



# IPO Note on Esquire Knit Composite Limited

IPO Size: 1500 mn

Offer Price: BDT 40

DSE Ticker: ESQUIRENIT

Sector: Textile

24.4 million shares are tradable on debut trading day

## IPO Summary

IPO Size (BDT mn)	1500
IPO Size (Shares in mn)	35
Offer Price Per Share (BDT)	40
Authorized Capital (BDT mn)	2000
Pre-IPO Paid up Capital (BDT mn)	1000
Post IPO Paid up Capital (BDT mn)	1349
Year End	June
Revenue Size in 2017-18 (BDT mn)	4841
Net Profit in 2017-18 (BDT mn)	344
Total Assets (BDT mn)	7,566
Retained Earnings (BDT mn)	1,940
Annualized. Post-IPO EPS (Q2, 2018-19)	3.02
Post-IPO NAV per Share (Q2, 2018-19)	49.16
Issue Date of Prospectus	Dec 13, 2018

Issue Managers:  
Prime Finance Capital Management Limited

Source: BASL Research and Company Prospectus

## IPO utilization Plan

Particulars	BDT (mn)	As (%)
Plant & Machinery	431,396,000	29%
Building & Civil Construction	1,004,215,500	67%
IPO Expenses	64,388,500	4%
<b>Total</b>	<b>1,500,000,000</b>	<b>100%</b>

Source: BASL Research and Company Prospectus

## IPO Shareholding Composition

Category	(%)	No. of Stocks
<b>Eligible Investors (EIs)</b>	MF & EI (10%)	3,489,583
	Other EIs (40%)	17,447,917
	NRBs (10%)	3,489,583
<b>General Public</b>	Gen. Public (30%)	10,468,750
<b>Total</b>		<b>34,895,833</b>

Source: BASL Research and Company Prospectus

## Company Overview

Esquire Knit Composite Limited (EKCL) is a planned business unit of Esquire Group in Bangladesh and launched its commercial operations in 2001. EKCL mainly manufactures readymade garments through its six units namely knitting unit, Fabric dyeing unit, Printing, Embroidery, Industrial laundry and Garments under one roof. It is a 100% export oriented country that exports its principal products namely polo-shirt, T-shirt and fancy-shirt to Germany, UK, France, Norway, Denmark, Netherland, Spain, Turkey, Canada, Australia, Russia, China, and India etc. it's major buyers include C&A, Bestseller, Esprit, Mascot, Celio, Next, Tee Jays, and LIDL. Among the three products fancy shirt is the largest product category contributing 23.15% of total present revenue

## Corporate Profile

Incorporation	May 16, 2000
Commercial Operation	2001

### Chairman

Mr. Md. Mofazzal Hossain is the Chairperson of the Group and has been in business for more than 30 years. He has a long experience in managing export oriented readymade garments industry, textile dyeing industry, trading of electronics goods and many other businesses. He has successfully started journey by Esquire Electronics Ltd. in July 1989 for trading of electronics goods.

### Managing Director

Mr. Md. Ehsanul Habib is the Managing Director of Esquire Knit Composite Ltd. He is one among new generation entrepreneurs those who have nourished and successfully flourished the export oriented RMG industry of the country. After successfully completing his education in Business Administration from USA, Mr. Habib joined Esquire Group.

Factory Location	Sonargaon, Narayanganj
Subsidiary/Associate	None

Source: BASL Research and Company Prospectus

## Revenue Composition

Product & Services	Revenue Contribution
Polo Shirt	36%
Basic T-shirt	27%
Fancy Shirt	36%

Source: BASL Research and Company Prospectus

## Capacity Utilization

### Current Capacity

Product	Capacity (MT)	2014-15	2015-16	2016-17
Textile	Installed	8.0	4.0	8.0
	Utilization	5.9	2.9	5.9
	Utilization (%)	73.6%	74.3%	74.3%
Apparels	Installed	23.8	12.4	24.9
	Utilization	17.8	8.9	17.8
	Utilization (%)	71.3%	71.3%	71.3%

Source: BASL Research and Company Prospectus

## Shareholding of Sponsor & Directors (Pre-IPO)

Name of Directors and Sponsors	% held	No. of Shares
Mr. Md. Mofazzal Hossain, Chairman	28.79%	28,791,667
Mr. Md. Ehsanul Habib, Managing Director	15.03%	15,032,960
Mr. Arifur Rahman, Director	7.93%	7,925,000
Mr. Md. Muddasar Hossain, Director	7.93%	7,925,000
Mrs. Peara Begum, Director	3.68%	3,681,343
Esquire Electronics Ltd.	5.85%	5,848,010
Esquire Accessories Ltd.	1.21%	1,214,677
Esquire Dyeing Industries Ltd	29.58%	29,581,343
<b>Total</b>		<b>100,000,000</b>

Source: BASL Research and Company Prospectus

## Lock-In Free Shares & period

Type	Lock-in Shares	Lock-in Free Date
Directors/Sponsors	100,000,000	December 13, 2021
Private Placement Holders	0	December 13, 2019
	10,468,750	April 09, 2019
	5,234,375	June 13, 2019
Institutions (Post-IPO)	5,234,375	September 13, 2019
Public (Post-IPO)	13,958,333	April 09, 2019
<b>Total</b>	<b>134,895,833</b>	

\* Issue of prospectus date is on December 13, 2018.

Source: BASL Research and Company Prospectus

## Industry Insights

Bangladesh is the second largest ready-made garments (RMG) exporting country in the world next to China. The apparels account for more than 81 per cent of Bangladesh's total merchandise export. In 2017-18 Bangladesh received 83.49% of total export earnings from Readymade Garments (Woven and Knitwear). According to the data of Export Promotion Bureau (EPB), the country's overall exports grew 5.81 percent in the outgoing fiscal year 2017-18 (FY18) to \$36.67 billion from \$34.65 billion of the fiscal year 2016-17 (FY17) mainly due to the higher shipment of garment products. In FY17, the country earned \$28.15 billion by exporting garments items.

The success of the garment industry very much depends on how effectively RMG sector linkages operate backward and forward. Supporting basic textile industries such as spinning, weaving/ knitting, dyeing and finishing industries are known as backward linkage industries. So the knit sector which belongs to the backward linkages industry is a sub-sector of Bangladesh's textile and clothing industry and also one of the largest knit garments manufacturing industry in the world. The sector is producing top quality knit garments for global fast fashion brands. Like many other sub-segments of the textile and apparel industry, the knit sector in Bangladesh has been suffering from profitability crisis.

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## Financial Highlights (BDT mn)

Financials	FY15	FY16	FY17	FY18
Sales	4,385	4,426	4,454	4,841
Operating Profit	431	512	516	568
Profit After Tax	250	297	312	344
Assets	6,535	6,747	7,292	7,567
Short Term Debt	948	1,001	1,229	1,010
Long Term Debt	476	414	315	460
Equity	4,118	4,271	4,583	4,927
Dividend (C/B) %	-	-	-	-
<b>Margin Ratio (%)</b>				
Gross Profit	22%	23%	21%	21%
Operating Profit	10%	12%	12%	12%
Pretax Profit	6%	8%	9%	8%
Net Profit	6%	7%	7%	7%
<b>Growth (%)</b>				
Sales		1%	1%	9%
Gross Profit		5%	-9%	12%
Operating Profit		19%	1%	10%
Net Profit		31%	6%	7%
<b>Profitability (%)</b>				
ROA	4%	4%	4%	5%
ROE	6%	7%	7%	7%
<b>Debt Ratio</b>				
Debt Ratio	22%	21%	22%	19%
Debt-Equity	35%	34%	33%	30%
Int. Coverage	1.7	2.1	2.6	2.4
<b>Valuation</b>				
Rstd. EPS(BDT)	1.86	2.20	2.31	2.55
Post-IPO NAVPS	30.5	31.7	34.0	36.5

Source: BASL Research and Company Prospectus

## Investment Rationale

- The company is showing a stability in profitability margin over the last three years along with a topline growth of 9% sales growth, in the latest year.
- As the company has vast experience in knit composite business, it has undertaken an expansion project of BDT 5,677 million to meet up the demand. For this purpose, the company has raised fund of BDT 340 mn which is 26% of total financing and the rest of 60% and 14% will be financed through Bank loan and internal cash generated from existing business. The company is expecting to increase the production capacity of Knitting and dyeing by 12,000 MT per annum and apparel 45,000 pieces per annum.
- Debt ratio and Debt to ratio of the company is decreasing over years. In 2017-19 debt ratio of the company stood at 19% while it was 21% in 2017. Moreover, the company is also able to maintain a stable growth in ROE for the last three years.
- The main raw material of EKCL is grey yarn and dyes & chemicals. Approximately 60% of the yarn are sourced from local market and the rest 40% through import. The yarn price in local market has decreased almost 10% in 2018 which will boost up their revenue.

## Risk Factors

- The operating profit and net profit for last three years is cyclical in nature. Return on equity and asset is lower than industry average.
- Though the company has nearly 17 years of experience in the textile industry but there are some strong brand and market leader in the local industry. So, the risk of substitute product is high.
- 23.43% revenue of the company is generated from fancy shirt and 60% of raw materials are procured from Local market. The company is exporting its product mainly to European countries. If any export regulation is imposed by WTO, the business performance will fall significantly.
- Almost 40% of raw materials of the company is being imported. Scarcity or price hike of raw materials due to any political turmoil may lead to production disruption.
- 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

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	18.7	56.5
Peer Forward P/E	28.2	85.2
Price to Book Value	1.5	75.2
Market Forward P/E	15.7	47.4

  

Latest Post-IPO NAV (Q2-2018-19)	49.20
Last twelve months avg. Price of Peer Companies	52.60

  

Pricing Sensitivity at Different PE	Value
Stock at 15x PE	45
Stock at 20x PE	60
Stock at 25x PE	76
Stock at 30x PE	91
Stock at 35x PE	106
Stock at 40x PE	121

Source: BASL Research, Dhaka Stock Exchange Ltd and Company Prospectus

Note: AIL, APEXSPINN, HRTEX, HWAWELLTEX, SHEPHERD and TOSRIFA are considered as peer companies of EKCL.

As per relative valuation, the fair value of EKCL ranges from 47.4 to 85.2. And the last twelve months average price of peer companies is 52.6.

## Statement of Profit or Loss and Other Comprehensive Income

Financials	FY15	FY16	FY17	FY18
Revenue	4,385,429,090	4,426,364,400	4,453,547,322	4,841,134,840
Cost of goods sold	3,426,052,071	3,414,907,891	3,531,651,776	3,804,060,878
<b>Gross profit</b>	<b>959,377,019</b>	<b>1,011,456,509</b>	<b>921,895,546</b>	<b>1,037,073,962</b>
Operating expenses	528,759,519	499,365,014	405,838,990	468,592,261
Administrative Expenses	0	0	0	0
Selling and Distribution Expenses	0	0	0	0
<b>Operating Profit</b>	<b>430,617,500</b>	<b>512,091,495</b>	<b>516,056,556</b>	<b>568,481,701</b>
Financial Expenses	146,746,377	139,731,151	118,269,530	142,100,620
Non-Operating Income	5,694,498	5,994,498	5,484,304	5,776,336
Other Income	0	0	0	0
Loss on Sale of Property, Plant & equipment	0	0	0	0
Loss on Sale of Investment in Shares	0	0	0	0
<b>Profit Before Contribution to WPPF Fund</b>	<b>289,565,621</b>	<b>378,354,842</b>	<b>403,271,330</b>	<b>432,157,417</b>
Contribution to WPPF & Welfare Fund	0	0	0	0
Provision for loss on investment in shares	275,776,782	360,337,945	383,107,764	410,549,546
<b>Net Profit Before Tax</b>	<b>25,321,542</b>	<b>63,576,771</b>	<b>70,961,069</b>	<b>66,580,971</b>
Income tax expenses	25,321,542	63,576,771	45,972,932	33,887,944
Current Tax	0	0	24,988,137	32,693,027
Deferred Tax	250,455,240	296,761,174	312,146,695	343,968,575
<b>Net Profit after Tax</b>	<b>250,455,240</b>	<b>296,761,174</b>	<b>312,146,695</b>	<b>343,968,575</b>
Restated Earnings Per Share (EPS)	1.86	2.20	2.31	2.55

Source: BASL Research and Company Prospectus

## Statement of Financial Position

Financials	FY14	FY15	FY16	FY17
<b>Non-Current Assets</b>	3,858,199,628	3,890,057,369	3,976,048,507	4,214,057,754
Property, Plant & Equipment	3,830,543,908	3,845,169,991	3,965,173,507	4,083,466,301
Investment in Associate Progress	-	-	-	-
Capital Work-In-Progress	-	-	-	-
<b>Current Assets</b>	<b>1,382,453,410</b>	<b>1,676,344,433</b>	<b>2,583,453,025</b>	<b>3,295,768,115</b>
Inventories	906,168,301	1,002,745,810	1,327,004,447	1,322,158,531
Trade and Other Receivables	0	0	0	0
Accounts Receivable	376,185,727	575,823,571	801,075,542	1,058,198,012
Advances, Deposits & Prepayments	75,929,473	82,194,237	387,207,392	783,187,463
Loan to Sister Concern	-	-	-	-
Cash & Cash Equivalents	24,169,909	15,580,815	68,165,644	132,224,109
<b>Total Assets</b>	<b>2,620,281,888</b>	<b>2,985,385,427</b>	<b>5,022,005,101</b>	<b>6,096,070,053</b>
<b>Shareholders' Equity</b>	<b>671,012,421</b>	<b>610,368,125</b>	<b>3,149,561,318</b>	<b>3,414,579,925</b>
Share Capital	99,500,000	99,500,000	2,200,000,000	2,200,000,000
Other Comprehensive Income	-	-	-	-
Revaluation Surplus	487,681,677	409,292,496	748,162,020	736,849,102
Retained Earnings	74,713,373	92,458,258	192,281,927	468,613,452
Tax Holiday reserve	9,117,371	9,117,371	9,117,371	9,117,371
<b>Non-Current Liabilities</b>	<b>0</b>	<b>1,010,725,109</b>	<b>760,646,053</b>	<b>693,089,905</b>
Long-term loan	0	128,263,286	486,630,484	397,417,501
Share Money deposit	-	685,175,000	-	-
Deferred Tax Liability	-	197,286,823	274,015,569	295,672,404
<b>Current Liabilities</b>	<b>1,700,575,489</b>	<b>1,364,292,193</b>	<b>1,111,797,730</b>	<b>1,988,400,223</b>
Trade and Other Payables	172,117,370	193,231,459	145,685,022	321,044,699
Accrued Expense	35,884,605	64,691,619	72,005,168	99,775,105
Provision for WPPF	2,142,953	10,234,660	18,594,154	35,754,970
Short term loan	1,305,319,665	978,979,384	767,149,172	1,338,011,053
Long term loan Current Portion	171,595,525	82,048,248	31,049,766	94,862,342
Liabilities for Expenses	0	0	0	0
Provision for tax Liabilities	13,515,371	35,106,823	77,314,448	98,952,054
<b>Total Liabilities</b>	<b>1,700,575,489</b>	<b>2,375,017,302</b>	<b>1,872,443,783</b>	<b>2,681,490,128</b>
<b>Total Shareholders' Equity &amp; Liabilities:</b>	<b>2,371,587,910</b>	<b>2,985,385,427</b>	<b>5,022,005,101</b>	<b>6,096,070,053</b>

Source: BASL Research and Company Prospectus



# IPO Note on Esquire Knit Composite Limited

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## BASL Research Team

*Mr. Shariful Alam Chowdhury*  
Head of Research & Investments

*tushar@basl-bd.com, tusharbd@bloomberg.net*

*Mr. Shohidul Islam*  
Research Analyst

*shohidul@basl-bd.com, shohidulbd@bloomberg.net*

*Tanzin Naher*  
Research Associate

*tanzin.naher@basl-bd.com*

## BASL Networks

<b>Head Office</b> Hadi Mansion (7th Floor) 2, Dilkusha Commercial Area Dhaka-1000, Bangladesh Phone: +88-02-9515826-28 Fax: +88-02-9567884	<b>Modhumita Extension Office</b> 158-160 Modhumita Building (5th Floor) Motijheel C/A, Dhaka-1000 Phone: +88-01819118893	<b>Dhanmondi Branch</b> Meher Plaza (1st Floor), House # 13/A, Road # 05 Dhanmondi, Dhaka - 1207 Phone: +8802-8624874-5	<b>Mirpur Branch</b> Nishi Plaza, plot # 01, Avenue-04, Section-06, Block-C Mirpur, Dhaka - 1216 Phone: +88-02-9013841	<b>Uttara Branch</b> House # 79/A, (4th Floor), Road # 07, Sector # 04 Uttara Model Town, Dhaka-1230 Phone: +88-02-8958371
<b>Banani Branch</b> Nur Empori, Plot # 77 (1st Floor), Road No # 11, Banani, Dhaka-1213 Phone: +8801716180767	<b>Khulna Branch</b> 28, Sir Iqbal Road (1st Floor) Khulna Phone: +88-041-731208-9			

For International Trade & Sales, please contact **Mr. Sumon Das, Chief Executive Officer**. Please call at +8801993111666, +880 02 9515826, Ext:101 at Business hour.

For further query, write to us at [research@basl-bd.com](mailto:research@basl-bd.com).