

## IPO Note on Kattali Textile Limited

### Key IPO Facts

IPO Size (BDT mn)	340
IPO Size (Shares mn)	34
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	900
Pre-IPO Paid up Capital (BDT mn)	550
Post IPO Paid up Capital (BDT mn)	890
Year End	June
Sector	Textile
Revenue Size in 2016-17 (BDT mn)	595
Net Profit in 2016-17 (BDT mn)	106
Total Assets (BDT mn)	1,262
Retained Earnings (BDT mn)	576
Annualized. Post-IPO EPS (2017-18)	1.20
Post-IPO NAV per Share (2017-18)	17
Issue Date of Prospectus	Aug 02, 2018
Issue Managers:	NRB Equity Management Limited

### Company Overview

Kattali Textile Limited (KTL) is a production unit of Asian Group, established in 2002 with the aim to create the world-class buyers. KTL is a 100% export oriented company and specialized in the production of Woven and Knit Tops & Bottoms. Over the years it has expanded its production facilities and now the company has the capacity of production 4,702,500 pcs a year. It has many international buyers in the North American and the European market. Wall-mart, GRAN INC (USA), Regatta Limited, Kohl's, JC Penney, Target, K-mart, Mango, Calvin Klein, At-Last, etc are the principle buyer of KTL.

#### Corporate Profile

<i>Incorporation</i>	June 26, 2002
<i>Commercial Operation</i>	March 01, 2004
<i>Key</i>	Chairman
	Nasreen Hoque
<i>People</i>	MD
	Md. Emdadul Hoque Chowdhury
<i>Factory Location</i>	North Kattali, Pahartoli, Chittagong.
<i>Subsidiary/Associate</i>	None

### Products and Services

Products	Market
Garments & Woven	100% Export Oriented (North American and the European zone)

Source: BASL Research and Company Prospectus

### IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for construction of factory building expansion unit and dormitory for employee, acquisition of new machinery for expansion unit, electric installation of transformer & generator and bank loan repayment.

The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Construction of Factory Building Expansion Unit	172,779,916	54%
Construction of Dormitory for employee	25,312,794	8%
Acquisition of New Machinery for Expansion Unit	89,787,540	28%
Electric Installation of Transformer & Generator	7,995,750	2%
Bank Loan Repayment (One Bank Limited)	25,000,000	8%
<b>Total</b>	<b>320,876,000</b>	<b>100%</b>

The IPO project will be implemented within 24 months after receiving IPO fund.

### Capacity & Utilization

The company has projected that Capacity will be increased for new machineries installation and factory building expansion through IPO Proceed:

Product	Capacity Capacity	Existing (2016-17)	Forecasted		
			2017-18E	2018-19E	2019-20E
Garments & Woven	Installed (Pcs)	404,250	415,000	570,000	570,000
	Utilization (Pcs)	351,082	570,000	481,764	497,382
	Utilization (%)	86.85%	84.16%	84.52%	87.26%

Source: BASL Research and Company Prospectus

### Shareholding Structure

#### Share Holding:

Shareholder Type	No. of Stocks		Post IPO Holding (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	26,982,327	26,982,327	30.32%
Institutional	2,223,250	15,823,250	17.78%
Mutual Fund		3,400,000	3.82%
NRBs		3,400,000	3.82%
General Public	25,794,423	39,394,423	44.26%
<b>Total</b>	<b>55,000,000</b>	<b>89,000,000</b>	<b>100.00%</b>

#### IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
<b>Eligible Investors (EIs)</b>	10% for Mutual Funds & CIS	3,400,000
	40% for Other EIs	13,600,000
<b>General Public</b>	10% for NRBs	3,400,000
	40% for Other Gen. Public	13,600,000
<b>Total</b>		<b>34,000,000</b>

Source: BASL Research and Company Prospectus

### Lock-in Period

Share Holding Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	26,982,327	August 02, 2021
Private Placement Holder:	28,017,673	August 02, 2019
	8,500,000	November 12, 2018
Institutions (Post-IPO)	4,250,000	February 02, 2019
	4,250,000	May 02, 2019
Public (Post-IPO)	17,000,000	November 12, 2018
<b>Total</b>	<b>89,000,000</b>	

\* Issue of prospectus date is on August 02, 2018.

\* 25,500,000 Shares will be tradable on 1st trading day.

## Industry Insights

The garment industry of Bangladesh is the key export division and a main source of foreign exchange for many years. Textile sector contributes more than 13% in GDP and over 86% of the export earning comes from Textiles & Textile related products. Bangladesh's garments industry can be divided into two sector-knit and woven. At present there are more than one thousand four hundred garment factories in the country.

Supporting basic textile industries such as spinning, weaving/knitting, dyeing and finishing industries are known as backward linkage industries. RMG sector and printing and packaging sector are known as forward linkage industries. Backward & Forward linkage industries provide employment for more than 5 million people where 80% are female. According to the Export Promotion Bureau (EPB), export earnings from the woven garment products have seen a 2.35% fall in the last fiscal year to \$14.39 billion. Woven garment products still dominate the garment export earnings of the country.

The woven sector has also seen negative growth in major export destinations including Germany and the US, two of the largest export destinations. New investments and technology up gradation in backward linkage to reduce import dependence should be emphasized.

KTL has many direct competitors. Name of the major competitors of KTL are as follows:

Major Competitors	Market Share (Approx.) (As per June 2017)
Zahintex Industries	17%
C& A Textile Limited	25%
Alltex Industries Limited	14%
HWA Well Textile (BD)	14%
Regent Textile Mills Ltd	13%
Rahim Textile Mills Ltd	9%

Source: Annual Report & BASL Research

## Financial Information (BDT mn) and Key Ratio

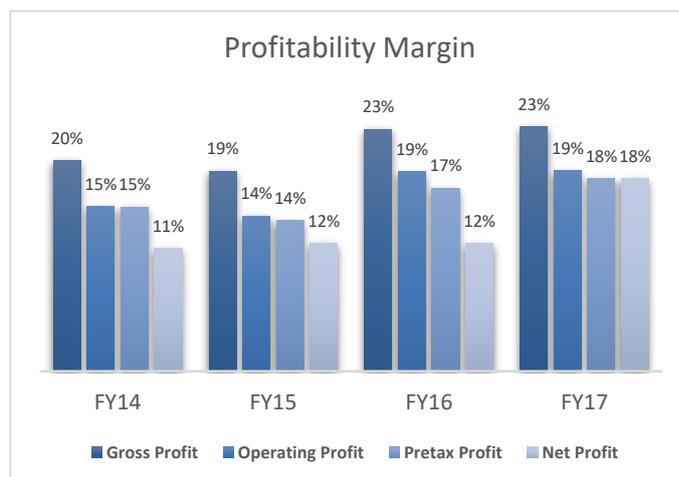
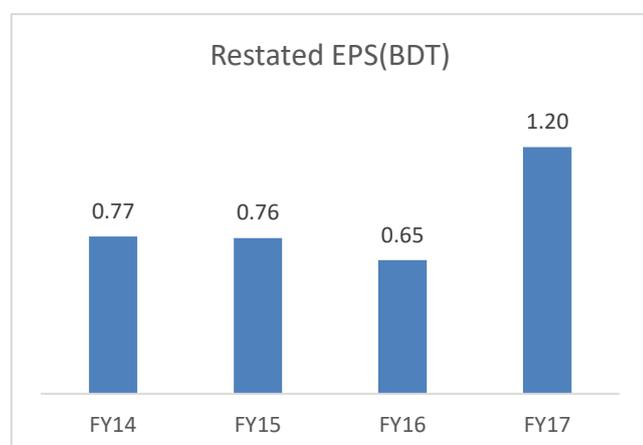


Figure (mn)

Financials	FY14	FY15	FY16	FY17
Sales	562	564	486	595
Operating Profit	86	82	90	112
Profit After Tax	68	67	58	107
Assets	830	891	1,037	1,262
Long Term Debt		2.65	2.65	2.25
Short Term Debt	189.55	168.45	145.56	59.16
Equity	390	544	1,126	1,126
Dividend (C/B) %	-	-	-	-
<b>Margin Ratio (%)</b>				
Gross Profit	20%	19%	23%	23%
Operating Profit	15%	14%	19%	19%
Pretax Profit	15%	14%	17%	18%
Net Profit	11%	12%	12%	18%
<b>Growth (%)</b>				
Sales		0%	-14%	22%
Gross Profit		-5%	4%	24%
Operating Profit		-5%	11%	23%
Net Profit		-1%	-14%	85%
<b>Profitability (%)</b>				
ROA	8%	8%	6%	8%
ROE	17%	15%	11%	9%
<b>Debt Ratio</b>				
Debt Ratio	23%	19%	14%	5%
Debt-Equity	49%	31%	13%	5%
Int. Coverage	28	18	10	19
<b>Valuation</b>				
Rstd. EPS (BDT)	0.77	0.76	0.65	1.20
Post-IPO NAVPS	4.4	5.1	6.1	12.7

Source: BASL Research and Company Prospectus

## Investment Rationale

- The company with stable financial position, having net profit margin stable to 12-18% in last four years by maintaining positive operating cash flow, strong equity base.
- The company will install new machineries and expand the factory with the IPO fund to increase the capacity by 41% after two years compared to the existing production capacity.
- The company is exempted from all types of VAT on its sales according to Govt. Gazette (General Order No. 25/VAT/2013 dated 6<sup>th</sup> June, 2013) because the company is 100% export oriented.
- Debt to equity ratio of the company is decreasing from 49% to 5% over the last four years. According to statement in 2017, debt ratio of the company was 5% against 13% in 2016. Furthermore, the company is going to repay BDT 25 mn bank loan using IPO fund which will also decrease the ratio further.
- The recessionary global outlook even though might be continued. Because of costly labor and production cost of competitive countries and trade war, Bangladesh get enjoy competitive advantage over other countries to capture more market share in near future.
- Yarn products are the basic raw material of Textiles industry in and related, Bangladesh Textiles market is considered to be more promising in coming years.

## Risk Factors

- One of the key raw materials of the company is yarn and the price of yarn in international market is increasing. The COGS of the company has increased for last quarter and it will increase in coming quarters.
- The textile industry may face vulnerability in terms of exchange rates and cotton price fluctuations; fragmented industry structure with intense competition from both local and foreign company.
- 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.
- Major textiles & apparel export destination of Bangladesh is EU. Upward local currency fluctuation as against Euro could be a big threat in terms of export remittance.

## Stock Pricing based on Relative Valuation

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

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	19.4	23.3
Peer Forward P/E	16.5	19.8
Price to Book Value	0.8	13.5
Market Forward P/E	15.3	18.3
Latest Post-IPO NAV (Q3-2017-18)		17.7
Last twelve months average Price of Peer Companies		24.6
Pricing Sensitivity at Different PE		Value
Stock at 15x PE	15	18
Stock at 20x PE	20	24
Stock at 25x PE	25	30
Stock at 30x PE	30	36
Stock at 35x PE	35	42
Stock at 40x PE	40	48

*As per relative valuation, the fair value of KTL ranges from 13.5 to 23.3. And the last twelve months average price of peer companies is 24.6.*

Income Statements (Amount in BDT mn)				
Particulars	FY14	FY15	FY16	FY17
Revenue	561,642,281	564,388,585	486,266,104	595,295,265
Cost of goods sold	451,141,557	459,020,362	376,508,354	459,349,206
<b>Gross profit</b>	<b>110,500,724</b>	<b>105,368,223</b>	<b>109,757,750</b>	<b>135,946,059</b>
<b>Operating expenses</b>	<b>24,118,222</b>	<b>23,587,108</b>	<b>19,313,534</b>	<b>24,402,563</b>
Administrative Expenses	0	0	0	0
Selling and Distribution Expenses	0	0	0	0
<b>Operating Profit</b>	<b>86,382,502</b>	<b>81,781,115</b>	<b>90,444,216</b>	<b>111,543,496</b>
Financial Expense	3,043,215	4,478,121	8,785,948	5,820,380
<b>Profit Before Non-Operating Income</b>	<b>83,339,287</b>	<b>77,302,994</b>	<b>81,658,268</b>	<b>105,723,116</b>
Non Operating Income	2,660,976	2,083,049	1,402,113	1,291,552
Other Income	0	0	0	0
Share of Profit/(Loss) of associate	0	0	0	0
<b>Profit Before Contribution to WPPF &amp; Welfare Fund</b>	<b>86,000,263</b>	<b>79,386,043</b>	<b>83,060,381</b>	<b>107,014,668</b>
Contribution to WPPF & Welfare Fund	-	-	-	-
<b>Net Profit Before Tax</b>	<b>86,000,263</b>	<b>79,386,043</b>	<b>83,060,381</b>	<b>107,014,668</b>
<b>Income tax expenses</b>	<b>17,776,503</b>	<b>11,907,906</b>	<b>25,191,255</b>	<b>128,840</b>
Current Tax	8,009,219	5,690,581	11,332,017	8,841,340
Deffered Tax	9,767,284	6,217,325	13,859,238	(8,712,500)
<b>Net Profit after Tax</b>	<b>68,223,760</b>	<b>67,478,137</b>	<b>57,869,126</b>	<b>106,885,828</b>
<b>Earnings Per Share (EPS)</b>	<b>2.73</b>	<b>2.45</b>	<b>1.99</b>	<b>2.07</b>
<b>Earnings Per Share (Restated EPS)</b>	<b>0.77</b>	<b>0.76</b>	<b>0.65</b>	<b>1.20</b>

Statement of Financial Position (Amount in BDT mn)				
Particulars	FY14	FY15	FY16	FY17
<b>Assets:</b>				
<b>Non-Current Assets</b>	<b>559,363,389</b>	<b>571,368,939</b>	<b>594,139,198</b>	<b>776,871,445</b>
Property, Plant & Equipment	559,363,389	571,368,939	568,412,333	711,455,829
Investment in Associate Progress	-	-	-	-
Capital Work-In-Progress	-	-	25,726,865	65,415,616
<b>Current Assets</b>	<b>270,586,744</b>	<b>319,308,170</b>	<b>442,827,429</b>	<b>485,151,281</b>
Inventories	92,388,247	96,685,367	137,696,337	161,083,792
Trade and Other Receivables	151,457,364	193,118,326	224,525,934	254,730,081
Accounts Receivable	-	-	-	-
Advances, Deposits & Prepayments	23,534,239	27,679,545	78,500,735	68,992,696
Loan to Sister Concern	-	-	-	-
Cash & Cash Equivalents	3,206,894	1,824,932	2,104,423	344,712
<b>Total Assets</b>	<b>829,950,133</b>	<b>890,677,109</b>	<b>1,036,966,627</b>	<b>1,262,022,726</b>
<b>Shareholders Equity &amp; Liabilities:</b>				
<b>Shareholders' Equity</b>	<b>390,219,218</b>	<b>457,697,354</b>	<b>543,501,980</b>	<b>1,126,437,056</b>
Share Capital	5,000,000	5,000,000	99,999,000	550,000,000
Other Comprehensive Income	-	-	-	-
Retained Earnings	385,219,218	452,697,354	443,502,980	576,437,056
<b>Liabilities:</b>				
<b>Non-Current Liabilities</b>	<b>223,130,839</b>	<b>232,487,730</b>	<b>306,642,267</b>	<b>33,137,855</b>
Provision for WPPF	-	-	-	-
Deffered Tax Liability	19,520,211	25,737,537	39,596,774	30,884,274
Share Money Deposit	203,610,628	203,610,628	264,393,559	-
Long-term loan(Non-Current Portion)	-	3,139,565	2,651,934	2,253,581
<b>Current Liabilities</b>	<b>216,600,077</b>	<b>200,492,025</b>	<b>186,822,380</b>	<b>102,447,815</b>
Accounts Payable	6,009,707	4,852,000	3,371,290	3,932,481
Trade and Other Payables	-	-	-	-
Long-term loan(current Portion)	0	-	396,197	398,325
Provision for WPPF	-	-	-	0
Liabilities for Expenses	21,035,624	27,194,093	37,894,874	39,357,976
Bank Overdraft	26,243,105	23,213,824	27,909,406	32,318,266
Short Term Loan	163,311,641	145,232,108	117,250,613	26,440,767
Provision for Income tax	0	0	0	0
<b>Total Liabilities:</b>	<b>439,730,916</b>	<b>432,979,755</b>	<b>493,464,647</b>	<b>135,585,670</b>
<b>Total Shareholders' Equity &amp; Liabilities:</b>	<b>829,950,134</b>	<b>890,677,109</b>	<b>1,036,966,627</b>	<b>1,262,022,726</b>

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