

BANGLADESH STEEL INDUSTRY: A Comprehensive Review

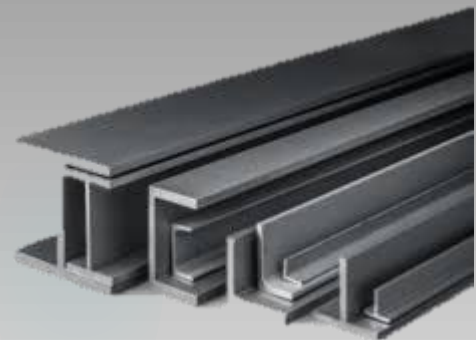


- ❑ Growing demand for graded steel products
- ❑ Self-reliant industry having sufficient capacity to feed local demand
- ❑ Also self-reliant for intermediate raw-material billet production
- ❑ Historically concentrated industry but new investment in recent period is remarkable
- ❑ Lower per capita consumption in Bangladesh
- ❑ Government projects driving industry growth

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26 December 2019



Growing demand for steel products ensures promising industry prospect, however, high market competition, excessive investments and increased cost of doing business squeezing profitability of the industry players

The movement towards a progressive national economy strongly depends on how the construction materials especially steel related industries have evolved and such products are readily available.

Increased government expenditures on construction and infrastructure development, growing urbanization, industrialization, increased wage earners' remittance inflows and higher purchasing power of consumers are the key drivers for industry growth

Sluggish economic activities in recent period has affected the steel industry as well in FY2019-20 so far.

Bangladesh is one of Asia's buoyant emerging steel markets and has a growing need for raw materials and steelmaking technologies. The movement towards a progressive national economy strongly depends on how the construction materials especially steel related industries have evolved and such products are readily available. Steel is a basic raw material for infrastructural development and multiple other uses. Fortunately, the country has a proud heritage for the art of steel making and shaping for a long time.

The Government of Bangladesh has projected the economy to grow by 8.2% in FY2020. Meanwhile, Asian Development Bank (ADB) has also forecasted the economy to grow by 8.0% in FY2020, which makes Bangladesh as the fastest growing economy in Asia-Pacific region. According to industry experts, there is a linkage between a country's economic growth and growth in steel consumption. If GDP is expected to grow by 8%, steel industry should grow by at least 16% per year.

The country's economic activities took a turnaround in recent period. Increase in VAT and other regulatory duties, implementation of new VAT law and strict field level enforcement along with higher market competition, high interest rates and slow private credit growth etc. has significantly affected industry demand and sales of various industries including steel as well. Meanwhile, global economic slow-down has also started to affect the economy of the country. However, our long term view remained positive as the demand for steel will inevitably grow in line with the country's economic and infrastructural development. Major buyers of mild steel and re-rolled products include government, individuals and institutional buyers in the real estate sector. Implementation of the government's huge infrastructural development plans have been driving the double digit growth rate in the country's steel industry and we expect that the industry will also be enjoying strong growth in the next decade amid ambitious development initiatives by the government. Besides, growing urbanization, industrialization, increased wage earners' remittance inflows and higher purchasing power of consumers are accelerating the growth in overall construction sector.









STEEL: MAJOR TYPES AND USES

The steel products can be categorized in three types: long steel, flat steel and stainless steel.

Steel manufacturers produces steel in several types according to demand from end consumers. Based on shape, the steel industry can be categorized based on three types of products: long steel (MS rod/TMT bar), flat steel (mainly CI sheet and CR coil) and stainless steel.

In Bangladesh, most construction steel can be traced to local production of long products, most of it in reinforcing steel, commonly known as M.S. Rods. Long Steel products are used in all industrial sectors, particularly in the construction and engineering industries.

Different types of flat products includes Plates, Hot Rolled Sheets, Cold Rolled Sheets and Coated Sheet. Steel stock in the

Different Types of Long Steels	
Bars	 <ul style="list-style-type: none"> • Rebar • Merchant Bars
Structural	 <ul style="list-style-type: none"> • Beams • Channels & Angles
Tubes	 <ul style="list-style-type: none"> • Oil country tubular goods (OCTG) • Other tubular products
Different Types of Flat Steels	
	 <ul style="list-style-type: none"> • Hot Rolled Sheets
	 <ul style="list-style-type: none"> • Cold Rolled Sheets and • Galvanized Plain (GP) Sheet
	 <ul style="list-style-type: none"> • Coated Sheet
	 <ul style="list-style-type: none"> • Plates
	 <ul style="list-style-type: none"> • Corrugated galvanized roofing (C.I.) sheets

Bangladesh Steel Industry Review

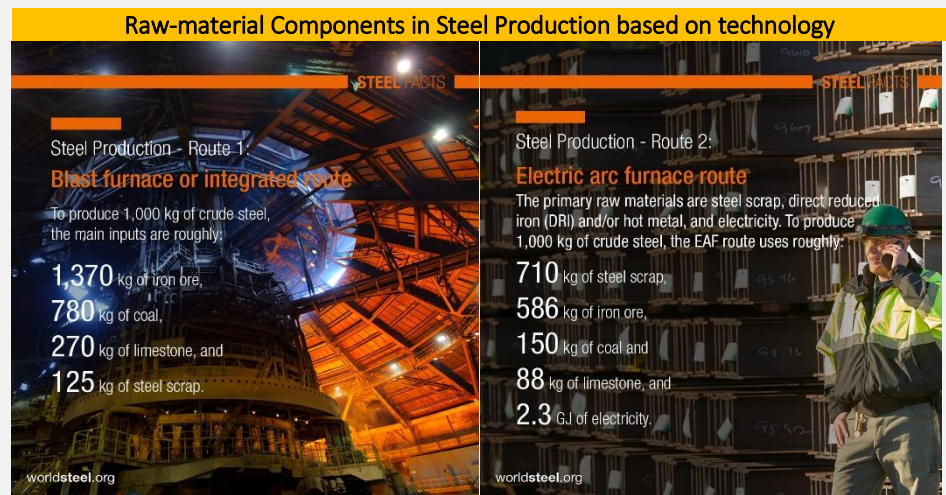
form of capital goods such as machineries and transportation vehicles are entirely imported. Corrugated galvanized roofing sheets commonly known as C.I. sheets are also produced in Bangladesh.

In Bangladesh, around 81% in the roofing and 42% in the fencing of total households in rural and urban areas are constructed with CI (Corrugated Iron) sheet and GP (Galvanized Plain) sheet, according to industry insiders. Besides, various Government projects, NGOs initiatives, Agro based firms, and industrial unit use a substantial volume of CI/GP sheet for fencing and roofing. As supportive material CI/GP sheets are also used in other civil constructions.

PRODUCTION TECHNOLOGY, KEY RAW-MATERIALS

Key input in the blast furnace-basic oxygen furnace technology are iron ore, limestone, coal (or coke), and recycled steel (iron scrap/billet).

There are mainly two types of technology for producing steels based on the raw-materials consumption: the blast furnace-basic oxygen furnace (BF-BOF) technology (integrated) and electric furnace (EF) technology (recycled). However, variations and combinations of production technologies also exist. Electric Furnaces can again be divided into two categories, one is an electric arc furnace (EAF), which is used to generate heat by arc to melt scrap steel, and the other is an induction electric furnace (IEF), which generates heat by electromagnetic induction to melt scrap steel, especially in medium frequency induction.



Source: World Steel Association (WSA)

Key input in the electric furnace are recycled steels (iron scrap, billets, and electricity)

Predominantly iron ore, limestone, coal (or coke), and recycled steel (iron scrap/billet) are used in the BF-BOF technology while mainly recycled steel and electricity are required for the EAF technology. According to World Steel Association, about 75% of steel is produced using the blast furnace method and 25% of steel is produced via the electric furnace method. Another steelmaking technology, the open hearth furnace (OHF), makes up about 0.4% of global steel production. The OHF process is very energy intensive and is in decline owing to its environmental and economic disadvantages. However, all of these production methods can use recycled steel scrap as an input. Most new steel contains recycled steel.

In Bangladesh, there is no integrated mills (based on blast furnace-basic oxygen furnace method) for producing steel products. Steel millers here rely on electric arc and induction furnaces to process the scrap and adds value by transforming them into finished steels.

Currently there are around 300 steel mills, among them there are 150 re-rolling mills and 30 auto steel mills in the country and rest of the millers produce steel through conventional process of re-rolling ship cutting plates, according to industry personnel.

Bangladesh Steel Industry Review

LOCAL INDUSTRY TRANSFORMATION: JOURNEY FROM NON-GRADED TO GRADED STEELS

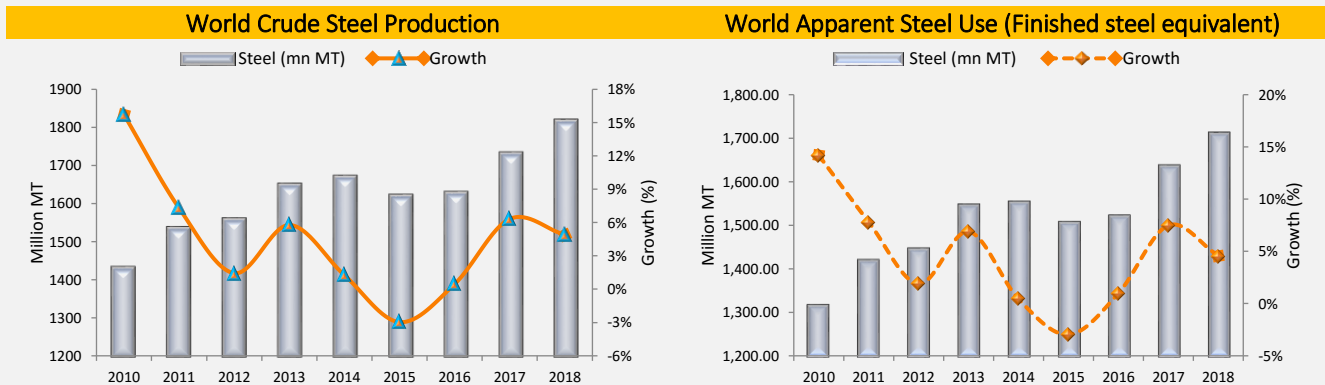
The last decade witnessed transformation of Bangladesh Steel Industry from non-graded to graded and specialized steels in at least 5 high quality grades. Leading manufacturers started to compete by introducing graded steels since 2008. Meanwhile, industries are also changing technology from traditional manual to auto-rolling and semi-auto rerolling mills.

With the local production of high quality graded steels, dependency on imported steels for large infrastructural projects has almost eliminated and the country became self-reliant in producing quality steel products.

SLOWDOWN IN GLOBAL STEEL INDUSTRY GROWTH IS EXPECTED DRIVEN BY SLOW GLOBAL ECONOMY

Slow-down of the global economy and continuation of trade tensions may hurt the steel industry growth

While main consumer segments of global steel products are construction, automobile and machinery sector, respective growth projection in 2019 and 2020 for these three segments remains slow or contractionary. According to World Steel Association, the global construction sector’s growth is expected to slow to 1.5% in 2019 and 1.2% in 2020 after a moderate growth of 2.8% in 2018. However, uncertainty over the trade environment, mainly triggered by US-China trade war and volatility in the financial markets continue and could pose downside risks to this forecast. Construction sector growth in emerging market might remain strong mainly driven by infrastructural activities but the outlook is mixed for the developed markets. Meanwhile, global automotive production lost speed in 2018 and is anticipated to contract in 2019 with recession deepening and broadening across several major markets. After strong growth in 2017-18, global mechanical machinery is also expected to decelerate or remain flat in 2019-20 as the slowing down of the global economy and continuation of trade tensions hurt global investment activities.



Source: World Steel Association (WSA) and EBLSL Research.

BANGLADESH STEEL INDUSTRY IS SELF-RELIANT, HAVING SUFFICIENT CAPACITIES TO FEED THE DOMESTIC DEMAND

There is no exact year-to-year available data regarding the production and market share of the steel industry of Bangladesh. However, In terms of production capacity for both finished and semi-finished (billet) steels Bangladesh is now self-sufficient. According to the industry players, Bangladesh’s combined annual installed capacity of producing steel in 2018 was 8.5 million MT and the country has consumed 7.0 million MT steels which was only 1.6 mill MT a decade ago. Installed capacity of producing steel will cross 9 million MT by the end of 2019 and the production capacity to increase by another 3-4 million MT in the next few years after completion of various ongoing and planned capacity expansion projects by various industry players. It is expected that by 2030, steel consumption will reach 18 million Tons.¹

¹BSRMLTD Annual Report 2018-18, Page 039

Bangladesh Steel Industry Review

Steel industry in exposed to seasonality and due to seasonal variation in demand, steel manufacturers keeps additional capacities and yearly capacity utilization remains lower than total installed capacity.

Local steel market grew at a rate of 15%-20% in last two years

The country’s annual installed capacity for various long steel products like Rod, Angle, Channel, Bar etc. is around 8.0 million MT and annual demand for long steel is 5.5 million MT. Besides, within the flat steel products, the country’s present installed capacity is 1 million MT for cold rolled steel and 0.4 million MT for colour coated sheet.

Even though industry capacity is higher than the domestic demand, the industry is exposed to seasonality. Sales remains sluggish during the rainy season and higher in winter season. So, actual production remains lower in the dull season. On an average 70-75% capacity utilization is termed as optimal by the industry players.

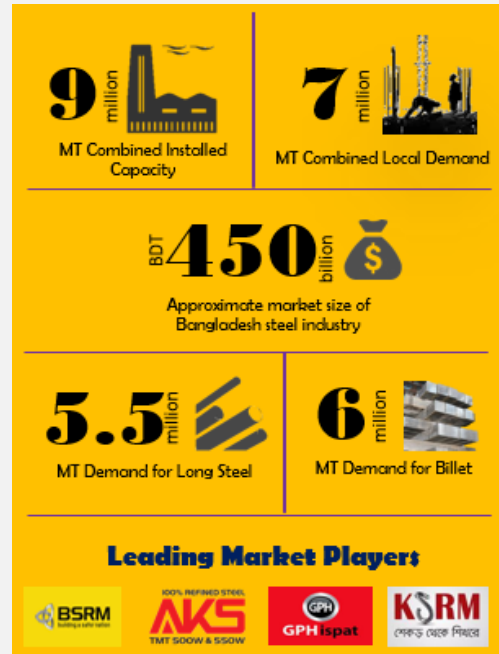
The market size of steel is around BDT 450 billion. The local steel market grew at a rate of 15%-20% in last two years from 8-10% per year previously. Growth was higher in last two years mainly due to faster ADP implementation initiatives taken by the government prior to Bangladesh National Election held in end of December 2018.

Currently, 45 steel mills are the members of Bangladesh Steel Manufacturers Association (BSMA) who manufacture over 80% of the steel products in the country.² Moreover, major industry players are injecting fresh investment in this sector to enhance their production capacity to grab the potential of huge demand for the implementation of government’s gigantic infrastructure development plans.

Three big steelmakers BSRM, Abul Khair Steel (AKS) and KSRM controls more than 50% of the market but their dominance is shrinking as small players are expanding aggressively

Additional 3-4 million MT capacities will be added in next few years

AKS (Abul Khair Steel Mills), PHP Steels Mills, KY Steel Mills (KDS Group), S. Alam Cold Rolled Steels Ltd. Galco Steels and TK Steel Mills are the top players in flat steels manufacturers



THOUGH INDUSTRY IS DOMINATED BY FEW LARGE PLAYERS, SMALL PLAYERS ARE REGAINING THE POSITION WITH FRESH INVESTMENT

The steel industry in Bangladesh is turning into perfect competitive market from previous oligopolistic one. Even though three big steelmakers BSRM, Abul Khair Steel (AKS) and KSRM had long been continuing their dominance in steel market and controlling more than 50% of the market, their dominance is shrinking since the last few years as small players growing aggressively. Currently there are 52 manufacturers who produces at least 10,000 MT Rod per year and these firms jointly account for almost 92% of the total production of long steel. To meet the burgeoning demand for the construction materials mostly driven by mega government projects, local firms went for boosting steel production capacities by investing heavily in steel manufacturing projects.

Abul Khair group is the largest steel producer in the country in terms of both revenue as well as capacity. Abul Khair Steel's re-rolling mill (AKS) is capable of producing 1.4 million metric tons high quality graded hot-rolled steel (TMT) rebar per annum. The company’s capacity utilization is ratio is roughly 80%. AKS has a special reputation for price adjustment to avail larger market share and other companies do the same accordingly to maintain the competitiveness.

BSRM Group is the pioneer in the steel industry of Bangladesh and currently the second largest in the market with 1.24 million MT installed capacity of MS rod and bar annually.

²<https://today.thefinancialexpress.com.bd/special-issues/state-of-construction-industry-in-bangladesh/steel-rod-sector-witnesses-growth-1551033833>

Bangladesh Steel Industry Review

The group has good track record for producing quality steel and strong market penetration.

To cater to the growing demand in coming days, KSRM has also increased its capacity from 0.45 million MT to 0.8 million MT recently. Another industry player, GPH Ispat has just its production capacity by more than 6 times. It has invested in a massive expansion project of its re-rolling mill to increase its capacity from 0.12 million MT to 0.76 million MT per year which has commenced its production from November 2019.

Major Players in Steel Market		Present Capacity	Ongoing Expansion
[Values in thousand MT]			
1	Abul Khair Steel (AKS)	1,400.0	-/-
2	BSRM Group	1,240.0	-/-
3	Kabir Steel Rolling Mills Ltd. (KSRM)	800.0	-/-
4	GPH Ispat Limited (GPH)	760.0	-/-
5	Mohsteel Limited **	500.0	-/-
6	Anwar Ispat Limited	360.0	-/-
7	Shahriar Steel Mills Ltd.	216.0	-/-
8	Baizid Steel Industries Ltd.	206.0	-/-
9	Salam Steel Concast Re-rolling Mills Ltd. (SCRM)	130.0	70.0
10	Ratanpur Steels Re-Rolling Mills Limited	187.2	-/-
11	Bashundhara Steel Complex Limited**	160.0	-/-
12	Bandar Steel Limited	120.0	-/-
13	S. S. Steel Limited	108.0	12.0
14	Magnum steel Industries Limited	100.0	-/-
15	Rahim Steel Mills Co. (Pvt.) Ltd	n/a*	-/-

*Information not available; **Updated data not available; Source: EBLSL Research

Currently, there are 9 CI sheet (flat steel) manufactures in Bangladesh. Among them AKS (Abul Khair Steel Mills), PHP Steels Mills, KY Steel Mills (KDS Group), S. Alam Cold Rolled Steels Ltd., Appollo Ispat, Galco Steels and TK Steel Mills are the top players in flat steels manufacturers. Most of the market players are Chittagong based. PHP Family is now envisioning to set up Country's first Integrated Steel Plant (blast furnace-basic oxygen furnace plant) to produce both Semi Finished and Finished Steel in the form of Flat and Long Products from Iron Ore.

Major Players in Flat Steel Market		Capacity in mn MT
1	Abul Khair Steel (AKS)	760,000
2	PHP Steels	250,000
3	KDS group	120,000 (CR Coil), 50,000 (GS Coil), 25,000 (CR Closed Annealed), 60,000 (NOF-GS)
4	Appollo Ispat	120,000 (CRM), Galvanizing Line 200,000 MT
5	S.Alam Group	120,000 (CR Coil), 72,000 (NOF)
6	Karnafully Steel (T.K Group)	80,000 (CR Coil)

Source: Company annual reports, company websites and other available secondary sources.

Though earlier it was appeared that small players will lose their businesses due to business expansion by big players and high input cost, the situation has changed a bit. The present scenario in steel sector is kind of 'Grow or Die. A number of small millers including some Dhaka & Narayangonj based steel products traders are also setting up new plants to capitalize on the high growth potential of the industry and also to secure a market presence. Small millers are mostly targeting the retail segment of the market, individual homebuilders and real-estate segment while large players are eyeing towards mega government projects. This leads to a future danger for the large millers as once government projects will slow down, large millers are likely to loss major market share.

LOWER PER CAPITA CONSUMPTION COMPARED TO GLOBAL STANDARD INDICATES HUGE INDUSTRY PROSPECT:

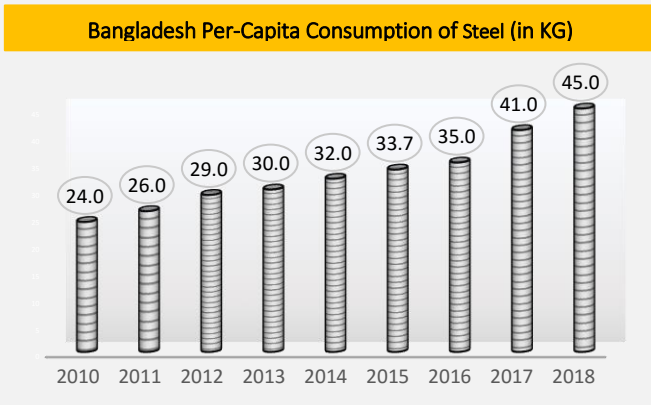
Per capita consumption of steel in Bangladesh is significantly lower than the global standard

While the country has been experiencing one of the fastest economic growth in the world, its per capita consumption of steel is significantly lower than the global standard.

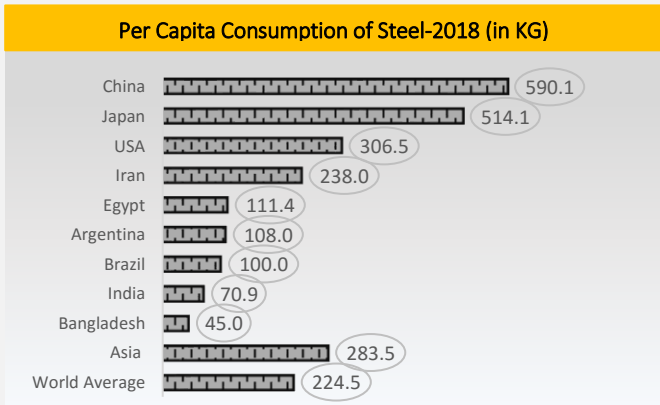
Bangladesh Steel Industry Review

Bangladesh is one of the lowest consumers of steel products in the world. According to the World Steel Association (WSA), average per capita steel consumption in the world was 224.5 kg in 2018 while that of Bangladesh was only 45 KG during the same year.³ Per capita consumption of finished steel in Bangladesh (41) was even lower than the regional peer Myanmar (40.5), India (75.3), Pakistan (45.7), Sri Lanka (53.5) etc. according to WSA data 2017 (latest data not available yet). Lower per capita consumption indicates that the industry has plenty of room to grow more. Bangladesh’s per capita steel consumption witnessed 8.2% CAGR in last eight years and may reach to 65-70 kg by 2022 and around 70-75 kg by 2024.⁴

The sector is expected to grow further driven by the increasing purchasing power and ongoing infrastructural developments by both public and private sector of the country.



Source: Industry Estimates & EBLSL Research



Source: World Steel Association and EBLSL Research

According to real estate developers, usually 1.0-1.5 MT rods required to construct a 1000 sqft roof slab. So, along with mega government projects, increased demand from household and real-estate sector both in rural and urban areas will require huge volume of steel and will ultimately result in higher per capita consumption as well.

THRIVING STEEL DEMAND FOR THE GOVERNMENT INFRASTRUCTURAL PROJECTS DRIVING DOUBLE DIGIT GROWTH IN STEEL CONSUMPTION

The demand for steel industry is mainly driven by two factor; one is the implementation of the government’s ADP plans and government's infrastructure building activities and the other is from the industrial and individual level demand especially from the real estate sector. However, in the last decade, Govt. projects has driven the majority of growth in the steel demand. Currently, the government projects account for nearly 35% to 40% of total steel consumption which was only 15% a decade ago.⁵

The Government is investing tens of billions of dollars on mega projects notably including Padma Bridge, Ruppur Nuclear Power Plant, Metro Rail Projects and numerous infrastructural and transportation development projects etc. A lot of infrastructural works are running in the country and it would take another 5-7 years to finish them. Among them, Rooppur nuclear power plant and Padma Bridge are being constructed solely with steel manufactured locally. Due to the expectation of the undertaking of more mega projects in near future and overall healthy economic growth, there is ample opportunity for steel consumption to grow.

Government projects account for nearly 35% to 40% of total steel consumption

³ <https://www.worldsteel.org/en/dam/jcr:96d7a585-e6b2-4d63-b943-4cd9ab621a91/World%2520Steel%2520in%2520Figures%25202019.pdf>

⁴ EBLSL Research own estimate

⁵ <https://www.thedailystar.net/business/news/steel-industry-booming-mega-projects-1735855>

A CHALLENGING YEAR ONGOING FOR THE CONSTRUCTION SECTOR DUE TO SLOW IMPLEMENTATION OF GOVERNMENT PROJECTS AND BANKING SECTOR LIQUIDITY SHORTAGE

Slow-down in government projects and liquidity crisis in banking industry have created sluggishness in industry sales in current financial year.

The government has slowed down releasing funds for the development projects after the national election, as the government itself has been suffering from fund shortage due massive expenditure projects and growing budget deficit. According to media reports and insiders, the government is not making due payments to the contractors which has reduced rod sales for the development projects during the running year. Government consumption of rod dropped in the 1st quarter of the current fiscal year (July-September period).

Meanwhile, persistent liquidity crisis in the banking sector may continue to pose challenges to the sector as liquidity crisis has lessened the loanability of the banks. Both the real-estate sector as well as industrial sector has been suffering from banking sector liquidity crisis and high interest rate that ultimately causing de-growth in sales volume of steel products as well. The private sector consumption of rod was also down, owing to the slowdown of the real estate sector.

Sales usually declines a bit in the first quarter of a fiscal year compared to other quarters owing to lower demand

Rod millers sold 0.5 million MT of rod per month last year, but it declined to 0.4 million MT so far this year⁶. Sales of rod fell around 20% in the first quarter of the fiscal year, according to newspaper reports. However, sales usually declines a bit in the first quarter of a fiscal year compared to other quarters owing to lower demand. Hence, overall sales might improve in the second half of the fiscal year 2019-20. And even if the industry may perform poorly in the current year, attractive industry growth will prevail in coming years as planned infrastructural activities will be implemented and new projects will be undertaken. Meanwhile, the government is also looking for more FDI and foreign loans for various project implementation.

RIDING ON THE MAJOR INVESTMENT IN DEVELOPING BACK-WARD LINKAGE INDUSTRY BY LOCAL STEEL PRODUCERS, BANGLADESH IS NOW SELF-RELIANT FOR SOURCING OF PRIME RAW-MATERIAL, BILLET

Among the crude steel products, billet is considered as the prime raw-materials for producing steel products. Most of the re-rollers are now adopting backward integration process in order to produce quality and cost-effective products.

Local production of billet is considered enough to fulfill the requirement of local steel demand

In Bangladesh, due to large investment by major steel manufacturing groups, the billet industry has itself become big along with the finished steel industry. Presently, the country's total installed capacity for producing crude steel (billet) stands roughly at 6 million MT per year whereas in 2014, Bangladesh had only around 1.0 million MT of total billet producing capacity. Meanwhile, the country's billet manufacturing capacity will also increase further in near future as massive capacity expansion projects by large players undergoing. Currently, 35 mills are manufacturing billet and the local production of billet is considered enough to fulfill the requirement of local steel demand.

MARKET LEADERS IN BILLET:

Only four big players in the industry Abul Khair (AKS), BSRM, GPH Ispat and Kabir Steel (KSRM) has almost 5 million MT capacity for the semi-finished steel melting (billet) production

A number of large players such as Abul Khair (AKS), BSRM and GPH Ispat, KSRM, Metrocem and Anwar Ispat have invested heavily on steel melting projects which increased local crude steel (billet) production capacity significantly, reduced import dependency has transformed Bangladesh into a self-sufficient country in the billet manufacturing.

⁶<https://www.thedailystar.net/business/news/rod-price-falls-low-demand-scrap-price-slump-1801084>

Bangladesh Steel Industry Review

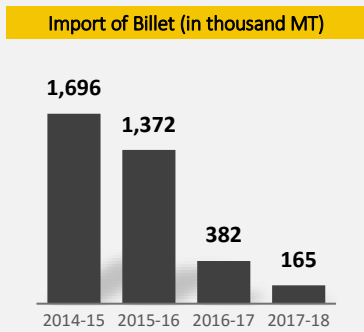
Manufacturers of Billet	Current Capacity	Ongoing Expansion
[Values in thousand MT]		
1 BSRM Group	1,662.5	-/-
2 Abul Khair Steel Melting Ltd. (AKSML)	1,600.0	-/-
3 GPH Ispat Limited (GPH)	1,008.0	-/-
4 Kabir Steel Rolling Mills Ltd. (KSRM)	600.0	200.0
5 Shahriar Steel Mills Ltd.	270.0	-/-
6 Modern Steel Mills Limited	200.0	-/-
7 Baizid Steel Industries Ltd.	190.0	-/-
8 Sheema Automatic Re-Rolling Mills Ltd.	120.0	-/-
9 Salam Steel Concast Re-rolling Mills Ltd. (SCRM)	120.0	-/-
10 Bashundhara Steel Complex Limited	100.0	-/-
11 Magnum Steel Industries Limited	100.0	-/-

Source: EBLSL Research

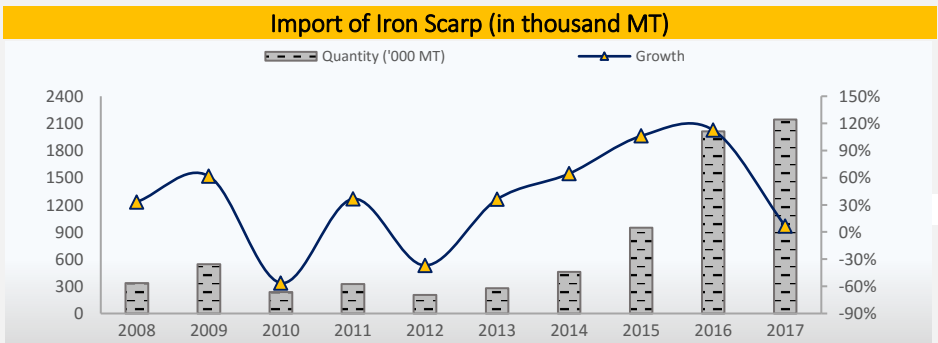
Only four big players in the industry Abul Khair (AKS), BSRM, GPH Ispat and Kabir Steel (KSRM) has almost 5 million MT capacity for the semi-finished steel melting (billet) production. GPH Ispat has recently expanded its billet producing capacity to feed its expanded steel manufacturing capacity. The company is increasing its billet making capacity from existing 0.17 million MT capacity to 1.008 million MT per year.

IMPORT OF BILLET HAS DECLINED SHARPLY OWING TO LOCAL PRODUCTION BUT HIGHER DOMESTIC BILLET PRODUCTION ACCELERATED IMPORT OF SCRAP MATERIALS IN RECENT YEARS

As local manufacturers are increasing their billet manufacturing capacity, import of billet has declined sharply in recent years. However, some steel makers still import billet as billet millers in Bangladesh mostly serve as the backward linkage for their own re-rolling mills. Bangladesh used to import billet mainly from China, US and India when local production of billet was below its annual requirement. Now the import demand for billet is insignificant.



Source: Customs Data, extracted from the Daily Star report



Source: World Steel Association and EBLSL Research

Higher billet producing facility is requiring higher volume of iron scrap

Meanwhile, higher billet producing facility is requiring higher volume of iron scrap, key raw-material for steel melting units based in Bangladesh. Only a small amount of required scrap materials are available from local sources (ship-breaking businesses). As local market is unable to supply adequate amount of iron scrap materials, amidst growing semi-finished steel manufacturing capacity, import of scrap materials has increased sharply in the last few years. Bangladesh was the 7th largest iron scrap importer in Asia in 2017 and in the next few years the position can improve to 3rd or 4th position. The country's import of billet came down to meagre 0.165 million MT in FY2017-18 from that of 1.696 million MT in 2014-15 and the declining trend is continuing.

Bangladesh imported around 2 million MT of finished steel products and 0.6 million MT of semi-finished steel products in 2017-18. Meanwhile, import of scrap has increased. According to World Steel Association data, Bangladesh imported 2.14 million MT raw-materials for producing billets, including iron scraps, in 2017 against only 0.28 million

Bangladesh Steel Industry Review

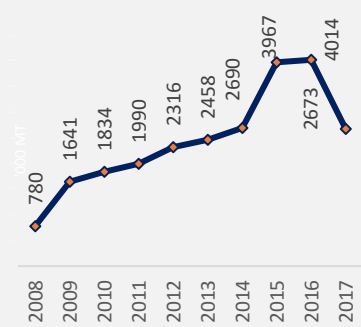
Estimated demand for scrap materials in Bangladesh is about 7.5 million MT per year

Ship breaking industry in Sitakunda, supplying 35-40% of total demand for Scrap Iron

MT scrap iron import in 2013. Data from Bangladesh Customs Department also reveals similar figures. According to customs department data, ferrous scrap imports was recorded at 2.6 million MT in FY2017-18 and the volume of scrapped ships imports in Chattogram’s ship-breaking market for recycling activities was recorded at 2.3 million MT during the same year.⁷ Based on these information, we can infer that estimated demand for scrap materials in Bangladesh is about 7.5 million MT for which we are dependent on imported scraps, scraps generated from ship-breaking yards and other domestically generated steel scraps. Every year 2.5-3.0 million MT scrap materials are procured from ship breaking industry in Sitakunda, supplying 35-40% of total demand. Around 300 ships are recycled in Sitakunda per year in 100+ shipyards. So, to meet the growing demand, it is expected that import amount of iron scrap will see a rising trend in the coming years.

On a recent development, the government of Bangladesh has envisaging to set up an environment friendly ship-breaking zone in Barguna with a view to turning the country self-reliant on iron-scrap material sourcing. Bangladesh Steel & Engineering Corporation is currently conducting the feasibility study of the project. Estimated budget for the proposed project is BDT 12.0-13.0 billion, 105 acres of land has been selected for the site, 3 km coastal area will be used for the project where 16 large ships can be recycled at a time using modern technology⁸. If this project is implemented, import dependency will reduce significantly.

Imports of Semi-finished and Finished Steel Products (In thousand MT)



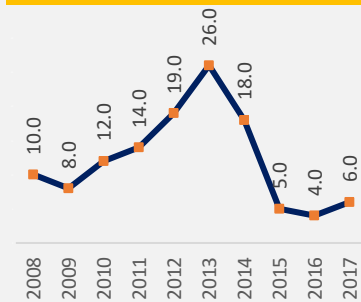
Source: World Steel Association and EBLSL Research

BEING SELF-RELIANT IS REDUCING THE DEPENDENCY ON IMPORT OF BOTH SEMI-FINISHED AND FINISHED STEEL

Even though local steel industry has the capability to feed entire demand of the steel products in Bangladesh, the country imported 2.67 million MT of semi-finished (billet) and finished steel (both long and flat) products in 2017, according to WSA statistics. Major import products are, hot-rolled coils, steel structures, steel coils, special steel, pipes etc. According to customs department data, import of total steel products, comprising raw material (steel scrap), semi-finished, finished products and imported scrap vessel quantity (ship breaking) was around 7.7 million MT in FY2017-18, among which only 2.6 million MT were finished and semi-finished products (HBI, DRI and billets).⁹

However, import is in downtrend since 2015-16 and going forward, import is expected to decline sharply as local millers have already expanded their capacity to produce both semi-finished and finished steel products significantly while the government has increased import duty for Billet.

Exports of Semi-finished and Finished Steel Products ('000 MT)



Source: World Steel Association and EBLSL Research

Apart from occasional spike, import of long steel products such as MS rod and bar has stayed fairly low as the local production fulfills almost entire volume of the total demand. However, in recent times, some mega projects such as Rampal power plant, Kanchpur-Meghna-Gumti Bridge and Karnaphuli tunnel are being built by using imported steel, which may have caused a spike in the recent years in import of long products. Reason for using imported steels for these projects are requirement of specialized and customized sized products that the country doesn’t have sufficient supply yet.

DUE TO HIGH DOMESTIC DEMAND AND PROTECTIVE IMPORT DUTY IN INDIA, EXPORT POTENTIAL IS LIMITED IN NEAR FUTURE

Bangladesh exports finished steel at small scale. Bangladesh has historically exported steel to Africa. Cold rolled and colour coated sheet are mainly exported after meeting

⁷<https://events.steelmintgroup.com/bangladesh-to-add-4-mnt-steel-making-capacities-in-next-few-years-bsrm/>

⁸<https://bit.ly/32ITDFO>

⁹<https://events.steelmintgroup.com/bangladesh-to-add-4-mnt-steel-making-capacities-in-next-few-years-bsrm/>

Bangladesh Steel Industry Review

the domestic demand. Government has already declared 10% cash incentive on Export of Galvanized Sheet/Coils (Coated with Zinc, Coated with Aluminium, Zinc and Color Coated). However, due to massive domestic demand, most of the companies are focused on domestic sales and hence export sales have not achieved much growth in the last decade.

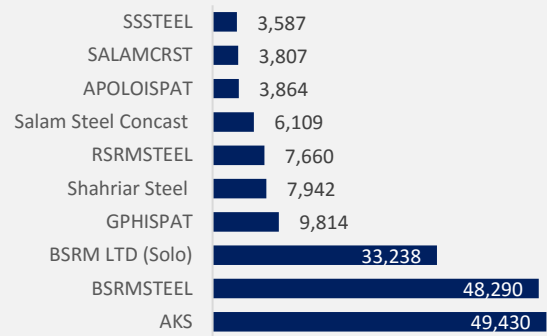
Although the country's steel sector remains mostly focused on domestic demand, owing to overcapacity and incessant investment by the market leaders, the country has the potential to export steel, especially to the northeastern states of India. However, the opportunity has been challenged as the state governments of India have imposed protective tax on imported rod. With the current capacity expansion programs of the existing steel companies, it can be expected that in the coming years, local steel companies will look for expanding their export business to increase their top line revenue.

Cost Structure and Profitability

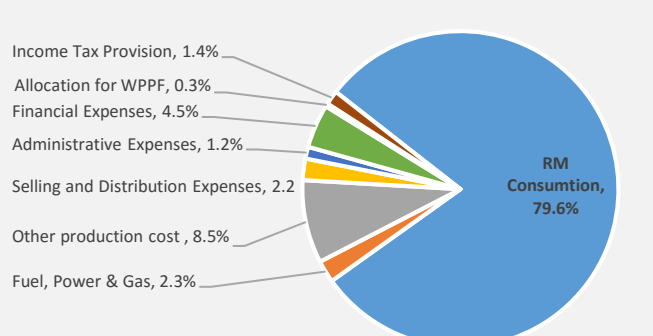
PROFIT MARGINS ARE HIGHLY SUSCEPTIBLE TO INPUT PRICES, DUTY STRUCTURE, FINANCE EXPENSES AND FUEL & POWER COST AS HIGH MARKET COMPETITION ERODES THE ABILITY TO ADJUST RETAIL PRICES FULLY

An analysis by EBL Securities¹⁰ reveals that almost 80% of the cost of steel manufacturers are attributed to the raw-material consumption, on an average 4.5% of the cost are attributed to finance expenses and 2.3% of total cost is attributed to Fuel, Power and Gas cost. So, volatility on raw-material prices can have significant impact on the profitability of the steel manufacturing firms. Besides, hike on gas and electricity prices are on the card while prevailing interest rate is higher that is causing higher finance expenses for the steel manufacturing companies.

Revenue Comparison of Leading Steel Manufacturers (2017-18)



Cost Distribution of Steel Industry



Source: Company disclosures and EBLSL Research

Retail price and margins of the steels largely depend its raw-material cost

Volatility in raw-materials and utility cost along with frequent changes in regulatory duty structure results in high volatility in retail prices of steel products while increased market completion squeezing in profit margins of the companies. As the country needs to import significant volume of iron scrap materials from abroad, the price of iron scrap materials in the international market and currency exchange rate are very important. The raw material cost and subsequently retail price of the steels largely depend on input prices.

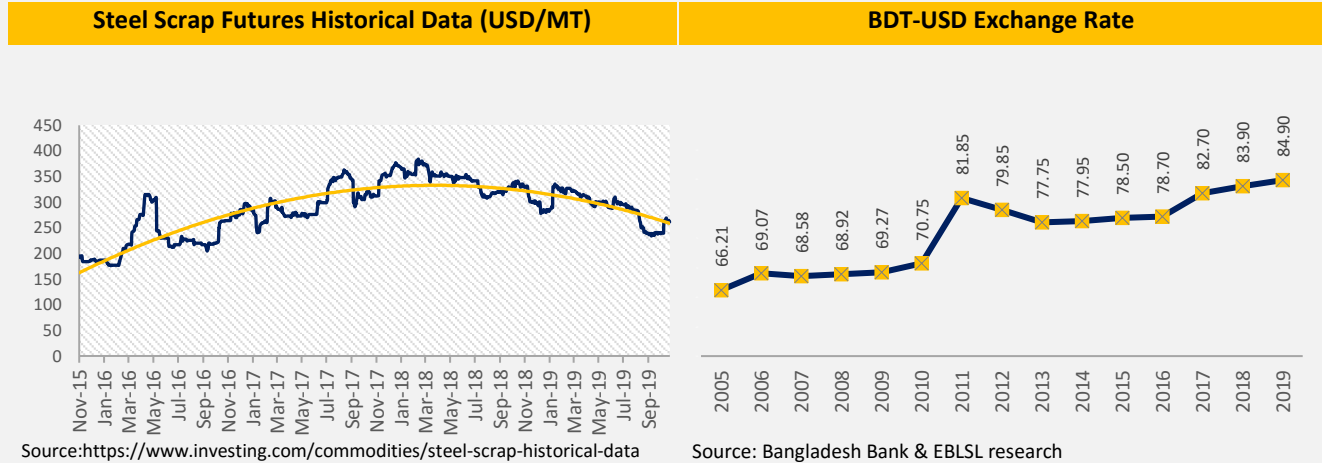
In the last 6-7 months price of scrap materials has been in falling trend. According to a recent report from a leading local daily,¹¹ the price of scrap has fallen by USD 30 per MT since May 2019. The price of iron scrap materials in international market came down to USD 361 per MT from USD 389.

¹⁰ Research was conducted based on the audited financials of 7 listed steel manufacturing companies in DSE.

¹¹ <https://www.thedailystar.net/business/news/rod-price-falls-low-demand-scrap-price-slump-1801084>

Bangladesh Steel Industry Review

Recent fall in the raw-material prices in global market coupled with sluggish construction sector activities in current year as a result of slow implementation of government projects, in an environment of increased market competition triggered the retail prices of mild steel rod to fall after a short term spike. The prices of 60-grade rod was BDT 62,000- BDT 67,000 per ton in May, according to newspaper report, citing the state-run Trading Corporation of Bangladesh. The price of steel rod has declined by BDT 2,000 per MT on an average in September.



Source: <https://www.investing.com/commodities/steel-scrap-historical-data>

Source: Bangladesh Bank & EBSL research

Meanwhile, as the country had to import iron scrap and ships for breaking them into scrap materials in ship-breaking zones, depreciation of local currency against foreign currency increased overall import cost of the raw-materials that also affect production cost of the industry.

APOLOISPAT = Appollo Ispat Complex Limited
 BSRM LTD = BSRM Limited
 BSRMSTEEL = BSRM Steels Limited
 GPHISPAT = GPH Ispat Ltd.
 RSRMSTEEL = Ratanpur Steel Re-Rolling Mills Ltd.
 SALAMCRST = S. Alam Cold Rolled Steels Ltd.
 SSSTEEL = SS Steel Ltd.

As steel is a low-margin product, any slight change in the raw-material cost significantly affects the profitability of the manufacturers. Manufacturers with high reliance on the quality raw-materials for graded steels are comparatively affected more than the others. A 5% increase in the raw-material cost would affect the gross profit margins of the steel manufacturers by 3-4%.

Erosion in GPM if Product Price Not Adjusted (Other things held constant)								
Increase in RM Price	Scenarios	APOLOISPAT	BSRM LTD*	BSRMSTEEL	GPHISPAT	RSRMSTEEL	SALAMCRST	SSSTEEL
	2%	1.36%	1.67%	1.38%	1.50%	1.56%	1.52%	1.20%
	3%	2.04%	2.51%	2.07%	2.26%	2.34%	2.28%	1.81%
	4%	2.72%	3.35%	2.76%	3.01%	3.12%	3.04%	2.41%
	5%	3.40%	4.18%	3.45%	3.76%	3.90%	3.80%	3.01%
	6%	4.08%	5.02%	4.14%	4.51%	4.68%	4.56%	3.61%
	7%	4.76%	5.86%	4.83%	5.26%	5.46%	5.32%	4.22%
	8%	5.44%	6.69%	5.52%	6.01%	6.24%	6.07%	4.82%
	9%	6.12%	7.53%	6.21%	6.77%	7.02%	6.83%	5.42%
	11%	7.48%	9.20%	7.59%	8.27%	8.58%	8.35%	6.63%
12%	8.16%	10.04%	8.28%	9.02%	9.36%	9.11%	7.23%	

Source: EBSL Research based on the latest available audited financials of the respective steel manufactures (FY2018 for APOLOISPAT & SALAMCRST and others are based on FY2019 reports). *BSRMLTD is based on solo reporting

Change in NPAT if product price not adjusted & other things remain constant								
Change in RM Price	Scenarios	RSRMSTEEL	SALAMCRST	APOLOISPAT	BSRMSTEEL	SSSTEEL	GPHISPAT	BSRM LTD*
	1.0%	-8.7%	-23.8%	-122.7%	-20.0%	-6.7%	-11.5%	-9.7%
	2.0%	-17.4%	-47.6%	-245.4%	-40.0%	-13.4%	-23.0%	-19.4%
	3.0%	-26.1%	-71.4%	-368.0%	-59.9%	-20.1%	-34.5%	-29.1%
	4.0%	-34.8%	-95.2%	-490.7%	-79.9%	-26.8%	-46.0%	-38.8%
	5.0%	-43.5%	-119.0%	-613.4%	-99.9%	-33.5%	-57.5%	-48.5%
	6.0%	-52.2%	-142.8%	-736.1%	-119.9%	-40.2%	-69.0%	-58.1%
	7.0%	-60.9%	-166.6%	-858.8%	-139.8%	-46.9%	-80.5%	-67.8%
	7.5%	-65.2%	-178.5%	-920.1%	-149.8%	-50.2%	-86.2%	-72.7%
	9.0%	-78.2%	-214.2%	-1104.1%	-179.8%	-60.3%	-103.4%	-87.2%

Source: EBSL Research based on the audited financials of the respective steel manufactures for FY2018. *BSRMLTD is based on solo reporting

For a 1% change in raw-material cost, it has been revealed that APOLOISPAT will turn into a loss making concern while most of the other companies will experience double digit de-growth in the bottom-line. So, price of raw-materials is an important consideration for assessing profitability of the steel manufacturing companies. Impact of fuel & power price change would be minimal for the steel manufacturers. Our research on listed steel manufactures reveals that a 5% increase in both gas and electricity price would lessen the gross profit of the manufactures by 0.08-0.30%.

		BSRMSTEEL												
		Change in Gas Price												
		0.2%	0.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%
Change in Power Cost	0.0%	0.00%	0.01%	0.01%	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%	0.03%	0.04%	
	2.0%	0.07%	0.08%	0.08%	0.08%	0.09%	0.09%	0.09%	0.10%	0.10%	0.10%	0.10%	0.11%	
	4.0%	0.14%	0.15%	0.15%	0.15%	0.16%	0.16%	0.16%	0.17%	0.17%	0.17%	0.18%	0.18%	
	5.0%	0.18%	0.18%	0.19%	0.19%	0.19%	0.19%	0.20%	0.20%	0.20%	0.21%	0.21%	0.21%	
	6.0%	0.21%	0.22%	0.22%	0.22%	0.23%	0.23%	0.23%	0.24%	0.24%	0.24%	0.25%	0.25%	
	7.0%	0.25%	0.25%	0.26%	0.26%	0.26%	0.26%	0.27%	0.27%	0.27%	0.28%	0.28%	0.28%	
	8.0%	0.28%	0.29%	0.29%	0.29%	0.30%	0.30%	0.30%	0.31%	0.31%	0.31%	0.32%	0.32%	
	9.0%	0.32%	0.32%	0.33%	0.33%	0.33%	0.34%	0.34%	0.34%	0.34%	0.35%	0.35%	0.35%	

Source: EBLSL Research based on audited statement of FY2018-19 of BSRM Steels Ltd.

FAVORABLE POLICY SUPPORT HAS BEEN WORKING AS A KEY CATALYST FOR MASSIVE INVESTMENT IN BILLET PRODUCING FACILITIES BY THE STEEL MANUFACTURERS

A number of factors acting as key motivators for big investment in billet manufacturing facilities by local entrepreneurs. Among them one of the key reason is to reduce the production cost of finished steel products. According to the industry insiders, domestic production of billet helped the steel manufacturers to reduce production cost by USD 158 per MT that ultimately helped to reduce retail prices of finished steel by BDT 12,000 per MT.¹²

Government's policy support, including hike in the import duty on billet has mainly encouraged local millers in setting up backward linkage facilities as domestic production of billet turned out to be cost effective. In the past financial year, import of per MT billet was subject to BDT 800 AIT (advance income tax) along with 4% advance trade VAT, 15% VAT and 20% regulatory duty. However, in latest finance bill, source tax on import of raw materials for Steel industry was reduced from BDT 800 per MT to 500 per MT. Other notable changes were, VAT on scrap sales BDT 1,750 (previously 300), Fixed VAT on Billet sales BDT 2,000 (previously 450), Fixed VAT on rod sales BDT 2,000 however was later revised to BDT 1,200 for MS product produced from local/imported scrap for re-rolling (previously 450), VAT on retail sales 3,300 (previously 200) and Imposition of 5% advance tax on raw materials at the import stage.

Due to the increase in VAT, the price of mild steel rod were expected to go up to 10,350 per MT and cross BDT 70,000 per MT, according to Steel Millers. The industry insiders have opined that, the imposition of 5% advance Tax will increase the working capital requirement by 5% which will put liquidity pressure on banks and will create possibility of more bad loans if the steel makers fail to repay the bank loan in time due to increased production cost. However, as of September 2019, the rod price hasn't reached the forecasted level. As prices of scrap materials has dropped by 8%, while sales remained shaky in the 1st quarter of FY2019-20, retail prices dropped further.

However, on October 13, NBR has reduced VAT by up to 75% to keep steel prices in control. It has fixed specific VAT on MS products and MS products made from billet/ingot and meltable scrap on BDT 500 which was BDT 1,200 and BDT 2,000

Domestic production of billet helped the steel manufacturers to reduce production cost by USD 158 per MT

¹² <https://www.thedailystar.net/business/news/bangladesh-self-sufficient-billet-production-1740427>

Bangladesh Steel Industry Review

previously. Also, it has imposed specific VAT of BDT 1,000 per MT on key raw materials of steel Ferro-manganese, Ferro-silico-manganese alloy and BDT 1,200 MT on Ferr-silicon-alloy which was a 5% rate of VAT previously. Due to changing it to specific VAT, it will reduce the cost of importing these products.

Other factors are increase in the local demand of steel mostly driven by government projects, reducing exchange rate risk, reducing adverse effect on price fluctuation in international market etc. All these factors have worked as the catalysts in the growth of local billet production. Besides, improvement in country's power generation also encouraged them to invest more as steel melting facilities require huge uninterrupted power supply.

SUM-UP

Since steel demand is derived from other sectors like construction buildings, roads, consumer durables and infrastructure, its fortune is dependent on the growth of these industries as well. However, initiation of Padma Bridge construction, acceleration of Government's big infrastructure projects under Annual Development Program (ADP) and revival of the local real-estate industry will undoubtedly boost-up the steel consumption locally. However, uneven competition from new entrants, price fall in international steel market for finished goods, dependency on imported raw-materials (iron scrap), transportation, port facilities and tariff rationalization, high interest rates are the key challenges for the development of steel industry. Besides, a structural change is being noticed in the steel industry and manual & semi manual mills are gradually being phased out by modern automated mills.

Bangladesh Steel Industry Review

STEEL INDUSTRY IN BANGLADESH CAPITAL MARKET

Seven steel manufacturing companies are listed in the capital market

Steel Industry has a phenomenal presence in the capital market of Bangladesh. There are 7 steel manufacturing company, listed in Bangladesh capital market out of which, five are specialized in the making of MS Rod, MS Bar and MS billet while other two are specialized in Cold rolled and Galvanized steel sheets/coils. Here we have presented a comparative review on the listed steel industry manufacturing companies that are specialized in MS rod and bar.

Comparative Snapshot							
	BSRMSTEEL	BSRMLTD	RSRMSTEEL	GPHISPAT	SSSTEEL	SALAMCRST	APOLOISPAT
Relative Position (As on 24 th December 2019)							
Current Price	39.6	48.9	24.1	25.2	23.3	19.1	4.1
52 Week Range	39.0-66.1	48.8-87.0	23.5-56.9	24.5-39.9	20.4-55.0	19.0-36.5	3.8-11.0
No. of Shares (in Million)	376.0	236.1	101.2	360.2	245.0	98.4	401.3
Free-Float*	110.8	139.4	53.6	181.5	165.8	52.2	320.1
EPS (annualized)	1.5	4.1	2.2	1.8	3.2	1.2	-0.2
Dividend (C/B)%	10/10	10/10	12/0	0/10	5/10	10/0	0/3
NAVPS	56.0	98.5	50.0	18.0	16.2	19.8	19.4
P/E (x)	26.1	11.9	11.0	13.7	7.3	15.9	n/a
P/B (x)	0.7	0.5	0.5	1.4	1.4	1.0	0.2
Market Share (Stand-alone)	12.2%	8.8%	1.7%	2.2%	0.8%	0.9%	0.9%

COMPANY OVERVIEW

BSRM Steels Limited (BSRMSTEEL): BSRM Steels Limited is a high grade steel manufacturing company, mainly engaged in the production and supply of “Xtreme 500W” deformed bars of reinforced steel. The company was incorporated in 2002 and commenced commercial operation in 2008.

The product portfolio of BSRM Steels Limited comprises Xtreme-500W, ASTM 706 Grade 80 and ASTM 706 Grade 60 etc. The Company’s flagship product ‘Xtreme-500W’ has contributed 63.9% in the total volume sales in 2017-18. Present Installed Capacity is 700,000 MT and capacity utilization in FY2018-19 was 108.3%.

Bangladesh Steel Re-Rolling Mills Limited (BSRMLTD): Bangladesh Steel Re-Rolling Mills Limited is the first fully automatic re-rolling mills built in the country. BSRMLTD produces a low carbon weldable quality high strength and high ductility concrete reinforcing bar. The company was incorporated in 1960 and commenced commercial operation in 1961.

The company mainly produces MS products like 60 grade and 40 grade MS bars, Angles, Channels, I-beam, Great-beam, etc. and MS billet (Raw-materials for MS Products). BSRMLTD is now operating with two different units: (i) Re-Rolling unit for M.S.Rod, Channel, Angle and (ii) Steel Melting Works unit for production of M.S. Billet. Currently, annual installed capacity of BSRMLTD is 540,000 MT for Re-Rolling Unit and 150,000 MT for Melting Unit.

The company has two subsidiaries- (1) BSRM Steel Mills Limited (44.97% ownership), (2) BSRM (Hong Kong) Limited. BSRMLTD also has an associate company namely BSRM Steels Limited (31.19% ownership). The company also has indirect control over few other companies, upon which its associate concern has controlling share. The company became listed with DSE and CSE on 27 April 2015.

Ratanpur Steel Re-Rolling Mills Limited (RSRM): Ratanpur Steel Re-Rolling Mills Limited was incorporated on 22 April 1986 & commenced its commercial production in 01 July 1986. The Company is engaged in manufacturing and selling of various graded of M.S Deformed Bar (500W /TMT, 400 W and 300W) from M.S. Billet.

GPH Ispat Limited: GPH Ispat Limited is an integrated steel manufacturing company in Bangladesh that engaged in manufacturing of M.S. Billet from Steel Scrap & M.S. Rod from M.S. Billet and marketing of the same. It was incorporated in Bangladesh as a Private Limited Company on May 17, 2006, commenced its commercial production on 21 August 2008 and got listed to DSE and CSE in 2012.

Bangladesh Steel Industry Review

S. S. Steel Limited: S. S. Steel Limited (SSSTEEL) is engaged in manufacturing and selling of 500W MS-Deformed Rod, MS-Ingot, Billet, steel for the reinforcement of concrete (Ribbed Bar). They have two different plants namely steel & rolling plant. Billets & ingots are produced in steel plant and MS Bar Rods are produced in rolling plant. SSSTEEL has three induction furnaces, one continuous casting machine (CCM) used for the production of MS-billets and one re-heating furnace & one auto re-rolling mill for producing MS-BAR rods. Corporate office of this company is located at Pragati Sarani, Dhaka and the factory is in Tongi Industrial Area, Gazipur.

Appollo Ispat Complex Ltd.: Appollo Ispat Complex Ltd is primarily engaged in the business of manufacturing & selling of Corrugated Iron (CI) Sheet of different thickness, ranging from 0.120 mm to 0.420 mm which is distributed mainly in rural & semi-urban areas of the country. The Brand of AICL is "Rani Marka".

Ownership structure: BSRMSTEEL has the highest sponsor holding while 17.06% of the shares of the BSRMLTD are hold by the foreign shareholders. It is mentionable that foreign holding of the company represents shares held by the foreign relatives of the company's sponsors/ directors. Institutional holding is high for RSRMSTEEL followed by BSRMLTD and BSRMSTEEL.

Sponsor holding is comparatively higher in steel manufacturing companies

Shareholding Structure					
	Sponsor/ Director	Govt	Institute	Foreign	Public
BSRMSTEEL	70.53%	0.00%	18.24%	0.29%	10.94%
BSRMLTD	40.94%	0.00%	19.63%	17.06%	22.37%
RSRMSTEEL	47.03%	0.00%	22.50%	0.00%	30.47%
APOLOISPAT	20.24%	0.00%	22.32%	0.56%	56.88%
GPHISPAT	49.61%	0.00%	16.19%	0.00%	34.20%
SALAMCRST	53.07%	0.00%	26.51%	0.00%	20.42%
SSSTEEL	32.33%	0.00%	29.67%	0.00%	38.00%

Source: DSE Website (Latest available data)

*Free float shares exclude sponsor and government holding. + EPS of GPH Ispat has been restated based on post right issue number of shares outstanding.

ANALYSIS ON LISTED STEEL PRODUCING COMPANIES

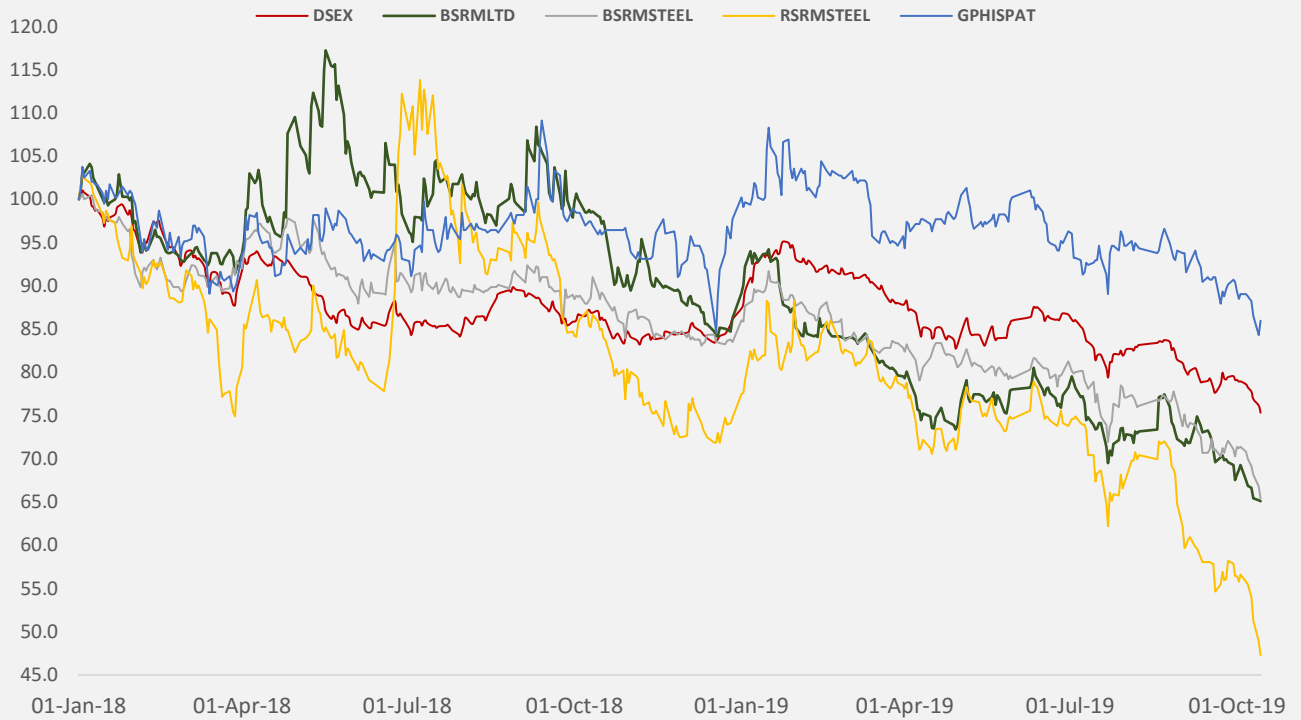
	RSRMSTEEL	SALAMCRST	APOLOISPAT	BSRMSTEEL	SSSTEEL	GPHISPAT	BSRM LTD (Consol)	BSRM LTD (Solo)
Financial Information (BDT mn):	2019	2018	2018	2019	2019	2019	2019	2019
Net Sales	6,808.7	3,806.6	3,863.8	61,060.2	4,150.6	13,268.70	83,115.3	44,408.9
Gross Profit	1,067.0	581.8	716.0	5,051.9	1,007.4	2,157.90	8,186.3	4,992.2
Operating Profit	987.9	522.4	535.0	3,369.1	796.5	1,735.00	6,655.7	3,637.9
Profit After Tax	564.4	121.5	21.4	1,728.1	519.2	806.2	2,504.4	1,860.6
Assets	7,400.0	13,837.2	12,992.4	65,808.2	7,678.3	31,493.00	91,067.2	52,553.6
Total Debt	1,673.3	1,284.1	706.1	31,819.4	2,153.3	24,012.90	43,162.5	15,277.5
Long Term Debt	849.7	1,284.1	706.1	9,067.9	325.5	16,676.40	5,009.6	3,871.5
Equity	5,006.8	2,037.7	7,867.3	20,897.2	4,489.7	6,335.40	30,508.5	23,007.4
Retained Earnings	2,301.0	491.6	1,629.5	9,196.8	1,323.6	1,597.00	7,953.1	7,953.1
Cash	47.9	30.7	123.9	914.8	518.3	281.8	784.7	761.6
Margin:								
Gross Profit	15.7%	15.3%	18.5%	8.3%	24.3%	16.3%	9.8%	11.2%
Operating Profit	14.5%	13.7%	13.8%	5.5%	19.2%	13.1%	8.0%	8.2%
Pre Tax Profit	0.6%	0.3%	0.0%	0.2%	0.7%	0.4%	0.2%	0.2%
Net Profit	8.3%	3.2%	0.6%	2.8%	12.5%	6.1%	3.0%	4.2%
Growth:								
Sales	-11.1%	55.3%	-32.4%	26.4%	15.7%	35.2%	20.6%	33.6%
Gross Profit	-16.4%	77.6%	-35.5%	3.5%	9.7%	34.7%	0.5%	3.4%
Operating Profit	-16.3%	95.3%	-42.5%	5.9%	13.3%	35.9%	-6.2%	-5.9%
Net Profit	-20.9%	15.3%	-95.5%	-4.0%	69.7%	20.4%	-24.0%	-33.0%
Profitability:								
ROAA	8.0%	0.9%	0.2%	3.1%	7.2%	3.0%	3.0%	4.0%
ROAE	11.8%	5.9%	0.3%	10.3%	12.6%	25.4%	10.5%	10.1%
Leverage:								
Debt Ratio	22.6%	9.3%	5.4%	48.4%	28.0%	76.2%	47.4%	29.1%
Debt-Equity	33.4%	63.0%	9.0%	152.3%	48.0%	379.0%	141.5%	66.4%

Source: Respective Company Last Audited Statements

Bangladesh Steel Industry Review

- Among the listed steel manufacturers, BSRMSTEEL has the highest production capacity. The company’s sister concern BSRMLTD holds the second largest position in terms of capacity. However, other two companies specially GPHISPAT are also undergoing major expansion project in increase their production capacity.
- As per the latest available financial results of all the four companies, Gross profit margin and Net profit margin was higher for SSSTEEL (24.3%, 12.5%), GPHISPAT (16.3%, 6.1%) and RSRMSTEEL (15.7%, 8.3%).
- Except RSRM, all the other three companies have significant interest bearing debt in their capital structure.

Rebased Performance of DSEX and Listed Steel Manufacturing Co. Price



Source: DSE & EBLSL Research

IMPORTANT DISCLOSURES

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Accumulate	: Stock is expected to provide positive inflation adjusted returns at a rate less than its required rate of return
Market weight	: Current market price of the stock reasonably reflect its fundamental value
Underweight	: Stock expected to fall by more than 10% in one year
Not Rated	: Currently the analyst does not have adequate conviction about the stock's expected total return

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