

IPO Note on Indo-Bangla Pharmaceuticals Limited

Key IPO Facts

IPO Size (BDT mn)	200
IPO Size (Shares mn)	20
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	1,000
Pre-IPO Paid up Capital (BDT mn)	730
Post IPO Paid up Capital (BDT mn)	930
Year End	June
Sector	Pharmaceuticals
Revenue Size in FY17 (BDT mn)	617
Net Profit in 2016-17 (BDT mn)	49
Total Assets (BDT mn)	1,143
Retained Earnings (BDT mn)	256
Annualized. Post-IPO EPS (2017-18)	1.04
Post-IPONAV per Share (2017-18)	10.61
Issue Date of Prospectus	March 13, 2018
Issue Managers:	
AFC Capital Limited, EBL Investments Limited, CAPM Advisory Limited	

Company Overview

Indo-Bangla Pharmaceuticals limited (IBPL), incorporated in 2014 engaged in manufacturing and selling of all kinds of medicine (excluding Antibiotic), medical preparations drugs & chemicals (Human Health). The company is planning and seeking permission to expand the business by producing and selling of veterinary medicine and antibiotic as well. All the products of IBPL are categorized into Non-Biological Products and Biological Products. Major products of IBPL are Tablet, Capsule and liquid. The raw materials of the company are produced from china, India, Australia and Germany. Investment Corporation of Bangladesh (ICB) is the director of Indo-Bangla Pharmaceuticals Limited.

Corporate Profile

Incorporation	June18, 2014
Commercial Operation	June18, 2014
Key	Chairman
People	MD
Factory Location	Barisal Sadar, Barisal-8200
Subsidiary/Associate	None

Products and Services

Products	Type & Market
Tablet	Biological & Non-Biological
Capsule	
Liquid	Local Markets Only
Total	

Source: BASL Research and Company Prospectus

IPO Plan

Proceeds from Initial Public Offering (IPO) will be used for Construction and other civil works, Machineries and for IPO Expenses. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Construction and other civil works	59	29%
Machineries	125	62%
IPO Expenses	17	8%
Total	200	100%

Source: BASL Research and Company Prospectus

The IPO project will be implemented within 18 months after receiving IPO fund.

Capacity & Utilization

The company has projected that Capacity will be increased as new machineries will be introduced. The actual and projected capacity utilization is as follows:

Product	Capacity	Existing	Forecasted (mn)		
		(2015-16)	2016-17E	2017-18E	2018-19E
Tablet	Installed (lbs)	87	146	256	366
	Utilization (lbs)	58	105	192	293
	Utilization (%)	67%	72%	75%	80%
Capsule	Installed (lbs)	435	731	1,279	1,829
	Utilization (lbs)	290	526	959	1,463
	Utilization (%)	67%	72%	75%	80%
Liquid	Installed (lbs)	145	244	426	610
	Utilization (lbs)	87	175	320	488
	Utilization (%)	60%	72%	75%	80%

Source: BASL Research and Company Prospectus

Shareholding Structure

Share Holding:

Shareholder Type	No. of Stocks		Post IPO (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	47,669,000	47,669,000	49.18%
Institutional	7,720,000	15,720,000	24.85%
Mutual Funds		2,000,000	12.98%
NRBs		25,611,000	2.60%
Individual	17,611,000	2,000,000	10.39%
Total	73,000,000	93,000,000	100.00%

** Investment Corporation of Bangladesh (ICB) holds 1.5 mn shares of 16.13% shares playing as director in the board of the company.

IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
Eligible Investors (EIs)	10% for Mutual Funds & Institutions	2,000,000
	40% for Other EIs	8,000,000
General Public	10% for NRBs	2,000,000
	30% for Other Gen. Public	8,000,000
	Total	20,000,000

Source: BASL Research and Company Prospectus

Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	47,669,000	March 13, 2021
Private Placement Holders	25,331,000	March 13, 2019
	5,000,000	October 18, 2018
Institutions (Post-IPO)	2,500,000	October 18, 2018
	2,500,000	December 13, 2018
Public (Post-IPO)	10,000,000	October 18, 2018
Total	93,000,000	

**** Issue of prospectus date is on March 13, 2018.**

**** 17,500,000 Shares will be tradable on 1st trading day.**

Source: BASL Research and Company Prospectus

Industry Insights

The pharmaceutical industry is one of the most technologically advanced sectors in Bangladesh. It has grown significantly over the last five years at a considerable rate mainly due to the skills and knowledge of the professionals and innovative ideas of the people involved in this industry. According to Bangladesh Bureau of Statistics, the industry has contributed 1.85% to the GDP in 2016-17. This industry is the second largest contributor to national exchequer and is largely protected from external competition, as there is a restriction regarding import of similar drugs that is manufactured locally.

Bangladesh exported pharmaceuticals product to 107 countries in the fiscal year 2016-17. Among 107 exporting countries, top 7 countries constitute 60.32% of total pharma export. During this period, Bangladesh has exported pharmaceutical products worth USD 89.17 million as against USD 82.11 million in 2015-16. From July to October 2017-18, Bangladesh exported USD 32.1 million worth of Pharmaceuticals products. (Source: Bangladesh Export Promotion Bureau). According to IMS report July, 2017, the sector has grown from BDT 1730 mn to more than BDT 160 bn (\$2.0bn) since the promulgation of Drug Policy in 1982. Insiders of the industry estimated that by the year 2024 Bangladesh pharmaceuticals market size will be Tk. 30,300 Crore.

On the other hand, the manufacturing companies meet around 98% of local demand. Specialized products like vaccines, anti-cancer products and hormone drugs are imported to meet the remaining 2% of the demand. 80% of the drugs produced in Bangladesh are generic drugs, rest 20% are patented drugs. In recent time, the Government of Bangladesh has given huge emphasis on the export of Pharmaceutical products from Bangladesh. It is targeted that Pharmaceutical will be the second exporting product after readymade garments.

IBPL has many direct competitors in the industry. Market shares of the major competitors of IBPL are as follow with relative market shares are as follows:

Major Competitors	Market Share (mn) (June 30, 2015)	Market Share (%)
Square Pharma	21,931	18.80%
Incepta	12,356	10.20%
Beximco	10,217	8.50%
Opsonin	6,603	5.60%
Renata	5,998	5.10%
Aristopharma	5,485	4.58%
Eskayef	5,373	4.49%
ACI	4,969	4.15%
ACME	4,625	3.86%
Drug International	3,630	3.03%
Healthcare Pharma	3,663	3.06%
Novo Nordisk	2,169	1.81%
Sanofi Aventis (BD)	2,399	2.00%
General Pharma	2,420	2.02%
Popular Pharma	2,113	1.77%

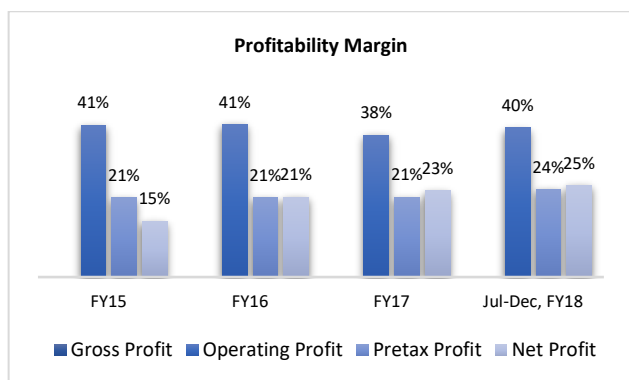
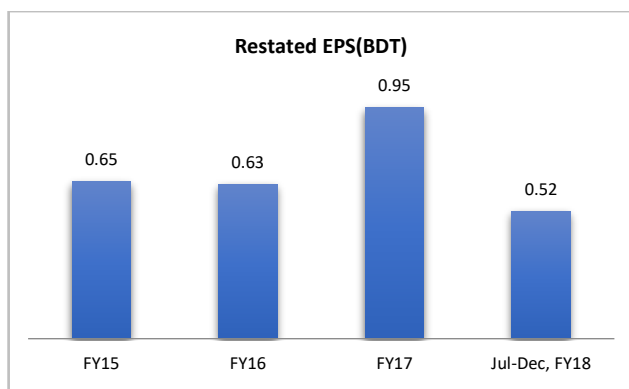
Source: BASL Research and Company Prospectus

Financial Information (BDT mn) and Key Ratio

Figure (mn)

Financials	FY15	FY16	FY17	FY18 (Jul-Dec)
Sales	435	445	617	320
Operating Profit	92	94	132	75
Profit After Tax	28	27	19	14
Assets	383	945	1,078	1,143
Long Term Debt	-	-	-	-
Short Term Debt	-	-	-	-
Equity	159	849	938	986
Dividend (C/B)%	-	-	-	-
Margin Ratio (%)				
Gross Profit	41%	41%	38%	40%
Operating Profit	21%	21%	21%	24%
Pretax Profit	15%	21%	23%	25%
Net Profit	14%	13%	14%	15%
Growth (%)				
Sales		2%	39%	-48%
Gross Profit		3%	29%	-45%
Operating Profit		2%	40%	-43%
Net Profit		-2%	50%	-45%
Profitability (%)				
ROA	16%	6%	8%	4%
ROE	38%	7%	9%	5%
Debt Ratio				
Debt Ratio	0%	0%	0%	0%
Debt-Equity	0%	0%	0%	0%
Int. Coverage	0.0	0.0	0.0	0.0
Valuation				
Rstd. Post-IPOEPS(BDT)	0.65	0.63	0.95	0.52
Rstd. Post-IPO NAVPS	1.71	9.13	10.08	10.61

Source: BASL Research and Company Prospectus



Investment Rationale

- The Company has planned to spend BDT 175 mn in machineries with the IPO proceeds, to expand the business and expects to increase the sales by 37%, 40% and 15% in FY17, FY18 and FY19 respectively.
- The company is in healthy financial position by maintaining an increasing trend in revenue and profitability. Net profit margin ratio was stable ranging 13% to 14% for the last three years.
- Debt ratio and Debt to equity ratio of the company were zero for last three years as the company had no debt in the accounts.
- Investment Corporation of Bangladesh holds directorship in the board of the company with 16.13% shares of IBPL. The representation from ICB may add value to the company.

Risk Factors

- IBPL initiated its commercial operation on 2014 and operating in this industry for a very short period of time compared to its rival. Moreover, Customer's loyalty lies in the drugs of established brands, access to distribution channel creates further barrier. This may create a significant barrier to grab a market share in the industry.

- The pharmaceuticals industry is highly concentrated. The existing companies are competing with each other intensely in order to grab market share and top players dominates the major portion of market share. Almost Every company has the same medicine in different brands. Consumer can easily switch one brand to another brand.
- The High Court had stayed the IPO process of IBPL following this writ petition filed against the directors of the company by NBL over non-payment of loans disbursed by the bank to Indo Bangla Pharmaceuticals Works, the previous name of the company. Following the CIB clearance of the accused Managing Director of the Company the company was allowed to resume IPO process with the withdrawal of stay order by High court.
- Any kind of change in economic recession, and entrance of new technology, changes in government monetary & industrial policy, increasing competition, power supply disruption may affect the business of the Company.

Relative Valuation	PE Multiple	Fair Value
Industry Forward P/E	17.7	18.4
Peer Forward P/E	22.9	23.8
Price to Book Value	1.5	15.6
Market Forward P/E	15.5	16.1
Latest Post-IPO NAV (2017-18)		10.6

Pricing Sensitivity at Different PE	Value
Stock at 15x PE	16
Stock at 20x PE	21
Stock at 25x PE	26
Stock at 30x PE	31
Stock at 35x PE	36
Stock at 40x PE	42

Stock Pricing based on Relative Valuation

Source: BASL Research, Dhaka Stock Exchange Ltd and Company Prospectus
 Note: Aci, Acmelab, Bxpharma, Beaconphar, Ambeepha, Centralphl, Ibsinsa, Orionpharm, Renata, Saurpharma are selected as peer company of IBPL

As per relative valuation, the fair value of IBPL ranges from 15.6 to 23.8.

Income Statements (Amount in BDT mn)				
Particulars	FY15	FY16	FY17	Jul-Dec, FY17
Revenue	435,024,108	444,777,724	616,711,210	320,331,242
Cost of goods sold	257,883,659	262,528,992	381,800,293	191,917,403
Gross profit	177,140,449	182,248,732	234,910,917	128,413,839
Operating expenses	84,720,465	87,751,623	102,688,317	52,998,914
Administrative Expenses	22,007,014	23,381,246	29,841,047	16,881,440
Selling and Distribution Expenses	62,713,451	64,370,377	72,847,270	36,117,474
Operating Profit	92,419,984	94,497,109	132,222,600	75,414,925
Non Operating Income	209,658	850,491	10,533,254	3,276,437
Other Income	0	0	0	
Financial Expenses	0	0	0	
Profit Before Contribution to WPPF & Welfare Fund	92,629,642	95,347,600	142,755,854	78,691,362
Contribution to WPPF & Welfare Fund	0	4,540,362	6,797,898	3,747,208
Net Profit Before Tax	92,629,642	90,807,238	135,957,956	74,944,154
Income tax expenses	32,420,375	31,782,533	47,585,285	26,230,453
Current Tax	28,397,581	26,522,010	18,688,411	13,761,594
Deffered Tax	4,022,794	5,260,523	28,896,874.00	12,468,859
Net Profit after Tax	60,209,267	59,024,705	88,372,671	48,713,701
Earnings Per Share (EPS)	1.58	2.62	1.21	0.67
Earnings Per Share (Post IPO - EPS)	0.65	0.63	0.95	0.52

Statement of Financial Position (Amount in BDT mn)				
Particulars	FY15	FY16	FY17	Jul-Dec, FY17
Assets:				
Non-Current Assets	158,274,850	330,469,857	536,553,973	594,480,671
Property, Plant & Equipment	147,873,513	211,400,486	536,553,973	588,934,751
Investment in Associate Progress	10,401,337	119,069,371	-	
Capital Work-In-Progress	-	-	-	5,545,920
Current Assets	224,744,682	614,908,956	541,115,957	548,622,816
Inventories	142,164,099	156,521,360	151,056,806	158,790,095
Trade and Other Receivables	41,438,482	112,266,319	163,857,128	182,581,765
Advances, Deposits & Prepayments	35,253,978	105,325,972	109,389,792	115,549,486
Loan to Sister Concern	-	-	-	
Cash & Cash Equivalents	5,888,123	240,795,305	116,812,231	91,701,470
Total Assets	383,019,532	945,378,813	1,077,669,930	1,143,103,487
Shareholders Equity & Liabilities:				
Shareholders' Equity	159,209,267	849,233,972	937,606,643	986,320,344
Share Capital	99,000,000	730,000,000	730,000,000	730,000,000
Retained Earnings	60,209,267	119,233,972	207,606,643	256,320,344
Liabilities:				
Non-Current Liabilities	4,022,794	13,823,679	38,180,191	50,649,051
Provision for WPPF	-	4,540,362	-	
Long Term Loan				
Deffered Tax Liability	4,022,794	9,283,317	38,180,191	50,649,051
Current Liabilities	219,787,471	82,321,162	101,883,096	106,134,092
Short Term Loan				
Trade and Other Payables	11,874,860	15,911,787	16,677,674	10,253,848
Vendors payable account	171,837,213	-	-	
Provision for WPPF	-		6,797,898	3,747,208
Liabilities for Expenses	7,704,817	11,489,784	4,799,522	4,763,441
Provision for Income tax	28,370,581	54,919,591	73,608,002	87,369,595
Total Liabilities:	223,810,265	96,144,841	140,063,287	156,783,143
Total Shareholders' Equity & Liabilities:	383,019,532	945,378,813	1,077,669,930	1,143,103,487

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