

IPO Note on Silva Pharmaceuticals Limited

Key IPO Facts

IPO Size (BDT mn)	300
IPO Size (Shares mn)	30
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	1,500
Pre-IPO Paid up Capital (BDT mn)	1,000
Post IPO Paid up Capital (BDT mn)	1,300
Year End	June
Sector	Pharmaceuticals
Revenue Size in 2016-17 (BDT mn)	602
Net Profit in 2016-17 (BDT mn)	80
Total Assets (BDT mn)	1,941
Retained Earnings (BDT mn)	648
Annualized. Post-IPO EPS (2017-18)	0.72
Post-IPO NAV per Share (2017-18)	15.47
Issue Date of Prospectus	July 02, 2018
Issue Managers:	
Prime Finance Capital Management Limited, SBL Capital Management Limited & Imperial Capital Limited.	

Company Overview

Silva Pharmaceuticals (SILVAPHL), incorporated in 2001, has earned a reputation as a successful medicine manufacturer over the last few years. The company is engaged in manufacturing and marketing of pharmaceuticals finished products like vitamins, minerals and drugs including antibiotics, anti-inflammatory and antihistamines for local markets. The company has yearly production capacity of 198 mn pieces, 52 mn pices, 1.8 mn pieces and 0.22 mn pices for tablet, capsule, liquid and dry syrup respectively.

Corporate Profile

Incorporation	April 24, 2001
Commercial Operation	July 01, 2003
Key	Chairman
	Mrs. Silvana Mirza
People	MD
	Dr. Saira Khan
Factory Location	Joykrishnapur & Binodpur Maijdee Court, Noakhali
Subsidiary/Associate	None

Products and Services

Revenue Breakdown (2016-17)	Sales (BDT,mn)	As (%)
Tablet	350	58.2%
Capsule	190	31.5%
Liquid	49	8.1%
Dry Syrup	14	2.3%
Total	602	100%

Source: BASL Research and Company Prospectus

IPO Plan

Proceeds from Initial Public Offering (IPO) will be used for acquisition of Machinery & Equipment, Construction and other civil works, loan pay off and for IPO Expenses. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Construction & Civil Works of Factory	56,000,000	19%
Acquisition of Machinery & Equipment	122,500,000	41%
Loan Repayment	99,000,000	33%
IPO Expenses	22,500,000	8%
Total	300,000,000	100%

Source: BASL Research and Company Prospectus

The IPO project will be implemented within 21 months after receiving IPO fund.

Capacity & Utilization

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

Product	Capacity	Existing (mn)	Forecasted (mn)		
		(2016-17)	2017-18E	2018-19E	2019-20E
Tablet	Installed (lbs)	198.00	213.84	245.92	270.51
	Utilization (mn)	119.09	151.83	181.98	205.59
	Utilization (%)	60.15%	71.00%	74.00%	76.00%
Capsule	Installed (lbs)	52	56.16	64.58	71.04
	Utilization (mn)	31.84	39.87	47.79	53.99
	Utilization (%)	61%	70.99%	74.00%	76.00%
Liquid	Installed (lbs)	1.8	1.94	2.24	2.46
	Utilization (lbs)	1.26	1.38	1.65	1.87
	Utilization (%)	69.83%	71.13%	73.66%	76.02%
Dry Syrup	Installed (lbs)	0.22	0.24	0.27	0.3
	Utilization (lbs)	0.18	0.17	0.2	0.23
	Utilization (%)	81.18%	71%	74%	77%

Source: BASL Research and Company Prospectus

Shareholding Structure

Share Holding:

Shareholder Type	No. of Stocks		Post IPO (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	69,540,000	69,540,000	49.18%
Institutional	5,000,000	17,000,000	24.85%
Mutual Funds and CIS		3,000,000	12.98%
NRBs		3,000,000	2.60%
Individual	25,460,000	37,460,000	10.39%
Total	100,000,000	130,000,000	100.00%

** Investment Corporation of Bangladesh (ICB) holds 30 mn shares of 23.08% 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	3,000,000
	40% for Other EIs	12,000,000
General Public	10% for NRBs	3,000,000
	30% for Other Gen. Public	12,000,000

Source: BASL Research and Company Prospectus

Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	69,540,000	July 02, 2021
Private Placement Holders	30,460,000	July 02, 2019
Institutions (Post-IPO)	7,500,000	October 10, 2018
	3,750,000	January 02, 2019
	3,750,000	April 02, 2019
Public (Post-IPO)	15,000,000	October 10, 2018
Total	130,000,000	

**** Issue of prospectus date is on July 02, 2018.**

**** 22,500,000 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 (\$2.0 bn) 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.

Silva Pharma has many direct competitors. Market shares of the major competitors of Silva Pharmaceutical Limited 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%

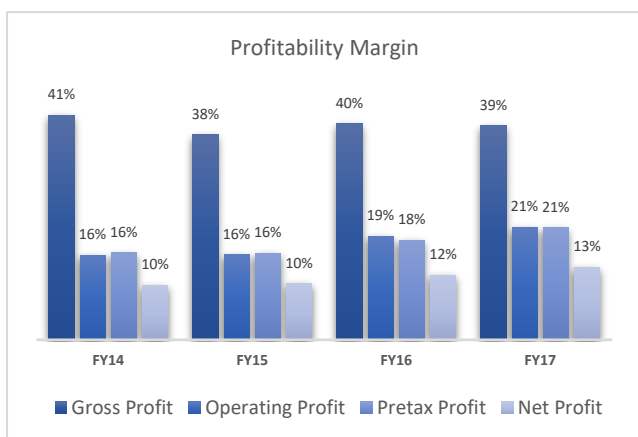
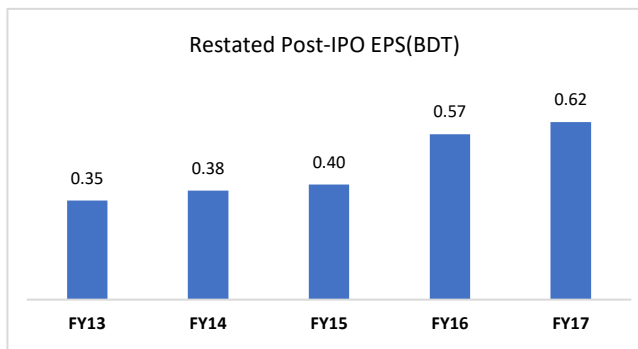
Source: BASL Research and Company Prospectus

Financial Information (BDT mn) and Key Ratio

Figure (mn)

Financials	FY14	FY15	FY16	FY17
Sales	494	504	629	602
Operating Profit	77	79	120	124
Profit After Tax	49	52	75	80
Assets	1,115	1,234	1,639	1,941
Long Term Debt	128	111	97	-
Short Term Debt	167	132	115	99
Equity	686	849	1,239	1,648
Dividend (C/B)%	-	-	-	-
Margin Ratio (%)				
Gross Profit	41%	38%	40%	39%
Operating Profit	16%	16%	19%	21%
Pretax Profit	16%	16%	18%	21%
Net Profit	10%	10%	12%	13%
Growth (%)				
Sales	25%	2%	25%	-4%
Gross Profit	10%	-7%	31%	-5%
Operating Profit	11%	3%	52%	4%
Net Profit	10%	5%	44%	7%
Profitability (%)				
ROA	4%	4%	5%	4%
ROE	7%	6%	6%	5%
Debt Ratio				
Debt Ratio	27%	20%	13%	5%
Debt-Equity	43%	29%	17%	6%
Int. Coverage	2.2	2.8	4.3	351.5
Valuation				
Rstd. Post-IPOEPS (BDT)	0.38	0.40	0.57	0.62
Rstd. Post-IPO NAVPS	5.3	6.5	9.5	12.7

Source: BASL Research and Company Prospectus



Investment Rationale

- As per prospectus, the company will increase production capacity by 8% in FY2018, 15% in FY2019 and 10% in FY2020 respectively by installing new machineries with the IPO fund. Thus, revenue of the company may increase in coming years with the increasing market share in the industry. With the capacity enhancement, revenue will be increased by 23.40% in FY2018, 26% in FY2019 and 12% in FY2020 respectively.
- The company is in healthy financial position by maintaining an increasing trend in revenue and profitability. Net profit margin ratio was stable ranging 10 to 12% for the last four years.
- Debt ratio and Debt to equity ratio of the company were decreasing over years. And in 2016-17, the debt equity ratio decreased to 6% from 43% in 2013-14.
- The company will pay Tk. 99.00 mn from IPO proceeds to repay the current portion of long-term loan. The loan Repayment will decrease financial cost substantially.
- Investment Corporation of Bangladesh holds directorship in the board of the company with 23.08% shares of SILVAPHL. The representation from ICB may add value to the company.

Risk Factors

- The retail consumer of pharmaceuticals product often switches from one brand to another. Moreover, the pharmaceuticals market is highly concentrated. Top 20 players dominate the major portion of the market. There are many substitute brands of single medicine. Thus, the threat of substitute product is very high.
- SILVAPHL imports raw materials from overseas market and its customers are local customers. Because of importing

raw materials, the company is exposed to Exchange Rate Risk.

- Industry risk factors may affect the company such as labor, demand of the product, government policy to the sector and competitor's rivalry.
- 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.

Stock Pricing based on Relative Valuation

Relative Valuation	PE Multiple	Fair Value
Industry Forward P/E	17.6	12.7
Peer Forward P/E	22.8	16.4
Price to Book Value	1.5	22.7
Market Forward P/E	15.5	11.1
Latest Post-IPO NAV (2017-18)		15.5
Last twelve months average Price of Peer Companies		195.5

Pricing Sensitivity at Different PE	Value
Stock at 15x PE	11
Stock at 20x PE	14
Stock at 25x PE	18
Stock at 30x PE	22
Stock at 35x PE	25
Stock at 40x PE	29

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

Note: ACI, ACMELAB, BXPHERMA, BEACONPHAR, AMBEEPHA, CENTRALPHL, IBNSINA, ORIONPHARM, RENATA, SQRPHARMA are selected as peer company of SILVAPHL.

As per relative valuation, the fair value of SILVAPHL ranges from 11.1 to 22.7. And the last twelve months average price of peer companies is 195.5.

Income Statements (Amount in BDT mn)					
Particulars	FY13	FY14	FY15	FY16	FY17
Revenue	395,148,338	493,935,421	503,876,753	628,766,245	602,491,592
Cost of goods sold	209,246,777	290,371,563	314,252,306	379,511,010	365,775,793
Gross profit	185,901,561	203,563,858	189,624,447	249,255,235	236,715,799
Operating expenses	51,570,583	59,933,766	66,228,299	92,706,814	112,074,765
Operating Income	134,330,978	143,630,092	123,396,148	156,548,421	124,641,034
Financial Expenses	65,099,393	66,741,616	44,536,085	36,750,662	354,646
Net Operating Profit	69,231,585	76,888,476	78,860,063	119,797,759	124,286,388
Non-Operating Income	2,562,375	2,025,425	1,075,458	911,168	5,665,239
Net Profit before Contribution to WPPF	71,793,960	78,913,901	79,935,521	120,708,927	129,951,627
Provision for Contribution to Worker,s Profit Participation fund	0	0	0	5,748,044	6,188,173
Net Profit Before Income Tax	71,793,960	78,913,901	79,985,521	114,960,883	123,763,454
Income Tax Expenses	26,922,735	29,592,713	27,977,433	40,236,309	43,484,895
Current Tax	26,922,735	29,592,713	27,977,433	28,644,690	35,724,236
Deferred Tax	0	0	0	11,591,619	7,760,659
Net Profit after Tax	44,871,225	49,321,188	52,008,088	74,724,574	80,278,559
EPS	0.35	1.00	1.06	1.24	1.03
Diluted EPS (Post-IPO)	0.35	0.38	0.40	0.57	0.62

Statement of Financial Position (Amount in BDT mn)					
Particulars	FY13	FY14	FY15	FY16	FY17
Assets:					
Non-Current Assets	553,855,058	609,703,365	601,143,384	801,968,049	843,729,229
Property, Plant & Equipment	553,855,058	609,703,365	601,143,384	683,068,654	706,738,552
Security deposits	-	-	-	118,899,395	136,990,677
Capital Work-In-Progress	-	-	-	-	-
Current Assets	503,317,434	505,038,422	632,864,166	836,930,943	1,097,434,352
Inventories	208,279,749	202,270,940	277,340,119	305,335,916	369,548,334
Trade and Other Receivables	243,993,771	232,224,827	249,235,583	283,685,666	253,498,965
Accounts Receivable	-	-	-	-	-
Advances, Deposits & Prepayments	22,545,890	42,693,102	58,534,074	202,966,972	270,877,947
Investment in FDR	0	0	0	0	120,000,000
Cash & Cash Equivalents	28,498,024	27,849,553	47,754,390	44,942,389	83,509,106
Total Assets	1,057,172,492	1,114,741,787	1,234,007,550	1,638,898,992	1,941,163,581
Shareholders Equity & Liabilities:					
Shareholders' Equity	671,619,211	685,808,005	848,605,930	1,239,378,504	1,647,797,063
Share Capital	120,000,000	120,000,000	120,000,000	500,000,000	1,000,000,000
Retained Earnings	461,604,211	475,793,005	510,653,930	585,378,504	647,797,063
Revaluation Surplus	0	0	0	0	0
Share Money Deposit	90,015,000	90,015,000	217,952,000	154,000,000	0
Liabilities:					
Non-Current Liabilities	143,339,341	189,147,198	177,932,720	175,310,350	86,031,226
Long Term Loan	143,339,341	128,032,447	111,253,772	97,039,783	0
Deffered Tax Liability	0	61,114,751	66,678,948	78,270,567	86,031,226
Current Liabilities	242,213,940	239,786,584	207,468,900	224,210,138	207,335,292
Short Term Borrowings	180,621,228	167,472,037	131,967,553	114,583,174	0
Current Portion of Long term loan	13,450,312	15,306,894	16,778,675	17,377,043	99,000,000
Creditors & Accruals	0	0	0	0	0
Provision for Taxation	30,935,461	44,608,022	48,538,916	82,370,527	104,023,511
Trade and Other Payables	17,206,939	12,399,631	10,183,756	9,879,394	4,311,781
Total Liabilities	385,553,281	428,933,782	385,401,620	399,520,488	293,366,518
Total Equity & Liabilities:	1,057,172,492	1,114,741,787	1,234,007,550	1,638,898,992	1,941,163,581
Post-IPO Net Asset Value (NAV) per share	5.2	5.3	6.5	9.5	12.7

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