



Internship Report

Submitted to

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Internship Report

On

*“Merchant Banking And Capital Investment functions
and Operations of IDLC Finance Limited”*



Letter of Transmittal

25th May 2016

Tanzin Khan,
Lecturer, BRAC Business School,
BRAC University, Mohakhali.

Subject: Submission of Internship Report

Madam,

It is an immense pleasure for me to submit my internship report. I was assigned to work at IDLC Finance Limited. These three months of the internship program helped me to learn a lot. This gave me the opportunity to theoretical knowledge in practical field, which will help me in my future career.

It would be a profound pleasure for me if the report can serve its purpose. I would be available in any time to explain you any queries if feel necessary.

Sincerely,

.....

Khalid Hossian

ID-11304106

Dept-BBS

Acknowledgement

First of all I would like to thank almighty Allah for giving me the patience and proper time to complete the internship program successfully. I would like to express special gratitude to my internship supervisor **Nabeel Mosharraf**, Senior Officer, Operations, IDLC Finance Limited. It was his encouragement, patience and valuable feedback that enabled me to complete this report.

The report contains high voltage information's and its all information is collected from IDLC Finance Limited. This reports major objective is to know the details of Operations of IDLC Finance Limited.

This report has some Analysis and major Findings of the study & some recommendations and conclusion.

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Khalid Hossain

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1.1 INTRODUCTION

In order to strengthen the capital market of Bangladesh the newest initiative of the government and the regulatory bodies has been to promote merchant banking. The capital market of Bangladesh has yet to find a solid ground and the investor confidence in the market is not significantly high, especially after the stock market crash in 1996. Observing the poor performance of the market over the years the government has taken initiatives to reform the market. One of such step is to allow banks and financial institutions offering other financial and banking services to open up their merchant banking wing.

Since merchant banking is a quite new concept in financial system in Bangladesh and significantly differs with traditional banking, there is lot of scopes to explore and develop the industry. At the same time for financing larger investments, investors need to know the functions and usefulness of merchant banking. General investors also can be benefited investing through merchant banking service like portfolio management. Although merchant banks are not providing all range of service that they can do, but day by day they are enlarging their service area in the capital market of Bangladesh.

One of the renowned names in Bangladesh financial market is Industrial Development Leasing Company (IDLC) Finance Limited. It started its operation in the year 1985 as the pioneer leasing company to facilitate lease-financing and capital investment in industrial sector with the view of “Become the best performing and most innovative financial solutions provider in the country”. Over the years the company has evolved itself as a multi-product non-banking financial institution providing wide range of products and services. One of its major services is Merchant Banking operation. Portfolio Management Service is the latest addition of its dynamic products which is under the merchant bank wing. This report will review the functions and the value creation by Merchant Banking system of IDLC finance limited. Beside this it will also partially discussed about the functions and activities of capital market of Bangladesh.

1.2 ORIGIN OF THE REPORT

I have been assigned to do my Internship program in the IDLC Finance Limited, Merchant Banking Division, DOHS Branch, as a partial requirement of the B.B.A Program. It is a four credit course to complete the B.B.A program of the BRAC University. I have to submit a report after gaining experience of twelve weeks on IDLC Finance Limited and also I could have to know the real life working situation and non-banking sector of Bangladesh. I hope the report will give a clear idea about the activities and the operational strategies of IDLC Finance Limited.

1.3 OBJECTIVES OF THE REPORT

The report purports to focus on three aspects:

- I. The organization
- II. Job description and
- III. The project :- **How merchant banking operates in capital market and their capital investment functions.**

1.4 OBJECTIVES OF THE ORGANIZATIONAL PART

The purpose of the organizational part is to demonstrate the experience of the twelve week internship program and analyze the activities, performances and also to demonstrate their strength, weakness, opportunities, threats and other business affairs of IDLC Finance Ltd.

1.5 OBJECTIVES OF THE PROJECT PART

This part of the report encompasses a brief rundown on the various functions and operations of the Merchant Banking Division of IDLC. I was allowed to have a practical orientation in every department of the Merchant Banking Division of IDLC. Thus, all practical information used in this is more or less collected through the day to day orientation.

1.6 SPECIFIC OBJECTIVES

Apart from the organizational and the project parts, the report will also contains some specific objectives – to know about the historical background of the merchant banking of our country and the current status of the stock market of Bangladesh.

1.7 SCOPE

I have been assigned in the Merchant Banking Division of IDLC Finance Ltd and thus give me the way to get myself familiarized with the non-banking environment for the first time indeed. I have had an opportunity to gather experience by working in the different desks of the branch. The area of concentration of this report is confined in investigating different aspects of the merchant banking transactions, problems, prospects.

1.8 METHODOLOGY

The paper will be written on the basis of information collected from primary and secondary sources. The primary information has been collected from the Institutional and as well as some general clients of the bank.

The secondary information has been collected from the bank's records, corporate newsletter, branches manuals, different websites and various publications in the bank.

Some opinions and ideas have been incorporated in the paper through interactive sessions and interviews with the top management and mid level executives of the organization.

1.9 LIMITATIONS

During my orientation I am able to learn a lot of things but still it was not enough. There are some limitations that I can't ignore. The main limitations were:

- First of all the duration of my orientation was not enough to cover all aspects of non-banking operations.

- Data unavailability was the constraint. Official documents on the detail activities of the department were not available.
- As an Intern, I don't have access into much confidential information of the organization.

1.10 THE PIONEER

IDLC Finance Ltd commenced its journey, in 1985, as the first leasing company of the country with multinational collaboration and the lead sponsorship of the International Finance Corporation (IFC) of The World Bank Group. Technical assistance was provided by Korea Development Leasing Corporation (KDLC), the largest leasing company of the Republic of South Korea.

IDLC, which has now emerged as Bangladesh's leading multi-product financial institution, has amongst its external share-holders, international development agencies such as the Aga Khan Fund for Economic Development (AKFED) and German Investment and Development Company (DEG) besides the IFC. The other foreign sponsors include Kookmin Bank of the Republic of Korea in addition to KDLC and, all these institutions together hold 45% of the Company's shares.

Three Bangladeshi financial institutions - IPDC of Bangladesh Limited, The City Bank Limited, Sadharan Bima Corporation and the general public hold the remaining 55% of the shareholding in this public limited company listed with the Dhaka Stock Exchange. IDLC is on the list of the twenty (20) largest capitalized companies in the country.

The unique institutional shareholding structure comprising mostly of financial institutions helps the company to constantly develop through sharing of experience and professional approach at the highest policy making level.

IDLC, as a multi-product financial institution, offers a diverse array of financial services and solutions to institutional and individual clients to meet their diverse and unique requirements. The product offerings include Lease Finance, Term Finance, Real Estate Finance, Short Term Finance, Corporate Finance, Merchant Banking, Term Deposit Schemes, Debentures and Corporate Advisory Services.

IDLC's vision is to be Bangladesh's best multi-product financial institution. In achieving this vision and goal, they realize the importance of taking due care of all of their constituents, particularly the share-holders, customers and workforce. The corporate philosophy is to perform with proper accountability and achieve highest ethical standards in all their activities.

IDLC's unique institutional shareholding structure, comprising mostly of financial institutions, helps the company to constantly develop through sharing of experience and professional approach at the highest policy making level. The company has authorized capital of Taka 1,000,000,000 (10,000,000 shares of Taka 100 each) and paid up capital of Taka 150,000,000 (1,500,000 ordinary shares of Taka 100 each). IDLC has also established two wholly owned subsidiaries, IDLC Securities Limited and I, Cons Limited to provide customers with security brokerage solutions and IT solutions, respectively.

2.1 THE SPONSORS



International Finance Corporation



German Investment & Development Company



Korea Development Leasing Corporation



Kookmin Bank



Sadharan Bima Corporation



The City Bank Ltd



IPDC of Bangladesh Ltd

2.2 CAPITAL STRUCTURE

Authorized Capital	BDT 1,000.00 Million
Paid-up Capital (including share premium)	BDT 250 Million

Table: IDLC's Capital Structure as of December 31, 2006

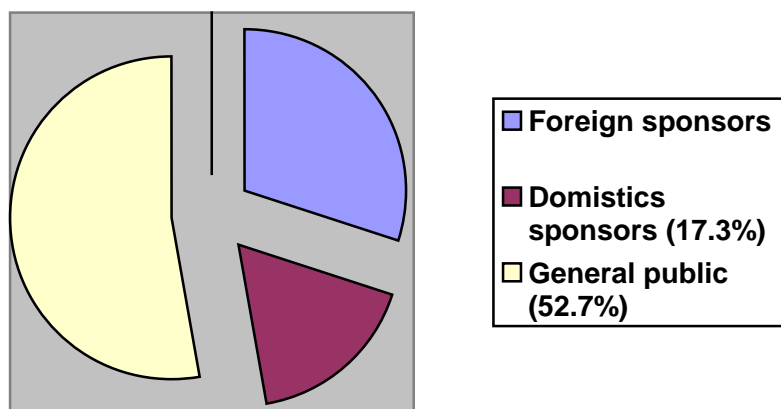
2.3 SHAREHOLDING STRUCTURE

IDLC was incorporated in the year 1985 as a joint venture public limited company among five foreign and three local financial institutions. Now the foreign sponsors hold 32.4% of its share and domestic sponsors and general public hold the rest. A list of shareholders is provided here.

Foreign Sponsors	30.00%
Korea Development Financing Corporation (KDFC), South Korea	20.00%
Kookmin Bank, South Korea	10.00%
Domestic Sponsors	17.3%
The City Bank Limited	9.70%
Sadharan Bima Corporation	7.62%
General Public	52.7%
Mercantile Bank Ltd.	7.5%
Eskayef Bangladesh Ltd.	8.00%
Reliance Insurance Ltd.	7.00%
Other institutions	14.2%
Individuals	16.00%

Table: Shareholding Structure of IDLC as of December 31, 2006

Sponsors



2.4 COMPANY CHRONICLE

- **May 23, 1985** Incorporation of the Company
- **February 22, 1986** Commencement of leasing business
- **October 1, 1990** Establishment of branch in Chittagong, the main port city.
- **March 20, 1993** Listed on the Dhaka Stock Exchange.
- **February 7, 1995** Licensed as Non-Banking Financial Institution under the Financial Institutions Act, 1993.
- **November 25, 1996** Listed on the Chittagong Stock Exchange.
- **May 27, 1997** Commencement of Home Finance and Short Term Finance operations.
- **January 22, 1998** Licensed as a Merchant Banker by the Securities and Exchange Commission.
- **January 15, 1999** Commencement of Corporate Finance and Merchant Banking operations.
- **January 29, 2004** Opening of the first retail focused branch at Dhanmondi.
- **June 29, 2004** Opening of Gulshan Branch.
- **November 22, 2004** Launching of Investment Management Services "Cap Invest"
- **February 7, 2005** Issuance of Securitised Zero Coupon Bonds by IDLC Securitisation Trust 2005
- **September 18, 2005** Launching of Local Enterprise Investment Centre (LEIC), a centre established for the development of SMEs with the contribution of the Canadian International Development Agency (CIDA) of the Government of Canada.
- **January 2, 2006** Opening of SME focused branch at Bogra.
- **April 6, 2006** Opening of Branch at Uttara.
- **May 18, 2006** Opening Merchant Banking branch in the port city of Chittagong.
- **July 1, 2006** Relocation of Company's Registered and Corporate Head Office at own premises at 57, Gulshan Avenue.

- **September 18, 2006 Commencement** of operation of IDLC Securities Limited, a wholly owned subsidiary of IDLC.
- **March 14, 2007** Launching of Discretionary Portfolio Management Services "Managed Cap Invest"
- **August 5, 2007 Company** name changed to IDLC Finance Limited from Industrial Development Leasing Company of Bangladesh Limited.
- **December 3, 2007 IDLC** Securities Limited Chittagong Branch commenced operation.
- **December 18, 2007** IDLC Securities Limited DOHS Dhaka Branch opened.
- **January 6, 2009** IDLC Finance Limited and IDLC Securities Limited open Sylhet branches

(IDLC Milestones)

2.5 GUIDING PRINCIPLES

IDLC is a multi-product financial institution offering an array of diverse financial services and solutions to institutional and individual clients to meet their diverse and unique requirements. Following are the guiding principles that shape the organizational practice of IDLC

Customer first: IDLC has grown with its customers, who are believed to be the center of all actions. As the crux of IDLC's corporate philosophy, customer service gets the highest priority.

Innovation: IDLC has continuously introduced new financial products for meeting the needs of the entrepreneurs in a complex & challenging business environment. The concept of innovation is in-built into the working culture.

Professional Knowledge: IDLC is staffed with qualified professionals and innovative minds in the country. Years of operational experience, large industrial database and competent workforce have gives them unparalleled advantages.

Professional ethics: The professional at IDLC maintain the highest degree of financial and business ethics in all transactions with the clients. Over the last two decades, IDLC have put in bets efforts to meet the expectations of the clients and investors.

One stop solution: Work at IDLC begins with the idea generation, and then goes on into the feasibility study followed by arrangement of financing to implement the project. IDLC advises the clients, finance them and even arrange financing for them via different financing modes, namely: lease financing, term loan, bridge loan, syndication, bridge loan, syndication, ordinary shares, preferred shares and debentures.

Vision: Become the best performing and most innovative financial solutions provider in the country

Mission: Create maximum possible values for all the stakeholders by adhering to the highest ethical standards

For the Company: Relentless pursuit of customer satisfaction through delivery of top quality services.

For the Shareholders: Maximize shareholders' wealth through a sustained return on the investment.

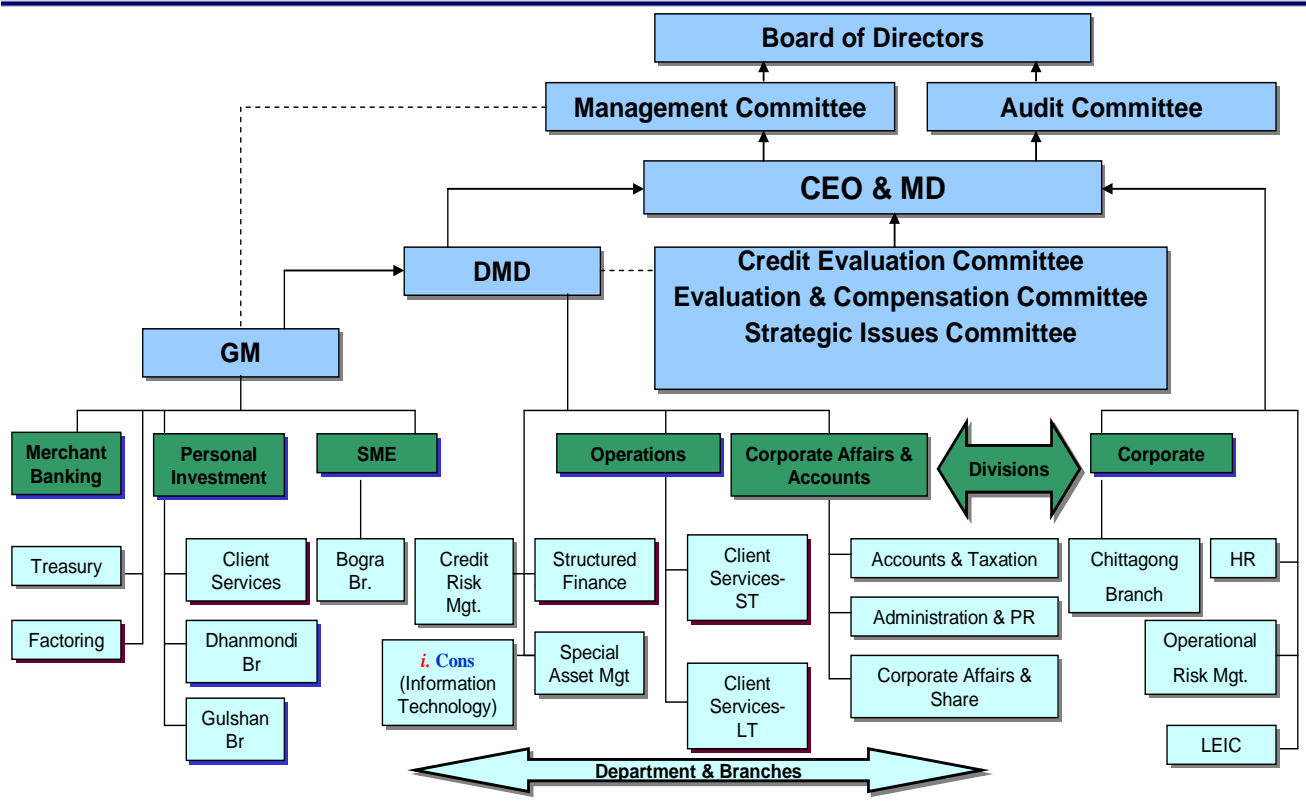
For the employees: Provide job satisfaction by making IDLC a center of excellence with opportunity of career development.

For the society: Contribute to the well-being of the society, in general, by acting as a responsible corporate citizen.

Goal: Long term maximization of Stakeholders' value

Corporate Philosophy: Discharge the functions with proper accountability for all actions and results and bind to the highest ethical standards

2.6 BOARD OF DIRECTORS



1

Organogram as on September, 2007

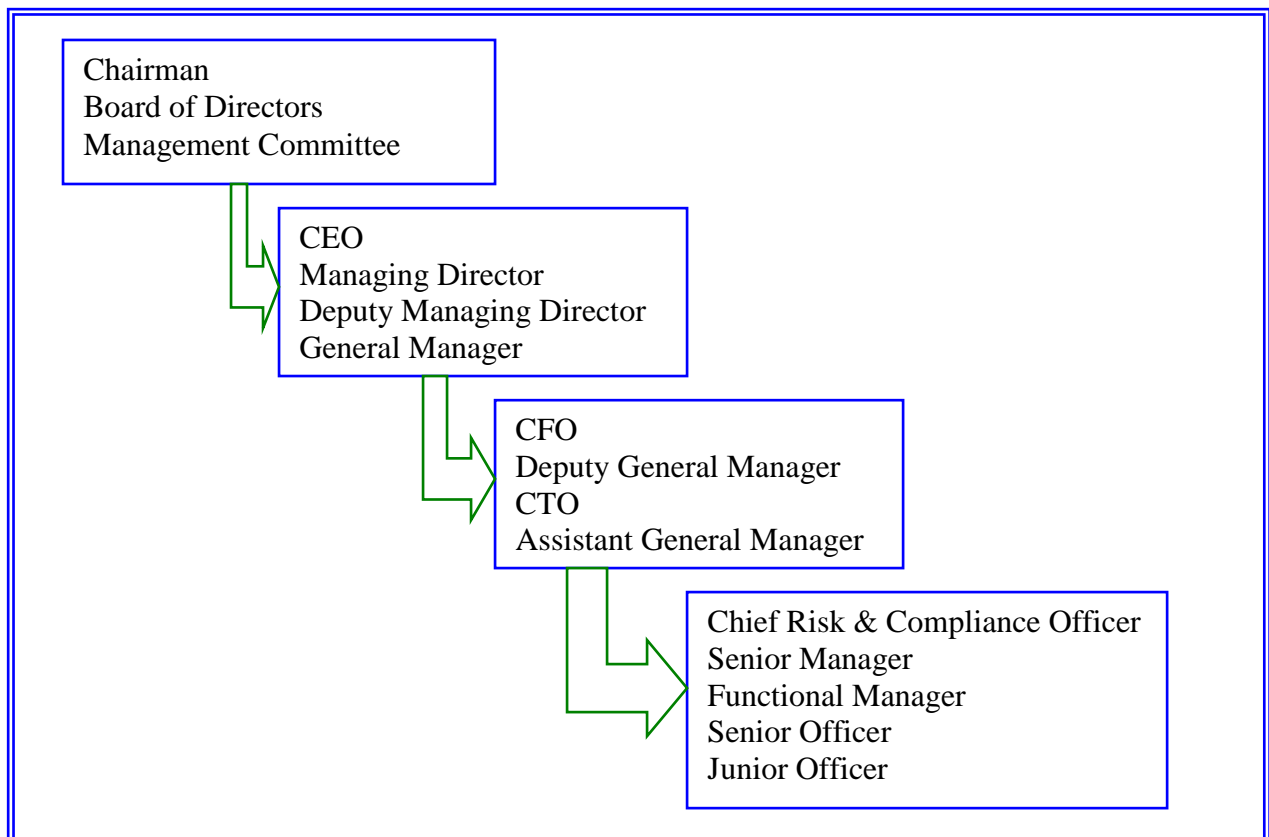
Chairman

Anwarul Huq, Joint Managing Director, Reliance Insurance Ltd.

Directors

Abbas Uddin Ahmed, Managing Director, The City Bank Ltd.
 Khan Tariqul Islam, General Manager (F & A), IPDC of Bangladesh Ltd.
 Ahmed Rajeeb Samdani, Director, The City Bank Ltd.
 Akhter Ahmed, Managing Director, Sadharan Bima Corporation
 Lee Dong Jue, President & CEO, Korea Development Leasing Corporation
 Woo Shick Lee, General Manager, International Financing Team, Kookmin Bank
 Yongbok Jo, Deputy Managing Director,

	IDLC Finance Ltd.
CEO & Managing Director	Anis A. Khan
Company Secretary	Yongbok Jo
Management	Anis A. Khan, CEO & Managing Director Yongbok Jo, Deputy Managing Director Syed Ehsan Quadir, Deputy Managing Director M. Minhaz Zia, General Manager Arif Khan, Deputy General Manager Ashfaq Ahmed, Deputy General Manager H M Ziaul Hoque Khan, Assistant General Manager Mir Tarikuzzaman, Assistant General Manager Bilquis Jahan, Assistant General Manager



2.7 PRODUCTS AND SERVICES

Name of Product Line	Product Name
Structured Financing	Syndication Advisory Services Merger and Acquisition Securitization Local Enterprise Investment Center
Real Estate Financing	Real Estate Finance Home Loan
Lease Financing	
Short Term Financing	Factoring of Accounts Receivable Work Order Finance
Deposit Schemes	Cumulative Term Deposit Annual Profit Term Deposit Monthly Earner Deposit Double Money Deposit Inter Corporate Deposit
Merchant Banking Services	Issue Management Underwriting Private Placement Portfolio Management Trusteeship Management Bridge Loan Financing
Personal Loan	Car Loan Personal Loan
SME Loan	

2.8 LEASE FINANCING

IDLC offer lease financing for all types of manufacturing and service equipment including vehicles, computer and medical equipment to all the major industrial sectors.

Major Features of Leasing: In leasing, the client has the full liberty to select the equipment, supplier and fix terms and conditions including price. They will buy the equipment of the client's choice.

Lease rental is determined based on acquisition cost and lease term. Lease term usually ranges from three (3) to five (5) years. Repayment through monthly lease rental is most common, however, quarterly or half yearly payment can also be considered.

2.9 REAL ESTATE FINANCING

IDLC extend loan facilities to:

- Individuals for Purchase / construction / renovation / extension of house/ apartments
- Purchase / construction of house for the employees under corporate house finance scheme
- Office chamber/space for professionals
- Real estate Developer for construction of apartment project
- Corporate Business Houses for purchase of office space / chamber / display centre, Construction / purchase of commercial building, Construction of commercially viable project like School, Hotel and Hospital etc. and also for Construction of industrial building like factory, go-down, warehouse, etc.

Any individual in employment/service (both government and private), businessmen, professionals, corporate bodies, renowned business houses and NGOs can apply for the loan under this scheme from us.

Maximum loan amount: For Individuals, the maximum loan amount is Tk. 5 million or 50% of the price of apartment/office space/showroom, whichever is lower,

and Tk. 5 million or 50% of construction/extension/repair or renovation cost of house or office, whichever is lower.

However, for corporate bodies/business houses/developers the loan amount is flexible.

The client's repayment capacity would determine his/her eligibility for the loan amount.

- **Loan Term:**
 - For Individuals - maximum fifteen (15) years term is offered for purchase/construction/renovation/ extension of residential apartment/ house.
 - For Corporate bodies/business houses – maximum seven (7) years for purchase/construction/ renovation/extension of commercial space, office space, and display centre, etc.
 - For Developers – maximum three (3) years for construction.
- **Loan Installment:** Installment is determined based on loan amount and tenure. Monthly installment is most common, however, quarterly payment can also be considered for corporate and developer finance.
- **Security against the loan:** Mortgage of the property concerned is usually the security. However, other securities are also considered.

2.10 SHORT TERM FINANCING

Factoring of Accounts Receivable: Factoring of accounts receivable consists of a combination of the following services:

- Financing
- Sales ledger administration and reporting
- Collection

The benefits of Factoring is that the client can obtain upfront financing against credit sales which strengthen his cash flow leading to faster growth, greater turnover and

more net profit. Their follow up of collections contributes to improvement in the client's overall collection performance. Their customer assessment enables the client to choose the credible customers and fix safe credit limits which will substantially improve credit administration.

Work Order Finance: They provide finance against work orders from reputed multinational companies, local blue chip companies, large NGOs and government institutions. The client can meet his delivery/performance deadlines specified in the work order by mobilizing funds from us.

3.1 STRUCTURED FINANCING

Syndication: or project requiring large-scale investment, they raise funds from banks/financial institutions through syndication. As lead Syndication Arranger, IDLC will help the client in the documentation, execution and administration of the syndicated finance.

Merger and Acquisition (M&A): If the client is thinking of creating synergy for his organization through Merger, Acquisition or Consolidation, They can help in the client's search for the right organization and evaluate the targeted concern through economic analysis, industry and market analysis, and accounting and financial analysis. IDLC also select the method of M&A and make valuation of the target company with the objective of making the whole deal profitable.

Corporate Counseling: IDLC provide advice to ensure better corporate performance in terms of prolonged existence and survival and steady growth.

IDLC can help to redesign capital structure and provide an appropriate structure so that the client may experience an optimum growth and minimum risk.

They also help the client to diagnose the financial problems of his company and provide customized solution through financial engineering.

Project Counseling: IDLC systematically develop the client's idea into a plan or scheme and help prepare the appraisal and project feasibility report including its financing structure. They also prepare complete feasibility report for BMRE project.

Securitization: IDLC are equipped with technical expertise to provide modern financial services like Securitization through which the client can sell financial instruments backed by asset/cash flows.

3.2 MERCHANT BANKING

Merchant Banking offers the following Services:

Issue Management: As Issue Manager, IDLC plan, coordinate and control the entire issue activity to help raise fund through public offering of share/debenture.

Underwriting: IDLC underwrite the IPO of public limited companies on a firm commitment basis.

Private Placement: Their Merchant Banking Team will place shares/debenture with both domestic and overseas investors (Institutions and individuals) on private placement basis.

Bridge Finance: IDLC arrange short term fund in anticipation of immediate long term financing such as loan against public issue, private placement, loan syndication, etc.

3.3 DEPOSIT SCHEMES

Term Deposit Schemes: IDLC accept deposits from a diverse clientele of local and foreign corporate bodies, insurance companies, banks and individuals. Offer the following four deposit products which provide their customers attractive saving options:

IDLC Cumulative Term Deposit: Under this scheme the deposit amount taken will mature to a lump sum amount on completion of the deposit term. In this scheme profit will be accumulated and thereby will help individuals to meet their substantial future requirements.

Term	Profit Rate	Term End Amount (For every Tk. 500,000)
1 Year	10.25%	551,250
2 Year +	10.25%	607,753

IDLC Annual Profit Term Deposit: Under this scheme the depositor will receive profit every year against the deposits. This annual profit distribution will help the depositor to maintain a regular flow of income while keeping the original deposit amount intact.

Term (Month)	Annual Profit Rate
1 Year	10.25%
2 Year +	10.25%

IDLC Monthly Earner Deposit: Under this scheme the depositor will receive a fixed monthly return against the deposit amount. This is an ideal scheme for individuals who want to preserve their capital and at the same time want to earn money to meet their recurring expenses. It can ensure a regular return on retirement benefit funds.

Period	Monthly Income (For every Tk. 500,000)	Profit Rate
2 years +	4,167	10.00%

IDLC Double Money Deposit: Under this scheme, the deposited amount will double on completion of the term. This scheme will help individuals to meet their substantial future requirements.

Period	Monthly Income (For every Tk. 500,000)	Profit Rate
7 Years 2 Months	1,000,000	10.25%

Features of IDLC's Deposit Products

- **Secured Investment:** Deposit with IDLC is completely secured. IDLC is the leading multi product financial institution of the country, successfully engaged in financing activities for nearly two decades. The Company is managed by a group of qualified professionals. The fund raised from various sources is prudently utilized in financing activities.
- **Customer service:** IDLC thrive to provide the best customer service. IDLC always deliver very prompt, efficient and personalized services to their depositors.

- **Attractive Return:** Attractive return is offered on the deposit products, which ensures the fast growth of the depositor's money.
- **Diverse Option:** IDLC offer a range of deposit products which are ideally suited to fulfill the diverse needs of the individuals.
- **Period:** Minimum deposit period is one year. Deposits cannot be en-cashed within one year as per the rules of Bangladesh Bank.
- **Premature Withdrawal:** Deposits can be en-cashed only after the completion of one year, however, in case of premature encashment depositors will receive interest at less than 2% of the rate applicable for the period completed.
- **Amount:** At present, the minimum deposit amount is Tk. 500,000.
- **Nomination Facility:** The depositor can nominate one or more individuals as his/her nominee, and the nominee can withdraw the deposit amount in the absence of the depositor.

Debentures: IDLC have been raising fund for their financing activities through issuance of privately placed debentures. They first issued privately placed debenture, in 1997, in favor of the largest non-governmental organization of the country and a leading commercial bank. Subsequently, they have been successful in issuing sizable amount of privately placed debentures and this activity is ongoing.

With a view to developing the capability of Financial Institutions to raise their funding sources, Financial Institutions Development Project (FIDP) was launched by International Development Association (IDA) and Government of Bangladesh in 2002. Under the FIDP, Credit, Bridge and Standby Facility (CBSF) were established. The Bangladesh Bank is empowered to administer the CBSF on behalf of the Government of Bangladesh.

IDLC have been successful in meeting the criteria of CBSF and were declared eligible to participate in the FIDP. The basic spirit of FIDP is to help them to generate funds from non-conventional and alternate sources. The FIDP helps the participating Financial Institutions in resource mobilization. A Financial Institution can mobilize

resources in two ways - through issuance of debentures and through securitization. Under FIDP, the participating Financial Institutions have already started to issue Secured Transferable Debentures. Till date, IDLC have successfully issued Secured Transferable Non-Convertible Redeemable Debentures to the tune of Tk. 140 million under CBSF.

Salient Features of their Debenture: The salient features of their debenture are detailed below:

Instrument	Secured Transferable Non-Convertible Redeemable Debenture
Debenture Value/ Face Value	Tk 5.00 million per Debenture
Maturity	3 to 5 years
Coupon Rate	Depending on the prevailing market rate
Redemption	Redemption on annual interval one year after the disbursement date. However, bullet payment can also be made on maturity at the investors option
Security	The debentures are secured by way of a first charge on the fixed, movable and immovable properties of IDLC ranking pari-passu with the existing and future lenders/ investors
Liquidity	The debentures are freely transferable through Form 117
Additional Liquidity	The debenture holders will have access to repo facility of CBSF under the repo facility. Debenture holders can sell debentures to CBSF at a discount which will be set based on market liquidity, security quality, prevailing market conditions. The repo will be for a maximum period of six months. the minimum size of a repo transaction will be Tk. 10 million.

3.4 PESTLE ANALYSIS

Political, Environmental, Social, Technological, Legal, and Economical analysis are very important before measuring any organization's performance. To evaluate the position of IDLC in the industry, it is essential to know where and in what situation this institution is performing its operations. Following factors are discussed to show their effect on IDLC and on this industry of Bangladesh as a whole.

Political Factors: Political environment was always unstable and it always affects every aspect of life of this developing country. Due to political turmoil since October 2006 the share market behaves inconsistently. During this period, DSE general index reached into record maximum point and also fallen to record minimum point. 26th November, 2007 DSE GEN reached 3071 point increasing 127 in a single day while 3rd December it fallen to 2873 decreasing 93 points single day lose. This indicates lack of confidence among investors and uncertainty in the capital market.

Economic Factors: Economic forces are the factors that affect the consumer buying power and spending patterns. Despite political turmoil Bangladesh saw a record GDP growth rate of 6.7% in fiscal year 2005-06. At the same time export oriented manufacturing, the industrial sector rose by 10.47% and the foreign exchange reserves achieved a new high of US\$ 3.9 billion at the end of 2006. However due to massive seasonal flood and cyclone SIDR attack, the projected growth for the fiscal year 2007-2008 will be tough to achieve. Beside this high inflationary pressure led by hike in price of essentials, fuel, oil, power shortage, uncertainty in politics, reduced RMG export will worsen the situation.

Social Factors: These are the forces related to society's basic values, perceptions, preferences and behavior. People grow up in a particular society that shapes their basic belief and behavior pattern. These forces affect the survival and success of every industry of the given society. For the record of share market points, experts claims the investors' mindset and lack of knowledge. Thus merchant banking industry heavily influenced by social factors.

Technological Factors: It is a common saying that today's world is a world of technology and only those will survive who can be up-to-date with the technology.

Technological forces are those that create new advancement, create innovative products and market opportunities. To operate in the share market every broker house must be connected to TESA (The Electronic Securities Architecture), the trading software of DSE. The principle function of TESA includes Market Information, Order Management, Order Execution, Trade Reporting, Index calculation, and Market Access. It runs 24 hrs in a day & 365 days in a year.

Legal Factors: The only regulatory body for monitoring share trading is Bangladesh Bank (BB) and Security Exchange Commission (SEC). BB has the power to impose penalties for non-compliance and also to intervene in the management of a bank if serious problems arise. The major policies and activities of the central bank of Bangladesh can be covered in to Interest Rate Policy, Capital Adequacy Requirement, Loan Classification and Provisioning Requirements, Foreign Exchange System Monitoring, and Exchange Rate Policy. The central bank regulations related to merchant banking are covered under the following acts:

1. The Foreign Exchange Regulation Act, 1947
2. The Banking Companies Act, 1991
3. Financial Institutions Act, 1993

The Bangladesh Bank also has defined guidelines in addition to these acts, which also need to be strictly adhered to. The guidelines are covered under the following heads:

- a. The Foreign Exchange Policy Guideline
- b. Prudential Guidelines for Banking Companies

For example in 25th November, 2007 SEC imposed rule declaring ban on margin loan in all merchant banks.

Environmental Factors: Environmental factors are those that affect the industry due to environmental, ecological or ethical changes. Since share trading is not highly related to environmental factors, the merchant banking industry is also not influenced by those factors. However, some large companies of this industry checks whether its clients is complying with the Environmental Conservation Act 1995 and Environmental Conservation Rule 1997 properly in the investment projects.

IDLC Finance Limited is a financially very strong company. Over the last 21 years it has contributed significantly to the economy. In has invested over 320 crores in diversified industries. To get its financial performance, last five years information is discussed here.

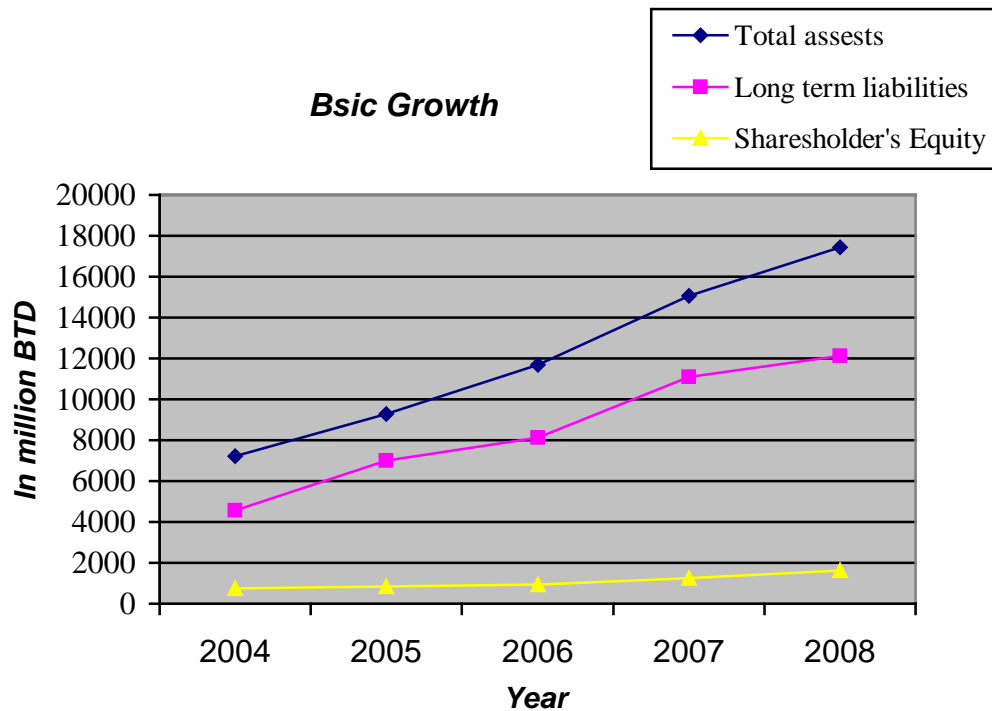
3.5 FINANCIAL PERFORMANCE

During the last five years IDLC major financial performance are presented here. This information is collected form the annual reports of the company.

(Tk. in Million)	2004	2005	2006	2007	2008
Lease and term loans executed	2030	2,564	2,875	2977	3412
Housing finance disbursement	519	898	1,205	1255	1612
Short Term finance portfolio	420	355	326	213	336
Lease Finance portfolio	4174	4,711	5,001	4571	4734
Housing finance assets	1064	1,643	2,441	3065	3915
Total assets	7219	8,800	11,132	15056	17442
Long term liabilities	4571	6,605	8,099	11103	12115
Term deposit balance	2760	4,487	5,610	8257	8249
Net current assets	365	(237)	(959)	1401	1559
Shareholders' equity	756	851	952	1247	1611

This data shows stable growth of the company's different sectors. Only the short term financing portfolio decreased during this time due to diversifying into other product line. It started personal loan, car loan scheme and SME loan separately.

From the very beginning of its operation, IDLC shows growing trends. First few years it's assets i.e. investment on different sectors increased a lot but in last two years it shows positive results in current assets. Although its shareholders' equity increased significantly, it has a stable growth rate.



Another important point to be noted here is that in recent years the difference between the asset and debt increased. This indicates the financial strength of the company.

Since the capital market is growing for the last two decades, each product line of IDLC shows increasing trend. Revenues from each product line are separately presented here.

(Tk. in Million)	2004	2005	2006	2007	2008
Lease Finance	543	563	622	699	661
Term Loan	23	70	166	312	411
Real Estate Finance	139	198	304	434	558
Investment in Securities	76	76	70	143	151
Structured Finance	16	14	8	13	17
Merchant Banking	0.76	32	53	235	435

Table: Revenues from different product line

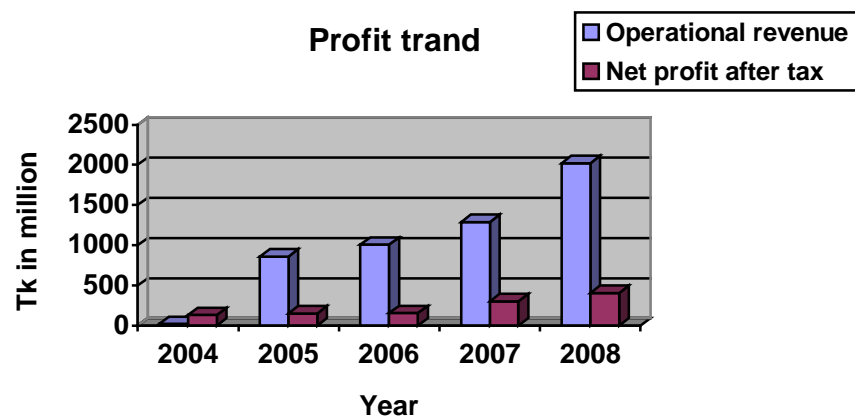
The revenue growth for lease financing significantly increased in last one year. Same is for real estate finance, term loan, and merchant banking. This indicates that IDLC is now more investing these products as these are comparatively more profitable. On the

other side, structured finance decreased a little due to huge competition and introduction of separate product line i.e. personal loan respectively.

3.6 OPERATIONAL PERFORMANCE

At the end of the day the final result depends on how much profit the company is generating through investment in different sectors. Thus like any financial institution, IDLC sincerely evaluate its operational performance to find the profitability of each segment and products.

(Tk. In Million)	2004	2005	2006	2007	2008
Operational revenue	859	1,008	1,291	2,023	2,618
Operational expenses	612	747	1059	1,655	2,022
Financial expenses	418	536	816	1,246	1,552
General and administrative expenses	95	135	170	225	294
Profit - before tax	197	213	247	265	234
Net profit- after tax	121	113	134	153	155



During the last five years its operational revenues almost doubled. Although during the same time period its operational expenses increased a lot, but this is mainly due to expansion of activities, diversifying product line and investment in new fields. Thus the return is expected to be multiplied in upcoming years. Particularly in 2006 the reason for increase of financial expenses is liquidity crisis during the first half year that resulted in the high rate in the call market.

This graph shows the comparative growth of operational revenue and net income after tax. Since the company invested in new fields for last few years, its income was not increased like its revenues. In 2006 its revenue increased by 27.48% but expenses increase by 41.23%. As a result net income increased only 1.3%.

3.7 RATIO ANALYSIS

Ratio analysis used for actual performance analysis of the company. To evaluate IDLC's performance last five years data are used here to find out some important ratios.

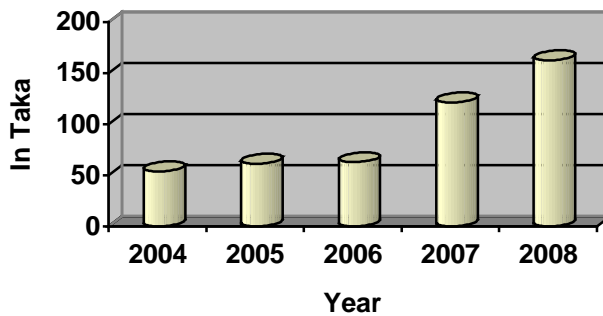
	2004	2005	2006	2007	2008
Current ratio	1.1	1.6	0.96	1.2	1.2
Debt equity ratio	7.6	8.0	9.3	9.5	8.3
Financial expenses coverage ratio	1.6	1.5	1.3	1.4	1.6
Net asset value per share (Tk)	302	340	381	499	645
Return on shareholders' equity	18.8%	19.0%	17.1%	27.6	28.4

Decreasing trend in current ratio indicates company has more current liability than current assets, which is not good. Increasing debt equity tells that debt is increasing compared to the investment. Financial expenses coverage ratio is quite stable, which is a good sign. In 2006 it decreases a little due to outside effect. Increasing net asset value per share directing strong confidence of shareholders although return on equity decreased during this time period. This is mainly because of re-investment and business expansion.

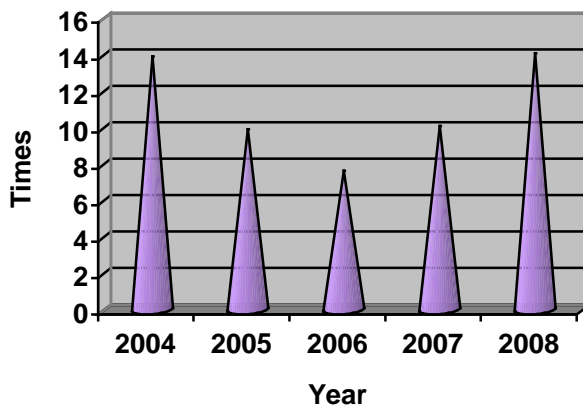
	2004	2005	2006	2007	2008
Earnings per share	53.6	61.20	62.80	121.33	162.55
Price earnings ratio (times)	13.9	9.9	7.6	10.02	14.08
Dividend per share (%)	35	37.5	38.33	40.0	35.0
Market price (Tk) per share (Year end)	1,245	1,007	784	1519	2289
Dividend yield / return	2.81%	3.72%	4.89%	2.63	1.53

All the market ratios sign good position of shares of the company in the market. Company gives increased dividend, both cash and share, each year. It also re-invests a lot. All these ultimately increased the share price in the market.

Earnings per share



Price earnings ratio



Increase earnings per share also resulted due to proper and regular dividend. Increased price earnings ratio also supports the trend. In 2006 it decreased a little bit due to the year end market price fall. At that time share market was suffering because of political violence and uncertainty.

All the above calculations and information provide explanation to the financial strength of the company. Still the company has various fields to explore in the capital market of Bangladesh.

3.8 FUTURE PROSPECTS'

Despite constantly increasing competition in the market with opening of leasing, real estate finance and merchant banking divisions by commercial banks, IDLC will put in strenuous efforts to achieve the business volumes targeted by all the departments as well as realize their corporate objectives. Innovative and relentless marketing drive will continue to attain quality asset growth, while maintaining and improving existing portfolio quality.

IDLC has succeeded immensely in its diversification efforts resulting in growth in income streams from an array of business segments. Their focus in 2009 and in the near future will be in further growing of SME business through expansion of the branch network across the country, opening dedicated SME desks in all existing branches and establishing SME booth in different locations. IDLC shall also take extra efforts to offer more loans to women entrepreneurs.

The Corporate Division has been affected somewhat by the change in depreciation policy by the Government for finance lease. The Division is now concentrating on offering term loans to its customers. Plans are afoot to introduce operating lease as a new product to counter the loss of business in the financial lease segment, IDLC's mainstay since inception of the company.

The Personal Finance Division will build on its successes, until date, which have been in mortgages, auto loans and deposit mobilization. Consumer loans have also been launched to offer IDLC customers one stop service package under one roof.

IDLC's Merchant Banking Division has performed exceedingly well in 2008. They shall continue their efforts to increase the customer base, both in the individual and institutional segments. They shall endeavor to encourage their customers to get them listed on the bourses, thereby bringing in quality scrips into the burgeoning capital market. As the financial institutions are facing immense competition, the Company will try to concentrate more on capital market operation and fee generating activity and diversify its mode of investment.

With all these expansion and diversification activities, IDLC aims to be a truly specialized financial institution focusing on SME financing and investment banking operation while maintaining its business share of corporate financing.

3.9 MY JOB DESCRIPTION

The brokerage house is very essential word for the share market. Without breakage house online buying and selling of shares will be impossible. I had only the bookish knowledge about the share market and its activities. When I entered into the IDLC Finance Limited (Merchant banking division) I got the chance to know more about the share market and their activities. Basically Merchant Banking division is the process for share business through the loan. And IDLC give the client this loan option to do share business. Every client has their own code. And through this code they can buy and sell their shares in the breakage house. Most of the clients are using IDLC's brokerage house. So I also got a chance to observe buying and selling process of the shares. Every working day trading started at 11 am and finished at 3 pm. I had some assign jobs those I have to do every day.

MY JOBS:

I. Activities before Trade:

Every working day I have to reach office within 10 am. Then I have to do some preparation for the trading.

- Print out client's portfolio statement: without watching the everyday update portfolio statement client can't start their trading. If there is a (-) minas purchase power they can't buy any shares. There is some list of margin shares. If the clients are using loan for buying shares then clients can't buy those listed margin shares. So it is very necessary to handed client's portfolio before trade.
- Print out purchase power for trade: Trader who are used to doing trade for the clients, have to see the purchase power of the clients. Because if the purchase power of the clients shows (-) minas then those clients are not allowed to buy any shares. That's why purchase power is very important.

II. Activities during Trade:

- Receive client's cheque and deposit slip: Sometimes if clients have no purchase power for buying any share, they are used to give a cheque or cash deposit slip for creating purchase power to buy shares and I have to receive those.
- Disperse client's cheque: Have to write the deposit slip for different cheque. And all these cheque will be sent to Standard Chartered Bank. It is important to mention that in the Standard Chartered Bank there is an account for IDLC Finance Limited.
- Receive client's calls and answer different queries: During the trade there are many phone calls from clients. Most of the time clients are wanted to know about their portfolio and sometimes clients are interested to know about the account opening process.
- Check the require documents for account opening: Clients are sometimes come to the office for account opening at that time I have to check the all required documents.
- Receive client's requisition for cheque: If clients are interested to withdraw their money they have to write a requisition for accounts pay cheque. I have to mention that on behalf of IDLC Standard Chartered Bank is doing their banking activity.
- Distribute client's cheque: Next day, after getting the cheque of the clients I have to distribute among the clients.
- Consult with the client's about account opening process: Sometimes clients are come to the office to aware about the account opening process and the activities of merchant banking activities. Then I have to consult with them.

III. Activities after Trade:

- Re-check account opening form with supervisor: After trade I have to re-check the documents and account opening form with my supervisor. After re-checking the form they are going to post the data into the software. I have to mention that after opening the account all the process will be automated through their software.

- Submit the cheque, cash deposit slip and cheque requisition form to the supervisor: During the trading I have to receive some cheque deposit, cash deposit and requisition form. All these I have to submit to the supervisor through e-mail.

3.10 MERCHANT BANK

In banking, a **Merchant Bank** is a traditional term for an Investment Bank. It can also be used to describe the private equity activities of banking. This article is about the history of banking as developed by merchants, from the Middle Ages onwards.

3.10.1 DEFINITION (INTERNATIONAL PERSPECTIVE)

Merchant bank (also called investment bank) is a firm that originates, underwrites, and distributes new security issues of corporations and government agencies. Unlike a savings bank, an investment bank is a commercial bank that does not accept deposits. From another source, Merchant banking includes corporate finance activities, such as advice on complex financings, merger and acquisition advice (international or domestic), and at times direct equity investments in corporations by the banks

Merchant banks are private financial institution. Their primary sources of income are PIPE (Private Investment in Public Equities) financings and international trade. Their secondary income sources are consulting, Mergers & Acquisitions help and financial market speculation. Because they do not invest against collateral, they take far greater risks than traditional banks. Because they are private, do not take money from the public and are international in scope, they are not regulated. Anyone considering dealing with any merchant bank should investigate the bank and its managers before seeking their help.

4.1 DEFINITION (BANGLADESH PERSPECTIVE)

Merchant banking under a formal legal framework is a relatively new concept in Bangladesh. Securities and Exchange Commission (SEC) formulated a regulation in 1996 on merchant banking activities namely “SEC (Merchant Banker and Portfolio Manager) Regulations, 1996”. As per regulations, a merchant bank is allowed to perform four types of operations –

- Issue Management
- Underwriting
- Portfolio Management
- Corporate Advising

4.2 FUNCTIONS OF MERCHANT BANKS

Merchant banks play a very important role in the matchmaking between the issuers of securities and their primary investors. By being managers and underwriters to the new issues, merchant banks provide an invaluable service to both on the part of issuers as well as investors of IPOs. As they are the managers of new issues, merchant banks prepare all documents relating to the issues for its business clients. By underwriting new issues, merchant banks not only guarantee the business that the underwritten amount will be made available to them in time but also send signals to the investors that the underwritten securities are fairly priced. Merchant banks advise their clients on their investor lists to buy those primary securities. That way merchant banks act as market makers in the primary market.

In terms of Bangladesh economy it is quite a new concept. Merchant banking in other words means the bank which takes the responsibility of the securities of other companies and in case of merging of companies or other required advisory services to them. Many people believe that these merchant banks will invest a large amount to the market and in the process the activities of share market will reinforced. But practically it doesn't make any sense, because it is not the responsibility of the merchant banks to invest as much to strengthen the share market. They just can help as much the process they can. They can provide advisory services to develop the market and its activities.

4.3 ACTIVITIES OF MERCHANT BANK

1. **Market making-** Merchant bank usually play a vital role as market makers in the secondary market.
2. **Research-** Merchant banks conduct research on securities' price regularly.
3. **Financial and Corporate advisory** – It includes the activities of fixing the capital structure, advisory services for investment and managing the monetary instruments.
4. **Issue management advisory** - This includes Underwriting, Public issue management and right issue management.
5. **Private placement of investment** – The sale of new securities directly to one or a few investors rather than through public offering.

6. **Advisory services required for Corporate restructuring** – Reforming capital and debt structure are the main responsibilities in this regard.
7. **Private capital rising** – Advises regarding organization's required capital and afterwards converting private companies towards offering IPO's.
8. **Offering advisory services to 'Merger's acquisition and joint venture'** – It includes acquiring, merging and forming new companies.
9. **Intermediary arrangements of project financing** – Bridge loan financing are this sort of activity which deals with arrangement of large amount of loans.
10. **Portfolio Management** - Merchant banks provide proper guideline and support to investors' maintaining their portfolios.

There are many other activities that merchant banks perform in foreign countries. But in Bangladesh the activities are limited to basically issue management, underwriting and portfolio management service.

I. ISSUE MANAGEMENT

One major activity of merchant banks is Issue Management. Issue Management means providing required services to bring new IPOs (Initial Public Offering) to the market. Organizations performing these types of activities are known as 'Issue manager'. Merchant bank play a very important role for bringing up new IPOs to the capital market as a subsidiary organization. Firstly, they test the techno-economic feasibility. It includes testing the genuinely of the project, verifying the activities of the authenticity of the management and study of the audit report; on the other hand, submitting the required information in the Security and Exchange Commission (SEC) and supplying other necessary documents to them.

Another important activity of merchant bank is to organize the lottery if there is any case of over subscription of IPOs and then issuing certificates accordingly. Other necessary responsibilities to bring any new project to the market like, collecting underwriters, fixing the appropriate time of issuing IPO, the size of the issue, the amount of market lot, are also performed by the merchant banks.

Other than that the issue manager has to perform some other additional duties. Issue manager provides the all-important 'Due Diligence' certificate after completing the

primary scrutiny and assessment. This indicates that the information on the prospectus about the new issue is correct. Thus the issue manager is responsible for in case of any false information or other mistakes and shortcomings. According to this certificate, the issue manager is responsible for either providing any wrong information intentionally or unintentionally. Security and Exchange Commission can take necessary steps as either suspending or canceling the license of the merchant bank if there is any case of forgery or supply of wrong information.

II. ISSUE UNDERWRITING

Issue Underwriting is a merchant banking function in which securities are purchased from the issuer for resale to the public. Merchant bank performs the duty of issue underwriting as an intermediary organization to develop and reinforcing the capital market. Mainly selling the issue shares is known as issue underwriting. Organization takes responsibility of selling the shares is called underwriter. This organization helps the issue manager in many ways. Now it is one of the major duties of the merchant banks, though stockbrokers also perform these types of responsibility.

Merchant banks perform as an underwriter. They buy all of the shares when those are under subscribed. Underwriters also have to buy and hold these securities for some time. Usually IPO's are under priced just because they tried to overcome the risks. They also try to protect themselves against the lawsuits, if there is any. Actually they play the role of a monopolist in the market as an underwriter. There are different types of underwriting exists in the capital market. Underwriters can organize a syndicate to perform the responsibilities in a way to absorb minimum risks.

III. PORTFOLIO MANAGEMENT

Portfolio management is one the major responsibilities of the merchant banks. When merchant banks provide proper guideline and support to investors' maintaining their portfolios, it is known as Portfolio Management. Although these investments do not indicate only investing in the share market but also in the bond and securities market, but in Bangladesh common practice restricted on only in capital market. So portfolio is the management of any organization's profitable investment and in the process

investing in diversified ways. It is the sum of all the different placement of investment.

Basically portfolio management in securities market is to provide necessary information to the probable investors about the securities, which are going to be proven harmful or bad investment, on the other hand investing in those securities that may be profitable for them. Merchant bank provides the services to their client about portfolio management are as below –

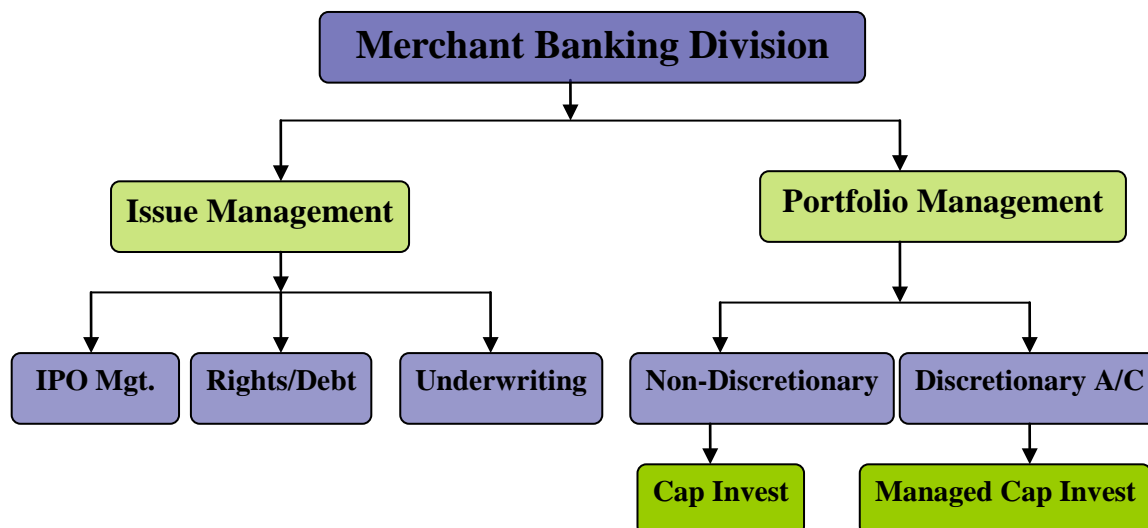
- They let the investors know about the probable risk underlying the investment.
- They inspire in investing in the specific companies through fundamental analysis.
- Through strategic analysis they explain the risks of losing the capital as well as earning more profit.
- They provide the information and advisory knowledge of incurring less losses and Profitable investments, through diversified portfolio.
- They provide information about the nature and ways of capital market through the sensitivity analysis.

Other than these, another very important criterion for portfolio management is 'Margin Trading'. Margin trading is the facilities of providing loan and the scopes to buy more shares for the investors against buying the required shares. Banks now a day are not providing any loan for investing in the capital market because they are suffering from their own capital shortage. Besides, investors are interested as the bank interest rate is very high as well as due to the absence of margin trading. So because of these various allegations merchant banks are really in the very good position in the case of portfolio management. In Bangladesh Merchant banks perform basically the responsibilities of portfolio management, issue management and underwriting. Other activities are performed in a limited scope since the market is not yet developed. But it is expecting that very soon merchant banks will be allowed to perform other duties as well as the market is growing very rapidly.

4.4 IDLC MERCHANT BANKING OPERATIONS

4.1.1 FACTS AND EVENTS

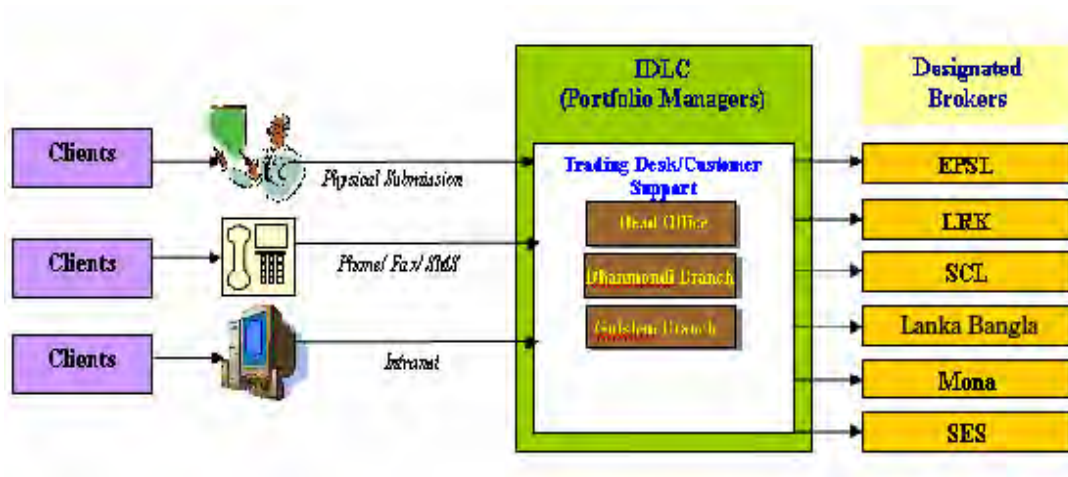
- IDLC obtained Merchant Banking license in 1998.
- In an attempt to diversify its operations, IDLC has strengthened the merchant banking functions through establish the Division in December 2004.
- Cap Invest, the first product of the Division, has been floated in December 2004.
- Managed Cap Invest, discretionary portfolio management service, was launched in March, 2007.
- Current Work Force: 30 staff members
- Three branches in Dhaka & Chittagong.
- Major Services are:
 - Portfolio Management
 - Issue Management
 - Underwriting
 - Custodial Service
 - Management of Own Portfolio



4.1.2 DESIGNATED BROKERS OF IDLC

- Equity Partners Securities Limited
- LRK Securities Limited
- Mona Financial Consultancy & Securities Limited
- SCL Securities Limited
- SES Company Limited
- Lanka Bangla Securities Limited

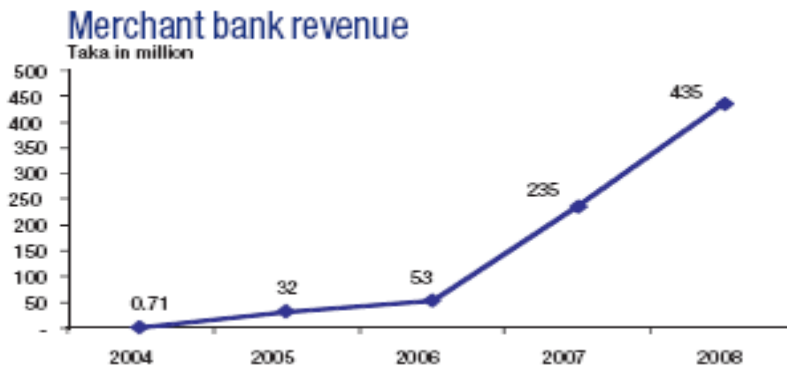
4.1.3 HOW IT WORKS



4.5 CONTRIBUTION OF IDLC MERCHANT BANK TO PARENT COMPANY

Portfolio management service is a high demand product in current capital market. People like to invest with additional (margin) loan expecting higher return from the total portfolio. At the same time portfolio managers are getting a very high interest rate on this loan (IDLC charge 14.0%). Thus this contributes a major portion of the total revenue of the company. In the last year IDLC earned around 34% of its total revenue only from merchant bank operations. During this time period it managed issue and underwritings of very few companies and the rest comes from portfolio management operation.

	2004	2005	2006	2007	2008
Merchant Banking (revenue)	0.76	32	53	236	435



From the introduction of portfolio management service the revenue multiplied from merchant bank wing. Beginning year its contribution was less than 1%. But for the last four years the revenue generation from this sector was excessively high. And major of them are coming from portfolio management service. For this reason, the IDLC expecting more returns from this sector in upcoming years.

4.6 IDLC PORTFOLIO MANAGEMENT SERVICE

IDLC has a significant contribution to asset financing to capital market in Bangladesh. In 1998, the Security Exchange commission (SEC) allowed it to carry out merchant banking. It started its operation as a merchant bank through Issue management, Issue underwriting, bridge financing and other related services since 2002. IDLC provides comprehensive non discretionary portfolio management services including trades execution and margin loan under its investment account called '**Cap Invest**' since early of 2005. Until November 2007, its client's number crossed 1,700 boundaries. Recently it has introduced its newest innovation of portfolio management – '**Manage Cap**' a BDA type account service. This product is in its development stage with around 32 clients. So discussion on IDLC portfolio management limited here on Cap Invest.

4.6.1 CAP INVEST

Cap Invest is a dynamic investment account that provides the investors with entire range of non discretionary portfolio management services, which include:

- Efficient execution of trades through a panel of reputed brokers.
- Extension of margin loan enabling the investors to earn enhanced return.
- Registration of the securities, collecting dividend, and bonus shares.
- Subscription of the rights issues.
- Completion of dematerialization process.
- Keeping the securities in safe custody.

I. MAJOR FEATURES OF “CAP INVEST”

- ♦ Any adult citizen of Bangladesh, corporation, and statutory body can open the account with IDLC. Cap Invest clients shall have absolute discretionary power to make investment decisions. IDLC, the Portfolio Manager, shall provide all support for efficient execution of trades. All of the client’s securities will be purchased and kept under a common omnibus depository account. But investors can not have separate BO account for transaction in other securities or agencies.
- ♦ Clients are allowed to invest only in the securities carefully selected and approved by the Portfolio Manager. Clients contain the absolute power to take their own investment decisions. However, their investments shall remain within the list of approved securities, which IDLC, the Portfolio Manager regularly update after thorough and independent analysis. The clients have access to the various research materials on market, industry and companies prepared by the independent research team of the Portfolio Manager.
- ♦ To facilitate the clients to enhance their return on investments through leveraging, the Portfolio Manager extend margin loan to the clients. The margin loan is of revolving nature, i.e., all sorts of cash movements adjust the loan balance. To elaborate the point, whenever additional amounts are deposited, securities sold, and dividend received, the loan balance reduces. On

the contrary, whenever securities are purchased or cash withdrawn, the loan balance increases.

- ◆ Investment in "Cap Invest" is considered as allowable investment for obtaining tax rebate. Additionally, capital gains from investments are currently completely tax-exempt. However, all the securities purchased for the Clients are kept in lien in favor of the Portfolio Manager.
- ◆ In order to protect clients' equity position, portfolio manager calls additional margin deposit in case his/her equity falls below a certain percentage (the percentage changes from time to time) of the debt obligation to maintain the stipulated debt to equity ratio. Such call is commonly known as 'Margin Call'.
- ◆ Trigger is a right of the Portfolio Manager to execute sale of appropriate portion of client's portfolio, in case investor fail to provide additional deposit as required under margin call, within three (3) business days or if client's equity falls further below a certain percentage (the percentage changes from time to time) of investor's total debt obligation. Trigger Sale is executed to reduce client's debt burden.
- ◆ Clients can make additional deposits at any time into their account. Additional deposits increase their equity position and purchasing power. Similarly they are allowed to withdraw cash to the extent at which, after such withdrawal, their equity remains at 100% of debt obligation. Also, the cash withdrawal shall not drive their equity position below the minimum investment amount.
- ◆ Clients can place their order through physically submitting the order slip to the service desks, or through telephone, e-mail, or other electronic devices. Clients are able to place both market order and limit order. Moreover clients can cancel or modify their orders subject to non-execution of the said orders.
- ◆ Clients can execute trades in both DSE and CSE, provided that their preferred broker is a member of both DSE and CSE. Thus investors can select their own preferred broker. They can also change their preferred broker by applying to the Portfolio Manager.

- ◆ There is no stipulated investment period for Cap Invest. Investors are free to decide their own investment horizon and operate the account accordingly. However clients receive their portfolio status report quarterly. But if they wish, they can get the report any time on demand.
- ◆ Here investors' equity is calculated by deducting the debt amount from total portfolio value, and the purchasing power is derived at certain times of the equity. The magnitude of the multiplier changes depending on the capital market circumstance.
- ◆ In this investment clients are not allowed to attend the AGM/EGM of the companies. However, the portfolio manager attends the AGM/EGM behalf of the clients and cast vote in the best interest of the clients.

II. OTHER FEATURES OF "CAP INVEST"

- Client's investment in **Cap Invest** is allowable for tax rebates
- Capital gains from investments are currently tax-exempt
- Client's Portfolio Manager will administer and value client's investments and provide you with custodial services
- Client's investment in **Cap Invest** is allowable for tax rebates
- Capital gains from investments are currently tax-exempt
- Client's Portfolio Manager will administer and value their investments and provide you with custodial services
- Minimum investment amount is Tk. 500,000/- (Taka five Hundred Thousand Only)
- You will have the choice to invest in securities carefully selected by client's Portfolio Manager

III. CAP INVESTMENT – ACCOUNT OPENING

- **Eligibility:** Any adult citizen of Bangladesh, corporation, and statutory body
- **Minimum Investment:** TK 500,000/-
- **Required Document:**
 - Passport or Nationality Certificate or TIN

- 2 copies of photographs
- Nominee Information & Photograph

IV. CAP INVESTMENT – CHARACTERISTICS

- Client can avail loan of 50% of the equity (1:0.5)
- Margin Call – Client will be notified when equity drops below 50% of loan.
- Trigger Sale – Executed once equity drops below 30% of loan.
- No separate BO account is required.
- Independent trade execution.
- Client can trade through any designated broker.
- Client Can place additional deposit any time
- Client can withdraw only after keeping deposit above 100% of the loan.
- Can trade both in CSE & DSE, if the client's broker is member of both the bourses.
- Client can do netting, if equity is 80% of the loan.
- Portfolio manager will ensure
 - Safety of the securities.
 - Collection of cash/bonus dividends
 - Subscription of right share.
- A client cannot:
 - Withdraw physical securities from account,
 - Have separate BO account,
 - Deposit or transfer securities from other BO account,
 - Attend the AGM/EGM of the company and cast vote.

V. CAP INVEST - FEES AND CHARGES*

- Documentation Fee: Tk. 500/- (one-off)
 - Management fee: 1.5% p.a on securities Value, charged quarterly
 - Interest on margin: 14.0% p.a, charged quarterly
 - Brokerage Fee: 0.35% on Transaction Value
 - Out of Pocket and Third Party Charges (Central Depository, SMS charges etc.): On actual basis
- *(Fees and charges are subject to change)

4.6.2 MANAGED CAP

I. MANAGED CAP – ACCOUNT OPENING

- Designed for high net worth individuals and institutions.
- Minimum Investment
 - Individual: Tk 200,000
 - Institutions: Tk. 2 million
- Minimum Investment horizon: 1 Year
- Margin loan: Nil

Documents to be attached

- **Individual Applicant**
 - Two copies of passport size photograph
 - Photocopy of Passport/ Voter ID/ Driving License/ Nationality Certificate with attested photograph and utility bill
 - Authorized person's signature and photograph (if any)
 - Photograph of nominees attested by the account holder
- **Corporate Account**
 - Photograph(s) of the director
 - Photocopy of Passport/ Voter ID/ Driving License/ Nationality Certificate with attested photograph and utility bill of the signatories
 - Board resolution
 - Memorandum & Article of Association certified by RJSC
 - Signature and photograph of the authorized person (if any)

II. MANAGED CAP – CHARACTERISTICS

- Clients Investment perspective will be determined through Investment Policy Statement (IPS)
- Additional deposit is allowable.
- Stocks are purchased collectively and are allocated based on respective orders at average price.

- Client of the Managed cap invest account have to weather the risk of portfolio performance. However portfolio manager will implement diligent risk control measures.

III. MANAGED CAP INVESTMENT – FEES & CHARGES*

- Documentation Fee: Tk 500/-
 - Management Fee: 2.50% p.a., on average market value of securities, quarterly charged.
 - Brokerage Fee: 0.35% on transaction amount.
 - Termination Fee (below 1 year):0.50% on total asset value at market price plus cash.
- *(Fees and charges are subject to change)

IV. WHO CAN INVEST IN MANAGED CAP INVESTMENT?

- Provided fund of large corporations.
- Insurance companies.
- High Salaried Employees in MNCs.
- Non resident Bangladeshis, in search of investment opportunities.

V. MANAGED CAP INVESTMENT - WHY IDLC?

- ◆ IDLC Finance has dedicated capital market research wing to classify stocks for investment based on:
 - Industry Outlook of a Particular Stock
 - Company Analysis and Future Prospect
 - Historical Performance of the Company.
 - Technical Analysis.
- ◆ IDLC provides customized investment solution based on Risk & Return objective of individual investor.
- ◆ Continued vigilant monitoring of the investment.
- ◆ IDLC places the interests of the clients before its own. It has adopted high standards of professional conduct to safeguard the interests of its clients.

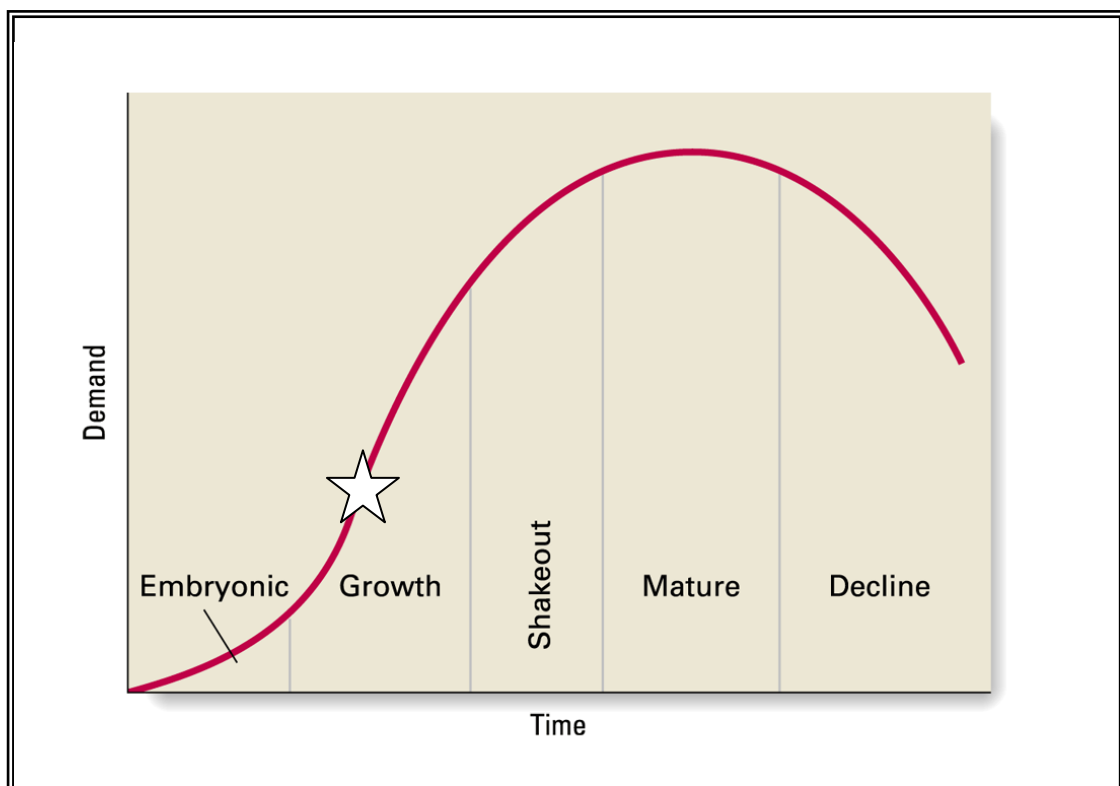
- ◆ IDLC places utmost importance to compliance of securities laws while managing portfolios of its clients.
- ◆ So far our performance:

Number of Clients	More than 30
Total Managed Cap Portfolio Size	Tk. 20 Million
Average Return	55%

- ◆ IDLC has a team of highly dedicated and competent professionals to provide you with high quality investment management services.
- ◆ IDLC has gathered vast experience in most every sector of the economy during the past two decades. IDLC translates its invaluable experiences into various research materials for the benefit of its clients.
- ◆ Leaving the investment in the professional hand, investors can be free from the stress, occurring from rigorous investment selection and monitoring process.

4.7 INDUSTRY LIFE CYCLE ANALYSIS

Merchant banking is a very new concept in Bangladesh capital market arena. This industry is growing rapidly basically because of the profit margin from the portfolio management services. Another reason for the growth is the increasing number of companies listed on the share market. As a result the demand for issue management and issue underwriting is also growing. For the last five years the number of companies listed increased very fast. During this time large MNC's and financial strong companies were getting involved into this industry. Only in 2007 around 17 companies listed so far under the supervision of different merchant banks. So every day new financial institutions are applying for merchant banking license. Recently Citi Bank NA gets the license of merchant banking. This indicates how attractive the industry is becoming.



The merchant banking industry just covered its embryonic stage. Now it is in growth stage. Although the number of rivalry increased a lot, but there is huge potential into this industry.

Experts are expecting that the industry will continue its growth for the next five year and then may be it reached to its shakeout stage, considering tis current growth rate. The problem may arise when unqualified, incapable firms will enter into the market and guide people in different direction. To prevent such incident SEC and other regulatory bodies need to be aware from now and give licenses before proper evaluation and judgement.

4.8 MERCHANT BANKS OPERATING IN THE MARKET

Although about 23 companies currently have obtained merchant banking license from the Securities and Exchange Commission only a few of them are seen to be actively involved in the merchant banking operations. Recently a number of banking companies have also obtained merchant banking license from the SEC and obtained approval from Bangladesh Bank for merchant banking operations. However, they are yet to be actively involved in merchant banking. The listed merchant banks can also be categorized by the services they offer. Currently the SEC allows two types of merchant banking licenses:

1. Full Service Merchant Banks
2. Issue Managers

Although the full service merchant banking license allows for the bank to undertake issue management transactions not all bank are currently actively involved in issue management.

4.8.1 PRIME FINANCE AND INVESTMENT LIMITED

Prime Finance and Investment Limited is a Non-Bank Financial Institution engaged in leasing and merchant banking operations in Bangladesh. It was incorporated on 10 March 1996 as a public limited company under the company's act 1994 and was licensed on 25 April 1996 by the Bangladesh bank under the Financial Institutions Act 1993. The company obtained license from the Securities and Exchange Commission on 25 July 1999 to conduct merchant banking. It commenced leasing operations on 15 July 1996 and merchant banking on 16 October 1999. At the

time of establishment, it's authorized and paid up capital was Tk 500 million and Tk 50 million respectively divided into ordinary shares of Tk 100 each.

The leasing unit of the company provides finance for capital machinery including construction equipment, marine equipment, energy generation equipment, office and office automation equipment and transport. Through this unit, the company provides micro finance under hire purchase scheme and working capital finance to the enterprises, as well as to individuals of different profession through the this unit. The merchant banking unit is engaged in capital/stock market operations, which includes both fee and fund based services. Specific capital market oriented activities of the company are issue management, underwriting of public issue of shares and debentures, direct trading in the securities market, bridge financing, portfolio management, and venture capital finance, etc.

4.8.2 UTTARA FINANCE AND INVESTMENT LIMITED

Uttara Finance and Investment Limited a joint venture leasing and financing company registered as non-bank financial institutions under the Financial Institution Act 1993 and the company's act 1994. It commenced business on 1 November 1995 with an authorized capital of Tk 250 million divided in to shares of Tk 100 each. The paid up capital of the company is Tk 120 million. Of the total share capital, 25% is held by Bangladeshi sponsors, 20.83% by foreign sponsors (Singaporean), 14.10% by the investment corporation of Bangladesh, 0.09% by its employees and 39.98% by the general public. The company is listed with both Chittagong and Dhaka Stock Exchanges.

The company provides lease finance for all types of industrial and commercial light and heavy equipment and consumer durable including vehicles, as well as temporary credit support to its clients. It provides documentary credit support to import lease assets from abroad and asset-related term financing. Merchant banking activity of the company includes underwriting, portfolio management, bridge financing, and facilities through syndication/consortium, mutual fund and investment in capital market through investors' account.

4.8.3 BAY LEASING AND INVESTMENT LIMITED (BLIL)

BLIL was incorporated in Bangladesh as a public limited company under the company's act 1994. It obtained license from the Bangladesh bank as a non-bank financial institution under the Financial Institutions Act 1993 on 25 May 1996 and commenced leasing and other types of financing activities at that time. The company was established with an authorized and a paid up capital of Tk 500 million and Tk 50 million respectively, divided into shares of Tk 100 each. In June 1998, the Securities and Exchange Commission granted the company the license to operate as a full-fledged merchant banker. The company's paid up capital rose to Tk 40 million in 2000 to lever the accompanied risk of its increased business performance.

The company has a brokerage house named BLI Securities Ltd., which is engaged in stock market dealings and other merchant banking functions. The company earned a gross profit of Tk 10 million in 1997 and Tk 11 million in 2000. The management of the company is vested in a 19-member management team headed by the managing director.

4.8.4 GSP FINANCE COMPANY (BANGLADESH) LIMITED

GSP Finance Company (Bangladesh) Limited is a non-bank financial institution incorporated in Bangladesh on 29 October 1995 as a public limited company under the companies act 1994. The company received its certificate of commencement of business on 14 January 1996 and its license on 4 March 1996. It went into commercial operations on 17 April 1996. It also received license from Securities and Exchange Commission on 24 August 1999 for working as a merchant banker. Five foreign sponsors hold 85.28% of its shares and the rest is held by domestic sponsors. The company was established with an authorized and a paid up capital of Tk 1,000 million and Tk 150 million respectively. The paid up capital in December 2000 was Tk 160 million.

The company offers lease finance to all types of plant, machinery, equipment and vehicles both for industrial and commercial use and for pharmaceutical industries. Merchant banking activities of the company include transactions in Mutual Funds, issue management and underwriting of public issue of shares and debentures, and

participation in the trading of shares in the stock exchanges. It also receives term deposits. Other functions of the company are hire purchase, supply of venture capital, short and medium term loans to industrial units and individual entrepreneurs, project financing (separately and by syndication), and investment and other financial counseling.

4.8.5 EQUITY PARTNERS LIMITED

Equity Partners Limited was formed in early 2000, and has quickly established itself as the leading player in the capital markets of Bangladesh. Equity Partners Limited provides merchant banking, brokerage and asset management services under the purview of the Securities and Exchange Commission (SEC) of Bangladesh.

4.9 OPPORTUNITIES

- Providing merchant banking services alongside the brokerage house at the new premise at Chittagong will give good opportunity to grow for both the operations.
- IDLC is expected to provide Custodial Services to a number of mutual funds.
- Market gives good opportunity to generate significant investment return by Sponsoring mutual funds.
- Bolstering marketing effort may secure good market share for “Managed Cap Invest”, their newly floated discretionary portfolio management product.

4.10 THREATS

- CitiBank NA has become the first foreign bank to get a merchant banking license in Bangladesh in 2007, allowing it to provide advisory services and conduct local capital markets business in the country as an advisor, underwriter and issue manager.

5 PORTFOLIO OPERATION

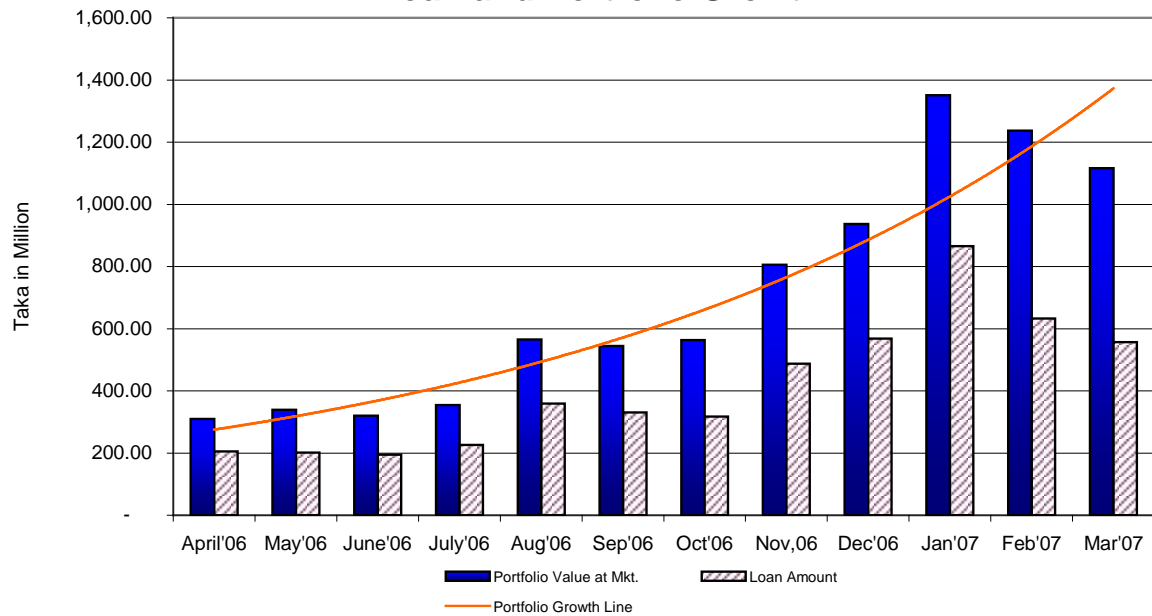
IDLC has a significant contribution to capital asset financing to private sector industries in Bangladesh. Its business focus in the early years was in the area of 3-5 years term financial leasing with particular emphasis on balancing, modernization, replacement and expansion of existing units. Driven by the demand for funds from different classes of people and the competition with other similar institutions, IDLC diversified its functional areas into other financial services including short-term finance, corporate finance and merchant banking activities. In 1997, it expanded its range of services by introducing housing finance to individuals, developers and corporate bodies. Under its broader merchant banking functions, IDLC operates as issue manager, underwriter, trusteeship manager, bridge financier and investor in the private placement of shares and stocks. As a pioneer in lease financing in Bangladesh, IDLC laid a foundation for the burgeoning growth of the leasing industry in the country.

5.1 KEY STATISTICS OF PORTFOLIO MANAGEMENT SERVICE

Particulars	As on December, 2008
Number of Accounts	3000
Total Deposit (Tkm)	4645
Margin Loan (Tkm)	3066
Portfolio Value at Market (Tkm)	6004
Portfolio Value at Cost (Tkm)	5998

*(Number of Accounts has increased to around 1000 till December, 2009)

Loan and Portfolio Growth



5.2 ACTUAL PERFORMANCE COMPARED TO BUDGET

Tk '000	Jan-Mar,07	Jan-Mar,07 (budget)	Variance
Interest Spread Earning	3,349	321	943%
Management Fee	4,256	1,639	159%
Net Trading Commission	6,496	794	718%
Documentation Fee	59	38	55.2%
Total Revenue - Portfolio	14,160	2,715	421%
Issue Management	-	1,600	-
Underwriting	375	150	150%
Total Revenue from Operation	14,535	4,465	226%
Own Portfolio Return	23,095	7,382	213%
Total Revenue	37,630	11,947	215%

5.3 UNDERWRITING

2005	Nature of Underwriting	Tk In Million
Premier Leasing	IPO	2.775
Pragati Life Insurance	IPO	1
Jamuna Bank	IPO	10.8
Berger Paints	IPO	36.15
Eastland Insurance	Rights	12
Dhaka Bank	Rights	47.5
Total		110.225

2006	Nature of Underwriting	Tk In Million
BRAC Bank	IPO	42.5
LankaBangla Finance	IPO	2.5
S. Alam Cold Rolled Steels	IPO	5
InTech Online	Rights	5.0
Southeast Bank	Rights	250
Uttara Finance & Investment Ltd.	Rights	22.5
Total		327.5

2007	Nature of Underwriting	Tk In Million
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Pheonix Finance & Investment	IPO	3
Paramount Insurance	IPO	9
Islami Bank Bangladesh Limited Mudaraba Perpetual Bond	RPO	50
Total		62

2008	Nature of Underwriting	Tk In Million
Summit Alliance Port Limited	IPO	15
Total		15

2009	Nature of Underwriting	Tk In Million
Marico Bangladesh Limited	IPO	20
Grameenphone Limited	IPO	224
Total		244

The capital market in Bangladesh is still in its toddler phases and facing frequent unstable phases. After the collapse in 1996 the government has taken a number of steps to enliven the stock market. In a growing economy like ours this is a difficult task for the regulator as the two sectors of the financial system have conflicting requirements. The has show some signs to recovery in 2004 and 2005 however the indicators showed serious sensitivity to factors in the other side of the financial system i.e. the banking sector.

5.4.1 CAPITAL MARKET INSTITUTIONS OF THE ICB

The three unbundled companies of the Investment Corporation of Bangladesh (ICB) for merchant banking, asset management and stock brokering launched their operations in April 2002.

ICB Capital Management Company Ltd functions as a merchant bank with Tk two crore paid up capital. ICB Asset Management Company Ltd operates the unit fund and new mutual funds. ICB Securities Trading Company Ltd is in business of securities trading and operates as a stock brokerage house. It operates with Tk 25 lakh paid up capital. Of the six board members in each subsidiary company, three are from the private sector.

The subsidiary companies had been formed to meet the Asian Development Bank conditionality for capital market development fund.

5.4.2 ONLINE INVESTORS' ACCOUNT SERVICES

Union Capital Limited (UCL), a merchant bank, introduced internet-based investors' account services for the first time in the country from April 12, 2005. The services are designed to help the clients manage their investment portfolios through initial public offering (IPO), pre-IPO and secondary market securities. Since the system allows the investors to view their share portfolio online from anywhere and anytime, remote and non-resident Bangladeshi investors will be able to participate in the capital market.

5.4.3 SMS, PHONE BANKING INTRODUCED FOR PORTFOLIO INVESTORS

Merchant banking wing of Arab Bangladesh (AB) Bank Ltd launched SMS (short message system) and phone banking services for its portfolio investors in the capital market from June 07, 2006.

Portfolio investors, who have accounts with the bank, will get instant information regarding portfolio investment through mobile phone and land phone from any place. The bank organized a press briefing in Dhaka to announce the launch of the new

services. Officials said the bank will open two merchant banking branches in Dhaka and one in Chittagong within this year to offer merchant banking services to their clients.

5.4.4 SEC INTRODUCES CORPORATE GOVERNANCE GUIDELINES

In February 2006, the Securities and Exchange Commission has introduced certain further conditions, on 'comply or explain' basis, in order to enhance corporate governance in the interest of investors and the capital market. These guidelines impose further conditions to the consent already to the issue of capital by the companies listed with any stock exchange in Bangladesh. The companies listed with any stock exchange in Bangladesh need to comply with these conditions or shall explain the reasons for non-compliance.

5.5 RECENT MARKET PERFORMANCE

Total no. of Public Limited Companies (as on November 2009) **35000**

Total no. of Private Limited Companies (as on November 2009) **35000**

5.5.1 DHAKA STOCK EXCHANGE AT A GLANCE (As on October, 2009)

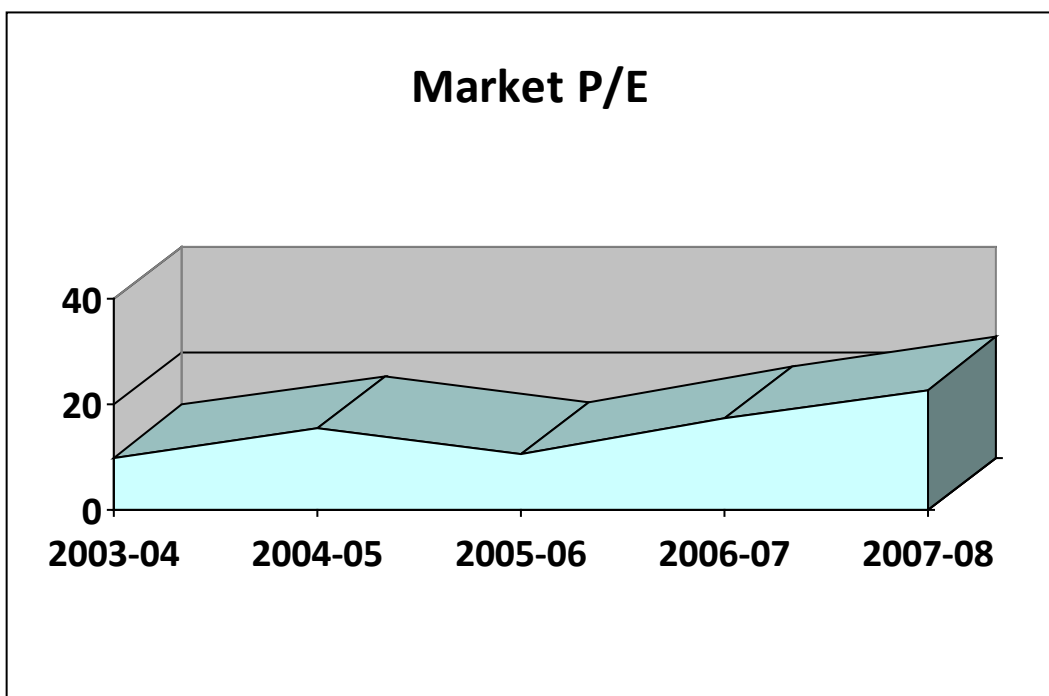
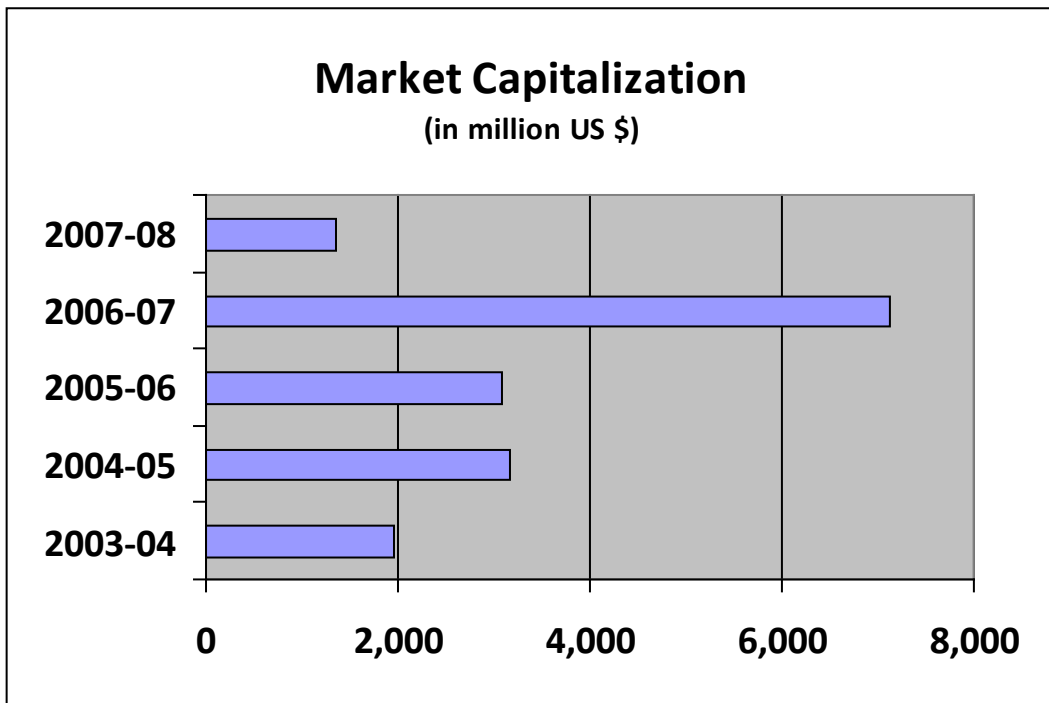
Total number of listed securities	390
Total number of listed companies	235
Total number of mutual funds	19
Total Number of Treasury Bonds	135
Total Number of Corporate Bonds	1
Total market capitalization of all listed securities	BTD1461947 m
Average daily Turnover	BDT 10024.10m
Current Market P/E (times)	20.38

5.5.2 DHAKA STOCK EXCHANGE AT A GLANCE (As on June, 2008)

Total number of listed securities	378
Total number of listed companies	271
Total number of mutual funds	14
Total number of debentures	8
Total Number of Treasury Bonds	84
Total Number of Corporate Bonds	1
Total market capitalization of all listed securities	US \$ 14,079 m
Average daily Turnover	BDT 3179.77 m
Current Market P/E (times)	22.80

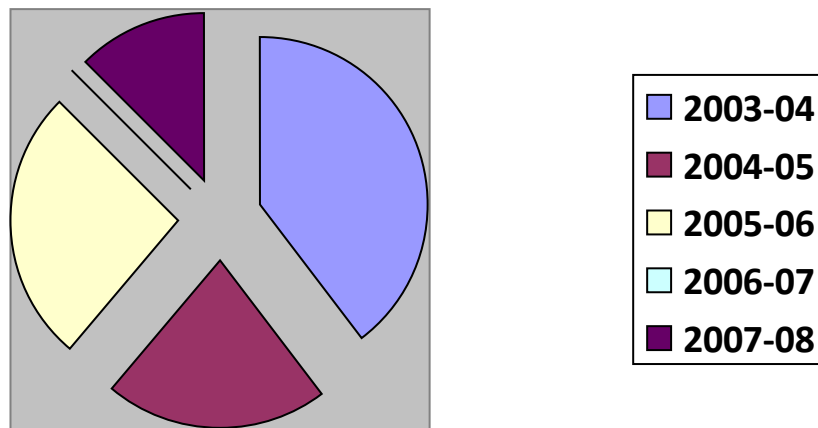
5.5.3 MARKET GROWTH

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Market Capitalization (In million US\$)	1,952	3,172	3,077	7,124	1359
Market P/E (times) (weighted average)	10.07	15.51	10.66	17.28	22.80
Market Dividend yield (weighted average)	6.23	3.35	4.15	-	1.94
DSE Turnover (In million US\$)	354	1,075	657	2,352	1020.79



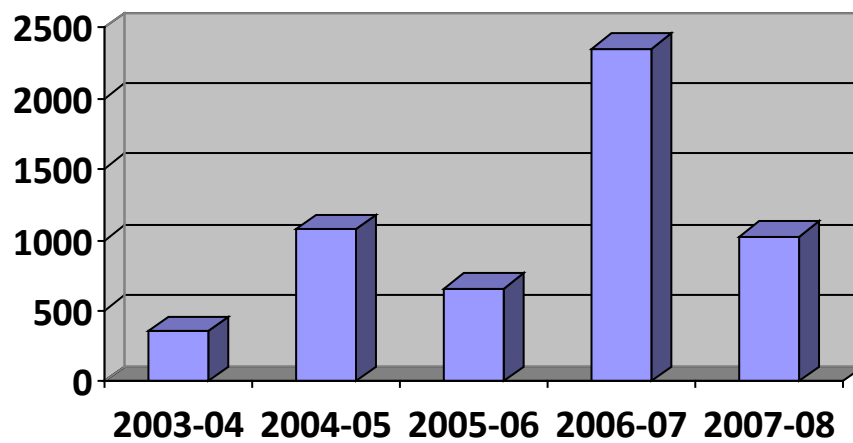
Market Dividend yield

(weighted average)



DSE Turnover

(in million US \$)



6. CONCLUSION

It is very much visible that Merchant Banking operation is building its own position in the capital market of Bangladesh quickly. Guiding point of merchant bank is basically the portfolio management, although contribution of issue management and underwritings are significant. People like to invest using 'Margin Loan' since it magnifies the return from the portfolio. This is also attracting firms to engage in portfolio management service as they are charging higher interest rate than commercial banks. The problem is there are many people interested to invest in the capital market but currently DSE do not have good quality and adequate quantity of securities of financially strong companies. Thus there is an imbalance between the demand and supply of securities. Although government and other stakeholders of capital market are concern over the matter and trying their best to keep the condition under control, it is not possible always. Since there is insufficient supply of shares, price of shares increasing without proper valuation but due to excessive demand. Thus government need to intervene by the regulations very frequently, which is not good. But to save the market government has to do that.

The banking industry of Bangladesh has a long history and is the prominent of the two sectors of the financial system. The capital market is also developing and has increased focus especially after the stock market crash in 1996. In the banking side Bangladesh Bank is the ex-chequer responsible for controlling the banking operations. A number of regulations of the Bangladesh Bank also relate to merchant banks' operations. The central bank has specific requirements and guidelines for foreign portfolio investment and loans against shares and debentures.

The Securities and Exchange Commission is the leading body that supervises the capital market operations and also the merchant banks. The Stock Exchanges and the Securities and Exchange Commission has developed a number of regulations and policies after the stock market collapse in 1996 to ensure proper functioning of the market.

The technical capabilities of the Stock Exchanges have improved over the years. However, the exchanges still cannot accommodate transactions all over the country or outside the country as well.

2005 was yet another year of false hope in the stock market as the DSE price index slumped by 300 points. Still the total market capitalization remained at the previous year's level as a total of 17 IPO's took place during the year. The effect of the fall of price index was also evident in the dampening of average market capitalization of companies. Most of the IPO's that took place during the year was of financial institutions followed by regulatory compulsion imposed earlier.

The financial sector has so far fared the best among the listed companies in the stock market.

A number of initiatives took place during the last few years that would certainly allow for strengthening the market. Of these mentionable are the introduction of investment companies under the ICB umbrella, the phone banking services for portfolio investors by AB Bank and the introduction of corporate governance guidelines by the SEC.

Arab Bangladesh bank is the leader among the 23 merchant banks of the country. Among the new and upcoming merchant banks the performance of IDLC and Prime Finance and Investment Limited is commendable.

In issue management market a number of organizations with only issue management licenses are operating and have had the leading shares in the market. Among the full merchant banks IDLC and Prime Finance and Investment Limited has a notable share in the market.

In sum, merchant banks around the world carry out a significant role in the development of the capital market. Active participation of merchant banks is essential to accelerate this capital market activity which can expedite the economic growth of the country. The success of merchant banking operations is largely linked to the development of the security market. But the major problems faced by the companies are limited scope of business and elevated cost of the fund. In order to ensure the sustainability of merchant banks, the scope of business needs to be expanded and

diversified. Issue expense is another cause of concern for the merchant banks because it may reduce their earning potential since the size of the IPO floated in Bangladesh is generally much smaller in comparison with that of the other regional countries. If the above mentioned problems can be addressed properly, they would be able to pay a key role in the development of the capital market through their market making activities in both primary and secondary markets.

Banks and Non-Bank Financial Institutions are both key elements of a sound and stable financial system. Banks usually dominate the financial system in most countries because businesses, households and the public sector all rely on the banking system for a wide range of financial products to meet their financial needs. However, by providing additional and alternative financial services, merchant banks have already gained considerable popularity both in developed and developing countries. In one hand these institutions help to facilitate long-term investment and financing, which is often a challenge to the banking sector and on the other hand, the growth of these widens the range of products available for individuals and institutions with resources to invest. Through their operation, merchant banks can mobilize long-term funds necessary for the development of equity and corporate debt markets, leasing, factoring and venture capital. Another important role which they play in an economy is to act as a buffer, especially in the moments of economic distress. An efficient merchant banking sector also acts as systemic risk mitigation and contributes to the overall goal of financial stability in the economy.

Merchant banks of Bangladesh have already passed more than two and a half decades of operation. Despite several constraints, the industry has performed notably well and their role in the economy should be duly recognized. It is important to view the merchant banks as a catalyst for economic growth and to provide necessary support for their development. A long term approach by all concerned for the development of them is necessary. Given appropriate support, merchant banks will be able to play a more significant role in the economic development of the country.

7. RECOMMENDATIONS

SOME OF THE RECOMMENDATIONS THAT I WISH TO PROPOSE ARE

I. EXPLORING ALTERNATIVE SUPPLIES OF FUNDS

The finance and leasing companies across the world are using different sources for collecting funds. The merchant banks in Bangladesh may also explore the possibilities of gaining access to new sources of funds. However, in releasing such new products, some regulatory changes have to be made. Another innovative and promising source of funds may be better securitization of assets. In this connection, new instruments are introduced in the market. These new instruments emerged as important tools and added new dimensions in the financial market. But changes in taxation policy in 2005 by the government have made the future of these instruments less attractive for the concerned financial institutions.

II. COMPETITIONS AND PRODUCT DIVERSIFICATION

Merchant banks in Bangladesh are operating in a highly competitive environment. The competition for them is even more challenging as they have to compete with banks. Given the changes in the business environment, the need for product diversification is very important. The remaining part concentrates mainly on term financing and housing finance. Merchant banks should venture into diversified use of their funds such as merchant banking, venture capital financing, factoring, etc. for a healthy growth of the capital market.

III. ENHANCING CAPITAL MARKET ACTIVITIES

Merchant banks around the world carry out a significant role in the development of the capital market. Strong institutional support is necessary for a vibrant capital market which is the core of economic development in any market based economic system. A total of 30 companies are now listed as merchant banks in Bangladesh, of which 23 are full-fledged, 6 are issue managers, and only one is a portfolio manager. Only nine have registered with SEC for performing merchant banking activities. But their activities in the capital market are rather limited (*Financial Sector Review*, Bangladesh Bank, 2006). Active participation of merchant banks is essential to

accelerate the capital market activities which can expedite the economic growth of the country. The success of merchant banking operations is largely linked to the development of the security market.

IV. MARKET SEGMENTATION

It has been discussed earlier that though banks and merchant banks compete with each other, they can also perform complementary functions. As suggested, to function as complementary institutions both banks and merchant banks should follow some ethical and technical norms. Banks wishing to enter in the merchant banking should do so through opening subsidiaries so that a level playing field for them can be maintained. This is needed as banks have access to lower cost funds compared to these institutions, which puts the former in an advantageous position. Alternatively, banks can go for joint financing under syndication arrangements with merchant banking companies on any project proposal. Again, banks can concentrate on working capital finance and foreign exchange operations, which matches more with their asset-liability management.

RECOMMENDATIONS REGARDING RULES AND REGULATIONS

- ♦ The Merchant Banks intending to underwrite must have a capital of Tk 10 million and can not underwrite more than five times of the capital at one time. In cases where a Merchant Banker is also engaged in portfolio management, the combined underwriting exposure together with the amount of portfolio under management shall not exceed the five times limit, while such Merchant Banks are required to have a capital of Tk 20 million. Merchant Bankers who are only Issue Managers are to have a capital base of Tk 2.5 million only. There is tremendous demand for IPOs in most of the recent public issues. Therefore, expediting and facilitating IPOs should be a major concern now for the healthy growth of the market. However, the merchant banks currently licensed are very small in capital. The Regulations squeezed the primary market to one or two small or medium sized issues at a time. In the most likely base-case scenario, the available underwriting commitment is far less. Though the Regulations allow the merchant bankers to take underwriting exposure of five times of their capital, it would not suggest

exposure of more than fifty percent of capital at one point of time. This is not an encouraging indicator of the health and capacity of the market for sure.

- ◆ Though the Regulations allow the merchant banks to underwrite five times of their paid-up capital, which is a relatively higher limit given their low capital base; it does not allow any other market intermediary to underwrite public issues. The resultant effect is that it has left a demand-supply mismatch while also shrinking the market capacity. If these institutions like the banks, insurances etc are allowed to invest in the primary issues, it is not logical to bar them from underwriting the issues, as underwriting function is only a deemed investment, which is required to be funded only in cases of under subscription. The role of banks and the merchant banks in the development of the primary market is required to be properly evaluated in this regard.
- ◆ As their market is still at a pre-matured stage, the risk of overexposure and possibility of a collapse of confidence is very much on the higher side. They therefore do not subscribe to the view of any unrestricted breaking of the borderline for now, especially where specialization and professional competence is essential, and by that they specifically point to the function of issue management and to some extent the portfolio management activities. There are also high possibilities of conflict of interest between these functions and that of commercial banking i.e. funding operations.
- ◆ IDLC share the strong view against commercial banks acting as issue managers for IPOs as it carries high risk of compromise in the quality of due-diligence. There could be a conflict of interest as wrong borrowers of a commercial bank may be encouraged to raise public fund to pay off defaulted loans by resorting to temporary rescheduling as a window dressing.
- ◆ As regards portfolio management activities, the commercial banks are already allowed by the Bangladesh Bank to extend credit facilities to their clients against purchase of shares, subject to the permissible limits and security measures. This activity could be designed and structured into various featured products by the banks and offered to their clients without any need of licensing from the SEC. As for underwriting, since Banks have no restrictions or any limit, other than as

permitted to the extent by their Board, on participating in primary issues through private placement, there is no valid logic why they should be barred from underwriting public issues.

- ◆ Their rules and regulations are required to be based on their needs and should be framed keeping in mind the prudential as well as the facilitator roles in the development of the market. As it has been evident from these presents, there is a shortage of underwriters of public issues under the current licensing system.
- ◆ Since all these institutions are free to invest up to any limit in a public issue through pre-IPO private placement, there could not be any believable argument of conflict of interest if these institutions are allowed to underwrite such public issues. What is required is just an insertion in the SEC Merchant Banker & Portfolio Manager Regulations 1996 to the effect that other than the scheduled commercial banks, insurance companies and registered mutual funds, all other entities engaging in the underwriting of public issues should procure license from the SEC.

RECOMMENDATIONS TO OFFER MORE AND BETTER SERVICES

In addition to portfolio management, which is the core services offered by the merchant banks in our country, there are other valuable services that they can offer to attract a larger customer and to reduce the risk of losing out customers to the competitors.

In our country plenty of firms are out there in the market that has the potential to go public and international. But due to the weak hold on issues related to such move, this process is ever deferred for them. So the merchant banks in our country can address such hidden requirements of these organizations by offering them consultancy in the field of becoming multinational company or to go public or international.

Bangladesh is a densely populated country where even a meager business idea turns out to be an over-desirably profitable due to the much larger customer stock. Moreover, the greater the size of the population the more the needs and wants of the people are differentiated. On that note, it is simply hard for any realistic business plan

to fail to generate profit in this huge market. But what lags here is the proper idea with an appropriate vision. So merchant banks in Bangladesh, as compared to international merchant banking practice, can also address this issue by assisting its clients with feasible business plans that fits into our real world scenario and which is suitable in our country's perspective.

If IDLC consider the level of grasp of the knowledge of our population, then it become quite apparent that why instigating programs to educate their clients can give our merchant banks competitive edge over others, if not prove out to be a major differentiating factor. Not only can that, educating the clients also open up new dimensions to do business with the clients by creating demands in them.

Though merger and acquisition yet not proved to be so affordable and also profitable move in our country's perspective, but ignoring this sector will not be wise enough if our merchant banks are aiming at long term customer hold. So, the quicker merchant banks address this issue, the better it may prove out for them.

Reference:-

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