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An Evaluation of Merchant Banking Division of Saudi-Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO)



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INTERNSHIP REPORT

An Evaluation of Merchant Banking Division of Saudi – Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO)

Prepared for:

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October 24, 2001

April 13, 2001

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Sub: Submission of Internship Report.

Dear Sir,

Here is my Internship report that fulfills partial requirement of my Bachelor of Business Administration Degree. It is very helpful as a student of Business Administration to undergo the Internship Program.

I completed my Internship Program in **Saudi – Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO)**. I learned lot from them. I evaluate their Merchant Banking Division by analyzing some statistical meters.

I tried to accommodate your invaluable comments suggestions in my report. In this connection, should you need any further clarification, please call on me.

Thank you very much my honorable teacher for your kind immense cooperation without which this Internship Report would not has been done. I take every opportunity to express my gratitude of indebtedness to you.

Thank you,

Sincerely yours,



Mohammad Tareq Jamir
1997 – 2 – 10 – 024

Acknowledgement

My list of gratitude is pretty long. I would like to unfold it with the name of my Internship supervisor at East West University, Dr. Tanbir Ahmed Chowdhury, without whose priceless and inestimable supports I would not have been able to produce this report.

I was privileged my enjoying assistance and guidance of the whole organization teams of Saudi – Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO). I would also like to thank Mr. Kutubuddin, Managing Director of SABINCO who gave me the opportunity to perform an Internship there.

I am also indebted to following individuals in SABINCO and fell obligation acknowledge as follows: Mr. Amirul Alam (Company Secretary), Mr. G. M. Salehuddin Ahmed (Manager Investment), Mr. Enamul Haque Khandaker (Manager Administration), Mr. A. K. M. Sanwar Hossain Khan (Manager Monitoring), Mr. Mozammel Haque (Investment Officer) who was appointed my advisor there, Mr. Samimuddin (Share Assistant), Mr. Asheque Bin Khaled (Share Assistant), Mr. Shahidul Alam (Share Assistant), and lastly Mr. Redwan (Share Assistant).

I am also very grateful to some of my friends from the university and also from outside the university who provide me the mental and the physical support to prepare this report. They are, Mr. Tabrez Bin Mahbub, Mr. Taif-ul-Islam, Mr. Hasibul Islam Khan, Mr. Abdullah Al Mamun, Mr. Mir Amzad Hossain, Mr. Mustafizur Rahman Chowdhury and Mr. Rakib Haider.

The final gratitude is for my parents and my family members who gave me the opportunity to study in the East West University.

Preface

An Internship, being a competitive as well as essential program is the last platform of BBA Degree completion. It is a twelve weeks attachment with an organization program then the submission of an Internship Report will fulfill the requirement of BBA. It familiarizes students to the working environment of the real world. It gives students the best opportunity to improve their interpersonal and managerial skill and also they can implement their theoretical enlightenment to the real life situation. After graduating, students also get access to networking opportunity when they are brought to light of the distinct business sphere and taking a leading edge in the job market. At last it can be says that it polishes their strength and weakness.

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CHAPTER ONE

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1.1 Background Of The Study

Bangladesh with a population of 127 million on an area of 144000 sq. km. is one of the most densely populated countries in the world. As a low-income country it faces strong challenges to improve its socio-economic condition on sustainable basis. During last one and half decade Bangladesh has made significant progress in different aspects. Political environment improved with the governance of the country by the democratically elected governments. Major reform programs have been initiated to improve the economic performance and business environment.

Bangladesh Capital Market plays a vital role to improve the economic performance and business environment for the last few years. Analyzing the equity market in Bangladesh appears to be relevant in view of on-going structural adjustment, financial liberalization and economic deregulation policy adopted by the government of Bangladesh in the last one and a half decade. These reforms aim at macro economic stabilization in a free market economy, where stock market reform and development can play a vital role. In order to support the stock market activity towards growing liberal policy for investment and as a vehicle for effective privatization, understanding prevailing stock price behavior, and the requirements of making securities market effective ones in terms of liquidity and competitiveness is a must. The Merchant Banks in Bangladesh try to improve the activities of the Capital Market by liquidation and competitiveness of the capital market.

Though the Bangladesh capital market is vulnerable to contingencies owing to its relatively new entity, tiny size, market shallowness and the weaknesses/ or inadequacy of market controlling authorities and instruments and investors are still market-shy and diffident after the 1996 market crash the merchant banks and other financial institutions try to improve the Capital Market by providing different facilities.



So, for the development of the Bangladesh Capital Market it is essential to develop the activities and facilities those merchant banks and other financial institutions are providing.

1.2 Origin Of The Report

This report is the output of three months Internship program that I underwent at Saudi – Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited. It also fulfills the partial requirement of an internship program that a business graduate must undergo in order to qualify for degree in East West University.

1.3 Objectives Of The Report

The report consists of four objectives. The objectives of this report are:

- To identify the present historical background of Saudi – Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited specifically the Merchant Banking Division and Investment banking Division.
- To appraise the performance of Merchant Banking Division of Saudi – Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited.
- To identify the overvalued and undervalued securities in the portfolio of Saudi – Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited.
- To suggest an optimum portfolio for Saudi – Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited.



1.4 Scope

The scope of this report is to analyze the operation of Merchant Banking Division and to identify the overvalued and undervalued securities of the portfolio of Saudi – Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited.

1.5. Time Period Of The Study

For the fulfillment of the desired purpose following working days are spent to various department:

Department / Section	Working days
Investment Banking Division	10 days
Monitoring Department	5 days
Accounts Department	5 Days
Merchant Banking Division	45 days

1.6. Sources Of Data Collection

The inputs are collected from two sources:

1.6.1 Primary Sources

- Discussion with company officers

- Personal observation

- Desk work in different sections/ departments.



1.6.2 Secondary Sources

- Annual report of the Company.
- Consultation of related books and publications
- Different statement from stores
- File balance sheet and various documents
- Daily Securities price and Market Index of the Capital Market (Dhaka Stock Exchange).

1.6.3 Types of information

- Primary information was obtained from discussion with the head of the department and officers, who are directly involved.

1.6.4 Data processing

Collected information is processed by the use of computer system. Detailed analysis, working variables and working definitions is embodied in the report.

1.7 Limitations

The possible obstacles that could likely hinder the information of the study have been illustrated in the following:

- Time constrained could be a major drawback in this study.
- Another limitation of this report is they are not disclosing some data and information for obvious reason, which could be very much useful.



- Many of the officers were hesitant to respond because they thought that the study was being prepared for the particular department.
- SABINCO has different competitors for both Investment Banking and Merchant Banking. That is why it was very difficult to collect all types of information from those companies to compare the performance of SABINCO with them.
- It was quite difficult to evaluate all the securities that SABINCO contains on their whole portfolio for that I had to take 10 major listed securities, which are on the DSE 20 list for the last three months of my internship.
- One of the big limitations I faced that SABINCO itself is a Benchmark Company as it is the present market leader in the Merchant Banking. Moreover, its closest competitors are IDLC Bangladesh Ltd. And GSP Finance Company with approximately 12.54 percent market share where as SABINCO's market share is about 65 percent. So, it was a constraint for me because I could not take the Benchmark as an alternative to evaluate the performance of SABINCO's Merchant Banking. This has made my report little narrow and provide me little scope to develop a unique report.

1.8 Report Preview

The report “ An appraisal of the Merchant Banking Division of SABINCO” is organized by dividing the whole report into six major chapters. Those are stated below:

Chapter One: *Introduction*: Briefs the reader about the report.

Chapter Two: *An Overview of SABINCO*: This part includes the background & structure, services those provided by the Institution and so on.



Chapter Three: *An Evaluation of Merchant Banking of SABINCO:* Specifies working experience while doing internship in different departments mainly on the Merchant Banking Division of SABINCO.

Chapter Four: *Statistical Analysis of the Merchant Banking Division of SABINCO:* Deals with the detailed information regarding portfolio of SABINCO and try to identify the undervalued and overvalued securities from that portfolio.

Chapter Five: *Problems of SABINCO:* Identify the problems while working in SABINCO for both the point of view of SABINCO and myself.

Chapter Six: *Suggestions for the Development of SABINCO:* Recommend on the basis of undervalued and overvalued securities or the portfolio of the SABINCO and also the problems that faced by SABINCO.

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CHAPTER TWO





2.1 Saudi-Bangladesh Industrial And Agricultural Investment Company Limited Background

Deep rooted in rich historical ties and to foster the brotherly relation and economic co-operation between the two countries, Saudi-Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO) was promoted by the Government of the Kingdom of Saudi-Arabia and the Government of the People's Republic of Bangladesh by a protocol signed between the two governments In order to make investments in the industrial and agro—based industries in Bangladesh. The enterprise was incorporated as a private limited company under the Bangladesh Companies Act, 1913 on 24 June 1984 with its headquarters in Dhaka and with a subscribed capital of US\$ 60 million. The company commenced operation in 1986, Subsequently, the Government of Bangladesh through its Central Bank granted permission to SABINCO to operate as a non-banking financial institution.

Since inception SABINCO being a joint effort of the Government of Saudi Arabia and Bangladesh towards socio-economic development through industrialization of Bangladesh has endeavored to carry out its mandate as a financing institution catering to the growing demands from a growing private sector in a vast and dynamic country. SABINCO today is not merely a joint-venture development financing institution but a symbol of socio-economic bondage and manifestation of the culture and religious heritage of the two brotherly countries.

Founder: Government of the Kingdom of Saudi-Arabia and the Government of the People's Republic of Bangladesh.

Inception: June 24, 1984 and commenced its operation in 1986.



Head Office: 102, kazi Nazrul Islam Avenue, Kawran Bazar, Dhaka,
Bangladesh.

Partnership Criteria: Fifty Percent Partnership for both the countries.

2.2 SABINCO Mission Statement

“As a distinctive development financier we believe development is outcome of vision and courage.”

2.3 SABINCO Vision

“Innovation and adaptation of improved technology are two critical means for establishing a leadership in terms of economic activities, export and employment.”

2.4 Objectives Of The Company

- To make investments In the industrial and agro-based industrial fields and utility service industries in Bangladesh on commercial basis and marketing of their products, goods and services in Bangladesh and abroad.
- To involve in the formation, promotion, management operation and financing industrial, agro-based industrial enterprises and utility service industries in Bangladesh.
- To establish such subsidiary companies, involve or participate in the equity capital or loan capital or both of other existing companies or corporations in collaboration with local entrepreneurs which may help to promote economic



co-operation and advancement of industries, agro-based industries and utility service industries.

2.5 Functions Of The Company

In order to achieve the objectives, SABINCO has embarked on the following functions

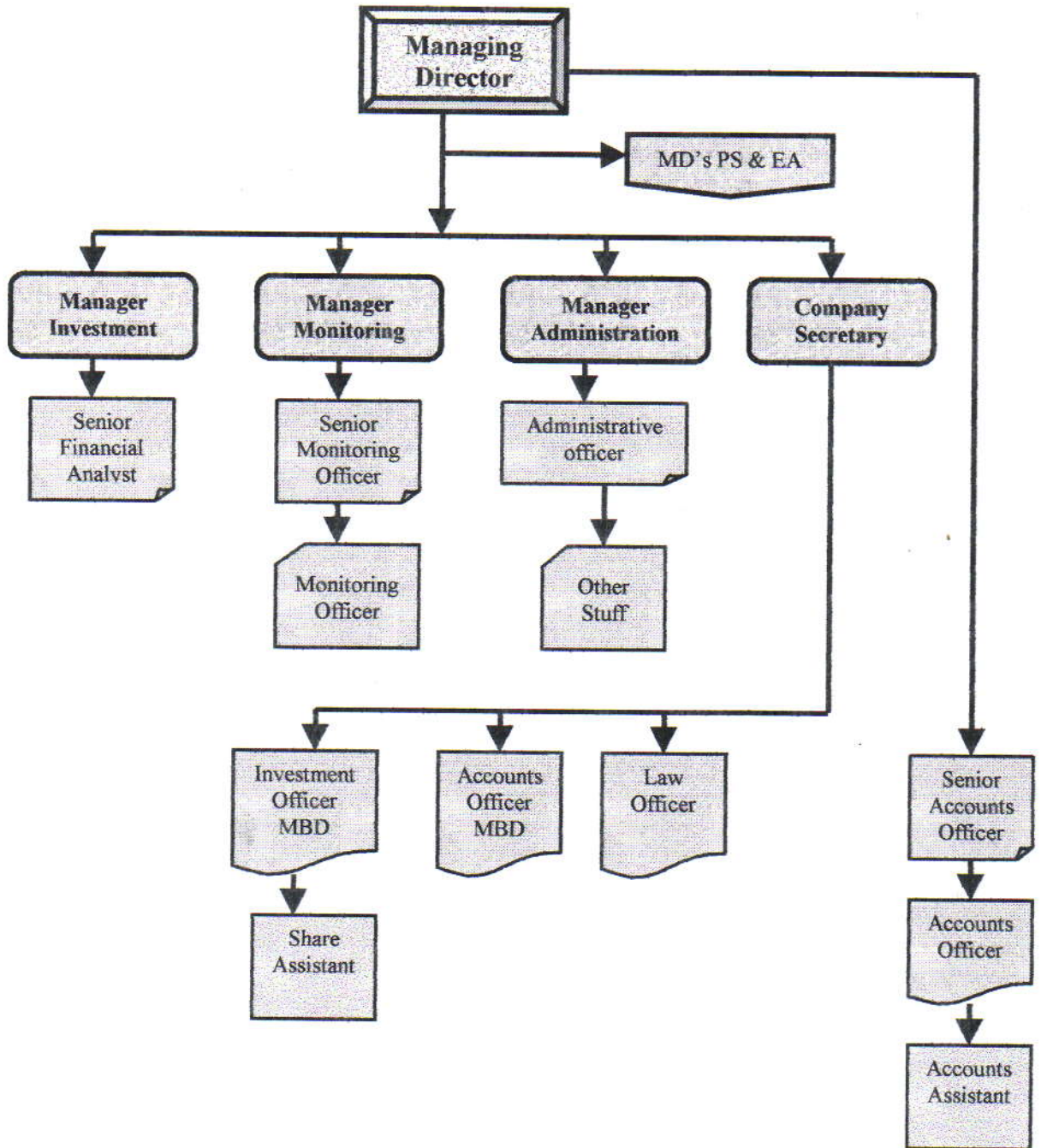
- (i) Owning and managing industrial and agro-based industrial enterprises.
- (ii) Providing equity finance.
- (iii) Extending medium and long-term loans.
- (iv) Providing instalment sale financing and lease financing.
- (v) Underwriting public issue of shares.
- (vi) Undertaking transactions in the secondary capital market.

2.6 Board Of Directors

At present Board of Directors consists of six members excluding Managing Director. They are, Chairman Dr. Abdulaziz M. Al-Turki, from the Kingdom of Saudi Arabia and Deputy Chairman Mr. Ghulam Rahman, Secretary to The Chief Advisor's Office, from the Government of Bangladesh. Other three directors are from both the countries. Mr. Abdula E. Al-Ayadhi & Mr. Hamad S. Al-Najashi from the Government of Saudi Arabia and Mr. Md. Badiuzzaman from the Government of Bangladesh. The present Managing Director is Mr. Md. Kutubuddin.



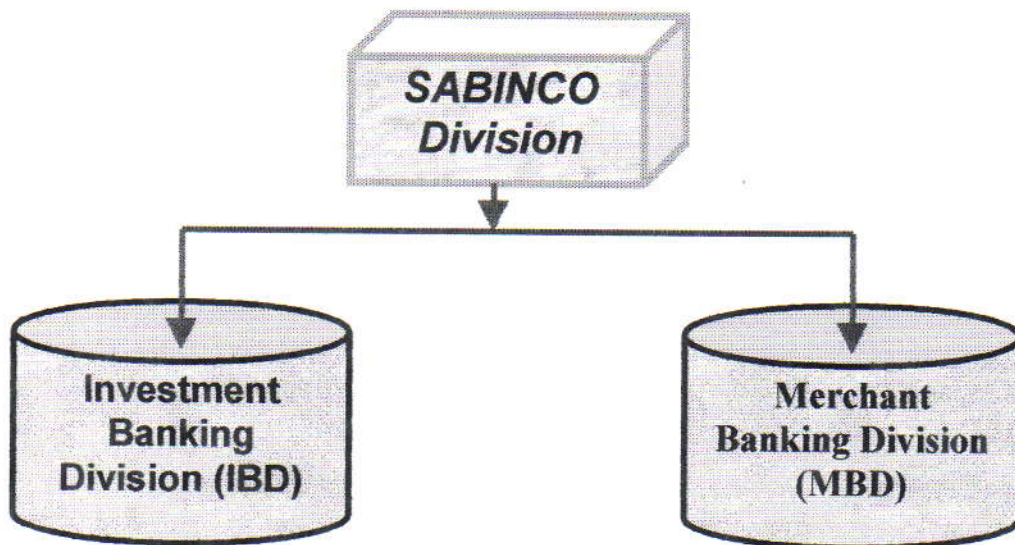
2.7 Organizational Chart Of SABINCO





2.8 Departments or the Divisions of SABINCO

As a financial institution SABINCO's work is mainly divided in to two divisions. One is the project financing that is done by the division named Investment Banking Division (IBD) and the other one is the Securities Market or Capital Market Financing named Merchant Banking Division (MBD). Each department has its own human resources and try to run the company with optimal performance.



2.9 Investment Banking Division of SABINCO

Though my report's main concentration is on the Merchant Banking Division of SABINCO for this I divide a whole chapter for the Merchant Banking of SABINCO and now first I would like to describe the work of the Investment Banking Division of SABINCO. Because most of the financing of SABINCO is done by the Investment Banking Division. Mainly the project financing is done in the Investment banking Division of SABINCO. IBD also invest lots of money in the Capital Market of Bangladesh along with the Merchant Banking Division. The



work of the IBD is described bellow.

2.10 SABINCO's Portfolio of Project Financing

SABINCO has so far promoted 44 projects in eleven industrial sub-sectors. Its current investment portfolio includes cement, textiles, chemicals and fisheries etc. A brief on each sub-sector in respect of SABINCO's involvement and future outlook has been presented below:

2.10.1 Textile Sector

Bangladesh's Textile sector is one of the oldest and also one of the significant contributors to the economy. In the Textile Sector, SABINCO promoted seven projects in Medium and Large industries category for producing cotton/ polyester yarn, terry towel, knit fabrics. Textile Sector accounts for around 22% of total portfolio. IFC (World Bank) and AFIC (Singapore) are co-financing projects with SABINCO. Total developed yarn manufacturing capacity of SABINCO projects is around 65,000 nos. of spindles. Product range of yarn varies from low priced yarn used locally to super fine quality yarn used by local export oriented garment industries. Total installed capacity of the knit fabric manufacturing units is 200 MT/annum. Quality knit fabric-manufacturing units have been recently set up. One SABINCO project also produces Terry Towels, which are exported directly to Europe and USA. Out of the 7 projects promoted in this sector, 3 projects are export oriented. So far 4 projects commenced operation. The projects in this sector have created employment of 3,268 persons. With expanding local and export demands for different types of yarn and fabrics there is scope for further investment in this sector.



2.10.2 Chemical Sector

The Chemical industries sector within the country is relatively moderate in size with limited range of products. Mainly due to high initial capital investment requirement and tough competition from High quality products from imported sources, Chemical industries sector expand -over the years as anticipated to contribute towards balanced industrial development. SABINCO has promoted 5 projects in this sector for producing PVC pipe, Oxygen Gas, PVC Sheet and Film and Draw Texturised Yarn (DTY) The rated production capacity of the DTY project is 3,300 MT/annum, which was first of its kind in the Country. The project was established on turnkey basis with sophisticated Japanese machinery and technology from “Torey” of Japan. This project, promoted jointly, symbolizes meaningful co-operation between four international financial institutions namely ADB, ARC, FMO and SABINCO in respect of playing a collective development role within Bangladesh economy. Out of 5 projects promoted in this sector, 4 projects commenced operation. SABINCO projects in this sector have created direct employment opportunity of about 720 persons. With the major policy changes at national level, in future, demand for new investment for producing various chemical products for industrial and agricultural use may be significant.

2.10.3 Cement And Ceramic Sector

Investment in cement industry in Bangladesh was restricted till late 80's. With the opening up of the sector for investment to the private sector, it got much interest from the investors. In 1991, SABINCO promoted the first private sector cement industry with a rated capacity of 180,000 MT per annum. Subsequently 2 more projects have been promoted with a total production capacity of 480,000 MT per annum. One basic limitation of local cement industry is that most of the units are based on imported clinker. The fluctuation in availability and prices of



clinker in the international market hampers the production of local cement factories. With the creation of captive demand for clinker, high capital based project for producing clinker from locally/regionally available limestone may be explored by private sector in near future. In the ceramic sub-sector SABINCO co-financed an export oriented ceramic store ware industry, products of which are being exported to Europe, Japan and USA markets. In the cement and ceramic sub sector, 4 projects went into operation. About 1,100 employments were created.

2.10.4 Fish Culture Sector

SABINCO had identified shrimp/fish sector at the beginning of its commencement of operation in 1986 as one of the potential but unexplored agro-based sectors. Taking into account the fact that this sector is based on local raw material resources, end products are export oriented and scope of employment generation is substantial, SABINCO came forward to promote integrated fish/shrimp culture projects. During the period from 1987 to 1993, SABINCO promoted 9 semi-intensive shrimp culture projects and 2 sweet water fish farming projects. Though the shrimp culture projects made technological breakthrough in respect of higher productivity but in the recent years these projects suffered from a kind of viral disease. SABINCO is endeavoring to introduce new varieties of fish in these projects towards overcoming current crisis. SABINCO introduced integrated commercial farming of Pangas, a local popular fish and also working for introduction of modern farming technology in production of other locally available popular fish like Climbing perch, Sea bass etc. SABINCO's initiative in development of fish sector has received wide acknowledgements both at national and farm levels. SABINCO received several awards from the government in appreciation.



2.10.5 Fisheries And Livestock Support Sector

In the fisheries and livestock support sector, SABINCO promoted 3 projects for producing poultry/fish feed and shrimp feed and seed. These projects have been considered essential for accelerated development of shrimps, fisheries and poultry sector as feed and seed constitute major component in the cycle of integrated aquaculture and poultry production. SABINCO is proud to promote first balanced and scientific fish feed manufacturing industry of the country in 1987 having rated capacity of 6,000 MT per annum. This project ushered modern fish farming in the country by introducing application of formulated feed for fish cultivation for higher productivity. The poultry feed producing unit has a developed capacity of 12,000 MT per annum and is able to supply good quality palletized poultry feed made by applying German Technology. Local poultry industry in the recent years has attracted much interest from the private sector entrepreneurs due to quick return on investment. But due to non-availability of quality inputs like palletized feed and essential medicine, growth of local poultry industry suffered. It is expected that SABINCO promoted projects as mentioned above will influence in identification and promotion of more quality inputs producing industry in Livestock and poultry sectors.

2.10.6 Engineering Sector

Engineering sector of the country, both in size and performance is moderate. Other than a few large industries in the public sector, most of the industries in the private sector are small and medium scale enterprises with small range of products. SABINCO promoted 2 medium sized projects in this sector, 1 for producing fluorescent tube light, another for producing steel ingots/billets. The annual developed capacity of the tube light-manufacturing unit is 1.3 million pieces. Due to high cost of technology requirement of high initial capital



investment, moreover competition from the established foreign brands, the growth and performance of the engineering sector in the country was not satisfactory. With recent policy changes and good outlook for expansion in the construction and communication sector, significant new investment in the engineering sector is expected in future,

2.10.7 Tannery and Leather Sector

The main strength of local leather industry is availability of quality rawhide from local sources. With the encouragement from the Government the leather industry is transforming from traditional technology to modern technology for achieving increased value addition. SABINCO in this sector has promoted three projects for producing Crust Leather and different kinds of Bags for export market.

SABINCO's experience in this sector suggests that management sincerity and adaptation of appropriate production and marketing skills are critical factors for making leather based industrial unit successful. These factors have been instrumental in justifying considerable number of joint venture initiatives in establishing new projects for producing export oriented leather and leather products.

2.10.8 Dairy And Food Sector

Bangladesh having an agro-based economy and vast population being dependent on agriculture, dairy and food industry are considered very important sector. Though basic inputs and facilities are available within the country for production of required milk and dairy products, due to some bottlenecks, Bangladesh still imports substantial quantity of milk and dairy products. SABINCO promoted a dairy project back in 1988 for production of fresh Milk and other dairy products as well as juice drinks. Recently initiative has been taken to



regenerate this project with the objective to encourage local production and create employment opportunities. Bangladesh produces large quantity of different types of seasonal fruits. For processing of fruits and production of fruits-based drinks, SABINCO promoted another project in 1991. This project introduces new products in the local market and achieved a significant market share within a short time. With expanding population, increasing trend of disposable income and changes in lifestyle of urban population, local market of fruits-based drinks is expanding fast and is expected to attract both local and foreign investment.

2.10.9 Edible Oil Sector

The edible oil sector was until recently restricted to public sector. In the mid 80's This sector was opened to the private sector and thereafter within a span of 7/8 years large number of factories were set up and total developed production capacity exceeded the overall national requirement. SABINCO promoted 2 projects for processing of imported crude palm and soybean oil. Both these projects are in operation and created employment for about 222 persons.

2.10.10 Pulp And Paper Sector

SABINCO co-financed 2 paper manufacturing units both of which are large scale industries. The projects are to produce different types of industrial grade Paper mainly for local market. Out of 2 projects, 1 already commenced commercial operation while the other one is expected to commence production shortly. These 2 projects are to create employment for 395 persons and constitute about 5% of SABINCO'S total investment.



2.10.11 Toys Sector

In the developed countries the market of quality stuffed toys industry is essentially a labor intensive one. Though Bangladesh made success in entering European and USA markets for ready-made garment, stuffed toy market remained untapped. Taking this fact into account, SABINCO promoted a pilot stuffed toys project to explore new avenue in export market with a view to contribute in expanding the narrow export base of the country. The project had to face two challenges when it commenced its operation. Firstly, the European and USA importers have found the cost of production of such product in China much competitive. Secondly, the tiny size of local stuffed toys industry failed to attract European and USA buyers to import from Bangladesh. With recent trend of increasing wages and cost of production in the labor intensive industries in China, it is expected that within a couple of years locally produced stuffed toys may, to some extent, enjoy comparative advantage over China and gain access to export markets.

2.10.12 Sky Camping

SABINCO is promoting another new business joint venture with an Indonesian company. The name of this business is SABINCO Sky Camping. Today sky camping becomes too much popular in the world. The main purpose of this new business is to produce the products that are needed for sky camping. Sky camping means to climb mountains. For this it requires tent, sleeping bag, carrying bag, flask, pot, etc. The business is on the process. SABINCO and the Indonesian company are willing to buy a land to build an industry where these products would be made.



2.10.13 SABINCO's Sectoral Exposure and Few Aspects of Its Investment Portfolio

Sector total	No. Of approved project	Nature of product	No. Of export oriented total unit	No. Of projects Commenced operation	Direct employment by the projects	% Of the total portfolio
Textile Industries	7	Cotton/polyester yarn, Terry/knit fabrics	3	4	3268	20.9
Chemical and pharmaceuticals	5	PVC pipe, Oxygen gas, PVC sheet/ Film floor mat/ draw	1	4	719	19.7
Glass, cement, and ceramic	5	Cement, ceramic stoneware, Refractory Bricks	1	4	947	20.0
Fish/shrimp culture	12	Catfish, shrimp and other sweet water fish	10	12	599	13.5
Tannery and Leather products	3	Crust Leather, hand bags	3	3	1335	4.3
Edible oil	2	Palm & soybean oil	—	2	222	3.3
Fisheries & poultry Supporting Industries	3	Poultry Feed, shrimp & Fish feed, Hatchery	—	3	184	6.8
Engineering Industries	2	Tube light, Mild Steel ingots/ billets	—	2	250	2.5
Dairy/Fruit Industries	2	Milk, Dairy Products processed fruit juice drink	1	2	423	4.5
Pulp and paper	2	Industrial Grade Paper	—	—	395	4.5
Toys industries	1	Stuffed toys	1	1	150	0.3
Total	44		20	37	8492	100



2.11 Management Of Enterprise

SABINCO has been envisaged in the Bilateral Agreement and In the Memorandum of Association primarily as a Promoting and Management Company. At the commencement, however, it has emphasized its financing operation but now it is going back to its original role of ownership and management. By now SABINCO is managing six enterprises either having cent percent ownership or having majority ownership in the enterprises. It may be mentioned here that all these enterprises have been taken over by SABINCO due to failure of management on the part of private sector promoters. In keeping with its objective, SABINCO would like to emphasize its role in promotion and managing industrial and agro—based industrial projects in future.

2.12 SABINCO's Collaboration With Other Financial Institutions

SBINCO has been continuously putting importance in co-operation with international and national financial institutions as a prime strategy contributing towards performing its development role. Such collaboration is crucial to take advantage of sharing of diverse knowledge and exposures in addressing the needs of the different sectors of the economy and the borrowers. SABINCO promoted several projects in which International Finance Corporation (IFC), Asian Development Bank (ADB), Asian Finance and Investment Corporation Ltd. (AFIC), Netherlands Development Industrial Bank (FMO), also extended finance. Moreover a number of projects have been promoted in collaboration with local financing institutions. Islamic Development Bank (IDB) has already extended a line of finance to SABINCO and extension of a second line for development for micro—enterprise is in the offing. Further co—operation with International and National Financial Institutions in future can be foreseen based on sharing insight and experience gained by SABINCO over the years in local conditions.

CHAPTER THREE

**A n E v a l u a t i o n o f
M e r c h a n t B a n k i n g D i v i s i o n
o f S A B I N O C C O**





3.1 Merchant Bank

One of the best regulations of the commercial capitalism is to industrialized through capital market. Among the components wanted to flush over industry and capitalism one is Merchant Bank. Merchant Bank was invented in Britain. But in the richest country in commercial capitalism the United States of America has vastly spread out this merchant-banking concept. There it is known as 'Investment Bank'.

In the circumstance of Bangladesh Merchant Bank, it is new. The meaning of 'Merchant Bank' is the bank, which takes the responsibility of other companies securities and makes same holders in one group to give advice in the financial matters. Many people thought that the Merchant Banks would invest a huge amount of money and the share market will again rise. The fact is that to make a healthy market by investing in share market is not the work of Merchant Bank. They only can help in this matter. These institutions provide advice to improve and make the market steady.

Although in our country merchant bank is new concept but before freedom in British India their activities were found. It has a great influence in the development of commercial field of the country. The Bengal Railway was started in the country by the help of merchant bank. Merchant bank helped to develop the capital of the company. That is why railway is spread out in this country.

3.2 The Basic Activities of Merchant Bank

- **Financial and Corporate Advisory:** In this activity merchant banks try to settle the structure of capital for investment, advise about the investment and managing the amount of investment.
- **Management Advisory:** The merchant banks try to advise about the management of any company and also work as the managing agents.



- **Issue Management Advisory:** In the issue management advisory merchant banks try to advise the companies to issue securities in the capital market and also for the right issue and underwrite the securities of those companies or others.
- **Private Placement of Investment:** Advise any company to sell their securities to other companies instead of selling at market.
- **Advise About the Corporate Restructuring:** This activity includes the capital and the structure of the loan renovation.
- **Private Capital Raising:** Merchant banks try to help the private companies to raise their capital and afterwards to encourage those companies to issue IPO.
- **Advise About the Mergers and Joint Venture:** This activity includes unification of many companies, take over and float a new company by joint venture.
- **Intermediary Arrangements of Project Financing:** Work as the intermediary of several companies who are trying to finance different projects.

3.3 Broad Activities of Merchant Banks

- **Issue Management:** To bring a new IPO in the market is the work of Issue Management. It is one of the main activities of merchant banks. They who complete this work are called Issue Manager. As a helping and non-banking organization merchant bank does an important role to bring new IPO in the market. Firstly, they examine the techno economic feasibility, which includes, genuinity of the project,



authenticity of the management and study of the audit report of those companies who are interested to issue IPO.

Merchant banks on behalf of the companies submit the information about those companies to the Securities and Exchange Commission and also try to present and supply other important documents and judicial papers.

As the issue manager merchant banks also try to collect the underwriter of securities, select the perfect time to issue the IPO, amount of issue, also the market lot of the issue.

After these, issue manager judicially has to perform some extra duties like, analyzing the truthfulness and feasibility of the work and provide a certificate called Duty Legend Certificate. By this certificate issue manager tries to prove that the prospectus of those companies who are interested to issue IPO is true. For this reason if there any inconsistency occur after the certificate is issued issue manager is responsible and has to pay penalty. While doing these works merchant banks get the commission on the basis of the amount of issue.

- **Issue Underwriting:** Another main work of merchant bank is to underwrite issues as an intermediate institute to make steady the improvement of capital markets; usually the selling of issued share is called issue underwriting. The institution, which takes the responsibility to sell the share of issue, is called underwriter. This institute helps the issue manager in many ways. At present it is one of the main work of the merchant bank. But also stockbrokers are taking this responsibility.

Beside, if the shares of the issue are under subscribed then the underwriter buys that. For this they are getting extra commission. In foreign countries the under writer institute buys the entire new issued



shares. In this case when all the shares are sold or subscribed they are getting a certain commission. On the other hand, if the shares are over-subscribed or not sold then they are getting extra commission. But the underwriter has the regulation to buy all shares. But in our country in case of the underwriter this regulation is not properly carried out. There are many examples when under-subscribed shares are not bought by the underwriter there are some regulation by which underwriter has to buy or create the opportunity to sell the shares.

Merchant bank is also an underwriter. In foreign countries issue manager and underwriter is same man or institute. There by regulation all the shares of new IPO are bought by the underwriter. There is no difference between underwriter and issue manager. But in our country they are different. Here there are many underwriters who are not working as issue managers. Now stockbroker and member are doing issue under writing. Stockbroker can't do such things away.

As per our country's rules without Merchant bank no person or institution will do issue manager or underwriter. But still now the stockbrokers are also doing this work. But after certain time only the Merchant bank will do this work when Securities and Exchange Commission will take a strict decision about this.

- **Portfolio Management:** The last broad activity of merchant bank is portfolio management. When a person invests his investment in different places it is called the work of portfolio management, not only investment on share market or capital market is described by it. This investment may be in bank, bond, saving certificate, securities market, and buy gold or in land. So portfolio management helps to make the investment of a person or institution profitable.



Basically in securities market portfolio management means to identify in which company the customer will invest and get profit or get a loss.

As the portfolio management Merchant banks advise client or customer about the following:

- 1) They try to aware the investors about the risk of an investment.
- 2) They are encouraging investors for investment in any particular company through investigation.
- 3) By technical description portfolio management tells the investors the way to get more profit or loss of their investment.
- 4) Portfolio management advises the investors to diversify their portfolio to minimize their risk of having loss.
- 5) Portfolio management tells the investors about the way manner of the market by sensitivity analysis.

It is the matter of great regret that there are few experienced people in many of the merchant banks. Some experienced persons cannot perform due to right environment and lack of principals. In the work of portfolio management the cause why the merchant banks are not acting accurately in the capital market. Besides the small investors are not well informed about the merchant bank.

The mental preparations of the investors are not prepared to get advise by giving fees. For this in maximum cases they are buying their choseable shares and keeping with them. But a share purchased by ICB is kept within ICB. But the customer's shares that were deposited in ICB in 1996 market upcoming they could not sell them. These



institutions just buy the shares of there that order to buy shares to help in the manipulation. But many complained that although giving order to sell the shares they could not sell them. So simple investors thinks that without having the shares in their hand they could not sell it in the proper time.

There is another thing necessary for portfolio management is margin trading. Margin trading is to give loan to investors to buy securities from the capital market. The banks are not giving any loan to individual investors to invest in the capital market. Merchant banks are also not providing this facility of margin trading. Because there is a problem that merchant banks have not sufficient capital to provide this facility. Besides, they are not showing their interest because the banks are giving loan on greater interest rate and not have margin trading.

3.4 SABINCO's Merchant Banking Division

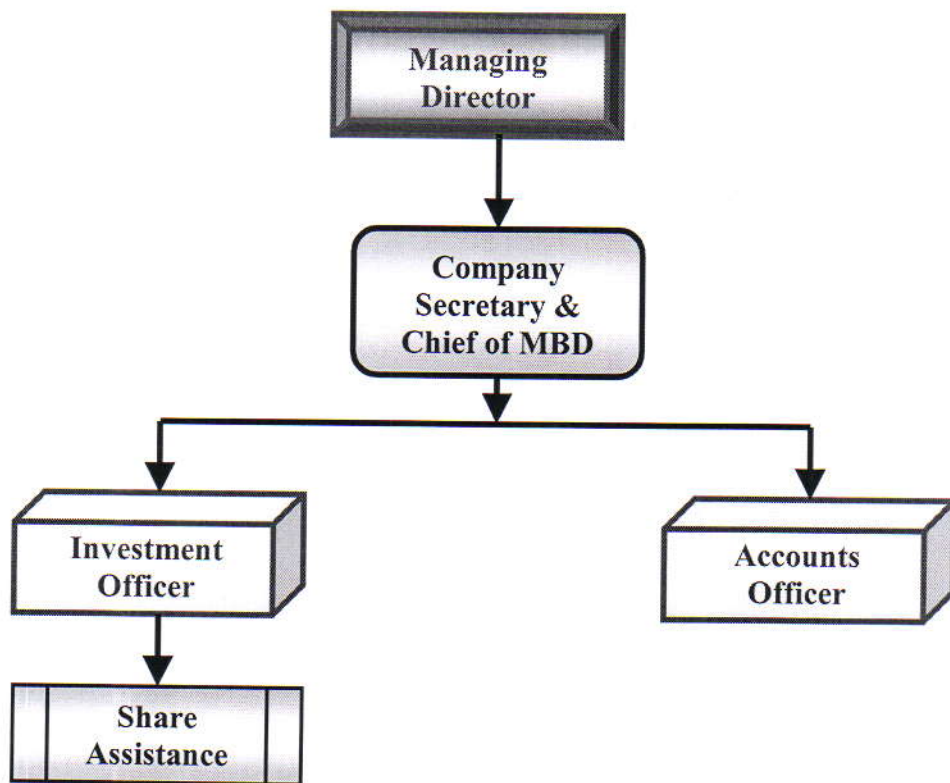
In chapter two I have described that SABINCO has two divisions, one is Investment Banking Division and another one is the Merchant Banking Division, and I vastly described the work of the Investment Banking Division. In this chapter I have tried mainly to describe the Merchant Banking of the SABINCO because I have done my internship basically in the Merchant Banking Division of SABINCO.

3.5 Vision of Merchant Banking Division of SABINCO

During the internship period I always try to find out the vision of the Merchant Banking Division of SABINCO. The vision that I found from asking the management of the Merchant Banking Division of SABINCO is to invest more money in the capital market of Bangladesh and make the market steady comparing to the world.



3.6 Organogram of Merchant Banking Division of SABINCO



3.7 Merchant Banking Activities of SABINCO

As the merchant banking activities SABINCO also perform the following

1. SABINCO tries to analyze the companies activities those are willing to issue IPO.
2. SABINCO also underwrites the securities.
3. SABINCO advises to their potential customers to invest in less risky securities.



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4. For the above activity SABINCO has to perform some risk return analysis of securities of those companies. This analysis mainly depend on the past data and future prediction.

5. SABINCO also perform the work of managing agent. Mainly they have performed this activity for the Dynamic Textile Limited. In the Dynamic Textile Limited they have their own management. Now the Dynamic Textile Limited is a company that Owned by SABINCO itself.



**3.8 Capital of Merchant Banks in Bangladesh and SABINCO's Position
(October, 2000)**

No.	Company Name	Capital (Crore Tk.)	Percentage
1	AAA Consultant & Financial Advisory	0.25	0.10%
2	Bangladesh Mutual Securities Ltd.	2	0.84%
3	Vanik Bangladesh Ltd.	10	4.18%
4	Bay-Leasing & Investment Ltd.	2.5	1.05%
5	Benco Trans World (BD) Ltd.	2	0.84%
6	Capital Market Services Ltd.	2	0.84%
7	EC Securities Ltd.	2	0.84%
8	Equity Valuation Research & Distribution Ltd.	0.25	0.10%
9	Fidelity Assets & Securities	2.06	0.86%
10	Grameen Securities Management Ltd.	3	1.25%
11	GSP Finance Company Ltd.	15	6.27%
12	IDLC of Bangladesh	15	6.27%
13	Mercantile Securities Ltd.	2	0.84%
14	Millennium Investment Management Company Ltd.	2.55	1.07%
15	Paramount Securities & Distribution Ltd.	0.25	0.10%
16	Pongia Partners (BD) Ltd.	0.25	0.10%
17	Prime Finance & Investment Ltd.	2.58	1.08%
18	Prime Securities & Financial Services Ltd.	0.25	0.10%
19	Raspit Securities & Management Ltd.	2	0.84%
20	Saudi-Bangladesh Industrial & Agricultural Investment Company Ltd. (SABINCO)	155.66	65.08%
21	Setcom Securities & Management Ltd.	1.03	0.43%
22	Shadesh Investment Management Ltd.	2.5	1.05%
23	South Asia Capital Ltd.	2.04	0.85%
24	Uttara Finance & Investment	12	5.02%
Total Investment		239.17	100.00%

Source: Share Research, October 2000.



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Now the investment of SABINCO in capital market is above tk.50 Crore and still this company is investing the highest amount in the capital market of Bangladesh. They are also willing to invest more in the capital market to fulfill their vision.



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3.9 SABINCO's Portfolio in Securities

Company's Name	No. of shares	% of Shares	NAV	EPS	DPS	P/E (%)
A C I Ltd.	315,000	6.56%	31.92	3.97	3.5	13.6
AMCL-Pran	27,750	0.58%	278.39	42.2	20	9.32
Apex Footwear	40,960	0.85%	212.04	12	10	19.63
B G I C	4,320	0.09%	239.74	15.4	20	14.61
Bangladesh Lamps	6,575	0.14%	242.6	9.2	15	50.27
Beximco Denims	122,600	2.55%	325	46.8	10	3.38
Beximco Infusion	84,870	1.77%	319	50.01	15	5.28
Beximco Knitting	122,440	2.55%	225	31.86	10	4.06
Beximco Pharmaceuticals	1,651,530	34.40%	78.06	8.74	2	6.38
Beximco Synthetic.	162,880	3.39%	169.98	26.7	12.5	5.84
Beximco Textile	201,800	4.20%	342	28.74	10	4.11
BOC BD Ltd.	31,250	0.65%	53.68	9.6	4	10.57
CMC-Kamal	13,900	0.29%	100.67	8.08	7.5	12.5
Confidence Cement	13,960	0.29%	317.9	78	30	6.24
Dynamic Textile	624,540	13.01%	104.83	-7.1	0	-9.4
Fu Wang Ceramic	69,620	1.45%	140.46	37.73	5.00 5:1(B)	4.59
Fu Wang Foods	68,500	1.43%	10.68	0.39		24.62
Imam Button	10,200	0.21%	100.83	7.51	8	15.58
Maq paper	4,000	0.08%				
Meghna Vegetable	1,850	0.04%	160.18	26.23	0	-1.64
Mita Textile	82,800	1.72%	116.29	5.87	5	9.88
Mithun Knitting	36,920	0.77%	132.91	16.92	12	6.49
Monno Ceramic	132	0.00%	242.41	24.1	25	13.71
National Polymer	170	0.00%	296.55	7.56	10	28.57
NCC Bank	14,350	0.30%	159.8	25.84	20	8.76
Olympic Industry	34	0.00%	208.03	-2.52	0	-55.75
Orion Infusion	30,640	0.64%	-49.19	-46.74	0	-0.7
Padma Textile	129,820	2.70%	317.67	54.3	15	4.12
Rangpur Foundry	635,000	13.23%	12.11	1.39	1.5	16.33
Saiham Textile	5,000	0.10%	127.52	17.3	10	5
Tallu Spinning	157,540	3.28%	330.51	9.23	5	9.64
Tamijuddin	129,390	2.70%	228.24	-0.36	0	-107.64
Total	4,800,341	100.00%				



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The above data states SABINCO's full portfolio of investment in capital market in Bangladesh mainly in Dhaka Stock Exchange. The blue colored companies are in the DSE – 20 of Dhaka Stock Exchange and I have done my project part on the basis of these ten companies.

CHAPTER FOUR

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4.1 Introduction

The concept of merchant banking is very new for the Bangladesh. Some of the financial institution in Bangladesh performed the merchant banking activities after the liberation war. But their activities were not named as the merchant banking activities. They were working like other financial institutions did. But now the activities of merchant banking are separate from the other financial institutions activities. It is the separate entity of some financial institutions like banks and investment companies in Bangladesh. I have done my internship in an investment company's merchant banking division. Because of the newness of the merchant bank in Bangladesh I faced lots of problems what to do in the internship project part. I went through every activities of the Merchant Banking Division of SABINCO and try to provide the following for my project part of the internship report.

- 1. Balance Sheet and Income Statement Analysis from the year 1996 to 2000 of SABINCO. Mainly the Common Size and Percentage Change Analysis.***
- 2. Ratio Analysis.***
- 3. Find out the Undervalued and Overvalued Shares of selected ten companies from the portfolio of SABINCO.***
- 4. An empirical study of diversification effect on risk of securities that hold by SABINCO and traded in Dhaka Stock Exchange.***
- 5. Problems Identified from the Point of View of SABINCO.***
- 6. Problems Identified While Working in SABINCO.***



4.1.1. Balance Sheet and Income Statement Analysis from the year 1996 to 2000 of SABINCO.

4.1.1.1 Introduction

Balance Sheet and Income Statement of any company shows the financial over view of that company. Balance Sheet and Income Statement can be analyzed through Common Size Analysis, Percentage change analysis and lastly Ratio Analysis. These analysis are performed because to get the financial stability of the company.

4.1.1.2. Methodology

I have taken the Balance Sheet and Income Statement information from the five years annual report from 1996 to 2000. Then I have given those to the format that are stated in our books. Then I have done the Common Size and Percentage Change analysis to provide the financial stability.

Common size statement is measurement of different ratios in the Balance sheet and in the Income Statement. In the Balance sheet Total Asset is considered as 100% and then it is divided in the other accounts of the Asset section. Same process is followed in the Liabilities section. The income statement is divided respect to Total Income. Common size statement shows the percentage of different account respected to total asset for the Balance Sheet and total income for the Income Statement.

Percentage Change analysis mainly describe the growth from the previous year. So, Percentage Change analysis shows how the firm is improving. To analyze the Percentage Change I first deduct the previous year's data from the present year data and then divide that by previous year data and lastly multiple with the 100 to give the form of percentage.



4.1.1.3 Common Size and Percentage Change Analysis of Balance Sheet of SABINCO

	Balance Sheet at 31 December from 1996 to 2000					Common Size Analysis of Balance Sheet at 31 December					Percentage Change Analysis of Balance Sheet at 31 December				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000	1997	1998	1999	2000	
	Tk.(000)	Tk.(000)	Tk.(000)	Tk.(000)	Tk.(000)	%	%	%	%	%	%	%	%	%	
Assets															
Total Current Assets	1,405,149	1,239,416	1,624,814	1,670,690	1,745,590	41.00%	33.24%	39.27%	38.22%	38.52%	-11.79%	31.10%	2.82%	4.48%	
Investment	623,921	649,854	676,943	750,940	1,008,951	18.21%	17.43%	16.36%	17.18%	22.26%	4.16%	4.17%	10.93%	34.36%	
Long Term Loan	1,365,368	1,802,502	1,796,406	1,910,100	1,737,036	39.84%	48.35%	43.41%	43.70%	38.33%	32.02%	-0.34%	6.33%	-9.06%	
Fixed Assets	32,581	36,499	39,639	39,160	40,380	0.95%	0.98%	0.96%	0.90%	0.89%	12.03%	8.60%	-1.21%	3.12%	
Total Assets	3,427,019	3,728,271	4,137,802	4,370,890	4,531,957	100%	100%	100%	100%	100%	8.79%	10.98%	5.63%	3.68%	
Liabilities & Shareholders Equity															
Total Current Liabilities	216,806	210,049	254,621	334,866	320,684	6.33%	5.63%	6.15%	7.66%	7.08%	-3.12%	21.22%	31.52%	-4.24%	
Long Term Liabilities	135,714	121,429	121,429	121,429	142,857	3.96%	3.26%	2.93%	2.78%	3.15%	-10.53%	0.00%	0.00%	17.65%	
Total Liabilities	352,520	331,478	376,050	456,295	463,541	10.60%	8.89%	9.09%	10.44%	10.23%	-5.97%	13.45%	21.34%	1.59%	
Share Holders Equity	2,974,499	3,396,793	3,761,752	3,914,595	4,068,416	89.40%	91.11%	90.91%	89.56%	89.77%	14.20%	10.74%	4.06%	3.93%	
Total Liabilities & Equity	3,327,019	3,728,271	4,137,802	4,370,890	4,531,957	100.00%	100.00%	100.00%	100.00%	100.00%	12.06%	10.98%	5.63%	3.68%	



4.1.1.4 Common Size and Percentage Change Analysis of Income Statement of SABINCO

Saudi-Bangladesh Industrial and Agricultural Investment Company (SABINCO) Limited		Profit & Loss Account for the Year Ended 31 December 1996 - 2000					Common Size Analysis of Profit & Loss Account					Percentage Change Analysis of Profit & Loss Account				
		1996 Tk.(000)	1997 Tk.(000)	1998 Tk.(000)	1999 Tk.(000)	2000 Tk.(000)	1996 %	1997 %	1998 %	1999 %	2000 %	1997 %	1998 %	1999 %	2000 %	
Total Revenue	214,109	132,645	186,660	232,642	194,529	100.00%	100.00%	100.00%	100.00%	100.00%	-38.05%	40.72%	24.63%	-16.38%		
Operating Expenses	33,645	39,143	45,555	56,636	59,202	15.71%	29.51%	24.41%	24.34%	30.43%	16.34%	16.38%	24.32%	4.53%		
Income from Operation	180,464	93,502	141,106	176,006	135,327	84.29%	70.49%	75.60%	75.66%	69.57%	-48.19%	50.91%	24.73%	-23.11%		
Add: Non Operating Income on Bank Deposit	16,365	6,931	32,917	53,899	38,873	7.64%	5.23%	17.63%	23.17%	19.98%	-57.65%	374.92%	63.74%	-27.88%		
Profit/(Loss) on sale of Fixed Assets	202	107	54	(13)	9	0.09%	0.08%	0.03%	-0.01%	0.00%	-47.03%	-49.53%	-124.07%	-169.23%		
Net Earning for the Year	197,032	100,540	174,077	229,891	174,209	92.02%	75.80%	93.26%	98.82%	89.55%	-48.97%	73.14%	32.06%	-24.22%		
Principal Loan Written Off	-	-	-	-	(1,500)	0.00%	0.00%	0.00%	0.00%	-0.77%						
Prior Year Adjustment	-	-	(8,460)	-	(2,996)	0.00%	0.00%	-4.53%	0.00%	-1.54%						
Provision for Tax	(54,556)	(38,392)	(67,261)	(92,569)	(65,984)	-25.48%	-28.94%	-36.03%	-39.79%	-33.92%	-29.63%	75.20%	37.63%	-28.72%		
Net Earning After Tax	142,476	62,148	98,356	137,322	103,729	66.54%	46.85%	52.69%	59.03%	53.32%	-56.38%	58.26%	39.62%	-24.46%		
Retained Earnings from Previous Year				30,006	91,196	0.00%	0.00%	0.00%	12.90%	46.88%				203.93%		
Available for Appropriation	142,476	62,149	98,356	167,329	194,924	66.54%	46.85%	52.69%	71.93%	100.20%	-56.38%	58.26%	70.13%	16.49%		



4.1.1.5 Conclusion

So, by seeing the Balance Sheet and Income Statement Analysis by Common Size Analysis and Percentage Change or Growth analysis from above I can say that SABINCO is a very stable financial institution and they have sufficient amount of money to invest more in the capital market and also in the other sectors for the development of the capital market and also those sectors where Bangladesh can make more money. From the above analysis I can also say that SABINCO is using their resources very effectively and efficiently. Thus they are earning more from year to year. Their Asset base is very strong for supporting the investment decisions. Also loan amount are in very little margin than the Asset portion. They have a very good equity position, which will back the company in their investment process. They had less profit for the last year but their profit for the last few years remain in a constant rate. The overall picture of the company is very much perfect for the investment process.



4.1.2. Ratio Analysis

4.1.2.1 Introduction

In today's business world, owners are virtually non-owners in a way that they do not carry out day-to-day business. Managers only try to proxy owner's role. So in order to reduce costs and to ensure that managers perform in the best interest of the owners, investors/ shareholders like to evaluate their organization in terms of financial health. And they typically employ ratio analysis to assess organization's performance. Of course, there could be other parties who are also interested in evaluating performance of the organization, for example, lenders, tax authority, researchers, etc. In the report I made an attempt to evaluate SABINCO's performance exclusively using ratio analysis.

4.1.2.2 Methodology

The ratios for a financial institution are different from other company. The calculations of those ratios are also different. I have tried to provide more emphasis on the key types of ratios. Those are as follows

a. Profitability Ratio

A group of ratios that shows the combined effect of liquidity, assets management and debt management on operating results called profitability ratio. These ratios indicates the ability of the firm to withstand adverse conditions, which may arise from several sources, such as falling price, rising cost and declining sales.



b. Liquidity Ratio

Liquidity is a pre-requisite for the very survival of a bank. The importance of adequate liquidity in the sense of the ability of a firm to meet its customer demand. These ratios establish relation between cash and other current asset and current liabilities. These ratios also help management's policy in managing liquidity position of the firm. So the ratios help the company to know their liquidity position and also help to meet the liquidity crisis.

c. Risk Ratio

Risk ratios are those ratios, which states about the company's risk. Company's risk mainly depends on their liability. Risk ratios purpose is to provide the information that a company has sufficient assets to overcome from that risk

These ratios are calculated by using the formula that I get from the books. Those formulas and other description are given below.



a. Profitability Ratio

- **Return on Equity**

This ratio indicates the degree to which the firm is able to convert operating income into an after tax income that eventually can be claimed by the shareholder. This is a useful ratio for analyzing the ability of the firm's management to realize an adequate return on the capital invested by the owners of the firm.

The rate of return on equity (ROE) is a good starting point in the analysis of company's financial condition for the following reasons:

- If the ROE is relatively low compared with the other companies, it will tend to decrease the company's access to new capital that may be necessary to expand and maintain a competitive position in the market.
- A low ROE may limit a company's growth because regulations require the assets be a certain number of times equity capital.
- ROE can be broken down into component parts that help to identify trend in the company's performance.

Three parts can measure ROE,

ROE = Profit Margin X Asset Utilization X Equity Multiplier

$$ROE = \frac{\text{Net Income}}{\text{Total Equity Capital}}$$



Return on Equity over the Period

SABINCO	1996	1997	1998	1999	2000
Net Profit Margin	66.54%	46.85%	52.69%	59.03%	53.32%
Total Assets Turnover	6.25%	3.56%	4.51%	5.32%	4.29%
Equity Multiplier (EM)	1.66	1.59	1.55	1.60	1.64
ROE	6.89%	2.65%	3.69%	5.01%	3.76%

Through this analysis we can measure how the profit margin, asset turnover and leverage multiplier combine to determine the rate of return on equity. ROE states about the how much return is earned from the equity of a firm. In fact there is considerable fluctuation from year to year. In 1996 it is shown that the ROE of SABINCO was 6.89%, whereas in the next year it decreased to 2.65%. The main reason for the difference is the Total Asset Turnover and the NPM, because the EM was more or less same for the company. The same scenario occurred in 2000, because the EM is high, but still the ROE of SABINCO went down. On the other hand in 1998, and particularly in 1999, it seemed to be a strong ROE compared to last two years. The reason behind that in that year the net profit margin and asset utilization increased by approximately 7% and 1% respectively. So from the analysis it is found that SABINCO had advantage on their EM portion, but they had little unstable position in their NPM and Total Asset Turnover. So they had high-fluctuated ROE for the last five years.

- **Net Profit Margin**

The profit margin ratio provides information about the ability of management to control expenses, including taxes, given a particular level of operating income.



The formula of profit margin is below,

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Total Revenue}}$$

Net Profit Margin over the Period

Net Profit Margin	1996	1997	1998	1999	2000
SABINCO	66.54%	46.85%	52.69%	59.03%	53.32%

Evaluation of SABINCO's Net Profit Margin

The net profit margin indicates the percentage of net profits in respect to the sales. In above analysis it is found that SABINCO has a very good trend of net profit margin for the last five years. They are constantly becoming stronger in the net profit margin. So they could meet their expenses more effectively. Only they had a shortfall of net profit margin in 1997. They have an average of more than 55% of net profit margin, which is very good in respect of any industry. Only in 1997, it goes down because their net profits shortfall in that year around Tk.62.15 million where in the year 2000 that is Tk.103.73 million.

- **Assets Utilization or Total Assets Turnover**

The assets utilization ratio represents the ability of management to employ assets effectively to generate revenue.

The formula for Assets Utilization is as follows,

$$\text{Assets Utilization} = \frac{\text{Operating Revenue}}{\text{Total Assets}}$$



Total Asset Turnover over the period

Total Assets Turnover	1996	1997	1998	1999	2000
SABINCO	.06	.04	.05	.05	.04

Evaluation of SABINCO's Total asset turnover

The assets utilization ratio of SABINCO is high for the three years, which are 1996; 1998; 1999, as we seen from the above data. That means SABINCO management utilize their assets effectively during these years. On the other hand, the analysis shows that in 1997 and 2000 it goes down. That means the company is not generating a sufficient volume of revenue given its total asset investment. If they want to increase the ratio then their sales should be increased, some assets should be disposed off or a combination of these steps should be taken. But from this analysis we can say that SABINCO has steady asset utilization ratio as they earned more revenue by utilizing their assets.

- **Equity Multiplier**

The ratio shows the amount of asset back by the equity. But as for company, which is highly leveraging firm will have lower EM. The higher value of EM indicates greater risk for a company.

Though Equity Multiplier is not a profitability ratio it is a risk solvency ratio but it helps to find out the ROE. Using of financial leverages is known as the equity multiplier. Equity multiplier can be measured by the following formula,

$$\text{Equity Multiplier} = \frac{\text{Total Assets}}{\text{Total Equity}}$$



Equity Multiplier over the Period

Equity Multiplier	1996	1997	1998	1999	2000
SABINCO	1.66	1.59	1.55	1.60	1.64

Evaluation of SABINCO's Equity Multiplier

Higher equity multiplier is desirable because Equity multiplier states that a company's owners and shareholders investment to their total assets. But the analysis shows that in 1997 and 1998 equity multiplier is little low. That means greater amount of equity it takes from the shareholders to buildup its capital structure. But the graph also reveals that it increases rest of the time. This prevails that SABINCO's management intentionally increased it because to magnify their return.

- **Return on Assets**

Return on assets measure the success of a firm in using asset to generate earning independent of the financing of those assets. This measure therefore separates financing activity from operating and investing activities. ROA is particularly useful is assessing the performance of business segment of firm when as is typical, financing for those segments comes from a central corporate pool of resources. ROA can be interpreted in two ways. First it measures management's ability and efficiency in using the firm's assets to generate profit. Second it reports the total return accruing to all providers of capital. In a sense I can use the term ROA as the realize rate of return that uses data for discrete period shorter than projected life of activity.

ROA can be measured by,

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$



Return on Total Assets over the Period

Return on Total Assets	1996	1997	1998	1999	2000
SABINCO	4.16%	1.67%	2.38%	3.14%	2.29%

Evaluation of SABINCO's Return on Total Assets

The ratio can be calculated by dividing the net income by the total asset. From the above graph I found that SABINCO has no consistent ROA. It shows that the highest ROA of SABINCO is in 2000, it means the SABINCO was in good position in the past time. For the last five years it was between 2 to 4 percent, except in 1997. We know, ROA positively related with profit margin and asset utilization because profit margin times asset utilization is the ROA. From the balance sheet of SABINCO I found that net income decreased in 1997 around Tk.62.15 million. That is why net profit margin also decreased from 66% to 46%. It made a negative impact on ROA in 1998. That means SABINCO management does not used their real and financial resources as well that the company can generate higher returns from that.

b. Liquidity Ratio

• **Current Ratio**

Current Ratio indicates the ability of a company to meet its short-term obligations. Short-term obligations indicate those obligations that are due within a year. Current ratios provide a single indicator of the extent to which assets that are expected to be converted to cash in period roughly corresponding to the maturity of the claims cover the clients.



A higher current ratio may indicate excessive amount of current assets, which is considered to be management's failure to utilize the resources properly. A lower current ratio is an indication that the firm may not be able to pay future bill in time.

Current ratio can be defined as,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Ratio over the period

Current Ratio	1996	1997	1998	1999	2000
SABINCO	6.48	5.90	6.38	4.99	5.44

Evaluation of SABINCO's Current Ratio

In the above analysis it shows that SABINCO have a constant trend of current ratio. From the ratio analysis of SABINCO it is found that from 1996 to 2000 the current ratios are respectively 6.48,5.90,6.38,4.99, and 5.44. The current ratio had a range between 5.00 to 6.00 times, which is satisfactory for any company. SABINCO had highest current ratio in 1996, which is 6.48 times. That means they had the lower liquidity during these periods.

The lowest ratio for the SABINCO is 4.99 in 1999 that means they may face liquidity risk, if any, during the period. On the other way it may be stated that the SABINCO takes more risk to having more liabilities than of their current assets and imposing their assets to long term investment to get long term earnings.



- **Cash Ratio**

The cash ratio shows the cash part in respect of total assets. The ratio can be found by dividing cash by total assets. This ratio states that how much cash are available in respect of total assets to meet in the event of liquidation. Therefore, it is a measure of the firm's ability to pay off short-term obligations.

Cash ratio can be defined as:

$$\text{Cash Ratio} = \frac{\text{Cash}}{\text{Total Asset}}$$

Cash Ratio over the Period

Cash Ratio	1996	1997	1998	1999	2000
SABINCO	19.55%	16.91%	25.13%	24.30%	18.84%

Evaluation of SABINCO's Cash Ratio

Cash ratio refers to the liquidity position of any company. From the cash ratio of SABINCO it was found that they have a strong position in terms of cash. Moreover the ratios are increasing except two-years. That means SABINCO are able to payoff short-term obligation. Approximately their total 20% of the current asset can be converted in to liquid position. But especially in 1997 and 2000 the cash ratio of SABINCO was not so stronger respect of five years. In the other side they also had some strong position in their cash ratio, especially in 1998 they had 25.13%, which is very good respect to the industry.

- **Current Asset Ratio**



This ratio indicates how efficiently the firm is using its current asset to generate revenue. The formula for this ratio is as follows,

$$\text{Current Assets Ratio} = \frac{\text{Current Asset}}{\text{Total Assets}}$$

Current Asset Ratio over the period

Current Assets Ratio	1996	1997	1998	1999	2000
SABINCO	0.41	0.33	0.39	0.38	0.39

Evaluation of SABINCO's Current Asset Ratio

The above analysis shows the utilization of current asset in terms of total asset, so higher the turnover better the firm position. The current asset part of SABINCO respect to the total asset where constantly same for the last five years. It was between 35% to 40% for the last five years. But the above analysis states that current assets ratio is decreasing for the last four years that means they are not using efficiently its current assets to generate revenue.

c. Risk Ratio

- Debt Ratio

A company's debt ratio is provide the information about their total liabilities to their total assets.

$$\text{DebtRatio} = \frac{\text{TotalDebt}}{\text{TotalAssets}}$$

Debt Ratio over the Period



Debt Ratio	1996	1997	1998	1999	2000
SABINCO	10.29%	8.89%	9.09%	10.44%	10.23%

Evaluation of SABINCO's Debt Ratio

The table shows that SABINCO has a good trend of debt ratio for the last five years. So we can say that SABINCO is a well financial leverage company. It was between 8 to 10 percent debt in respect to total asset. It is necessary to mention that long term loan contain only approximately 3% among all the debt, as express that they have a little chance of default. Undoubtedly it's a positive sign for any company.

- **Debt to Equity Ratio**

Debt to equity ratio tries to shows that the company has sufficient amount of owner's equity over their total liabilities.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

Debt to Equity Ratio over the Period

Debt to Equity Ratio	1996	1997	1998	1999	2000
SABINCO	17.04%	14.15%	14.12%	16.66%	16.79%

Evaluation of SABINCO's Debt to Equity Ratio

The above ratio shows debt portion with respect to the shareholder's equity. The debt equity ratio of SABINCO for the last five years are respectively 17.04%, 14.15%, 14.12%, 16.66%, 16.79%. It shows that SABINCO has very



constant trend of ratio for the last five years, their highest debt equity ratio is for the year 1996, which is 17.04%. Debt equity ratio is lower than average for the year 1997 and 1998. With out that other three years have good record of Debt equity ratio.

- **Loan Ratio**

Loan ratio tries to give an overview about the company's total investment and long term loan to total assets. That means how much portion of their total assets are utilizing in investment and long term loan providing.

$$\text{Loan Ratio} = \frac{(\text{Investment} + \text{long Term Loan})}{\text{Total Asset}}$$

Loan Ratio over the Period

Loan Ratio	1996	1997	1998	1999	2000
SABINCO	58.05%	65.78%	59.77%	60.88%	60.59%

Evaluation of SABINCO's loan ratio

The above ratio shows investment and loan portion with respect to the total asset. The loan ratios of SABINCO for the last five years are respectively 58.05%, 65.78%, 59.77%, 60.88%, and 60.59%. It shows that loan ratio has a stable trend for the last five years. Especially in 1997, which was 65.78%, SABINCO has a good record of Loan ratio.



- **Capital Risk**

The above ratio shows net equity portion with respect to the total asset. It shows the percentage of equity in terms of the total asset.

$$\text{Capital Risk} = \frac{\text{Shareholders Equity}}{\text{Total Assets}}$$

Capital Risk over the Period

Capital Risk	1996	1997	1998	1999	2000
SABINCO	60.35%	62.81%	64.38%	62.66%	60.91%

Evaluation of SABINCO's Capital Risk

The above ratio shows net equity portion with respect to the total asset. It shows the percentage of equity in terms of the total asset. The capital risk of SABINCO for the last five years are respectively 60.35%, 62.81%, 64.38%, 62.66%, and 60.91%. That means they have very constant trend of ratio for the last five years. Their highest equity ratio is for the year 1998, which is 64.38%. So, this must be a worrying trend.

4.1.2.3 Conclusion

All the ratios show a good and positive sign of the company. The company has a well develop position almost in the entire sectors. So it will be beneficial for the company to go for investment.



4.1.3. Find out the Undervalued and Overvalued Shares of selected ten companies from the portfolio of SABINCO.

4.1.3.1 Introduction

Merchant banks should analyze the undervalued and overvalued shares from their portfolio and also where they are interested to invest. Because it will give the precise statement by which they can decide which share to purchase and which to sell. As I have done my internship in a merchant bank I also try to find out the undervalued and over valued shares from the ten selected companies of their portfolio. These ten companies are mainly in the DSE – 20 list of Dhaka Stock Exchange. That means these are the blue chip for the Dhaka Stock Exchange. The companies that I have taken for the analysis are as follows

- i. Advance Chemical Industries Limited
- ii. Agricultural Marketing Company Limited
- iii. Bangladesh lamps Limited
- iv. Beximco Infusion Limited
- v. Beximco Pharmaceuticals Limited
- vi. Beximco Synthetic Limited
- vii. British Oxygen Company (Bangladesh) Limited
- viii. Confidence Cement Industry Limited
- ix. Monno Ceramic Industry Limited
- x. Padma Textile Limited

4.1.3.2 Why I have taken these ten companies s

I have taken these ten companies because they are in the DSE – 20 list of Dhaka Stock Exchange and treated as the blue chip stocks. Another reason to choose these companies because of their trading volume is high and



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reliable in the stock market and also these companies are stable company as their financial performance is very much bright. The five years financial performances of these ten companies are given bellow and sources of this information is from their annual reports.

Advance Chemical Industries Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	1.66	3.73	3.26	3.6	3.97
Dividend Per Share (Tk.)	3	3	2.5	3	3.5
Market Value Per Share (Tk.)	171.02	128.15	37.88	26.89	28.23
Price/Earning Ratio (%)	103.02	34.36	11.62	7.47	7.11
Net Sales/Turnover (Tk. In million)	605.26	796.95	963.32	1199.46	1410.62
Profit After Tax (Tk. In million)	12.22	32.85	52.67	58.26	64.13

Agricultural Marketing Company Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	20.7	30.35	39.44	41.33	42.2
Dividend Per Share (Tk.)	15	20	20	20	20
Market Value Per Share (Tk.)	380	1475	390	319	403
Price/Earning Ratio (%)	18.36	48.60	9.89	7.72	9.55
Net Sales/Turnover (Tk. In million)	72.02	173.35	250.85	401.66	503
Profit After Tax (Tk. In million)	6.11	17.81	23.45	25.13	25.63

Bangladesh Lamps Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	103.3	34.8	24.5	9.2	9.11
Dividend Per Share (Tk.)	15	30	20	15	15
Market Value Per Share (Tk.)	7981	1485	638	536	475
Price/Earning Ratio (%)	77.26	42.67	26.04	58.26	52.14
Net Sales/Turnover (Tk. In million)	307.9	324.9	292.4	258.2	256.8
Profit After Tax (Tk. In million)	37.2	25.1	17.7	6.6	6.56

Beximco Infusion Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	38.3	45.8	47.67	47.77	50.01
Dividend Per Share (Tk.)	25	25	10	15	15



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Market Value Per Share (Tk.)	625	453	277	233	295
Price/Earning Ratio (%)	16.32	9.89	5.81	4.88	5.90
Net Sales/Turnover (Tk. In million)	192.81	223	260.32	279.87	325.13
Profit After Tax (Tk. In million)	35.56	50	54	50.09	52.3

Beximco Pharmaceuticals Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	11.87	8.25	8.46	8.74	9
Dividend Per Share (Tk.)	3	3	1.5	2	2
Market Value Per Share (Tk.)	300	80.23	51.83	32.31	57.9
Price/Earning Ratio (%)	25.27	9.72	6.13	3.70	6.43
Net Sales/Turnover (Tk. In million)	2391.85	2556.04	2628.7	1725.97	1831.76
Profit After Tax (Tk. In million)	350.07	365.15	374.21	386.58	398.29

Beximco Synthetic Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	29.75	34.19	38.17	26.71	28.37
Dividend Per Share (Tk.)	20	25	10	12.5	12.5
Market Value Per Share (Tk.)	379.49	184.5	167.25	125.76	173.26
Price/Earning Ratio (%)	12.76	5.40	4.38	4.71	6.11
Net Sales/Turnover (Tk. In million)	697.49	766.87	792.38	778.65	810.39
Profit After Tax (Tk. In million)	89.24	102.56	114.52	80.12	85.1

British Oxygen Company (BD) Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	3.9	4.84	7.79	9.6	13.36
Dividend Per Share (Tk.)	29.9	29.9	37.9	39.9	39.9
Market Value Per Share (Tk.)	285.25	166.77	106.22	95.07	89.65
Price/Earning Ratio (%)	73.14	34.46	13.64	9.90	6.71
Net Sales/Turnover (Tk. In million)	680.71	704.59	842.94	1021.89	1046.68
Profit After Tax (Tk. In million)	59.39	73.62	118.53	146.13	203.32

Confidence Cement Company Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	6	10	51	37	78
Dividend Per Share (Tk.)	7.5	10	25	25	30
Market Value Per Share (Tk.)	1304.64	627.49	268.47	214.56	234.57



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Price/Earning Ratio (%)	217.44	62.75	5.26	5.80	3.01
Net Sales/Turnover (Tk. In million)	242.54	418.74	512.63	409.39	653.39
Profit After Tax (Tk. In million)	5.6	18.56	96.86	70.46	147.42

Monno Ceramic Industry Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	37.38	54.1	46.04	25.6	18.98
Dividend Per Share (Tk.)	30	30	35	20	20
Market Value Per Share (Tk.)	1075.96	856.40	571.18	372.37	324.22
Price/Earning Ratio (%)	28.78	15.83	12.41	14.55	17.08
Net Sales/Turnover (Tk. In million)	619.58	748.9	748.85	768.61	755.56
Profit After Tax (Tk. In million)	41.5	60.95	46.37	32.6	25.63

Padma Textile Ltd.	1996	1997	1998	1999	2000
Earning Per Share (Tk.)	57.38	48.18	53.83	54.29	61.92
Dividend Per Share (Tk.)	25	25	5	15	15
Market Value Per Share (Tk.)	82	351	214	145	233
Price/Earning Ratio (%)	1.43	7.29	3.98	2.67	3.76
Net Sales/Turnover (Tk. In million)	1483.54	1753.42	2602.46	2611.29	2701.71
Profit After Tax (Tk. In million)	201.39	202.95	226.75	228.69	260.8



There is also another reason that I have taken these ten companies that is from the SABINCO's portfolio of investing in the securities market in Bangladesh mainly in Dhaka Stock Exchange they have invested more than 50% of their total portfolio in these ten companies.

<i>Company's name</i>	<i>No. of shares</i>	<i>% of Total Investment in Shares</i>
<i>Advance Chemical Industries Limited</i>	315,000	6.56%
<i>Agricultural Marketing Company Limited</i>	27,750	0.58%
<i>Bangladesh Lamps</i>	6,575	0.14%
<i>Beximco Infusion limited.</i>	84,870	1.77%
<i>Beximco Pharmaceuticals Limited</i>	1,651,530	34.40%
<i>Beximco Synthetic industry limited.</i>	162,880	3.39%
<i>British Oxygen Company (Bangladesh) Limited</i>	31,250	0.65%
<i>Confidence Cement Industry Limited</i>	13,960	0.29%
<i>Monno Ceramic Industry Limited.</i>	132	0.00%
<i>Padma Textile Limited</i>	129,820	2.70%
<i>Ten Companies Total Shares</i>	2,423,767	50.49%
<i>Total Shares</i>	4,800,341	100.00%

4.1.3.3 Methodology

I have taken the daily market price of those ten companies and also the market index. Then calculate both the stock and market expected return by following formula,

$$\text{Return} = \frac{(\text{Present Day Price} - \text{Previous Day Price})}{\text{Previous Day Price}}$$

Then I have calculated the Beta for each year for the every company. Beta is mainly the slope of stock return and market return. I have also calculated the Stock Return Average (SRA) and Market Return Average (MRA) and for every year of all companies from the daily data. Then I have used another



formula to calculate the Required Return (R. Return). Here (0.000169%) is the daily rate of treasury that is annually 6.1%.

R. Return = 0.000169 + (Daily Market Return - 0.000169) * Beta of Each Year

Then I took the recent 48 days market prices for both Stocks and Market Index. I also calculate return for both the Stock Prices and Market Index. Then use the Security Market Line (SML) formula to measure the Expected Return of investors. The formula is as follows,

$$SML = \text{Required Rate of Return} = \text{Risk Free Rate} + \text{Risk Premium}$$

$$\text{Risk Premium} = (\text{Expected Recent Market Return} - \text{Risk Free Rate}) * \text{Beta}$$

I have also drawn a Security Market Line by taking the all year Beta for every company and also their Stock Expected Return for each year.

4.1.3.4 Analysis of Overvalued and Undervalued Securities

Analysis of undervalued and overvalued securities is the comparison of market expectation of investors with what the market is giving for each security. If the investors' requirement from security is higher than what the market is giving then the security is undervalued and for the lower expectation it is overvalued. The whole analysis for the each company is given below.



a) Advance Chemical Industries Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A. R. Return
1994	0.21150831	0.74528026	2.635%	0.222%	0.07%
1995	0.37911182		-0.081%	0.126%	
1996	1.14534217		0.345%	0.541%	
1997	1.03813934		-0.421%	-0.407%	
1998	0.22120827		-0.112%	0.098%	
1999	0.74355318		-0.037%	0.008%	
2000	1.47809872		0.102%	-0.095%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	55.85	53.74	-2.42%	-0.53%	-0.10%
June 10-14	54.50		0.78%		
June 16-21	54.93		-0.68%		
June 23-July 4	54.55		-0.64%		
July 5-July 9	54.20		0.00%		
July 10-July 14	54.20		-0.28%		
July 15-July 18	54.05		-2.13%		
July 19-July 23	52.90		-0.43%		
July 24-July 28	52.68		-1.85%		
July 29-Aug 1	51.70		1.89%		
Aug 2-Aug 6	52.68		-0.09%		
Aug 2-Aug 11	52.63				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.07% but ACI Limited offers -0.10%. So we found that the stock price of ACI Limited is undervalued because the average stock return or actual return is less than the expected rate of return because it offer more return than required.



SABINCO as an investor recognized this they will do the following:

Purchase of ACI Security, because it offers more than required return or actual return. This increase in the demand of ACI will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



b) Agricultural Marketing Company Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETU RN
1996	1.16165434	1.31154369	1.174%	0.657%	-0.09%
1997	1.36915110		0.277%	-0.591%	
1998	1.77292561		0.518%	-0.402%	
1999	1.13271462		-0.023%	-0.077%	
2000	1.12127278		0.019%	-0.031%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	400.75	391.65	-2.29%	-0.41%	-0.94%
June 10-14	391.56		-0.19%		
June 16-21	390.81		0.22%		
June 23-July 4	391.69		2.63%		
July 5-July 9	402.00		1.06%		
July 10-July 14	406.25		-1.51%		
July 15-July 18	400.13		-2.48%		
July 19-July 23	390.19		-1.41%		
July 24-July 28	384.69		-1.95%		
July 29-Aug 1	377.19		1.31%		
Aug 2-Aug 6	382.13		0.08%		
Aug 2-Aug 11	382.44				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required -0.09% but ACI Limited offers -0.94%. So we found that the stock price of AMCL is undervalued because the average stock return or actual return is less than the expected rate of return because it offer more return than required.



SABINCO as an investor recognized this they will do the following:

Purchase of AMCL Security, because it offers more than required return or actual return. This increase in the demand of AMCL will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



c) Bangladesh Lamps Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1994	0.23885522	0.79409516	0.586%	0.228%	0.01%
1995	0.21686022		0.288%	0.145%	
1996	0.74111258		0.457%	0.410%	
1997	1.00868826		-0.457%	-0.391%	
1998	1.46659931		-0.256%	-0.303%	
1999	1.39605814		-0.034%	-0.135%	
2000	0.49049238		-0.203%	0.082%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	494.75	457.76	-2.44%	-1.50%	-1.15%
June 10-14	482.69		-0.32%		
June 16-21	481.13		-2.51%		
June 23-July 4	469.06		-0.40%		
July 5-July 9	467.19		0.07%		
July 10-July 14	467.50		-0.66%		
July 15-July 18	464.44		-2.30%		
July 19-July 23	453.75		-1.21%		
July 24-July 28	448.25		-3.08%		
July 29-Aug 1	434.44		-5.27%		
Aug 2-Aug 6	411.56		1.66%		
Aug 2-Aug 11	418.38				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.01% but BD Lamps offers -1.15%. So we found that the stock price of BD Lamps is undervalued because the average stock return or actual returns is less than the expected rate of return because it offer more return than required.



SABINCO as an investor recognized this they will do the following:

Purchase of BD Lamps Security, because it offers more than required return or actual return. This increase in the demand of BD Lamps will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



d) Beximco Infusion Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1995	0.38256851	0.58636001	-0.120%	0.030%	0.05%
1996	0.71445375		0.141%	0.401%	
1997	0.50641135		0.065%	-0.112%	
1998	1.11133724		0.418%	-0.189%	
1999	0.84709352		-0.132%	-0.015%	
2000	-0.04370429		-0.053%	0.177%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	275.50	262.79	-1.54%	-1.56%	-0.85%
June 10-14	271.25		0.02%		
June 16-21	271.31		1.41%		
June 23-July 4	275.13		0.00%		
July 5-July 9	275.13		0.57%		
July 10-July 14	276.69		-3.12%		
July 15-July 18	268.06		-3.78%		
July 19-July 23	257.94		-2.20%		
July 24-July 28	252.25		0.77%		
July 29-Aug 1	254.19		-3.71%		
Aug 2-Aug 6	244.75		-5.52%		
Aug 2-Aug 11	231.25				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.05% but Beximco Infusion Limited offers –0.85%. So we found that the stock price of Beximco Infusion is undervalued because the average stock return or actual returns is less than the expected rate of return because it offer more return than required.



SABINCO as an investor recognized this they will do the following:

Purchase of Beximco Infusion Security, because it offers more than required return or actual return. This increase in the demand of Beximco Infusion will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



e) *Beximco Pharmaceuticals*

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1994	0.48197966	0.98623414	0.206%	0.288%	0.05%
1995	0.74219589		-0.524%	0.085%	
1996	1.52233343		0.586%	0.663%	
1997	1.13978893		-0.311%	-0.463%	
1998	1.24576081		-0.125%	-0.232%	
1999	0.91052155		-0.171%	-0.029%	
2000	0.86105871		-0.343%	0.015%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	60.83	55.18	-6.29%	-1.64%	-1.61%
June 10-14	57.00		1.27%		
June 16-21	57.73		-0.43%		
June 23-July 4	57.48		-1.83%		
July 5-July 9	56.43		1.55%		
July 10-July 14	57.30		-1.83%		
July 15-July 18	56.25		-3.56%		
July 19-July 23	54.25		-3.13%		
July 24-July 28	52.55		-3.47%		
July 29-Aug 1	50.73		0.54%		
Aug 2-Aug 6	51.00		-0.83%		
Aug 2-Aug 11	50.58				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.05% but Beximco Pharmaceuticals offers -1.61%. So we found that the stock price of Beximco Pharmaceuticals is undervalued because the average stock return or actual returns is less than the expected rate of return because it offer more return than required.



SABINCO as an investor recognized this they will do the following:

Purchase of Beximco Pharmaceuticals Security, because it offers more than required return or actual return. This increase in the demand of Beximco Pharmaceuticals will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



f) Beximco Synthetic Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1994	0.28594645	0.81966150	0.298%	0.240%	0.05%
1995	0.32183039		-0.157%	0.133%	
1996	1.07820215		0.449%	0.537%	
1997	1.05084058		-0.172%	-0.414%	
1998	0.87301511		-0.011%	-0.112%	
1999	0.65728929		-0.102%	0.026%	
2000	1.47050651		-0.187%	-0.094%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	174.63	159.11	-3.54%	-1.38%	-1.07%
June 10-14	168.44		-1.56%		
June 16-21	165.81		-2.79%		
June 23-July 4	161.19		-0.66%		
July 5-July 9	160.13		0.31%		
July 10-July 14	160.63		-1.56%		
July 15-July 18	158.13		-0.63%		
July 19-July 23	157.13		-2.39%		
July 24-July 28	153.38		-2.44%		
July 29-Aug 1	149.63		0.63%		
Aug 2-Aug 6	150.56		-0.54%		
Aug 2-Aug 11	149.75				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.05% but Beximco Synthetic Limited offers -1.07%. So we found that the stock price of Beximco Synthetic is undervalued because the average stock return or actual returns is less than the expected rate of return because it offer more return than required.



SABINCO as an investor recognized this they will do the following:

Purchase of Beximco Synthetic Security, because it offers more than required return or actual return. This increase in the demand of Beximco Synthetic will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



g) British Oxygen Company (Bangladesh) Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1994	0.13443945	0.63031881	0.182%	0.203%	0.12%
1995	0.70705414		0.035%	0.089%	
1996	1.01579756		0.276%	0.758%	
1997	0.69630073		-0.304%	-0.217%	
1998	0.83883340		-0.107%	-0.101%	
1999	0.73629456		0.042%	0.009%	
2000	0.28351181		-0.011%	0.119%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	104.03	100.40			
June 10-14	102.35		-0.02%	-0.47%	0.16%
June 16-21	102.33		-0.17%		
June 23-July 4	102.15		-0.88%		
July 5-July 9	101.25		0.07%		
July 10-July 14	101.33		0.39%		
July 15-July 18	101.73		-0.86%		
July 19-July 23	100.85		-2.18%		
July 24-July 28	98.65		-3.70%		
July 29-Aug 1	95.00		2.79%		
Aug 2-Aug 6	97.65		-0.15%		
Aug 2-Aug 11	97.50				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.12% but BOC Ltd. offers 0.16%. So we found that the stock price of BOC Ltd. is overvalued because the average stock return or actual return is greater than the expected rate of return because it does not offer enough expected return given its level of systematic risk



SABINCO as an investor recognized this they will do the following:

SABINCO should sale BOC Ltd. Security, because it offers less than required return or actual return. This increase in the supply of BOC Ltd. will drive down its price. The return will be driven up for new buyers because any dividends paid are now relative to a lower price, as in any expected price appreciation, the price will fall until the expected return raises enough to reach the Security Market Line and security is wants again in equilibrium.



h) Confidence Cement Industry Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1996	1.26511988	1.18809951	0.929%	0.701%	-0.03%
1997	1.29915057		-0.345%	-0.552%	
1998	1.19593504		-0.110%	-0.216%	
1999	0.65751007		-0.004%	0.026%	
2000	1.52278197		0.393%	-0.103%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	522.69	483.51	-3.69%	-1.12%	-1.43%
June 10-14	503.38		-0.42%		
June 16-21	501.25		-1.07%		
June 23-July 4	495.88		-1.89%		
July 5-July 9	486.50		0.67%		
July 10-July 14	489.75		-0.36%		
July 15-July 18	488.00		-2.16%		
July 19-July 23	477.44		-3.78%		
July 24-July 28	459.38		-1.22%		
July 29-Aug 1	453.75		2.00%		
Aug 2-Aug 6	462.81		-0.32%		
Aug 2-Aug 11	461.31				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required -0.03% but Confidence Cement Industry Limited offers -1.43%. So we found that the stock price of Confidence is undervalued because the average stock return or actual return is less than the expected rate of return because it offer more return than required.



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SABINCO as an investor recognized this they will do the following:

Purchase of Confidence Security, because it offers more than required return or actual return. This increase in the demand of Confidence will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



i) Monno Ceramic Industry Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1994	0.39625076	0.87360535	0.385%	0.267%	0.03%
1995	0.64832647		0.109%	0.095%	
1996	0.91895913		0.242%	0.467%	
1997	0.94892733		-0.135%	-0.357%	
1998	0.85099420		-0.139%	-0.105%	
1999	1.25257903		-0.064%	-0.103%	
2000	1.09920056		-0.137%	-0.028%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	331.75	326.64063	-1.49%	-0.30%	-0.08%
June 10-14	326.8125		0.46%		
June 16-21	328.3125		-0.57%		
June 23-July 4	326.4375		1.32%		
July 5-July 9	330.75		1.10%		
July 10-July 14	334.375		-0.47%		
July 15-July 18	332.8125		-1.67%		
July 19-July 23	327.25		-1.20%		
July 24-July 28	323.3125		-1.55%		
July 29-Aug 1	318.3125		0.14%		
Aug 2-Aug 6	318.75		0.65%		
Aug 2-Aug 11	320.8125				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.03% but Monno Ceramic offers -0.08%. So we found that the stock price of Monno is undervalued because the average stock return or actual return is less than the expected rate of return because it offer more return than required.



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SABINCO as an investor recognized this they will do the following:

Purchase of Monno Security, because it offers more than required return or actual return. This increase in the demand of Monno will drive up its price. The return will be driven down for new buyers, until it is at the level indicated by the Security market Line and the security is once again in equilibrium.



j) Padma Textile Limited

YEAR	BETA	A.BETA	T R A (Y)	R.RETURN	A.R.RETURN
1994	0.20324381	0.53723360	0.360%	0.220%	0.10%
1995	0.22757367		-0.036%	0.143%	
1996	0.90302668		0.472%	0.462%	
1997	0.93215350		-0.235%	-0.348%	
1998	0.80248580		-0.158%	-0.089%	
1999	0.76996997		-0.141%	0.002%	
2000	-0.07781826		0.082%	0.309%	
Date	4 Days Ave	Average	S M Return	S M R (Ave)	E (Rm)
June 3-7	24.20	22.54	-2.89%	-0.63%	0.15%
June 10-14	23.50		-1.28%		
June 16-21	23.20		-1.19%		
June 23-July 4	22.93		-0.55%		
July 5-July 9	22.80		-1.32%		
July 10-July 14	22.50		-0.56%		
July 15-July 18	22.38		-2.46%		
July 19-July 23	21.83		-2.29%		
July 24-July 28	21.33		-1.29%		
July 29-Aug 1	21.05		5.82%		
Aug 2-Aug 6	22.28		1.01%		
Aug 2-Aug 11	22.50				

Comment: From the above table we found the expected rate of return by using the risk free rate of 6.1%/360 and add with $(K_m - R_f) * B_i$.

Investors required 0.10% but PTL offers 0.15%. So we found that the stock price of PTL is overvalued because the average stock return or actual return is greater than the expected rate of return because it does not offer enough expected return given its level of systematic risk



SABINCO as an investor recognized this they will do the following:

SABINCO should sale of PTL Securities because it offers less than required return or actual return. This increase in the supply of PTL will drive down its price. The return will be driven up for new buyers because any dividends paid are now relative to a lower price, as in any expected price appreciation, the price will fall until the expected return raises enough to reach the Security Market Line and security is wants again in equilibrium.

4.1.3.5 Security Market Line (SML)

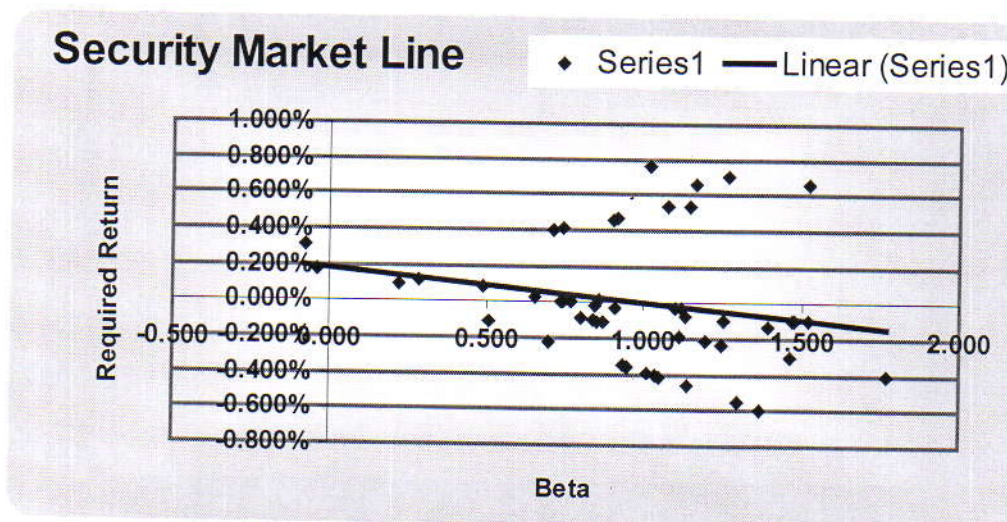


Figure: Security Market Line (SML) from the Above Analysis

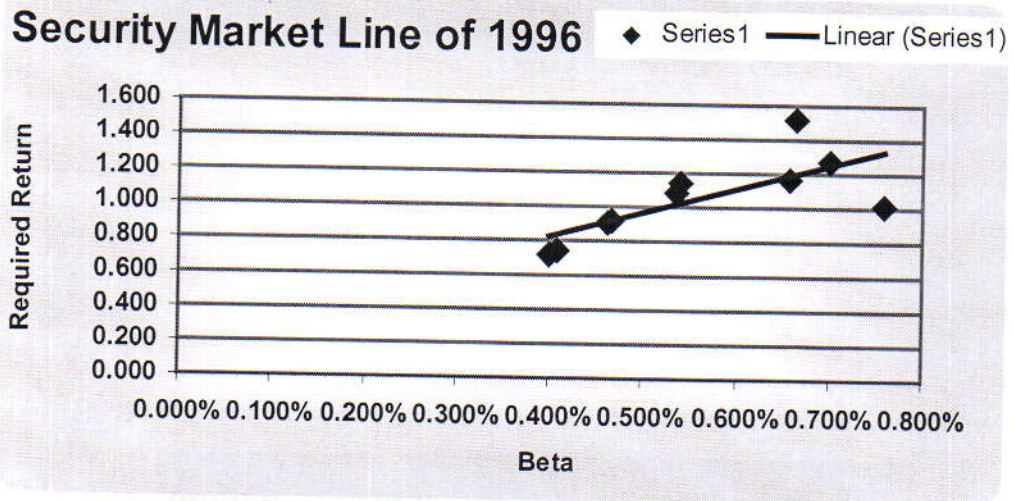


Figure: Security Market Line (SML) of 1996 from the Above Analysis

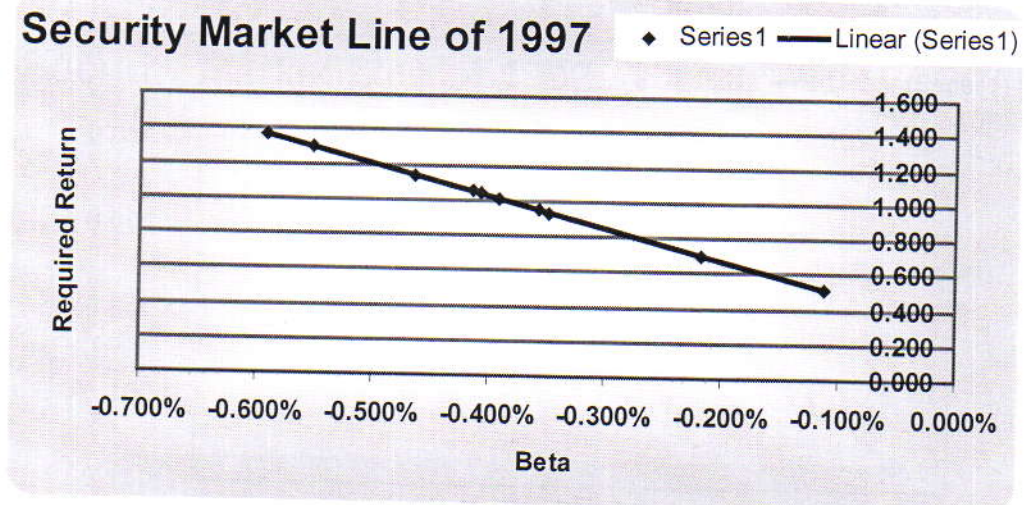


Figure: Security Market Line (SML) of 1997 from the Above Analysis

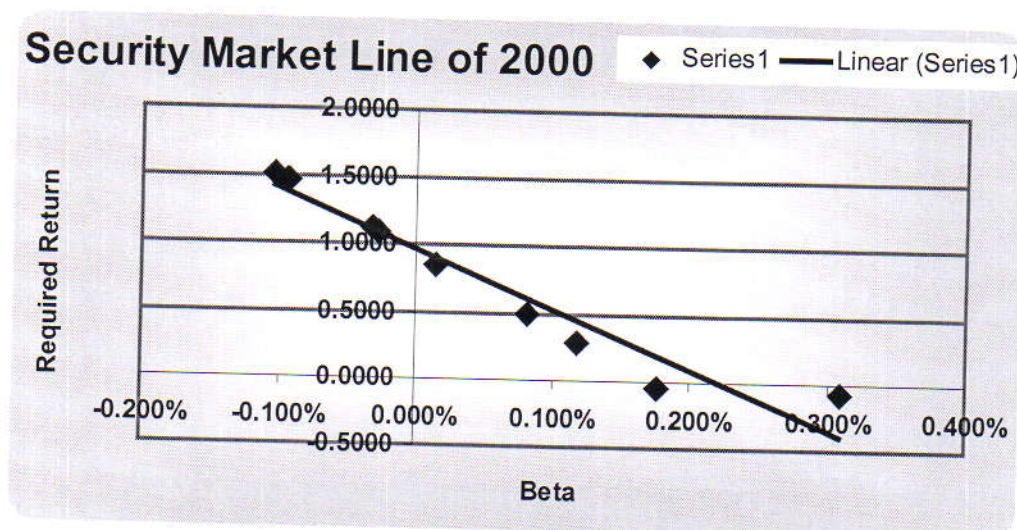


Figure: Security Market Line (SML) of 2000 from the Above Analysis

4.1.3.6 Conclusion

So, from the above analysis I have found that SABINCO has some of securities that are undervalued from the market analysis and some of the over valued securities. But the above analysis shows two securities are overvalued and others are undervalued. This is occurred mainly because of the recent manipulation by some of the merchant banks and foreign investors, which give the market very low index and the prices of most of the securities in the market, also become low. So, it is the main limitation of the above analysis. If the market remains stable then it will give a very perfect analysis. But the above analysis will help every merchant bank or who are interested to invest in the security market by knowing them about the undervalued and over valued securities in the market.



4.1.4. An empirical study of diversification effect on risk of securities that hold by SABINCO and traded in Dhaka Stock Exchange.

An empirical study of diversification effect on risk of securities that hold by SABINCO and traded in Dhaka Stock Exchange.

4.1.4.1 Data

The data used in project have been collected from the Annual Reports of the companies. I have considered the Dhaka Stock Exchange as a representative of the stock markets of Bangladesh and SABINCO holds the securities that are traded in Dhaka Stock Exchange. So, the project can be considered as a research on the application of the theory of diversification in the context of Bangladesh Stock Markets.

I used the yearly dividend, year-end closing prices and bonus shares of ten selected stocks, which are in the DSE – 20 and as considered as the blue chip of Dhaka Stock Exchange, to get the yearly returns of those. All the subsequent calculations had been done using these returns.

The stocks under consideration here are:

- xi. Advance Chemical Industries Limited
- xii. Agricultural Marketing Company Limited
- xiii. Bangladesh lamps Limited
- xiv. Beximco Infusion Limited
- xv. Beximco Pharmaceuticals Limited
- xvi. Beximco Synthetic Limited
- xvii. British Oxygen Company (Bangladesh) Limited
- xviii. Confidence Cement Industry Limited
- xix. Monno Ceramic Industry Limited



xx. Padma Textile Limited

4.1.4.2 Methodology

The yearly returns of each of the ten stocks were calculated using the following formula:

$$R = ((P_t + D_t + BF * P_t - P_{t-1}) / P_{t-1}) * 100$$

Here, R = Yearly return (percentage)

P_t = December 31 price of the stock in the year 't'

D_t = Dividend declared in year 't'

BF = Bonus factor

P_{t-1} = December 31 price of the stock in the year prior to the year 't'

The standard deviation of the stocks, representing the risk of the same, was calculated next and an average of these standard deviations were calculated. This average standard deviation represents the average risk of a portfolio made out of single stock of the specified ten.

Two of the ten stocks under consideration were randomly selected to form a portfolio of two stocks. The portfolio was constructed using equal weights for the two stocks. The yearly return of each year for the portfolio was found by averaging the yearly returns of the two stocks for the same year. These portfolio returns were then used to calculate the portfolio standard deviation. This whole process for any two of the stocks was repeated thirty times, to find thirty portfolio standard deviations of thirty portfolios of two randomly selected stocks in each. Here, it is worth mentioning that any of the portfolios constructed, was not repeated. The thirty standard deviations were then averaged to arrive at the standard deviation or risk of a portfolio consisting of two randomly selected stocks of the ten specified stocks. The number thirty



was chosen just to arrive at a portfolio standard deviation, which would reasonably represent the average standard deviation of portfolios, consisting of all possible combination of two stocks selected from the specified ten.

This whole process of selecting two stocks randomly and then calculating average portfolio risk was then revised to select three stocks randomly instead of two and then to find out the average risk (standard deviation) of a portfolio consisting of three of the specified ten stocks in each. In the same way, I found the average risk of portfolios consisting of four, five, six, seven and eight stocks. For nine stocks, I was only able to select ten portfolios instead of thirty, as the maximum possible number of combination for nine stocks out of a total of ten is ten. I was then able to create only one portfolio out of the ten stocks to get a portfolio of ten stocks. To find the risk of this portfolio, I calculated the portfolio returns for each of the years under study and then calculated the standard deviation of these portfolio returns. Thus I was able to find ten standard deviations of ten portfolios consisting of one to ten stocks.

4.1.4.3 Empirical Result

The ten standard deviations represent the risk of the ten portfolios. These results can be seen in table 1. The table also shows that the risk is decreasing with the increase in

Table: Expected Standard Deviations of Portfolio Returns

N	1	2	3	4	5	6	7	8	9	10
SD	63.30	57.98	46.62	42.65	42.04	41.86	40.09	38.45	36.75	35.96
%change		8.40	19.59	8.52	1.43	0.45	4.23	4.08	4.41	2.15

Note: N = Number of Stocks in a Portfolio

SD = Portfolio Standard Deviation

the number of stocks in the portfolio. The third row in the table shows the percentage change in the reduction of risk (percentage change in portfolio standard deviation). It is apparent here that even though the risk is decreasing



at a random rate, there still is evidence that the rate of risk reduction slows down with the increase in the number of stocks in the portfolio. This trend can be guessed more easily from the graphical presentation in figure 1. So, the result shows that the risk of the portfolio is reduced as the portfolio becomes more diversified, even though the rate of reduction in risk reduces.

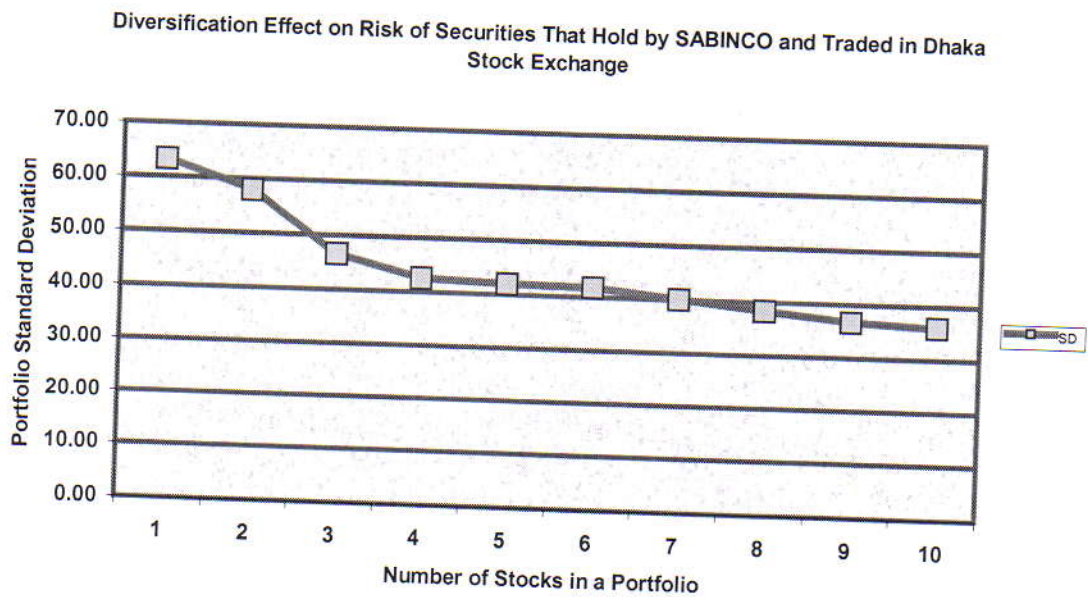


Figure: Diversification Effect on Risk of Securities That Hold by SABINCO and Traded in Dhaka Stock Exchange

4.1.4.4 Conclusion:

The research shows that the theory of diversification works with any group of stocks are those in the country of the developer of the theory or in Bangladesh; be those of high risk or of low risk. The research certainly shows the effect of diversification on the specified stocks. Some of the stocks were extremely risky with standard deviation as high as over 100%; on the other hand, some were less risky by a big margin. Here I have not considered the average expected return, so it is not possible to say whether any of the stocks or portfolio of stocks was undervalued or overvalued or whether they are



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suitable for investment or not. The reduction of portfolio risk does not conclude that the portfolio is good for investment. The research only endures to show the effect of diversification on a portfolio of stocks.

CHAPTER FIVE

**PROBLEMS
OF
SABINCO**





5.1 The Problems Identified from the Point of View of SABINCO

I have done my internship in Saudi Bangladesh Industrial and Agricultural investment Company Limited (SABINCO). During my internship period I have found some problems those are faced by SABINCO while they are interested to invest more in the Capital Market of Bangladesh to make the market steady. The problems those are faced by SABINCO are following:

- A. Due to lack of supporting environment and proper market supporting organization merchant banks cannot become successful. SABINCO also facing this kind of problem.
- B. Due to high interest provided on deposits by banks people are interested to deposit their money in the banks instead of investing in capital market. There are also some risks associated with investing money in the capital market. For this reason the increasing opportunity of merchant banks do not appear. SABINCO as the merchant bank also try to deposit more in other banks instead of investing more in the capital market.
- C. There is no use of leverage in the case of earning more profit due to lack of instrument about capital market. Instruments like option, margin trading, hedging etc. are not seen our country. Because of shortage in capital merchant banks could not provide these facilities to the customers. For this there is a downfall in investment. Though SABINCO has a good amount of capital but for the Securities and Exchange Commission's regulation on the margin trading and other instrument cannot provide that facilities.
- D. For the development of the capital market formulation, relevant acts are necessary. But in our country there is lack of necessary laws in this



matter. Besides, mostly the laws and regulations are not perfectly implemented. For this there is irregularity and disorganized situation is seen in the market and also in the management of the company. This disorganized situation hampers the interest of merchant banks to invest more in the capital market and SABINCO also a victim of this.

- E. It takes more time to issue an IPO (Initial Public Offering). But in our country the laws and regulations about issuing IPO are changing frequently. This changing hampers the interest of merchant banks to invest in the project of issuing IPO. For this merchant banks are discouraged to invest in IPO. SABINCO also discouraged by these frequently changing laws and not interested to invest in the IPO and they invest only one IPO of Dutch Bangla Bank.
- F. There are a few experienced people in the Securities and Exchange Commission (SEC) who regulate the capital market. For this they are taking wrong decisions about all the works of capital market. These wrong decisions also discouraged merchant banks to invest a lot of money in the capital market. Wrong decision always hampers the interest of people to do anything. So, SABINCO also discouraged to invest more in the capital market to make that steady by these wrong decisions from the capital market management.



5.2 Problems Identified While Working in SABINCO

During my three months internship period in SABINCO I have found some problems. Those are as follows,

- A. The first problem that I have found is the staff accommodation problem. Though the office area of SABINCO is big but there is lack of seating capacity of all the stuffs.
- B. Though every desk contains at least one Personal Computer but the system is not automated. Example: Deed Writing, Share Sorting, Share Counting etc. in the Merchant Banking Division of SABINCO.
- C. SABINCO is a centralized decision making company that means all the decisions are made by the upper level management there is no involvement of lower level management to make any decision.
- D. SABINCO invest more than Tk.50 Crore in the capital market and their total investment in all the fields is approximately more that Tk.200 Crore. But their risk analysis of investment is also weak basically in the capital market.
- E. SABINCO has some software that they use like Accounting Software, Employee Database etc. But these software are not using effectively and efficiently. Because they do not hire people who have the ability to operate these software.
- F. Though they use some software first they have to do the work manually and then put those information in the software.

CHAPTER SIX

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6.1 Recommendation for Saudi Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO)

6.1.1 Introduction

Recommending a merchant bank is very difficult in the situation of highly volatile securities market in Bangladesh. Because recommendation means to provide suggestions those are appropriate at the present market situation. But the recent manipulation by two merchant banks, EPSL and Vanik Bangladesh, in our country along with a foreign financial institution, Himalayan Investment Company, makes the situation too much critical to recommend any merchant bank in our country.

SABINCO is one of the largest merchant banks in our country. So, it has a great reputation about to improve our capital market. This company has a high volume of investment capability. But for the restriction of Securities and Exchange Commission of our country always try to restrict this company to invest more because it is a joint venture and a multinational company. These restrictions discourage SABINCO's management to invest more in the capital market. But they have sufficient fund to improve the overall situation of present capital market in Bangladesh.

So, when I have found myself to recommend SABINCO about anything it gives me too much pressure. But the project of an internship requires some recommendation on the basis of present situation. So, I have to provide some suggestions to SABINCO. Those are as follows.



5.1.2 SABINCO Should Introduce Automated System

The major effort of SABINCO should be and must be concentrated on improving its service through introduce a automated system, which will create efficient and effective service while improving performance consistency and enhancing flexibility.

By the computerized system in SABINCO it will be much easier to keep huge information in the system. Data flow system, data inflow and outflow, will produce a better result interns. Data flow systems enable one to:

- ⇒ Quickly responding with the market situation.
- ⇒ Quick deliver system of the shares.
- ⇒ Quick decision making on the basis of previous data.
- ⇒ Co-relating departments

To develop a better-computerized or automated system it should have a separate entity of Information Technology (IT) department. As to build up a better IT department it must hire a group of super expertise and managers to make it an efficient department and achieve the goal.

To handle the system properly SABINCO should develop a better training system, build up budgets to have the proper development of computerized or automated system It must have proper installing information, communication and operating system that enable company personnel to carry out their job successfully. It is important to determine how the relationships with outsiders are to be managed and assign responsibility to building the necessary organizational bridges.



6.1.3 Recommendation on the Basis of My Project Part

- ☞ My undervalued and overvalued analysis may not be feasible because during my internship period there was a manipulation occurred in the Securities Market of Bangladesh. For this the Market Index and the Share Prices become low. So, the information that I have found for the analysis is low priced and index data. The outcome of the analysis is become very unpredictable. For this reason Security Market Line (SML) is become downward sloping. Though I have suggest SABINCO to buy undervalued securities and sell overvalued securities to get more profit.
- ☞ SABINCO should invest in more companies' securities in order to reduce their risk of investment. Because a portfolio of many companies securities is less risky than a portfolio of a few companies securities.
- ☞ SABINCO should create a supporting environment for the securities trade and make themselves as the proper market supporting organization to support the potential investors to invest in the capital market.
- ☞ SABINCO should try to get the permission of introducing the margin trading from the SEC and they have the sufficient capital to introduce this kind of financial instrument by which people are interested to invest in the capital market.
- ☞ SABINCO should apply to SEC to reduce the rules and regulation about investing more in capital market and make the capital market manipulation free to encourage people's interest on the capital market.



During my internship period I have found that most of the employees of SABINCO are invested a good amount of money in buying securities. They also have the proper knowledge about the capital market of Bangladesh. So, I suggest the management of SABINCO to give them the opportunities to express their knowledge about which shares to buy and sell while making the decision about buying and selling of securities.

6.1.4 SABINCO Should Increase the Selectivity of Stocks and Timing Ability

Tracking economic environment for investors, fundamental analysis relies on long-term forecasts of the economy, the industry and the company's financial prospects to determine the fair value of the firm and thereby to select the stock for investment. This process is called the top-down approach since it goes from the macroeconomic environment viewpoint to the individual company.

Fundamental Analysis - top-down approach >	Economy Analysis
	Industry Analysis
	Company Analysis

Economy Analysis Fundamental Analysis - top-down approach Industry Analysis Company Analysis On the other hand, whether issuers will float the issue or not depends upon the market condition. If the market condition turns out to be bull, then issuers would like to come to the market to raise funds favorably. In other words, issuers have superior ability to time the issue. By the above analysis SABINCO can know the proper time of issuing new IPO from any company and they can invest in the new IPOs from those company and get profited.



6.1.5 SABINCO Should Conduct Business Analysis

While I have done my internship in the Merchant Banking Division of SABINCO I should suggest SABINCO to analyze their Merchant Banking activities by analyzing the following.

- ⇒ **Predicting Sales:** SABINCO should predict their sales of shares and be prepared to sell those to the potential buyers.
- ⇒ **Concept Testing:** SABINCO should ask potential investors in the capital market to evaluate pictures or description at newly issues IPO where SABINCO willing to invest.
- ⇒ **Predicting Costs:** To predict whether the shares can be profitable, SABINCO can subtract expected costs of buying shares from forecasted sales. This means that they must be clear enough about the share features to estimate in which cost they should buy the shares..

6.1.6 SABINCO Should Monitor and Control Their Activities

SABINCO has to continuously monitor and control their activities in order to cope up with the changing situation. SABINCO needs some kind of control systems for developing their strategy.

6.1.6.1 Yearly Plan Control

The prime responsibility of this yearly plan control is for top management and middle management of SABINCO. It is used for the purpose to examine whether the planned results are being achieved. In order to achieve best result from this system SABINCO has to analyze certain things like sales analysis, market share analysis, expense to sales analysis, financial analysis and market based scorecard analysis.



6.1.6.2 Profitability Control

To control the market is the prime responsibility of this profitability control. By this SABINCO can examine where the company is making and losing money. If SABINCO wants to make the own company profitable they have to make it in every way like by number of shares, DSE or CSE to invest, customer selection, find out trade channel with brokerage companies etc.

6.1.6.3 Efficiency Control

Line and staff management is the prime responsibility of this efficiency control. The purpose is to evaluate and improve the spending efficiency and impact of management expenditures of SABINCO. By checking certain things very carefully, such as sales force, distribution channels of selling shares like brokerage house SABINCO can make them efficient.

6.1.6.4 Strategic Control

To be the best audit of the management is the prime responsibility of strategic control for SABINCO. The purpose of this control system is to examine whether the SABINCO is pursuing its best opportunities with respect to markets, capitalization and distribution channel of shares. To obtain best result SABINCO should have to make certain things efficient, such as management effectiveness rating instrument, management audit, management excellence review, company ethical and social responsibility review etc.

Above all SABINCO should perform a sophisticated financial analysis of marketing expenditures and results that affects the company's rate of return on net worth. The expense to revenue ratios should be analyzed in an over all financial framework to determine how and where the company is making its



money. Specifically it should examine adherence to profit plans, help prepare investment managers' budgets, measures the efficiency of investments, evaluate customer and geographic profitability Dhaka Stock Exchange or to Chittagong Stock Exchange and educate Investment Officer and Financial personnel on the financial implications of management decisions.

6.1.7 SABINCO Must Aware of the Information from the Capital Market

Bangladesh Capital Market is not that much informationally efficient. But sometimes information hampers its activity and makes a downfall of the stock prices. There is little evidence that stock prices exhibit consistent patterns that could be used to predict their future movements. However, stocks prices tend follow a long-run upward drift (or deterministic trends) with random fluctuations around these trends. This does not imply that stock prices fluctuate in an irrational manner since they tend to respond to new information quite rapidly. Since good or bad new information sets arrive randomly over time, there should not be any time-serial patterns in the price movements.

Therefore, new information sets that are not yet reflected in stock prices have tremendous value for those acquirers to be able to realize abnormal returns. The evidence of semi strong form shows that capital markets are not informationally efficient in terms of returns predictability supports this. Yet, acquisition of relevant and valuable information is costly and highly competitive. The abnormal returns generated from such information may not worth the cost and time of individual investors, but may be worthwhile of large institutional investors who are able to reduce their cost of information through voluminous trading transactions.

With the evidence of serially uncorrelated trend in stock prices and statistically significant predictability of stock returns, I believe that capital markets are not informationally efficient in the long run. On the other hand, I am certain that, for shorter horizons and given a high competition for information, efficiency in



capital markets still remains high and that professional traders who employ certain trading rules should not consistently outperform the markets.

So, SABINCO should aware of the information that is related to the portfolio of securities of them in the Dhaka Stock Exchange. By which they can also aware of the price changes of those securities.

6.1.8 Conclusion

SABINCO as a Promoting and Management organization and Development Financial Institution is operating within Bangladesh economy since 1986. In consonance with its objectives, it has promoted 44 large and medium scale industrial enterprises in different productive sectors of the economy and also invested a large amount of capital in Securities Market of Bangladesh. Projects based on local raw material and having new technology and products with export potential will continue to get priority. SABINCO will continue to promote projects both in existing and new industrial sectors and additionally will support expansion program of existing units. As a prime strategy for long-term growth, SABINCO would devote much effort in strengthening links with national and international financing institutions/bodies for development of an integrated approach through a balanced mix of knowledge and skills for meeting diverse challenges it faces within its environment and also to ensure flow of adequate resources for development activities in Bangladesh. As another prime strategy to make the Capital Market Stable they are willing to invest more there. But for the regulations and other restrictions creates problem with their willingness. So, at the conclusion I would like to say that SABINCO should fulfill its role as a catalyst to develop and prosper securities market and other developing industrial and agricultural areas in Bangladesh.



Acronyms

- A. Beta = Average Beta
- A. R. Return = Average Required Return
- ACI = Advanced Chemical Industries Limited
- ADB = Asian Development Bank
- AFIC = Asian Finance and Investment Corporation Limited
- AMCL = Agricultural Marketing Company Limited
- BD lamps = Bangladesh Lamps
- BGIC = Bangladesh General Insurance Company
- B_i = Beta on i th Year
- BOC (BD) Ltd. = British Oxygen Company (Bangladesh) Limited
- CSE = Chittagong Stock Exchange
- DSE = Dhaka Stock Exchange
- DTY = Draw Texturised yarn
- $E (R_m)$ = Expected Return on Market
- EA = Executive Assistant
- EM = Equity Multiplier
- FMO = Netherlands Development Industrial Bank
- IBD = Investment Banking Division
- ICB = Investment Corporation of Bangladesh
- IDB = Islamic Development Bank
- IDLC = Industrial Development Leasing Company Limited
- IFC = International Finance Corporation
- IPO = Initial Public Offering
- IT = Information Technology
- K_m = Market Return



- MBD = Merchant Banking Division
- MD = Managing Director
- MT = Metric Ton
- NCC Bank = National Credit and Commerce Bank Limited
- NPM = Net Profit Margin
- PS = Personal Secretary
- PTL = Padma Textile Limited
- R. Return = Required Return
- Rf = Risk Free Rate
- ROA = Return on Assets
- ROE = Return on Equity
- S. M. Return = Stock Market Return
- SABINCO = Saudi – Bangladesh Industrial and Agricultural Investment
Company Limited
- SEC = Securities and Exchange Commission
- SML = Security Market Line
- SMR (Ave) = Stock Market Return Average
- TRA = Total Return Average
- USA = United States of America

APPENDIX





**Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.**

**Saudi-Bangladesh Industrial and Agricultural Investment
Company (SABINCO) Limited
Balance Sheet at 31 December from 1996 to 2000**

	1996 Tk.	1997 Tk.	1998 Tk.	1999 Tk.	2000 Tk.
Assets					
Current Assets					
Current Portion of Long Term Loan	185,372,078	191,977,519	192,864,801	188,980,538	256,710,577
Receivables from Financed Projects	267,856,295	289,750,201	220,218,898	250,118,444	429,804,093
Advanced, Deposits & Prepayments	172,842,264	13,944,468	22,732,029	34,063,683	35,686,259
Accrued Interest & other Charges	97,943,372	92,920,353	125,694,274	118,563,106	142,188,276
Other Receivables	11,095,328	20,195,084	23,333,703	16,788,417	27,298,043
Bank & Cash Balance	670,040,856	630,627,619	1,039,969,887	1,062,174,137	853,902,690
Total Current Assets	1,405,150,191	1,239,415,244	1,624,813,592	1,670,688,325	1,745,589,938
Investment	623,921,235	649,853,904	676,941,975	750,939,981	1,008,951,177
Long Term Loan					
Industrial Loan	1,360,808,624	1,798,105,390	1,792,416,136	1,905,915,663	1,733,198,982
Employees House Building/Car Loan	4,559,436	4,396,767	3,989,900	4,184,346	3,837,318
	1,365,368,060	1,802,502,157	1,796,406,036	1,910,100,009	1,737,036,300
Fixed Assets					
At Cost	42,204,496	46,596,942	49,800,771	51,663,126	56,004,700
Less: Depreciation	9,624,055	10,097,874	10,161,541	12,503,537	15,624,615
	32,580,441	36,499,068	39,639,230	39,159,589	40,380,085
Total Assets	3,427,019,927	3,728,270,373	4,137,800,833	4,370,887,904	4,531,957,500



Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.

Saudi-Bangladesh Industrial and Agricultural Investment Company
(SABINCO) Limited
Common Size Analysis of Balance Sheet at 31 December

	1996	1997	1998	1999	2000
	%	%	%	%	%
Assets					
Current Assets					
Current Portion of Long Term Loan	5.41%	5.15%	4.66%	4.32%	5.66%
Receivables from Financed Projects	7.82%	7.77%	5.32%	5.72%	9.48%
Advanced, Deposits & Prepayments	5.04%	0.37%	0.55%	0.78%	0.79%
Accrued Interest & other Charges	2.86%	2.49%	3.04%	2.71%	3.14%
Other Receivables	0.32%	0.54%	0.56%	0.38%	0.60%
Bank & Cash Balance	19.55%	16.91%	25.13%	24.30%	18.84%
Total Current Assets	41.00%	33.24%	39.27%	38.22%	38.52%
Investment	18.21%	17.43%	16.36%	17.18%	22.26%
Long Term Loan					
Industrial Loan	39.71%	48.23%	43.32%	43.60%	38.24%
Employees House Building/Car Loan	0.13%	0.12%	0.10%	0.10%	0.08%
	39.84%	48.35%	43.41%	43.70%	38.33%
Fixed Assets					
At Cost	1.23%	1.25%	1.20%	1.18%	1.24%
Less: Depreciation	0.28%	0.27%	0.25%	0.29%	0.34%
	0.95%	0.98%	0.96%	0.90%	0.89%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%



Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.

Saudi-Bangladesh Industrial and Agricultural Investment Company
(SABINCO) Limited
Percentage Change Analysis of Balance Sheet at 31 December

	1997	1998	1999	2000
	%	%	%	%
Assets				
Current Assets				
Current Portion of Long Term Loan	3.56%	0.46%	-2.01%	35.84%
Receivables from Financed Projects	8.17%	-24.00%	13.58%	71.84%
Advanced, Deposits & Prepayments	-91.93%	63.02%	49.85%	4.76%
Accrued Interest & other Charges	-5.13%	35.27%	-5.67%	19.93%
Other Receivables	82.01%	15.54%	-28.05%	62.60%
Bank & Cash Balance	-5.88%	64.91%	2.14%	-19.61%
Total Current Assets	-11.79%	31.10%	2.82%	4.48%
Investment	4.16%	4.17%	10.93%	34.36%
Long Term Loan				
Industrial Loan	32.14%	-0.32%	6.33%	-9.06%
Employees House Building/Car Loan	-3.57%	-9.25%	4.87%	-8.29%
	32.02%	-0.34%	6.33%	-9.06%
Fixed Assets				
At Cost	10.41%	6.88%	3.74%	8.40%
Less: Depreciation	4.92%	0.63%	23.05%	24.96%
	12.03%	8.60%	-1.21%	3.12%
Total Assets	8.79%	10.98%	5.63%	3.69%



**Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.**

**Saudi-Bangladesh Industrial and Agricultural Investment
Company (SABINCO) Limited
Balance Sheet at 31 December from 1996 to 2000**

	1996 Tk.	1997 Tk.	1998 Tk.	1999 Tk.	2000 Tk.
Liabilities & Shareholders Equity					
Current Liabilities					
Current Portion of Long Term Loan	14,285,714	21,428,571	21,428,571	21,428,571	-
Short Term Loan From Dutch Bangla Bank Ltd.	-	-	-	-	25,000,000
Liabilities for Expenses	25,980,447	25,891,858	36,824,671	47,872,254	49,646,028
Liabilities for EFAS Premiums	9,377,313	10,763,259	12,199,955	13,673,217	15,178,156
Sundry Creditors	15,550,695	5,416,130	19,868,213	13,237,774	34,338,983
Provision for Taxation	99,611,586	63,474,668	90,172,848	117,664,802	91,909,963
Dividend Payable	52,000,000	52,000,000	15,626,314	58,589,200	62,489,200
Proposed Dividend	-	31,074,228	58,500,000	62,400,000	42,121,686
Total Current Liabilities	216,805,755	210,048,714	254,620,572	334,865,818	320,684,016
Long Term Liabilities					
Loan from Bangladesh Krishi Bank Under National Pilot Scheme	135,714,286	121,428,572	121,428,572	121,428,572	142,857,143
Total Liabilities	352,520,041	331,477,286	376,049,144	456,294,390	463,541,159
Financed By					
Share Capital	1,556,548,305	1,556,548,305	2,106,084,305	2,106,084,305	2,106,084,305
Retained Earnings	-	-	30,006,307	91,195,582	92,056,799
General Reserve	511,702,818	517,917,664	527,767,664	541,500,664	562,246,389
Share Money Deposit	-	267,396,000	-	-	-
Share Holders Equity	2,068,251,123	2,341,861,969	2,663,858,276	2,738,780,551	2,760,387,493
Building Reserve	200,000,000	200,000,000	200,000,000	200,000,000	240,000,000
Employees Welfare Funds	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Provision for Doubtful Debts & Share/Equity Loss	193,741,306	218,600,688	218,600,688	218,600,688	218,600,688
Exchange Equalization Reserve	141,172,366	184,983,220	213,946,117	234,550,667	261,721,428
Interest Suspense Account	361,335,091	441,347,210	455,346,608	512,661,608	577,706,732
Total Financed By	906,248,763	1,054,931,118	1,097,893,413	1,175,812,963	1,308,028,848
	2,974,499,886	3,396,793,087	3,761,751,689	3,914,593,514	4,068,416,341
Total Liabilities & Equity	3,327,019,927	3,728,270,373	4,137,800,833	4,370,887,904	4,531,957,500



Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.

Saudi-Bangladesh Industrial and Agricultural Investment Company
(SABINCO) Limited
Common Size Analysis of Balance Sheet at 31 December

	1996	1997	1998	1999	2000
	%	%	%	%	%
Liabilities & Shareholders Equity					
Current Liabilities					
Current Portion of Long Term Loan	0.42%	0.57%	0.52%	0.49%	0.00%
Short Term Loan From Dutch Bangla Bank Ltd.	0.00%	0.00%	0.00%	0.00%	0.55%
Liabilities for Expenses	0.76%	0.69%	0.89%	1.10%	1.10%
Liabilities for EFAS Premiums	0.27%	0.29%	0.29%	0.31%	0.33%
Sundry Creditors	0.45%	0.15%	0.48%	0.30%	0.76%
Provision for Taxation	2.91%	1.70%	2.18%	2.69%	2.03%
Dividend Payable	1.52%	1.39%	0.38%	1.34%	1.38%
Proposed Dividend	0.00%	0.83%	1.41%	1.43%	0.93%
Total Current Liabilities	6.33%	5.63%	6.15%	7.66%	7.08%
Long Term Liabilities					
Loan from Bangladesh Krishi Bank Under National Pilot Scheme	3.96%	3.26%	2.93%	2.78%	3.15%
Total Liabilities	10.60%	8.89%	9.09%	10.44%	10.23%
Financed By					
Share Capital	46.79%	41.75%	50.90%	48.18%	46.47%
Retained Earnings	0.00%	0.00%	0.73%	2.09%	2.03%
General Reserve	15.38%	13.89%	12.75%	12.39%	12.41%
Share Money Deposit	0.00%	7.17%	0.00%	0.00%	0.00%
Share Holders Equity	62.17%	62.81%	64.38%	62.66%	60.91%
Building Reserve	6.01%	5.36%	4.83%	4.58%	5.30%
Employees Welfare Funds	0.30%	0.27%	0.24%	0.23%	0.22%
Provision for Doubtful Debts & Share/Equity Loss	5.82%	5.86%	5.28%	5.00%	4.82%
Exchange Equalization Reserve	4.24%	4.96%	5.17%	5.37%	5.78%
Interest Suspense Account	10.86%	11.84%	11.00%	11.73%	12.75%
Total Financed By	89.40%	91.11%	90.91%	89.56%	89.77%
Total Liabilities & Equity	100.00%	100.00%	100.00%	100.00%	100.00%



**Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.**

**Saudi-Bangladesh Industrial and Agricultural Investment Company
(SABINCO) Limited
Percentage Change Analysis of Balance Sheet at 31 December**

	1997	1998	1999	2000
	%	%	%	%
Liabilities & Shareholders Equity				
Current Liabilities				
Current Portion of Long Term Loan	50.00%	0.00%	0.00%	-100.00%
Short Term Loan From Dutch Bangla Bank Ltd.				
Liabilities for Expenses	-0.34%	42.22%	30.00%	3.71%
Liabilities for EFAS Premiums	14.78%	13.35%	12.08%	11.01%
Sundry Creditors	-65.17%	266.83%	-33.37%	159.40%
Provision for Taxation	-36.28%	42.06%	30.49%	-21.89%
Dividend Payable	0.00%	-69.95%	274.94%	6.66%
Proposed Dividend	-	88.26%	6.67%	-32.50%
Total Current Liabilities	-3.12%	21.22%	31.52%	-4.24%
Long Term Liabilities				
Loan from Bangladesh Krishi Bank Under National Pilot Scheme	-10.53%	0.00%	0.00%	17.65%
Total Liabilities	-5.97%	13.45%	21.34%	1.59%
Financed By				
Share Capital	0.00%	35.30%	0.00%	0.00%
Retained Earnings	-	-	203.92%	0.94%
General Reserve	1.21%	1.90%	2.60%	3.83%
Share Money Deposit	-	-100.00%	-	-
Share Holders Equity	13.23%	13.75%	2.81%	0.79%
Building Reserve	0.00%	0.00%	0.00%	20.00%
Employees Welfare Funds	0.00%	0.00%	0.00%	0.00%
Provision for Doubtful Debts & Share/Equity Loss	12.83%	0.00%	0.00%	0.00%
Exchange Equalization Reserve	31.03%	15.66%	9.63%	11.58%
Interest Suspense Account	22.14%	3.17%	12.59%	12.69%
Total Financed By	16.41%	4.07%	7.10%	11.24%
Total Liabilities & Equity	12.06%	10.98%	5.63%	3.69%



**Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.**

**Saudi-Bangladesh Industrial and Agricultural Investment
Company (SABINCO) Limited
Profit & Loss Account for the Year Ended 31 December 1996 - 2000**

	1996 Tk.	1997 Tk.	1998 Tk.	1999 Tk.	2000 Tk.
Revenue					
Project Examination/Monitoring and Documentation Fees	3,369,530	2,337,750	1,394,828	4,841,237	1,375,000
Underwriting Commission	2,250,000	495,000	2,462,070	-	2,500,000
Commitment Charge	458,262	1,030,741	594,444	915,421	400,215
Loan Interest	99,065,217	117,782,806	137,882,938	183,384,428	134,223,854
Dividend	10,783,125	10,200,693	14,699,739	11,192,667	19,846,190
Exchange Gain	32,713,992	13,390,001	31,393,015	30,860,016	34,715,290
Profit/(Loss) on Sale of Share	65,399,062	(12,595,913)	(3,130,824)	1,439,631	(4,778,301)
Other Income	69,747	4,121	1,363,943	8,542	6,246,524
Total Revenue	214,108,935	132,645,199	186,660,153	232,641,942	194,528,772
Operating Expenses					
General & Administrative Expenses	23,311,470	28,855,020	35,554,659	46,636,115	47,687,079
Financed Cost	10,333,351	10,288,038	10,000,000	10,000,000	11,514,801
	33,644,821	39,143,058	45,554,659	56,636,115	59,201,880
Income from Operation	180,464,114	93,502,141	141,105,494	176,005,827	135,326,892
Add: Non Operating Income					
Interest on Bank Deposit	16,365,026	6,930,879	32,917,323	53,899,040	38,872,991
Profit/(Loss) on sale of Fixed Assets	202,439	107,227	54,241	(13,477)	9,100
Net Earning for the Year	197,031,579	100,540,247	174,077,058	229,891,390	174,208,983
Principal Loan Written Off	-	-	-	-	(1,500,000)
Prior Year Adjustment	-	-	(8,460,285)	-	(2,996,206)
	-	-	-	229,891,390	169,712,777
Provision for Tax	(54,555,686)	(38,391,791)	(67,260,466)	(92,569,115)	(65,984,149)
Net Earning After Tax	142,475,893	62,148,456	98,356,307	137,322,275	103,728,628
Retained Earnings from Previous Year	-	-	-	30,006,307	91,195,582
Profit Available for Appropriation	142,475,893	62,148,456	98,356,307	167,328,582	194,924,210



**Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.**

**Saudi-Bangladesh Industrial and Agricultural Investment Company
(SABINCO) Limited
Common Size Analysis of Profit & Loss Account**

	1996	1997	1998	1999	2000
	%	%	%	%	%
Revenue					
Project Examination/Monitoring and Documentation Fees	1.57%	1.76%	0.75%	2.08%	0.71%
Underwriting Commission	1.05%	0.37%	1.32%	0.00%	1.29%
Commitment Charge	0.21%	0.78%	0.32%	0.39%	0.21%
Loan Interest	46.27%	88.80%	73.87%	78.83%	69.00%
Dividend	5.04%	7.69%	7.88%	4.81%	10.20%
Exchange Gain	15.28%	10.09%	16.82%	13.27%	17.85%
Profit/(Loss) on Sale of Share	30.54%	-9.50%	-1.68%	0.62%	-2.46%
Other Income	0.03%	0.00%	0.73%	0.00%	3.21%
Total Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expenses					
General & Administrative Expenses	10.89%	21.75%	19.05%	20.05%	24.51%
Financed Cost	4.83%	7.76%	5.36%	4.30%	5.92%
	15.71%	29.51%	24.41%	24.34%	30.43%
Income from Operation	84.29%	70.49%	75.59%	75.66%	69.57%
Add: Non Operating Income					
Interest on Bank Deposit	7.64%	5.23%	17.63%	23.17%	19.98%
Profit/(Loss) on sale of Fixed Assets	0.09%	0.08%	0.03%	-0.01%	0.00%
Net Earning for the Year	92.02%	75.80%	93.26%	98.82%	89.55%
Principal Loan Written Off	0.00%	0.00%	0.00%	0.00%	-0.77%
Prior Year Adjustment	0.00%	0.00%	-4.53%	0.00%	-1.54%
	0.00%	0.00%	0.00%	98.82%	87.24%
Provision for Tax	-25.48%	-28.94%	-36.03%	-39.79%	-33.92%
Net Earning After Tax	66.54%	46.85%	52.69%	59.03%	53.32%
Retained Earnings from Previous Year	0.00%	0.00%	0.00%	12.90%	46.88%
Profit Available for Appropriation	66.54%	46.85%	52.69%	71.93%	100.20%



**Saudi – Bangladesh Industrial and Agricultural
Investment Company (SABINCO) Ltd.**

**Saudi-Bangladesh Industrial and Agricultural Investment Company
(SABINCO) Limited
Percentage Change Analysis of Profit & Loss Account**

	1999	1998	1997	2000
	%	%	%	%
Revenue				
Project Examination/Monitoring and Documentation Fees	-30.62%	-40.33%	247.08%	-71.60%
Underwriting Commission	-78.00%	397.39%	-	-
Commitment Charge	124.92%	-42.33%	54.00%	-56.28%
Loan Interest	18.89%	17.07%	33.00%	-26.81%
Dividend	-5.40%	44.11%	-23.86%	77.31%
Exchange Gain	-59.07%	134.45%	-1.70%	12.49%
Profit/(Loss) on Sale of Share	-119.26%	-75.14%	-145.98%	-431.91%
Other Income	-94.09%	32997.38%	-99.37%	73027.18%
Total Revenue	-38.05%	40.72%	24.63%	-16.38%
Operating Expenses				
General & Administrative Expenses	23.78%	23.22%	31.17%	2.25%
Financed Cost	-0.44%	-2.80%	0.00%	15.15%
	16.34%	16.38%	24.33%	4.53%
Income from Operation	-48.19%	50.91%	24.73%	-23.11%
Add: Non Operating Income				
Interest on Bank Deposit	-57.65%	374.94%	63.74%	-27.88%
Profit/(Loss) on sale of Fixed Assets	-47.03%	-49.41%	-124.85%	-167.52%
Net Earning for the Year	-48.97%	73.14%	32.06%	-24.22%
Principal Loan Written Off	-	-	-	-
Prior Year Adjustment	-	-	-	-
	-	-	-	-26.18%
Provision for Tax	-29.63%	75.19%	37.63%	-28.72%
Net Earning After Tax	-56.38%	58.26%	39.62%	-24.46%
Retained Earnings from Previous Year	-	-	-	203.92%
Profit Available for Appropriation	-56.38%	58.26%	70.12%	16.49%



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