

IPO Note on SK Trims & Industries Limited

Key IPO Facts

IPO Size (BDT mn)	300.0
IPO Size (Shares mn)	30.0
Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	1,000.0
Pre-IPO Paid up Capital (BDT mn)	4,00.0
Post IPO Paid up Capital (BDT mn)	7,00.0
Year End	June
Sector	Engineering
Revenue Size in 2016-17 (BDT mn)	459.0
Net Profit in 2016-17 (BDT mn)	53.1
Total Assets (BDT mn)	5,91.3
Retained Earnings (BDT mn)	111.3
Latest Anlzd. Post IPO EPS (Q3-2017-18)	0.62
Latest NAV per Share-Q3-2017-18	12.21
Issue Date of Prospectus	April 12, 2018
Issue Manager:	Imperial Capital Limited & BMSL Investment Limited

Source: BASL Research and Company Prospectus

Company Overview

SK Trims & Industries Ltd., incorporated on June 01, 2014, is a 100% deemed export-oriented garments industry. The principal activities of the company are manufacturing of all kinds of Swing Thread, Elastic, Poly, Carton, Photo Card, Back Board, Bar Code, Hangtag, Tissue Paper, Gum Tape etc. for export-oriented garments industry. As the company exists in Garments Accessories & Packaging Industry which is the backward linkage industry of RMG sector, it's product line is so wide with huge variety. It supplies garment accessories to export oriented garments industry against Back to Back L/C.

Corporate Profile

Incorporation	1 st June, 2014
Commercial Operation	1 st June, 2014
Key People	Chairman MD
	Md. Tafazzal Hossain Forhad M. A. Kayum Howlader
Factory Location	Tongi, Gazipur
Subsidiary/Associate	None

Source: BASL Research and Company Prospectus

Products and Services

Name of Principal Products	Markets
Swing Thread Elastic Poly Cartoon Photo Card Back Board Bar Code Tissue Paper Gum Tape	International Market

Source: BASL Research and Company Prospectus

IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for acquisition of machinery & equipment, construction of building and other civil works and for IPO Expenses. The IPO project will be implemented within 21 months after receiving IPO fund. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Acquisition of Machinery & Equipments	127,267,972	42%
Construction of Building & other Civil Works	148,912,028	50%
IPO Expenses	23,820,000	8%
Total	300,000,000	100%

Source: BASL Research and Company Prospectus

Capacity & Utilization

The company has projected that Capacity will be increased as new plants and machineries will be introduced. Capacity utilization will be increased for new machinery installation and efficient use of machinery.

Capacity	Existing (2017)	Forecasted		
		2017-18E	2018-19E	2019-20E
Installed (M Ton)	4,300.0	5,160.0	7,482.0	7,856.0
Utilization (M Ton)	3,058.0	3,715.0	5,462.0	5,814.0
Utilization (%)	71%	72%	73%	74%

Source: BASL Research and Company Prospectus

Shareholding Structure

Share Holding:

Shareholder Type	No. of Stocks		Post IPO Holding (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	21,150,300	21,150,300	30.21%
Institutional		12,000,000	17.14%
Mutual Fund & CIS		3,000,000	4.29%
Individual	18,849,700	30,849,700	44.07%
NRBs		3,000,000	4.29%
Total	40,000,000	70,000,000	100.00%

Source: BASL Research and Company Prospectus

IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
Eligible Investors (EIs)	10% for Mutual Funds & CIS	3,000,000
	40% for Other EIs	12,000,000
General Public	10% for NRBs	3,000,000
	40% for Other Gen. Public	12,000,000
Total		30,000,000

Source: BASL Research and Company Prospectus

Lock-in Period

Share Holding Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	21,150,300	April 12, 2021
Private Placement Holders	18,849,700	April 12, 2019
	7,500,000	July 15, 2018
Institutions (Post-IPO)	3,750,000	October 12, 2018
	3,750,000	January 12, 2019
Public (Post-IPO)	15,000,000	July 15, 2018
Total	70,000,000	

* Issue of prospectus date is on April 12, 2018.

* 22,500,000 Shares will be tradable on 1st trading day.

Source: BASL Research and Company Prospectus

Industry Insights

Garments Accessories & Packaging Industry is the backward linkage industry for RMG sector. The product lines include Sewing Thread, Button, Bag, Elastic, Ribbon, Cartoon, GumTape, Tissue Paper, Tag, Labels, Polly, Photo Card, Back Board, Drawstring, Zipper and Hanger. The sector is largely dependent on textile industry. This sector has immense contribution to our economy in terms of employment and foreign exchange earnings. In the financial year 2016-17, this sector generates USD 6.70 billion. If the sector gets policy support and co-operation from government, the earning of this sector is likely to increase up to US\$ 12 billion by the end of 2018, and to US\$ 18 billion by the end of the year 2025. Total investment of this sector is about US\$ 30 billion & value addition is near about 40 percent.

The business environment of the sector is well conducive to the business as it has adequate supply of raw materials. The wage of labor is reasonable. Government policy is favorable to the sector.

The major listed peer competitors of the company are Bengal Windsor Thermoplastics Limited, KDS Accessories Limited and Olympic Accessories Limited. The turnover and market share of listed peer companies for the FY17 are described below:

Company	Turnover (mn)	Market Share (%)
KDS Accessories Ltd	1,586	36%
Olympic Accessories Ltd	1,465	33%
Bengal Windsor Thermoplastics Ltd	905	20%
SK Trims & Industries Ltd	459	10%

Source: BASL Research and Company Prospectus

Financial Information (BDT mn) and Key Ratio

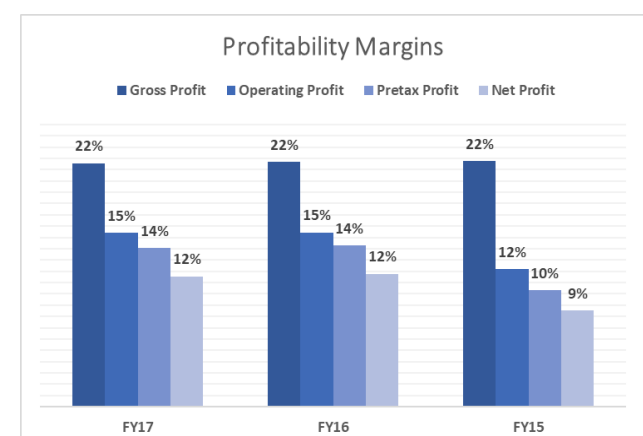
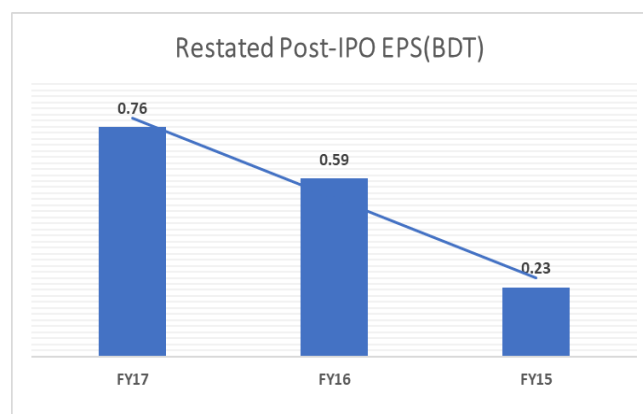


Figure (mn)

Financials	FY17	FY16	FY15
Sales	459	349	188
Operating Profit	71	54	23
Profit After Tax	53	41	16
Assets	591	286	174
Long Term Debt	0	2	2
Equity	511	63	22
Dividend (C/B)%	-	-	-

Margin Ratio

Gross Profit	22%	22%	22%
Operating Profit	15%	15%	12%
Pretax Profit	14%	14%	10%
Net Profit	12%	12%	9%

Growth (%)

Sales	31%	85%	
Gross Profit	31%	85%	
Operating Profit	31%	135%	
Net Profit	29%	157%	

Profitability Ratio

ROA	9%	14%	9%
ROE	10%	65%	72%

Debt Ratio

Debt Ratio	5%	36%	44%
Debt-Equity	6%	164%	344%
Int. Coverage	19.4	12.6	6.5

Valuation

Rstd. EPS (BDT)	0.76	0.59	0.23
Post-IPO NAVPS	7.3	0.9	0.3

Source: BASL Research and Company Prospectus

Investment Rationale

- As the life story of the company is very short, the company exist in a super natural growth stage installing new machineries to raise production capacity in the initial years.
- Seeking the further growth, the company is raising fund to increase production capacity by installing machinery & equipment, construction of building and other civil works.
- Through installation of new different types of machineries, the company has been able to produce different products as well as to create the market of new products.
- The company has no long-term debt till June 30, 2017. Therefore, there is lower debt burden for the company. The company's total debt is only 5% of it's total asset.
- The profitability margin is decent and almost same for the last three years.

Risk Factors

- Since the Company is in backward linkage of textile sector, the profit margin is slim in percentage.
- The Company was incorporated and started its commercial production on June 01, 2014. Hence, the operational history is short.
- Since the company is a backward linkage company. Hence, there is chance of having own backward linkage by the garments companies.

- The company is fully dependent on garments industry. Whereas, garments industry itself is very competitive in both local and international market.
- Any kind of change in economic recession, and entrance of new technology, changes in government monetary & industrial policy, increasing competition, power supply disruption and political unrest may affect the business of the Company

Stock Pricing based on Relative Valuation

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	19.7	16.3
Peer Forward P/E	25.6	21.1
Price to Book Value	1.2	14.9
Market Forward P/E	15.1	12.5
Latest Post-IPO NAV (Q3-2017-18)		12.2
Average Price of Peer Companies		41.9
Pricing Sensitivity		
Stock at 15x PE	15	12
Stock at 20x PE	20	17
Stock at 25x PE	25	21
Stock at 30x PE	30	25
Stock at 35x PE	35	29
Stock at 40x PE	40	33

Source: BASL Research and Company Prospectus

As per relative valuation, the fair value of SK Trims & Industries Ltd ranges from 12.5 to 21. And the last twelve months average price of peer companies is 41.9.

Income Statements (Amount in BDT mn)			
Particulars	FY17	FY16	FY15
Revenue	458,984,210	349,377,435	188,472,541
Cost of goods sold	359,928,394	273,549,030	147,401,301
Gross profit	99,055,816	75,828,405	41,071,240
Operating expenses	28,315,212	21,840,108	18,103,189
Administrative & Selling Expenses	28,315,212	21,840,108	18,103,189
Profit from Operation	70,740,604	53,988,297	22,968,051
Add: Other Income	558,103	221,491	
Less: Financial Expenses	3,651,267	4,292,821	3,546,541
Contribution to WPPF	3,221,307		
Net Profit before Tax	64,426,133	49,916,967	19,421,510
Income Tax Expenses	11,372,242	8,774,230	3,398,764
Current Tax	6,258,757	5,741,263	1,275,293
Deferred Tax	5,113,485	3,032,967	2,123,471
Net Profit after Tax	53,053,891	41,142,737	16,022,746
EPS (Post-IPO)	0.76	0.59	0.23

Source: BASL Research and Company Prospectus

Statement of Financial Position (Amount in BDT mn)			
Particulars	FY17	FY16	FY15
Assets:			
Non-Current Assets	393,529,762	146,162,700	93,792,344
Property, Plant & Equipment	393,529,762	146,162,700	93,792,344
Stock of Machineries			
Capital Work-In-Progress			
Current Assets	197,779,915	139,399,777	79,982,526
Inventories	71,618,967	58,511,290	46,611,612
Accounts Receivable	91,994,068	75,852,969	29,213,244
Advances, Deposits & Prepayment	9,359,692	4,750,777	3,582,119
Cash & Cash Equivalents	24,807,188	284,741	575,551
Total Assets	591,309,677	285,562,477	173,774,870
Shareholders Equity & Liabilities:			
Shareholders' Equity	511,485,706	63,366,767	22,117,496
Share Capital	400,000,000	5,000,000	5,000,000
Retained Earnings	111,314,124	58,260,232	17,117,496
Other Comprehensive Income/ Lo	171,582	106,535	
Liabilities:			
Non-Current Liabilities	10,413,576	100,782,285	73,136,053
Long Term Loan		152,2193	196,8928
Share Money Deposit		48,960,000	23,900,000
Vendor's Account		45,000,000	45,000,000
Deferred Tax Liability	10,413,576	5,300,092	2,267,125
Current Liabilities	69,410,395	121,413,425	78,521,321
Short Term Borrowings	31,711,550	102,703,351	74,175,779
Liabilities For Expenses	18,908,620	9,251,165	3,527,192
Liabilities For WPPF	3,221,307		
Trade and Other Payables	15,568,918	9,458,909	818,350
Total Equity & Liabilities:	591,309,677	285,562,477	173,774,870
Post-IPO Net Asset Value (NAV) p	6.0	0.7	0.3

Source: BASL Research and Company Prospectus

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