



IPO Note on New Line Clothings Limited

IPO Size: 300 mn

Offer Price: BDT 10

DSE Ticker: NEWLINE

Sector: Textile

22.5 million shares are tradable on debut trading day

IPO Summary

IPO Size (BDT mn)	300
IPO Size (Shares in mn)	30
Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	1000
Pre-IPO Paid up Capital (BDT mn)	399
Post IPO Paid up Capital (BDT mn)	699
Year End	June
Revenue Size in 2016-17 (BDT mn)	2,081
Net Profit in 2016-17 (BDT mn)	74
Total Assets (BDT mn)	2,728
Retained Earnings (BDT mn)	419
Ann. Post-IPO EPS (As per Q3, 2018-19)	1.12
Post-IPO NAV per Share (Q3, 2018-19)	24.23
Issue Date of Prospectus	Jan 24,2019
Issue Managers:	
	Banco Finance & Investment Limited , Sandhani Life Finance Ltd, Southeast Bank Capital Services Ltd.

Source: BASL Research and Company Prospectus

IPO utilization Plan

Particulars	BDT (mn)	As (%)
Plant & Machinery	117,682,660	39%
Extension of factory Building	76,382,990	25%
Loan Repayment	90,000,000	30%
IPO Expenses	15,934,350	5%
Total	300,000,000	100%

Source: BASL Research and Company Prospectus

IPO Shareholding Composition

Category	(%)	No. of Stocks
Eligible Investors (EIs)		
MF & EI (10%)		3,000,000
Other EIs (40%)		12,000,000
NRBs (10%)		3,000,000
General Public		
Gen. Public (40%)		12,000,000
Total		30,000,000

Source: BASL Research and Company Prospectus

Company Overview

New Line Clothing Limited (NLCL) mainly produce high quality yarn dyed woven fabric. The principal activities of the company is to manufacture various kinds of woven garments for both ladies and gents including trousers, shirts, children wear, gents wear, female wear, jackets, sportswear, denim garments and marketing. It is 100% export oriented company. It usually exports its products in Germany, Uk, Netherland, Canada, Spain, Australia Denmark Check Republic and France. Usually the company imports raw materials from China, Hong Kong and Pakistan and some are procured locally. The principal buyers are ALDI, C& A, PRIMARK, and LIDL.

Corporate Profile

Incorporation	May 23, 2000
Commercial Operation	May 01 ,2007

Chairman

Mr. Osman Khadem is the chairman of new line clothing since 2004. He has long experience in the different Export, Import and ICT related business and reputation in the textile sector of the country. Currently he is holding 12% of shares. He deals with the total financial management of the company and looks for different avenues for development as per trend of the global textile and clothing sector.

Managing Director

M Zakir Chowdhury is the Managing director and CEO of the Company. Presently he looks after the marketing, handling product inquires operations and overall management of the company. He has strong knitting and woven related product experience with over 23 years of experience in this industry, now he is holding 6% of the share of the company.

Factory Location	Gazipur
Subsidiary/Associate	None

Source: BASL Research and Company Prospectus

Product Composition

Product & Services	Market
Garment(woven)	Germany, UK, Netherland, Canada, Spain, Australia, Denmark, Check Republic and France

Source: BASL Research and Company Prospectus

Capacity Utilization

Current Capacity

Product	Capacity (MT)	2016-17
	Installed	84.0
Woven	Utilization	64.42
	Utilization (%)	76.69%

Forecasted Capacity

		2017-18	2018-19	2019-20
	Installed	96.60	115.92	133.30
Woven	Utilization	72.45	86.95	106.64
	Utilization (%)	75.00%	75.00%	80.00%

Source: BASL Research and Company Prospectus

Shareholding of Sponsor & Directors (Pre-IPO)

Name of Directors and Sponsors	% held	No. of Shares
Mr. Osman Khadem, Chairman	12.00%	47,880,000
Mr. Mashiul Haq Chy, Vice Chairman	4.00%	15,960,000
Mr. Zakir Chowdhury, Managing, Director	6.00%	23,940,000
Mr. Md. Asif Rahman, Director	6.00%	23,940,000
Mr. Maruful Haque Chowdhury, Director	6.00%	23,940,000
Mr. Mostafa Zamanul Bahar, Shareholder	9.75%	38,900,000
Mr. Md. Lutfar Rahman.	6.00%	23,940,000
Ms. Tartila Akhter Chowdhury	6.87%	27,400,000
Ms. Fatema Mahbub	6.77%	27,000,000
Sigma Technologies	20.00%	79,800,000
Total		399,000,000

Source: BASL Research and Company Prospectus

Lock-In Free Shares & period

Type	Lock-in Shares	Lock-in Free Date
Directors/Sponsors	21,546,000	May 27, 2022
Private Placement Holders	18,354,000	May 27, 2020
	7,500,000	May 27, 2019
	3,750,000	Nov 27, 2019
Institutions (Post-IPO)	3,750,000	Feb 27, 2020
Public (Post-IPO)	15,000,000	May 27, 2019
Total	69,900,000	

* Issue of prospectus date is on January 24, 2019.

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.

Woven sector belongs to the backward linkages industry which is a sub-sector of Bangladesh's textile and clothing industry. Bangladesh's woven garments are losing competitiveness on the global market mainly for longer lead time, poor backward linkage, and insufficient gas and port facilities. During the July-December period of the FY18, the woven items fetched \$1.03 billion from Germany, recording a 10.84 per cent negative growth compared to the earnings during the corresponding period of last fiscal. Because backward-linkage industry of woven segment is not capable enough to meet the woven exporters' requirement for fabrics.

Financial Highlights (BDT mn)

Financials	FY14	FY15	FY16	FY17
Sales	1978	1936	1607	2082
Operating Profit	210	151	145	152
Profit After Tax	138	51	45	74
Assets	2131	2247	2475	2729
Short Term Debt	198	484	741	981
Long Term Debt	546	362	287	225
Equity	1168	1134	1185	1262
Dividend (C/B) %	-	-	-	-
Margin Ratio (%)				
Gross Profit	14%	15%	16%	13%
Operating Profit	11%	9%	9%	7%
Pretax Profit	8%	4%	4%	4%
Net Profit	7%	3%	3%	4%
Growth (%)				
Sales		-12%	-7%	30%
Gross Profit		-10%	-1%	7%
Operating Profit		42%	-4%	4%
Net Profit		63%	10%	63%
Profitability (%)				
ROA	12%	12%	12%	11%
ROE	6%	6%	6%	5%
Debt Ratio				
Debt Ratio	35%	38%	42%	44%
Debt-Equity	64%	75%	87%	96%
Int. Coverage	2.8	0.6	0.6	0.9
Valuation				
Rstd. EPS(BDT)	1.97	0.72	0.65	1.06
Post-IPO NAVPS	16.7	16.2	17.0	18.1

Source: BASL Research and Company Prospectus



IPO Note on New Line Clothings Limited

Investment Rationale

- The company is showing an increasing trend net profit margin in the recent year along with a 30% topline growth in the latest year.
- The company is exempted from all types of VAT on its sales according to Govt. Gazette (General Order No. 25/VAT/2013 dated 6th June, 2013) because the company is 100% export oriented.
- The company will expand the factory building with the IPO fund to increase the capacity up to 80% of the existing production units. According to their projection, revenue will grow by 15%, 18% and 11% respectively in the next three years.

Risk Factors

- The company is highly levered company. with the IPO proceed it will pay 90mn or 30% of the loan. Debt ratio and Debt to ratio of the company is increasing over years. In 2016-17 debt-equity ratio of the company stood at 96% while it was 87% in 2015-16. Dependence on debt and highly leveraged causes huge interest burden of the company and it will affect the bottom line of the company.
- Though the company has started its commercial operation from 2000 and nearly 12 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 very high.
- Cotton price has increased slightly in March 2019 and stood at USD 77.58 per pound compared to USD 72.77 per pound in February 2019. But it was USD 81.58 per pound in March 2018. As cotton is the main ingredient in textile industry, the recent price hike will have impact on the revenue of the 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.

Stock Pricing

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	17.8	20.0
Peer Forward P/E	17.2	19.2
Price to Book Value	0.8	19.2
Market Forward P/E	15.6	17.5

Latest Post-IPO NAV (Q3,2018-19)	24.23
Last twelve months avg. Price of Peer Companies	24.29

Pricing Sensitivity at Different PE	Value
Stock at 15x PE	17
Stock at 20x PE	22
Stock at 25x PE	28
Stock at 30x PE	34
Stock at 35x PE	39
Stock at 40x PE	45

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

Note: GENNEXT, ENVOYTEXT, HWAWELLTEXT, HWAWELLTEX, and TOSRIFA are considered as peer companies of NLCL.

As per relative valuation, the fair value of NLCL ranges from 17.5 to 20.00. And the last twelve months average price of peer companies is 24.29.



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Statement of Profit or Loss and Other Comprehensive Income

Particulars	FY14	FY15	FY16	FY17
Revenue	1,977,858,166	1,736,270,556	1,607,460,174	2,081,794,798
Cost of goods sold	1,694,612,436	1,480,795,116	1,354,399,960	1,812,004,060
Gross profit	283,245,730	255,475,440	253,060,214	269,790,738
Operating expenses	73,540,109	104,235,222	107,610,560	118,275,793
Selling & Administrative Expenses	73,540,109	104,235,222	107,610,560	118,275,793
Operating Profit	209,705,621	151,240,218	145,449,654	151,514,945
Financial Expenses	49,484,852	78,358,953	78,464,255	79,731,833
Non-Operating Income	-910,762	0	0	0
Other Income			1,478,322	18,109,273
Profit Before Contribution to WPPF & Welfare Fund	159,310,007	72,881,265	68,463,721	89,892,385
Provision for workers' profit participation and welfare funds	7,586,191	3,470,536	3,255,415	4,280,590
Net Profit Before Tax	151,723,816	69,410,729	65,208,306	85,611,795
Income tax expenses	13,795,578	18,787,943	19,769,908	11,659,025
Current Tax	13,795,578	13,196,877	12,187,221	10,725,628
Differed Tax		5,591,066	7,582,687	933,397
Net Profit after Tax	137,928,238	50,622,786	45,438,398	73,952,770
Restated Post IPO Earnings Per Share (EPS)	1.28	0.47	0.42	0.68

Source: BASL Research and Company Prospectus

Statement of Financial Position

Financials	FY14	FY15	FY16	FY17
Non-Current Assets	881,841,030	955,382,612	983,752,910	1,063,708,332
Property, Plant & Equipment	881,841,030	955,382,612	983,752,910	1,063,708,332
Current Assets	1,248,814,231	1,291,408,186	1,491,197,589	1,665,016,350
Advances, Deposits & Prepayments	56,247,228	143,174,379	254,597,083	274,564,914
Cash & Cash Equivalents	2,073,348	2,487,551	46,738,651	95,776,786
Inventories	546,526,460	652,609,377	694,517,208	782,404,281
Deposit for BB L/C	136,092,425	-	-	-
Accounts Receivable	507,874,770	493,136,879	495,344,647	512,270,369
Total Assets	2,130,655,261	2,246,790,798	2,474,950,499	2,728,724,682
Shareholders' Equity	1,168,428,247	1,134,372,369	1,184,940,575	1,261,843,855
Share Capital	99,000,000	99,000,000	399,000,000	399,000,000
Revaluation reserve	598,301,815	485,786,156	464,866,933	443,229,856
Retained Earnings	471,126,432	549,586,213	321,073,642	419,613,999
Non-Controlling Interest	-	-	-	-
Non-Current Liabilities	546,311,756	452,764,035	379,336,335	314,769,460
long-term loan	546,311,756	362,494,307	287,341,065	224,791,304
Share Money deposit	0	0	91,995,270	89,978,156
Deferred Tax Liability	0	90,269,728	0	0
Current Liabilities	415,915,258	659,654,394	910,673,589	1,152,111,366
Current portion of long term loan	-	103,837,585	126,750,000	109,820,000
Liabilities for Expenses	6,279,033	8,835,185	15,460,653	11,618,080
Accounts Payable and Other Payables	5,633,050	3,105,032	5,595,102	1,914,563
Bank Overdraft	80,107,500	60,299,138	27,355,511	19,075,766
Short term loan	198,313,073	380,601,897	614,102,557	871,588,778
Provision for tax Liabilities	-	6,914,802	19,102,022	29,827,651
Provision for Financial Expenses	41,398,813	51,398,813	61,398,813	71398813
Provision for WPPF	14,122,036	17,592,572	20,847,988	25,128,577
deferred L/C Liabilities	70,061,753	27,069,370	20,060,943	11,739,138
Total Liabilities:	962,227,014	1,112,418,429	1,290,009,924	1,466,880,826
Total Shareholders' Equity & Liabilities	2,130,655,261	2,246,790,798	2,474,950,499	2,728,724,681

Source: BASL Research and Company Prospectus



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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

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