

Report On

Analyzing the Impact of Existing Floor price on the Brokerage Industry: A Case Study of LankaBangla Securities.

By

Redwan Alam Khan
19304102

An internship report submitted to the Brac Business School in partial fulfillment of the requirements for the degree of Bachelor of Business School

Brac Business School
Brac University
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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing my degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate reference.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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Letter of Transmittal

Abu Saad Md. Masnun Al Mahi, PhD
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Subject: Submission of internship report on **“Analyzing the Impact of Existing Floor price on the Brokerage Industry: A Case Study of LankaBangla Securities.”**

Dear Sir,

It is my immense pleasure to introduce you with this report on “Analyzing the Impact of Existing Floor price on the Brokerage Industry: A Case Study of LankaBangla Securities.” which is a requirement for completing my internship. I really worked hard to prepare the report with the relevant data for analysis and to prepare the impact on LankaBangla security’s performance due to the floor price. My inspiration for this topic came from my observations while working in the workplace, which enabled me to write the report based on firsthand experience.

Sincerely yours,

Redwan Alam Khan
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BRAC Business School
BRAC University
Date: June 20, 2023

Non-Disclosure Agreement

This agreement was made and entered into by and between LankaBangla Securities Limited and the undersigned student at BRAC University.

This agreement is between "LankaBangla Securities Limited" and me, a BRAC University student, to use and obtain all organizational information needed to complete my internship project, "Analyzing the Impact of Existing Floor price on the Brokerage Industry: A Case Study of LankaBangla Securities". The data and information regarding the non-bank organization of this report were permitted by my organizational line manager and generated under his supervision. I would like to express my sincere appreciation for allowing me to utilize the data in the preparation of my report. I was strongly urged not to use sensitive information by the organizational supervisor. Without a formal instrument signed by both parties, this agreement may not be revised or modified.

Name of Company: LankaBangla Securities Limited

Supervisor Name: Md. Touhidur Rahman Miad, Senior Manager, Operations department

Signature:

Name of Student: Redwan Alam Khan

Signature:

Address: BRAC University, Mohakhali, Dhaka-1212

Description of the report: "Analyzing the Impact of Existing Floor price on the Brokerage Industry: A Case Study of LankaBangla Securities"

Acknowledgement

Allah Almighty merits all praise and gratitude for allowing me the ability and willingness to conclude my report on time. The completion of my Internship Project is due to the effort of several people, without whose professional guidance and suggestions it would have been practically impossible to write the report. This report would not have been possible without the help of everyone who aided me throughout my internship and provided me with all the essential knowledge on LankaBangla security's major activities and operations.

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Executive Summary

In Bangladesh, the stock market has historically experienced volatility due to the presence of small investors who constitute a significant portion of the market. This has resulted in institutional investors and high net worth individuals being hesitant to participate in the stock market, leading to a lack of long-term stability. To safeguard the market during the pandemic, the SEC imposed a floor price in March 2020. While this measure protected small investors from significant losses, it has had negative consequences for the capital market. Imposing floor prices is a rare concept globally and has a significant impact on market turnover. Normal small investors who require access to their funds face difficulties in extracting their investments and incur opportunity costs as they are unable to invest elsewhere. Margin investors, who borrowed money to buy shares, also bear the burden of interest expenses in addition to the opportunity costs. Traders' performance is hampered as they are unable to generate high turnover for companies, directly affecting their salary, promotions, and job security. The report aims to contribute to a better understanding of how the floor price mechanism affects the stock market and its implications for the economy and investors. Based on the findings and conclusions, the report provides key recommendations for investors and policymakers. The goal is to promote a balanced approach to the interplay between floor prices and the stock market, considering the broader implications for the economy and the well-being of investors.

Keywords: Stock market; floor price; margin investor; policymakers; performance

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List of Acronyms

BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BO	Beneficiary Owner
BSEC	Bangladesh Securities and Exchange Commission
CSE	Chittagong Stock Exchange
DSE	Dhaka Stock Exchange
GDP	Gross Domestic Product
IDLC	Industrial Development Leasing Company of Bangladesh Limited
IPO	Initial Public Offering
IT	Information Technology
LBSL	LankaBangla Securities Limited
NBFI	Non-Banking Financial Institution
RM	Relationship Manager

Glossary

IPO	A company's first sale of stock to the public. Usually, these securities belong to small and new companies that require external equity capital and a public market for their stock.
Credit Rating	Refers to assessing the capacity of an individual or company to meet its financial obligations, or the probability of not defaulting on debts. It is also known as creditworthiness.
Capital Market	Historically, the term "capital markets" has specifically referred to the market where long-term debt instruments (with a maturity of over one year) are traded and capital is raised. However, in more recent usage, it has a broader meaning that encompasses the market for various types of investments, including stocks, bonds, and derivatives
Money Market	Money markets are designed for short-term borrowing and lending, typically with a maturity of three years or less. The securities traded in a money market may include government bonds, Treasury bills, as well as commercial paper issued by banks and companies.
TREC Number	A brokerage license is called a TREC which is a certificate issued by a stock exchange for the execution of trading of listed securities as a broker or dealer as per securities laws.

Chapter 1: Overview of Internship

1.1 Student Information

I am Redwan Alam Khan and my student ID no. is 19304102. I am studying in BRAC Business School in Bachelor of Business Administration (BBA) and did major in Finance and minor in accounting.

1.2 Internship Information

Period, Company, Department and Address: I was assigned to a three-month internship with an organization after completing my 15th semester of the BBA degree. On February 7th, 2023, I began working at LankaBangla Securities Limited's Principal Office Branch on Motijheel C/A. Throughout my internship, I was largely assigned to the Business Development Department. My internship period ended on 7th May, 2023.

Internship Company Supervisor's Information:

My supervisor's name is Touhidur Rahman Miad. Currently, he is assigned as the Senior Manager at the Operations Department of LankaBangla Securities Limited's Principal Branch office, which is located at Motijheel C/A, Dhaka-1000.

Job Scope – Job Description/Duties/Responsibilities:

Learning about the Stock market: From the beginning of our internship program, daily sessions were conducted about the public companies of the stock market as well as the fundamental and technical indicators such as Bollinger bands, MFI, RSI, MACD, etc.

Learning about the IT infrastructure of CDBL, DSE and LankaBangla Securities: As the intern of the Principal Branch, my roles and responsibilities allowed me to gain knowledge on the daily activities of a brokerage house. Regular online sessions were held by experts of the industry

including the company's CTO and CEO of renowned mutual funds. Besides, we were taught about Lanka's in-house trading, matching engine software and back-office activities.

Document management and organization: Another crucial task involved ensuring the acquisition and proper maintenance of all essential documents for each customer account. Furthermore, it was essential to organize these documents in accordance with the guidelines specified by DSE. Additionally, I was responsible for facilitating the process of opening a BO account for the customer.

Conducting trade: I was involved in several trade-related activities, including executing buy and sell orders for our clients, with the help of my supervisor I got to use trading terminals and learned the intricacies of the process. This also translated into executing those trades in the absence of various RMs who went out for marketing calls and directed me over the phone.

Market analysis: I also had the opportunity to learn about market analysis, analyzing market trends and identifying potential investment opportunities. I had the opportunity to learn about both fundamental and technical analysis from the most talented fund managers in the country. These analyses are the base of choosing what stocks to invest in or not.

1.3 Internship outcomes:

1.3.1 Students contribution to the company

The primary objectives of my internship were to enhance and apply the theoretical knowledge I had gained throughout my academic journey at BRACU by understanding the operations and procedures involved in a managerial role and secondly, to gain practical exposure in the field of business development. I successfully accomplished these objectives during my internship. I also had the opportunity to oversee and lead a project assigned by my supervisor, which focused on marketing calls to various local and multinational companies. Working together with my team, we used marketing strategies to grab attention of investors. Other than the project, a large portion of my work

at LBSL was data entry. This task was important for following the compliance with the requirements set by DSE. I contributed to LBSL's operations and their adherence to regulatory standards by doing data entry tasks as per compliance. Through opening BO accounts and conducting KYC checks, I had a valuable experience during my internship as I was being involved in the onboarding process of new clients. This experience gave me teachings into customer service within the financial sector of Bangladesh. Also, I participated in seminars at corporate offices and universities where I helped promote LBSL's products and services. This taught me good communication skills in marketing LBSL's values and offerings to potential investors.

1.3.2 Benefits to the student

I was lucky to have the opportunity to work with different departments of LBSL and thus got different tasks and responsibilities which helped me improve my skills and gave me valuable knowledge. I noticed improvement in my time-management skills which allowed me to become more efficient and organized. As mentioned before, this internship role at LBSL allowed me to better my communication skills which helped me collaborate effectively with my team members. My interpersonal skills also improved as I had direct interaction with clients in the principal branch. This experience taught me how to build relationships and address the needs of others. One of the most challenging aspects of my internship was the volatility and fast-paced environment of the capital market as some days had less work and on other days, we had a lot of work to do.

Overall, my internship experience has been advantageous for both my academic pursuits and future career objectives. The training I received in the securities market will have a lasting impact on my professional development, regardless of whether I choose to pursue a career in this specific industry or similar fields. With this knowledge, I can manage my own investments and have a good understanding of various sectors within the market. Lastly, I can now provide guidance to friends and

family who may be interested in joining such workplaces or doing business with similar organizations.

1.3.3 Difficulties faced by the student

There was no real difficulty during my entire internship period. Except the travelling distance was stressful as I had to go from Bashundhara to Motijheel which is usually a jampacked route.

1.3.4 Recommendations

My entire internship was a good experience; however, a proper schedule of the internship activities would have been better to navigate through the different tasks and activities. Another area of improvement could be if more members of the management provided us with their insights and guidance on the company and the capital market in general.

Chapter 2: Organization part

2.1 Introduction

LankaBangla Securities Limited is a prominent brokerage house in Bangladesh that has established itself as a leader in the industry. The company started its operations in 1997 as Vanik Bangladesh Securities Ltd., on the Chittagong Stock Exchange. Within a year, it expanded its presence and ventured into the Dhaka Stock Exchange as well. In 2005, the company underwent a restructuring process and rebranded itself as LankaBangla Securities Ltd. LankaBangla Securities Ltd. is famous for its expertise in cultivating the most skilled and proficient stock brokerage workforce in the country. The company is committed to delivering industry-leading service with a strong emphasis on customer transactions and engagement. LankaBangla Securities Ltd. has consistently maintained its position as the top broker in Bangladesh for 16 years out of the 25 years of its operation.

LankaBangla Securities has made significant progress in digitalizing its system by introducing various platforms that cater to clients both within the country and abroad. These platforms include TradeXpress, LBSL Financial Portal, and iBroker. They provide convenient online options for clients to open beneficiary owner (BO) accounts, execute trades on both the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) simultaneously, and access real-time market updates and information. These platforms also allow users to deposit and withdraw funds through NPS and Mobile banking, access their portfolio and ledger details and real time trade monitoring. LBSL has established a robust IT infrastructure to support these digital platforms, demonstrating its commitment to technological advancements. Additionally, the company boasts a strong research base, covering approximately 40% of the market capitalization of equities and these research studies are regularly published on a variety of research publications and reports, catering to investors both domestically and internationally. Notably, LBSL publishes a market research magazine called "Market Pulse." LankaBangla Securities, with a strong client base and extensive service coverage in

key districts across the country, has established itself as a prominent player in the industry, providing exceptional services to its clients.

2.2 An Overview of Lanka Bangla Securities Limited

2.2.1 Basic information at a glance

LankaBangla Securities Limited at a glance	
Date of Corporation	July 3, 1997
Commencement of Operation	July 3, 1997
Registration No	C 33276(22)/97
Listing Year	DSE - 2023
Debut Trading Date	DSE – Jan 4, 2023
Authorized Capital – BDT (MN)	5,000.00
Paid Up Capital – BDT (MN)	2,690.30
Total Shares	269,030,332
Market Capitalization – BDT (MN)	6,456.73
EPS (2022)	1.26
Dividend - Cash (2022)	10
Credit Rating	Long term - AA2; Outlook - Stable
Number of Branches	36
Number of Employees	406

Table 1: Brief information of LankaBangla Securities Ltd.

2.2.2 Business Philosophy of LankaBangla Securities Limited

Vision

The Vision of LankaBangla is to achieve sustainable growth through customer satisfaction and employee excellence, continuously innovating and adopting best practices to maintain a competitive edge.

- To be the leading provider of financial services in Bangladesh
- To achieve sustainable growth through customer satisfaction and employee excellence
- To continuously innovate and adopt best practices to maintain our competitive edge

Mission

The mission of LankaBangla Securities is to provide customized and innovative financial solutions to meet the diverse needs of its clients while maintaining the highest level of professionalism and contributing to the growth of the economy.

- To provide innovative and tailored financial solutions to meet the diverse needs of our clients
- To maintain the highest level of integrity and professionalism in all our dealings
- To be a responsible corporate citizen and contribute to the growth of the economy

Core values

- Customer-centric: We put our client's interests first and strive to provide the best possible service.
- Integrity: We uphold the highest ethical standards in all our dealings and transactions.
- Excellence: We constantly strive for excellence in everything we do.
- Teamwork: We work together to achieve our common goals and objectives.
- Innovation: We encourage and embrace new ideas and initiatives to drive growth and success.

LankaBangla Securities is committed to delivering superior value to its clients through innovative financial solutions, exceptional service, and a focus on customer satisfaction. Its core values of customer-centricity, integrity, excellence, teamwork, and innovation guide its actions and decisions, enabling the company to be a leading provider of financial services in Bangladesh.

2.2.3 Services of LankaBangla Securities Ltd

LankaBangla Securities offers a range of financial products and services to its clients, including:

- 1) Equity brokerage: LankaBangla Securities offers equity brokerage services, allowing clients to buy and sell stocks listed on both the Dhaka Stock Exchange and Chittagong Stock Exchange.
- 2) Margin loan: The company provides clients with the option to access margin loans, enabling them to trade stocks by borrowing funds from LankaBangla Securities.
- 3) IPO subscription: LankaBangla Securities assists clients in subscribing to initial public offerings (IPOs) of companies listed on the stock exchanges, facilitating their participation in new investment opportunities.
- 4) Portfolio management: The company offers portfolio management services, allowing clients to entrust the management of their investment portfolios to LankaBangla Securities' experienced investment managers.
- 5) Corporate advisory: LankaBangla Securities provides comprehensive corporate advisory services to clients. This includes guidance and assistance in areas such as mergers and acquisitions, equity and debt financing, and corporate restructuring.
- 6) Research and analysis: The company conducts thorough research and analysis on stocks and industries, furnishing clients with valuable insights and information to make well-informed investment decisions.
- 7) DP Services: LankaBangla Securities Limited offers Depository Participant services to its clients, which provides an efficient and secure way to hold and manage securities in electronic form. LBSL is a member of Central Depository Bangladesh Limited (CDBL), which is the central depository of Bangladesh. As a DP service provider, LBSL facilitates the opening of BO accounts for clients and

maintains records of their securities holdings. Clients can access their BO accounts and hold information online through the LBSL portal.

Overall, LBSL aims to provide comprehensive financial solutions to its clients, catering to their individual needs and investment goals.

2.2.4 Products of LankaBangla Securities Ltd

1) TradeXpress: It is an online trading platform that is designed and developed by LankaBangla Securities Limited. It provides real-time market data, advanced charting tools, an efficient order management system and a portfolio management system. The platform also includes trading analytics and provides access to research and analysis tools, and with these investors can make well-informed investment decisions. Other features include margin trading, short selling, and IPO services. All these tools aim to empower clients with the necessary resources to navigate the stock market effectively.

2) iBroker: It is a web-based trading platform that can be accessed from any device with an internet connection. It offers real-time market data, watchlists and a range of order types to suit different trading strategies. The platform also provides access to research reports and market news to help investors make informed trading decisions. iBroker provides a user-friendly interface, which is designed to provide a seamless trading experience for investors. The platform is also highly secure with advanced encryption and authentication technologies to protect user data and transactions. iBroker also offers a mobile app allowing investors to trade on the go and stay updated with market developments.

3) Lankabd portal website: This website provides real-time stock quotes, market news, and updates, along with technical and fundamental analysis tools to help investors make informed decisions. The portal also provides customized alerts, notifications, and messages to users about their investment portfolios, trading transactions, and other market-related information.

Lastly, it provides a robust research and analysis section, which provides analysis reports on various sectors, companies, and financial products.

4) Market Pulse: This is a monthly feature magazine produced by the research and analytics team of LankaBangla Securities. The online version of this magazine is free and can be accessed by all investors. One of the unique features of Market Pulse is the ability to track company specific news and updates. The platform offers news feeds from multiple sources, including leading news agencies and stock exchanges, which allows investors to stay up to date on the latest developments in the companies they are interested in.

2.2.5 Policies of LankaBangla Securities Ltd

LankaBangla Securities Limited (LBSL) has several policies in place to ensure transparency and accountability in its operations. Some of these policies include:

1. Code of Conduct and Ethics Policy: This policy outlines the ethical and professional standards that all employees of LBSL must adhere to. It covers areas such as conflicts of interest, confidentiality, and fair dealing with clients.
2. Anti-Money Laundering (AML) Policy: LBSL has a strict AML policy in place to prevent the use of its services for money laundering or terrorist financing. The policy outlines the procedures that must be followed to identify and verify clients, monitor transactions, and report suspicious activity to the authorities.
3. Risk Management Policy: This policy outlines the procedures for identifying, assessing, and managing various types of risks associated with LBSL's operations. It covers areas such as credit risk, market risk, liquidity risk, and operational risk.
4. Complaint Handling Policy: LBSL has a policy in place for handling client complaints in a fair and timely manner. The policy outlines the procedures for receiving, investigating, and resolving

complaints, and provides clients with a mechanism for escalating complaints if they are not satisfied with the initial response.

5. Corporate Social Responsibility (CSR) Policy: LBSL is committed to giving back to the community and has a CSR policy in place to guide its activities in this area. The policy covers areas such as education, healthcare, and environmental sustainability, and outlines the procedures for selecting and implementing CSR initiatives.

2.2.6 Competitors of LankaBangla Securities Limited

While there are more than 250 brokerage houses in Bangladesh, not all of them pose a direct competition to LankaBangla Securities Limited. The variations in size, operations, and workforce differentiate these brokerage houses, making them differ in terms of their impact on LankaBangla Securities' position. Despite being the market leader, LankaBangla Securities has faced significant competition in order to maintain its top position. Here is a list of the top 20 brokerage houses based on turnover as of January 2023:

Name of the Companies	TREC Number	Position in Jan'23	Position in Dec'22
UCB Stock Brokerage Ltd.	181	1	1
LankaBangla Securities Ltd.	132	2	3
Sheltech Brokerage Ltd.	120	3	7
BRAC EPL Stock Brokerage Ltd.	11	4	6
EBL Securities Ltd.	26	5	9
City Brokerage Ltd.	145	6	15
IDLC Securities Ltd.	58	7	8
Shanta Securities Ltd.	39	8	11

BD Sunlife Securities Ltd.	248	9	4
MTB Securities Ltd.	197	10	10
Bank Asia Securities Ltd.	237	11	14
ICB Securities Trading Company Ltd.	129	12	5
United Financial Trading Co. Ltd.	227	13	12
NRBC Bank Securities Ltd.	82	14	16
United Securities Ltd.	207	15	20
BD Finance Securities Ltd.	30	16	13
Prime Bank Securities Ltd.	219	17	23
IIDFC Securities Ltd.	238	18	34
Royal Capital Ltd.	21	19	19
AIBL Capital Market Services Ltd.	234	20	25

Table 2: Top 20 securities based on turnover

Note. Adapted from <https://ucbstock.com.bd/top-brokerage-house-in-bangladesh/>.

2.2.7 Organizational Structure

The organizational structure of LankaBangla Securities Limited consists of a Board of Directors, an Executive Committee, and several departments. The Board of Directors is responsible for setting the overall direction and strategy of the company. It comprises seven members, including the Chairman and Managing Director, who oversees the overall functioning of the company. The Executive Committee, on the other hand, is responsible for the day-to-day operations of the company. It includes the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer (CFO), and other senior executives. The Executive Committee is accountable to the Board of Directors for the performance of the company. LBSL has several departments that work together to provide a wide range of financial services to its clients. These departments include the Research Department, the

Corporate Finance Department, the Capital Markets Department, the Sales and Marketing Department, the IT Department, Trade Execution Department, and the Human Resources Department. Each department is headed by a manager who reports to the Executive Committee.

A) Corporate Office

a	Chief Executive Officer	g	Deputy General Manager
b	Deputy Chief Executive Officer	h	Senior Assistant General Manager
c	Chief Operating Officer	i	Assistant General Manager
	Chief Marketing Officer	j	Senior Manager
	Chief Financial Officer	k	Manager
	Chief Technology Officer	l	Deputy Manager
	Chief Research & Analysis Officer	m	Assistant Manager
		n	Senior Executive
		o	Management Trainee Officer (MTO)
d	General Manager	p	Executive
e	Senior Deputy General Manager	q	Junior/Trainee Executive

LankaBangla Securities Limited operates through various departments that collaborate to offer a comprehensive range of products and services in the capital market of Bangladesh. These departments include Business Development, Sales and Trading, Research, Operations, IT, Customer Service, and Compliance.

The Business Development department focuses on formulating and implementing strategies to expand LBSL's business. It identifies new opportunities, creates innovative products and services, and adapts to the evolving needs of clients.

The Sales and Trading department executes client orders and generates revenue through trading activities in the stock market. The sales team engages with clients to understand their investment objectives and provides tailored investment solutions, while the trading team executes the orders on the stock market.

LBSL has a dedicated Research team that conducts fundamental and technical analysis of the stock market. They prepare regular reports that offer insights and recommendations to help clients make well-informed investment decisions.

The Operations department handles the back-office operations of LBSL, ensuring the accurate settlement of trades, maintaining records, and complying with regulatory requirements.

The IT department is responsible for developing and maintaining LBSL's technology infrastructure, including the trading platform, research portal, and other IT systems that support the firm's operations.

The Customer Service department focuses on delivering excellent customer service to clients. They promptly address client queries and provide assistance in resolving account-related issues.

The Compliance department ensures that LBSL adheres to all regulatory requirements. The team monitors transactions and activities to identify and mitigate potential compliance risks, ensuring the firm operates within the legal and regulatory framework.

These departments work in harmony to provide a seamless and comprehensive experience for clients, catering to their investment needs while ensuring compliance and efficient operations within the capital market.

B) Sales and Marketing Personnel

a	AGM	g	Executive
b	Senior Manager	h	Junior Executive
c	Manager	i	Officer
d	Deputy Manager	j	Trainee Executive
e	Assistant Manager		
f	Senior Executive		

Table 3: Organizational Structure of LBSL

2.3 Management Practices

2.3.1 Leadership Style

LankaBangla Securities Limited is known in the industry for its superior managerial practices and norms, which have played a significant role in maintaining its top position for 16 consecutive years. A key factor contributing to this achievement is the leadership style adopted by the management of LBSL, which is primarily participative in nature. This leadership style encourages active participation from all team members in the decision-making process, a common practice in the capital market brokerage services sector. I personally observed this participative approach during my internship at LBSL. The management, led by the branch manager and research team, conducts daily briefings and provides general directions. As such, all branch employees discuss their insights and collectively work towards achieving common goals. This collaborative approach combines the knowledge and expertise of senior members and the research team with the real-time market insights gained by the branch employees. It is this collaboration that sets LBSL apart from other brokerage houses and contributes to its success.

2.3.2 Human Resource Planning Process of LBSL

During my three-month internship at LankaBangla Securities Limited (LBSL), I observed the strong emphasis placed on developing the workforce. Even though I was an intern, I received grooming lessons from the management on how to engage with customers and ensure their satisfaction. LBSL ensures that all employees undergo training programs and certification seminars. These training sessions cover topics such as anti-money laundering, fundamental and technical analysis, managerial and leadership skills, marketing strategies, and DSE training for authorization certification. Furthermore, HR incentivizes its employees by offering attractive commissions for every trade they execute. This motivation serves as a driving force for employees to surpass their targets and deliver exceptional performance. Overall, these initiatives and preparations highlight the value LBSL attributes to its workforce. So, after every target compilation, employees are evaluated and based on their performance they receive promotion and increments. This timely process is attractive for any job seekers in this industry.

2.4 Marketing Practices of LankaBangla Securities Ltd

LankaBangla Securities Limited has a consistent approach in its marketing practices, recognizing the unique nature of the share market and its target audience. Our share market may not have the same level of public engagement as the banking sector. In Bangladesh, a limited number of people are interested and engaged in the capital market. Therefore, the marketing of LBSL and its services are also specific. Employees of LBSL are encouraged to reach their inner circle of friends and family to acquire funds. Also, they pursue employees of other professions and sectors to bring them into the share market. LBSL also relies on social media for reaching their existing and potential clients. For example, on LBSL's Facebook page, they regularly provide market summary and promotional features of their wide range of products. A mentionable feature would be their cross-platform trading

of DSE and CSE. This attracts a lot of investors as LBSL prepared this by conducting market research on investors' demands.

2.5 Financial Performance and Accounting Practices of LBSL

2.5.1 Financial performance

To assess the position and performance of LankaBangla Securities Limited (LBSL) within the industry, I have used various tools and conducted quantitative analysis. Let us look into the recent performance of LBSL to gain a better understanding of its standing relative to others.

Performance of LankaBangla Securities Limited

Income Statement				
Particulars	2022	2021	2020	2019
Interest Income	431,823,188.00	441,742,433.00	462,980,288.00	804,288,400.00
Income from investment	126,160,751.00	502,518,845.00	175,365,719.00	97,456,847.00
Brokerage income	766,479,431.00	1,264,782,909.00	490,349,941.00	452,660,219.00
Revenue from advertisement & circulation	183,155,801.00	138,805,379.00	120,603,689.00	157,593,509.00
Other operational income	25,155,935.00	25,150,477.00	25,077,028.00	19,393,864.00
Capital Gain	-	-	-	-
Total Revenue	1,532,775,106.00	2,373,000,043.00	1,274,376,665.00	1,531,392,839.00
Cost of services	393,316,241.00	472,746,035.00	440,099,938.00	623,282,077.00
Interest expenses	171,419,538.00	225,763,362.00	289,349,811.00	448,139,294.00
Other costs directly attributable to services	221,896,703.00	246,982,673.00	150,750,127.00	175,142,783.00
Gross profit	1,139,458,865.00	1,900,254,008.00	834,276,727.00	908,110,762.00
Other non-operational income	12,089,122.00	8,303,360.00	12,260,893.00	12,079,161.00
Operating expenses	666,563,296.00	656,124,422.00	518,701,510.00	702,355,848.00
Salary and allowances	374,165,134.00	414,807,149.00	318,451,291.00	443,153,521.00
Rent, taxes, insurance, electricity etc.	69,554,772.00	56,333,550.00	55,976,608.00	67,205,993.00
Legal & professional fees	1,356,375.00	1,899,562.00	1,430,128.00	2,376,570.00
Postage, stamp, telecommunication etc.	4,902,802.00	4,166,289.00	3,371,961.00	4,903,834.00
Stationery, printing, advertisement	9,909,419.00	6,413,142.00	4,734,631.00	9,039,650.00
Director fees and expenses	1,089,000.00	1,105,500.00	792,000.00	966,750.00
Audit fees	253,000.00	212,508.00	212,750.00	212,750.00
Repairs, maintenance and depreciation	56,695,621.00	44,867,639.00	44,288,262.00	47,926,990.00
Other expenses	148,637,173.00	126,319,083.00	89,443,879.00	126,569,790.00
Operating profit	484,984,691.00	1,252,432,946.00	327,836,110.00	217,834,075.00
Impairment of goodwill	-	234,143,286.00	-	-
Operating profit before provisions	484,984,691.00	1,018,289,660.00	327,836,110.00	217,834,075.00
Provision for negative equity & others	-	232,411,782.00	85,000,000.00	-
Provision for diminution in value of investment	-	-	-	-
Profit before tax (PBT)	484,984,691.00	785,877,878.00	242,836,110.00	217,834,075.00
Income tax income/ (expense)	(146,622,033.00)	(266,939,167.00)	(104,137,267.00)	(92,457,700.00)
Profit after tax (PAT)	338,362,658.00	518,938,711.00	138,698,843.00	125,376,375.00
Earnings Per Share (EPS)	1.26	1.93	0.52	0.47

Figure 1: Income Statement of LBSL over 4 years

LankaBangla Securities Limited (LBSL) operates as a subsidiary of LankaBangla Finance Ltd., which holds a majority stake of 92.31% in the brokerage firm. LBSL recently started trading on the

alternative trading board (ATB) in early January of this year. However, the company's earnings for 2022 experienced a significant decline of 56% compared to the previous year. According to a credible regulatory statement, LBSL was the first brokerage company in Bangladesh to sell shares on the stock market, reporting a net profit of Tk 329.53 million in 2022. Additionally, their consolidated net profit for the same year decreased by 35% year over year to Tk 338.36 million. Furthermore, LBSL lost its position as the market leader for the second consecutive month to its competitor, UCB Stock Brokerage Ltd.

Year	Dividend (In BDT)	EPS	NAV	Net Profit (In Million)
2022	10	1.26	21.25	329.53
2021	7	1.93	20.01	518.94

Table 4: Financial Performance for two fiscal years

Despite the decline in profit, the board of directors of LBSL recommended to distribute 10 per cent cash dividend for its shareholders, excluding sponsor-directors. Meanwhile, the share price of LBSL rose 2.13 percent which closed at Tk 19.20.

Industry comparison

When it comes to peer comparison, not all competitors of LBSL are on the same level. However, UCB Stock Brokerage Limited has been chosen for comparison as both LBSL and UCB have been competing closely for the top position in recent years. Let us take a look at the performance difference between these two organizations using key financial ratios. In order to compare the two organizations on different aspects, I used ratios from 5 categories to compare, which are profitability ratios, liquidity ratios, debt ratios, operations ratios and lastly market ratios. From all the ratio comparison showed below, LBSL is doing better than USB in most of the parameters.



Figure 2: Current ratio comparison

The current ratio is a measure of an organization's ability to meet its short-term obligations with its current assets. A higher current ratio indicates a better ability to pay off liabilities using available assets. Both LBSL and UCB have shown positive current ratios over the years. However, LBSL has demonstrated more consistency and growth in this regard.

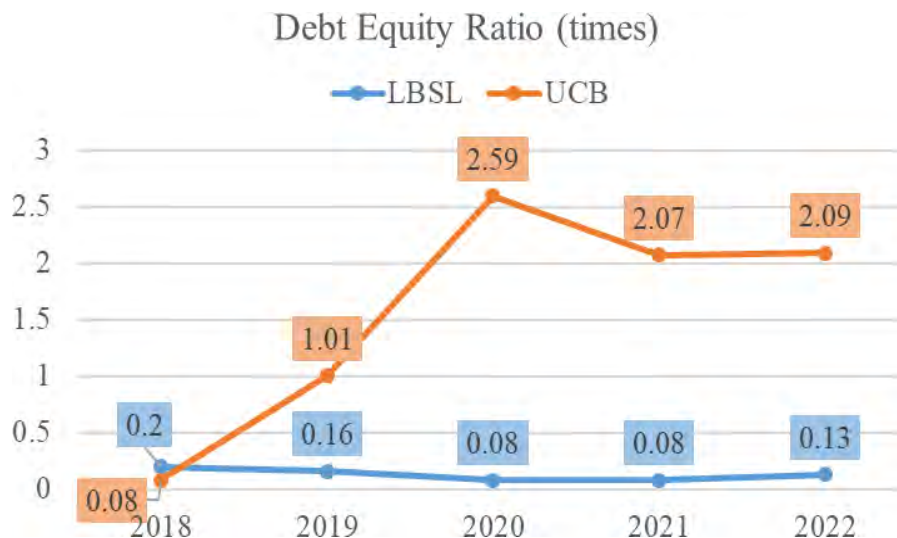


Figure 3: Debt equity ratio comparison

The debt to equity (D/E) ratio is a metric used to assess an organization's financial leverage. It measures the extent to which a company finances its operations through debt relative to its own

resources. A higher D/E ratio suggests that a company is taking more risk by relying on debt financing. In this case, LBSL is performing better than UCB Stock Brokerage Limited in terms of the D/E ratio and since the difference between the two is significant, indicating that LBSL has the potential to utilize debt to further expand its operations.

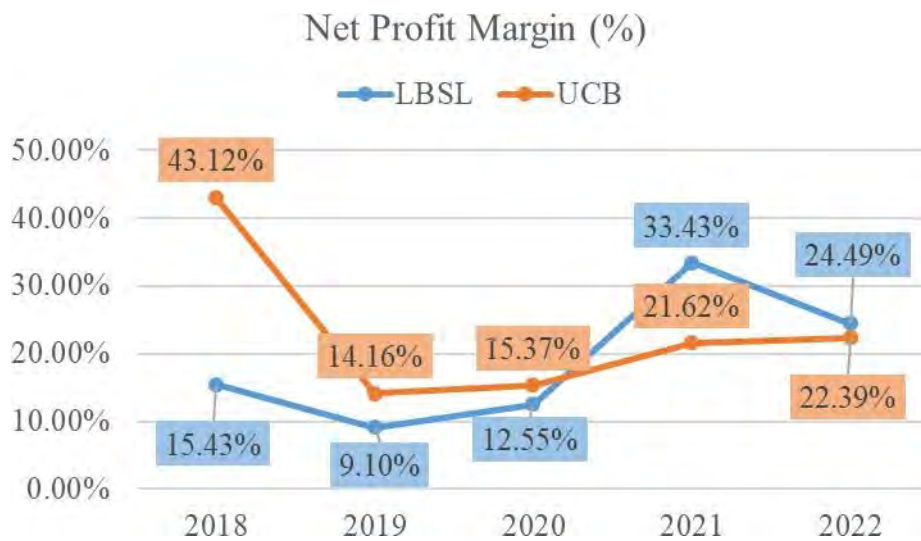


Figure 4: Net profit margin ratio

The net profit margin is a crucial ratio that reflects the profitability of a company by measuring the percentage of profit generated from its revenue. It directly indicates the financial position of the company. Over the years, it is evident that LBSL has been performing better in terms of net profit margin, while UCB has been lagging. The higher net profit margin of LBSL signifies to investors that the company is generating more profits and effectively managing its operating costs.

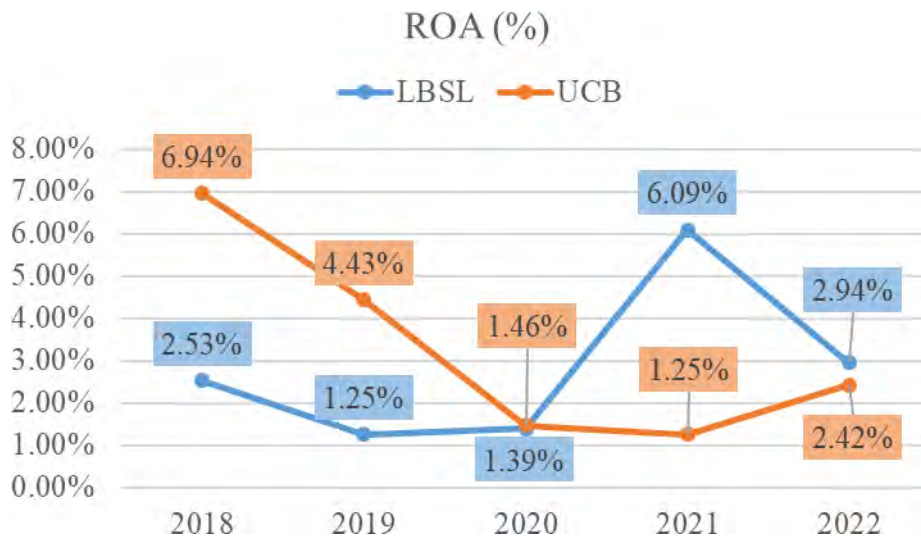


Figure 5: ROA ratio in percentage

Return on Assets (ROA) is an important ratio that measures how effectively a company is utilizing its assets to generate profit. It is indeed a useful tool for comparing companies within the same industry. From the provided graph, it is evident that LBSL has outperformed UCB in terms of ROA over the past two years. This indicates that LBSL has been more efficient in generating profit relative to its assets. The higher ROA percentage achieved by LBSL demonstrates its stronger position in utilizing its assets effectively.

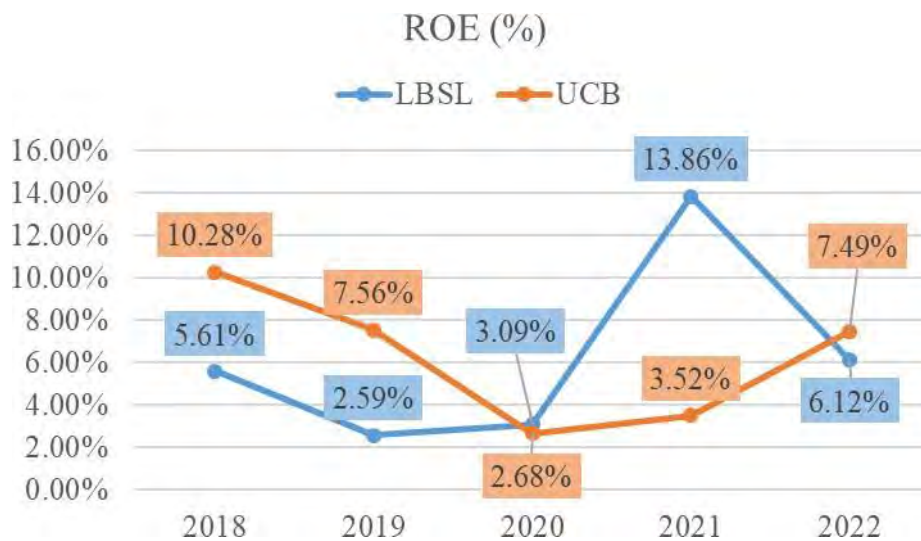


Figure 6: ROE comparison

ROE measures a company's ability to generate profit using its shareholders' equity. It is an important ratio for investors to assess the profitability and efficiency of a company. In the case of

LBSL and UCB, we observe fluctuations in the ROE of LBSL compared to UCB in recent years. It is worth noting that in the most recent year, UCB surpassed LBSL with a difference of 1.32% in their respective ROE percentages. Investors typically prefer higher ROE as it indicates better profitability and efficiency in utilizing equity financing.

2.5.2 Accounting Practices

During my internship at LBSL, I had the opportunity to gain insights into their accounting department and compare my theoretical knowledge with practical applications. Reviewing the recent annual reports of LBSL, I found that all the essential components were in place, providing a clear picture to investors and stakeholders. LBSL has received recognition for their well-organized as well. While there are some differences between a brokerage house like LBSL and typical organizations, I observed several similarities in their accounting practices. For instance, LBSL follows the straight-line depreciation method for their fixed assets, aligning with common accounting principles. Moreover, LBSL places great emphasis on adhering to the rules and regulations set by regulatory authorities such as the Bangladesh Bank and Bangladesh Securities and Exchange Commission (BSEC). They ensure their accounting strategies align with internationally accepted standards, enhancing their credibility. For audits, LBSL strictly follows the International Standards on Auditing (ISA), contributing to their managerial practices and overall credibility.

2.6 Operations Management and Information Systems Practices

Lankabangla Securities Limited (LBSL) has embraced technological advancements throughout its 26-year presence in the stock market. With dedicated research and IT departments, LBSL has integrated technology into their daily operations. They utilize modern HRIS tools to monitor their workforce, employing biometric attendance systems to track entry and exit times, allowing HR to

identify any discrepancies. The performance of LBSL employees is tracked through the MINT software system, developed in collaboration with third-party organizations, enabling HR to evaluate performance and conduct appraisals effectively. As a market leader, LBSL prioritizes compliance with regulations, maintaining digital records of transactions using the ENADOC software, which is encrypted and stored on their local server. This system ensures the protection of client information against cyber threats. LBSL uses Direct FN terminals for trading, a globally recognized Online Management System (OMS) employed by top markets worldwide. Unlike other brokerage houses in Bangladesh that use BSEC's terminals, LBSL's use of DirectFN ensures efficient and secure trading practices.

2.7 Industry and Competitive Analysis

In order to perform industry and competitive analysis, I have used Porter's Five forces, SWOT Analysis and PESTEL analysis. These tools altogether will evaluate LBSL's position.

1) Porter's Five Forces Analysis: The Five Forces model, developed by Michael Porter, is commonly used to assess the industry structure and corporate strategy of a company.

Rivalry Among Competitors: LBSL faces competition as we saw above, but not all competitors pose a significant threat. Given LBSL's experience in the capital market and a large customer base, the intensity of rivalry among competitors can be considered moderate.

Power of Buyers: The power of buyers in relation to LBSL is relatively low. This is due to the customer base of LBSL, which includes funds of various sizes, making it challenging for any single buyer to exert significant influence.

Power of Suppliers: In terms of supplier power, it is also low for LBSL. This is attributed to LBSL's well-defined business strategies and reliance on its in-house research and IT departments. LBSL can effectively control and manage its own supply of services.

Threat of Substitutes: The threat of substitutes for LBSL is low due to the unique services and features they offer. For instance, the TradeXpress platform allows customers to trade across both the DSE and CSE simultaneously. This service provides LBSL with a sustainable competitive advantage over other brokerage houses.

Threat of New Entrants: In this industry, the threat of new entrants is high. As people from all walks of life increasingly recognize the importance of generating passive income, the interest in money market instruments, including the stock market, is growing. This growing interest from potential customers has attracted the attention of both national and international organizations considering entering the market.

In summary, considering all five forces, LBSL is currently performing well. However, the balance may shift as new customers enter the market, and LBSL will need to adapt to these changes to maintain its position.

2) SWOT Analysis: The SWOT analysis is a tool used to assess a company's position relative to its competitors and to develop strategic plans.

Strengths: LBSL's strength lies in its superior customer service and unique features such as IT infrastructure and research team that are unmatched by its competitors. This has led to a loyal customer base and the ability to attract new customers.

Weaknesses: LBSL still lacks a presence in several districts where other brokerage houses have already established themselves. For example, UCB has entered the market in Rajshahi, whereas LBSL has yet to make its presence felt there.

Opportunities: One significant opportunity for LBSL lies in targeting the untapped young demographic of investors. Currently, the stock market is primarily popular among older generations, but as business and passive income gain popularity among the younger generation, LBSL can leverage this opportunity to further drive their growth.

Threats: With Bangladesh attracting global investments, the potential entry of international brokerage houses poses a significant threat to LBSL. These international players often have substantial financial backing, which could challenge LBSL's market position.

In conclusion, the SWOT analysis indicates that if LBSL formulates its strategies to address future threats and capitalize on opportunities, it can maintain its position as a top tier company and continue to grow.

3) PESTEL Analysis: Pestel analysis is an analysis of six external factor of any organization. For LBSL, all the factors should be considered in order to evaluate its position and role in the economy.

Political: The political factor for LBSL is favorable, as the government of Bangladesh encourages share market growth and provides a stable political environment for the company's operations.

Economic: Among the economic factors, the interest rate is a significant factor influencing LBSL's operations. The changing interest rate differential has made the stock market an attractive alternative for investors in Bangladesh, alongside the traditional banking industry.

Social: Social factors like public perception of the share market play an important role for LBSL. Currently, the main target group consists of middle to upper class male earners in the middle to older age range. However, there is an emerging interest among young entrepreneurs seeking passive income opportunities in the share market.

Technological: Technological factors are crucial for LBSL, as their unique features and competitive advantage rely heavily on internet development and IT capabilities. The growth of the IT sector in Bangladesh and advancements in digital communication have allowed LBSL to enhance its IT department and deliver key features to its clients.

Environmental: Although LBSL is not heavily involved with environmental factors at present, they could consider initiatives to attract younger investors and job seekers. By focusing on reducing their carbon footprint and increasing recycling efforts, LBSL can align with the values of the younger

generation.

Legal: Legal factors have a significant impact on LBSL's operations, as the company must comply with guidelines and restrictions set by regulatory authorities. LBSL works closely with regulatory authorities and receives their support in obtaining business licenses and certifications for employees.

In summary, the PESTEL analysis highlights that LBSL benefits from a positive political environment and favorable economic conditions. The company's operations are influenced by social trends, technological advancements, and legal requirements. While environmental factors are currently less emphasized, LBSL could explore initiatives to align with the interests of younger investors and address sustainability concerns.

2.8 Summary and Conclusions

Based on the discussions and explanations provided, it can be concluded that LankaBangla Securities Limited is considered one of the top contenders for individuals seeking job opportunities, business partnerships, or conducting research in the capital market of Bangladesh. As an intern at LBSL, the overall managerial practices of the company stood out and provided valuable experience in understanding the corporate structure.

Working at LBSL offers the opportunity for interns to enhance their practical knowledge and skills by actively participating in diverse operations and collaborating with others. LBSL's market position, customer satisfaction, services, and financial performance make it a superior option compared to its competitors. The company's long-standing top position in the industry is a testament to the exceptional service they provide. LBSL's loyal customer base and the acquisition of potential customers indicate future growth prospects for the organization. Moreover, the publications, research work, and media presence of LBSL across the internet and newspapers establish the company as a credible source for researchers seeking information and insights in the field of capital markets.

In conclusion, LBSL offers a promising career path and provides a valuable platform for individuals to

develop their skills and knowledge in the financial industry. The company's strong market position and reputation make it an attractive choice for job seekers, business partners and researchers.

2.9 Recommendations

Increase Promotional Activities: LBSL should focus on enhancing their promotional activities to increase brand awareness and attract a wider audience. They can achieve this by ramping up their social media presence, utilizing platforms like Facebook, Twitter, LinkedIn, and Instagram to engage with potential customers and share informative content. Additionally, advertising in newspapers and business magazines issued by top-tier media corporations can help reach a broader audience and create brand recognition.

Expand Network Coverage: While LBSL has made progress in expanding their presence across various districts in Bangladesh, there is still room for further expansion. It is recommended that LBSL actively works towards spreading their network to all parts of the country, rather than solely focusing on major cities. This will allow them to tap into untapped markets and attract potential customers who may not have easy access to financial services.

Create Vibrant and Engaging Workplaces: To attract younger generations of employees and investors, LBSL should consider making their workplaces more vibrant and engaging. This can be achieved by incorporating modern office designs, providing recreational areas, and fostering a culture of innovation and collaboration. By creating an environment that appeals to the younger demographic, LBSL can attract and retain top talent while also appealing to young investors who are interested in the share market.

Collaborate with Financial Institutions: To expand their range of offered services and products, LBSL can consider collaborating with other financial institutions. For example, they could establish a strategic business unit (SBU) in the insurance industry to complement their existing services. This collaboration can provide additional value to customers and contribute to LBSL's consistent growth by

diversifying their offerings.

Implementing these recommendations can further strengthen LBSL's market position, attract a broader customer base, and enhance their competitive advantage in the industry.

Chapter 3: Analyzing the Impact of Existing Floor price on the Brokerage Industry

3.1 Introduction

3.1.1 Background

In Bangladesh, the Stock market have always been volatile due to the presence of small investors who make up most of the market. As institutional investors and high net worth individuals still feel reluctant to participate in the stock market due to numerous crashes notably in 1996, 2011 and most recently in 2020 due to the pandemic, the market fails to show long term stability. The SEC regulator imposed the floor price for the first time in March 2020 to protect the market from going into free fall against the backdrop of the pandemic (Mufazzal, 2023). It was then lifted in phases from April 2021. Later, the price restriction was re-imposed in July 2022 for economic uncertainties ushered in by the Russia-Ukraine war. On March 1, the regulator reinstated floor price for the 169 securities. Although the implementation of this has helped the small investors from losing almost half of their investments, we cannot overlook the negative impact it is causing in the capital market. This concept of imposing floor prices is very rare in the world as it has a huge impact on the market's turnover. Therefore, the impact of floor prices which were imposed in two phases (2020-2021, 2022-ongoing), especially the current floor price with the ongoing liquidity crisis in the banking system across the country is causing more liquidity crisis as a lot of funds is stuck without the ability to sell as there are no buyers at floor price. Normal small investors who have a need for their money are unable to extract funds due to this and they are incurring a lot of opportunity costs as they cannot invest elsewhere. But the most vulnerable group are the margin investors as they borrowed money from the securities to buy shares and due to this, they are incurring interest expenses on top of the opportunity cost. Lastly, the traders are also feeling the impact as they cannot generate high turnover for the companies and as a result,

their performance is hampered. This has a direct influence on their salary, promotions and job security. All these issues are not only harming the finances of these stakeholders but also their mental health.

3.1.2 Objectives

Fundamental Objective: This report is to examine the impact of the existing floor price on all the stakeholders of the brokerage industry, which includes the securities, the employees of securities and the investors of the secondary market. This report also aims to touch on the overarching influence it has on the long-term growth of the stock market spurred from the declining confidence of the general public and institutional investors.

Specific Objectives: The report aims to

- i. Identify the economic indicators and as well as non-economic factors that caused the floor price to be implemented.
- ii. Analyze the relationship between floor price and the performance of the stock market.
- iii. Analyze the relationship between floor price and the performance of LankaBangla Securities Limited.
- iv. Showcase the difference in trading pattern of various types of investors before and after the implementation of floor price.
- v. Analyze the loss incurred through inflation, opportunity cost and accrued interest.

3.1.3 Significance

As a student's first real-world experience in the non-banking profession, this chapter's major goal is to serve as a reference point for future endeavors. Chapters one and two of my report focused on my personal experience and the lessons I've taken away from my internship thus far. In addition, this area of the report has the second vital attribute in that it may teach the readers a lot. Another benefit of this report is that the author will be eager to share his thoughts with the reader and solicit

comments. The report also offers the reader a thorough insight into LankaBangla Securities Ltd. and the author's internship experience. The report aims to explain the relationship between floor price and its impact on the capital market performance overall and highlight its significance in making informed investment decisions and ensuring a healthy capital market. This report also recommends key points for investors and policymakers based on the findings and conclusions of the study. Overall, the purpose of the report is to contribute to a better understanding of the interplay between the floor price and stock market performance and its implication for our economy and as well as our investors.

3.2 Methodology

This study employs a systematic approach beginning with the gathering of unprocessed data and continuing through the writing of the concluding report. The requirements of the Securities Exchange Commission governed the research's source selection and data collecting processes. After categorization, analysis, and systematized organization, the following is the general approach taken by the methodological approach.

Acquisition and selection of data: The topic named “Analyzing the Impact of Existing Floor price on the Brokerage Industry: A Case Study of LankaBangla Securities.” was selected after discussing with my on-site supervisor of the organization and with my assigned supervisor from BRAC University. Basically, there are two methods of collecting data. They are:

i) Information Obtained from Primary Sources: The following is a list of information obtained from primary sources.

- Working in a variety of fields has provided me with real-world knowledge and skills.
- Brokerage house employees, administrators, and executives were involved in the conversation while collecting information.

- Bringing together the knowledge and expertise of a variety of fields.

ii) Information obtained from Secondary Sources: In order to construct this study, we consulted the following secondary sources. Following are the secondary sources from which the following data were compiled:

- LankaBangla Securities Ltd. Financial statements and notes over the previous five years.
- LankaBangla Securities Ltd.'s website was used to acquire the information.
- The DSE and SEC's official website provided me with all the information I needed.
- Client performance metrics were acquired through LankaBangla Securities executives.
- Several research papers used that have been published on the subject.
- The report is also based on readings from the other relevant courses in finance.

3.3 Findings and analysis

3.3.1 Impact of floor price on Dhaka Stock Exchange

The Dhaka Stock Exchange (DSE) is a key player in the economy of Bangladesh, with a significant impact on various economic indicators. However, since last year with the implementation of floor price, it has had a noticeable impact on the performance of the DSE. The relationship between floor price and the performance of the DSE is direct in nature, if shares do not move, the index falls. Nonetheless, it is widely accepted that floor price can have a detrimental effect on the performance of the stock market, leading to decreased investor confidence and decreased investment, resulting in lower stock prices and reduced returns for investors. In this part of the report, I will try to showcase the performance of DSE during the ongoing crisis.

Particulars	January 2023	January 2022	Changes in % from last year
DSE Board Index (DSEX)	6,267.50	6,926.29	(9.52%)
DSE 30 Index (DS30)	2,219.60	2,559.15	(13.27%)
DSE Shariah Index (DSES)	1,366.01	1,481.89	(7.82%)
Total Turnover Value (BDT Million)	117,268.41	312,612	(62.49%)
Total Turnover Volume (in '000)	1,909,261	6,536,865	(70.79%)
Market Capitalization (BDT Million)	7,654,724	5,569,832	37.43%
Daily Average Turnover (BDT Million)	5,099	14,210	(64.12%)
Market P/E (as of January'23)	14.40	16.58	(13.17%)
Yield (as of January'23)	3.68	3.97	(7.30%)

Figure 7: DSE's Performance in January '23

The table above shows the deteriorated performance of DSE from the previous year when there was no floor price in place. All the performance indicators are in negative figures. As floor prices sustained, the performance of DSE index across the board declined.

3.3.2 Impact of floor price on the liquidity

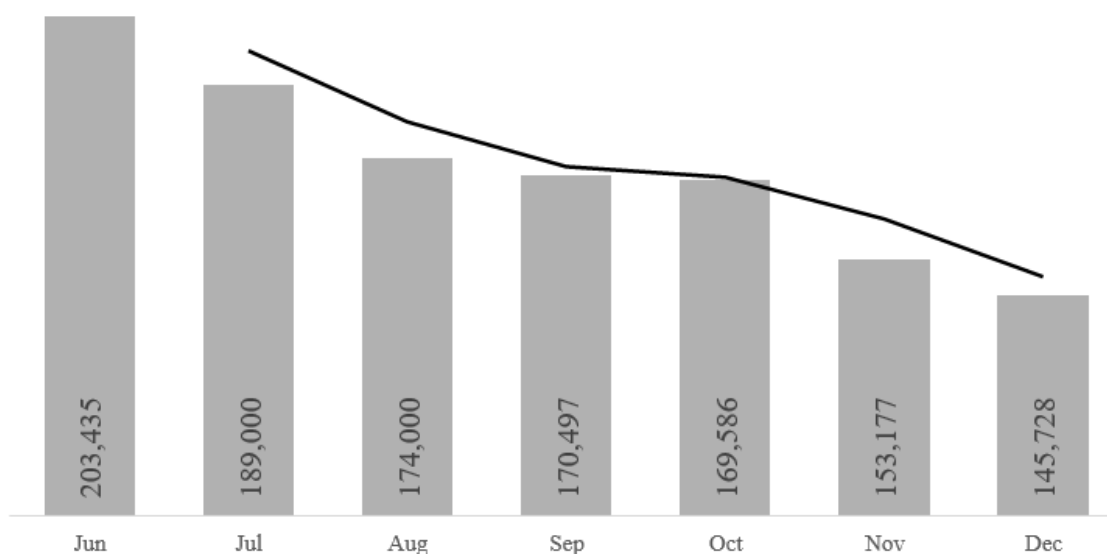


Figure 8: Banks surplus liquidity from Jun-Dec 2022 (TK in Crore)

The impact of floor prices on liquidity and stock market performance in Bangladesh has been significant. The country has been experiencing higher levels of inflation, leading to lower liquidity in the money market compared to previous years. This shortage of liquidity is further exacerbated by funds being stuck in floor prices, as evidenced by the turnover rate of the stock market.

The amount of excess liquidity in the banking sector has been decreasing due to various factors, including high dollar sales by the Bangladesh Bank, low deposit rates, growing inflation, and cash withdrawals following loan scams. The data from the Bangladesh Bank shows a continuous decline in excess liquidity from Tk 2,03,435 crore in June to Tk 1,45,728 crore in December. This decline has been significant, dropping sharply from Tk 1.69 lakh crore in October to Tk 1.53 lakh crore in November 2022. (Rahman,2023)

In conclusion, floor prices can have a substantial impact on liquidity, which, in turn, affects the overall performance of the stock market. Investors and analysts need to closely monitor liquidity levels in the market to make informed investment decisions.

A recent survey conducted by LankaBangla on capital market sentiment indicates that floor prices, poor integrity, and regulatory issues are the key concerns for stock investors. The survey findings reveal that it is not macroeconomic issues or corporate earnings that have dragged the stock market down in 2022, but rather the poor integrity of the capital market, regulatory issues (including the floor price), and declining investor confidence. A significant percentage of respondents (79%) believe that the floor price in the capital market contributes to illiquidity, while 67% express concerns about fraud and manipulation in the market (Babu,2023). This indicates that respondents perceive non-economic factors, such as the implementation of floor prices, to have a more significant impact on the capital market in Bangladesh than economic indicators.

Overall, the presence of floor prices has implications for liquidity, stock market performance, investor sentiment, and the integrity of the capital market in Bangladesh. Monitoring and addressing these factors are crucial for a healthy and thriving capital market.

3.3.3 Higher return from NBFIs than stock market due to floor price

As public sentiment is falling on the stock market due to its low turnover and major blue-chip companies being stuck in floor price, high returns from NBFIs are attracting investors as they are much safer investments. This is taking new funds away from the capital market which otherwise could have helped to mitigate some of the problems of illiquidity in the stock market.

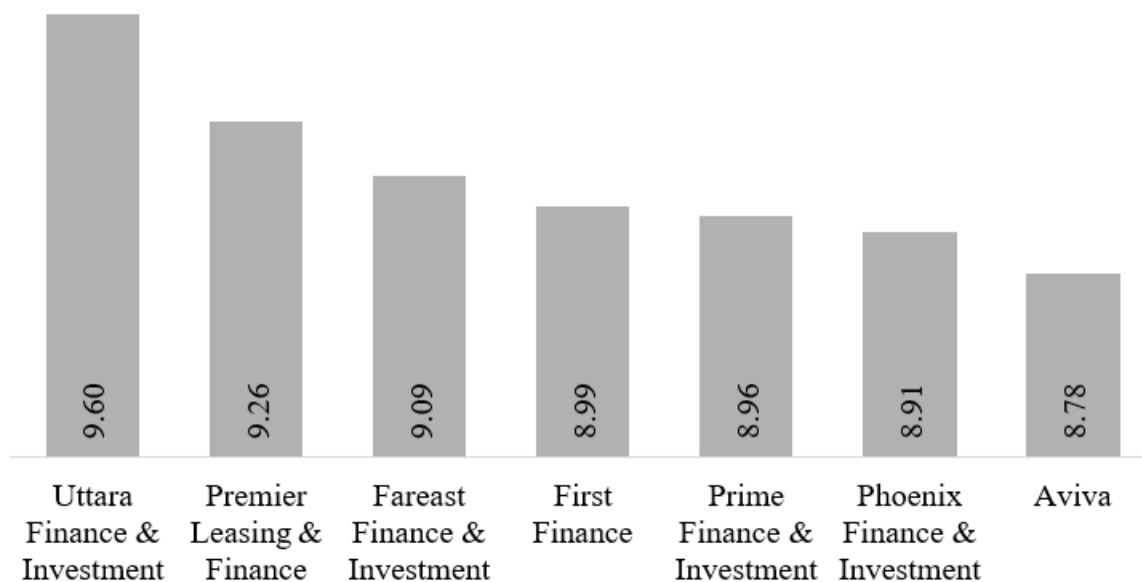


Figure 9: Interest rates on deposits across NBFIs

To address the liquidity crisis and combat soaring inflation, financial institutions in Bangladesh, particularly NBFIs, have taken steps to increase interest rates on deposits. These NBFIs have reportedly received verbal consent from Bangladesh Bank officials to offer deposit rates above the central bank's prescribed rates of 7% for deposits and 11% for loans.

3.3.4 Impact of floor price on LankaBangla Securities

The existing floor price has negatively affected LankaBangla Securities in more ways than one.

Year	Dividend (In BDT)	EPS	NAV	Net Profit (In Million)
2022	10	1.26	21.25	329.53
2021	7	1.93	20.01	518.94

Figure 10: Year wise financial metrics of LBSL

All brokerages generate revenue from mainly a couple of ways. Commission through trade and through accrued interest from margin traders. Firstly, the low turnover generates less commission for the company. LankaBangla Securities Ltd charges 0.04Tk per 1Tk of trade. When that trade is slow, the company generates less commission. When there is less commission, there is a liquidity shortage which means more funds cannot be loaned out to margin traders who in turn would have generated more interest for the company to earn. And hence the problem multiplies itself in circles. Then there are seasoned investors whose funds are stuck in floor price who would have traded with those funds generating revenue for the company. In the industry overall, some of the brokerage houses are on the brink of collapse but since LBSL is one of the top firms, it remains resilient.

3.3.5 Impact on the regular investors

When we think of investors from a brokerage house perspective, there are different categories of investors based on their trading pattern and frequency. Broadly, there are two types of accounts; cash accounts and margin accounts where cash accounts are accounts with just individual's savings and margin accounts are individual savings along with loans provided by brokerage houses in ratio with their own investment. The latest directive by SEC is maximum 1:1 but the current situation is causing LBSL to be more risk averse so they offer maximum 1:0.5 which means for every taka invested by a client, they will provide a maximum of 0.5 taka margin loan.

Then there are roughly three categories of investors according to their risk averse nature. They are IPO investors, long term investors, and short-term investors. IPO investors are the most risk averse investors who usually only buy from the primary market through IPOs or placement shares. They buy shares at par value of tk10 as almost always the price of these shares grows more than their par value. Long-term investors should be the largest portion of any stock market for it to be prosperous. They usually buy a share that has good prospects and can give consistent dividend yields along with gradual stable increase in capital gains. Short term investors are the most risk prone investors who look to make quick capital gain from low market capitalization, highly volatile shares. They usually do not wait long enough to avail themselves of dividend yields. Now looking at these investors, we can easily see the most likely category of investors who would take margin loans and they are short term investors.

Investment avenue	Inflation	T bill or risk-free rate	Investment Bank return	Commercial Bank return	Average return from DSE	Margin loan interest rate
Return per annum in percentage	7.7%	6.83%	9%	5.42%	3.68%	17%

Figure 11: Return from investment avenues for 2022.

With the above figures, let's take a hypothetical example of different investors each starting with a capital of TK 1000 at the start of 2022. Suppose investor A pulled his funds from the stock market just before the imposing of floor price. If he keeps the fund idle, he will have TK 923 by the end of the year in real value as he lost 7.7% due to inflation. If he kept the money in the commercial banks, he would have had TK 977.2 at the end of the year. In the case of investment banks, that amount would stand at TK 1013 which is the first example where we see real gain.

Now we consider investor B who has used his funds to stay in the stock market but with companies not stuck in floor price. He would have TK 995.98 at the end of the year considering no dividends were given by any of the companies he invested in. If all his stock were in floor price, it would effectively work as keeping his funds idle like the first example and he would have TK 923 at the end of the year.

Lastly, we consider investor C who took out margin loans on a 1:0.5 ratio and therefore his total investment is 1500. If his investments are not stuck in floor price, he would have $(1500 + 55.2 - 85 - 77 - 500)$ or TK 893.2 at the end of the year considering he pays back the loan. If his investments are stuck in floor price, he would have TK 838 at the end of the year.

In all these examples, we assume the average return of DSE in 2022 to be the return generated by the investor. We do not consider the commission charged by each trade. We also omit any dividend which might be given due to holding on record date. Therefore, what we see in all these examples except one is that there are no real gains made by the investor and the worst impact is felt by margin investors whose funds are stuck in floor price. Another thing to consider is if there was no floor price, the average return of DSE would have been higher, which would have increased the profitability of all these cases.

Finally let us look at a real-life statistic based on 362 investors of LankaBangla Securities. Before we do that, we need to understand that there are various types of investors based on their risk-taking ability and size of capital. They are handled by Relationship Managers or RMs in short. There are also RMs with different temperament who take in specific types of investors who cater to their style. The sample of 362 investors that I have used for this report are all under my supervisor. His investors usually do not take margin loans and their trade is more stable and not erratic with the high market volatility, but the fund size is not biased towards any direction and is balanced throughout clients. Therefore, this sample is biased towards healthy investors who make sound decisions who are the

minority in the stock market and thus the reality is worse than the statistics found below. All these cases are the result after the implementation of floor prices. Here is what I have found; 44 clients have closed their accounts, which is 12% of the clients. This might indicate the severe loss of confidence of these investors in the stock market and they see no positive in the foreseeable future. Out of the remaining 318 clients, 42 clients, which is about 13%, have sold all their shares and kept the fund ready to be invested without withdrawal. It indicates they are weary about the current condition of the stock market, and they will quickly invest as soon as they see opportunity and growth. Out of 318 clients, 12 clients or 4% have taken margin loans and all of them except one have accrued interest which needs to be paid off.

The overall picture looks worrying, and the losses incurred by these investors are not only financially damaging but also mentally draining and all these problems can be directly linked to the existing floor price.

3.4 Limitations

Some limitations of the report may include:

1. Sample size: The sample size of the survey conducted may not be representative of the entire population of investors at LankaBangla Securities, which could impact the generalizability of the results.
2. Time constraints: The time frame of the research may not have been sufficient to conduct an in-depth analysis of the impact of technological innovation on the brokerage industry.
3. Dependence on secondary data: The report relied heavily on secondary sources of information, such as articles, journals, and reports, which could have limitations in terms of their reliability and validity.

4. Subjectivity: The researcher's subjective interpretation of the data collected could have influenced the findings and conclusions of the report.

The scope of this report is limited due to the availability of sensitive information. As I joined as an intern, my access was restricted within the organization. Also, similar info of other competitors was inaccessible because of the sensitivity. As a result, most sources were public and exclusive info could not be added.

3.5 Summary and conclusion

In the above analysis, floor price has been identified as a critical factor that can influence stock market performance. This report has also explored the relationship between floor price and brokerage industry performance. I have examined various economic and non-economic factors that can be influenced by floor price such as stock market performance, including DSE turnover, liquidity in the economy, investor sentiment.

My analysis indicates that floor price has had a significant negative impact on the stock market performance in Bangladesh, with prolonged exposure to floor price leading to decreased liquidity, lower demand for stocks, reduced investor confidence, low profitability for brokerages, lower income for brokerage industry employees and lower return if not heavy losses for investors. It is, therefore, crucial for investors and analysts to carefully monitor the floor price when making investment decisions.

3.6 Recommendation

Since this implementation of floor price is done by a single government entity, Securities Exchange Commission. Therefore, if the government calculates that the negatives outweigh the positives when they originally imposed the floor price, they might consider lifting the floor price. A new organization, Capital Market Stabilization Fund (CMSF) has been recently launched by the government where they have a large pool of funds from the unclaimed dividend over years. The

government can decide to slowly inject funds directly into the market along with slowly lifting the floor price in batches of companies. All these recommendations should be implemented with the intention of helping the small investors as they are the most vulnerable group in this situation.

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Appendix A.

Appointment letter



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February 5, 2023

Mr. Redwan Alam Khan
H 497, Road 6, Block H
Bashundhara R/A , Dhaka

Dear Mr. Khan,

OFFER LETTER – Internship

We are pleased to offer you the position of Intern in LankaBangla Securities Limited at Business Development Department of our Principal Office Branch, subject to the terms and conditions:


Terms and Conditions

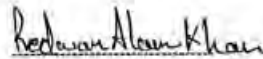
1. **Position** : Intern
2. **Salary (Gross)** : Taka 10,000 per month
3. **Internship Period** : 3 Months
4. **Others:** During the Internship period, your services may be terminated by the company or you at any time with a prior written notice of one month. Your appointment will be governed by all applicable terms and conditions of the company.
5. You are expected to join on or before **February 7, 2023**

The company has the right to amend or modify any or all the terms and conditions of this letter at any time.

If the above terms and conditions are accepted by you, please confirm your acceptance of the offer by countersigning and returning the duplicate of this letter along with a joining letter.

Thanking you,


Touhidur Nur
Sr. Manager, Human Resources


I accept the above offer