the whole industry has grown in capacity alongside the growth in the country. The country should be proud of the steel industry, as the industry has always been able to support the growing local demand. And, Bangladesh never had to spend its valuable foreign exchange reserves on importing rods for construction.

MBR: What challenges do you think Bangladesh needs to overcome if we want to compete with the top producers like China?

Mr. Aameir Alihussain: In post pandemic era, whole world is amending its overdependence on China's manufacturing and supply chains. The decentralization of manufacturing zones from China is showing a positive sign for developing countries like Bangladesh. Ensuring business friendly government policies, prompt support from government agencies, skilled manpower, justified interest rates, transportation, port facilities and encouraging private and foreign investment, reining in the soaring bad loans, turning around from the negative export growth are the key challenges Bangladesh needs to overcome to compete with the top producers like China. Government may take long term measures to compete with upcoming manufacturing zones in neighboring countries by making proper policy to attract private and foreign direct investment. Further Government also protect our industry by imposing high tax in case of import of steel

products. Bangladesh needs to create an Ease of Doing Business index for domestic business environment and measure performance on this parameter. The country has to be provided a better environment to reduce cost of production. Currently, the focus is only on labor intensive garment type industries where labor cost is the main cost and due to its nature being low and other policies facilitating that business, we have seen how successful it has become. Similarly, government has to think deeply on all other domestic industries how to make us more competitive. We have very high taxes locally, high logistics cost, high compliance costs, high financial costs, and high administration costs. Additionally, we have to invest more in projects in creating facilities to receive utilities, road connection etc compared to other countries which makes our investment higher compared to peer countries. We have a big disadvantage on freight cost in the country. Anything we bring in, costs us at least USD 20 per ton more than India and even Indian freight is high. We need to have excess port capacity to bring the freights down. Even import costs are high such as the requirement of LC confirmation. Millions of dollars go out of the country in the name of LC confirmation costs which is a big national loss and we would be thankful if the government could look into the matter of improving risk rating of the country as well as the banks. Banking sector needs to be working efficiently and with proper systems to improve their individual ratings.

MBR: As most of our productions are used to meet the domestic needs, what are the upcoming major development projects by government that might require a boost in steel production?

Mr. Aameir Alihussain: The government's development projects have left a positive impact on the steel industry. At present, government projects account for 35 percent to 40 percent of the total steel consumption in Bangladesh, up from 15 percent a decade ago. Second Jamuna Bridge, Padma Bridge Rail Projects and Rooppur Nuclear Power Plant, MRT, Expressways, other PPP projects, 100 Economic Zones are the major development projects that might require boost in steel production.

MBR: In case of exporting, how do you see the potentiality of Bangladesh to play a significant role?

Mr. Aameir Alihussain: We have the potential to export steel, especially to the neighboring countries. Government should give cash incentive on export of only finished steel products at the rate of 10% on FOB price like other traditional and non-traditional goods. Additionally, the government should ensure refund of import duty and VAT quickly through an established system which currently is lacking in a big way. For a long time, no refunds are made which creates cash flow problem and higher financial cost. Also, the country needs to adopt to latest practices like digital country of origin or Safta certificates where signature verification issues don't come up and export is smooth. As mentioned earlier, international freight and local taxes and other costs needs to come down for the country to be able to export to regional destinations.

MBR: What are the key reasons for drop in price of finished goods recently? Is it due to fall of raw material prices in the international market? If so, the raw materials of your inventory which were collected before pandemic might have cost high. How are you managing this situation?

Mr. Aameir Alihussain: Pandemic is the key reason for price drop as demand has been down and international prices for raw materials had also fallen. However, international prices are again increasing as world economy is recovering from the pandemic and therefore, local prices will increase in future. There is also excess capacity in the country currently and with GDP growth, eventually this excess capacity will reduce as demand will increase in future.

MBR: What kind of support does steel industry sought or expect from the government after this pandemic?

Mr. Aameir Alihussain: Looking at the proactive steps and activities showcased by our government authorities to curb the pandemic makes us optimistic. What I think the government can further look into is, they can create new policies which will reduce the cost of domestic businesses. However, during this pandemic Government sanctioned about Tk. 1.00 lac crore stimulus package for all industries at 4.5% interest plus immediate before pandemic Government ensured maximum interest at 9% for all kinds of loan which supports industrialization. Steel industry is struggling with the burden of high minimum income taxes which needs to be reduced. Additionally, there has been no refund so far on account of excess VAT being collected from the industry in terms of Advance tax at import stage and various deductions during the transaction process. Policy needs to be reviewed by the government to reduce the minimum income tax burden and also create a process of refund of income tax of previous years. Huge amount of money of the whole steel industry is stuck in refunds with the government and if it is refunded quickly and timely going forward, such money can have a huge multiplier effect on the economic growth which currently remains unutilized in government coffers.

Mr. Sheikh Masadul Alam

Managing Director, Shahriar Steel Mills Ltd.
and
Former President of Bangladesh Automatic Steel and Re Rolling Mills Association.

Interviewed By
Bonnishikha Chowdhury, MBR Team

MBR: How do you see the impact of pandemic on the industry and how are you planning on overcoming the damages caused by this?

Mr. Sheikh Masadul Alam: I think the COVID-19 pandemic is a prolonged case of difficulty similar to that of other crisis such as natural disasters. When the sudden lockdown was announced we tried to reduce the impact by continuing production and keeping workers within factory boundaries. However, we were unable to make sales which resulted in higher stocks and financial bearings.

Now that things are slowly moving towards normalcy, and markets are opening up, the companies that had continued production are now able to reap the benefits. Some financial institutions such as IDLC Finance Limited has helped contribute to bringing stability within the organization. Still many parts of the world are under lockdown or going into lockdown again. Bangladesh being a strong nation has been able to build good adaptation strategies which they will follow to be competent ahead into the future.

I think with the support of the government, companies, especially in the private sector, can successfully go ahead. As per the budget of FY2020-21, measures have been taken to help the private sectors abundantly.

I believe there are strong takeaways from the hardship faced. The pandemic sweep has induced a sense of empathy towards everybody within the hierarchy of the organization. This coupled with their strong will, will be the driving force for the future.

MBR: How do you see the contribution of your company in the growth process of the industry and what are the goals you want to achieve in future?

Mr. Sheikh Masadul Alam: I consider SSRM to be one of the impactful organizations within the industry. I think our company is doing great and also helping this industry in full swing. I believe we have been able to contribute to the industry by being employees in SSRM.

MBR: What challenges do you think Bangladesh needs to overcome to compete the top producers like China?

Mr. Sheikh Masadul Alam: I believe tackling the following areas will help Bangladesh to be more competitive:

- Simplifying and easing the taxation procedure.
- Maintain a proper level playing field for both foreign and local companies. However, ensuring there is not a rise of a form of unhealthy competition created by bias towards foreign investors. The government needs to take this into account very strongly.

MBR: As most of our productions are used to meet the domestic needs, what are the upcoming major development projects by government might require a boost in steel production?

Mr. Sheikh Masadul Alam: The ones that have been approved have still not started full scale construction. The ongoing projects are categorized on need basis priority and the government is allocating fund according to that category hierarchy. This is because of the financial shortcomings faced by the government which is why they are unable to supply all projects with their required fund at a time. Once the construction of these projects start operation fully, the pace of growth the steel industry is lacking now will be back. Private sector projects such as real estate projects will be included among projects that create demand for our products.

MBR: In case of exporting, how do you see the potentiality of Bangladesh to play a significant role?

Mr. Sheikh Masadul Alam: I strongly believe in Bangladesh's ability to be export oriented. I think the steel market as being "volatile." There are many challenges that come with exporting steel owing to the weight of the product. To overcome these challenges, the things that are needed are:

- A reduction in the finance cost
- Improving the quality of utilities. There is a factor of increasing utility prices but we are still not getting access to efficient utility such as electricity, gas etc.
- Redesigning the incentives provided to the steel industry to facilitate export

Many countries have been known to cut business ties with China which has opened a wide range of opportunities out for grabs. Bangladeshi companies need to act fast in order to avail those opportunities.

China has export restrictions in their country which they tend to overcome by investing in foreign countries without strict trade barriers. If local companies are given proper facilities, they can operate efficiently and fulfill the gap without needing too many foreign investors.

Bangladesh is currently using 70 lakh tons of steel and has a capacity to produce almost 90 lakh tons. The progress made in this sector in the last 10 years make me strongly believe in Bangladesh's capability to perform better in the future.

MBR: Due to the fall of billet or other raw material prices in the international market, the price of finished goods has also dropped. On the other hand, the raw materials of your inventory which was collected before pandemic might have cost high. How are you managing this situation?

Mr. Sheikh Masadul Alam: The dilemma in the market had arisen as soon as the market opened after lockdown. Prices in the international market had initially dropped since the there was an imbalance in the number of buyers and suppliers. However, over a span of 7-8 months, it has adjusted itself and prices are currently on the rise again.

The local market in Bangladesh is seeing an imbalance with high production- meaning high production but less demand. The penetration of a new company is being a competitive barrier but I believe we will be able to overcome it soon.

MBR: What kind of supports does steel industry sought or expect from the government after this pandemic?

Mr. Sheikh Masadul Alam: To begin, we and our peers in the industry, to mention BSRM, have expanded our capacities to our capabilities. You will be able to tell by the way the production capacity has increased over the years from around 40 lakh tons to almost 90 lakh tons now. We have taken actions to increase capacity keeping in mind the current demand and the potential demand of steel in our country as attested by the government on account of a rise in the construction of mega projects. Now, if the government can ensure these projects are running properly ahead, we believe we won't be facing difficulties with our current production and stock level.

Also, we are being taxed every step of the way. Not to speak against but to request the government to take steps in order to establish transparent and easy regulations to tax us. In difficult times as now, we feel a huge financial burden – especially on our working capital. It would be best if the government could keep these factors in mind and take necessary steps to solve the problems.

JOBIKE

Mehedi Reza

Founder and CEO, JoBike

Interviewed By
Bonnishikha Chowdhury, MBR Team

MBR: How did the idea of JoBike come into being?

JoBike: I was in China back in 2017, working for Alibaba. I have seen the rise of bike sharing in China that time. People are using those bikes for short distance travels. Talking about our market- Traffic congestion, pollution, we do not have any short distance mode of transportation that is healthy or safe. On that note, the idea came into my mind to introduce the same service that is used by people around the world. Jobike aims to provide a sustainable solution to the first-and-last mile transportation problem by helping people move around the city or campus in an affordable and convenient way while eliminating their carbon footprint.

MBR: What is the business model and product line of JoBike?

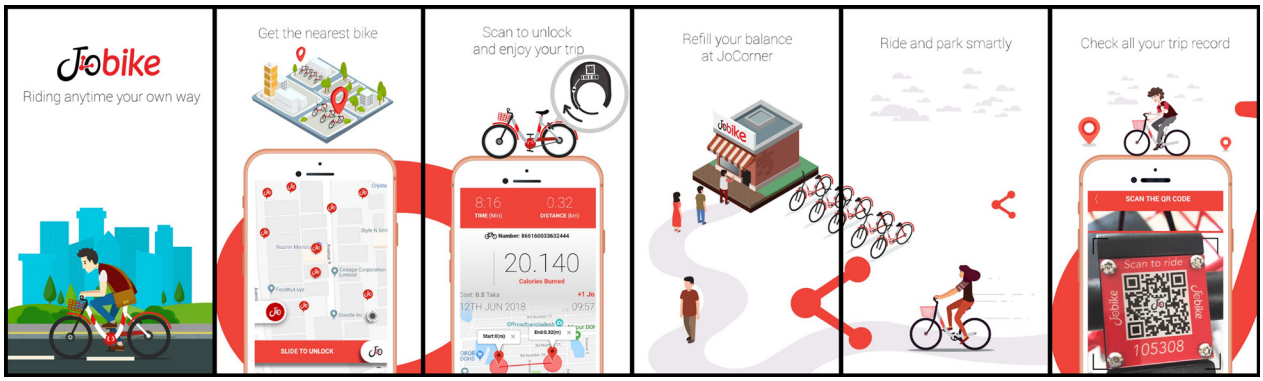
JoBike: Jobike introduced an innovative business model. Users rent bicycles through the mobile app and pay for it. Right now we just have a single model of bicycle which is conventional. Users have to pedal it and have to pay 1 Taka per minute to use the Jobike bicycle.

MBR: How the response was in the initial stage and what strategies have you developed to expand the client base?

JoBike: When we launched our service for the first time at Cox's Bazar, we had a huge positive response. The idea of being able to unlock a bicycle using a cell phone was completely foreign to them. Not only that, users can leave the bicycle anywhere they want after finishing the ride. We have more than 120000+ users.

Jobike's bike sharing service is an advanced innovation with a valuable economic impact on cities' sustainable transportation development. Jobike has expanded the scope of public transport services, allowing residents to choose from a wider range of lifestyles and work areas.

A recent study shows that 40% of the riders agree that the Jobike has changed their daily life; 48% think the Jobike reduces the time restriction for going out, and 70% think it saves traveling time. Meanwhile, more than half of the riders think the Jobike helps them to save on their traveling budget.



MBR: In an age of technological advancement and increasing internet accessibility, how do you intend to make JoBike a profitable venture?

JoBike: Our vision is to make lives easier through the use of technology. Right now we have conventional bicycle. Going forward we are going to use e-Bike to make it more convenient, where people will have access to any destination any time through the use of technology. We want to cover all divisional cities, tourist areas, universities campuses in order to make Jobike a profitable venture. We will introduce more varieties of products to our users to make their lives easier in terms of mobility.

MBR: How many customers does JoBike have currently? How do you hope to scale up the business?

JoBike: We have more than 120000+ registered users. We have monthly 20000 Active users. We need more and more bicycles to scale the business. Also in the same time we intend to introduce different types of bicycles.

MBR: What challenges does JoBike face in general?

JoBike: We do not have bicycle lanes in our city. The user behaviour or mindset is another challenge. No one ever though people can rent the bicycle, ride it and finally pay for it. Also vandalism was another challenge that we faced at the beginning. We are working towards finding a feasible solution to the problem. One of our visions is to make our city a bicycle friendly city.

MBR: Considering the Covid -19 situation, what are the difficulties have you been facing and how do you intend to recover or mitigate those?

JoBike: Jobike has been operating successfully since the year of 2018 until institutions and universities have been shut down to prevent further transmission of COVD-19. Therefore, Jobike ceased its service to help people stay put and stay safe. Jobike is temporarily shut down in Dhaka University, Chittagong University, Shahjalal University of Science and Technology (SUST).

However, we consider Covid 19 as an opportunity. A bicycle allows people to ride in open space without any human contact. Bicycle is a form of public transportation as it poses the lowest risk of COVID-19 transmission. In such circumstances, most of the places around the world have used cycling as an emergency transport solution.

MBR: What are the future plans for JoBike?

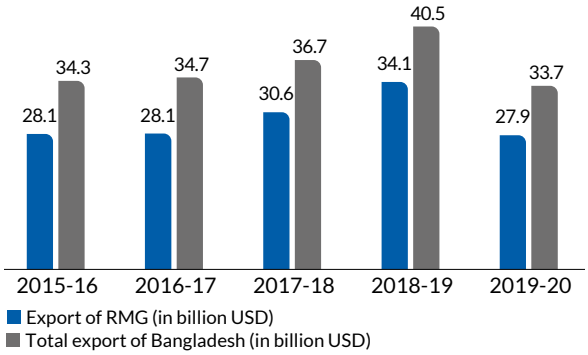
JoBike: Our plan is to introduce our services to all major cities and university campuses in Bangladesh. In terms product offerings, we would like to introduce different modes of bicycle as per users' needs. We want to make our city a Smart city, a bicycle friendly city.

EMPLOYMENT DILEMMA IN RMG SECTOR: EXPATRIATES VS. LOCAL WORKFORCE

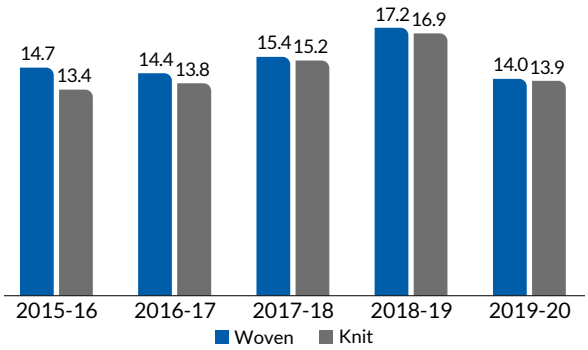
Faiek Fazal, Senior Manager, Corporate Division
Wasiq Ahmed, Intern, Corporate Division

The Ready-Made Garments (RMG) Industry of Bangladesh which began in late 1970s, expanded in 1980s and boomed in the 1990s, has been a success story for the country. It is the country's prime thrust sector with an unchallenged stake when it comes to earning foreign currency accounting for 83% of Bangladesh's total export in FY 2019-20 according to BGMEA.

Exports *(In Billion USD)*



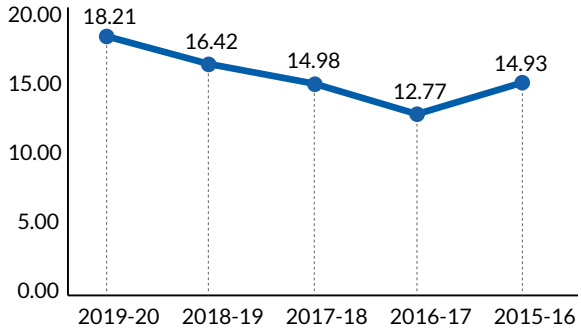
RMG Export Basket *(In Billion USD)*



Source: BGMEA

This industry along with inward remittance from the non-resident Bangladeshis almost defines the country's balance of payment account. Thus, RMG sector can certainly be considered the linchpin in driving the Bangladesh's economy with an 11.17% contribution to GDP while employing around 4.5 million people.

Remittances Inflow *(In Billion USD)*



Source: Bangladesh Bank

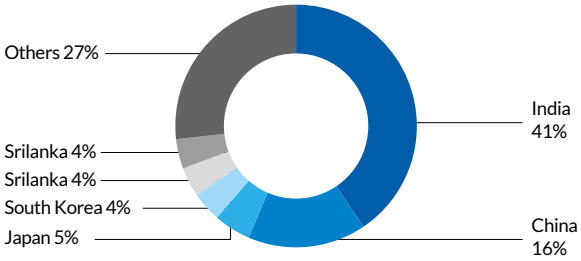
Expatriates in the RMG Sector

During the earlier days, Bangladesh lacked an abundance of technical expertise that was required for the booming RMG sector. At the same time, there was also a lack of adequate educational institutes that could produce qualified graduates for the industry. Consequently, the businesses at that time had no choice but to hire and rely on experienced technicians from neighboring countries like India, Sri Lanka, China, Taiwan, etc. to fill the gap.

Indian and Sri Lankan nationals were being brought in on a contractual basis in Knit & Woven factories for the purpose of training local workforce on the new technologies and machineries that were being employed. Many Pakistani experts were hired in Textile & Spinning factories with Turkish experts in Dyeing factories due to their globally recognized expertise in the respective fields. With time, RMG manufacturers began to develop appreciation for these foreign experts, which resulted in them being recruited on a permanent basis.

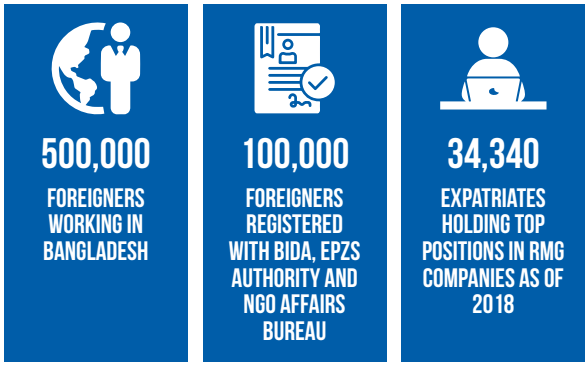
According to the official statistics presented by the Home Minister of Bangladesh, more than 84,000 foreigners from 44 countries were employed in various jobs as of 2018. But, these figures aren't indicative of the total number of expatriates employed in Bangladesh as they don't account for the significant number of foreigners who are employed without work permits.

Major country-wise distribution of foreign nationals working in Bangladesh



Source: Transparency International Bangladesh

There are no official statistical data on the number of total foreign employees in the country, but according to an unpublished study from University of Dhaka and The Centre of Excellence of BGMEA - 2018



These expatriates who are generally hired in positions such as CEO, COO, CFO, GM, Head of Design, Head of IE, Head of Quality Assurance, etc. of RMG have also been remitting more than $2 Billion per year from their salaries and allowances.

Why are Expatriates Infiltrating the Local RMG Job Market?

It is worth mentioning that most foreign professionals working in Bangladesh's RMG sector are highly presentable, possess excellent communication skills, and are disciplined, task-oriented and devoted towards their work. However, the uncontrolled influx of expatriates in Bangladesh's prime export sector is indeed a cause for concern to the national employment situation.

If the performances of RMG factories led by expats are examined purely from a business case perspective, massive improvements in overall operational efficiency level are usually noticed.

We focused on two narrowed-down fields where most of these improvements are demonstrated: Cost Management and Production Management. Even though, the basic principles of cost management are familiar to Bangladeshi business graduates and cost management accountants, expats usually achieve an efficiency level resulting in an 8-10% cost reduction within a year. An identified reason for this is that expatriates are renowned for taking a structured and detailed approach to the investigation of the cost-drivers of daily operations.

Indian & Sri Lankan experts have been implementing Industrial Engineering (IE) in the production processes of RMGs. In a factory that we visited, we learned that the production director there was a Six-Sigma Black-belt holder, and his floor managers had a minimum of Six-Sigma Green belt certifications. They implement 'Needle Tracking' - a tracking mechanism that helps determine the productivity level of each worker in the production line through a software that generates real time reports. These reports can be utilized to improve efficiency on a micro level, ensuring maximum output from each production line. This also leads to higher worker satisfaction as they have a set of daily production target & once it's met, they can leave work, even before the end of the shift.

Interestingly enough, even though the same production management knowledge is available to Bangladeshi personnel, they are usually unwilling to implement it in practice because of the potential complexities that may arise as well as the additional workload they have to endure.

Now, the question that arises here is whether our first-hand observations of the two RMG factories resonate with the reality across the sector or whether they were just isolated, uncorrelated events. As such, we have conducted interviews with some of the largest RMG companies of the country, in order to understand this employment dilemma from the employers' perspectives. We asked them:

Why do RMG owners currently prefer to hire Expatriates instead of local professionals?

The common answer to this was the perceived superiority in skills and technical ability of the expatriates. Expats are renowned for their effective specialized and soft skills.

Mr. Mesbah Rabin from Ananta Group cited a 2018-survey by economic think tank - Centre for Policy Dialogue (CPD), which found that a dearth of trained management professionals has been hampering the development of the readymade garment sector for some time. The survey, which was conducted among 3,856 factories across the country, discovered that while 51% of RMG factory managers had post-graduate degrees, one-fifth did not complete graduate level education. The need for skilled manpower has been further emphasized by Mr. Rabin, who highlighted the fact that the country's apparel sector

faced a shortage of about 1.47 lakh skilled workforce from floor to the executive level in 2017-18, a problem that will further exacerbate to a shortage of 1.82 lakh by 2021. Even if we focus on management level positions, RMG investors estimates, the sector will need 1.89 lakh graduates and textile experts by 2021 whereas Bangladesh has the capacity to produce around 40,000 by that time.

As per a study by Dhaka University, titled 'Employment of Expatriates and its Alternatives in the RMG Sector of Bangladesh', the number of specialized educational institutions, is grossly inadequate compared to the needs of the RMG sector. The annual enrolment at universities offering RMG relevant education is only around 15,000 a year, which includes Bangladesh University of Textiles, BGMEA University of Fashion and Technology, Daffodil International University, BUET, etc.

Abdullah Hil Rakib, Managing Director of TEAM Group and Director of BGMEA, explained that it is not the nationality rather the level of expertise that determines employability. A reason for expats seeming more adept is because countries like Korea, China etc. have moved into industrialization way ahead of Bangladesh.

RMG employers acknowledge the increasing influence of foreign nationals in management, communication and marketing roles. They claim that having a diverse workforce helps create a multicultural environment within the company that can improve their ability to connect and communicate with customers while delivering superior value.

Perhaps, the most intriguing of all insights was unraveled in our discussion with another sponsor of a leading RMG exporter group (with annual turnover of $300 Million): Seeking anonymity, he explained international buyers like Walmart, H&M, M&S, JCPenny, etc, prefer to source from manufacturers who have foreign nationals employed in their hierarchy. Such manufacturers of ready-made garments are generally treated with higher degrees of trust and confidence which in turn is often leveraged by charging marginally higher prices.

KEY INFO

- There are more than **5 Lakh** foreign workers employed in Bangladesh, mostly in the RMG sector, who are remitting out more than **$2 Billion** USD per year
- Expatriates working in RMG are perceived to not only have superior technical and communication skills but also have higher commitment and discipline for the job.
- The RMG Sector is expected to have a shortage of **1.82 lakhs** in skilled managers by 2021, as local candidates continue to fall short of the requirement by employers.
- The RMG sector is also failing to attract graduates from the country's best universities, with **68%** of surveyed students rejecting the idea of pursuing a career in this industry.
- Industry-academia partnerships between the educational institutes and the BGMEA as well as initiatives from the government are required to address the skill gap within the sector.

But why is it that international buyers find such confidence in foreign nationals and not in Bangladeshis? It is because of the perception that has developed over decades which proved that Bangladeshi professionals show lack of commitment to clients in the form of compromised product quality, delayed deliveries, etc.

Why is the Current Employment Dilemma a Problem to be addressed?

Expatriates working in RMG sector might be a win-win situation for both owners and foreigners. Unfortunately, the major problem lies in the fact that, salaries of expats are paid in Dollars. Moreover, the influx of professionals from overseas is leading to a reduction in jobs available to Bangladeshi professionals. Furthermore, many expatriates currently working in Bangladesh don't have valid work permits. Factories outside EPZs, oftentimes don't follow the guidelines when it comes to employing expatriates. As a result, relevant authorities are in the dark when it comes to the actual number of expatriates working Bangladesh and determining the total outflow of foreign currency.

It is estimated that foreigners employed in Bangladesh siphon off around $3.15 Billion per year, depriving the government of approximately BDT 12,000 crore in revenues.

To address the issue, authorities have started allowing non-EPZ firms to pay foreign staff in their respective foreign currency (FC) accounts from the company's export retention quota (ERQ) accounts. Export-oriented businesses, who were previously allowed to pay a maximum of 50% of employee salaries from ERQ, can now transfer up to 75% from these ERQ accounts. - meaning a larger number of expatriates and a higher portion of their salaries can now be paid through official banking channels bringing them under the Bangladeshi tax net. The Securities Services Division of the Home Ministry also made it mandatory for Indian and Pakistani citizens to register with the immigration authorities upon their entry into Bangladesh in an effort to stop overstay of visas and illegal employment in the country.

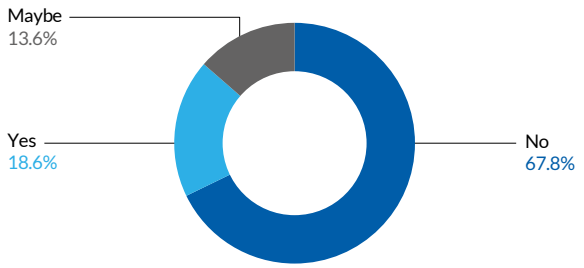
RMG Sector as a Potential Career Path for Talented Local Graduates

Managerial roles in RMG do not necessarily need to be occupied by graduates from textile and related fields, even though it may be preferred. Hence, with so many brilliant graduates produced by Bangladesh's top universities like BUET, Dhaka University, NSU, IUB, BRACU, BUP, etc., we should be able to appropriately meet most of the needs of RMG sector.

For majority of the students from Bangladesh's top educational institutions, this sector holds no appeal except for a few who may be attracted by some of the larger organizations. Centre for Policy Dialogue (CPD), Siddiqur Rahman, former-president of BGMEA, cited frequent labor unrests as well as the tragic incidents of past like the Rana Plaza collapse and Tazreen Garments fire, to be some of the primary causes of this situation.

A survey was conducted among 60 students and recent graduates from the nation's top universities in order to explore their perspectives regarding RMG sector as a potential career launch pad. 68% of the respondents replied that they don't see themselves working in the sector, while 18% were open to the idea. The remaining 13% said they would only consider based on factors like compensation & benefits, reputation of employer and scope of personal growth.

Do you see yourself working in the RMG sector?



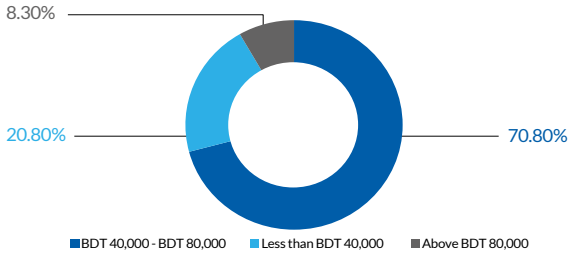
Source: Internal Survey

Among the 41 survey responses which rejected the idea of working in the RMG sector had a wide range of reasons:

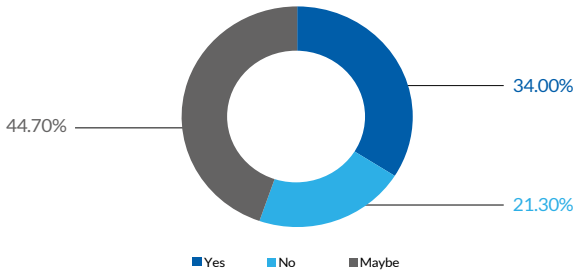
- **The consensus perception here is that the industry does not allow scope for personal career growth due to the underlying nepotism in recruitment.**
- **Concerns regarding the difficulty of migrating to different job sectors like FMCG, telecommunications, etc. later on in the career.**
- **Distances of factories from the Capital-Dhaka**
- **A staggering 90% of the surveyed believe that the industry mindset is primitive and offers poor work-life balance as well as little job security.**
- **RMG companies tend to overlook the employer branding aspect leaving graduates with a shallow idea of the workplace culture.**

Summary of Survey on "RMG Sector as a Potential Career Path?" conducted among University students:

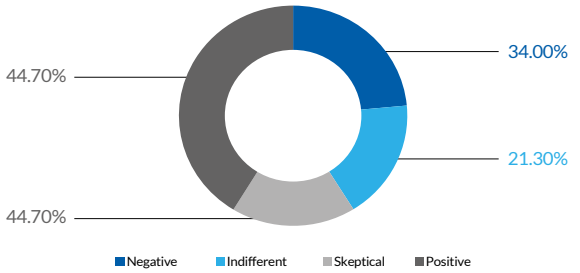
What is your expectation of the average starting salary for university graduates in this industry? *(In BDT per month)*



Do you think it is possible to have a fulfilling career in this sector?



What is your perception about the RMG sector as potential career choice?



Source: Internal Survey

What Do We Do?

Preparing a skilled and capable local workforce for the RMG sector will require long term planning and a structured implementation of proper policies with direct involvement of all stakeholders, including the government.

First, BGMEA, must assume a leading role. The recent 'Brand BGMEA' initiative has been successfully branding the country's RMG sector in new light to the world. However, at the same time, BGMEA must focus on attracting the country's brightest youth to come forward and work in this sector, which has also been resonated by Mr. Abdullah Hil Rakib, MD, TEAM Group. He highlighted the need for RMG owners to come up with 'Employer Branding' strategies in order to entice fresh graduates to apply.

Second, the government could undertake a comprehensive approach to help establish RMG as the 'new' golden sector of Bangladesh in a bid to develop the social and physical infrastructure that are required for the sustainable growth of this industry. Simultaneously, the government may initiate demonstration of the incredible impact of RMG sector on our socioeconomic system in the form of women empowerment, export earnings and economic growth.

Third, RMG Employers must also develop education support policies for employees through a process of reimbursement of educational fees subject to obtaining specialized degrees and excellent results from ranked universities.

Fourth, Career Placement Departments of universities can be encouraged to visit key RMG industry players in order to learn about the organizations' business processes, culture, employment facilities and benefits. Additionally, universities may devise and offer specialized courses like Operations and Supply-Chain Management, Product Marketing, Quality Management, Industrial Engineering, etc. with focus on the garments sector to develop employability of graduates from different disciplines.

According to Mr. Miran Ali, Managing Director of Bitopi Group & Director, BGMEA, Industrial Engineering (IE) departments focused on RMG might be introduced to the top engineering universities like BUET, KUET, CUET, IUT, NSU, BRACU, BUP, etc.

Finally, Administrative bodies like BIDA, BEPZA, NGO Affairs Bureau, etc. could be tasked to conduct a need-based review of sector-wise foreign expert requirements. Accordingly, regulatory initiatives can be taken to reduce the number of expatriates systematically.

A collaborative effort of the Government Institutions, BGMEA, RMG owners and Educational Institutions will be required to prepare local workforce for the challenges in the days to come.

Mr. Abdullah Hil Rakib

Managing Director, TEAM Group
Ex-Director, BGMEA

Interviewed By
Mr. Faiek Fazal, Senior manager, Corporate Division

MBR: Please share with us your opinion regarding the impact of Covid-19 on the RMG sector of Bangladesh. What are the initiatives you've taken differently and what are your suggestions for the struggling industry players?

Mr. Abdullah Hil Rakib: The COVID-19 situation has been very challenging for [the industry] but at the same time, it opened up a lot of opportunities for us. It made us learn how to communicate and manage operations remotely, and thereby adapt to the new normal. To do so, we made sure that all the manufacturing units and offices were connected via communication platforms. We took steps to ensure that our workforce is skilled enough to attend Zoom conferences, use Microsoft teams, and operate other applications where group meetings can be conducted while they remain at their own homes. Looking forward, we are optimistic about the strength that technology can add to our work. It is an added bonus especially for employees in managerial roles since using these platforms enables them to be available to their subordinates twenty-four seven. Prior to the COVID situation, we were accustomed to holding meetings in a festive manner where we arranged town-hall meetings and informal conferences where factory heads would move at their own pace. Moreover, traffic and pre-meeting arrangements made these meetings quite time consuming and labour- intensive to hold. As opposed to that, digital meeting platforms allow us to attend meetings bypassing all such preparations. Now employees can attend meetings from their workplaces at the designated time whether they are in the US or in their factories in Gazipur, Uttara, or Karwan Bazar.

We have been spending a significant proportion of time conducting brainstorming sessions, analysing how to utilize the workforce rightly, and studying expenses. We are also trying to incorporate lean management techniques so as to minimize our costs and be conservative with the capital we have. I believe that we have to work a little extra on these points so that our outcome is at par with the expectation. As long as the industry is ready to take on these requisite measures by having the mind-set to learn, it would be easier for us to overcome this situation as well as boost our confidence.

MBR: What do you think are the primary reasons why RMG companies are preferring to employ expatriates over local professionals in the RMG industry?

Mr. Abdullah Hil Rakib: The reason why overseas staff are selected over local staffs in RMG is that sometimes local staff with the required level of skill are not available. I believe that it has no underlying foreigners-versus-locals connotation. It

is purely about the efficiency of work and the skillset possessed by the selected employee in a particular chair (position). Because RMG is an industry where people from Korea, China, Taiwan, or Turkey, have ventured in much before than we [Bangladeshis] did, their technicians often have more skills than ours. So, their employees have a well-round idea regarding efficiency maximization, industrial engineering, management roles, and probable challenges that the industry is likely to face along with the solutions to overcome those challenges. Additionally, we need [foreign] demonstrators to teach our local employees how to use the imported equipment and machineries. They go floor to floor demonstrating how to use such machinery. Our goal is to engage and train our local workforce within the period of the demonstrators' contractual timeline.

We look forward to our natives coming up with innovative technology so that we too can proudly claim that people from our country came up with new production procedures, cutting-edge technology, or systems better than the lean management. I am sure there will be a time when our people will be employed by garment companies overseas and they would render a stellar performance.

MBR: What are some of the key roles within a large RMG company, where expatriates are hired? And what are the major required skill-sets and personality traits assessed for these roles?

Mr. Abdullah Hil Rakib: In most local RMG companies, employees are being hired from abroad to fill the positions of COO, head of operations, and head of IE etc. Posts requiring technological skills, especially mechanical engineers, are being filled from overseas as well. When the local employers see that the foreign employees can deal with the machineries and technical work more efficiently without the need of an orientation, they feel more confident about the employees' expertise. The employers feel that the selected employees are more professional and are more accountable to the ROI. The investors too prefer experts who are more accountable to the generation of ROI. It is not that our local human resources are incapable; it is just that the foreign human resources have historically displayed a better performance.

I am sure if our local workforce works of on the identification of the gaps between their skills and their foreign counterparts' followed by reducing the said gap, the owners of RMG companies would be more than willing to have local employees on board.

MBR: In what ways are the expatriates offering more value than the local workforce?

Mr. Abdullah Hil Rakib: Value addition is about a person's contribution as per the need of the company and the industry at large. It does not have anything to do with whether they are local or foreign. We need employees in managerial roles to remain focused, decide what to do, and take immediate actions. The fittest people exhibiting these characteristics are selected for the managerial roles without regard to their nationality. However, our local workforce should be aware of the features they usually do not possess. Upon comparison, it is seen that foreign employees are usually more dedicated to their work compared to the Bangladeshi employees. Of course I do not believe that this applies to all employees. Exceptions are there in the local market; exceptions are also there in the foreign market.

I would request all employers to remain careful when they select employees. They should refrain from selecting a foreigner just for the sake of exerting influence on their subordinates – which is unfortunately a common phenomenon. I would recommend selecting employees who can really contribute, keeping in mind that we should aim to transfer foreign technologies into our local industries. We should take steps to get out of this situation where we have to drain out all our money from the country to ensure efficiency.

MBR: Why do you think graduates from top Bangladeshi universities like BUET, IBA, NSU or Dhaka University are not very highly attracted towards a career in the RMG industry?

Mr. Abdullah Hil Rakib: It is a pity that our industry could not attract our prime graduates from IBA, BUET, and other top-notch universities. I strongly believe that this is high time that the RMG owners decide that they require more talented people to keep this industry strong. We should create value-adding factors that would enable these young people to take the lead not only locally but also internationally. I believe that by giving them a little, we will gain a lot. I look forward to working on our branding and payment structure so as to attract the upcoming graduates from these institutes to take the industry to multinational levels. I look forward to the time when our local graduates will be in charge of foreign branches of our local RMG companies.

I must mention a Korean-owned company called YoungOne that employs Bangladeshi people in their projects in El Salvador, Vietnam, and China. I feel proud that our youngsters are performing better than employees of other nationalities in this conglomerate owned by Mr. Kihak Sung. This suggests that our youngsters can perform well if given an opportunity. By recruiting and training talents, and sending them to international platforms if needed, we can raise them to explore their true potential in national and international avenues.

MBR: What type of initiatives do you suggest that educational institutions as well as BGMEA should undertake in order to:

a. **Enhance the attractiveness of the sector to talented local graduates**
b. **Improve the employability of local graduates by closing the knowledge and skill gap between them and the expatriates?**

Mr. Abdullah Hil Rakib: Institutes such as BGMEA, BUFT, and IBA are to understand the need of the RMG industry and how it contributes the so significantly to the economy. The universities are to identify the upcoming needs of the industry, say within the next 25 years, and groom the students in a manner that would enable them to support the industry needs. This certainly contributes to filling the gap between the skillset of the graduates and the requirements of the RMG sector.

I should add that universities should establish an industry-academia partnership and arrange relevant programmes for students. Such as, collaboration programmes and internship opportunities aimed at students would increase their learning curve. By the end of their term, or say tenure at university, they can have the confidence to correlate their studies into a practical field. I believe this would contribute to reducing the said gaps.

MBR: What kind of impact is expected to have on the attractiveness of Bangladesh as a workplace destination for expatriates?

Mr. Abdullah Hil Rakib: COVID-19 has given us the opportunity to lean ourselves down and save costs. Under such circumstances, many RMG companies may not possess the luxury to employ the overseas staff; in fact not bearing the extra cost of employing them becomes a necessity when we do not have enough resources available. I would say that this is an opportunity for our local boys and girls to reskill and up-skill themselves to present themselves to the market. At the same time, this is also a perfect opportunity for managers and entrepreneurs to identify scopes of cost minimization using local resources.

Mr. Miran Ali

Director, BGMEA & Managing Director, Bitopi Group

Interviewed By
Mr. Faiek Fazal, Senior Manager, Corporate Division

MBR: Please share with us your opinion regarding the impact of Covid-19 on the RMG sector of Bangladesh. What are your suggestions for the struggling industry players?

Mr. Miran Ali: The Covid situation in Bangladesh is very much under control right now. However, as we are an export-oriented industry, one thing that concerns us more, is the situation of the selling countries. Our key markets are Western Europe, Eastern Europe, North America, Australia etc. The COVID-19 situation in each of these markets is different. Moreover, within these markets the COVID-19 situation also varies.

For instance, even if there is a complete lockdown going on in any market, the essential shops continue to operate as they sell foods, clothes, medicines etc. Thus, supermarkets like Walmart, Target, Tesco, Aldi, Kmart etc were never shut down during the lockdown. Fortunately, some of the biggest clients of Bangladesh are retailers who are called big box retailers. if any company's export basket consists of such essential markets then they will continue buying instead of lockdown. The amount can be less than before, but the buying will not completely stop.

On the other hand, if the export basket contains retailers, who only sell through physical stores in a single location or single geographic area then the sufferings will be more than the essential market sellers. However, if the retailer is selling the products in different countries through both online and physical stores then the demand scenario will be better. It is because even if some countries are under lock down others are open. On the other hand, online platform is still open for the locked down countries.

We have also observed that since Covid-19 is a seasonal flu if we are selling to the southern hemisphere by definition the southern hemisphere will have a low infection situation whereas the northern hemisphere will have a high infection situation. Which means, when the UK or Europe is moving towards lockdown, Australia might be open. Thus, we need to diversify our geographical locations and also the kind of customers that we supply to. We also have ensured the clients that we are more Omni channel, so that, they themselves can be more resilient.

MBR: What do you think are the primary reasons why RMG companies are preferring to employ expatriates over local professionals in the RMG industry?

Mr. Miran Ali: I believe there is a misrepresentation regarding the presence of expatriates particularly in the RMG sector. Such misunderstanding has arisen from the fact that in the past, majority of the senior position used to be held by the expatriates. To give our own example, 3 years ago we had 35 expatriates working for us who were Srilankan, Indian, Pakistani,

British, Irish, German, Turkish etc. Interestingly, from 35 we have come down to 6 to 8 expatriates who are basically working in the technical sector.

MBR: What are some of the key roles within a large RMG company, where expatriates are hired? And what are the major required skill-sets and personality traits assessed for these roles?

Mr. Miran Ali: The positions where we still have expatriates are basically 3 key positions.

One of which is design and development. The issue here is, it is almost impossible to run a design and development studio where you are doing original collections and selling to different clients around the globe without an expatriate because ultimately the end buyers are not from Bangladesh. We are selling to customers in USA, UK, and Europe or in some other places. In order to understand the market, it is required to have an expatriate to handle the department. In our case, we have a Spanish national running our design studio however, everyone under her is locals.

The other area is the head of operations. This industry has been in Bangladesh for last 25 years. The industry has existed in Bangladesh in its present form technically since about the early eighties but practically in its modern form, it only started in late nineties or early two thousands. Moreover, the industry also went through major cycles of evolution over the last decade. The industry today is very different from the industry in 2000 or even in 2010. Thus, we can say that the industry now is nothing like the industry which existed in the nineties. So, what happened in the early years of the industry was that there was a reluctance in the part of educated young men and women to enter into the garments industry because there was a misperception or low perception regarding employment in this sector. As a result, in the initial years until recently it was quite difficult to get local talents on board. For example, if IDLC puts an advertisement tomorrow for management trainee where no experience is required, you probably will get 40,000 applications out of which 25% are probably women. If I put the same advertisement, I will probably get 700 applications which was 200 before. Among the 700 applicants there will be only 15 to 20 female applicants. That means, there is a reluctance in local graduates in factory management. However, the scenario is not same for Sri Lanka or India. Although India has little mass manufacturing as compared to us, it does have people who have grown up or worked in multiple countries in manufacturing operations management.

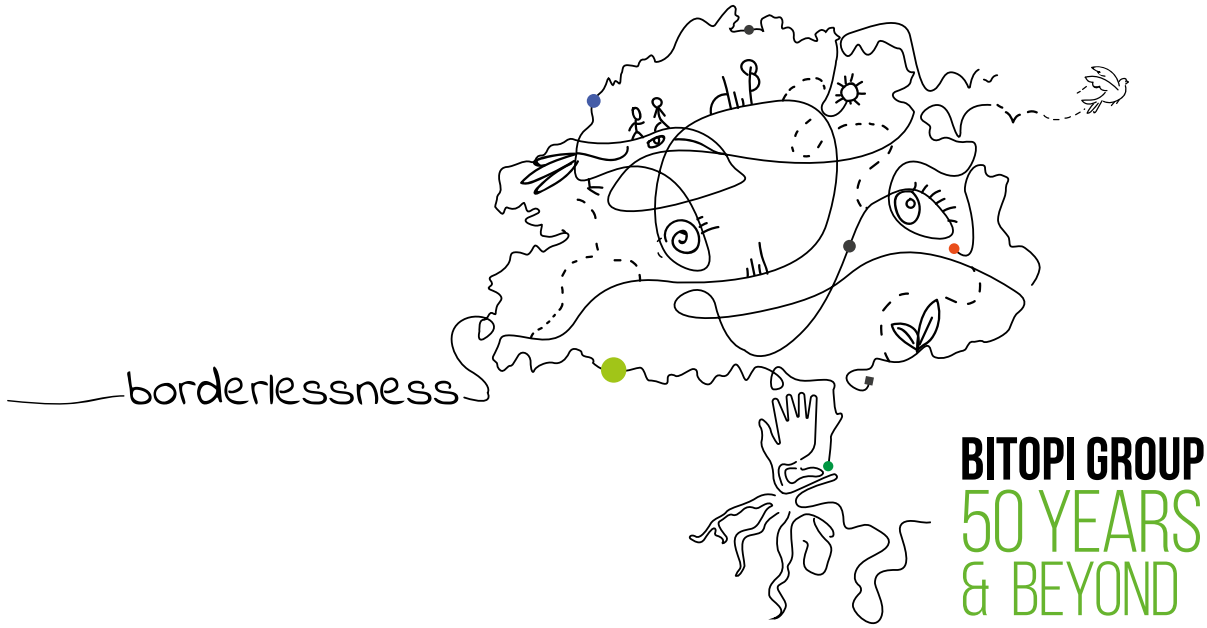
The other area is wet processing or washing. Washing is a relatively new operation in Bangladesh, it has grown bigger over the past 10 years. In our factory, we used to have 6 Turkish nationals running the washing plant but over the last two years we have completed the transition and now it is completely run by the locals.

MBR: What do you think is the perceived economic cost of hiring expatriates? Do the costs justify their value addition?

Miran Ali: As I was saying earlier, the perception that there are a lot of expatriates in the RMG sector of the country is a misperception. As a total number of employees, the number is not even a statistical percentage but as management employees the number is statistical percentage. However, the number is very insignificant and constantly declining. As a matter of fact, there is no big out flow of funds because of the expatriates as they are also very high taxpayers. The minimum wage to hire an expatriate is USD 1500 per month and they must pay tax on this. Thus, each expatiates who are working in this sector are contributing to training our people and paying high taxes which is duly assessed by the government.

MBR: What is your opinion about the presence of young graduates in the industry now a days?

Mr. Miran Ali: The number of expatriates in the garments industry is at a constant decline. However, it will take another 10 years for the number to be even more insignificant. Two of our factories are now run by management trainees who joined us 16 or 17 years ago. One third of another factory is now run by management trainees who has now come up through



the organogram. However, if we talk about overall operation, it is still managed by expatriates. It might take another 10 years for the unit heads to take over that position.

MBR: What type of initiatives do you suggest that educational institutions as well as BGMEA should undertake in order to:

a. **Enhance the attractiveness of the sector to talented local graduates**
b. **Improve the employability of local graduates by closing the knowledge and skill gap between them and the expatriates?**

Mr. Miran Ali: Every year the number of fresh graduates who are interested in the RMG sectors and specifically in the factory positions is improving day by day. These people who are coming into the industry will eventually take the positions of all the expatriates in future. In order to make this transition faster and easier the industry can provide curriculums which are more technically enriched and more maths and statistics oriented. More textile engineering and industrial engineering-based curriculums are needed for this sector.

BGMEA is working with the government with several initiatives. It also tries to co-ordinate with different NGOs and donor organizations to make sure the technical and practical education given to the young graduates are relevant to the industry. For that we try to give feedback and interact with universities like BUET, BRAC etc. to make sure that the faculties also understand what the industry needs. There are still rooms for improvement here. The interaction should be far more than what we do now, but it is still a very positive imitative for improvement.

MBR: What kind of impact is COVID-19 expected to have on the attractiveness of Bangladesh as a workplace destination for expatriates?

Mr. Miran Ali: In the garments industry, I do not know of any expatriate who is currently not in Bangladesh. All the expatriates working for this industry are in Bangladesh. If we consider any big factory in India the number of expatriates is much higher than Bangladesh. On the other hand, in Jordan or Ethiopia we might even find 100% expatriates run factories with no local management at all. We do not have such situation. In Bangladesh if a factory consists of 2500 people, we may find only 1 expat which is a very insignificant number. Moreover, Bangladesh is doing far better than any other country in terms of our response to covid situation as well. Thus, the expats are very comfortable in working here. It is not the case like Cambodia or Myanmar. Myanmar has 20% more expats than us.

Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market closed the month of October in negative territory. During the month, the broad index DSEX declined by 2.4%, gaining about 117.2 points. The blue chip index DS30 and the Shariah index DSES declined by -0.9% and -1.9%, respectively.

Among the regional peers, Vietnam index advanced (+2.2%) during the month, while Sri Lanka (-4.3%) and Pakistan (-1.7%) fell. MSCI Frontier Markets Index marginally increased by 0.9%. Over the long term, Vietnam showed the most encouraging track record with a 5 years' return of 52.4%.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, October, 2020	Return*					
		1M	3M	YTD	12M	3Y	5Y
Bangladesh							
DSEX	4,846.1	-2.4%	15.0%	8.8%	3.5%	-19.5%	6.2%
DS30	1,680.1	-0.9%	18.3%	11.0%	3.2%	-22.5%	-2.7%
DSES	1,098.8	-1.9%	12.5%	9.9%	2.2%	-16.5%	N/A
Peer Countries							
Pakistan (KSE 100)	39,888.0	-1.7%	1.6%	-2.1%	16.6%	0.7%	16.4%
Sri Lanka (CSE - All Share)	5,726.6	-4.3%	11.8%	-6.6%	-4.4%	-13.5%	-18.7%
Vietnam (VNI)	925.5	2.2%	15.9%	-3.7%	-7.3%	10.5%	52.4%
MSCI Frontier Markets Index	**685.4**	**0.9%**	**9.9%**	**-10.6%**	**-5.8%**	**-13.5%**	**5.5%**

*All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During October, the total market capitalization declined by 2.1%, while free float market capitalization declined by -1.9%. The daily average turnover of October 2020 was BDT 8.5 bn (USD 100.5 mn), decreasing by 15.8% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market declined to 52.3% in October compared to 66.8% of last month. In 2019, turnover velocity of Bangladesh equity market was 33.5%, in comparison to 34.4% in 2018.

Table 2: Market capitalization and turnover statistics

Particulars	31-Oct-20	30-Sep-20	% change
Total market capitalization (USD* mn)	46,138	47,128	-2.1%
Total equity market capitalization (USD mn)	39,121	40,131	-2.5%
Total free float market capitalization (USD mn)	14,969	15,254	-1.9%
Daily Avg. Turnover (USD mn)	100.5	119.3	-15.8%
Turnover Velocity~	52.3%	66.8%	N/A

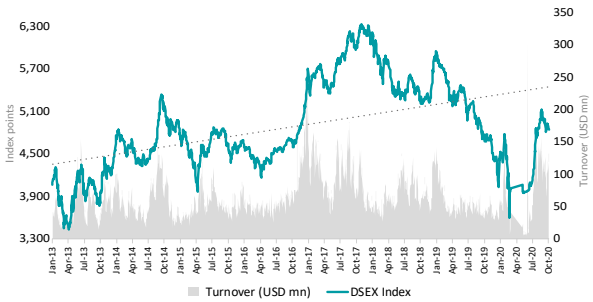
*All USD figures are converted using an exchange rate of 84.80 as of October 31, 2020 as per Bangladesh Bank website.

~Turnover velocity is calculated by dividing monthly total turnover with month-end market capitalization. The figures are annualized.

Historical Index Points and Market Participation Data

Since its inception on January 27, 2013, DSEX yielded a holding period return of 19.5% till October, 2020. During the same period, daily average turnover of the market amounted to BDT 5.4 bn (USD 63.9 mn) (Figure 1).

Figure 1: DSEX since inception along with market turnover



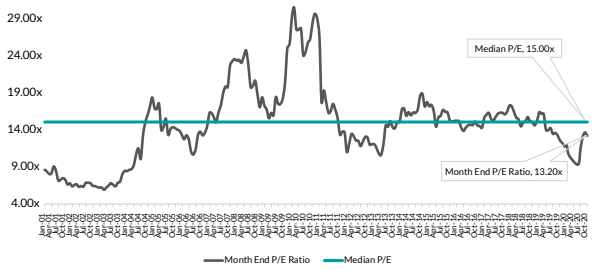
Source: DSE

Market Valuation Level - P/E Ratio

The market P/E decreased to 13.20x in October compared to last month's 13.66x. However, It is lower than the 19 years' median market P/E of 15.00x (Figure 2). In terms of trailing 12 month P/E ratio, the equity market of Bangladesh is the cheapest among its regional peers. (Figure 3).

Figure 2: Historical market P/E* and it's median

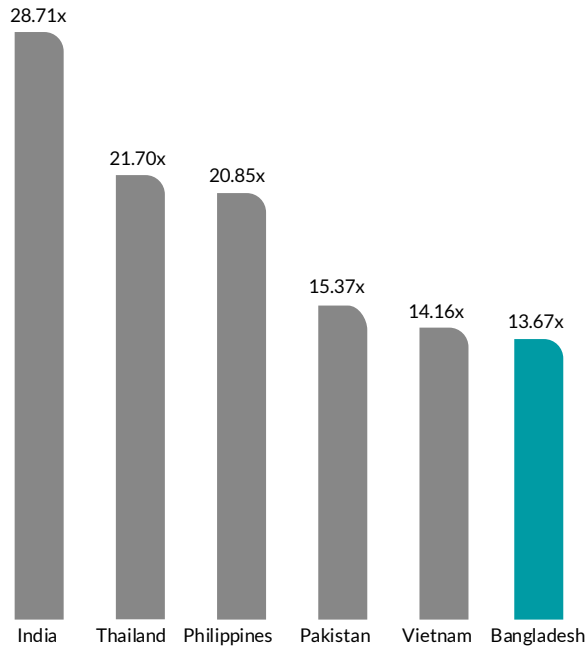
Current Market P/E in Context of History



*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their total audited annual earnings.

Source: CEIC, DSE

Figure 3: Current market P/E* of Bangladesh and peer countries



*Trailing 12 month P/E as of October 31, 2020.

Source: IDLC, Bloomberg

Sector Performance

During October, all the major sectors closed in negative territory, except for Non-life Insurance sector (+13.8%). Among them Life Insurance (-8.2%), Engineering (-7.9%) and Textiles (-6.9%) faced the most selling pressure.

Bank, the largest free-float market capitalization sector, is relatively undervalued in terms of P/E ratio. On the other hand, Fuel & Power sector has the highest dividend yield of 5.2% among all sectors.

Table 3: Sector performance snapshot

Sector	Market Capitalization (USD mn)		Return*						P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	YTD	12M	3Y	5Y			
Pharmaceuticals & Chemicals	6,497	3,379	-1.8%	11.4%	18.7%	11.4%	18.0%	47.6%	16.9	2.5	1.7%
Bank	6,372	3,607	-1.5%	17.1%	6.2%	4.9%	-17.0%	62.4%	7.9	0.6	4.3%
Telecommunication	5,509	593	0.0%	33.9%	23.5%	11.1%	-9.0%	71.9%	12.7	13.1	3.8%
Fuel & Power	5,102	1,328	-1.0%	14.0%	13.1%	4.9%	19.3%	31.5%	11.3	1.5	5.2%
Engineering	4,172	920	-7.9%	141.3%	121.2%	106.4%	72.3%	138.7%	23.1	1.7	2.6%
Food & Allied	2,913	1,034	-2.6%	17.1%	15.3%	-0.4%	5.7%	16.5%	17.4	6.0	3.4%
NBFI	1,991	624	-4.9%	30.2%	20.2%	22.9%	-27.7%	23.7%	29.1	1.8	2.2%
Textile	1,269	725	-6.9%	4.7%	-1.1%	3.8%	-1.1%	40.1%	19.9	0.8	1.8%
Miscellaneous	1,228	368	-5.2%	9.6%	7.3%	2.6%	17.3%	35.7%	29.7	1.2	2.2%
Cement	904	370	-3.9%	4.6%	11.1%	10.3%	-37.5%	-47.8%	20.5	2.0	2.0%
Non Life Insurance	1,055	601	13.8%	53.5%	78.4%	82.7%	124.0%	257.3%	20.4	1.9	2.1%
Life Insurance	638	326	-8.2%	-5.6%	-11.6%	-1.7%	15.7%	35.6%	22.7	6.6	2.2%
Travel & Leisure	302	157	2.8%	2.9%	13.6%	29.0%	28.9%	61.6%	24.2	0.8	0.5%
IT	273	174	-6.0%	6.3%	3.8%	12.3%	-0.2%	288.2%	19.4	2.0	1.9%
Ceramics	253	105	-5.6%	6.7%	-6.0%	-10.9%	-21.2%	-17.9%	84.5	1.4	3.2%
Tannery	210	103	-2.0%	0.4%	-7.6%	-17.0%	-32.0%	-24.6%	35.4	1.6	1.6%
Services & Real Estate	171	87	-9.1%	7.6%	10.7%	6.5%	-36.3%	-33.1%	15.6	0.8	2.9%
Paper & Printing	115	41	-9.3%	1.0%	-1.0%	5.8%	434.8%	369.2%	30.1	1.1	2.7%
Jute	23	15	-13.4%	11.0%	-22.8%	-32.0%	23.7%	116.3%	59.9	5.8	0.2%
Market	**37,043**	**14,969**	**-2.4%**	**15.0%**	**8.8%**	**3.5%**	**-19.5%**	**6.2%**	**13.8**	**1.4**	**3.2%**

*All returns are Holding Period Return.

**Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their annualized earnings excluding companies trading at an annualized P/E greater than 80.0x.

^P/BV is calculated by dividing total market capitalization of listed companies with their total book values excluding companies with negative book values.

~Dividend yield is calculated by dividing last year's declared cash dividend with market capitalization.

Cap Class Performance

During the month of October, all cap classes yielded negative returns. Among them, the large cap was the highest dividend yielding (3.7%) class.

Table 4: Performance of different market cap classes

Cap Class	Market Capitalization of Constituent Companies (USD mn)	% of Total Equity Market Capitalization	Return*						P/E (x)	P/BV (x)	Dividend Yield^
			1M	3M	YTD	12M	3Y	5Y			
Large	≥119	78.9%	-1.3%	22.0%	15.9%	6.3%	-0.9%	41.2%	12.6	1.5	3.7%
Mid	36-118	11.1%	-2.5%	8.3%	7.6%	6.3%	-11.3%	27.9%	15.6	0.9	2.4%
Small	12-35	8.0%	-6.9%	3.4%	6.1%	1.4%	-16.8%	18.9%	21.7	0.9	2.2%
Micro	<12	2.0%	-1.1%	20.5%	21.5%	24.5%	3.3%	45.4%	24.5	0.5	0.9%
Market	**-**	**-**	**-2.4%**	**15.0%**	**8.8%**	**3.5%**	**-19.5%**	**6.2%**	**13.8**	**1.4**	**3.2%**

*All returns are Holding Period Returns

Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization, TITASGAS (+3.0%), OLYMPIC (+2.8%), UPGDCL (+2.4%), BRACBANK (+2.0%), RENATA (+1.3%) and BXPHARMA (+0.4%) yielded positive return during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as UPGDCL (+232.3%), EBL (+128.2%) and DUTCHBANGL (+90.9%).

Among the scrips, TITASGAS, MJLBD, SUMITPOWER, EBL, UPGDCL, MARICO (+4.5%), ISLAMIBANK, DUTCHBANGL, GP and BATBC recorded a higher dividend yield compared to that of market.

Table 5: Snapshot of 20 largest companies in terms of market capitalization

DSE Code	Sector	Market capitalization (USD mn)		Daily Avg. Turnover (USD mn)	Return*						P/E (x)	P/ BV (X)	Dividend Yield
		Total	Free Float		1M	3M	YTD	12M	3Y	5Y			
GP	Telecommunication	5,250	525	0.73	-0.1%	34.1%	23.1%	10.8%	-9.6%	73.2%	12.4	15.3	3.9%
WALTONHIL^	Engineering	2,449	24	1.72	-9.5%	N/A	N/A	N/A	N/A	N/A	28.3	2.6	2.9%
BATBC	Food & Allied	2,306	610	0.76	-3.1%	19.7%	16.9%	-1.3%	12.8%	21.8%	16.8	5.9	3.7%
SQURPHARMA	Pharmaceuticals & Chemicals	1,975	1,292	1.31	-2.7%	9.6%	4.4%	-8.0%	-14.3%	17.0%	12.5	2.4	2.4%
UPGDCL	Fuel & Power	1,897	190	0.62	2.4%	38.6%	24.5%	12.7%	151.2%	232.3%	13.8	6.1	4.7%
RENATA	Pharmaceuticals & Chemicals	1,224	598	0.16	1.3%	6.8%	6.8%	0.6%	45.4%	67.8%	25.9	5.3	1.1%
ICB	NBFI	844	27	0.06	-6.4%	30.3%	21.5%	26.2%	-36.5%	-3.6%	126.1	7.5	0.5%
MARICO	Pharmaceuticals & Chemicals	780	78	0.14	-2.2%	25.4%	31.4%	29.0%	117.2%	62.3%	18.5	35.9	4.5%
BERGERPBL	Miscellaneous	723	36	0.06	-4.4%	1.1%	-2.0%	-7.9%	32.7%	42.4%	39.9	8.4	2.2%
BRACBANK	Bank	649	361	2.11	2.0%	30.1%	-20.2%	-9.9%	-34.9%	80.9%	15.5	1.4	1.7%
BXPHARMA	Pharmaceuticals & Chemicals	566	491	3.45	0.4%	46.6%	70.5%	55.7%	26.9%	85.3%	13.6	1.6	1.3%
LHBL	Cement	538	190	0.49	-3.0%	9.5%	20.2%	24.3%	-29.6%	-49.0%	22.8	2.9	2.5%
SUMITPOWER	Fuel & Power	501	185	0.25	-5.9%	1.8%	13.7%	10.1%	29.9%	63.6%	7.7	1.3	5.0%
ISLAMIBANK	Bank	496	241	0.16	-3.0%	44.2%	44.1%	43.4%	-9.4%	19.1%	8.5	0.7	3.8%
OLYMPIC	Food & Allied	422	305	0.13	2.8%	4.4%	8.4%	6.8%	-24.2%	-12.7%	17.7	4.9	2.9%
TITASGAS	Fuel & Power	405	101	0.11	3.0%	11.9%	12.3%	1.2%	-10.6%	-36.3%	9.5	0.5	7.5%
DUTCHBANGL	Bank	376	49	0.10	-2.5%	12.0%	0.6%	-0.2%	18.5%	90.9%	7.6	1.2	4.7%
EBL	Bank	340	237	0.04	-1.9%	14.9%	15.6%	8.7%	-0.9%	128.2%	8.6	1.2	4.2%
MJLBD	Fuel & Power	302	86	0.05	-5.7%	8.0%	27.6%	6.6%	-16.0%	38.1%	14.6	2.1	5.6%
GLAXOSMITH	Pharmaceuticals & Chemicals	298	28	0.02	-5.0%	-2.9%	22.8%	23.3%	57.4%	30.4%	41.4	22.4	2.5%
Market		**37,043**	**14,969**	**100.47**	**-2.4%**	**15.0%**	**8.8%**	**3.5%**	**-19.5%**	**6.2%**	**13.8**	**1.4**	**3.2%**

*All returns are Holding Period Return.

^WALTONHIL got listed on September 23, 2020.

Top Performing Mutual Funds:

The top ten open end mutual funds based on 3 year CAGR outperformed the market, during the same period. Among them CAPM unit Fund (+5.7%) yielded the highest return. On YTD basis, CAPM Unit Fund (+17.4%), Third ICB Unit Fund (15.8%), LankaBangla 1st Balanced Unit Fund (15.7%), Sixth ICB Unit Fund (12.7%), Peninsula AMCL BDBL Unit Fund One (+12.1%) and Seventh ICB Unit Fund (11.9%) outperformed the market.

Table 6: Top ten open end funds based on 3Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	NAV Return		
			2020 YTD*	2019	2017-2019
CAPM Unit Fund	CAPM	1.6	17.4%	-7.3%	5.7%
VIPB Accelerated Income Unit Fund	VIPB	8.3	5.0%	-4.6%	5.4%
Seventh ICB Unit Fund	ICB	4.6	11.9%	-7.8%	3.8%
ATC Shariah Unit Fund	ATCP AML	1.4	2.9%	-10.8%	3.2%
LankaBangla 1st Balanced Unit Fund	LankaBangla	5.1	15.7%	-8.0%	2.6%
Sixth ICB Unit Fund	ICB	3.1	12.7%	-8.4%	2.4%
MTB Unit Fund	Alliance	9.6	6.0%	-0.9%	1.7%
UFS-Popular Life Unit Fund	UFS	8.7	6.2%	-9.0%	1.6%
Third ICB Unit Fund	ICB	3.6	15.8%	-8.2%	1.1%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.3	12.1%	-7.7%	0.9%
Market (Broad Index) Return (%)			**9.7%**	**-18.0%**	**-4.3%**

*Based on published NAV and DSEX point of October 29, 2020

All the top ten closed end mutual funds on the basis of 5 years (2015-2019) performance yielded positive returns on YTD basis except ATCSLGF (-1.9%). Among them, GRAMEENS2 (+13.1%) yielded the highest return.

Table 7: Top ten close end funds based on 5Y return (CAGR) performance

DSE Code	Fund Manager	Fund Size (USD mn)	Price[1] (BDT)	NAV[1] (BDT)	Price/ NAV	Dividend Yield[2] (%)	NAV Return[3]				Redemption Year[4]
							2020 YTD	2019	2017-19	2015-19	
NLI1STMF	VIPB	7.6	13.0	12.8	101.9%	3.8%	5.7%	-4.5%	5.0%	9.7%	2022
SEBL1STMF	VIPB	14.2	11.1	12.1	91.8%	2.7%	5.6%	-4.4%	4.7%	8.7%	2021
ATCSLGF	ATC AML	7.7	9.8	10.6	92.5%	0.0%	-1.9%	-8.1%	4.1%	7.5%	2025
EBL1STMF	RACE	17.5	7.5	10.3	73.0%	0.0%	3.4%	-5.0%	4.4%	6.8%	2029
PHPMF1	RACE	33.8	6.8	10.2	66.9%	0.0%	2.1%	-3.5%	4.7%	6.2%	2030
RELIANCE1	AIMS	8.9	11.1	12.4	89.4%	0.0%	10.2%	-6.6%	3.8%	6.2%	2021
GRAMEENS2	AIMS	38.3	15.9	17.8	89.2%	4.4%	13.1%	-7.1%	4.5%	6.0%	2023
1JANATAMF	RACE	35.6	6.6	10.4	63.3%	0.0%	3.5%	-4.0%	3.5%	5.8%	2030
POPULAR1MF	RACE	36.2	6.4	10.3	62.3%	0.0%	2.1%	-4.6%	3.8%	5.8%	2030
AIBL1STIMF	RACE	12.4	8.1	10.5	76.9%	9.9%	11.5%	-6.4%	2.1%	5.3%	2031
Market						**3.2%**	**9.7%**	**-18.0%**	**-4.3%**	**-1.9%**	

1 Price as of November 01, 2020, and NAV published on October 29, 2020.

2 On last cash dividend declared.

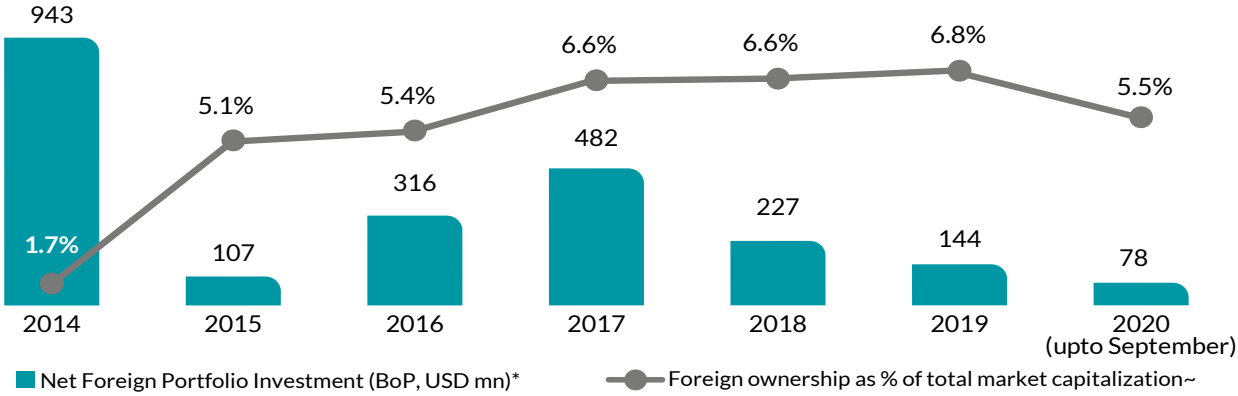
3CAGR computed for respected periods, except for 2019 and 2020 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4In reference to BSEC Press Release বিএসইবস/মুখপাত্র (৩য় খন্ড)/২০১১/২৫ published on March 16, 2018, tenure of existing listed closed end mutual funds can be extended by another tenure equal to maximum 10 years, provided that the full tenure of the subject fund does not exceed 20 years in total. However, the mutual funds those are not willing to extend their tenure will still have the option to convert or wind up as per rules and regulations.

Foreign Participation in Equity Market of Bangladesh

Over last 5 years, Bangladesh equity market has seen a surge of foreign investment. As of September, 2020 total foreign ownership stood at 5.5% of the total equity market capitalization, which was only 1.7% in 2014.

Figure 4: Net foreign portfolio investment and foreign ownership as % of total equity market capitalization



Source: DSE and Bangladesh Bank

*Net portfolio investment data are as of December of the respective years, except 2020.
~% of foreign ownership of equity market capitalization data are as of December of the respective years, except 2020 (as of September).

Among all the companies with foreign ownership, OLYMPIC had the highest foreign shareholding of 39.7% as of September 2020, followed by BRACBANK with 37.5%.

Table 8: Top ten companies with highest foreign shareholding as of September 2020

Ticker	Sector	Foreign Shareholding*
OLYMPIC	Food & Allied	39.7%
BRACBANK	Bank	37.5%
BXPHARMA	Pharmaceuticals & Chemicals	33.6%
RENATA	Pharmaceuticals & Chemicals	22.7%
DBH	NBFI	22.0%
MLDYEING	Textile	21.9%
ISLAMIBANK	Bank	20.7%
SHEPHERD	Textile	18.4%
VFSTDL	Textile	18.3%
BSRMLTD	Engineering	17.1%

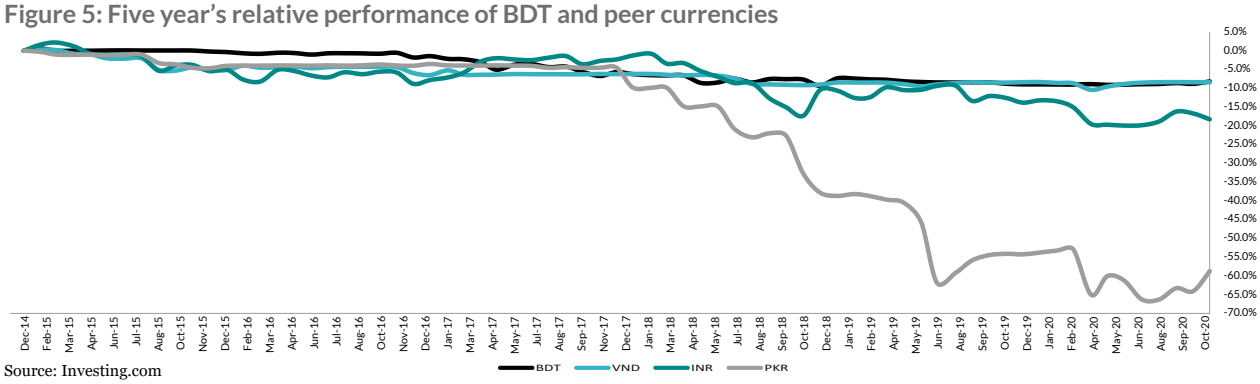
Source: DSE

*Latest Data for Foreign shareholding available on DSE are as of September 2020.

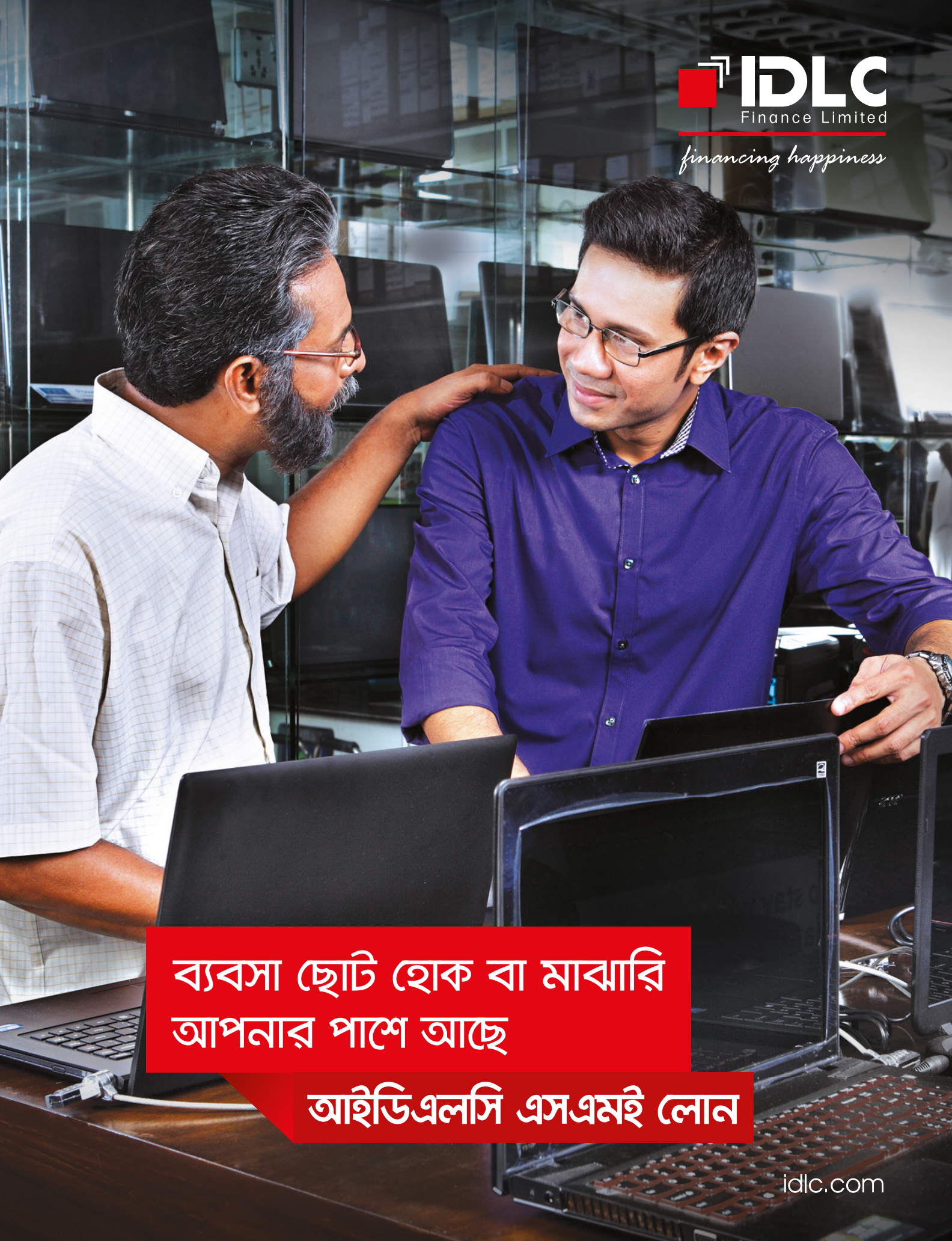
Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than majority of the currencies of peer countries. While BDT depreciated by 8.2% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.4%, 18.3% and 58.7%, respectively.

Figure 5: Five year's relative performance of BDT and peer currencies



Source: Investing.com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