



IPO Note on Silco Pharmaceuticals Limited

IPO Size: 300 mn

Offer Price: BDT 10

DSE Ticker: SILCOPHL

Sector: Pharmaceuticals

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)	1050
Pre-IPO Paid up Capital (BDT mn)	643.7
Post IPO Paid up Capital (BDT mn)	943.7
Year End	June
Revenue Size in 2017-18 (BDT mn)	918
Net Profit in 2016-17 (BDT mn)	103
Total Assets (BDT mn)	2,146
Retained Earnings (BDT mn)	1,097
Annualized. Post-IPO EPS (Q3, 2018-19)	1.11
Post-IPO NAV per Share (Q3, 2018-19)	22.46
Issue Date of Prospectus	Feb 11, 2019

Issue Managers:

EBL Investment Limited , City Bank Capital Resource Ltd.
Ltd, Citizen Securities & Investment Ltd.

Source: BASL Research and Company Prospectus

IPO utilization Plan

Particulars	BDT (mn)	As (%)
construction of factory Building	114,655,552	48.22%
Import of New Machinery	97,356,000	32.45%
Purchase of Delivery Van	36,310,000	12.10%
IPO Expenses	21,678,448	7.23%
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 (30%)	12,000,000
Total		30,000,000

Source: BASL Research and Company Prospectus

Company Overview

Silco Pharmaceuticals Ltd. (SPL) is one of the fastest growing pharmaceutical companies in Bangladesh since 1997. The company started its journey with 10 products. Now, it manufactures 99 products. In each year, Silco Pharma is introducing more than 10 new products. SPL sells its product throughout the Bangladesh. The major raw materials of Silco Pharmaceuticals Limited are imported from overseas, mainly India, China, Taiwan and Denmark.

Corporate Profile

Incorporation	25 January, 1995
Commercial Operation	October 30, 2003

Chairman

Mrs. Naim Fatema is the Chairman of Silco Pharmaceuticals Ltd. She was born in a respectable Muslim family at Sylhet in 1954. Mrs. Fatema completed her BA (Hons) and MA in Sociology and started her professional career in the field of teaching profession and now she is the Head Mistress of M.C College Shisu Biddaloy, Sylhet. Mrs. Fatema is also a Director of North East Medical College.

Managing Director

Dr. Md. Badrul Haque Rukan, aged 64, is a Director and Managing Director of the company. Mr. Rukan is a prominent Child Specialist in Sylhet city; completed his MBBS, DCH from DUB, also achieved MRSC degree from London. After obtaining his MBBS Degree he engages himself in his own profession and simultaneously engages in relevant business sector and serving efficiently in medical, Pharmaceuticals industry and profession for more than 35 years. He has long experience involving in Pharmaceuticals industry with particular experience in product development and marketing.

Factory Location	Khadimnagar, Sylhet, Bangladesh
Subsidiary/Associate	None

Source: BASL Research and Company Prospectus

Product Composition

Product & Services	Market
Antibiotics, Analgesics, Anti diabetics, Narcotics, Antipyretics, Anti-inflammatory Drugs, Antiulcerants, Multi medicines	Local market

Source: BASL Research and Company Prospectus

IPO Note on Silco Pharmaceuticals Limited

Silco Pharma has many direct competitors. Market shares of the major competitors of Silca 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 Highlights (BDT mn)

Financials	FY15	FY16	FY17	FY18
Sales	851	439	907	917.78
Operating Profit	192	97	169	171
Profit After Tax	117	60	103	105
Assets	1,763	1,837	1,990	2,146
Short Term Debt	6	6	6	12
Long Term Debt	9	6	1	-
Equity	1,473	1,533	1,636	1,741
Dividend (C/B) %	-	-	-	-
Margin Ratio (%)				
Gross Profit	36%	36%	32%	32%
Operating Profit	23%	22%	19%	19%
Pretax Profit	21%	21%	17%	18%
Net Profit	14%	14%	11%	11%
Growth (%)				
Sales	5%	-48%	107%	1%
Gross Profit	43%	-50%	86%	1%
Operating Profit	90%	-49%	74%	1%
Net Profit	92%	-49%	72%	2%
Profitability (%)				
ROA	4%	4%	4%	4%
ROE	3%	3%	3%	3%
Debt Ratio				
Debt Ratio	1%	1%	0%	1%
Debt-Equity	1%	1%	0%	1%
Int. Coverage	37.1	91.1	30.7	92.5
Valuation				
Rstd. EPS(BDT)	1.24	0.63	1.09	1.12
Post-IPO NAVPS	15.6	16.2	17.3	18.4

Source: BASL Research and Company Prospectus

Lock-In Free Shares & period

Type	Lock-in Shares	Lock-in Free Date
Directors/Sponsors	37,316,700	June 13, 2022
Private Placement Holders	27,053,300	June 13, 2020
	7,500,000	June 13, 2019
	3,750,000	Dec 13, 2019
Institutions (Post-IPO)	3,750,000	March 13, 2020
Public (Post-IPO)	15,000,000	June 13, 2019
Total	94,370,000	

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.

Investment Rationale

- The company will spend BDT 144.66 mn for constructing a new factory building, BDT 97.36 mn importing new machinery and BDT 36.31 mn in purchasing delivery vans with the IPO fund to increase the capacity up to 6% of the existing production units. According to their projection, revenue will grow by 5%, 8% and 10% respectively in the next three years.
- The company is showing an increasing trend net profit margin in the recent year along with a 107% topline growth in 2017. Although, the company did not continue the progress in the latest year.
- Currently, corporate tax rate for SILCOPHL is 35% that will be reduced to 25% after listing. This reduced tax rate can increase the EPS by around 15.38% considering unchanged events.
- The Company had a small amount of term loan from Prime Bank Limited. But in January 2018, Company paid off the term loan. So, SPL has strong equity base in comparison to loan equity ratio. Moreover, in 2017, there was no loan liability of SPL and in 2018 the debt ratio and debt to equity ratio is only 1%. It indicated that, the company has minimal dependency on debt capital.

Risk Factors

- SILCOPHL's revenue growth and profitability growth in 2017-18 has dropped to 1% and net profit margin has reduced to 11.48% in 2017-18 from 13.39% in 2015-16.
- There are some strong brand and market leader in the local industry. So, the risk of substitute product is very high.
- Any kind of change in government monetary & industrial policy, power supply disruption and political unrest may affect the business of the Company.

Relative Valuation

Source: BASL Research, Dhaka Stock Exchange Ltd and Company

Type	Multiple	Fair Value
Industry Forward P/E	18.0	19.9
Peer Forward P/E	18.8	20.8
Price to Book Value	1.4	32.4
Market Forward P/E	15.0	16.6
Latest Post-IPO NAV (Q3,2018-19)		22.5
Last twelve months avg. Price of Peer Companies		24.7
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		33
Stock at 35x PE		39
Stock at 40x PE		44

Prospectus

Note: ACTIVEFINE, SILVAPHL, CENTRALPHL, IBP, and BEACONPHAR are considered as peer companies of SILCOPHL

As per relative valuation, the fair value of SILCOPHL ranges from 16.6 to 32.4. And the last twelve months average price of peer companies is 24.7.

Statement of Profit or Loss and Other Comprehensive Income

Particulars	FY15	FY16	FY17	FY18
Revenue	851,159,177	438,643,061	906,528,993	917,775,216
Cost of goods sold	541,866,123	282,588,154	615,610,189	622,542,770
Gross profit	309,293,054	156,054,907	290,918,804	295,232,446
Operating expenses	117,388,092	58,927,420	121,863,920	124,210,633
Selling & Administrative Expenses	117,388,092	58,927,420	121,863,920	124,210,633
Operating Profit	191,904,962	97,127,487	169,054,884	171,021,813
Financial Expenses	3,153,342	656,427	3,353,598	1,139,143
Non-Operating Income	368,595	125,452	567,269	321,068
Profit Before Contribution to WPPF	189,120,215	96,596,512	166,268,555	170,203,738
Provision for WPPF	9,005,725	4,599,834	7,917,550	8,104,940
Net Profit Before Tax	180,114,490	91,996,678	158,351,005	162,098,798
Income tax expenses	63,040,072	32,198,837	55,422,852	56,734,579
Current Tax	41,840,658	22,579,763	33,429,192	41,504,545
Differed Tax	21,199,414	9,619,074	21,993,660	15,230,034
Net Profit after Tax	117,074,418	59,797,841	102,928,153	105,364,219
Restated Post IPO Earnings Per Share (EPS)	1.24	0.63	1.09	1.12

Source: BASL Research and Company Prospectus

Statement of Financial Position

Financials	FY15	FY16	FY17	FY18
Non-Current Assets	1,050,213,667	1,141,233,305	1,255,558,189	1,249,517,443
Property, Plant & Equipment	1,050,213,667	1,141,233,305	1,196,491,301	1,175,166,949
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	71,398,813
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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