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**INTERNSHIP REPORT  
ON**

**“A FEASIBILITY STUDY FOR  
INVESTMENT IN CEMENT INDUSTRY IN  
BANGLADESH BY CREDIT AGRICOLE  
INDOSUEZ, (THE BANK)”**

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MAJOR: FINANCE**



**August 29, 2001**

**EAST WEST UNIVERSITY**

Report-17

## ACKNOWLEDGMENT

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I would like to express my sincere gratitude to my internal supervisor, Mr. Tanbir Ahmed Chowdhary, Associate Professor, East West University for his valuable advice and for providing me all the guidance and support that I needed.

A special thanks you to Mr. Gerard Marchand, Country Manager of Credit Agricole Indosuez, (the bank), Bangladesh, for giving me the opportunity to carry out my internship in a reputed, multinational bank.

I also express my deepest gratitude to Mr. Roland Peyre, General Manager Risk for giving me the topic for the project part of the Internship report. Mr Nabil M.Rahman, Senior Manager for providing me the necessary information for completing the project part of the Internship report. Also Mr. Sami Karim, Human Resources Manager, for giving me valuable time and providing me with information needed for completion of this report. At last I want to show my respect to my immediate superior Mr. Shakir Khusru for providing me all kind of facilities for completion of the report.

Moreover, I would like to take the opportunity to express my gratitude to all the officers of the Credit Department of the CAI, Head office for providing me with valuable information and data at different level of my study. Especially to Mr. Khorshed Anwar and Mr. Ferdous Quddes for giving me guidelines in all-purpose.

In the end I like to show my gratitude to some of my friends for giving me mental support for completing the report. Especially to Tahnia Mostayin, Khondoker Rakib Haider, Md. Taif-ul-Islam and few others for their great support.

August 29, 2001

Dr Tanbir Ahmed chowdhary  
Associate Professor  
East West University  
Mohakhali, Dhaka  
Bangladesh

**Sub: Request for submission of Internship Report.**

Dear Sir,

As a student of Business Administration I have to submit an Internship report for the fulfillment of my graduation degree. I have tried my very best to fulfill the requirement of the course.

Working three months in Credit Agricole Indosuez, (the bank) helped me to fulfill the requirement of writing the Internship report and subsequent preparation of this report is a very valuable experience for me as it helps to combine practical experience with my theoretical knowledge.

My internship in Credit Agricole Indosuez, (the bank) or known as CAI was a worthwhile experience and the exposure of such a reputed organization would be a definite value for me. I would like to mention here that I am extremely grateful to you for your valuable guidance, tireless effort and attention as and when required in accomplishing the report. I followed your instruction, schedule, format and discipline obediently and sincerely. I am really grateful to you, because of your tiresome effort for me, which provided me the opportunity to do the Internship report.

I shall be pleased to answer any query you consider necessary as and when needed.

Yours sincerely,

Md. Tabrez Bin Mahbub  
ID# 1997-3-10-010

## **PREFACE**

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The BBA internship program is a compulsory course for the students who are graduating from the East West University. It is a 3 credit hour course with duration of 3 months. Students who have completed all the required courses (at least 117 credit hours) are eligible for this program.

In the internship program I was attached with the host organization Credit Agricole Indosuez, (the bank) for the last three months. During this period I learned how the host organization works in the field of banking sector. The first portion of the report is on Credit Agricole Indosuez, (the bank) overall performance in the world as well as its activities in our country. Where the project part particularly focuses on the feasibility study of cement industry in our country and to find the future investment policy of CAI related to the cement industry. The report will be submitted to the course instructor on August 29, 2001.

The main theme of the internship is to gather practical experience and knowledge about the corporate banking environment of the financial sector in our country. It also helps a student to match the theoretical knowledge with the practical field and this helps the student to get more exposure in the service life in a banking sector.

For the convenience of readers this report divided into four different sections. The first section is the Introduction part of the report. The second part deals with organizational overview of the host organization. The third section covers the project part, which is assigned to me by the host organization. And in the last section the findings of the report and the recommendations are given based on the findings.

## EXECUTIVE SUMMARY

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The internship report has been prepared as a mandatory requirement of BBA degree from East West University, Dhaka. The report is a product of last three months experience in the Credit Agricole Indosuez, (the bank) as an internee. The report covers the Credit Agricole Indosuez, (the bank) organizational activities in brief and also the project, which has been assigned to me by the host organization to find out the total scenario of the cement industries in Bangladesh.

The report is in four sections. Section one contains introduction part of the report. Section two of the report shows the overview of the organization where it covers historical background, activities of the different departments, bank's different policies related to credit facilities and management practices. Here the SWOT analysis of the bank has also been shown.

During internship the bank has assigned to identify the prospective future enterprises in cement industries sector where the bank may reliably invest. So a project has been prepared to take account of the total scenario of the cement industries of Bangladesh. Section three is on this project. Through the project, analysis on prospects of future investment policy in cement industries sector of Bangladesh has been carried out. The analysis has taken care of present and future conditions of cement industries. Also focus is on the key players of the cement industries, the volumes of cement produced, and the duty and tax policies related to cement industries. Attention has also given to growth rate of demand analyzing past trend. Analysis has also tried to identify the prospective main clients of the bank for its investment.

Section four summarizes the findings and, thereafter, added the recommendations to consider. The analysis shows that future market leaders in the cement industries sector are MNC, which is combination of the following cement companies, Scancem, Lafarge and Holcim. The recommendations also show that the bank should prepare

necessary policy to grab the leading players of cement industry as the cement market is going to be profitable in the coming future.

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# **SECTION ONE**

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## **INTRODUCTION**



## 1.0 INTRODUCTION

The Internship report is submitted as a mandatory requirement for BBA degree. I have worked as an Internee in the Credit Agricole Indosuez, (the bank) for the last three months. In this internship report there are four sections. Section One contains introduction part of the report. The Organizational activities of the bank have been described in Section Two. The project, which was assigned to me by the Bank Authority, has been described in section three. Section Four shows the findings and recommendations of the host organization and of the project part.

In Section Two, the organizational part is thoroughly discussed. This section is divided into two chapters, in chapter one shows the overview of the organization and the analysis of the organization has been presented in chapter two. In the overview chapter, the topics cover the historical background of CAI, the activities of CAI, activities of different departments, bank's different policies related to credit facilities and related management practices present. Also the overall scenario of CAI activities in Bangladesh and their organizational structures are described in this chapter. In the second chapter, the SWOT analysis of the CAI has been shown and the points are described thoroughly.

The Third Section is the project part, where the analysis on the total scenario of the Cement Industries of our country has been shown. The bank assigned me to analyze the future market of the cement industries in our country. The project is divided into two chapters, where the present and the future conditions of cement industries have been thoroughly described. In the first chapter of the project part, all the information is related to the past and the present situation of the cement industries of our country. The main focus of the chapter is on the overview of some key players of the cement industries, the volumes of cement produced and/or imported, the purchase patterns of cement, the duty and tax policies related to cement, and some more related information.



The second chapter of the project deals with the future forecast of the cement industries. In the analysis part the future demand and the supply of the cement have been calculated depending on the past trend and the growth rate of demand. Also another major task of the project is to find out cement industries future leaders, who may be the main clients of the bank for its investment.

Fourth section contains two chapters of the report. Chapter one shows the findings on CAI organizational matters and recommendations for CAI in Bangladesh. The second chapter shows the findings related to cement industries and also for CAI for its future investment decisions in this sector.

## 1.1 ORIGIN OF THE REPORT

In the internship program the researcher was attached with a host organization Credit Agricole Indosuez, (the bank) for 3 months. During this period researcher has learned how the host organization works. During the internship period, the host assigned the researcher a project and the Internship Advisor has asked the author to submit the internship report based on the host organization and the assigned project. The report is on bank's overall performance globally as well locally, where the project particularly focuses on **Industrial Analysis**, which is then prepared by the author and finally, submitted to the Internship Advisor on August 29, 2001.

## 1.2 OBJECTIVES OF THE REPORT

The objectives of the report are divided in two parts, the first objective part is related to the organization and the other part is the project objectives.



### **1.2.1 ORGANIZATIONAL OBJECTIVES**

The objectives of organizational part are as follows:

1. To attain a detailed view of the CAI Group, its principles, values, business integrity, origin, and moreover the categories of work being carried out in its various departments, where I had the privilege to gather work experience.
2. To find out through observation, whether CAI Group has been able to establish as a quality financial service provider globally as well as locally.
3. To understand the history, philosophy, and goals of CAI, both locally and globally.
4. To gain an overview of the various departments (work centers) of Credit Agricole Indosuez, (the bank) Dhaka.

### **1.2.2 PROJECT OBJECTIVES**

The objectives of the project are as follows:

1. To conduct an industrial analysis of the present cement industry of Bangladesh.
2. To find out the specific sector for investment in cement industry in Bangladesh by Credit Agricole Indosuez, (the bank).

## **1.3 RESEARCH DESIGN**

This research project is descriptive in nature, since it involves portraying characteristics of a certain phenomena and determining the frequency of occurrence. The researches will mainly focus on the trend of cement industry in our country and



the dominated players in the near future. The research design also focuses on the historical impact of cement industry and the position of demand and supply of this industry.

## **1.4 METHODOLOGY**

The methodology that has been used to attain the research objectives is outlined below:

### **1.4.1 DATA AND DATA SOURCES**

This study is based on secondary data and information. This includes various brochures published by the CAI, annual imports, newsletters, and from the CAI web site. The data has been collected from different statistical yearbooks such as Statistical Yearbook 1999, 1998 and 1997, published by Bangladesh Bureau of Statistic. The other sources of the data collection are from National Board of Revenue (NBR), and from the Bangladesh Bank's different data source. The data related to different Cement Company's' feasibility study was collected for the purpose of the project. Such as Scancem market analysis, ANZ corporate finance, 1997 and Siaham Cement Industries feasibility study report 2000.

### **1.4.4 DATA ANALYSIS AND INTERPRETATION**

Data analysis procedures have been followed using descriptive statistical techniques to extract meaningful information from the data collected. Alternatively, subjective judgment and case study are also used to interpret data where felt essential.



## 1.5 SCOPE OF THE STUDY

This report aims at understanding how a European Bank competes in this country with local and other foreign banks using its integrated operations and work centers in a fast and highly competitive environment. This study will also help the author to get a thorough insight about the human resources, ways of operations, and core business technique in running a large international bank in Bangladesh. In the later part of the report the author has mainly dealt with the appraisal of cement industries of the Bangladesh. In this part, the past and the future of the cement industries in our country have been analyzed and the main key players of the future have been identified. Also the investment potentials of the CAI has been recommended in the end of the report.

## 1.7 LIMITATIONS

1. Lack of comprehension of the respondents was the major problem that created a lot of confusions regarding verification of conceptual question.
2. Limitation of time was a major constraint in making a complete study. Due to time limitation many aspects could not be discussed in the present study.
3. Confidentiality of data was another important barrier that was faced during the process of this study. Every organization has their own secrets, which is not revealed to others. While collecting data on CAI's financial performance regarding its Bangladesh operation, the personnel did not disclose enough information due to the nature of confidentiality of the organization. Moreover, it was literally impossible to obtain any sort of documents on CAI Bangladesh for the same reason and thus it became a major barrier in the completion of this report.



4. Various training programs offered by CAI for its Executives during summer created a problem for collecting sufficient information, as their absence hindered as a barrier in obtaining information in some related areas.
5. As being an intern, it also created some problems as I was unable to acquire Hands-on Experience in all the departments, due to the bank's policy of maintaining secrecy and also because I did not get the opportunity to work in all the departments.

## 1.8 WORKING ABBREVIATIONS

- |                |   |
|----------------|---|
| 1. CAI         | Credit Agricole Indosuez  |
| 2. CNCA        | Caisse Nationale de Credit Agricole                             |
| 3. GBP         | Great Britain Pound   |
| 4. USD         | United States Dollar  |
| 5. SWIFT       | Society for Worldwide Inter bank Financial<br>Telecommunication |
| 6. \$          | US Dollar   |
| 7. PFS         | Personal Financial Services                                     |
| 8. CALL Report | Visiting inquiry report of the clients.                         |
| 9. DSC         | Defense Saving certificate.                                     |
| 10. Encasement | Interest over FDR   |
| 11. GBK        | Corporate Banking.  |
| 12. MMF        | Money Market funding.   |



## **1.9 REPORT PREVIEW**

The report is divided into four sections. The section one deals with the introduction part of the total report. In the second section the organizational part is covered, and in the third section the project is analyzed and the future position of the cement industries forecasted. And the last section shows the findings and the recommendations of the report. The main purpose of the sections is defined below:

### **1.9.1 SECTION 1: INTRODUCTION**

Section one is the introduction part, which includes objective of the report, scope, limitations, and methodology. This section mainly covers the total overview of the report and specifies the purpose of writing the report.

### **1.9.2 SECTION 2: ORGANIZATIONAL PART**

This section is a combination of two chapters, one of which covers the organizational overview and the other deal with the SWOT analysis of the CAI.

#### **Chapter 1: Overview of the organization**

In this chapter the main point focuses on the organizational part, on the history, philosophy, goal, the presence of the organization both globally and locally, and financial analysis or performance of the bank.

#### **Chapter 2: SWOT analysis of CAI**

This chapter has analyzed the strength, weakness, opportunities and the threats of the Credit Agricole Indosuez, (the bank).



### **1.9.3 SECTION 3: THE PROJECT PART**

The bank assigns the project to analyze for them. In the project part there are two chapters, one of the chapters deals with the past and the present scenario of the cement industries. And the other chapter gives a view of the future cement industries. Summary of the chapters are given below:

#### **Chapter 1: Introduction to project**

The chapter one of the section three contains the work report, which explains the industry analysis of the cement industries in the context of our country. In the analysis mainly the past trend is focused and the picture of the total industry is clearly visualized.

#### **Chapter 2: Future market of cement industry**

Chapter two of the section three deals with the future of the cement industries and the demand and the supply of the industries. It also shows the future key players of the cement industries in our country and the future trend of the industries.

### **1.9.4 SECTION 4: FINDINGS AND RECOMMENDATIONS**

The section four contains the recommendations of the author based on findings and observations and the conclusion of the report. This section is also divided into two chapters, in chapter one the findings and the recommendations are given for the host organization. In the second chapter of this section the findings show the recommendations for the host organization where to invest in the future cement industries.

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## **SECTION THREE: THE PROJECT PART**

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# **SECTION TWO**

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## **ORGANIZATIONAL PART**



## CHAPTER 1: OVERVIEW OF THE ORGANIZATION

### 1.1 HISTORICAL BACKGROUND OF CREDIT AGRICOLE INDOSUEZ, (THE BANK)

Credit Agricole Indosuez started its long and rich history since 1875 when *Banque de l'Indochine* was established in Paris as an issuing bank in Asia Pacific, to develop trade between France and Far East. Then in 1959 *Banque de Suez* was founded and merged with *Banque de l'Union des Mines* in 1966. In 1975 *Compagnie Financiers de Suez* acquired full ownership of *Banque de l'Indochine* and merged it with *Banque de Suez et de l'Union des Mines* to create *Banque Indosuez*. *Caisse Nationale de Credit Agricole* takes total control (100%) of *Banque Indosuez* in 1996.

Credit Agricole Indosuez, (the bank) takes a new dimension in May 1997, when *Banque Indosuez* becomes *Credit Agricole Indosuez, (the bank)*, the international wholesale banking and capital market arm of Credit Agricole.

Credit Agricole, a leading group, ranks in the top ten world banks according to financial solidity and high growth potential. CAI has an extensive international network, which is proven through its presence in more than **55 countries** on **5 continents**. Total workforce covers around **10,300 people**, of which 70% are based in its network outside France and 70% of Gross Operating Income accounted from abroad.

#### 1.1.1 FOCUS OF CAI IN FOUR GEOGRAPHIC AREAS

Credit Agricole Indosuez, (the bank), also known as CAI is the ten largest banking group in the world. They are performing their business around the world and making good amount of revenues. They are operating in every continent in the world, but in Asia and Europe they have the largest portion of their business activities.





#### **1.1.1.1 EUROPE**

Active presence in France, Nordic countries and Southern Europe. Target presence in London, Geneva, Luxembourg and Eastern Europe.

#### **1.1.1.2 MIDDLE EAST**

One of the largest banking networks in the area. Established since 1948. Which is known as Banque Libano-Francaise and as Al Bank Al Saudi Al Fransi.

#### **1.1.1.3 ASIA**

Active offices over a century, 40 offices in 19 countries are present in Asia.

#### **1.1.1.4 NORTH AMERICA and USA**

Acquisition, Finance, Structured Financing, Corporate Banking and Commodity Financing are the main activities of the bank in this region.



## 1.2 VISION

The vision of Credit Agricole Indosuez, (the bank) Bank is to be an experience, which delight the customer and where the customers are never neglected that serves an environment where the people can excel.

## 1.3 PHILOSOPHY

The seven guiding stars or the philosophies of Credit Agricole Indosuez, (the bank) are as follows:

- ⇒ **BEGIN AT THE END:** Have a clear vision, objectives and priorities.
- ⇒ **CARE ABOUT PEOPLE:** Treat everyone as an individual. Be straight with people and help them to succeed.
- ⇒ **BE DEMANDING:** Set ambitious goals and standards and agree to them in writing. Do not be deflected and do not take 'no' for answer if it should be yes.
- ⇒ **COMMUNICATE OPENLY:** Have real conversation with people and give dear answer. Listen and keep an open mind.
- ⇒ **DELEGATE:** Define Individual responsibility and accommodate accordingly. The more you sign, the less you do.
- ⇒ **BE EFFECTIVE:** Focus on what is important and eliminate unnecessary activities. Run a lean and agile organization.
- ⇒ **REWARD ACHIEVEMENT:** Opportunities can be earned by those who succeed.



## 1.4 VARIOUS BANKS UNDER THE CREDIT AGRICOLE GROUP

Credit Agricole is unified- financially, commercially, and legally- and decentralized in it's decision making. It is a cooperative group with a Three-tier structure combining all the advantages of the decentralization of responsibility and strong unity: the 2,769 Local Banks are grouped together under the 53 Regional Banks, which owns 90% of the capital stock of *Caisse Nationale de Credit Agricole. Federation Nationale du Credit Agricole* represents, and provides coordination for, the Regional Banks.

### 1.4.1 CREDIT AGRICOLE: (A unified, decentralized group)

#### 1.4.1.1 LOCAL BANKS

At the basic level, there are 2,769 Local Banks with over 5.6 million stockholders. The Local Banks hold the capital stock and elect the 36,335 directors of the Regional Banks. They play an important role in France's local economies and their directors are instrumental in helping Credit Agricole adapt its product and service offering to innovate and satisfy its customers needs.

#### 1.4.1.2 REGIONAL BANKS

With France's most extensive network of 7,971 branches nationwide and 10,108 Points Verts (check deposit and cashing facilities), the Regional Banks are doses to their customers.

The Regional Banks are fully independent companies. They market a comprehensive range of banking products and financial services which are standardized at the Group level, thus ensuring uniformity of image and policy from one region to the other. The Regional Banks have been merging and combining their computer systems in order to increase their financial strength and continue to offer their customers the highest



quality service. Since 1988, their number has fallen from 94 to 53. Each merger is painstakingly prepared to help Credit Agricole maintain its local roots and its advantage of close, personalized relations with its customers.

Since 1988, 18 Regional Banks have obtained funding in the capital market by issuing nonvoting shares that are listed on the Second Market. The first such listing dates back to 1988, whilst the most recent for the Alpes Provence Regional Bank was in December 1998.

#### **1.4.1.3 FEDERATION NATIONALE DU CREDIT AGRICOLE (FNCA)**

In addition to providing coordination for the Regional Banks and the Group, FNCA represents the Credit Agricole Group in discussions with the French Parliament, trade associations, and other cooperative and mutual institutions. It also provides services to the Regional Banks, including staff training and the coordination of personnel management.

#### **1.4.1.4 CAISSE NATIONALE DE CREDIT AGRICOLE (CNCA)**

The mutualization Law of 1988 privatized Caisse Nationale de Credit Agricole, which became a private-sector corporation whose stockholders are the Regional Banks (which have a combined interest of 90%), their directors, Credit Agricole employees and since 1998, Groupama SA, a mutual insurance company serving the agricultural industry.

As Credit Agricole's central banking arm, CNCA ensures the Group's financial cohesion and supervises the compliance by the Regional Banks with laws and regulations. It invests excess funds of the Regional Banks and manages the treasury operations of Credit Agricole, receives the savings deposits, and makes medium-long-term advances to the Regional Banks to supplement the sources of funding available to them. In its banking capacity, CNCA raises and lends funds on the international capital markets. It also provides many of the international services offered by the



Group, as well as a number of technical and financial services through its specialized subsidiaries.

CNCA designs the products marketed by the Regional Banks and are responsible for French subsidiaries and for international growth.

#### **1.4.1.5 FRENCH SUBSIDIARIES**

Credit Agricole has specialized subsidiaries operating in a wide variety of fields. These subsidiaries enable the Group to benefit from economies of scale and the commercial might of Credit Agricole and to offer customers a comprehensive range of products and services. They provide the Regional Banks with specialized assistance in fields where critical size is a crucial factor for success. Moreover, by offering them uniform products and services to distribute through their networks, they contribute to Credit Agricole's sales performance, strong image, and unified commercial approach.

The Credit Agricole Group (CNCA, Credit Agricole Indosuez, and other subsidiaries) has offices in 60 countries.

### **1.5 CREDIT AGRICOLE INDOSUEZ, (THE BANK): (PROFILE)**

A full-fledged member of the Credit Agricole Group, Credit Agricole Indosuez has undertaken a through overhaul of its strategy and adjusted its business scope over the past eighteen months. Focusing on its wholesale banking and international business within the Group, Credit Agricole Indosuez, (the bank) is developing three areas of activity.

#### **CREDIT AGRICOLE INDOSUEZ, (THE BANK) IS:**

1. The capital markets arm of the Credit Agricole Group, occupying important positions in Europe in fixed income and foreign exchange, futures, and equity



markets, in particular through Credit Agricole Indosuez Cheuvreux, one of the leading brokers in French and European equities;

2. The European private banking arm of Credit Agricole Group, which now combines all the Group's private banking activity in France through Banque Gestion Privée Indosuez, and in Europe through Credit Agricole Indosuez strong presence in the three main European private banking market: Geneva, Luxembourg, and Monaco.
3. A corporate banking arm in the Credit Agricole Group, having strengthened its long-standing expertise in asset-based finance and created new skills in corporate finance (advisory services and equity capital markets).

These activities are performed mainly in Europe, but also through the bank's international network extending to the Middle East, Asia, and the United States.

## **1.6 AN INTERNATIONAL WHOLE SALE BANK WITH AN EXTENSIVE SUPPORT NETWORK**

With over 10,000 employees located in fifty-five countries, Credit Agricole Indosuez offers its client base of large corporations, institutional investors, and high-net-worth individuals the financial soundness of the Group to which it belongs, its expert professionals, and a deep rooted international culture.

Credit Agricole Indosuez benefits from the strengths of its large international network, developed over more than a century, and the skills and know-how of its specialist teams.

These strong points have not only won the bank leading positions in its traditional activities corporate banking in Asia and the Middle east, private banking based in Europe and, at the international level, project finance, aerospace, and shipping



financing, brokerage and financial intermediation, and capital markets- but also in more recent activities such as corporate advisory services, mergers and acquisitions, and financial engineering.

In the major financial centers (New York, Paris, London, Singapore, Hong-Kong, and Tokyo), the bank offers financial and market services to corporate clients and investors.

### **1.6.1 A WHOLESALE BANK COMBINING BUSINESS SPECIALTIES**

In response to the needs of its client's specialized services, Credit Agricole Indosuez has chosen to center its efforts on two distinct areas:

#### **1.6.1.1 MARKET ACTIVITIES**

- Debt-Forex is active in the interest-rate and foreign exchange markets (cash. derivative instruments), and specializes in trading and market making, market intermediation and investment, and offers a complete range in the major currencies, along with a specialized service in emerging country currencies.
- CAI performs Financial and commodities futures brokerage activities. Futures, one of the world's leading specialists with professionals located in all major futures brokerage markets.
- The equity activity handles primary and secondary market transactions-equity issues, privatization, and stock market introductions and, in the secondary market, trading and sales in European and Asian equities and equity derivatives through its brokerage houses, Credit Agricole Indosuez Cheuvreux in Europe and Indosuez W.I. Carr Securities in Asia.



#### **1.6.1.2 FINANCING ACTIVITIES**

The Corporate Banking business line offers a complete line of banking services (Lending, guarantee commitments, deposit taking, and cash management) for an international and regional clientele of large corporate clients, institutional investors, and financial institutions.

- The Asset-based Financing business line concentrates on project finance, large export projects, asset-based lending (infrastructure projects, aircraft, and shipping), as well as acquisition financing and complex credit arrangements.
  
- International Commodity Finance specialists organize financing linked to industrial raw material and foodstuff trade for commodity traders, producer and user customers.

#### **1.6.2 A BANK THAT GIVES PRECEDENCE TO SERVING CLIENTS ENTIRE RANGE OF NEEDS**

Credit Agricole Indosuez has an historic presence and an extensive network in Asia (17 countries) and in the Middle East (8 countries); its client base of businesses and investors in these regions is made up of the main national and regional players, as well as multinational groups. The bank mainly offers them banking services tied to commercial and investment activities and to cash management (credit, money market, and foreign exchange), based on support from specialists with international skills based in major markets.

Capitalizing on its strong historic presence in domestic and regional markets, the bank intends to play a very active role in brokerage activity between issuers and investors and to assist in linking capital surplus with capital seeking markets.





Corporate and investment banking services for major clients is organized around two expert teams supported by the bank's market and credit activities. A multi-activity approach to corporate and institutional clients is coordinated by the Corporate and Investment Banking Services Division which itself provides directly corporate finance advisory services, principally for mergers and acquisitions. This activity is key to the Credit Agricole Indosuez positioning as investment bank and first-tier banker for major corporate clients.

Private Banking develops an estate planning services activity and markets all types of investments to resident and non-resident high-net-worth individuals, mainly through the bank's European network in France, Spain, Italy, Luxembourg, Monaco, and Switzerland.

### **1.6.3 INTERNAL CONTROL AND RISK MANAGEMENT**

At the beginning of 1999, Credit Agricole Indosuez revised the texts addressing its internal control system and the categories of risk arising from its various activities.

In application of French Banking and Finance Regulatory Committee Rule, these revised texts establish the scope of internal control consolidation and organizational coverage as well as the periodic internal control procedure. By the end of the year, the self-evaluation-based procedure was enhanced by deployment of a risk and control evaluation methodology applied by more than 90 percent of the affected group entities. This control system is driven and supervised by Group Internal Audit, thus enabling it to assess independently the banks risk situation and organization.

For that purpose also, Group Internal Audit, which reports directly to the Chairman of the Board of Management, carries out audits on the spot based on actual evidence, either directly or by delegation to local auditors whose work it supervises.

These missions, undertaken at the initiative of the Chief Internal Auditor, are discussed with, and validated by, the Board of Management, which reviews their conclusions and takes decisions, if necessary.



Ultimately, all bank activities and procedures may be subject to control by the *Caisse Nationale de Credit Agricole* Internal Audit unit.

In 1999, the bank redefined, initiated, or completed projects to comply with internal control regulations, in particular with regard to the main Executive Management units such as logistics and corporate accounting departments along with risk management. The new Operations and Information System's division, created in March 1999, combines the Information System's departments of market and banking activities. In 1999, it's work focused largely on preparations for the year 2000 transition. The head of Operations and Information System's division also has supervisory responsibility for head Office and group information systems and logistics functions.

## 1.7 HUMAN RESOURCES

In the wake of the bank's reorganization, the mission of human resource management was recast to promote a partnership with managers and to implement a professional development program for employees.

This approach promotes the recognition of professional expertise, the streamlining of decision-making procedures, and the convenience of information exchange within the bank.

A new Credit Agricole Indosuez, (the bank) employee benefits policy, based on management development objectives, skills and performance evaluation criteria, permits a motivating and equitable promotion and compensation's policy. A matrix of group activities and the skills required for all group positions will allow each employee to find the right place, both in relation to the group and to his or her own potential. These two key tools are intended to facilitate dynamic human resource management based on clear and transparent operating rules understood by everyone.



To carry out this new program, the Human Resource Department has created a “front office outreach team, organized by business segment, whose vocation is to deal with all issues that come up. A research unit has also been created and the department’s technical arm has been significantly strengthened with the addition of staff and new skills. In 2000, the main objective of the Human Resource Management is the development of an active career management program linking various Credit Agricole Indosuez, (the bank) group entities in France and all above abroad. This will be attained in particular through the creation of a worldwide, online job mart, which may be consulted by everyone, and through the establishment of a worldwide system for pinpointing human potential.

Currently there are 140 employees in Bangladesh including the two Branches and the two Booth Offices, who are committed to serve the Credit Agricole Group’s, customers.

## **1.8 CREDIT AGRICOLE INDOSUEZ, (THE BANK):**

### **(ACTIVITIES)**

#### **1.8.1 DEBT-FOREX**

Debt-Forex teams are active in the interest rate (cash and derivatives) and foreign exchange (spot, futures and options) markets. They specialize in trading and market making, market intermediation and investment as well as futures brokerage. Thanks to 21 dealing rooms around the world, the Debt-Forex activity provides Credit Agricole Indosuez, (the bank) and the Credit Agricole Group clients with worldwide coverage for their needs.

#### **1.8.2 EQUITY MARKETS**

This activity focuses on equity-related instruments, offering individuals and companies a range of financial services and market activities (primary and secondary



market distribution and trading in equities, and derivatives). Equity markets activity is organized geographically in two areas, Europe and Asia, and employs a staff of more than 1,000-not including Financial Services employees. Under the supervision of the Equity Market there are again four departments

### **1.8.3 ASSET-BASED FINANCE**

The asset-based Finance activity concentrates on financing large export projects, asset-based lending (project finance and aircraft, shipping, and corporate real estate loans), as well as complex credit arrangements (securitization and structured finance).

### **1.8.4 CORPORATE BANKING**

Corporate Banking engages in commercial banking activities such as lending, guarantee commitments, deposit-taking, payments services, and electronic banking services. In Europe and the United States, this business serves large corporate clients, institutional investors, and financial institutions; in Asia and the Middle East, its main customers are regional and international companies.

### **1.8.5 CORPORATE AND INVESTMENT (BANKING SERVICES DIVISION)**

Corporate and Investment Banking Services Division coordinates the marketing of strategic products to major corporate and institutional clients and provides corporate finance advisory services, principally for mergers and acquisitions.

### **1.8.6 PRIVATE BANKING**

The private Banking activity specializes in estate planning services and financial management by offering a full array of investment products to high-net-worth individuals through the bank's own network.



## **1.9 ORGANIZATION STRUCTURE OF CAI, BANGLADESH**

Credit Agricole Indosuez Bank is headed by the Country Manager (CM). He reports to the Regional Manager in Singapore for its Corporate Business and is on-line contact with all other branches worldwide.

### **THE CM IS ASSISTED BY**

#### **Head of Credit**

Who keeps track of overall credit operations and monitoring of Risks.

#### **Head of Customer Services**

Supervises the overall Customer Service Department.

#### **Head of International Trade**

Looks after the overall Trade Finance.

#### **Head of Treasury and Forex**

Looks after treasury and Forex.

#### **Head of Marketing**

Manages public relations (PR), accounts and bank office operations.

#### **Head of Information Technology**

Looks after information technology areas.

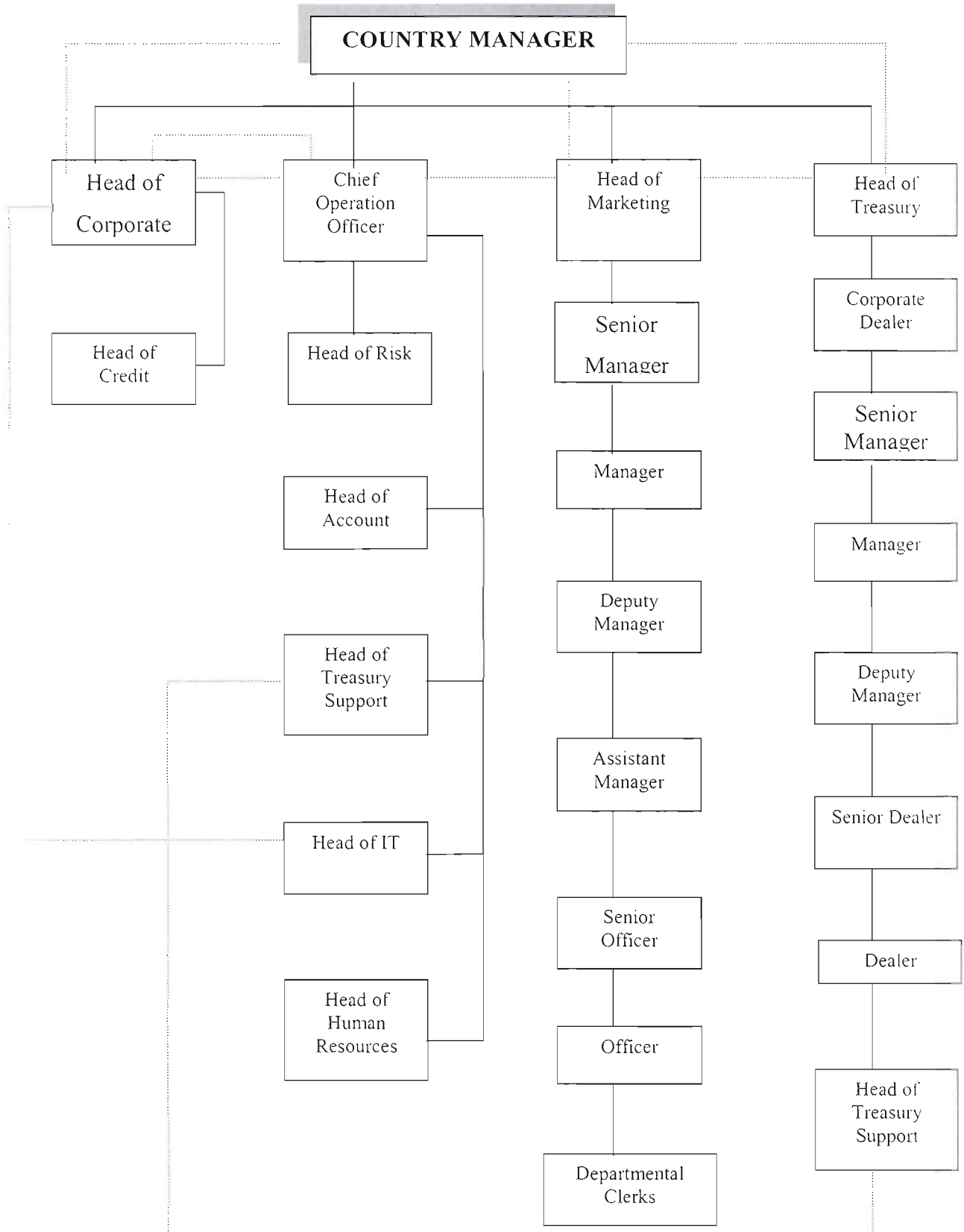
#### **Head of Human Resources and Operations**

Leads the human resources and manages the administration of the bank.

A structured individual unit assists the Head of each department. Each unit is given a target to be achieved and is liable for its performance. The separation of each unit into



independent self-sufficient unit helps CAI remain flexible. Therefore the organization structure is flat and as a result the decision-making process is fast and effective.





## 1.9.1 MAIN DIVISIONS

The Bank mainly focuses on the Corporate Financial Services (CFS) as it does not practice Retail Banking in Bangladesh. The various divisions under the Corporate Financial Services come under the umbrella of the Country Managers office (CMO). The CFS is the main division that is supported and assisted by the rest of the divisions.

### Main division

- ◆ Corporate Financial Services (CFS)

### Support Divisions

- ◆ International Trade Department
- ◆ Treasury and Forex
- ◆ Human Resources Division
- ◆ Information Technology
- ◆ Marketing Department
- ◆ Credit and Administration
- ◆ Customer Service Department

## 1.9.2 CORPORATE FINANCIAL SERVICES

Business Banking Division provides banking services to the organizational clientele. It comprises of the following segments:

### 1.9.2.1 CORPORATE BANKING

The bank offers following services to the corporate customer:

- Skilled and responsive attention to varying lending needs.



- Project finance and investment consultancy.
- Syndicated loan.
- Bonds and Guarantees.
- Local and international treasury products.

### **1.9.2.2 INSTITUTIONAL BANKING**

The bank offers foreign missions, donor agencies, voluntary organizations, consultants, airlines and their personnel the following services:

- Convertible and non-convertible current accounts.
- Convertible Taka accounts (these funds are freely convertible to major international currencies).
- Local and foreign currency remittances through a large network of branches and correspondents.

### **1.9.2.3 COMMERCIAL BANKING**

CAI offers all commercial concerns and those with particular involvement in import and export finance services like:

- Trade -finance facilities including counseling, confirming export LCs, and issue of import LCs backed by its international branch and correspondent network.
- Bonds and guarantees.
- Investment advice.
- Leasing.
- Project -finance opportunities for import substitution and export oriented projects.





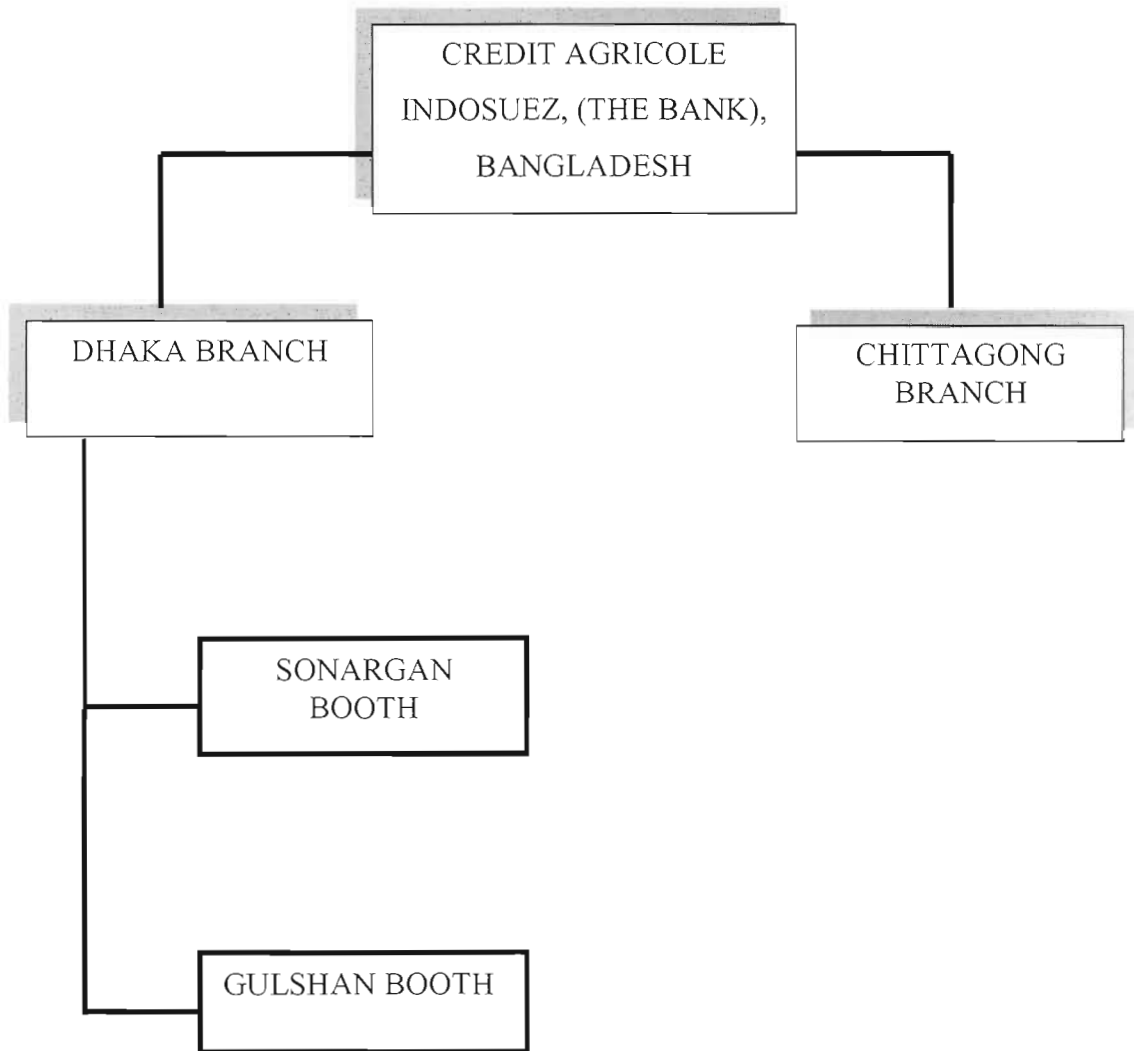
#### **1.9.2.4 CORRESPONDENCE BANKING**

CAI offers its correspondent customers:

- Current account services where Tab settlement is necessary
- The ability to issue bonds and guarantees in support of their customers' business
- Advising of LCs and their supporting documents
- Market intelligence and status reports

#### **1.9.3 CAI, BRANCHES IN BANGLADESH**

CAI, even after being the 3 bank in terms of its financial solidity and high potential growth, among the other Multi National banks around the world. It has a very limited network in Bangladesh, where it started its operation in 1980. The limited network in Bangladesh happens to be one of the drawbacks in terms of its local operation. In Bangladesh CAI has two of its Branch offices located in Dhaka and Chittagong respectively. Again under the Branch office located in Dhaka, it has two Booth Offices, one in Gulshan and the other in Sonargaon Hotel. The Chart is given below:



**Figure 3: The Branches and the Booths of Credit Agricole Indosuez, (the bank) in Bangladesh.**



## 1.10 MANAGEMENT PRACTICES PRESENT IN BANGLADESH

1. Leadership type of CAI is participative. The top management consults with the middle managers, bringing them in the process of decision-making. Although the top-level management assigns the task to the followers but each employee has option to take part in the decision making process and share their ideas and views. Top management regularly interacts with the managers while setting the target for the bank's activities.
2. Internal communication is very supportive and effective. Managers regularly communicate with each other and the internal flat structure also supports internal communication. Each person is well informed about his or her job and also holds the idea about the surroundings. As a result; the employees usually respond positively to any problem the branch is facing. The same response prevails when a particular employee is facing any problem within the branch.
3. Motivation CAI is an organization that encourages self-motivation of its employees. Knowledge of motivational drive helps managers understand the work attitudes of the employee. They deal with employees differently (such as praising, rewarding, encouraging and verbal feedback designed to raise self-confidence) and individually according to the motivational drive in each. In case of social motivation CAI is better compared to other organizations in Bangladesh. They provide the opportunity for the young star to learn about the real life and to gain practical experience.
4. Appraisal system CAI regulates an appraisal system, which is basically focused on the performance of the employee. In this organization the role of each employee is predetermined and described which include several steps. If the employee can fulfill all the steps of his or her job requirement, the performance is recognized and rewarded by the management of CAI. To achieve this award the manager provides feedback to the employee and also maintains fairness. They think a



proper appraisal system and feedback is necessary for proper management and for the employee development.

## **1.11 FACILITIES OFFERED BY CAI IN BANGLADESH**

### **1.11.1 FUNDED**

#### **1. OVERDRAFT**

A loan facilities on a customer current account at a bank permitting him to overdraw up to a certain agreed limit for an agreed period. The terms of the loan are normally repayable on demand or at the expiration date of the agreement.

#### **2. FOREIGN BILLS**

#### **3. PACKING CREDIT (EXPC)**

Packing credit is a pre-shipment facility/advance granted to a exporter against lien on export letter of credit/firm contract in order to enable him to procure and/or produce the subject goods for effecting shipment/export as per terms of the related Letter of Credit/Contract.

#### **4. POST FINANCE**

#### **5. IMPORT PERMIT LOAN (IP)**

Request comes from the Trade Finance Department to make this type of loan. this facility allowed by the banker to facilitate importer to purchase the shortfall of foreign currency at the time of opening of Letter of Credit.

## 6. LOAN

- **Loan against Trust Receipt (LTR)/IMPC**

LTR facilities given to importer/clients to retire the import bill for the specific time and eventually clients adjust the LTR upon the manual agreed arrangement.

- **CALL Loan (STL) and TERM Loan**

Short term/Term loan are allowed by the banker under mutually agreed arrangement for meeting the specific purpose/requirement of the client with agreed terms of repayment, like project loan.

CALL loan maturity is for 2 years and Term loan for 2-5 years.

If any exceeds 15% of bank's capital, need to obtain permission from the Bangladesh Bank for the large loan.

### 1.11.2 UNFUNDED

#### 1. LETTER OF GUARANTEE

A credit facility in contingent liability form extended by the bank to the clients for participation in development work, such as supply of goods and services. There are three kinds of Guarantee facility provided by CAI.

- Bid Bond (BB)
- Performance Bond (PB)
- Payment Guarantee (PG)



## **2. LETTER OF CREDIT/EXPORT BILLS**

A credit facility in contingent liability form provided to the clients by the bank for import and procurement of goods and services.

## **3. ACCEPTANCE**

## **4. FOREX**



## CHAPTER 2: SWOT ANALYSIS OF CREDIT AGRICOLE INDOSUEZ, (THE BANK)

This analysis shows the Bank's Strength, Weakness, Opportunity, and Threat for the bank. Where the Strength and the Weakness come under internal factors, where as the Opportunity and the Threat come under the external factors:

### **Strength** (Internal Factors)

1. The Bank possesses its own financial Rating System
3. Holds Global Network around the world
3. Market knowledge and expertise
4. Various diverse banking sectors
5. Presence of advance IT use
6. Competent & motivated workforce

### **Opportunity** (External Factors)

1. To invest in project loans particularly in oil/gas/mineral sectors
2. To open their product in the large consumer market
3. To attract clients through its corporate service & reputation

### **Weakness** (Internal Factors)

1. Its conservative banking approach (risk averse approach)
2. No practice of retail banking
3. Limited network in Bangladesh
4. Its conservative approach towards banking practices

### **Threat** (External Factors)

1. Increase competition by other multinational banks
2. The need for continuously monitoring the environment and innovate new strategies
3. Rapid proliferation of Banks in Bangladesh
4. Political instability
5. Economic instability



## 2.1 STRENGTH (INTERNAL FACTORS)

Strength is something a bank is good at doing or a characteristic that gives it enhanced competitiveness. These resources, in conjunction with industry and competitive conditions, are big drivers in how well the bank will be able to perform in a dynamic competitive marketplace. Some of the major strengths of CAI have given in below.

### 1. The Bank possesses it's own Financial Rating System

One of the policies of CAI is giving rating to their clients. Base on different criteria CAI rate their clients in different letter grades. Such as A, B, C, D & E are the letters use in the rating process of the clients. As usual 'A' will be graded to the top perform clients and by sequence the other letters grade comes base on performance of the clients. This rating system helps the bank to judge their clients and make perfect decision about the investment policy.

### 2. Holds Global Network around the world

CAI is the tenth largest banking group in the world. The bank is dominating the banking business in Asia, Europe, Africa, and also in the both American continents. CAI is the third largest corporate baking group in Asia, so they have very good baking network around Asia. In our country they are holding majority of clients who do business in European market. The bank has very influential market position in the European financial market.

### 3. Financial market knowledge and expertise

In the business of financial market an institution must be well develop in its knowledge and in its expertise. CAI has a long history of banking experience and they have face different financial crisis in different time. But they have overcome the problems by their expertise in the financial market and the expertise they have.





The bank has skilled manpower whom are very much experience about the financial market and the changing patterns of the future trend.

#### **4. Diversified Banking activities**

In today's world of business, diversification is a name of success for any organization. A business firm can earn more revenue by diversifying its product rather than doing one kind of business. For a bank it is very difficult to diversify the product to attract more customers. As a service-oriented organization CAI has tried to diversify its products and facilities to attract more customer. The bank had very narrow scope of diversification, because it only deals with the corporate finance. Still the bank had provided various facilities to the clients and they have focus in the different needs of the clients such as the bank provide monthly financial statement of the clients, gives different types of advice related to investments and etc. Among the last facilities bank had introduce ATM for easy cash access for their clients.

#### **5. Presence of advance IT use**

Access of proper information, speed and effective communication can help any organization to achieve the best. All these elements can achieve by the use of advance Information Technology. CAI uses the most modern and upgraded IT system to be updated with world trend. The total banking system is depended on network base administration, which is not only limited in Dhaka, also linked with the other branches of the world. So the information flow is always getting updated in every second. Also the day-to-day transaction can be monitored from anywhere, and it makes the total process more efficient and effective.

#### **6. Competent & motivated workforce**

Manpower is the key element of any service-oriented organization. With out skill and efficient employees any organization cannot achieve its ultimate goal. In CAI



all the employees are well skilled and motivated to their work. The total working environment is so friendly that all employees feel very motivated to and competent to work in the bank. And they are prepared to accept any challenge for the betterment of the bank.

## **2.2 WEAKNESS (INTERNAL FACTORS)**

A weakness is something a company lacks or does poorly or a condition that puts it at a disadvantage. A company's internal weakness can relate to deficiencies in competitive important skills or expertise, a lack of competitively important physical, human, organizational or intangible assets, or missing or weak competitive capabilities in key areas. Internal weaknesses are thus shortcomings in a company's complement of resources. A weakness may or may not make a company competitively vulnerable, depending on how much the weakness matters in the marketplace and whether the resources and strengths in the company's possession can overcome it. Here some of the weaknesses of CAI are described in below.

### **1. Conservative banking approach (risk averse approach)**

Every organization has its lack in different position. The main weakness of CAI is its behavior towards the conservative banking approach. The bank always follows the policy of risk averse. In the world of today all the organization are moving in approach of risk taking. The aggressive approaches are very much effective in the business environment. So the bank is lacking behind in the policy of risk taking. As result it is facing some problems and also facing competition from other banks.

### **2. No practice of retail banking**

CAI is fully a corporate bank, it does not perform any kinds of retail banking in our country. Base on the corporate banking policy it is very difficult to find huge numbers of clients, because in our country the number of large corporation is very few. So the numbers of clients are very limited for the bank, and the bank are some time influenced by the few numbers of clients. The bank can reduce the influence of the clients by doing retail banking, but for their corporate strategy they cannot do retail banking in our country.



### **3. Limited network in Bangladesh**

CAI is doing its operation in our country for last two decade. They are mainly focusing in corporate financing and doing conservative marketing. For these reasons the bank had limited network in our country and they had to do business in small boundary. For this reason the bank had to face problems in some cases.



## 2.3 OPPORTUNITY (EXTERNAL FACTORS)

Market opportunity is a big factor in shaping a company's strategy. Indeed, managers can't properly tailor strategy to the company's situation without first identifying each company opportunity, appraising the growth and profit potential each one holds and crafting strategic initiatives to capture the most promising of the company's market opportunities. Depending on industry conditions, a company's opportunity can be scarce and can range from wildly attractive. The market opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company has the most potential for competitive advantage and those that match up well with the financial and organizational resource capabilities which the company already possesses or can acquire. Opportunities of CAI are given in below.

### 1. To invest in project particularly in oil/gas/mineral sectors

Oil, Gas, and Mineral are the most lucrative sector for investment in our country. These sectors can be the greatest opportunity for CAI for making huge revenue. In our country the growth rate of these sectors are very fast. So the bank can identify the prospective of these sectors where the profitability margin can be higher. CAI can also introduce more new facility to the clients related to those sectors it will make more opportunities for the bank.

### 2. To open product in the large consumer market

CAI can make some new product, which could introduce in the corporate sector and in the consumer sector. The bank can make use of its reputation to attract more consumers in the new product sector. The bank can make some product that could be related to retail banking such as personal loan, car loan, housing loan and etc. They can still maintain their policies related to corporate banking and can also diversify little for gaining future revenue.



### **3. To attract clients through its corporate service & reputation**

The bank has also good opportunities to attract more new customer by increasing or modifying its service. The bank has to come up with new ideas of services, which can influence the mind of the customers to be attracted towards the bank. The bank can introduce credit card system to the well-known customer for more easy transaction. Also the bank can provide different financial statement that could make the clients more aware of the financial position. Theses types of new service also can attract more new customers.



## 2.4 THREAT (EXTERNAL FACTORS)

Often, certain factors in a company's external environment pose threats to its profitability and market standing. External threats may pose no more than a moderate degree of adversity or they may be so imposing as to make a company's situation and outlook quite tenuous. Management's job is to identify the threats to the company's future well being and evaluate what strategic actions can be taken to neutralize or lessen their impact. Threats of CAI are given in below.

### 1. Increase competition by other multinational banks

CAI is doing business for many years in this country, and they have very good reputation in their field of business. In the financial service market the biggest threat are the other financial institutions. In the recent years different multinational financial institutions are becoming big threat for the bank. Among the giant competitors there are Standard Chartered Grindlays, HSBC, Amex and other banks. For these multinational banks CAI has lost some of their customers, and they are facing more competition day by day.

### 2. Rapid proliferation of Banks in Bangladesh

In Bangladesh the number of banks has increased to fifty-one in the present time. All the banks have the trend of increasing their branches all over Bangladesh and they are trying to capture more market share in the country. The operations of the banks are threat for the CAI, because the banks are providing services more closely to the clients. And the increasing numbers of banks are becoming more threats to CAI day by day.



### **3. Political instability**

Bangladesh continuing its political unrest condition for the last 15 to 16 years. This problem really creates long-term disasters for our total economy. For political unrest often production and the supply makes off. So this political unrest is another threat for CAI.

### **4. Economical instability**

Economic factors like inflation and deflation makes CAI's business unstable. Any economic instability makes our export and import business vulnerable. These boom and burst condition shows the wrong picture to the scenario. So it's very tough to take any future decision if these types of vulnerable economy exist for longer time.



# **SECTION THREE**

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## **THE PROJECT PART**

## **CHAPTER 1: INTRODUCTION OF THE PROJECT PART**

### **1.0 INTRODUCTION**

The authority of the bank has assigned me to do a study on the Cement Industry of Bangladesh. Related to future expansion the study is mainly based on the aggregate cement industry of our country. The bank sought to spot the prospects companies of the industry and what will be the market pattern of the industry. In the future investment plan of the bank, the cement industry will be one of the crucial sectors. In the study the present market will be analyzed and the trend of the future market will be identified.

### **1.1 GLOBAL CEMENT INDUSTRY**

Cement industry is one of the largest significant industrial sectors in global viewpoint. The cement industry has undergone a significant restructuring over the past decade or so. According to the most recent available data, the world cement production has approximated 2.5 billion tons. In recent times, the global cement production has seen a depressing trend over the last year due to the financial and economic crisis in Eastern Asia, which led to a considerable decrease in investment in construction. Nevertheless, Asia remains the continent, which produces and consumes the most cement having the potential for the highest growth in the field.

The trend towards further concentration of the industry can be expected to continue to the large, mostly European companies continue their expansion in Eastern Europe, Asia, South America and Africa. Both in Eastern Europe and in Africa, privatization has triggered acquisitions. Few large groups such as Holderbank, Lafarge, Cemex, Heidelberger/CBR, Blue Circle, Scancem have established themselves as permanent international cement players in the world. The international consumption of cement



on average has been increasing over time. During 2000, the average growth rate has been estimated at 3.5%.

## 1.2 CEMENT INDUSTRY IN BANGLADESH

In Bangladesh the scenario of cement industry were more or less same for the last several decades. Our country has always been dependent on imported cement, and the dependency is larger today than ever. The British built the first cement plant in Bangladesh in the early 1940's at Chatak in the district of Sylhet in the time when Bangladesh was part of Indian subcontinent. The plant has a production capacity of 267,000 tons per year and is based on limestone, which is imported from our neighbor country India. From the beginning of the production time and up to today the plant has used its 60% of capacity for the production purpose. It could not increase its utilization portion in the last sixty years. Bangladesh do not have any deposit of easily extractable limestone. Bangladesh with an area of 147,570 square km consists of flat, alluvial land, which is known as one of the largest deltaic areas in the world. Some large rivers like Ganges, Padma, Jamuna, Brahmaputra and hundreds of other river crises cross over the entire country. From the past our country is depended on river systems and waterways for most of its needs for circumstances and in absence of appreciable urbanization and infrastructure development, cement industry did not show any significant development in Bangladesh.

The first clinker grinder production plant started production in Bangladesh in 1963, at Chittagong. Its name was Chittagong Cement and Clinker Grinder Company Ltd. And it was fully under the Government Corporation, BCIC (Bangladesh Chemical Industries Corporation). The production capacity of the plant was 300,000 tons per year. Recently in June 1993 the grinder plant was privatized and given to a tender party. The utilization of the plant capacity had varied over the years and the range of the utilization was 50% to 80% in each year.



The demand for cement has picked up steadily over the last 15 years in our country, with an extra jump in demand from 1991 to 1992 and in 1994 to 1995. The main reasons of the jump were due to Government policy, World Bank interest and encouragement in the private sectors. As a result of the booming market and the fact that the Government has introduced incentives to promote the value adding process in Bangladesh, through favorable import duties and lower taxes on clinker compared to cement, a few new small clinker grinders have come into operation during the last few years.

Until 1992, there were only three cement companies in Bangladesh. These were limestone-based factories, which were Chhatak and Ayenpur and the other was clinker-based factory known, as Chittagong Cement Clinker Grinding Co. Chhatak cement factory was the first cement factory in Bangladesh, it was totally limestone based and the limestone was imported from India. In 1947, India stopped the supply of limestone to the factory and that almost closed the factory. The Government realized that depending on foreign source for raw materials is not a very good idea for running a big cement factory in the country. This is the reason for why the second state owned cement factory was established at Chittagong named as Chittagong Cement Clinker Grinding Co., which was clinker based instead of limestone. At end of last century, Bangladesh had two integrated cement plants and 11 clinker grinding plants, with a combined production capacity of 2,160,000 tons per year. However the estimated production was only about 998,000 tons for the grinders and about 162,000 tons for the plants.

Bangladesh has always depended heavily on imported cement. The reasons were the country does not have any cheap source of limestone and the Government policies have discouraged local cement production in the country. Even today nearly 65% of the country's cement needs are met by imports. Until the late 1980's the government maintained price controls on cement and high duties on imports of clinker, the key raw material for local cement producers. Bangladesh have imported most of their cement from China during the last 10 years. The quality has been questionable about the cement and many users were not satisfied with the quality. Still the sells of the



cement were in good position for two reasons these were for cheap cost and for its availability in the market.

From early 1998 most of the cement material were imported from Indonesia. Another up-coming supplier was India, which has increased its export to Bangladesh during 1997. The reasons for the changes in import patterns were low price and combination with better quality. Another reason was the over capacity of production in the South East Asian regions due to the economic crisis in Asia.

In the late 80's Government took several steps to encourage local cement production. The step were as follows:

1. Gradually reduction of price controls and then abolished.
2. From 1987 to 1994 tariffs on imported clinker were gradually reduced from 45% to 7.5%. However after severe flood of 1998, this was increased to 15% in October 1998. The tariff on imported cement was raised to 20% from 15% in 1994. This was also further raised to 30% in October 1998. Later on the Government adapted deregulation and promotion of industries in the private sector.

All these factors created a congenial environment for growth of cement industry in the private sector in the country. As a result, since 1994, there was rapid expansion of cement production capacity in the country.

## **1.3 KEY PLAYERS OF THE CEMENT INDUSTRY**

### **1.3.1 CHHATAK CEMENT FACTORIES**

In Bangladesh the only state owned factory is Chhatak Cement Factory Ltd. Other than Lafarge Surma, it was the only limestone based cement project in our country. Presently, Chhatak Cement is producing only 160,000 tons cement per year as per the data of 1997 fiscal year. Technical problems are linked with the age and lack of maintenance of the plant and malfunction in the rope way bringing limestone from India and that is why the actual production is always below 160,000 tons per year.

The Chhatak Cement factory was set to produce with a capacity of only 60,000 tons per year in North Bengal in 1940. After 1947, the factory was in East Pakistan but its main source of limestone ten miles away in Komora remained in India. After 1965 war between India and Pakistan, India suspended limestone supplies and the factory was virtually closed. However, after emerge of Bangladesh in 1971, supplies resumed and the plant's capacity was raised to 160,000 ton per year. Chhatak Cement Factory is situated in Chhatak under Shylhet district. The plants capacity utilization is 59% to 63%.

### **1.3.2 CHITTAGONG CEMENT CLINKER GRINDING CO. LTD/ HEIDELBERGER**

Chittagong Cement Clinker Grinding Co. Ltd. started commercial production in July 1974 as a result of Government's decentralization policy, 51% shares of the company held by Bangladesh Chemical Industries Corporation (BCIC) were transferred to T.K Oil Refinery Ltd. in June 1993. Chittagong Cement produces ordinary Portland cement under the "Ruby" brand name. Heidelberg purchased 26% share of this company in 1999. They also hold the management contract for this company. In 2000, production capacity of Chittagong Cement was enhanced to 900,000 tons per year from the previous 300,000 tons per year. The commercial production of the expansion



plan is scheduled in June 1999. Chittagong Cement factory is situated in Haliashahar. The factory has its own jetty facility, which reduces transport costs, bypasses delays and backlogs at the port. Chittagong Cement Clinkers is also seriously considering enhancing their capacity by another 1,000,000 tons. But, their decision has not been finalized yet.

### **1.3.3 AYENPUR CEMENT FACTORY LTD**

The second limestone-based factory of Bangladesh is also in Chhatak, which is privately owned company having a capacity of 105,000 tons per year but stopped operation in 1997. The limestone cement plants will undoubtedly hold significant delivery cost advantage even in the Dhaka market compared to importers and grinding plants. Hence due to the management problem the factory is closed for the last two years.

### **1.3.4 DOEL CEMENT**

Doel Cement is situated in Pabna. Doel Cement is a concern of Bangladesh Chemical Industries Ltd. they have started the production in July 98. Their production capacity is 90,000 tons per year. In the year 1998 they have produced 30,000 tones.

### **1.3.5 CONFIDENCE CEMENT LTD**

This Company was established in 1991 and has been operating with a capacity of 180,000 tons per year. Confidence Cement Factory started production in 1994. The factory is situated in Chittagong. The company is in the process of completing Unit 2 of their project. Confidence cement enjoys reasonably well brand strength and quality image in the local market. They are now in the process of increasing the capacity to 480,000 ton per year. The expansion plan will go on operation in the end of this year. Their last two years average production was 150,000 tons per year.

### **1.3.6 MODERN STRUCTURAL SERVICES LTD**

Modern Structural Service Ltd. is a cement factory that was established in 1992 in the private sector. The factory is situated in Munshiganj. The production capacity of the project is 30,000 tons per year. They have a plan to expand their capacity to 90,000 tons per year. It is expected to go on production in mid 2001. The actual production for the year 1997 and 1998 were low as 5,000 ton per year. The primary reason for this low production was insufficient supply of clinker.

### **1.3.7 MONGLA CEMENT LTD**

Mogla cement Ltd. is a factory of Shena Kalyan Shanstha. It is situated in Mongla, the capacity is 468,000 tons per year. They have produced 200,000 tons in the year of 1998.

### **1.3.8 MEGHNA CEMENT MILLS LTD**

Megha Cement Mills is situated in Mongla, which is privately owned. Meghna Cement is one of the concerns of the local Basundhara Group operating since 1996 with a capacity of 300,000 tons per year. They are under process of expanding 500,000 tons per year more. The expansion is expected to be in production in June 2001. By the end of 2000, the company intends to set up another production unit, which will raise production capacity to 780,000 tons per year.

### **1.3.9 HYUNDAI CEMENT (BANGLADESH) COMPANY LTD**

Hyundai Cement Co. has been operating in this industry for years. Hyundai Cement of Bangladesh is situated beside the river Maghna in Narayangonj. It started commercial production in the middle April 1996. Hyundai cement initially commenced commercial production with a capacity of 210,000 tons per year. The capacity was subsequently raised to 320,000 tons per year. They are well poised in the





local market and have been operating at 100 percent capacity. The company apparently does not have any immediate plans to increase their production capacity. Under the Korean management Hyundai Company is doing well and has a good reputation in the market.

### **1.3.10 EASTERN CEMENT**

Eastern Cement Mills is situated in Narayangonj. Under the private ownership, it has a capacity of 180,000 tons per year. Eastern Cement has just started its production in the month of February 1999.

### **1.3.11 NILOY CEMENT INDUSTRIES LTD**

Niloy Cement is a project of Nitol Group. Niloy Cement is situated in Jessore and started its production in August 1997. Their production capacity was 50,000 tons per year. But they have expanded the capacity to 100,000 ton per year in year 1999. The expansion unit went into production in February 1999. There are 56 direct and 24 indirect employees in the factory. The brand name of the cement is “FISH”. In the year 1998 it produced 35,000 tons.

### **1.3.12 DIAMOND CEMENT**

The factory went into production in the year 1998. The capacity of the project is 210,000 tons per year. Diamond Cement has a plan of additional capacity of 240,000 tones per year, the expansion is very much uncertain. The production for the year 1998 was 750,000 tones. The factory has 170 direct and 75 indirect employees. The brand is “DIAMOND”.



### 1.3.13 AHAD CEMENT FACTORY LTD

Ahad cement factory is situated in Rajghat, Noapara, and Jessore. It started its commercial production in December 1997. The capacity of the factory is 180,000 tons per year. It produced 50,000 tons in the year 1998. It has a plan to expand up to 400,000 tons per year. But the expansion plan is still uncertain. These are all the factories that are in production now. Only Ayenpur Cement Factory is factory is closed. The other 12 factories are running. Besides, these factories, there are many factories that have started their work and are expected to come into production shortly. The demand- supply gap of the cement industry has encouraged many investors to come to this sector.

### 1.3.14 LAFARGE SURMA CEMENT

Lafarge Surma Cement, a subsidiary of Fimianciere Lafarge, is in the process of setting up a green field integrated limestone cement manufacturing plant in Bangladesh having a capacity of 1,200,000 tons per year. <sup>The</sup> Tile project is being set up at a cost of 240 million dollars and happens to be the single largest private investment in Bangladesh other than the power and gas sector.

Lafarge, the second largest cement manufacturer in the world, is the majority shareholder in this company holding 58% share in tile project. Apart from the investment in the Equity of the company, Lafarge will also provide technical assistance during construction and operating phases of the project. Production of finished cement is expected to commence towards end of 2003 or early 2004.

LAFARGE MONGLA, a 99% owned subsidiary of Lafarge Surma Cement Ltd. and the other 1% owned by local sponsors, has been established for trading their own brand of cement in the local market. The cement company is solely for tile purpose of establishing "Lafarge" brand cement in the local market and confirm market share for Lafarge Surma Cement Co. Ltd. (LSC), the integrated cement project which will produce cement from limestone in late 2003. Lafarge Mongla will commence



operations on 2001. Lafarge Mongla's activity can be treated more as trading as they will import completely finished cement in bulk, which will be bagged locally for selling in the local market. The purpose is, once again, to establish their cement brand until LSC commences commercial production. Eventually, LMC will merge with LSC. Once latter is in operation. The bagging plant at Mongla will be on a rented premise with a capacity of 400,000 tons per year and the plant will be operating at 100% capacity from the second year of operation.

### 1.3.15 CEMCOR

CEMCOR is a brand for Holderbank, Switzerland, the world's largest cement producers. They had a plan to set up a clinker grinding plant with a capacity of 600,000 tons per year. Project Cost is likely to be 35 million dollars and is supposed to commence operations in late 2002. But, we have doubts about their commitment for this market as they have adopted a policy of "watch & see".

### 1.3.16 SCANCEM

Is in the process of commencing operations of a clinker grinding plant with a capacity of 780,000 tons per year by 2001. Scancem is also involved in trading of cement of their own brand in order to establish firm market share for their production unit. They started trading in October 1998. They sold 413,429 toils of cement till April 2000 since the inception of trading. They expect sales of at least 400,000 toils of cement in the year 2000.

The other cement factories that are under implementation are listed below:

- ⇒ National Cement Factory
- ⇒ Aramit Cement Factory → Already operational
- ⇒ Bengal Tiger Cement Industries. Ltd.
- ⇒ Akij Cement

- ⇒ Anwar Pittie Cement Ltd.
- ⇒ Dubai-Bangladesh Ltd.
- ⇒ Jalalabad Cement.

There are nearly two dozens more cement factories that have registered with the Board of Investment. But they not yet started any work. If all these cement factories go for export of cement. The list of all the cement-manufacturing units is shown.

## 1.4 VOLUMES

For the last few decades Bangladesh was one of the lowest cement consumption consumer country and one of the lowest consumption of cement per capita in the world. Now days in our country the approximate consumption rate is 30 kg per capita. In comparison with India, which has a consumption of 67 kg per capita and the in other country such as Philippines has 185 kg per capita.

The demand for cement in the nation is mainly in the Dhaka, Chittagong, Sylhet, Khulna and Rajshahi. In whole Bangladesh Dhaka has the largest market share of cement consumption and its nearby regions account for 45% of the market and the second closet market is in Chittagong, which are about 15%.

Consumption of cement was over 5,300,000 tons during 2000. About 3,700,000 tons was imported as bagged cement. Consumption during 2001 is estimated to be 5,830,000 tons. The actual figure of total consumption of cement up to year 2000 are given in the table below:

**TABLE 3.1: The consumption amount, local production and amount of imported bags.**

(‘000 TON)

Year	Consumption	Local Production			Imported bags				
		Grinder	Plant	Subtotal	Chinese	Indian	Indonesian	Other	Subtotal
1980/81	934	-	-	345	-	-	-	589	589
1981/82	981	-	-	325	-	-	-	656	656
1982/83	1,255	-	-	304	-	-	-	951	951
1983/84	1,347	-	-	286	-	-	-	1,061	1,061
1984/85	1,536	-	-	240	-	-	-	1,296	1,296
1985/86	1,623	182	110	292	-	-	-	1,331	1,331
1986/87	1,977	209	100	309	-	-	-	1,668	1,668
1987/88	1,872	190	120	310	-	-	-	1,562	1,562
1988/89	1,996	222	121	343	-	-	-	1,653	1,653
1989/90	1,943	208	129	337	-	-	-	1,606	1,606
1990/91	1,886	140	134	274	-	-	-	1,612	1,612
1991/92	1,986	174	98	272	-	-	-	1,714	1,714
1992/93	2,366	157	50	207	-	-	-	2,159	2,159
1993/94	3,159	211	112	323	2,100	260	N/A	476	2,836
1994/95	3,417	169	147	316	2,500	452	N/A	149	3,101
1995/96	3,123	272	153	425	1,955	325	N/A	418	2,698
1996/97	3,710	442	168	610	2,180	450	N/A	470	3,100
1997/98	4,200	998	162	1,160	1,075	860	640	165	3,040
1999	4,800	1,340	160	1,500	1,167	934	695	179	3,300
2000	5,300	1,440	160	1,600	1,308	1,047	779	201	3,700

Sources: Bangladesh Economic Survey 1997/98. BCIC (Bangladesh Chemical Industries Corporation), National Board of Revenue (1993-2000). Statistical Yearbook of Bangladesh 1999, BCMA (Bangladesh Cement Manufacturers Association) report 1999.

The above table shows the amount of consumption from the year 1980 to 2000. Also the amount of local production and the imported bags are shown in the table. The figure of the table shows that the consumption amount has increased year by year, but the increased rate got higher after 1992. To meet the demand and the higher consumption the local production also has increased for the years. The amount of imported bags has increased for the last few years, especially after 1994, for the increases in the consumption of cement.



## **1.5 PURCHASE PATTERNS**

The market has a clear preference for local brands and pays a premium for quality cement. This was mainly due to the customers' perception that the local cement is more 'fresh' than the imported cement. Recently local producers have experienced a market with increased competition from imported, bagged cement of higher quality than previously. The reason for this is change of country of origin from China to Indonesia.

To protect the local grinders, the authorities have to move quickly and increase import duties and taxes for bagged cement, in order to protect the national producers. The Bangladesh Cement Manufacturers Association is playing an active role in this context.

## **1.6 OPERATORS OF CEMENT INDUSTRY (Industry Structure)**

### **1.6.1 CLINKER GRINDERS**

During recent years there has been large investments in building grinding plants. New grinders are Hyundai, Diamond Cement Factory Chittagong, Mongla Cement Co. Ltd and Meghna Cement Ltd. Today there are a total of 11 grinders, with an estimated production during 2000 of 30,00,000 tons.

Most of the grinders are located close to the important seaports, Chittagong and Mongla. The following table shows the list of clinker grinders in the country and their respective capacities.

**TABLE 3.2: Name of the cement companies of Clinker Grinders**

Name	Location	Ownership	Starting Operation
Ahad Cement Limited	Jessore	Private	1997
Diamond Cement Limited	Chittagong	Private	1998
Doel Group	Ishwardi	Private	1997
Hyundai Cement Company	Daudkamda	Hyundai	1995
Modern Structural Portland Cement	Daudkandy	Khansons	1992
Mongla Cement	Mongla	SKS, Welfare	1995
Chittagong Cement Clinker & Grinding Co.	Chittagong	Private	1963
Confidence Cement Limited	Chittagong	Bibir Hat	1995
Meghna Cement Limited	Mongla	Basundhara	1995
Niloy Cement Limited	Jessore	Private	1997

Sources: Statistical Yearbook of Bangladesh 1999.

The present local clinker grinding industry cannot be characterized as advanced and professional. Amongst other things it faces problems with clinker supply, electricity supply, quality, logistics and management. As a result of these hindrances, capacity utilization is low, and will most likely, percentage wise, be reduced further when they increase their production due to the fact that some of the existing problems, such as power shortage, might get worse as they expand.

### 1.6.2 CEMENT PLANTS

Bangladesh has two cement plants with a total production capacity of 270,000 tons per year. They are located at Chatak in Sylhet and are based on limestone imported by rope way from the neighbour country India. During 2000 only one of the plants was in operation with a production of 220,000 tons, but the cement factory could never reach its full utilisation of production capacity for different problems. The annual capacity of the plant is 267,000 tons cement, which is mainly sold in the north and east of Bangladesh. Another plant will start operation from 2004 in Sylhet under the name of Lafarge Surma Cement Company.



### 1.6.3 IMPORTERS

There are six major importers of Chinese, Indian and Indonesian cement into Bangladesh. Importers located at Khulna, which is close to India, handle both Indian and Indonesian brands. Imports satisfy around 50% - 55% of the total cement consumption in Bangladesh. As reported by Lafarge, imports of finished cement totalled 2,600,000 tons in 1999. Importers bring completely finished cement for trading purposes. Exporting countries are roughly as follows:

1. China (44%)
2. India (30%) and
3. Others: Indonesia, Thailand & Korea (26%).

70% of the import market is currently controlled by 6 importers, which also have their own distribution network.

However, as mentioned earlier, Scancem has been importing finished-bagged cement since October 1998 for trading in the local market, so as to establish a market share for their clinker-grinding project. Cemex has also recently started importing finished-bagged cement from Indonesia for promoting Cemex brand name. Cemex intends to import 200,000 to 250,000 bagged of cement per year for trading in the local market. Lafarge Mongla is expected to enter this market in 2001 with the same motive as Scancem & Cemex.

'Others' represents imports by another 15 small importers of finished-bagged cement. Most of the local importers are driven to cutting costs, usually at the expense of the client, by selling cement of a poor quality, due to long shipment, storage, dilution with earning them in turn a bad reputation and a 15 dollars quality discount for their cements compared to the grinding plants.





**TABLE 3.3: Major Importer's list of cement industry**

Importer	Base In	Average Importer Per Year (Tons)
Haji Selim (Madina)	Dhaka	900,000
Anwar Hossian & Co.	Khulna	500,000
Sheikh Shohrab Ali	Khulna	400,000
Scancem Bangladesh	Dhaka	250,000
Cemex Cement	Dhaka	-
Lafarge Mongla	Mongla	-
Others		550,000
<b>Total</b>		<b>2,600,000</b>

Sources: Statistical Yearbook of Bangladesh 1999.

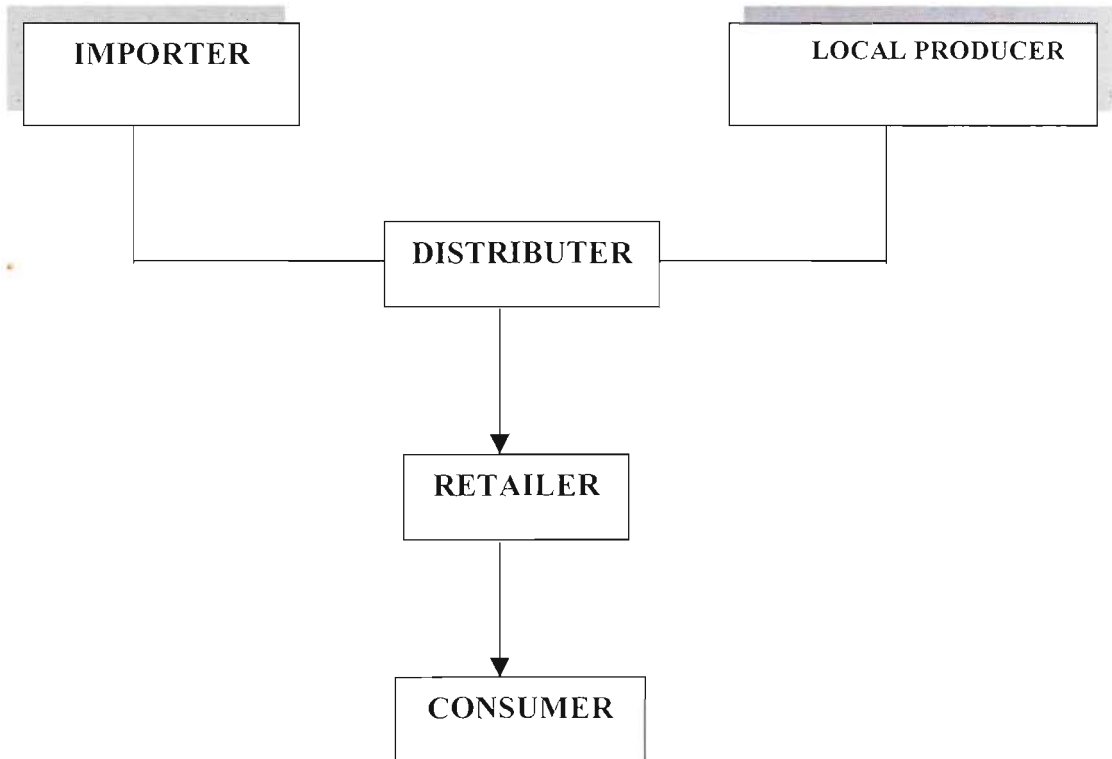
The above table shows the names of the major importer of cement in our country. It shows that Haji Selim (Madina) importer covers the major portion of imported amount of cement. In future Lafarge and Cemex will be another large importer in our country.

## 1.7 DISTRIBUTION

The distribution procedure of any industry plays a vital roll in the prospect of that industry. The cement industry's distribution procedure is more or less same as the fertiliser industry. The importers, grinders and cement plants sell most of their cement through nominated wholesalers, which contacts are made by verbal agreements.

The local manufacturers use their own warehouses or plants to sell the cement product, such as price ex factory. The wholesalers have their own handling procedure of the cement with their own trucks, through their related retailers and with the large end users. Some of the wholesalers have up to few hundred retailers within their own distributor network.

In addition, the importers, grinders and cement plants are selling some cement directly to institutional buyers within the government body.



## 1.8 REGULATION

In 1991 the cement market in Bangladesh was deregulated and price controls were eliminated. Integrated and grinding plants have been encouraged and in 1997 GOB banned the import of low quality, vertical shaft kiln bagged cement from China and applied controls on all imports of bagged cement following a series of building collapses in Dhaka. None of the importers has an established brand or market share. As their investments are relatively small, they have low exit barriers and many can be expected to become distributors for efficient domestic producers. Thus, any new local manufactured cement would displace import of bagged cement prior to taking away market share of other local manufacturers.

Price control on Cement has been abolished following the severe floods of 1998.

Import duties on clinker and cement have been increased from 7.5% to 15% and 15% and 30% respectively.

## 1.9 DUTY

For the cement industry, the duty that is currently imposed on their imports is 37% on the tariff value of the bagged cement, the tariff value for bulk cement is 53 dollars per ton and for bagged cement is 55 dollars per ton. The prevailing import duties on the different components of cement imports are:

<b>Clinker</b>	15.0%
<b>Bagged/ Bulk Cement</b>	30.0%
<b>Bags</b>	42.5%

However, past market trend show that the import duties and tariff values can be subject to change, which can have substantial impact on the final cost for an importer or a producer.

**TABLE 3.4: Years wise changes of Duties and Taxes on Cement industry**

Year	Tariff Value (USD)	Custom Duty	Supp. Duty	Add. Sup	VAT	Advance Income Tax	License Fee	Development Surcharge
1997	63	15.00%	5.00%		15%	2.50%	2.50%	2.50%
1998	60	15.00%	5.00%	0.20%	15%	3.00%	2.50%	2.50%
1999	55	30.00%	5.00%		15%	3.00%	2.50%	2.50%
2000	50	37.50%	5.00%		15%	3.00%	2.50%	2.50%

Source: National Board of Revenue.

The above table it shows that the tariff value for the cement industry has reduced for the last few years. The custom duty has increased for the last two years, with out that no other duties or taxes has been changed for the last few years.

**TABLE 3.5: Years wise changes of Duties and Taxes on Clinker industry**

Year	Tariff Value (USD)	Custom Duty	Supp. Duty	Add. Sup	VAT	Advance Income Tax	License Fee	Development Surcharge
1997	45	7.50%	0.00%		15%	2.50%	2.50%	2.50%
1998	30	15.00%	5.00%	0.20%	15%	3.00%	2.50%	2.50%
1999	30	15.00%	0.00%		15%	3.00%	2.50%	2.50%
2000	30	25.00%	0.00%		15%	3.00%	2.50%	2.50%

Source: National Board of Revenue.

The above table shows the same picture as table 4, where all the items are more or less with out tariff value and custom duty. The tariff value of clinker has remain the same for the last three years, but the custom duty has increased in large margin in the last few years.

### **Tariff Structure of Limestone Vs Clinker & Import**

Currently, the Bangladesh Government Imposes the following taxes on the imports of limestone, clinker and imported cement to protect the national interest:

**TABLE 3.6: Duty and Taxes of Limestone, Clinker and Import**

Item	Limestone	Clinker	Import
Custom Duty	7.50%	37.50%	37.50%
Supplementary Duty	5.00%	5.00%	20.00%
VAT	15.00%	15.00%	15.00%
License Fee	2.50%	2.50%	2.50%
Development Surcharge	2.50%	2.50%	2.50%
Advance Income Tax	3.00%	3.00%	3.00%

Source: National Board of Revenue.

In case of cement and clinker, the taxes are computed on an “assessment value”, which is currently posted by the Government at USD 30/ton and USD 54/ton respectively (C&P Bangladesh) VAT is computed on the value after the customs and

supplementary duty is applied.

### **Port Dues/Charges**

Cement and clinker importers currently pay around 15 to 18 dollars per ton for freight transport and a further 10 dollars per ton for port dues, unloading, transshipment and transport costs to Dhaka from Chittagong or Mongla port. The high port dues arise as a result of navigation difficulties, inefficiencies and bottlenecks at the port. It is expected that tile port dues and infrastructure constraints will continue to remain high.

## **1.10 PRICES**

The highest prices of cement are found in Dhaka region and in the north of Bangladesh, the lowest prices are in the south. Local cement brands enjoy a premium of up to 15% above imported, bagged cement. The clinker grinders, mainly located in the south west and south east, have obtained prices of 94 to 111 dollars per ton, depending on seasonal fluctuations, freight market, demand and supply. Imported-bagged cement has, during the last year, been sold in the range of 83 to 97 dollars per ton. References are prices including Value Added Tax (VAT) from warehouse in Pagla, within the Dhaka region.

Regional price differences depend mainly on logistics and distance from grinders to the end market. The highest priced cement, Hyundai, is sold at 105 to 110 dollars per ton, ex factory, just outside Dhaka. This price is explained by factors as freshness, quality, availability and reputation of multinational companies.

It is expected that the demand will be higher than the supply of locally produced quality cement to the Bangladeshi market for the next 5 to 10 years. For this reason, the price level for cement should consequently be expected to remain high.

It is however, likely that price movements in the world market prices of either clinker or cement will be reflected in the cement prices in Bangladesh, since the costs of the locally manufactured cement is widely influenced by raw material (clinker) prices. Variations in the world market prices for clinker and cement will also have a direct impact on the cement import prices to Bangladesh.

When more local and international companies enter the market with their own grinders, the amount of locally produced cement will increase and be more readily available, probably at a price level on par with or higher than the most reputable brands of today. This will reduce the market share of imported cement.

### Pricing & Cost Competitiveness

*what per?*

**TABLE 3.7: Comparison of Cost Structure for Grinders, Integrated plants and Imports. (Dollar per ton)**

Item	Limestone	Clinker	Import
Raw Materials (Plus Freight)	6.30	31.50	40.00
Taxes and Duties	0.60	6.00	19.60
Power and Gas	11.10	2.90	0.00
Other Variables Costs	8.00	8.50	0.60
<b>Total Variable cash costs</b>	<b>26.00</b>	<b>48.90</b>	<b>60.20</b>
Total Fixed cash cost (salaries)	9.71	4.25	1.50
<b>Total cash cost of production (ex-worker)</b>	<b>35.71</b>	<b>53.15</b>	<b>61.70</b>
Transport to Dhaka warehouse / port dues	6.00	11.61	11.01
<b>Total cash cost of production (ex-warehouse)</b>	<b>41.71</b>	<b>64.76</b>	<b>72.71</b>
Depreciation	18.20	8.00	0.00
<b>Total cost of production</b>	<b>59.91</b>	<b>72.76</b>	<b>72.71</b>

Source: National Board of Revenue.

The price of limestone is based on the aggregate of royalties that has to be paid to the Meghalayan Government plus over head and other operating expenses to be incurred.



Despite these considerations, it is estimated that the price of limestone is 3 dollars per ton or 4.8 dollars per ton of clinker, where 1 ton of clinker requires 1.6 x limestone, which is one of the major advantages of the integrated plants.

According to the report by IWICS of February 1999, the landed cost of imported cement in Dhaka was 72 dollars per ton to the importer. The ex-warehouse of Dhaka production cost of cement for the grinder and an integrated producer is 72 dollars per ton and 60 dollars per ton respectively. Note that on a cash cost basis, excluding depreciation and interest, the in targeted producer is about 20 dollars per ton cheaper and the grinder which is turn, out 8 dollars per ton cheaper than the importer.

The main determinants of Integrated Cement Plants' cost competitiveness integrated plants vis-à-vis cement importers and clinker grinders are sourcing and price of raw materials, taxes and duties in Bangladesh, and transportation /port charges.

## 1.11 TERMS OF PAYMENT

Every industry has own terms of payment system and the all the companies of that particular industry usually follow that pattern. Selling of cement on credit is a widely accepted practice in the cement trade in Bangladesh. The credit line is in fact goes straight through the chain from the importers to the wholesalers, down to the retailers and in some cases even down to the end users. The conditions some time may vary in different parts of the chain. Often the agreement, especially between the importers and the wholesalers is made up in such a way that the Cash On Delivery (“COD”) payment is performed when the order is placed. The outstanding credit is then settled when the wholesaler places his next order, it is like a sort of revolving credit facility. Partly due to seasonal variations, especially during the rainy season between June and August and partly due to stock turnover it has been observed that COD is as low as 10%.

Imported cement is sold with a COD varying from nil to 50%, dependant on the delivery conditions, such as port of collections, jetty availability, and etc. the negotiated price level and price guarantees. Local manufacturers operate with a lower credit limit (higher COD) in the range of 70% to 90%, balance to be settled within 30 days. Larger construction companies do not pay COD, but normally buy on 30-60 days credit payment

## 1.12 QUALITY

Historically imported cement has always placed itself at the bottom of the ladder regarding quality. The principal reason being that it takes a longer time for the imported brands to reach the consumer and therefore, the imported bagged cement is considered by the market to be not as “fresh” as the local brands. Still the market buys the imported, bagged cement because it is cheaper and readily available. Theoretically the age of the cement should not have any effect on the compressive strength. Only incorrect storage, bad production methods and adulteration impair the “strength”. Age should only affect the initial reactivity of the cement and not the final physical properties.

Market demand in Bangladesh is moving towards higher strength cement and traditionally the local clinker grinders supply fresher and “stronger” cement than imported cement.



## CHAPTER 2: FUTURE MARKET OF CEMENT INDUSTRY

### 2.0 FUTURE MARKET

The annual demand of cement in Bangladesh in 1999 was roughly about 4.64 million tons. The growth potential of cement industry in Bangladesh is enormous. Presently, local producers meet 55% of cement consumption through imports, while the remainder is met mainly by Clinker grinders. The main market for consumption of cement in Bangladesh includes Dhaka (60%), Chittagong (15%), Sylhet, Khulna and Rajshahi.

According to the projections made by IFC, the cement market is expected to grow at 10% per year from 1998 to 2005, depending on the elasticity factor of 1.5 to 1.6 to GDP growth. If we consider 4.5% to 7% of GDP growth per annum in Bangladesh, target set by Government, annual growth rate of cement consumption in Bangladesh should be around 10.5%. The above GDP growth rate, which is very optimistic IFC, predicts an average growth rate of 10% for next decade. If the consumption grows at 10% per year, the market size will stand at 8,500,000 tons in the year 2005.

In terms of consumption per capita, ratios remain rather low at 29.5 kg per capita as per 1997. Assuming the Bangladeshi population grows at 1.8% per year from 126 million inhabitants in 1997, Bangladesh would reach cement per capita ratio of 58 kg in the year 2005, which is still rather low.

The Following table shows the comparison of market share of imports and local production up to the year 2005:



**TABLE 3.8: The changes in consumption rate, local production and import**

Year	Total Consumption ('000)	Consumption growth	Local Production	Import
2001	5,830	10%	156.75%	-53.46%
2002	6,413	10%	52.70%	-91.81%
2003	7,054	10%	23.31%	-582.98%
2004	7,760	10%	10.41%	14.54%
2005	8,536	10%	7.38%	-18.72%

In the above table it shows that the consumption rate will increase at a rate of 10% in each year. The analysing the current market trend makes this prediction that the growth rate will be near ten percent for the upcoming years. The local production will have a jump in 2001, but after that the rate of change in each year will go down. In the case of imported cement the year wise change are negative, it means the amount of imported cement will go down year by year.

## 2.1 DEVELOPMENT OF FUTURE MARKET

The positive development in Bangladesh is expected to continue. Today, one finds one of the most liberal investment and business policies in the world. As extra fuel in the engine there is, over all, a positive and optimistic business environment. The Bangladesh cement market has historically been heavily dependent on the import of cement. Only till year 2000, Bangladesh was importing more than 50% of its cement needs. Currently, about 36.7% of the demand of cement is fulfilled via imports. This amounts to a deficiency of about 1.75 million tons annually.

The forecast for the demand and supply gap of cement is likely to exist well past 2005, by then several large multinational clinker grinder cement manufacturers and one integrated Cement manufacturer may be operational. Lafarge Surma Cement Industries Ltd., the only integrated cement manufacturer, is expected to begin



operation in the later part of 2003 and will have an installed capacity of 1.2 million metric tons. Lafarge will most likely be fully operational within two years of its operation and is estimated to operate at 90% capacity. In addition, Holderbank, Scancem and Cemex are also developing cement projects and will commence production at various times before 2005. Siahm's installed capacity of 180,000 tons will only partially meet the demand-supply gap of cement, the remaining excess demand will continue to be met by the importers of bagged cement, a product far inferior in quality than clinker grinder cement or integrated cement. This is due to poor and stale quality of imported-bagged cement and adulteration of the product by the importers, and thus the imported-bagged cement sells at a much lower price in comparison to local cement manufacturers.

An increase in cement consumption is to be expected during the next ten years and if the locally produced cement does not meet the demand then importers will step in.

## **2.2 DEMAND**

Prospects for cement consumption for infrastructure and commercial projects look promising. The Government and aid donors give infrastructure and the housing sector top priority. The recent propositions in the economic reforms include substantial growth in road transportation among which some important projects, such as possibility of the Padma bridge, Dhaka eastern bypass, bridges on Dharla and Rupsha and at Pakshi, Bhairab, Shikarpur and Dwarika

In the building sector, including private investments, it is expected that 300,000 apartments will be built per year over the next 5 years. Land is a scarce resource in Bangladesh and the price of land is increasing rapidly. The limited land available must therefore be better utilised and this situation will undoubtedly stimulate the construction of high rise buildings in the future.

High rise buildings, combined with the increase in infrastructure projects, will lead to a major change in the demand of cement quality in favour of better quality cement. In addition, the activity in the housing sector is increasing at an increasing rate as local Bangladeshis working abroad begin to spend more of their income on private housing in Bangladesh. Individuals, whose purchasing power increases, are also investing in better houses.

The influx of international aid after the recent flood situation in Bangladesh will increase cement consumption in certain sectors but may delay other planned projects. In any case all the points mentioned above will have a major impact on future cement consumption in Bangladesh.

The future demand of the cement industry is calculated in the basis of future growth of demand. Form different calculation it is predicted that the future cement industry has a growth rate of ten percent. The base points of determining the ten percent growth rate were the population growth rate, GDP growth rate, per capital consumption rate and some future large infrastructure plants. The following table gives official figures of the historical demand and the future demand for cement in Bangladesh.

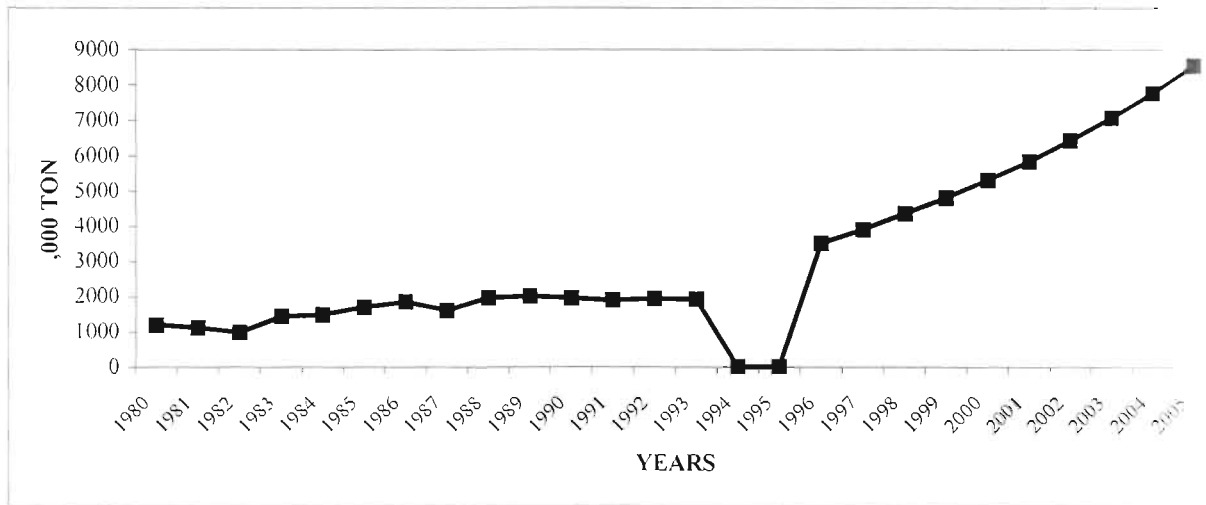
The data of the past demand has been taken from the statistical yearbook 1999, publish by The Bureau of Statistic, Bangladesh.

**TABLE 3.9: Years wise Demand of the cement** (‘000 Ton)

<b>YEAR</b>	<b>Local Production</b>	<b>Imports of Bagged Cement</b>	<b>Demand</b>
1980	336	842	1178
1981	345	756	1101
1982	326	638	964
1983	341	1,085	1426
1984	376	1,103	1479
1985	240	1,438	1678
1986	310	1,521	1831
1987	292	1,300	1592
1988	359	1,600	1959
1989	344	1,652	1996
1990	337	1,606	1943
1991	275	1,611	1886
1992	272	1,650	1922
1993	207	1,700	1907
1994	N/A	N/A	N/A
1995	N/A	N/A	N/A
1996	800	2,703	3503
1997	1,000	2,900	3900
1998	1,117	3,239	4356
1999	1,229	3,563	4792
2000	1,359	3,941	5300
2001	1,495	4,335	5830
2002	1,644	4,769	6413
2003	1,809	5,245	7054
2004	1,990	5,770	7760
2005	2,189	6,347	8536



**GRAPH 1: The trend of the demand from 1980 to 2005**



The table indicates that the demand for cement grew at an average annual rate of 6.6% between 1980 and 1988, before stagnating at around 1,900,000 tons between 1988 to 1993. This period of stagnation may be explained by reduced purchases by the public sector during those years but it is more Likely that the level of consumption in the early 1990s has been underestimated in view of the much higher level of consumption that took place in 1996 and 1997. For the year 2000 to 2005 the demand increased to 10%, which show a very good trend in the demand of cement in our country.

The on-going, economic reform program of GOB, which is backed by all the main political parties, is expected to produce an average annual GDP growth rate of 4.5% to 6% or more. Empirical studies suggest that over time in developing economies at Bangladesh's low level of GDP per capita, the growth in cement consumption can be expected to be subject to a multiplier factor of 1.5 to 1.6 times the growth of GDP. Thus the demand for cement in Bangladesh can be expected to grow by an average of 10% per year for the foreseeable future. The projected per capita consumption of 58 kg in 2005 will still be very low in comparison to per capita consumption in neighboring India and Pakistan. Currently, per capita cement consumption in India and Pakistan is 74 kg and 136 kg respectively.



There are two main factors driving increasing demand for cement, housing and infrastructure development. Recent levels of consumption are clearly very much higher than those indicated by official statistics for the early years of the decade. It is probable, however, that the official statistics were on the low side because, even in 1996 and 1997, the per capita consumption of cement in Bangladesh was among the lowest in the world at around 28 to 31 kg. Neighboring India has a per capita cement consumption of over 75-kg, which is also low by developing country standards. Rapid urbanization, such as is taking place in Bangladesh, typically causes cement consumption to rise more rapidly than GDP in countries at similar stages of development. On account of urbanization and massive migration of rural people, particularly, to the capital city of Dhaka, coupled with acute shortage of land, there has been a boom in the construction of houses, with a distinct shift towards high rise apartment buildings in Dhaka. It is estimated that there will be demand for over 500,000 apartments per year for the next 5 years.

Again, on account of existing low level of infrastructures facilitates, government is under obligation to significantly increase expenditure on infrastructure development including roads, bridges, embankment, culverts, power stations etc. the frequent occurrence of floods causes substantial damages to the infrastructure facilities. This is also necessitates increased allocation of government funds including aid from donor agencies, to the infrastructure sectors. Constructions of factory buildings including those in the expanding export processing zones, shopping complexes, and big hotels, may also looked upon as significant consumer of cement.

Demand of cement is countrywide with Dhaka, Chittagong, Sylhet, Khulna, and Rajshahi comprising the main markets, while Dhaka with nearby regions accounts for about 50% of the market, Chittagong about 15%.

Production of 1,205,000 tons in 1997 to 1998 when installed capacity in the country, was 2,489,000 tons shows an average capacity utilization of 48.41%. This level of capacity utilization is poor by any standard of industrial performance, particularly, if we consider the fact that most of this production comes from grinding of imported clinker, which is relatively a simple process.



However, on examination, it is found that the main reasons for such low capacity utilization, may be attributed to the following:

1. Poor logistics management and failure in timely supply of clinker.
2. Difficulties in clearance of cargo in port.
3. Work stoppage and labor problem.
4. Unfair competition from poor but cheap imported cement.
5. Customs delays and lack of rationalization of tariff.
6. Interruption of power supplies.

Although there are many indicators showing that there will be very high growth in the demand for cement, on the basis of annual growth rate of 10%, the total year wise demand of cement up to 2004 to 2005, has been estimated as under:

Bangladesh with its expanding demand and a continuing demand-supply gap in cement is an obvious choice for large multi-national companies to explore the possibility to operate. The excellent incentive package for foreign investors, incorporated in the industrial policy of government, has also encouraged these companies to take positive interest in cement industry in Bangladesh.

## 2.3 SUPPLY

In the analysis of the supply side of cement industry for the last few years it is needed to collect information from two points of view. Collecting of data on Import of cement and local production of cement then it is possible to have the complete picture of the supply of cement in the country. The data has been collected for the years 1990-91 to 1998-99. In the collection of data the fiscal year has been used, instead of the calendar year has been used for this purpose. The main source of the data collection are from National Board of Revenue (NBR), Bureau of Statistics (BBS), customs and the Bangladesh Bank keep their record on the basis of the fiscal year.



**TABLE 3.11: International Medium Term Grinders capacity 2000 to 2005**

(‘000 Ton)

<b>International Medium Term Grinders</b>	<b>Brand Name</b>	<b>Region</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Seven Circle	Seven Ring	Dhaka		250	500	1,000	1,000	1,000
Bengal Tiger (Taiheiyo)	Taiheiyo	Dhaka			90	180	180	180
Emirates Cement ETS Escon		Dhaka			150	500	500	500
<b>Installed Capacity – Foreign Grinders (B category)</b>			<b>-</b>	<b>250</b>	<b>740</b>	<b>1,680</b>	<b>1,680</b>	<b>1,680</b>

The above table shows the future installation capacity of the international medium term grinders. Where it shows Seven Circle has the more possibility of large capacity than the other two companies. It will hold the major portion of market share in the above category.

**TABLE 3.12: Local Medium Term Grinders capacity 2000 to 2005**

(‘000 Ton)

<b>Local Medium Term Grinders</b>	<b>Brand Name</b>	<b>Region</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Meghna Cement	King	Mongla	650	800	800	800	800	800
Mongla Cement	Elephant	Mongla	390	390	390	390	390	390
Shah Cement	Shah Cement	Dhaka			450	900	900	900
Mir Akhter		Dhaka			180	180	180	180
S Alam	Minar	CTG	-	180	360	360	360	360
Confidence	Lion	CTG	480	480	480	480	480	480
Diamond Cement		CTG	210	420	420	420	420	420
<b>Installed Capacity – Local Grinders</b>			<b>1,730</b>	<b>2,270</b>	<b>3,080</b>	<b>3,530</b>	<b>3,530</b>	<b>3,530</b>

The above table shows the future production capacity of the local medium grinders companies. It shows that the local companies have very less capacity compare to the international companies. The largest company among this category is Shah Cement company, but its capacity is only 900,000 tons and its market share is very less compare to the total capacity of this category.

**TABLE 3.13: Local short-term Grinders capacity 2000 to 2005** ('000 Ton)

Local Short Term Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Niloy Cement	Queen, Fish	Noapara	200	200	200	200	200	200
Ahad Cement		Noapara	180	180	180	180	180	180
Noapara Cement		Noapara		180	180	180	180	180
Saiham (Ashugong) Cement		Mongla		180	180	180	180	180
Anowar Cement		Mongla		180	180	180	180	180
MTC (Modina) Cement	Tiger	Dhaka	180	180	180	180	180	180
Eastern Cement	Seven Horse	Dhaka		180	180	180	180	180
Mollah Cement	Crown	Dhaka		180	180	180	180	180
Akiz Cement		Dhaka		180	180	180	180	180
Aramit Cement		CTG	210	210	210	210	210	210
Royal Cement		CTG		180	180	180	180	180
National Cement				180	180	180	180	180
<b>Installed Capacity – Local Grinders</b>			<b>770</b>	<b>1,320</b>	<b>1,850</b>	<b>2,210</b>	<b>2,210</b>	<b>2,210</b>

The table shows the future forecast of local short-term grinders companies of our country. It shows that the short-term companies are not in good position and their production capacity is so low that it will not cover 10% of future market share. Some of the companies may be out of market because of their less production capacity.

**TABLE 3.14: Local Short Term Inefficient Grinders capacity 2000 to 2005** ('000 Ton)

Local Short Term Inefficient Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Doel Cement		Rajshahi	80	80	80	80	80	80
Al Haj Cement		Rajshahi	20	20	20	20	20	20
Sirajgong Cement		Rajshahi	20	20	20	20	20	20
North Bengal Cement		Rajshahi	20	20	20	20	20	20
Mondol Cement		Rajshahi	20	20	20	20	20	20
Upon Cement		Rajshahi	20	20	20	20	20	20
A R Cement		Noapara	20	20	20	20	20	20
Modern Cement		Dhaka	20	20	20	20	20	20
Uttara Cement			30	30	30	30	30	30
Rowshan Cement			30	30	30	30	30	30

Salam Cement			15	15	15	15	15	15
Rocket			15	15	15	15	15	15
Haq Cement			10	10	10	10	10	10
Padma Cement				20	20	20	20	20
Nur Cement					20	20	20	20
Ever Golden Cement					20	20	20	20
Ehsari Cement					20	20	20	20
Yakub All Cement					20	20	20	20
Khulna Cement					20	20	20	20
Karim Cement					20	20	20	20
<b>Installed Capacity – Local Grinders</b>			<b>320</b>	<b>340</b>	<b>460</b>	<b>460</b>	<b>460</b>	<b>460</b>

The table shows the inefficient cement companies, which are operating in our country. These companies are very much end of there operation and they are loosing there capacity day by day. And their market share do will have no impact in the future cement industry.

**TABLE 3.15: Basic Cement Plant capacity 2000 to 2005** (‘000 Ton)

Basic Cement Plant	Brand Name	Region	2000	2001	2002	2003	2004	2005
Chattak Cement		Sylhet	220	220	220	220	220	220
Ayenpur Cement		Sylhet	50	50	50	50	50	50
Lafare Surma		Sylhet					300	1,200
<b>Installed Capacity – Basic Cement Plant</b>			<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>570</b>	<b>1,470</b>

The above table assumes that all four of the major cement projects, Scancem, Lafarge, Cemex and Holderbank, will be implemented with the publicized capacity. Since Bangladesh is one of the largest import markets in Asia, major international cement producers have set up this projects.

As stated above, there are two small and inefficient integrated cement plants in Sylhet import limestone from the neighboring Indian State of Meghalaya. The larger of the two units is owned by GOB. The ropeway connecting it to the quarry in Meghalaya frequently malfunctions and the plant is over-manned and relies on the wet process. It is reasonable to expect that the current ‘level of production, from these two plants, of

around 200,000 tons, will not be improved upon.

Leveling historical 70% capacity utilization by the local clinker grinders and estimated 90% capacity utilization by international cement producers, following table shows the estimated actual supply of cement by the local producers for year 2000 to 2005.

**TABLE 3.16: International long-term Grinders actual supply 2000 to 2005**  
(‘000 Ton)

International Long Term Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Scancem (CCCGCL)	Ruby	CTG	495	594	810	810	810	810
Scancem	Scancem	Dhaka	-	270	675	675	675	675
Holcim (United)	Holcim	Dhaka	-	180	360	360	360	360
Holcim (Hyundai)	Holcim	Dhaka	333	450	630	630	630	630
Cemex	Cemex	Dhaka	-	189	450	900	900	900
<b>Installed Capacity - Foreign Grinders (A category)</b>			<b>828</b>	<b>1,683</b>	<b>2,925</b>	<b>3,375</b>	<b>3,375</b>	<b>3,375</b>

In the above table it shows that the international cement companies will utilize about 90% of their capacity for the production purpose. So they will be very near to the expected capacity and they will grab more market share in the future.

**TABLE 3.17: International Medium Term Grinders actual supply 2000 to 2005**  
(‘000 Ton)

International Medium Term Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Seven Circle	Seven Ring	Dhaka	-	225	450	900	900	900
Bengal Tiger (Taiheiyo)	Taiheiyo	Dhaka	-	-	81	162	162	162
Emirates Cement ETS Escon		Dhaka	-	-	135	450	450	450
<b>Installed Capacity - Foreign Grinders (B category)</b>			<b>-</b>	<b>225</b>	<b>666</b>	<b>1,512</b>	<b>1,512</b>	<b>1,512</b>

The medium term international companies will also use about 80% to 90% of their production capacity. And they could compete with the international companies in the future.

**TABLE 3.18: Local Medium Term Grinders actual supply 2000 to 2005**

(‘000 Ton)

Local Medium Term Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Meghna Cement	King	Mongla	455	560	560	560	560	560
Mongla Cement	Elephant	Mongla	273	273	273	273	273	273
Shah Cement	Shah Cement	Dhaka	-	-	315	630	630	630
Mir Akhter		Dhaka	-	-	126	126	126	126
S Alam	Minar	CTG	-	126	252	252	252	252
Confidence	Lion	CTG	336	336	336	336	336	336
Diamond Cement		CTG	147	294	294	294	294	294
<b>Installed Capacity – Local Grinders</b>			<b>1,211</b>	<b>1,589</b>	<b>2,156</b>	<b>2,471</b>	<b>2,471</b>	<b>2,471</b>

The local medium term cement companies can not use more than 70% of their capacity, so they normally have less production capacity and for the less utilization they will loose more market share. As a result they will face more competition from the foreign companies.

**TABLE 3.19: Local Short Term Grinders actual supply 2000 to 2005 (‘000 Ton)**

Local Short Term Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Niloy Cement	Queen, Fish	Noapara	140	140	140	140	140	140
Ahad Cement		Noapara	126	126	126	126	126	126
Noapara Cement		Noapara	-	126	126	126	126	126
Saiham (Ashugong) Cement		Mongla	-	126	126	126	126	126
Anowar Cement		Mongla	-	126	126	126	126	126
MTC (Modina) Cement	Tiger	Dhaka	126	126	126	126	126	126
Eastern Cement	Seven Horse	Dhaka	-	126	126	126	126	126
Mollah Cement	Crown	Dhaka	-	126	126	126	126	126
Akiz Cement		Dhaka	-	126	126	126	126	126
Aramit Cement		CTG	147	147	147	147	147	147
Royal Cement		CTG	-	126	126	126	126	126
National Cement			-	126	126	126	126	126
<b>Installed Capacity – Local Grinders</b>			<b>539</b>	<b>924</b>	<b>1,295</b>	<b>1,547</b>	<b>1,547</b>	<b>1,547</b>

The same scenario is for the local short-term companies. They will use 60% to 70% utilization of their production capacity and their production amount will go down, which will put them in big problems. They could lose their entire market share and could be sold to large foreign companies.

**TABLE 3.20: Local Short Term Inefficient Grinders actual supply 2000 to 2005**  
(‘000 Ton)

Local Short Term Inefficient Grinders	Brand Name	Region	2000	2001	2002	2003	2004	2005
Doel Cement		Rajshahi	56	80	80	80	80	80
Al Haj Cement		Rajshahi	14	80	80	80	80	80
Sirajgong Cement		Rajshahi	14	80	80	80	80	80
North Bengal Cement		Rajshahi	14	80	80	80	80	80
Mondol Cement		Rajshahi	14	80	80	80	80	80
Upon Cement		Rajshahi	14	80	80	80	80	80
A R Cement		Noapara	14	80	80	80	80	80
Modern Cement		Dhaka	14	80	80	80	80	80
Uttara Cement			21	80	80	80	80	80
Rowshan Cement			21	80	80	80	80	80
Salam Cement			11	80	80	80	80	80
Rocket			11	80	80	80	80	80
Haq Cement			7	80	80	80	80	80
Padma Cement			-	80	80	80	80	80
Nur Cement			-	80	80	80	80	80
Ever Golden Cement			-	80	80	80	80	80
Ehsari Cement			-	80	80	80	80	80
Yakub All Cement			-	80	80	80	80	80
Khulna Cement			-	80	80	80	80	80
Karim Cement			-	80	80	80	80	80
<b>Installed Capacity – Local Grinders</b>			<b>224</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>80</b>

The scenarios of the inefficient cement companies are worst than any other categories of cement companies. The inefficient cement companies are in big problem in the near future, most of the companies can be out of business in the coming five years.

**TABLE 3.21: Basic Cement Plant actual supply 2000 to 2005** ('000 Ton)

Basic Cement Plant	Brand Name	Region	2000	2001	2002	2003	2004	2005
Chattak Cement		Sylhet	160	160	160	160	160	160
Ayenpur Cement		Sylhet	40	40	40	40	40	40
Lafare Surma		Sylhet	-	-	-	-	270	1,080
<b>Installed Capacity – Basic Cement Plant</b>			<b>243</b>	<b>243</b>	<b>243</b>	<b>243</b>	<b>513</b>	<b>1,323</b>

The three basic plants will be using their capacity in different rate. Such as Chattak will use 70% of its capacity in the future production process where Ayenpur may use 70% to 80% of its capacity. In the other side Lafarge Surma may use 90% of its utilization capacity in its production process.

## 2.4 GAP BETWEEN DEMAND AND SUPPLY OF CEMENT

The estimated Gap between demand and supply of cement is shown below:

**TABLE 3.22: Comparison of Demand and Estimated production capacity**

(‘000 Ton)

	2000	2001	2002	2003	2004	2005
<b>Bangladesh's Total Cement Production Capacity</b>	4,010	6,320	9,650	11,900	12,200	13,100
<b>Installed Capacity Utilization rate</b>	60%	65%	65%	65%	70%	70%
<b>Production ~ 60-70% of the Installed capacity</b>	2,406	4,180	6,273	7,735	8,540	9,170
<b>Demand @10 growth rate</b>	5,300	5,830	6,413	7,054	7,760	8,536
<b>Surplus/ Deficit</b>	2,894	1,722	141	(681)	(780)	(634)



**TABLE 3.23: Comparison of Demand and Actual supply of production capacity**  
 ('000 Ton)

	2000	2001	2002	2003	2004	2005
<b>Bangladesh's Total Cement Production Capacity</b>	3,983	6,293	9,623	11,873	12,143	12,953
<b>Installed Capacity Utilization rate</b>	60%	65%	65%	65%	70%	70%
<b>Production ~ 60-70% of the Installed capacity</b>	2,390	4,090	6,255	7,717	8,500	9,067
<b>Demand @10 growth rate</b>	5,300	5,830	6,413	7,054	7,760	8,536
<b>Surplus/ Deficit</b>	1,317	(463)	(3,210)	(4,819)	(4,383)	(4,417)

In the above two tables it shows that the difference of demand and supply of real capacity and the estimated production capacity. In the first table it shows that in 2003 the cement industry will face deficit compared to estimated supply. Which shows mere cement production in our country to meet the excess demand. In the other table it shows that the deficit of cement will be more in the comparison to the actual supply chain. The demand will exceed the supply from the year 2001, which is making opportunities for more cement companies.

## 2.5 NEW OPERATORS

Bangladesh, with its growth potential, have not escaped the attention of professional cement operators, as there is a great need for more clinker grinder capacity over the next 10 years.

Local companies file several clinker grinder projects with the Board of Investments ("BOI"), some of them will most certainly not materialise. There are projects to erect grinding plants in the vicinity of Dhaka but they appear to suffer from difficult clinker supply logistics. The proposed capacities also seem low. Several international companies are seriously contemplating projects. Furthermore most of the existing grinders have plans to increase their capacity.



A number of expansions will be completed within the next 2-3 years increasing substantially the local production. Companies taking part in this are Confidence Cement and Chittagong Cement Clinker and Grinding Company, amongst others. New companies are Cemex Bangladesh Ltd. formed in March 1998 and CEMCOR Ltd., a Joint Venture between Holderbank together with a local partner.

One interesting point to note is that some of the importers of bagged cement are behind proposed clinker grinder projects filed with the BOI.

Recently TPI Polene Public Company Ltd from Thailand announced that they, in the near future, would enter the Bangladeshi market with bagged cement from Thailand. Brand name will be “Buffalo Head”. According to wholesalers there is also cement from Siam Cement coming to Bangladesh in the near future under the brand names “Siam” and “Elephant”.

The local Islam Group, together with Lafarge, has set up a joint venture. They have for some years been working on a cement project of 1,200,000 tons capacity based on limestone from India. It is unlikely that any other new integrated cement plants, except for the Lafarge project, will materialise over the next 5-10 years since the limestone has to be imported.

Since the Bangladesh authorities are giving tax/ duties deductions to clinker imports as opposed to cement imports, it is likely that even more advantageous terms are/will be given to integrated cement plants similar to the one presently being planned/ implemented by Lafarge. Consequently integrated cement plants will be highly competitive. However, since these plants will have to be installed in the north of the country, near available limestone resources additional transport costs to the Dhaka region must be calculated. Also the growing demand for cement in Bangladesh would result in a situation where both integrated cement plants and grinding mills based on imported clinker will be required. Moreover, it will need infinite supply of limestone from India to justify more and more integrated plants. Since Bangladesh lacks in the

availability of the key ingredient, it is expected to thrive on clinker grinding plants.

The following table gives projection of supply from current operators and expected new operators, which gives indication of total domestic production of cement.

Even though most of the new proposals have been submitted to the BOI, as mentioned above, a lot of the projects will not materialise due to weakness of the sponsors, project conceptualisation and financial disability of those projects. Therefore, an implementation probability has been assumed for each year up to 2005, which is tabulated below, along with the projected implemented capacity:

**TABLE 3.24: CAI assumption based on the status of various projects towards implementation, market information** (‘000 Ton)

	2000	2001	2002	2003	2004	2005
<b>Projected Installed Capacity (as per plan)</b>	5,210	9,970	12,870	12,870	12,870	12,870
<b>Implementation Probability</b>	85%	65%	60%	60%	60%	60%
<b>Assumed Installed Capacity</b>	4,429	6,481	7,722	7,722	7,722	7,722

Market trend shows that plants do not operate at full capacity of the plant due to lack of efficiency in plant operations, lack of adequate power supply, use of obsolete equipment and lack of technical and managerial expertise. Most of existing local producers will increase their capacity by the end of this year. It would take some time for the additional capacity to produce at optimum level. So we are considering a low capacity utilisation for over all production of 1999. As more established and reputable international cement manufactures are expected to start operation from 2001, the over all capacity utilisation of the industry will improve. The following table accounts for such loss in total production capacity:

**TABLE 3.25: CAI assumption based on historical data** (‘000 Ton)

	2000	2001	2002	2003	2004	2005
<b>Production Factor</b>	53%	55%	58%	60%	63%	65%
<b>Production</b>	2,325	3,564	4,440	4,633	4,826	5,019

## 2.6 CONSUMPTION

According to statistics, the commercial construction sector grows by some 12% pa, and is increasing. The inflation is about 6.0% pa. The net growth in the population is about 2.2 % pa. Market for cement is growing fast. It has been found that in a low-income country, consumption of cement grows at approximately 1.5% per unit of GDP growth. The Bangladeshi Government has set a target of achieving 7% GDP growth pa and as such it would translate to a 10.5% growth rate of cement consumption.

The following table shows how the consumption is expected to increase in the coming future:

**TABLE 3.26: The per capita consumption of cement in the trend of 2000 to 2005** (‘000 Ton)

Year	2000	2001	2002	2003	2004	2005
<b>Consumption (1,000 MT)</b>	5,300	5,830	6,413	7,054	7,760	8,536
<b>Population (million)</b>	135	137	140	142	145	145
<b>Consumption/capita (kg)</b>	39	42	46	50	54	58

Source: Estimated consumption per capita. Source: Bangladesh Bank Annual Report, Bangladesh Economic Survey.

Although there are many indicators showing that there will be a very high growth in the demand for cement, it has been chosen to be on the conservative side by using a



growth factor of 6% up to 2005.

## 2.7 MARKET SHARE

The Bangladeshi market is growing fast. With the advent of new entrants into the market and current players increasing their capacity, gaining market share is no longer a function of simply producing the product locally, even though currently the local producers are able to sell their product at a premium. The projected demand until 2005 surpasses the projection for local production and the deficit has to be met through imports. To meet the projected potential consumption, the amount that has to be imported is tabulated below:

**TABLE 3.27: Forecasted import amount of cement for 2000 to 2005**

(‘000 Ton)

Year	2000	2001	2002	2003	2004	2005
Import	2,057	1,081	484	586	706	845

The above table shows the amount of future import amount, where it is clearly shows that the amount of imported cement will decreased year by year. The total cement market will demand on the produce cement in our country.

Thus, in light of total consumption and local production, some projections regarding market share up to year 2005 has been calculated for Lafarge, Scancem and Holcim, which will be denoted as **MNC** is tabulated below:

**TABLE 3.28: The data of MNC's compare to total industry**

Year	2000	2001	2002	2003	2004	2005
<b>MNC's expected sales volume (1,000 MT)</b>	920	1,660	2,750	2,750	3,050	3,950
<b>Consumption in Bangladesh (1,000 MT)</b>	5,300	5,830	6,413	7,054	7,760	8,536
<b>MNC's market share Bangladesh (%)</b>	17%	28%	42%	38%	39%	46%
<b>Consumption in Dhaka region (1,000 MT)</b>	1,884	1,997	2,117	2,244	2,379	2,522
<b>MNC's market share Dhaka region (%)</b>	26%	29%	35%	39%	40%	45%

Source: Calculation by CAI analysis department

In the above table it shows that the MNC will be dominated the future cement market in our country. The MNC will have more market share than any other cement companies. The MNC will take more market share by acquisition or doing merger with other local cement companies. As an example Scancem bought Chittagong Cement Clinkers company.

## **2.8 ADVANTAGE OF MNC**

In the future prospect of the cement industry in our country the MNC's will be standing in better position than any other cement companies. The MNC's will get stronger by merging or acquiring other small local cement companies. The MNC's will have other competitive advantage over the local companies such as:

### **1. Chines made machinery**

In our country all the local cement companies use the machinery made in China. This machinery normally cost one fourth of the real establishment cost. So the machinery do not give the proper service to the companies. Also the machines can be used in it full capacity, normally 60% to 70% are utilized inn the production process. The lives of the machine are not very long lasting. In the other side the MNC will use the latest machinery in the morden world for the production of cement. They can use 85% to 90% of the machine's capacity in the production process, so they can produce more than any other companies.

### **2. Dependency over the local power supply**

The cement production is continues process and it takes no stop power supply to run the process. In our country most of the cement companies use the local power supply. So in the time of power failure the cement companies make some loses, because it takes some time to start the process of the production. The MNC have their own power plant, which will supply the electricity all the time so there will not be any break in the production process.

### **3. Lack of Coordination**

The cement industry has a production process, which is combination of different activities. Such as the transportation of raw materials, the production process, the transportation facilities of finish goods and many other activities. With out proper coordination it is not possible to have good production. The local companies are not very much concern about the coordination problem, they are more concern about the short-term profit. But the MNC are very much concern about the quality and about the coordination processes.



The studies outlined above provide an indication of the market potential of locally produced cement. The market study undertaken by MNC is most comprehensive and up-to-date. It shows the current market potential of cement in the Project's target markets, which is in Dhaka and nearby regions, is some 1.6 to 2.7 million ton per year from 1998 to 2005. With MNC production capacity, the companies has the potential of gaining up to 40% of market share in the entire cement industry inclusive of imports, and up to 50% in its target markets. However, these market shares have been projected based on the assumption that all of MNC produce will be sold without any remaining inventory.

## **SECTION FOUR**

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### **FINDINGS AND RECOMMENDATIONS**





## 4.0 FINDINGS AND RECOMMENDATIONS

This section is divided into two chapters. Chapter one is about the findings related to CAI, and, then, adds recommendations to overcome the drawbacks of the organization. The chapter two mainly focuses on the project part of the report. In this chapter the problems related to the future cement industries are identified and in the recommendation part there are some suggestions for CAI about their future investment policy related to cement industries. The findings and the recommendations in details are as follows:

### CHAPTER 1: FINDINGS AND RECOMMENDATIONS FOR CAI

#### 1.1 FINDINGS OF CAI ORGANIZATION

1. Credit Agricole Indosuez management follows positive leadership approach is comparable with the theory “Y” of leadership style, which enables both the staff and employees of the organization to attain both individual and organizational goals in an effective, efficient and enthusiastic manner. The observation finds that almost all the employees of CAI are happy the way they are treated by the management and so they put their best and carryout the responsibility in a manner to produce excellent result for the company.
2. The “delegation of authority’ approach of the management of CAI enables young executives to take effective responsibilities and contribute ideas in management’s decision making process, which shows that “delegation” can really improve employees’ wisdom and efficiency.
3. The observation did not reveal any irregularity in customer service or any dispute with any customer or with any other stakeholder, such as govt. agencies, other banks, insurance companies’ etc.



4. Even though CAI possesses a group of efficient and self-motivated employees, it still operates in this country in a limited area. It only focuses on “Corporate Banking” activities, unlike both Corporate and Retail Banking activities performed by Standard Chartered, ANZ Grindlays, HSBC and other domestic banks.
  
5. CAI is a risk averse enterprise in their business approach. The key reason for adopting such approach is due to the economic disaster in the far-eastern region, which led many banks and financial institutions to close their business.



## 1.2 RECOMMENDATIONS FOR CAI, BANGLADESH

After analyzing the over all activities and the key strengths, weaknesses, opportunities and threats, the following recommendations have been made to uplift its performance in future:

1. The bank must not deviate from its present leadership approach and human resource management philosophy since it has proved its success up to a great extent so far.
2. CAI management must keep its clients and stakeholders well served just the way it has been serving for last twenty years in Bangladesh.
3. Realizing the customer-bank relationship, a new study should be conducted to determine the feasibility to open new branch offices of CAI in Bangladesh.
4. CAI should open-up Retail Banking system in future to decrease its cost of fund.

## **CHAPTER 2: FINDINGS AND RECOMMENDATIONS FOR CAI FOR THE INVESTMENT DECISION IN THE CEMENT INDUSTRIES IN BANGLADESH**

### **2.1 FINDINGS ON THE CEMENT INDUSTRY ANALYSIS**

1. The cement industries were not in very good position for the last few decades. The industries started going up from the early 90's. Rapid growth in the real state business, development of the roads and highways, construction of bridges, expansion of oil and gas sector and also for other reasons cement industries have become one of the leading industrial sector in our country.
2. For the last few years many cement companies started operation in our country. There were large international companies, medium international companies, large local companies, small local companies and basic cement plant. There are near about fifty large and small cement companies operating in our country.
3. The demand of cement in our country has increased day by day for the last few years. In respect to the demand the supply of cement was not enough to cover the needs. As a result the consumer has to depend on the imported cement and the quality of the cement was not up to expectation.
4. Government has increased the tax and duty of the imported cement to protect the local cement companies. As a result, the consumer now can get fresh cement from the local cement companies.
5. The future market of cement industry in our country shows an upward positive trend. The growth rate of the demand for the coming five years is about 10% annually. For the growth of demand some well-known international cement companies are coming to our country.



6. Acquisition and merger is becoming a trend in the future cement industries. The large international companies will make acquisition of some local small companies, because those small companies cannot compete in the future for the quality and due to competitive price.
  
7. The last finding from the study shows that the large international companies (MNC), which are establishing plant in our country, will dominate the future market. As a result future consumer will get more fresh and quality cement in a very attractive price.



## **2.2 SUGGESTIONS TO CAI FOR FINANCING IN CEMENT INDUSTRY IN BANGLADESH**

From the analysis of the cement industries in the context of our country, it shows good prospect for the investment sector. From the analysis the following recommendations can be made for investment in the future cement industries.

1. From the analysis it shows that the future key players in the cement industry sector is the MNC, which will be dominating large market share. In the investment policy of CAI, it should focus on the MNC for the future investment. The MNC will be more effective in the business than any other companies.
2. The CAI can make long-term investment in the cement industry, especially for the companies under MNC. The companies are in the initial stage and they have long-term plans for the future. So long term investment can make good return for CAI.
3. In present time CAI can give short-term loan to meet the working capital of these companies. Also they are building new plants in our country and they need huge source of capital. CAI can use this opportunity to grab the customer and make them loyal to the bank.
4. CAI can also act as consultant of those companies about their future financial policies.
5. For diversification, CAI can also invest in large local cement companies, which are working competitively better in the cement industries sector.



## CONCLUSION

The report is mainly based on the analysis of cement industries and the investment patterns of CAI in the future perspective. The analysis of the report tried to show the future of the cement industry, the key players of the industry and in which category CAI should invest in the cement industry. Based on the analysis, findings and recommendations it shows that the MNC are the future market leader of the cement industry. It means Scancem, Lafarge and Holcim are companies to be the target for CAI.

The bank should take necessary policy to grab the market of cement industry to be profitable in the coming future. It is not possible to identify the future in perfect position, but the trend of the cement industry is positive and has opportunity to gain some profit. The analysis tried to include other factors related to cement industry, but still there are some factors that could not be included. These factors are the economic situation of the country, the political movement, and also could be the natural disaster.

At the end it is clear that considering all the factors the future cement industry is going to be one of the top industrial sector of our country. As Corporate bank CAI should quickly move to this sector and make investment policy to grab the leading players to make more profit. Also the policies should be different and attractive than other corporate banks, so the clients fill more confident to maintain relationship with CAI.



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