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## **Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation**

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# **Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation**

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**Submitted to:**

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**Prepared by:**

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ID: 09204073

Major: Finance and Economics

February 13, 2014

Ms. Samina Haque  
Senior Lecturer  
BRAC Business School  
BRAC University

Subject: Internship report on “Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation”

Dear Sir:

It is a great pleasure to present to you my internship report on “Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation” which I have diligently worked on during my internship attachment period in Client Service Division of the Portfolio Management Department (PMD) of BRAC EPL Investments Limited.

I have gained the most interesting and informative experience while working for this report. My endeavor for learning about investment banking of BRAC EPL has not only been fruitful but it also has given me an insight into the requirement of situation based perspective. Incorporating vast amount of information into a concise report was indeed a challenge for me. I earnestly hope that the report will meet the standards that the institute has set for us. I am always available for further query and clarification.

Sincerely,

Md.Mustafa Zaman  
ID: 09204073  
Major: Finance and Economics

## **Acknowledgement**

I want to express my sincere gratitude to, Mr. Mehdi Aqif and Mr. Kazi Aminul Islam, BRAC EPL Investment Limited for assigning me the responsibilities while being attached with the organization and also Ms. Samina Haque, BRAC University, for approving the project and authorizing me to prepare this report. I am also indebted to him because he was kind enough to guide me in solving every problem I faced.

I am grateful to various officials of the Client Service Division of the Portfolio Management Department (PMD) of BRAC EPL Investment Limited and of course to my family and friends for their cooperation that helped me throughout the tenure of my internship period.

## Executive Summary

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BRAC EPL Investments Limited is a merchant bank and subsidiary of BRAC Bank Limited. It commenced operation under a new management team obtaining merchant bank license from the Securities and Exchange Commission (SEC) and became BRAC EPL from EPL in August 2009. BRAC Bank holds 76% of the equity of BEIL, the rest held by a diverse group of international fund managers and capital market institutions at home and abroad. BEIL delivers a whole range of investment banking services including traditional merchant banking activities. It has already established itself as one of the top portfolio managers, serving more than 4600 clients country-wide from seven locations. In discharging professional services, BEIL makes concerted efforts to show ZERO tolerance towards non-compliance and emphasizes strict adherence to regulatory guidelines.

The report focuses on “Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation”. BEIL commenced its business just 4 years back. So it can be said that it is comparatively a new organization in the market. After only two years of its inception, the company faced the biggest capital market turbulence in the history of financial markets of Bangladesh. Its upward trend of net income got broken as soon as the capital market storm hit. The report is enriched in financial performance analysis of BEIL consisting of comparative balance sheet, comparative income statement, some important ratios, critical analysis of profitability, future projections etc. The financial performance analysis of BRAC EPL Investments Limited showed a significant deviation in the year 2011 in almost all the analyses. And in most the cases, such impact continued in 2012. So, we can say the capital market distress had a great impact on the profit growth of BRAC EPL. If 2011 were out of the picture the performance of the firm in terms of income shows a steady growth in both operating and total income. BRAC EPL faced a negative net profit only in 2011, which was the year of the capital market distress.

One prerequisite of having a healthy investment climate in an economy is the availability of financing facility for the existing and potential borrowers. The two major sources of finance in any country are the banks and the capital market. So it is very important for BRAC EPL Investments Limited to cope up with the turmoil of capital market of Bangladesh to have a consistent profit growth

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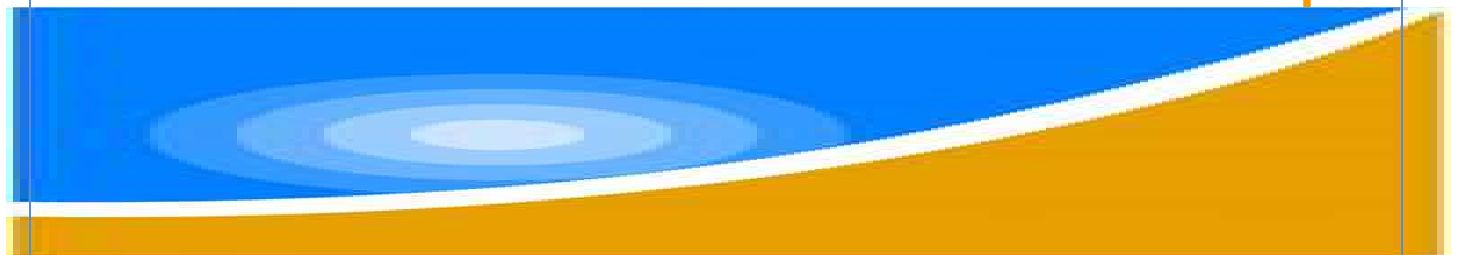
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*Chapter 1:*  
*Introduction*



## 1 Chapter 1: Introductory Part

### 1.1 Introduction

Capital Market mainly refers to the Stock market of the country. When banking system cannot totally meet up, the need for funds to the economy, capital market stands up to supplement it. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, the bond market, and the primary market. Trading securities on capital markets are monitored by the government; new issues are approved by authorities of financial supervision and monitored by participating banks. Thus, organized capital markets are able to guarantee sound investment opportunities. On the other hand Merchant banks, also known as investment banks, offer various services in international finance and long-term loans for wealthy individuals, multinational corporations, and governments. The main function of a merchant bank is to buy and sell financial products. They manage risk through proprietary trading, carried out by special traders who do not interface with clients. The trader manages the risk for the principal after they buy or sell a product to a client but does not hedge their total exposure. Banks also try to maximize the profitability of certain risk on their balance sheets. Merchant banks manage debt and equity offerings. They also help in distributing securities such as equity shares, mutual fund products, debt instruments, insurance products, and fixed deposits among others. Merchant banks use a mix of institutional networks—mutual funds, foreign institutional investors, pension funds, private equity funds, and financial institutions—and retail networks, depending on how they interact with specific clients.

The Capital Market of Bangladesh is passing tough times since December 2010 as high volatility is eroding the capital of thousands of investors that might turn into social instability. This volatility is affecting every sector of the economy such as in my case, merchant banks. So the focus of my research will be how the current capital market volatility and distress is affecting the profitability and growth of a merchant bank, particularly BRAC EPL Investments Limited.



## 1.2 Background

BRAC University offers an opportunity for the students to participate in a three month long internship program. Besides having a review on the related courses it is also offering a scope to have a taste of the starting of professionalism.

Internship is a tool that gives enough scope for the business graduates to understand the real business world more effectively. Besides doing a job in BRAC EPL Investment Limited it also offered me an immense potentiality to understand the necessary functions to be carried over by the banks.

The largest part of the national development is contributed by the financial sector. Considering the financial intermediaries the banking sector has the most significant role to play for the economic development. Starting from the domestic trade to the international financial affairs the banks are playing a very important role for the development of the entire economy.

An investment bank is a financial institution that assists individuals, corporations, and governments in raising capital by underwriting and/or acting as the client's agent in the issuance of securities. An investment bank may also assist companies involved in mergers and acquisitions and provide ancillary services such as market making, trading of derivatives and equity securities, and FICC services (fixed income instruments, currencies, and commodities).

Investment banking has changed over the years, beginning as a partnership form focused on underwriting security issuance (initial public offerings and secondary offerings), brokerage, and mergers and acquisitions and evolving into a "full-service" range including sell-side research, proprietary trading, and investment management. In the modern 21st century, the SEC filings of the major independent investment banks reflect three product segments:

- a) Investment banking (fees for M&A advisory services and securities underwriting);
- b) Asset management (fees for sponsored investment funds)
- c) Trading and principal investments (Dealer transactions: broker-dealer activities including proprietary trading and Broker transactions: brokerage trading)



### **1.3 Origin of the Report**

This internship report titled “Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation” is prepared to fulfill the partial requirement of the internship of Bachelor of Business Administration (BBA) degree under BRAC University and get an overall idea of the profitability of BRAC EPL Investments Limited. The report has been prepared in alignment with the assigned responsibilities while being attached to the Client Service Division of the Portfolio Management Department (PMD) of BRAC EPL Investment Limited from September 22, 2013 to January 25, 2014.

As an intern at BRAC EPL Investments Limited, I was attached to the Client Service Division of the Portfolio Management Department (PMD) of the company. My responsibility there was to help clients with any queries, explain the portfolio management products and related company policies, help the clients to complete the account opening application form and other related documents and keep updated client related information. In the recent period we have seen that the volatility of capital market. Now the capital market is more uncertain. 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. In this report, I have tried to figure out the impact of the crisis of capital market on BRAC EPL Investments Limited and provide profound inside analysis of the company's financial overview. I also tried to find out the key factors that are affecting the profitability of the organization and how the organization is managing its profit growth during this period of distress in the capital market.

### **1.4 Objectives**

#### **1.4.1 Broad Objective**

Assessing the stock market torment of BRAC EPL Investment Limited in term of Revenue escalation

#### **1.4.2 Specific Objectives**

More specifically, this study entails the following aspects:

- a) To make fundamental company analysis



- b) To give an overall scenario of the capital market of Bangladesh
- c) To analyze the profitability of BRAC EPL Investments Limited with the help of different statistical tools
- d) To test the predetermined hypothesis relating to the profitability of BRAC EPL Investments Limited
- e) Impact of capital market on BRAC EPL Investments Limited.

## **1.5 Scope**

Information for the analysis was collected from the internal websites, database, research papers, annual reports and study materials of BRAC EPL Investments Limited. Geographic scope of the report was limited within the national territory.

## **1.6 Limitations**

The main limitations that proved to be impediment to the study are as follows:

- Lack of availability of Primary Data
- Time constraint to complete the study
- Scarcity of Information
- For the sake of a detailed and in-depth analysis, considering all the variables to conduct regression analysis was not possible.

## **1.7 Methodology**

### **1.7.1 Data Collection**

The research was conducted using the guidelines of both the quantitative and the qualitative research approaches. In this light, face to face interviews with the institutions' offices and staff, official records were used for collecting primary data. Both quantitative and qualitative research approaches were used to provide comprehensive understanding on the selected research topic.

The research activities also made use of secondary data from annual reports and unpublished data of the institution and also data collected from DSE that could provide additional information. The use of secondary data and information were served as validity and reliability



indicators of the research to ensure that the collected data and the interview methods were used to strengthen the findings and results of the study.

### **1.7.2 Analysis**

This internship report is primarily based on secondary data collection. In processing the data, various methods of conventional statistics were deployed. Bar Chart Relationship, simple correlation etc. are some of the tools that were sought to perform the analysis. Calculated data are presented in graphs to give the reader a better understanding of financial components. SPSS and Microsoft Excel are some of the software that was used for the sake of data analysis and to produce graphs and charts.





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*Chapter 2:*  
*BRAC EPL*  
*Investments Limited*

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## 2 Chapter 2: Orientation to the Organization

### 2.1 BRAC EPL Investments Limited

BRAC EPL Investments Limited is a merchant bank and subsidiary of BRAC Bank Limited. The predecessor of the company, known as Equity Partners Limited (EPL) which was formed in early 2000 as a merchant bank licensed. BRAC EPL Investments Limited (BEIL) was established in October 1, 2009 after BRAC Bank acquired 51% of the shares of Equity Partners Limited (EPL) in August 2009. It commenced operation under a new management team obtaining merchant bank license from the Securities and Exchange Commission (SEC).

BRAC Bank, an institution belonging to BRAC Enterprise has been one of the fastest growing banks of Bangladesh in terms of customer base and market capital. The goal of the bank is to work with a two way approach by operating profitably as well as contributing to the society.

BRAC EPL Investments Limited delivers a whole range of Investment Banking services including traditional merchant banking activities such as Issue Management, Corporate Advisory, Corporate Finance, Underwriting and Portfolio Management. BRAC EPL Investments Limited shall also deliver value-added services such as Wealth Management.

**Specialties:** Capital Market Services, Investments Banking

**Key Characteristics:**

- BRAC Bank holds 76% of the equity, the rest held by a diverse group of international fund managers and capital market institutions at home and abroad
- Highly visionary and achievement oriented board consisting of dynamic and renowned professionals
- Positioning itself as a leading merchant bank to provide full range of investment banking solutions.

**Operations:**

BEIL delivers a whole range of investment banking services including traditional merchant banking activities. It has already established itself as one of the top portfolio managers, serving more than 4600 clients country-wide from seven locations. In discharging





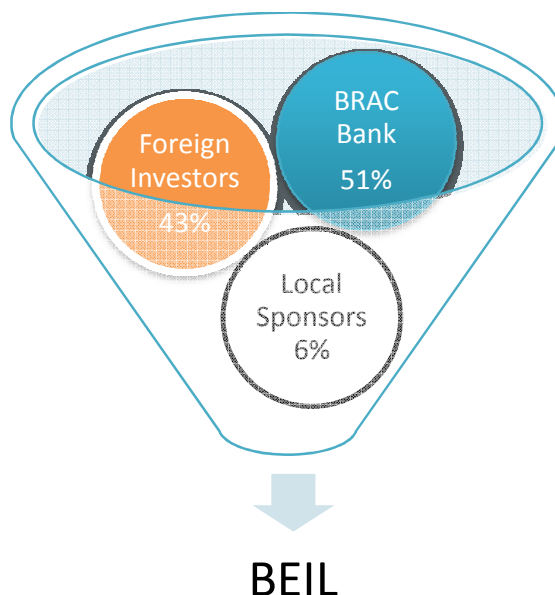
professional services, BEIL makes concerted efforts to show ZERO tolerance towards non-compliance and emphasizes strict adherence to regulatory guidelines.

In its brief history, BEIL has already earned considerable respect and reputation in managing public offerings efficiently. All public issues, initial and rights, managed by BEIL have received encouraging market response. BEIL takes pride in jointly bringing the first public issue to the Bangladesh capital market under newly introduced Book Building Method. The Structured Finance team at BEIL provides a full array of solutions across debt, hybrid, derivative and equity-linked products. BEIL team focuses on originating, structuring, underwriting and executing debt financing including syndications of both foreign and local, corporate bonds, bridge financing, mezzanine debt and other debt linked products. BEIL also has a strong foothold in Mergers & Acquisitions and private equity, aligning the goals of those who seek to funding for joint venture opportunities in Bangladesh. In addition, BEIL also provides value added services such as capital market research and has also ventured into Social & Sustainable Investment Solutions, through its latest business unit, Impact Investments, whose services include CDM (Clean Development Mechanism) advisory services and Carbon Asset Commercialization services.

## **2.2 Shareholding Structure**

BRAC EPL Investments Limited came in with an in depth knowledge of the capital market of Bangladesh. The organization has a disciplined and detailed approach towards carrying out investment operations and doing investment research. On the other hand, BRAC Bank renders to the company its excellent network of blue-chip clients, access to low-cost capital, outstanding IT capabilities and affiliation to an internationally regarded brand name. BEIL has a distinct competence in equity placements (i.e. pre and post-IPO private placement to foreign and local investors).The organization can partner with international investment banks, i.e. Merrill Lynch, Barclays Capital, if required to carry out transactions for multinational companies.





## 2.3 Mission and Vision

### 2.3.1 Mission

#### **Business Principles:**

We believe in,

- Taking pride in the fact that we are a member of the BRAC family
- Maximizing profit while ensuring optimum values for our stakeholders
- Business policies, processes and people which enable sustainable business growth for our customers
- Being the employer of choice through equal opportunity, development and empowerment of our people
- Practicing the highest ethical standards in all our dealings through an honest, open and enabling organization culture
- Zero tolerance in breach of compliance, regulatory requirements and laws of the land
- Being sensitive to social and environmental needs
- Taking lessons from global markets in terms of innovation, knowledge and best practices for building an internationally reputed institution.

**Corporate Strategy:**

- Take leadership roles in the industry, offer innovative products and services and consistently outperform competitors
- To become the leading investment bank in Bangladesh with a full range of products and services
- Increase the outreach of capital market benefits by providing access to small investors with appropriate guidance and best technical assistance
- Extend a range of pioneering, innovative and diversified capital market solutions for institutions
- Leverage the brand to an optimum level
- Analyze the risk matrix and be prepared for adverse market scenarios
- Define parameters in line with business risks; develop comprehensive operation manuals to ensure a strict culture of compliance
- Forge and nurture unparalleled relationships with clients and regulators
- Establish strong relationships with all stakeholders
- Nurture and implement a performance driven corporate culture
- Set smart, ambitious and attainable financial targets
- Define clear objectives for each employee aligned with the overall business strategy
- Identify and recognize individual talent to ensure appropriate allocation of human capital within the organization

**2.3.2 Vision**

BRAC EPL Investments Limited aims to provide innovative, pioneering and world-class sustainable investment banking solutions including creation of access to capital markets for individual investors and social enterprises.

**2.4 Products and Services****Investment Banking**

- a) IPO and RPO
- b) Rights Issue



- c) Capital Raising
- d) Corporate Advisory
- e) Underwriting

### **Structured Finance**

- a) Loan Syndication
- b) Bond and Convertibles
- c) Private Equity
- d) Merger and Acquisition

### **Portfolio Management**

- a) Cap Edge
- b) Managed Cap Edge
- c) Cap Cash

### **Impact Investment**

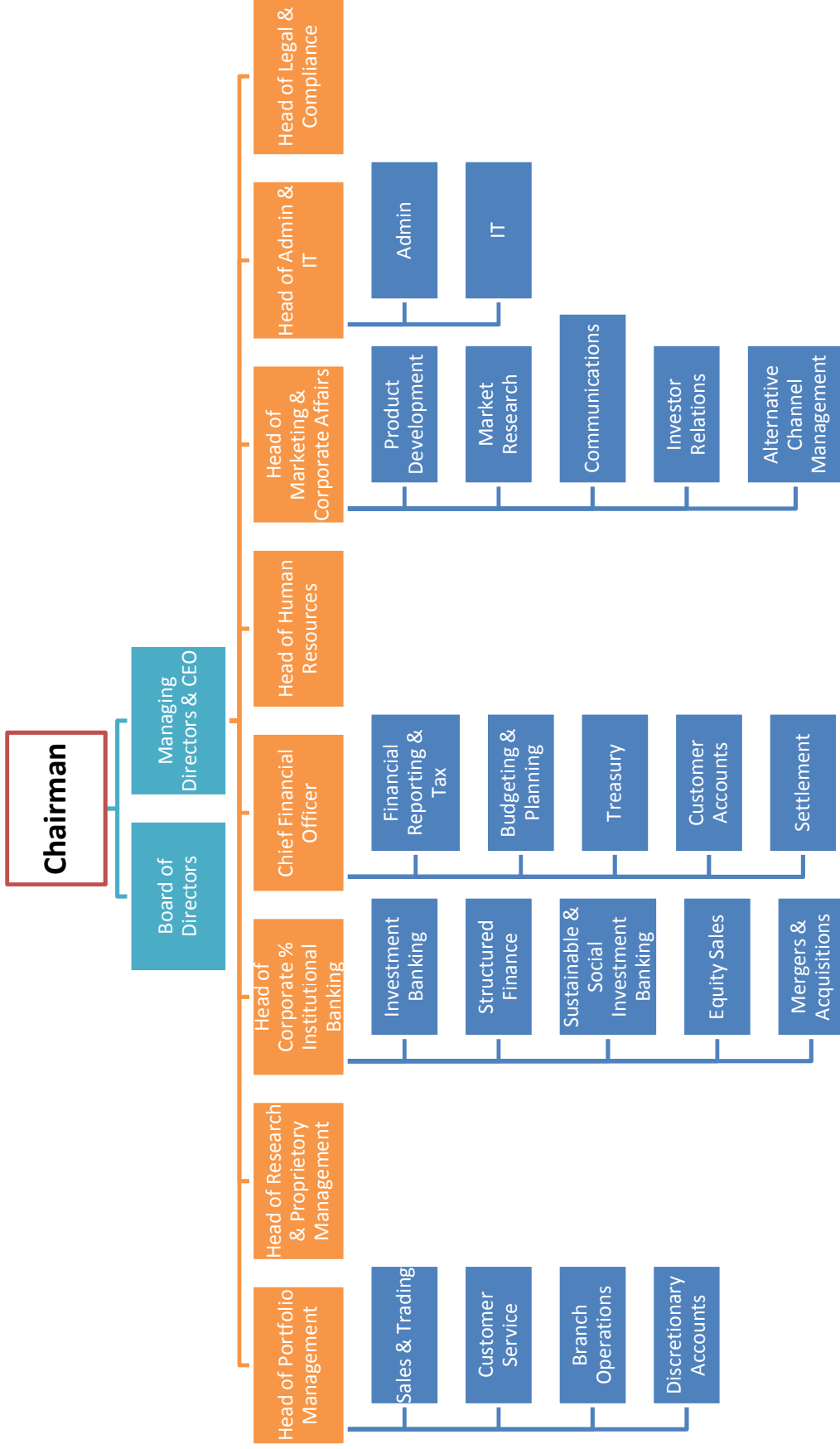
- a) Clean Development Mechanism (CDM) Advisory Services
- b) Carbon Asset Commercialization Services
- c) Financial Advisory Services

There are various departments dedicated towards the operational activities of the organization. Each of the departments comprise of a head and team members who carry out the activities as required by the department. The heads of the departments communicate with the Chief Operating Officer and Managing Director of the company. The Organizational hierarchy is as follows:





**BRAC EPL**  
INVESTMENTS LIMITED



## 2.5 Services Provided by BEIL

### 2.5.1 Investment Banking

Since inception, BRAC EPL Investments Limited has achieved an unparalleled reputation as a leading provider of Investment Banking services by consistently delivering best in class advisory and execution excellence, coupled with a high level of integrity to its client relationships.

At BRAC EPL Investments Limited, Investment Banking Department offers a full suite of Investment Banking services including traditional merchant banking activities such as Issue Management and Underwriting. BEIL also provides value-added services such as Corporate Advisory and Strategic Capital Raising Initiatives. The institution offers investment services to cross border transactions as well.

Services provided by the Investment Banking team include:

- IPO & RPO
- Rights Issue
- Capital Raising
- Corporate Advisory
- Underwriting

### 2.5.2 Structured Finance

BEIL initiated its Structured Finance Department (“SFD”) on June 2010 with the vision to be the market leader in debt arrangement, project financing, private equity placement and M&A transactions. BEIL has got the resource with experience in raising some of the largest debt syndications in Bangladesh.

BEIL strives to create and build long-term relationships and unparalleled brand loyalty among multi-national powerhouses to emerging companies.

Services provided by the Structured Finance team include:

- Loan Syndication
- Bond and Convertibles
- Private Equity
- Mergers and Acquisitions



### 2.5.3 Impact Investment

Impact Investment is the latest service line added to BEIL portfolio. BEIL expect positive risk-adjusted financial returns from its investments without compromising social and environmental impact. Its objective is to help build a dynamic and sustainable economy by providing capital and advisory services for scaling up of social business organizations. BEIL believes, for a country like Bangladesh where 76.5% people live under \$2 per day, Impact Investment can provide sustainable solutions to a number of pressing challenges.

BEIL's impact investment services include:

- Clean Development Mechanism (CDM) Advisory Services
- Carbon Asset Commercialization Services
- Financial Advisory Services

The ongoing projects of BEIL Impact Investment are:

- Energy Efficiency Program in Rural Bangladesh
- Municipal Solid Waste Management Facility Project at Tongi, Gazipur, Bangladesh
- Preparatory Survey on BoP Business on Non- firing Solidified Brick Technology

### 2.5.4 Portfolio Management

BEIL offers Portfolio Management services to both individual and institutional investors. Whether the client chooses to entrust the management of his portfolio to one of BEIL's professionals or trade shares himself, supported by BEIL's proprietary research, BEIL has the option of partnering up with the client and focus on meeting his investment need.

The portfolio is constructed in order to achieve the client's objectives and is managed in a focused and rigorous way. Once an investment strategy is agreed and whether the portfolio management service is discretionary or non-discretionary, BEIL and the client would agree on the best method to manage the portfolio.

BEIL measures its success through the success of clients. At the very base of a financially sound portfolio lies the identification of one's investment objective. BEIL helps the client identify his investment objectives and also outline important requirements like liquidity,



capital appreciation, current income, time span and fiscal implications and then suggest an appropriate portfolio.

There are three distinct products available to implement the investment strategy, each with its own unique features to help achieve the investment objectives. BEIL's portfolio management service has delivered persistent, proven outperformance across all strategies

BEIL's Portfolio Management Products are:

- CAP Edge
- Managed CAP Edge
- CAP Cash

#### ***2.5.4.1 CAP Edge***

CAP Edge is an Investor controlled account. Investors retain all the authority and power to select the items to buy and sell, and the timing of trade while the portfolio managers assist them with trade execution and continuous advice. Under these arrangement, investors pay management fee and brokerage commissions for trading.

#### ***2.5.4.2 Managed CAP Edge***

Managed CAP Edge is a Portfolio Manager controlled account. Managers rather than the Investors retain all the authority and power to select the items to buy and sell, and the timing of trade while the investors can guide the managers by providing input on their return and risk preference. Under this arrangement, investors pay management fees (which are higher than those in Cap Edge) and brokerage commissions for trading.

#### ***2.5.4.3 CAP Cash***

CAP Cash is a unique product of BEIL offering clients margin as well as non-margin services through individual BO (Beneficial Owner) Account. Clients can link their existing BO Accounts in BEIL with their existing accounts in other brokerage houses.





## 2.6 Milestone Achievements

The following are major achievements of BRAC EPL:

### 2.6.1 Mergers and Acquisitions

October 2012	<b>BDT 61,200,000</b>	Acquirer: BRAC BANK LIMITED Target: Documenta TM Limited	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Merger & Acquisition Corporate Advisor to the Acquirer	
April 2012	<b>USD 3,200,000</b>	Acquirer: The Azimi Group, UAE Target: BRAC Bank Afghanistan	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Merger & Acquisition Corporate Advisory to the Target	
March, 2005	<b>BDT 270,000,000</b>	MARICO BANGLADESH LTD.	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Merger & Acquisition Corporate Advisor	
March, 2005	<b>BDT 90,000,000</b>	MARICO BANGLADESH LTD.	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Merger & Acquisition Corporate Advisor	

### 2.6.2 Debt Syndication & Corporate Advisory

September 2012	<b>BDT 680,000,000</b>	APEX PHARMA LIMITED	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Arrangement of Syndicated Term Loan & Working Capital Facility	
2011	<b>BDT 210,000,000</b>	NATIONAL FINANCE LIMITED	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Capital Raising Issue Manager	
2011	<b>BDT 150,000,000</b>	FARR CERAMICS LIMITED	 <b>BRAC EPL</b> INVESTMENTS LIMITED	Corporate Advisory Advisor	

Leading Exporter of premier ceramic tableware & undergoing one of the largest capacity expansion projects in the industry

### 2.6.3 Issue Management

December 5, 2012

**BDT 300,000,000**

GENERATION NEXT FASHIONS LIMITED



Initial Public Offering

Manager to the Issue

**BRAC EPL**  
INVESTMENTS LIMITED

May, 2012

**BDT 1,950,000,000**

UNIQUE HOTEL & RESORTS LIMITED



Initial Public Offering

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

IPO of the first Private Sector 5 star hotel under "The Westin Dhaka" brand

July, 2010

**BDT 2,056,480,000**

RAK CERAMICS



Initial Public Offering & Private Capital Raising

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

First IPO under the Book building method

July, 2009

**BDT 283,509,000**

MARICO BANGLADESH LTD.



Initial Public Offering

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

Leading FMCG & Cosmetics Company in Bangladesh & Only company to exercise green shoe option during IPO

Sept, 2008

**BDT 50,000,000**

National Housing Finance and Investments Limited

Initial Public Offering

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

IPO 72x oversubscribed by investors

May, 2007

**BDT 112,500,000**

INTERNATIONAL LEASING & FINANCIAL SERVICES LTD.



Initial Public Offering

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

Non-Banking Financial Institution that fetched one of highest premiums from IPO during 2007

March, 2007

**BDT 844,995,000**

PREMIER BANK LIMITED



Premier Bank Ltd.

Initial Public Offering

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

Leading local Private Commercial Bank and Largest IPO in 2008

December, 2004

**BDT 90,000,000**

AGRANI INSURANCE COMPANY LTD



Initial Public Offering

Issue Manager

**BRAC EPL**  
INVESTMENTS LIMITED

Joint Venture Insurance Company



November, 2003

**BDT 893,900,000**

**Lafarge Surma Cement Ltd.**  
a subsidiary of Lafarge and CEMENT

Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

One of the largest IPO in the history of Bangladesh Capital market

October, 2003

**BDT 75,000,000**

**DAFFODIL COMPUTERS LIMITED**

Corporate Advisory & Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

IPO of leading computer accessories distributor & software development company

July, 2003

**BDT 50,000,000**

**AGNI SYSTEMS LIMITED**

Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

IPO of leading ISP in Bangladesh & 4x oversubscribed by investors

July, 2003

**BDT 300,000,000**

**BANK ASIA LIMITED**

Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

A fast growing 3rd Generation Private Bank

January, 2002

**BDT 35,000,000**

**INFORMATION SERVICES NETWORK LTD.**

Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

IPO of 1st ISP in Bangladesh and 5x oversubscribed by investors

December, 2001

**BDT 100,000,000**

**MODERN CEMENT LIMITED**

Corporate Advisory & Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

Largest Offering in 2001 & 4x Oversubscribed by investors

September, 2001

**BDT 80,000,000**

**BEACH HATCHERY LTD.**

Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

First Preference Share Issue in Bangladesh and 5x Oversubscribed by investors

September, 2001

**BDT 20,000,000**

**AL-AMIN CHEMICAL INDUSTRIES LIMITED**

Initial Public Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

Producer of Zinc Sulphate and 2x oversubscribed by investors



#### 2.6.4 Right Issue

February, 2012

**BDT 5,806,867,500**

LAFARGE SURMA CEMENT LTD.

*Lafarge Surma Cement Ltd.*  
A company of Lafarge and H. S. S. S. S.

Rights Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

Largest Rights offer in the history of Bangladesh capital market

December, 2011

**BDT 247,500,000**

MERCANTILE INSURANCE COMPANY LTD.

Rights Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

March, 2011

**BDT 205,137,000**

AGNI SYSTEMS



Rights Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

First Generation ISP in Bangladesh

#### 2.6.5 Quasi Equity and Subordinated Debt

March, 2011

**BDT 200,000,000**

AGNI SYSTEMS



Preference Share Offering  
Issue Manager  
**BRAC EPL**  
INVESTMENTS LIMITED

First Generation ISP in Bangladesh

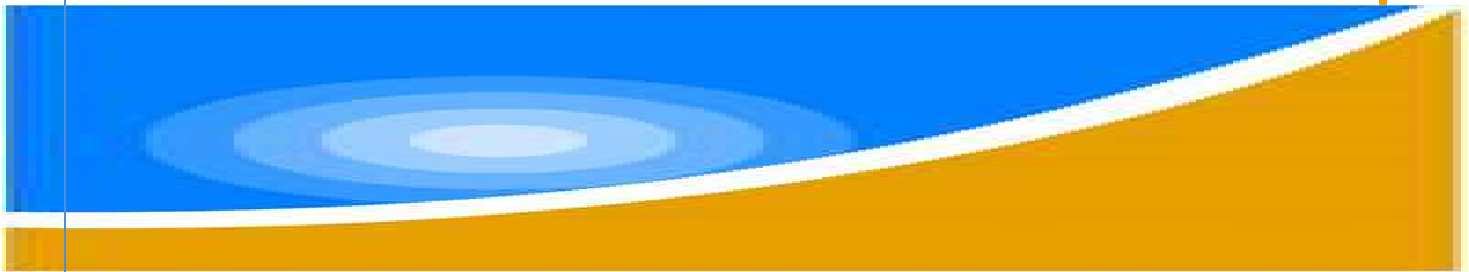




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*Chapter 3:  
Stock Market torment of  
Bangladesh*

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### 3 Chapter 3: Capital Market of Bangladesh

Capital markets are financial markets for the buying and selling of long-term debt- or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.

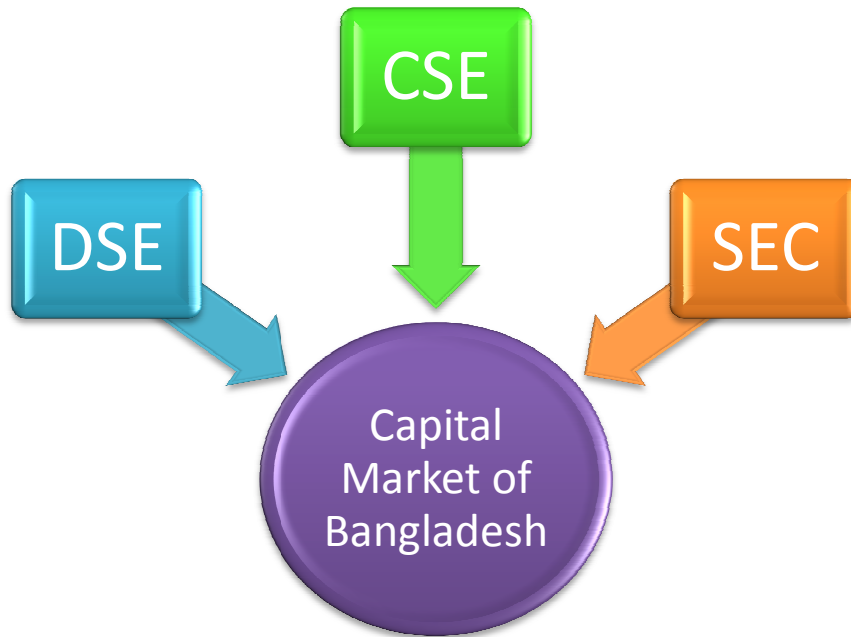
Modern capital markets are almost invariably hosted on computer-based electronic trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public. There are many thousands of such systems, most serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically the systems are hosted all over the world, though they tend to be concentrated in financial centers like London, New York, and Hong Kong. Capital markets are defined as markets in which money is provided for periods longer than a year.

A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments tend to issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

A second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies) and the bond markets (where investors become creditors).

### 3.1 An Overview of Capital Market of Bangladesh

Capital Market of Bangladesh is one of the smallest in Asia but the third largest in the South Asia. It consists of Securities Exchange Commission (SEC) as the Regulator and two stock exchanges; the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE).



DSE and CSE are two full-fledged automated stock exchanges that deal in the secondary capital market. DSE was established as a Public Limited Company in April 1954 while CSE in April 1995.

SEC implements rules and regulations, monitors their implications to operate and develop the capital market. The SEC has issued licenses to 27 institutions to act in the capital market. Of these, 19 institutions are Merchant Banker and Portfolio Manager while 7 are Issue Managers and 1(one) acts as Issue Manager and Underwriter.

Total Number of Licensed Companies = 27	
Type	Number of Institutions
Merchant Banker and Portfolio Manager	19
Issue Managers	7
Issue Manager and Underwriter	1

### 3.2 The Role of Capital Market of an Economy

Capital market is a sub-set of financial markets, which provides linkages between the users and suppliers of the funds for long-term investment. A capital market mainly consists of stock (equity) and bonds markets. For macroeconomic management and development planning, an efficient stock market can play at least the following three pivotal roles:

1. It can reflect the levels of overall and as well sectoral development
2. Provide market indices and
3. Generate valuation ratios

Above all it can mobilize the funds from the domestic and external sources to the priority sectors of the economy and provide the indications, guidelines and information to the investors for their investment decision-making. An efficient stock market develops a path for smooth, simple and transparent opportunities of investment without undue risk and gambling factors

### 3.3 Relation between Capital Market and Investment

#### **Market Capitalization:**

The market capitalization refers the sum that derived from the current stock price per share times the total number of shares outstanding. Although the market capitalization of a company is an indication of the value of the company, it is only a temporary metric based on the current stock market.

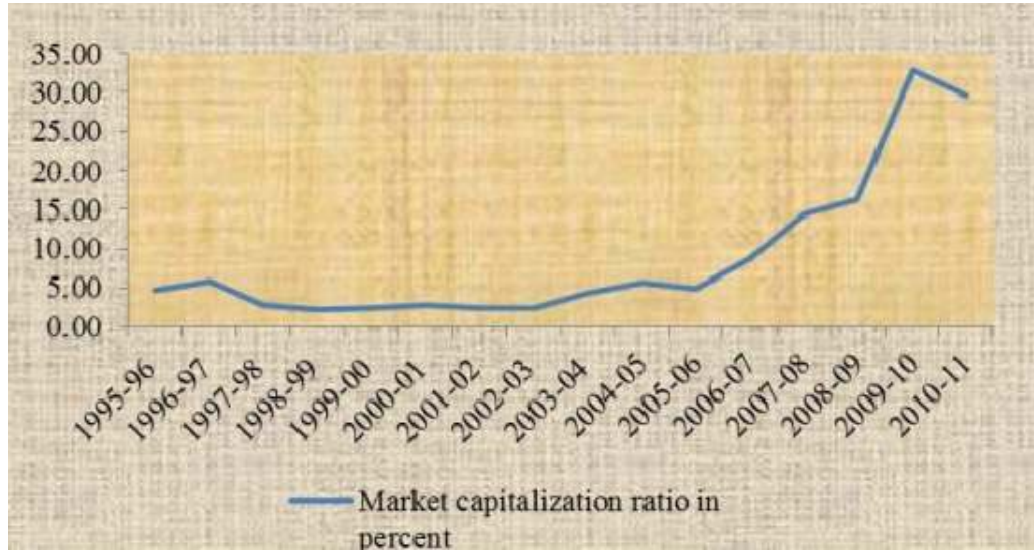
Market capitalization ratio equals the value of listed shares divided by GDP. This ratio are often using as a measure of stock market size. In terms of economic significance, the assumption behind market capitalization is that market size is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. So market capitalization to GDP ratio can be used as an indicator of market development.

In FY 1995-96, total market capitalization of DSE was Tk. 7936.17 corer while in FY 2002-03, it increased at Tk.7216.3 corer. In this time interval, the market capitalization remained at



approximately a constant level. But in FY 2003-04, the market capitalization increased rapidly and stood at Tk.14185.1 corer, about 96.3 percent larger than that of the previous fiscal year.

This increasing trend has continued and finally reached at Tk. 232701.6 crore in FY 2010-11. In the last five years, the market capitalization increased significantly. The turning year was in FY 2009-10, in this year, the market capitalization increased by 127.31 percent than that of the previous fiscal year and reached from Tk. 100143.3 crore to Tk. 227640.8 crore.



Source: Authors' calculation based on and Dhaka Stock Exchange and Bangladesh Bureau of

### **Market Capitalization and Investment Ratio:**

From FY 1995-96 to FY 2006-07, the market capitalization and investment ratio has stayed between 10 to 35 percent. Following that fiscal year the scenario has been changed significantly and the ratio of market capitalization and investment has increased with a maximum growth, indicating the huge accumulated concentration in capital market than those of other forms of investment.



Source: Authors' calculation based on Dhaka Stock Exchange and Bangladesh Bank, 2011

In FY 1995-96 the market capitalization and investment ratio was 23.86 percent which increased with a growth rate of 1.12 percent in following year and reached 35 percent. In FY 2007-08, the market capitalization and investment ratio increased to 59.69 percent, 70.54 percent higher than previous fiscal year. This increasing rate has prevailed in FY 2009-10 and FY 2010-11 and the market capitalization and investment ratio were 134.29 and 119.46 percent respectively. These indicate that in these years the market capitalization exceeded the total investment of the economy.

### 3.4 The Turbulence (2009-2011)

Bangladesh stock market was in turbulence throughout much of 2009, with the long bullish trend starting to turn grim. The bullish trend was initiated by the end of the two-year political crisis and re-emergence of democracy from the December 2008 polls, and was largely unaffected by the BDR Mutiny. The market was heavily aided by the entrance of Grameenphone into the capital market, when the index rose by 22% over a single day on November 16, 2009. Share prices continued to fluctuate, reaching the annual high in mid-2009 before plummeting by the

end of 2009, with retail investors threatening a hunger strike. Notable, Bangladesh also faced such stock market crash in 1996.

The market continued to be turbulent throughout 2010, with the DSE hitting its all-time high revenue and the largest fall in a single day since the 1996 market crash, within the space of a month.

By the end of 2010, it was well known that the capital markets of Bangladesh is overvalued and overheated. The central bank had taken measures to cool the market down and control inflation by putting a leash on the liquidity.

The conservative monetary measures adversely affected the capital market, with the market falling once on December 13 by 285 points, over 3% of the DGEN Index which stood at around 8,500 points. The capital markets suffered a second fall on December 19, with the index falling a further 551 points, or about 7%. This 7% fall in the DSE's index on a single day was the largest fall in the 55 year history of the Exchange, surpassing the fall of the 1996 market crash.

Investors took to the streets with protests. Random objects like wood and papers were set on fire in front of the DSE office. Immediate measures were taken by the regulatory body the Bangladesh Securities and Exchange Commission, which, together with the Bangladesh Bank, surpassed its earlier conservative measures to pacify the fall. As a result, the market ameliorated the next day by 1.9%.

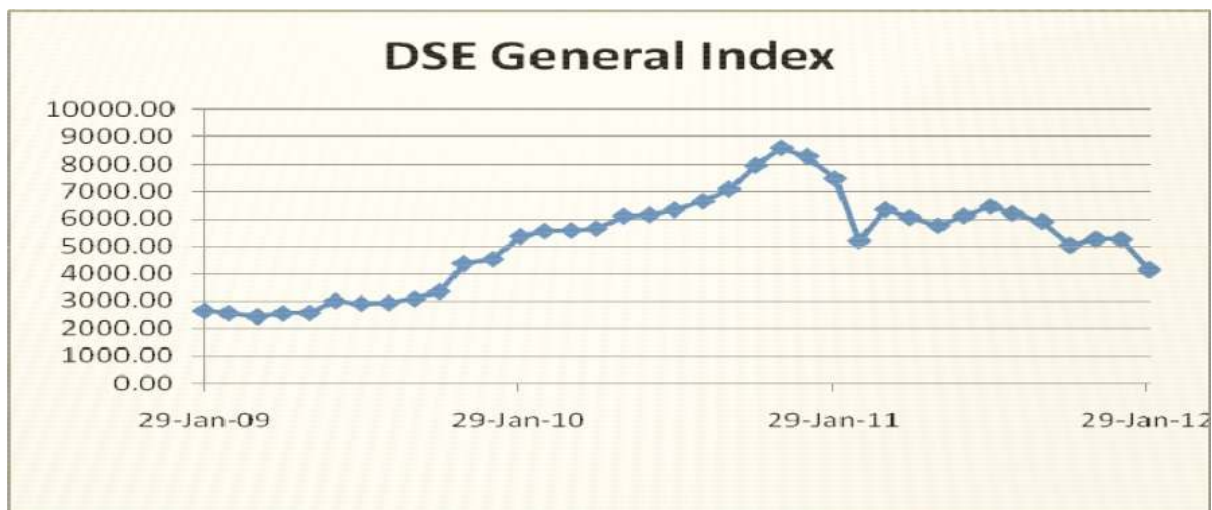
Within December 2010 and January 2011, the DGEN index fell from 8,500 by 1,800 points, a total 21% fall, with masterminds of the crash making about BDT 5,000 crore out of the scam.

The market fell by 5% on June 12, before taking a 4% plunge on October 11, sending the market into further turmoil. The fall finally triggered small investors to go on a fast-unto-death on October 16 after forming the Bangladesh Capital Market Investors' Council. Opposition politicians declared their solidarity with the protesters. The market stood at around 5,500 index points in October 2011 from 8,900 only a year ago.

Protests continued throughout the months, the most recent ones taking place in front of the DSE office in November 2011, with protesters sitting in throughout nights.

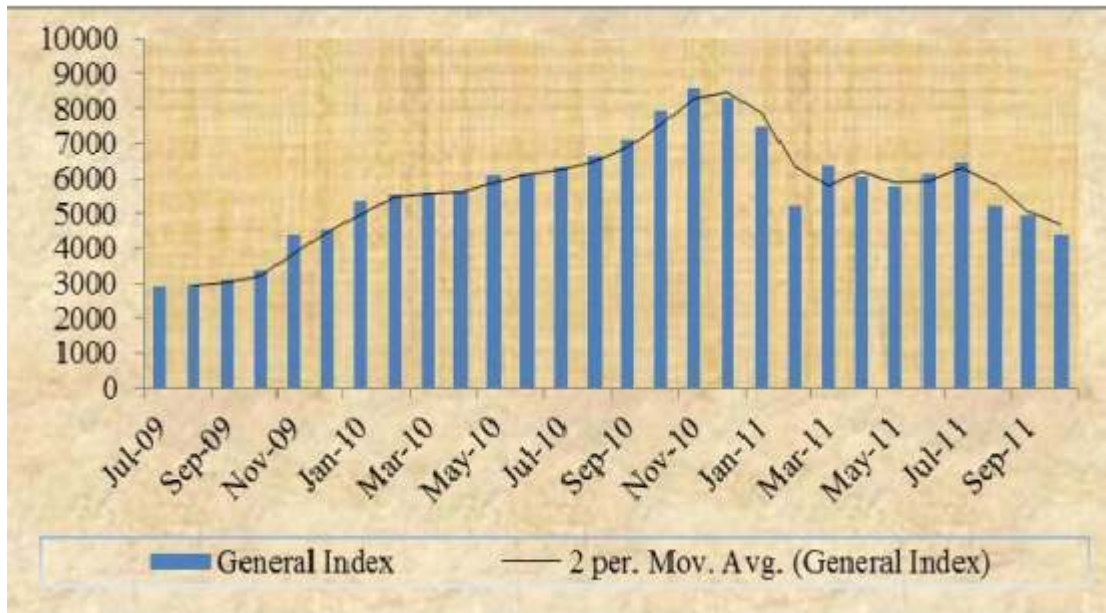
### 3.5 The Capital Market Scenario in 2011

The trend of general index of DSE during July 2009 to August 2010 shows that the general index of DSE has increased smoothly. In July 2009 the general index of DSE was 2914.53 while in April 2010 it increased to 5654.88. During this time period, there was an increasing trend of general index. In August 2010 the general index of DSE stood at 6657.97 and finally in November 2010, it reached the peak and became 8602.44. After this general index has started to fall down and in February 2011 it reached to 5203.08.

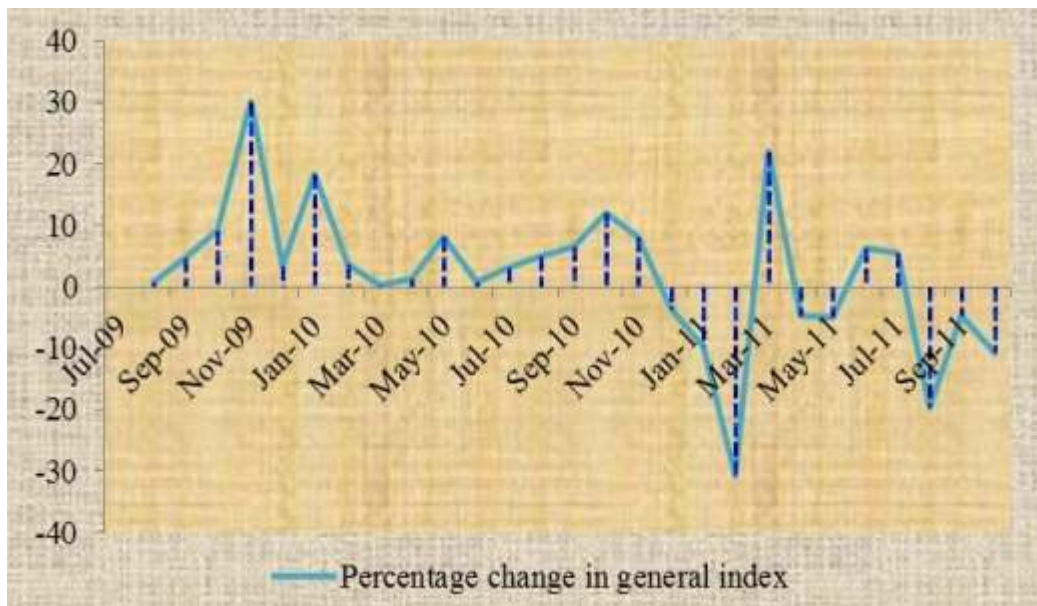


Pre Downturn Trend of DSE General Index  
Source: DSE, 2011





The trend of general index of DSE during capital market downturn in 2011  
Source: DSE, 2011



The percentage change in general index of DSE during the downturn  
Source: DSE, 2011

The percentage change of general index of DSE in 2011 suggests a different situation than that of the capital market downturn in 1996 because the market volatility of DSE was created long before the nose dive of the capital market during 2011. In November 2009, the general index of DSE increased about 30.22 percent than the previous month. During the consecutive twelve months the general index has risen on an average of 1 to 12 percent per month. This steady growth of the capital market index made a greater confidence among general investors of capital market. There was no greater market price volatility of general index, as a result a continue trend of a greater profit induced general investors to reinvest their profits along with additional capital. The ‘long term game planners’ have again won the game by selling the shares they have collected resulting in increased supply of shares, forcing the general index to fall. In December 2010 the general index started to fall by 3.62 percent than previous month. In February 2011, it decreased about 30.5 percent and reached at 5203.08. This declining trend of general index of DSE was continued and finally in 15 November 2011 it dropped down to 4645.89 (lowest in last 22 months).

### **3.6 Overall Assessment and Aftermath**

The Bangladesh capital market landscape showed a bubble and burst episode in 1996. The benchmark price barometer of DSE, General Price Index (DGEN), increased by 139.3 percent during 1991-1995 and stood at 834.7 at the end of 1995. It recorded a remarkable increase of 337 percent in 1996. From the beginning of 1996, stock prices moved to the pressure of the market bubble. From July 1996 DGENI grew at an accelerated rate reaching its peak at 3648.7 on 5 November 1996 – an increase of 280.5 percent from the index of 959.1, at the end of June. Later that day the bubble burst and market crashed, as share prices of companies slumped. During the next year the DGEN lost 2892 points. From then to the end of 2003, the capital market price index was below 800.

Eventually, the blame game began on the streets of Motijheel. Retail investors went on a rampage vandalizing cars and shops in the neighboring districts and engaged in a fierce battle with law enforcers. The capital market was immediately halted as the index plunged 9.25 percent. Motijheel area was transformed into a battle field.

To understand what caused such a plunge again in 2011, we have to turn a few pages back. From January 2010 to December 2010, the DGEN marked an increase of 80 percent, daily turnover rose by 60 percent and the number of B.O. account holders reached 3.21 million from 1.25 million i.e. an increase of 154 percent. On the other hand, in the FY2010 our GDP had grown only by a mere 5.5 percent. This clearly indicates that the capital market growth had been an unsustainable one and any unmatched growth with the real economy will not sustain in the long run.

To compare between 1996 and 2011 crashes, there were a number of differences in the state of the market. By 2011 trading was automated, surveillance was strong and circuit breakers and international protections were in place, unlike back in 1996. Because it was automated, there were no forged shares traded and the kerb market from 1996 did not exist. Unlike 1996, there were also omnibus accounts in the market and the BO account value was 35 lacs, compared to 3 lacs before. Furthermore, the 1996 crash was a result of a speculative bubble. 2011 crash was an asset bubble. In the end, in 1996 the index lost 232 points, while in 2011 it lost up to 660 points, nearly 10 percent.

Based on the analysis of the capital market behavior, a number of anomalies, weaknesses and constraints are observed. In the primary market, which deals with securities, a range of toxic elements were blamed to be the cause. These include misuse of book building methods, placement shares, direct listing and problems in audit reports. In the secondary market, which deals with stocks bond options and futures, there were different toxic elements, like split shares, margin loans, serial trading and issue of right shares. Furthermore, over exposures of banks, omnibus accounts, insider trading, anomalies in BO account and the restricting nexus of big players like SEC, DSE/CSE and political leaders.

Some non-banking financial institutions and big investors, due to government pressure on Bangladesh Bank and the SEC, waited for the market to stabilize before they reinvest. Secondly, market manipulation by banks, impulsive decisions by the SEC and Bangladesh Bank and the lack of knowledge of most individual investors contributed to continuing fall. Thirdly, the funds available for loans were mostly being channeled to the share market, causing the liquidity crisis.

Furthermore, insider trading, omnibus account, placement shares manipulation through direct listing and net asset revaluation by companies, which contributed to the index bubble and its subsequent burst, are also to blame.

Finally, book building and the trend of companies to ‘split’ shares - for example, changing their stock from 100 taka’s a share to 10 shares valued at 10 taka’s each – also caused the bubble. While book building is an effective method to help realize the actual value of a company, it was being used by insiders to their own advantage. Following book building directives by the SEC, a trend was seen where the price of new shares jumped in the first few days and plummeted later on.

After taking extraordinary steps to try to get the economy back on track, the Securities & Exchange Commission, Bangladesh Bank and the government had little ammunition to jump-start the economy. Government lifeguards saved the stock market in the first financial crisis.

Many big investors weren’t positioned for the rapid downward reversal in stocks. As a result, other big investors that used borrowed money to boost returns were being forced to sell assets to raise money to meet margin calls, causing sharp declines in asset prices.

The Securities and Exchange Commission (SEC) of Bangladesh has tried to correct the irregular behavior observed in the market. After a nine day break for Eid-ul-Azha in 2011 the market opened and seen to be falling very sharply. In just three days, the key index of the Dhaka Stock Exchange, DGEN, plunged 560 points to 4,649, a two-year low. The Chittagong Stock Exchange price plummeted 561 points. The bankers backtracked and confirmed a plan to contribute only Tk. 1,000 crore to the stabilization fund and the remaining sum would be collected through pre-IPO and IPO (Initial Public Offering). Investors enrolled profits and some went for panic sales, speculating no impact from the stabilization fund after bankers returned from their early posture.

### **3.7 Role of Banking Sector in Improving and Stabilizing the Capital Market**

The banking sector does have a massive role to play in stabilizing the capital market. Almost all the listed companies in the SEC have converted in to digitalized format of their capital stocks.



Over the progression since 1996 many commercial banks of the country had got the license for share trading. The massive stock market collapse had taken place in the year of 1996 where not much rules were exercised by the SEC. Most of the manipulators escaped due to having political back up. In contrary to the massive collapse the government came up with very strong restrictions against the trade and transaction of the merchant banks and other stock brokerage houses.

The massive stock market collapse in the year of 2011 gives the notion that the governing rules are still not under exercised. The lack of total monitoring by the government and SEC caused the massive fall of the capital market that affect the vast population very substantially. Frequent hike of the market index was not brought under the concern of the legitimated authority.

Lack of proper investigations and actions against the manipulators left further opportunity to repeat the same phenomenon.

### **3.8 Generalized Impact of Capital Market Depression**

The benchmark index had climbed by 80% in 2010 but has lost more than 27% since early December, 2010. This was the most drastic situation our country had ever seen. This caused a huge impact on our overall economy.

#### **Impact when price index is high:**

1. The year 2011 also witnessed the approval of the largest Initial Public Offering (IPO) in the history of the premier bourse of the country in terms of money. The amount of turnover in the year was Tk. 4,009 billion which is 171.8 percent higher on the level of the previous year.
2. The amount of total market capitalization also reached to a new high to Tk. 3508 billion which was 83 percent more than that of the previous year. The government collected a total of Tk. 3.16 billion as tax as source from the DSE while the amount was a nominal Tk. 624 million in the previous year.
3. It is estimated that at least 10% of our total population is directly or indirectly related with the capital market.

4. To get the desired level of money bank invested more money than they were authorized which caused lack of liquidity in their hand when market is down.
5. Sister banking (taking loan from another bank) became impossible because no bank had enough money to lend.
6. The price of share decreased, thus the listed companies had lost their values as per the fall of the percentage of their stock.
7. Industrialist lost their money to invest in productive sectors.
8. Financial institutions lost their money to give loan.
9. Manufacturer lost their value to produce product with the pace of demand. It caused price hike in almost all the consumer product.
10. At the time of price hike there were huge injections of money but when the price fell, the money did not come out to the investors. Money got manipulated by some syndicates. Thus some people got rich but the ordinary people got poorer.
11. The turbulence created a bad impact of our country throughout the world which could affect foreign investment.



## *Chapter 4:*

# *Analyzing the Effect of the Turbulence through Financial Performance of BRAC EPL*

## 4 Chapter 4: Analyzing the Effect of the Turbulence through Financial Performance of BRAC EPL

### 4.1 Balance Sheet:

For analyzing the effect of market distress of BEIL, we can take some key area of Balance sheet to know intensively that how this company performed when stock market collapsed in 2010 & 2011. In order to understand and determine the financial health of BEIL, A few simple calculations can provide insight into the firm's liquidity and leverage those are briefly discussed below taking data from comparative balance sheet (see Appendix 1).

### 4.2 Working Capital:

This is an Indicator of how well the company can meet its financial obligations therefore how solvent the company is. The company is in liquid position if assets exceeding liabilities and vice versa. Potential investors will examine company's working capital to assess the health of company's ratio of Current assets to current liabilities.

$$\text{Working Capital} = \text{Currents Assets} - \text{Current Liabilities}$$

Year	Working Capital
2012	1039187785
2011	899543969
2010	970215086
2009	805041305

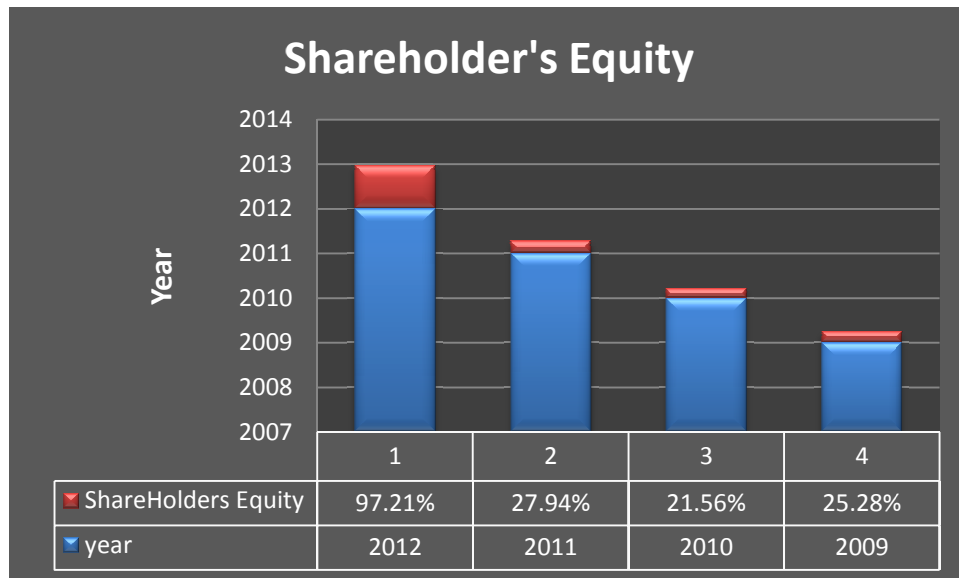
Change of working Capital of BRAC EPL Investment Ltd. Of four years.

The major components of gross working capital include stocks so from the above table we see that till 2010 working capital of BEIL were rising which means company's assets increasing at increasing rate but then it decreased only because of falling stock price in that crisis period and again started boosting up assets from 2012 for backing stability in the market. Many investors stopped investing as market index was falling rapidly even though Company was in liquid position.

### 4.3 Shareholder's Equity:

Shareholder's equity is difference between total assets and total liabilities so while examining a company's balance sheet, it is important to recognize shareholder's net worth that consists of two different parts. Firstly part, retained earning which is generated through profitable business activity and second part is shareholder's direct capital investment. If Company's performance is well, then its profit increases and shareholder's equity increases also.

$$\text{Shareholder's Equity/Net Worth} = \text{Assets} - \text{Liabilities}$$



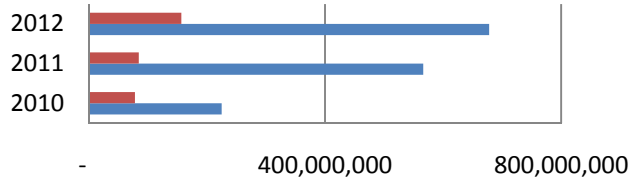
The Percentage change of shareholder's net worth During Capital market downturn in 2011

If we put shareholder's equity and respective year of change, we see that shareholder's net worth increased remarkably in 2012. In comparative balance sheet we find out that retained earnings was the main source for BRAC EPL in term of company growth as less demand of margin loan of investors they could not achieve their target point that was main cause for decreasing equity in 2010 and 2011.

#### 4.4 Relationship between Some Items in the Income Statement and Impact of the Capital Market Distress

This sections analyzes some component of IS and their changes over the year. If we put Revenue

##### Net Interest income vs Revenue



	2010	2011	2012
■ Net Interest Income	77,922,413	84534696	156783979
■ Interest Income from Marginal Loan	224,823,660	566,439,281	678,154,382

and Net income in a graph we see that revenue has increased significantly in 2011 but it wasn't reflected in the Net income due to high interest expense in that year. Despite the significant improvement in yearly revenue the net income range of the year 2010 and 2011

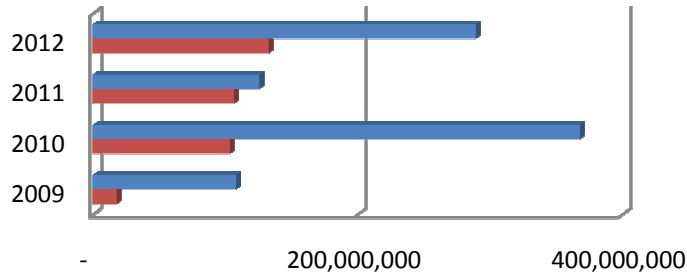
remains in similar range.

Supply and demand in capital markets determine the market rate of interest, which affects how much people invest. For many investors, a declining market or stock price is not a desirable outcome. Investors wish to see their invested money increase in value. Such gains come from stock price appreciation, the payment of dividends - or both. With a lowered expectation in the growth and future cash flows of the company, investors will not get as much growth from stock price appreciation, making stock ownership less desirable.

For BRAC EPL, the net interest income comprises of revenue (interest income from margin loan) less interest expense. A margin loan allows an investor to borrow money to invest in shares, managed funds, master trusts and wraps. BRAC EPL gets its revenue from the interest earned from the issuance of these margin loans. In the bar chart, we can see that, in 2011, in spite of having high revenue from margin loan (566,439,281), the net interest income is significantly low (84,534,696). This happened due to the high interest rate in 2011 which had an impact in the capital market distress. Though, interest rates are not the only determinant of stock prices or capital market turbulence and there are many considerations that go into stock prices and the general trend of the market - an increased interest rate is certainly one of them.

The chart of operating income vs. operating expense in the year 2011 shows a massive fall in the

### Income vs Expense (Operating )



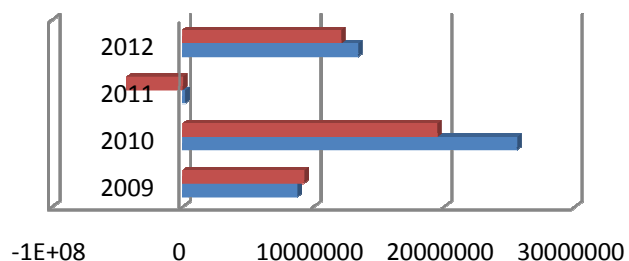
income despite a similar expense which were later uplifted in the year 2012.

The operating income of BRAC EPL is vastly affected by its income from Investment in Securities. In the comparative Income

Statement we can see that, there is a huge decline in Income from Investment in Securities in 2011. It reached a negative value in 2011 whereas it was positive in the preceding years. This negative value affected the operating income the most. This is why the chart of operating income shows declined bar in 2011. But the operating expense was still somewhat of constant trend. The capital market distress is one of the reasons behind this huge decline in income from investments in securities.

If we plot the Net operating profit vs. net profit, the turmoil of

### Net Profit (Operating vs Total)



2011 becomes clearly visible. Not only were they decreased but also they ultimately showed a negative turn out in terms of profit in the year 2011. If 2011 were out of the picture the performance of the firm in terms of income shows a steady growth in both operating and total

income. BRAC EPL faced a negative net profit only in 2011, which was the year of the capital market distress

#### 4.5 Analysis of some key Ratio:

**Current Ratio:** Current ratio expresses the extent to which current liabilities of a business are enough to settle by current assets. Current ratio below 1 shows critical liquidity problem which depicts that total current liabilities exceed total current assets. A decreasing trend in current ratio may suggest a deteriorating position of business or leaner working capital cycle of the company through the adoption of more efficient management practice.

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

Current Ratios of BRAC EPL Investment Limited	
Year	Current Ratio
2012	1.315
2011	1.249
2010	1.364
2009	34.345

The table of current ratios of BRAC EPL shows that in 2011 current ratio decreased massively whereas we see in 2009 current ratio was 34.34% which shows abnormally high value of current ratio indicates existence of idle or unused resources in the company. As we know current ratio above 1 means company is in better position but here if we see after 2009 current ratio declined exceedingly by 1.36% which shows how immensely BEIL was afflicted by stock market turmoil and it continued in the following years.

#### 4.6 Debt to Equity Ratio:

The ratio is simply calculated by dividing total liabilities by stockholder's equity. It is a long term solvency ratio that indicates the soundness of long-term financial policies of the company. It shows the relation between the portion of assets provided by the stockholders and the portion of assets provided by creditors. Debt to Equity ratio in BRAC EPL was 1:1 means stockholder and creditor equally contribute in the business.



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

Debt to Equity Ratios of BRAC EPL Investment Limited	
Year	Debt to Equity Ratio
2012	2.956
2011	3.639
2010	2.579
2009	0.029

The table of Debt to Equity ratio shows that BRAC EPL provided greater portion of assets than stockholders. Stock holders like to have high debt to equity ratio and creditors like to have low debt to equity ratio but here the scenario is different, reason behind that was stock market unrest which forced stockholders to hold their stock until market value per share goes above actual value. Margin loan amount were increasing as stockholders were holding their share for long duration to sale at higher price. In 2010 & 2011, Debt to Equity ratio increased respectively 2.57 & 3.63 because of stock market distress and later in 2012 ratio got down again at 2.95 as market turned into positive direction.

#### 4.7 Profit margin:

Profit margin measures the amount of profit a company earns from its sales and is calculated by dividing profit by sales. More efficient companies will usually see a higher profit margin, although, a **high gross profit margin** indicates that the company can make a reasonable profit, as long as it keeps the overhead cost in control. A **low margin** indicates that the business is unable to control its cost. In terms of BRAC EPL, They were fully unable to manage their margin loan cost that time as stock market index was rapidly going down so BRAC EPL had to face negative profit margin -0.075% in 2011. After stock market distress when investors came back in the market by reinvesting than BRAC EPL started gaining profit again and profit margin reached 0.179% even though still company is bearing with huge amount of bad dept from clients. Below table shows profit margin of BRAC EPL from 2009-2012.

$$\text{Gross Profit Margin} = \frac{\text{Net Sales} - \text{Cost of goods sold}}{\text{Net Sales}} * 100$$

Profit Margin of BRAC EPL Investment Limited	
Year	Profit Margin
2012	0.179239
2011	-0.07528
2010	0.866371
2009	-

#### 4.8 Return on asset:

Return on assets indicates the number of dollars earned on each dollar of asset. It depicts that how efficient management is to generate profit at using its assets. The formula to calculate ROA:

$$\text{ROA} = \frac{\text{Annual Net Income}}{\text{Average total assets}}$$

ROA naturally differs from company to company because some companies are asset intensive. An increasing trend of Return on assets shows that company's profitability is increasing and conversely, a decreasing profitability trends indicates return on asset deteriorating.

ROA of BRAC EPL Investment Limited	
Year	ROA
2012	0.028
2011	-0.009
2010	0.053
2009	0.107

We see decreasing profitability trends after 2009 in BRAC EPL when share market turmoil begun. From the table we can make a statement that ROA was deteriorating as in 2009 ROA was

0.107% but in 2010 & 2011 earnings were consecutively 0.053% and -0.009%. They faced negative earning on assets in 2011.

#### 4.9 Return on Equity:

Return on equity is an important measure of the profitability of a company. The ROE tells common shareholders how effectively their money is being employed. In general, financial analysts consider return on equity in 15%-20% range as representing attractive levels of investment quality. The formula of ROE is:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders Equity}}$$

It can be artificially influenced by the management, for example, when debt financing is used to reduce share capital there will be an increase in ROE even if income remains constant.

ROE of BRAC EPL Investment Limited	
Year	ROE
2012	0.109
2011	-0.043
2010	0.188
2009	0.110

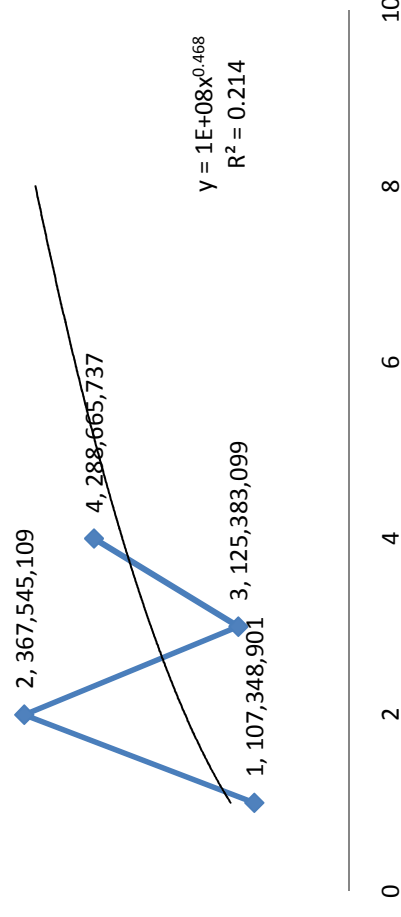
The ROE of BRAC EPL was vastly affected by its equity income from investment in securities. After a comparative analysis we see that there is a huge decline in securities in 2011. It reached a negative value in 2011 whereas it was positive in preceding years. Capital market distress one of the main reasons behind this huge decline.

#### 4.10 Overall Performance and Future Projection

##### Net Operating Profit Projection

Year	Net Operating Profit	Projected
2009	1	107,348,901
2010	2	367,545,109
2011	3	125,383,099
2012	4	288,665,737
2013	5	212,518,895
2014	6	231,465,381
2015	7	248,796,303
2016	8	264,854,496

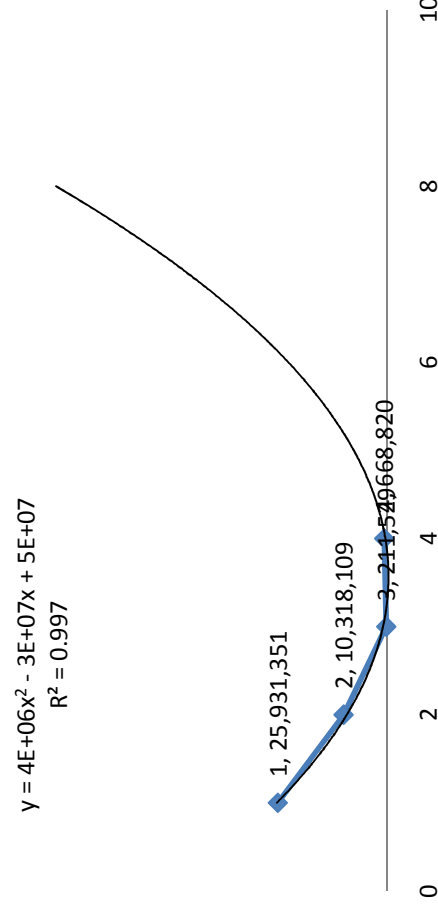
##### Net Operating Profit



##### Net Financial Profit Projection

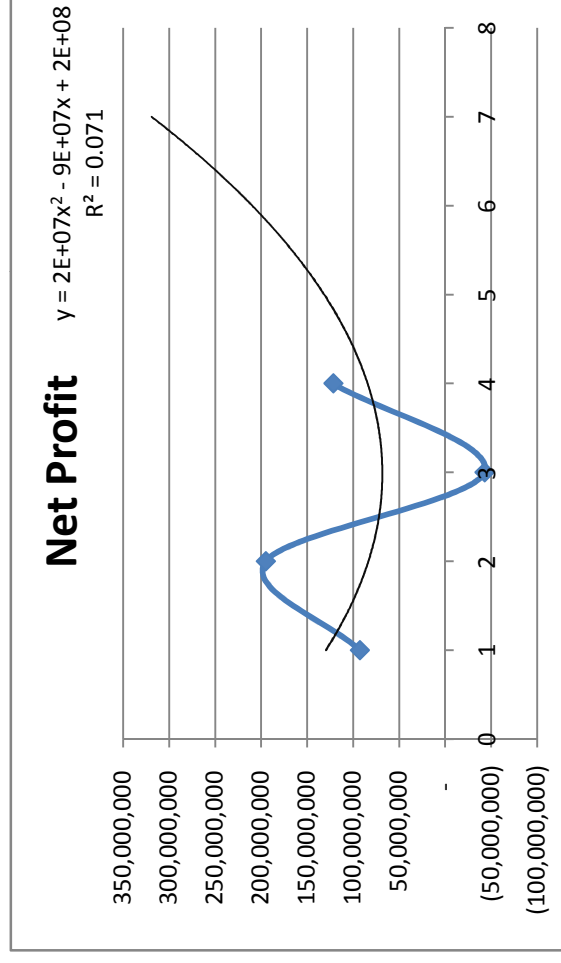
Year	Net Financial Profit	Projected
2009	1	25,931,351
2010	2	10,318,109
2011	3	211,529
2012	4	668,820
2013	5	-
2014	6	14,000,000
2015	7	36,000,000
2016	8	66,000,000

##### Net Financial Profit

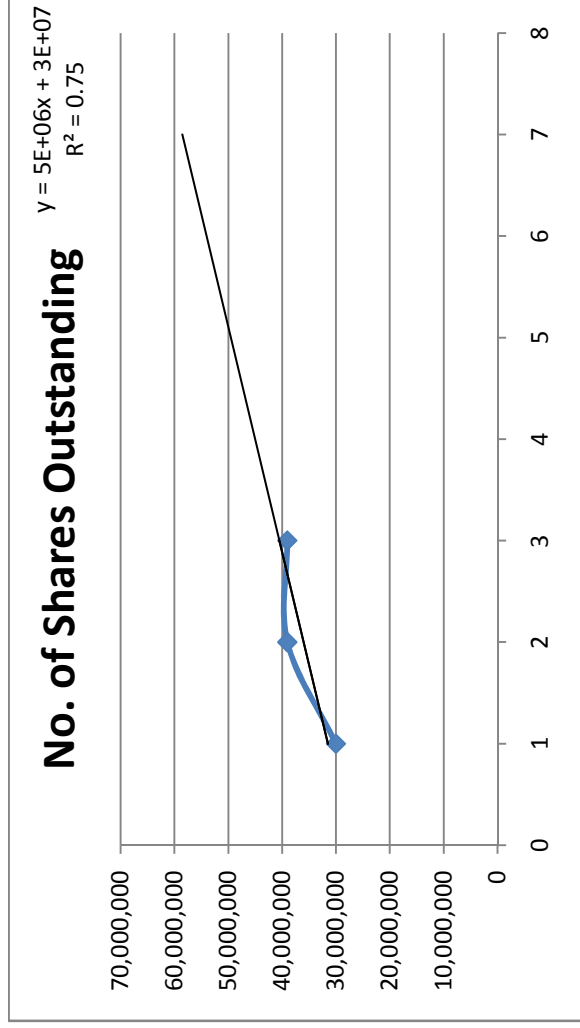


Taka in '000

Net Profit Projection		
Year	Net profit	Projected Net Profit
2009	1	92,750,730
2010	2	194,780,628
2011	3	(42,639,085)
2012	4	121,551,407
2013	5	250,000,000
2014	6	380,000,000
2015	7	550,000,000
2016	8	760,000,000



Year	Number of share outstanding	Projected (Pessimistic)	Projected (Optimistic)	Net Income		EPS	Projected EPS	
				Actual	Projected		Pessimistic	Optimistic
2009	30,000,000			92,750,730		3.09		
2010	39,000,000			194,780,628		4.99		
2011	39,000,000			(42,639,085)		(1.09)		
2012		50000000	39,000,000	121,551,407			2.43	3.12
2013		55000000	39,000,000		250,000,000		4.55	6.41
2014		60000000	39,000,000		380,000,000		6.33	9.74
2015		65000000	39,000,000		550,000,000		8.46	14.10
2016		70000000	39,000,000		760,000,000		10.86	19.49



## **5 Problems:**

### **5.1 High Margin Loan:**

BRAC EPL provides margin loan for their clients under CAP EDGE and MANAGED CAP EDGE account. From the beginning of the company they started providing 1:1 margin loan for their clients which means if any client provides 1 luc taka, BRAC EPL provided 1 luc taka more as margin loan and this rule does not apply for all clients. They provided margin loan 1: 2 or sometimes more for many clients those who had huge amount of portfolio so when share market collapsed, BRAC EPL had to count huge amount of loss for approving huge amount of Margin Loan.

### **5.2 Buying Z & N category share:**

As Z & N category shares had high growth in 2011 without having strong financial background of those companies so BRAC EPL listed those shares in their approved securities list so CAP EDGE account holders got chance to buy risky shares using margin loan.

### **5.3 Wrong decision of Management:**

MANAGED CAP EDGE accounts are managed by portfolio managers and executives. Account holders of these accounts only provide their money and give all responsibility to managers to buy and sell securities so that account holders can have better profit margin so management took wrong decision of buying shares in those accounts and they couldn't take any legal action against them because of good reputation. For rescuing from that loss, management approved margin loan again for those accounts so that they can buy another security which will minimize whole risk level but their predictions were wrong and had to conceive higher loss in whole portfolio.

### **5.4 Information Gap:**

CAP Edge account holders have to pay interest rate 17% per annum for availing margin loan so interest rate is adjusted to their account every 3 months later. BRAC EPL does not inform to their clients about the adjustment of margin in their account so after the adjustment total amount of loan rises and interest rate is charged on whole amount again, this is how total amount of loan increases. If BRAC EPL informed clients time to time, they have minimized their loss.

## **6 Recommendation:**

### **6.1 Provide Necessary Information:**

BRAC EPL should inform their clients about Interest rate adjustment so that client can pay their interest amount, management fees and charges time to time. They should also inform clients whenever they are going for force sale because there is a possibility that after knowing the condition of their portfolio client can reinvest money to cover up overall portfolio.

### **6.2 Marginable Securities:**

Whenever BRAC EPL enlist any security to their marginable securities list they should justify company's background so that their investment amount does not get wasted even though BRAC EPL should not concern about margin loan as clients are bound to pay as per company policy but using this policy they should be able to reduce their bad debt amount.

### **6.3 Reduce Margin loan Ratio:**

After stock market distress, BRAC EPL reduced their marginable loan ratio and now they are providing 1: 0.5 but still they provide margin loan more than their policy in some cases so they should be aware of it whenever they are going to approve margin loan.



## 7 Concluding Remarks

John Keynes described the action of rational agents in a market using an analogy based on fictional newspaper contest, in which entrants are asked to choose a set of six faces from photographs of women that are the ‘most beautiful’. Keynes believed that similar behavior was at work within the stock market. This would have people pricing shares not based on what they think their fundamental value is, but rather on what they think everyone else thinks their value is, or what everybody else would predict the average assessment of value is.

Over the last few years, the capital market of Bangladesh has witnessed haughty growth, which has not been in line with development in the real economic sector. Although, the Securities and Exchange Commission (SEC) of Bangladesh has tried to correct the irregular behavior observed in the market, very often it is argued that lack of proper decisions from the regulator’s side has contributed to make the market more unstable.

The massive collapse in the capital market indicates that there is further monitoring and regulations are required to be imposed. The deregulation of the merchant banks and other brokerage houses caused more than 3.3 million people to lose their entire investments. The unusual hike if the general index in the major two capital market caused due to manipulations done by the particular group of people, which was almost beyond the control of the legislated authority.

For BRAC EPL, to survive a market crash it is helpful to have a sound investment strategy to propose upon the clients and a suitable back up plan. Reducing loss in the event of a stock market crash is essential as this allows an investor to financially see another day. Traditional investing plans such as age based investing is a factor to consider overall, but these traditional methods of investing do not necessarily protect all one’s assets from a wide spread stock market crash.

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## Appendix:

### 1.Comparative Balance Sheet over the years (2009-2012)

	2012	% change 2011-12	2011	% change 2010-11	2010	% change 2009-10	2009
<b>ASSETS</b>							
<b>Non-Current Assets</b>							
Property, Plant and Equipment	54,094,354	-27.20%	74,308,124	90.86%	38,933,933	132.10%	16,774,413
Intangible Assets	886,112	-64.12%	2,469,599	-29.92%	3,523,919	295.95%	890,000
Investment in Associate Company	13,718,064	4.47%	13,131,311	4.45%	12,571,651		-
Investment in Unquoted Securities	2,500,000		-		9,883,510	-46.96%	18,633,510
Deferred Tax Assets	4,645,863	15.35%	4,027,768	306.12%	991,756		
	<b>75,844,393</b>	-19.26%	<b>93,936,802</b>	42.53%	<b>65,904,769</b>	81.57%	<b>36,297,923</b>
<b>Current Assets</b>							
Investment in Quoted Securities	28,939,899	-93.33%	434,119,991	65.36%	262,525,835		-
Loans and Advances to Customers	3,679,472,517	-6.25%	3,924,682,337	27.80%	3,070,981,586		-
Accounts Receivables	547,647,084	719.00%	66,867,428	-71.10%	231,379,486	13558.76%	1,694,001
Advances, Deposits and Prepayments	13,775,366	-35.12%	21,231,838	12.28%	18,909,004	-61.78%	49,474,274
Advance Income Tax	7,696,738	-66.65%	23,078,557	-16.61%	27,676,892	848.65%	2,917,501
Cash and Cash Equivalents	55,199,295	46.71%	37,624,447	25.38%	30,009,001	-96.13%	775,098,215
Inter-Company Receivables	1,255,342	-82.14%	7,029,378				
Other Receivables	931,098	158.00%	360,891	-73.93%	1,384,117		-



	4,334,917,339	-3.99%	4,514,994,867	23.94%	3,642,865,921	339.33%	829,183,991
<b>Total Assets</b>	<b>4,410,761,732</b>	<b>-4.30%</b>	<b>4,608,931,669</b>	<b>24.27%</b>	<b>3,708,770,690</b>	<b>328.52%</b>	<b>865,481,914</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Shareholders' Equity</b>							
Share Capital	585,000,000	50.00%	390,000,000	0.00%	390,000,000	30.00%	300,000,000
Share Premium	436,825,951	0.00%	436,825,951	0.00%	436,825,951	0.00%	436,825,951
Retained Earnings	93,206,227	-44.07%	166,654,820	-20.37%	209,293,905	100.26%	104,513,277
<b>Total Shareholders' Equity</b>	<b>1,115,032,178</b>	<b>12.23%</b>	<b>993,480,771</b>	<b>-4.12%</b>	<b>1,036,119,856</b>	<b>23.15%</b>	<b>841,339,228</b>
<b>Non-Current Liabilities</b>							
Finance Lease Obligations-net of current portion	403,752	-42.30%	699,720	-26.81%	955,974		-
<b>Current Liabilities</b>							
Finance Lease Obligations-current portion	295,968	15.50%	256,254	15.50%	221,870		-
Customer Deposits	32,035,423	0.70%	31,813,178	-48.20%	61,417,666		-
Loans and Borrowings	3,201,034,111	-6.17%	3,411,655,625	64.61%	2,072,599,718		-
Accounts Payable	10,851,094	-67.66%	33,554,654	-86.50%	248,632,137	340585.31%	72,980
Other Liabilities	35,361,358	-59.83%	88,024,149	-59.32%	216,387,625	9477.78%	2,259,268
Provision for Taxation	14,584,413	-69.96%	48,545,107	-32.98%	72,435,845	232.12%	21,810,438
Inter-Company Payable to BRAC EPL Stock Brokerage Ltd	1,163,435	28.95%	902,211				
<b>Total Current Liabilities</b>	<b>3,295,325,802</b>	<b>-8.84%</b>	<b>3,614,751,178</b>	<b>35.30%</b>	<b>2,671,694,861</b>	<b>10966.27%</b>	<b>24,142,686</b>
<b>Total Liabilities</b>	<b>3,295,729,554</b>	<b>-8.84%</b>	<b>3,615,450,898</b>	<b>35.28%</b>	<b>2,672,650,835</b>	<b>10970.23%</b>	<b>24,142,686</b>
<b>Total Equity and Liabilities</b>	<b>4,410,761,732</b>	<b>-4.30%</b>	<b>4,608,931,669</b>	<b>24.27%</b>	<b>3,708,770,691</b>	<b>328.52%</b>	<b>865,481,914</b>

## 2. Comparative Income Statement over the years (2009-2012)

	2012	% change 11-12	2011	% change 10-11	2010	% change 09-10	2009
Revenue							
Interest Income from Margin Loan	678,154,382		566,439,281		224,823,660		-
Less: Interest Expense	(521,370,403)		(481,904,585)		(146,901,247)		-
Net Interest Income	156,783,979		84,534,696		77,922,413		-
		85%		8%			
Fee and Commission Income	168,970,166		246,210,380		368,370,253		4,258,835
Less: Fee and Commission Expense	(42,766,599)		(88,939,147)		(192,290,403)		-
Net Fee and Commission Income	126,203,567		157,271,233		176,079,850		4,258,835
		-20%		-11%		4034%	
Income from Investment in Securities	(1,138,046)		(127,609,764)		104,879,800		101,603,506
Other Operating Income	6,816,237		11,186,934		8,663,046		1,486,560
Total Operating Income	288,665,737		125,383,099		367,545,109		
		130%		-66%			
Operating Expenses	(132,404,998)		(106,104,890)		(103,112,062)		(17,531,262)
Depreciation	(21,996,587)		(17,179,388)		(8,572,461)		(2,187,821)
Operating Profit	134,264,152		2,098,821		255,860,586		(19,719,083)
		6297%		-99%		-1398%	
Finance Income	1,733,311		925,941		11,457,487		27,042,993
Less: Financial Expenses	(1,066,491)		(714,412)		(1,139,378)		(111,642)
Net Finance Income	666,820		211,529		10,318,109		26,931,351
		215%		-98%		-62%	
Share of Profit of Equity in Associate Company	586,753		559,660		71,651		-
Profit before Income Tax	135,517,725		2,870,010		266,250,346		7,212,268

		4622%		-99%		3592%	
<b>Less: Tax Expenses</b>	(13,966,318)		(45,509,095)		(71,469,718)		(21,810,439)
		-69%		-36%		228%	
<b>Net Profit after Tax</b>	<b>121,551,407</b>		<b>(42,639,085)</b>		<b>194,780,628</b>		<b>(14,598,171)</b>
		-385%		-122%		-1434%	

### 3.Common Size Analysis of Balance Sheet (Year 2009-2012)

	2012	2011	2010	2009
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, Plant and Equipment	1.23%	1.61%	1.05%	1.94%
Intangible Assets	0.02%	0.05%	0.10%	0.10%
Investment in Associate Company	0.31%	0.28%	0.34%	0.00%
Investment in Unquoted Securities	0.06%	0.00%	0.27%	2.15%
Deferred Tax Assets	0.11%	0.09%	0.03%	0.00%
<b>Current Assets</b>				
Investment in Quoted Securities	0.66%	9.42%	7.08%	0.00%
Loans and Advances to Customers	83.42%	85.15%	82.80%	0.00%
Accounts Receivables	12.42%	1.45%	6.24%	0.20%
Advances, Deposits and Prepayments	0.31%	0.46%	0.51%	5.72%
Advance Income Tax	0.17%	0.50%	0.75%	0.34%
Cash and Cash Equivalents	1.25%	0.82%	0.81%	89.56%
Inter-Company Receivables	0.03%	0.15%	0.00%	0.00%
Other Receivables	0.02%	0.01%	0.04%	0.00%
<b>Total Assets</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<b>Equity and Liabilities</b>					
<b>Shareholders' Equity</b>					
Share Capital	13.26%	8.46%	10.52%	34.66%	
Share Premium	9.90%	9.48%	11.78%	50.47%	
Retained Earnings	2.11%	3.62%	5.64%	12.08%	
<b>Total Shareholders' Equity</b>	25.28%	21.56%	27.94%	97.21%	
<b>Non-Current Liabilities</b>					
Finance Lease Obligations-net of current portion	0.01%	0.02%	0.03%	0.00%	
<b>Current Liabilities</b>					
Finance Lease Obligations-current portion	0.01%	0.01%	0.01%	0.00%	
Customer Deposits	0.73%	0.69%	1.66%	0.00%	
Loans and Borrowings	72.57%	74.02%	55.88%	0.00%	
Accounts Payable	0.25%	0.73%	6.70%	0.01%	
Other Liabilities	0.80%	1.91%	5.83%	0.26%	
Provision for Taxation	0.33%	1.05%	1.95%	2.52%	
Inter-Company Payable to BRAC EPL Stock Brokerage Limited	0.03%	0.02%	0.00%	0.00%	
<b>Total Current Liabilities</b>	74.71%	78.43%	72.04%	2.79%	
<b>Total Liabilities</b>	74.72%	78.44%	72.06%	2.79%	
<b>Total Equity and Liabilities</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

#### 4.Common Size Analysis of Income Statement (Year 2009-2012)

	2012	2011	2010	2009
Revenue				
Interest Income from Margin Loan	234.93%	451.77%	61.17%	0.00%
Less: Interest Expense	-180.61%	-384.35%	-39.97%	0.00%
<b>Net Interest Income</b>	<b>54.31%</b>	<b>67.42%</b>	<b>21.20%</b>	<b>0.00%</b>
Fee and Commission Income	58.53%	196.37%	100.22%	3.97%
Less: Fee and Commission Expense	-14.82%	-70.93%	-52.32%	0.00%
<b>Net Fee and Commission Income</b>	<b>43.72%</b>	<b>125.43%</b>	<b>47.91%</b>	<b>3.97%</b>
Income from Investment in Securities	-0.39%	-101.78%	28.54%	94.65%
Other Operating Income	2.36%	8.92%	2.36%	1.38%
<b>Total Operating Income</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Operating Expenses	-45.87%	-84.62%	-28.05%	-16.33%
Depreciation	-7.62%	-13.70%	-2.33%	-2.04%
<b>Operating Profit</b>	<b>46.51%</b>	<b>1.67%</b>	<b>69.61%</b>	<b>81.63%</b>
Finance Income	0.60%	0.74%	3.12%	25.19%
Less: Financial Expenses	-0.37%	-0.57%	-0.31%	-0.10%
<b>Net Finance Income</b>	<b>0.23%</b>	<b>0.17%</b>	<b>2.81%</b>	<b>25.09%</b>
Share of Profit of Equity in Associate Company	0.20%	0.45%	0.02%	0.00%
<b>Profit before Income Tax</b>	<b>46.95%</b>	<b>2.29%</b>	<b>72.44%</b>	<b>106.72%</b>
Less: Tax Expenses	-4.84%	-36.30%	-19.45%	-20.32%
<b>Net Profit after Tax</b>	<b>42.11%</b>	<b>-34.01%</b>	<b>53.00%</b>	<b>86.40%</b>



## 5.Ratios

	2012	2011	2010	2009
<b>Current Ratio</b>				
Cash Ratio	Current Assets/Current Liabilities	1.315	1.249	1.364
	Cash/Current Liabilities	0.017	0.010	0.011
<b>Total Debt Ratio</b>	(Total Assets-Total Equity)/Total Assets	0.747	0.784	0.721
<b>Long-term Debt-Equity Ratio</b>	Total long term debt/total equity	0.000	0.001	0.001
<b>Debt-Equity Ratio</b>	Total Debt/Total Equity	2.956	3.639	2.579
<b>Equity multiplier</b>	Total Assets/Total Equity	3.956	4.639	3.579
<b>Long-term Debt Ratio</b>	Long Term Debt/(Long Term Debt +Total Equity)	0.000362	0.000704	0.000922
<b>Fixed Asset Turnover</b>	Sales/Net Fixed Assets	8.941391	6.030004	3.411341
<b>Total Asset Turnover</b>	Sales/Total Assets	0.15375	0.1229	0.060619
<b>Profit Margin</b>	Net Income/Sales	0.179239	-0.07528	0.866371
<b>Return on Assets</b>	Net Income/Total Assets	0.028	-0.009	0.053
<b>Return on Equity</b>	Net Income/Total Equity	0.109	-0.043	0.188
<b>EPS</b>	Net Income/Shares Outstanding	-	(1.09)	4.99
<b>Price Earnings Ratio</b>	Price Per Share/Earnings Per Share	-	(9.15)	2.00
				3.23