Family-owned companies avoid listing for fear of public scrutiny

Top private family-controlled companies have kept a safe distance from the capital market despite the bourses have boomed in the past two years with public offerings witnessing a bonanza.

Market capitalisation of the Dhaka Stock Exchange doubled in the past twelve months to US$32 billion while an average Initial Public Offering (IPO) fetched at least three times more than its face value. Still the bigwigs have found the capital market bitter to their taste.

Experts said lack of interest by these companies could seriously dampen the future of the country's stock market, scaring away millions of new investors many of whom have eagerly betted on new listings.

"Top companies in almost every sector of the country's economy are owned by families," said Arif Khan, deputy managing director of IDLC Finance Limited.

"Yet these families are reluctant to list their prized ventures, fearing the process will draw undue public attention and they will lose tight control of their companies. They also don't want to share profits with outsiders," he said.

According to estimates by banks, family-owned conglomerates now account for more than 70 per cent of the country's around $20 billion import business and a large parts of its $15.56 billion exports.

Since late 1990s private sector led by family-controlled conglomerates has emerged as the key driver of the economy. Bulk of the country's industrial growth comes from the entrepreneurial skills and new investment by the family-owned conglomerates.

But most of these conglomerates are flush with so much cash that they hardly need to raise money by selling stakes, said Khan, adding the groups have strong disliking for share market.

"This hardcore mentality is crimping the market. We've seen quite a few IPOs in the past few years. But barring Grameenphone and a handful of state-owned enterprises, almost all of them are small firms who have largely failed to whet the appetites of new investors," he said

"The companies that dominate the country's trade and businesses have stayed clear of the bourses," he said.

Abul Khaer, described by the bankers as the country's largest family-controlled conglomerates with turnover crossing a billion dollar, last year borrowed heavily from banks to expand its steel, cement and food business.

"The company counted around 12 per cent interest to borrow the money. Yet, it did not even think of going to the share market where raising money is cheap and lucrative", a source said.

The secretive group has companies dominating the country's fast expanding steel, cement, food and tobacco sectors. Last year, they financed the country's largest mild steel rod plant entirely from bank borrowing.

Fellow Chittagong-based conglomerate PHP considered listing of its captive power plant that supplies electricity to its steel unit, one of the country's largest corrugated iron sheet manufacturer. But the owners put it off the agenda for fear of hassles, said another source.

Other big groups such as City, Meghna, TK, Partex, Opex, Noman, Nurjahan, Mostafa, KDS, Kabir Steel and Namreen International also own a slew of sectoral champions. But they have steadfastly avoided the capital market, believing that the entry would allow unnecessary public scrutiny of their private businesses, said a banker who deals with them.

"They want to stay as secretive as possible. They don't mingle in politics or want to be fodder for public. Many of them understand the potentials of IPOs to raise funds. But they hate the hassles that are natural outcome of listing process," he added.

Khan said, "Some feel embarrassed to face the shareholders in the AGMs where they have to answer all sorts of questions ranging from transparency of accounts, to income tax, VAT, owners' health etc."

At present, only three conglomerates -- Beximco, Square Group and Basundhara -- have listed their companies with the country';s two bourses.

Experts said lack of knowledge about the share market and some rigid listing rules have also discouraged new floatations.

"Frankly speaking, I don't have clear idea about stock market," said Abdul Muktadir, the owner and managing director of Incepta Pharmaceuticals, whcih is believed to have outstripped Beximco Pharma as the country' second largest drug maker.

"I received many requests to raise fund from the capital market. But right now I don't have any plan. It's too complicated," he said.

Salahuddin Ahmed Khan, a professor of finance at Dhaka University and a former Chief Executive Officer of the DSE, says new rules by the securities regulator have made listing difficult.

Under the rules enforced since January this year, a large company with paid up capital of Tk1.50 billion and above must sell at least 15 per cent of its stake in order to raise fund from the capital market.

A company with paid-up capital between Tk 750 million and Tk 1.5 billion must offload 25 per cent of its stakes while smaller firm should float at least 40 per cent.

"These new IPO rules are rigid and not beneficial for the market." Khan said.

"Financing for expansion of business should be entirely the matter of the firms not the regulator. Offering undue proportion of equity to the market might have adverse impact on a company's earnings," he said.

The ex-DSE chief said mindset of some families, especially the new generation who have graduated from top business schools, is changing with many finding listing more attractive to bank borrowing.

"Many have realised that going public is more beneficial as it raises the company's reputation and presents attractive opportunities to finance growth. It generates additional capital for growth without piling up debt," he said.

He stressed a massive awareness campaign by the regulator and the stock markets to woo the family-owned companies.

"There is clearly a need to educate local entrepreneurs to understand the benefits of going public."