



Construction Materials Industry



BIDA
Your dream investment destination

Bangladesh Investment Development Authority
www.bida.gov.bd

July 2019



Market

Bangladesh has experienced rapid urban development for decades. Dhaka, the capital city, has emerged as one of the world's fastest growing mega-cities, and other cities have also experienced similar rapid growth in the recent years.

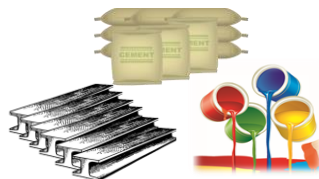
Dhaka currently needs to accommodate almost 600,000 people annually, equivalent to 120,000 household units every year, although the current supply of housing units in the city amounts to 25,000 annually.

At the same time, a number of mega-infrastructure projects are being implemented continually, because infrastructure development is among the most important preconditions for sustainable economic growth in Bangladesh. The World Bank estimates that Bangladesh must spend \$7.4 billion to \$10 billion a year until 2020 to bring its power grids, roads and water supplies to serve its growing population. Transportation sector alone would require \$36 ~ 45 billion of investment.

Accelerated Urban & Infrastructure Development



Growing Demand of Construction Materials



Infrastructure development (including large-scale megaprojects) and urbanization drive growth of both construction and real-estate sectors in Bangladesh, which has been maintaining high and steady annual growth rate (8% and 4% respectively) of sectoral gross domestic product during the last five years (Bangladesh Bureau of Statistics). Growth of these sectors thus generate a huge volume of demand for construction materials such as steel and cement products with the better quality.

Some Ongoing Megaprojects

Padma Multipurpose Bridge Project/ Padma Bridge Rail Link Project

Dhaka Mass Rapid Transit Project (Metro Rail)

Matarbari Ultra-Super Critical Coal-Fired Power Plant Project

Maitree Super Thermal Power Plant Project

Rooppur Nuclear Power Plant Project

Single Line Dual Gauge Track (Cox's Bazar to Ramuto Ghundum) Project

Payra Deep Sea Port Project

Dhaka Elevated Expressway Project/ Dhaka-Sylhet Highway Upgradation Project

Sitakunda-Cox's Bazar Marine Drive Expressway & Coastal Protection Works

Dhaka Chittagong High Speed Rail Project

* Abstracted from various sources.

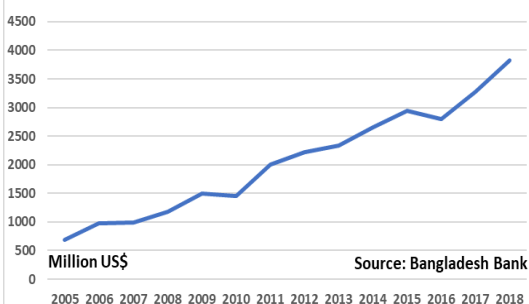


Supply-Demand Balance

Demand for construction materials in Bangladesh, steel and cement products in particular, has been rapidly expanding. Domestic markets for steel and cement rely local products as well as import. However, domestic industries of these products are yet satisfying demand sufficiently for diversified and high quality products.

Import of steel products and their raw materials has been increasing at the rate of 17% per annum on average in recent years. Bangladesh imports them, mainly from China, Japan, India, the United States, South Korea and Russia.

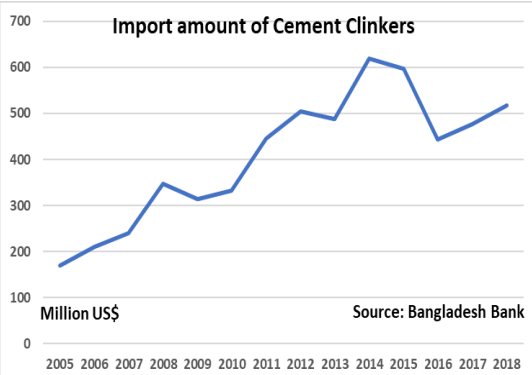
Import amount of Iron and steel products



Both markets of steel and cement products are unmet by local production

Cements and clinkers (that are main raw material for cement) has been also relying on import largely, although the domestic cement production has grown steadily. Clinker import in particular has recorded an annual increase of more than 10%. Vietnam, Indonesia and Malaysia are major sources of clinker import to Bangladesh.

Import amount of Cement Clinkers



Consumers of these products in Bangladesh can be largely grouped into two segments, private and public ones. Previously home-builders and real-estate developers accounted for the larger share, but the government's public works including megaprojects have propelled public sector to increase the share in recent years. As far as cement is concerned, individual home-builders and real estate developers currently consume about 25% and 30% of the total demand, while the public sector consumes almost 45% (Bangladesh Cement Market Report 2017).

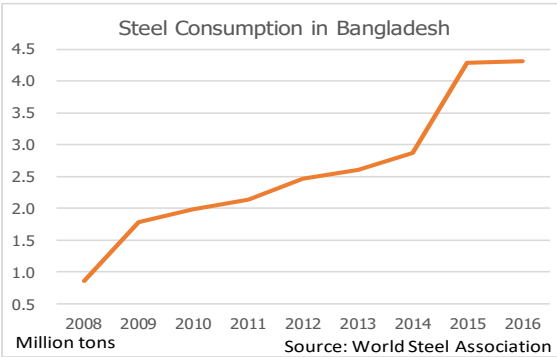


Steel Industry

Bangladesh is one of Asia's emerging steel markets and holds a growing demand for quality materials and steel-fabrication technologies. Capacity of domestic steel production is growing, and increment of demand has been propelled by government infrastructure projects which account for 40% of consumption.

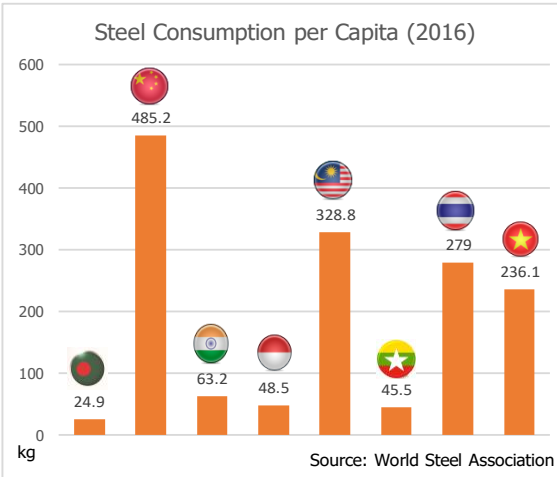
The industry consists of a number of steel re-rolling mills fabricating "long products", rebar and small shape in particular, and limited types of "flat products" such as corrugated iron roof using imported hot-coils. Most millers are small scale, but the industry can be represented by the three largest players with their market share of 50%. Steel industry has been in a structural shift where large scale re-rollers is integrating the process of electric arc furnace (production of semi-finished product, billet for long products) owing to import tariff cut on scraps.

The industry still needs to import hot-coils (semi-finished product) for fabricating flat products, since the process of hot-rolling is not established in Bangladesh. Further, particular long-products such as large shape, sheet pile for construction largely rely on import.



Hot-rolling mill is still rare, causing large import of hot-coils

Consumption has grown 5 times over the past 10 years



Steel consumption has risen steadily over the years and is estimated more than four million tons today, that is five times of the level in 2008. However, the present level of per capita consumption, if compared to the peer countries, implies the further robust growth of demand in the future.

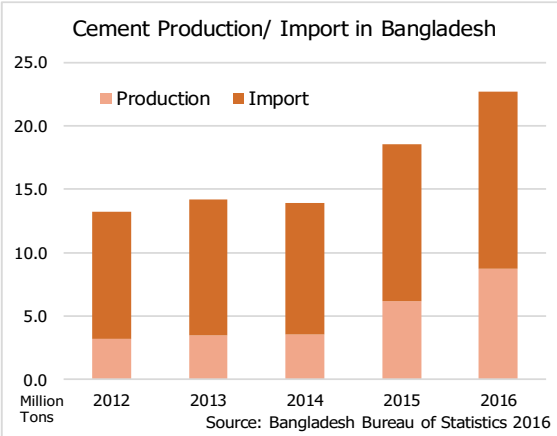


Cement Industry

Demand for cement has grown at 12% per annum over the last five years, and this growth is forecasted to persist with increased urbanization and progress of megaprojects. Size of market is estimated around 22.5 million tons in 2016. In the same year, cement industry in Bangladesh imports 14.0 million tons and has not been able to catch up with the growing demand, while facing excess in installed capacity.

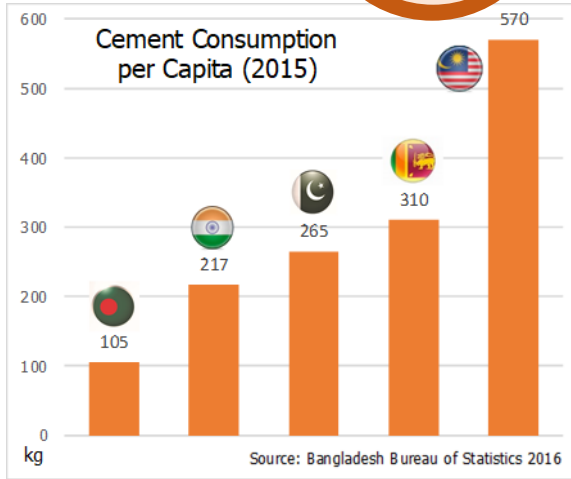
Overall public infrastructure projects account for 35% of the country's total cement consumption, while the remaining is consumed by private sector including real estate developers (Bangladesh Cement Market Report 2017). Per capita cement consumption, compared to Asian peer countries, still remains low. This also implies tremendous potential for growth in the cement industry in the long-term.

Today over 100 cement factories including small-scale ones exists, and around 30 to 35 are in operation (Bangladesh Cement Market Report 2017). The industry has experienced a consolidation over the years. Currently top 10 companies own almost 80% market share but in general face excess in installed capacity partly due to obsolete machinery.



Demand for has grown rapidly, but relying on import largely

Government sets policy to induce local production through clinker -grinding



Bangladeshi cement industry is heavily dependent on import of its main material, "clinker", and the government maintains low import duty on clinker to decrease import of cement product. In Bangladesh, Portland composite cement, requiring less clinker compared to Ordinary Portland cement, is dominant, whereas cements characterized by water-tightness and long-term strength (thus more suitable for long-lasting and large civil structures) are yet to penetrate the market.



Investment Opportunity

Substantial growth of demand for construction materials (steel and cement) is promised owing to enhanced urbanization of Bangladeshi cities and progress of the Megaprojects, implying great opportunity of investment into the industries, the following areas in particular.

Production of specific materials: construction of high-rise/ commercial buildings and large-scale infrastructure projects would inevitably demand some specific materials, for which foreign investors are expected to contribute to localized production through establishment of production facility, and partnership with local industries via joint-venture, merger & acquisition, etc.:

- Steel:** Long products such as large shapes including H-beam, angle, channel, and sheet piles
Hot-coils through hot-roller milling for fabricating various flat products
- Cement:** Products with long-term strength and water-tightness (more suitable for long-lasting and large civil structures) such as blast furnace slab cements, and tailored-products with automated control of raw material mixture for catering to special requirements

Energy-efficient production: Although both steel and cement industries are energy (electricity)-consuming, plant facilities in use at local industries are generally not energy efficient, thus indicating high needs for improving energy efficiency. Foreign manufactures are expected to contribute to making local production more energy-efficient by introducing modern plant facilities and energy-saving technology (for instance, clinker-grinding in case of cement product), through partnership with local industries via joint-venture, merger & acquisition, etc.

In December 2018, one of the large-scale cement producers in Bangladesh announced to introduce a modern vertical roller mill (VRM) that is supplied by an foreign manufacturer. In addition to the VRM, the foreign manufacturer will provide process and layout engineering through the site advisory service.





National Industry Policy 2016

The National Industry Policy 2016 sets the following three goals; i) to improve socio-economic condition of Bangladesh through concerted efforts of public-private initiative for rapid industrialization and employment generation; ii) to raise contribution of industry to GDP from 29% to 35% by 2021; and iii) to ensure accomplishing inclusive growth by increasing quality employment generation through industrialization. In the National Industry Policy, cement industry is designated as one of the priority sectors for industrial promotion.

Sector-specific Investment Incentive and Restriction

Incentive:	No sector-specific regime is available yet (as of March 2019), but general regime is applicable as specified in the last page.
Restriction:	No specific restriction exist upon the entry of foreign investors.

Major Players in Bangladesh

Steel industry: There are three major players of steel production in Bangladesh, namely, Abul Kahir Steel (AKS), Bangladesh Steel Re-Rolling Mills (BSRM), Kabir Steel Re-Rolling Mills (KSRM). Their main products are rebar with processing scrap for billet. Recently, a Japanese steel trader announced to enter joint-venture with one of the local fabricators of construction material to meet anticipated demand of specific-typed steel products, and establish the plant in one of the economic zones under development.

Cement industry: Three large scale cement producers in terms of installed production capacity are named including Shah, Bashundhara, Seven Rings. These are producing Grey (Ordinary) Portland type exclusively. Foreign capitals have been also active in the industry such as LafargeHolcim and Heidelberg, having a comparative advantage in catering for specific recipe of cement (composite cement) according to respective needs of user. A Saudi Arabian company has recently signed a partnership agreement with a local company to build new cement plant.

Industry Associations

Bangladesh Steel Manufactures Association (BSMA)

Bangladesh Auto Re-rolling and Steel Mills Association (BARSMA)

Bangladesh Cement Manufacturers Association (BCMA)

Bangladesh Investment Development Authority

"BIDA is Your Gateway to Investment in Bangladesh"



BIDA undertakes the functions of investment promotion and facilitation, and policy advocacy in accordance to the Industry Policy and provides inquiry/ consultation/ licensing facilitation services to the investors outside the jurisdiction of other investment authorities (BEZA, BEPZA, High-tech Park Authority). Those investors registering with BIDA for their investment projects are able to benefit from the following key incentives and privileges:

Category	Notes
Tax holiday	<ul style="list-style-type: none"> - Phased Corporate Income Tax (CIT) exemption for 26 designated sectors/ products (effective since July 2019), depending on location of factories - Phased CIT exemption for private IPPs (which construct powerhouse after June 2016) and full CIT/ capital gain tax exemption for PPP projects - Full CIT exemption for ICT/ software industry
Tax rebate	Applicable for manufacturing industries of which factories i) are located, ii) move, iii) have already operated, outside Dhaka City
Import duty exemption	<ul style="list-style-type: none"> - On capital machinery/ spares - VAT exemption for imported capital machinery/ spares
Other tax exemption	<ul style="list-style-type: none"> - On interest payable on foreign loans - On royalty/ technical license fees obtained from foreign company/ expert - On personal income tax for foreign technician - One capital gain from the transfer of shares of listed public companies
Non-tax incentives	- Accelerated depreciation for newly established industries in lieu of tax holiday on their factory, machinery and plant

* The above may be subject to revision upon annually enacted Finance Act and individual regulations. Export-oriented industries regardless of their locations can benefit from additional privileges and facilities.

Bangladesh Economic Zones Authority

"BEZA is a smart way for business in Bangladesh"



BAKSHI
BANGLADESH
ECONOMIC ZONES
AUTHORITY

BEZA develops and manages economic zones in view of generating more spillover effects of investment for industrialization of Bangladesh. Currently a number of economic zones are being developed throughout nation to cater for investment needs of both foreign and local investors, utilizing a variety of development schemes including BEZA's own initiative, private initiative, public-private-partnership and bilateral agreement with foreign government. The investors tenanted in economic zones are able to benefit from the following key incentives and privileges:

Fiscal incentive	<ul style="list-style-type: none"> - Phased Corporate Income Tax (CIT) exemption for 10 years - VAT exemption for imported machinery/ construction material, and utility expense - Duty exemption for imported vehicle - Duty exemption for import/ export of goods/ materials with bonded warehouse facility - Personal Income Tax exemption for expatriate salary - Tax exemption for dividend/ royalty and technical license fees, etc. - Exemption of local government tax/ land development tax - Exemption from registration fee on land transfer/ loan document, stamp duty on loan document/ lease of land and space
Non-fiscal incentive	A variety of privileges and facilities are available. (see the website of BEZA: http://www.beza.gov.bd/)

* The above may be subject to revision upon annually enacted Finance Act and individual regulations.