

**Company Overview**

BSRM Steels Limited mainly engaged in the production and supply of "Xtreme 500W" (the only EMF (Elongation at Maximum Force) tested and Fatigue ductile rod in Bangladesh) deformed bars of reinforced steel. Xtreme500W also demonstrated superior yield strength and ductility compared to the traditional Grade 60 rebar. This reduced the quantity of steel consumed in any building by 15%. It was incorporated in July 2002, commenced its commercial operation from April, 2008. The main purpose of the Company is to manufacture M.S. products by setting up rolling and re-rolling mills and marketing the same. The Company launched 'BSRM Maxima' which is the first Rebar of the country designed specifically for the mega projects.

In September 2017, the Company has merged with the 95% subsidiary BSRM Iron & Steel Co. Ltd. (BISCO) which is an in-house billet manufacturing plant with an installed capacity of 220,000 MT per annum. The Company has one associate in the name of BSRM Steels Mills Limited, holding 25.35% ownership, is also a billet manufacturing plant.

**Revenue Composition and Growth**

Particulars	Contribution		Growth		
	2016-17	2013	2014	2015	2016-17*
Xtreme-500W	89%	-5%	5%	-18%	-4%
D-Bar Grade-B420DWR	9%	-67%	1,719%	1,225%	133%
D-Bar Grade-75	1%	11%	44%	19%	8%
Miss Rolls	1%	-15%	1%	-28%	8%

The Company has changed the reporting year from Jan-Dec to Jul-Jun. \*Growth for 2016-17 is calculated over 2015

Domestic market remained as the core revenue source spawning about 97% of the Company's revenue and rest 3% of the revenue derived from export sales during the year 2016-17.

**Sources of Consumption of Raw Materials and Spare Parts of Costs of Goods Sold**

Particulars	2014	2015	2016 (6M)	2016-17
<b>Raw Materials</b>				
Imported	67%	56%	74%	27%
Local	33%	44%	26%	73%
<b>Spare Parts</b>				
Imported	43%	54%	58%	30%
Local	57%	46%	42%	70%

**Shareholding Structure:**

The Company became enlisted with the DSE and CSE in 2009. Historical shareholding status:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Jul-18	70.57%	0.00%	17.98%	0.28%	11.17%
31-Dec-17	70.57%	0.00%	18.16%	0.36%	10.91%
31-Dec-16	70.87%	0.00%	16.06%	0.36%	12.71%
31-Dec-15	70.87%	0.00%	16.06%	0.36%	12.71%

**Company Fundamentals**

Market Cap (BDT mn)	24,368.6
Market Weight	0.7%
Free-float (Public + Institution + Foreign)	29.4%
No. of Shares Outstanding	341.8
Paid-up Capital (BDT mn)	3,417.8
3 Months Average Turnover (BDT mn)	7.3
3 Months Return	0.8%
Current Price (BDT)	72.2
52-Week Price Range (BDT)	67.2 - 87.8
Sector Forward P/E	19.2

	2015 (Jan-Dec)	2016 (6M) (Jan-Jun)	2016-17 (Jul-Jun)	2017-18 (9M Ann)
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**Financial Information (BDT mn):**

Sales	33,493	20,066	37,996	51,156
Gross Profit	4,815	3,331	4,557	4,322
Operating Profit	3,683	2,587	3,274	2,729
Profit After Tax	2,097	1,255	1,705	1,458
Assets	28,485	32,531	32,625	40,717
CAPEX	803	64	284	225
Long Term Debt	659	1,613	1,095	1,018
Short Term Debt	14,708	16,265	18,411	17,206
Equity	10,370	10,602	10,342	12,098

**Margin:**

Gross Profit	14.4%	16.6%	12.0%	8.4%
Operating Profit	11.0%	12.9%	8.6%	5.3%
Pretax Profit	8.5%	11.3%	6.2%	3.6%
Net Profit	6.3%	6.3%	4.5%	2.8%

**Growth:**

Sales	-13.2%	--	13.4%*	34.6%
Gross Profit	38.0%	--	-5.4%	-5.2%
Operating Profit	44.5%	--	-11.1%	-16.6%
Net Profit	68.1%	--	-18.7%	-14.5%

**Profitability:**

ROA	6.9%	4.1%	5.2%	4.0%
ROE	21.9%	12.0%	16.3%	13.0%

**Operating Efficiency Ratio:**

Inventory Turnover	3.0	2.6	5.5	5.8
Receivable Turnover	12.1	6.7	11.0	9.1
A/C Payable Turnover	499.7	219.2	392.5	53.5
Cash Conversion Cycle	149.3	192.5	97.6	94.3
Total Asset Turnover	1.1	0.7	1.2	1.4
Fixed Asset Turnover	3.5	2.0	4.3	5.2

**Leverage:**

Debt Ratio	54%	55%	60%	45%
Debt-Equity Ratio	148%	169%	189%	151%
Int. Coverage Ratio	4.43	11.89	5.64	2.17

**Dividend History**

Dividend (C/B)%	30/-	--	35/- **	-/-
Dividend Yield	3.1%	--	3.9%	-/-
Dividend Payout	48.9%	--	70.3%	-/-

**Valuation:**

Price/Earnings	11.6	19.4	14.3	16.9
Price/BV	2.4	2.3	2.4	2.0
EPS (BDT)	6.1	3.7	5.0	4.3
NAVPS (BDT)	30.0	30.7	30.3	35.4

The Company has changed the reporting year from Jan-Dec to Jul-Jun. \*Growth for 2016-17 is calculated over 2015. \*\*Dividend for 2016-17 includes 18 months.

## Industry Overview

Bangladesh has more than 400 steel, re-rolling and auto-re-rolling mills with a combined annual production capacity of 0.8 mn tones, against the total demand of only 5.5 mn tones (market value of BDT 300 bn) in 2017 which is expected to hit 7.0 mn tones in 2018. The government projects account for nearly 40% of total steel consumption.

Bangladesh is one of the lowest consumers of steel products in the world. Per capita steel consumption in Bangladesh has grown more than 54 percent to 37kg in the last eight years thanks to the government's large infrastructure projects and the thriving housing sector, while it is 65 Kilograms in India, 324 kilograms in developed nations. Although a number of companies of the sector, including BSRM, GPH, RSRM, Rahim Steel and Bashundhara Steel, are producing the raw material, billet, locally, around 1.5 mn tones are still imported every year. Steelmakers are investing thousands of crores of taka either to expand existing capacity or set up new units as consumption is on the rise.



Source: The Daily Star, August 28, 2018

BSRM is the market leader with 25% share and produces about 1.5 mn tons of steel every year. At present, three big steelmakers -- BSRM, Abul Khair Steel and KSRM -- supply more than 50% of the country's annual need for 3.5- 4.0 mn tonnes of steel. Besides the competition from big players, the smaller mills are also facing challenges such as price fall in international steel market and a decline in domestic demand for construction materials, which are forcing them out of the market. Over capacity of the steel industry also indicates enormous export potential, though the option is yet to explore.

Local millers manufacture mainly two types of products: flat steel (corrugated iron sheet and cold rolled coil) and long steel (mild steel rod and thermo-mechanically treated bar). They primarily source raw materials from ship-breaking industry in Chittagong and also import 15 lakh tonnes of billets each year.

Bangladesh's construction sector has been experiencing steady growth which is mostly driven by the government spending. The steel sector in Bangladesh has recorded a 15% growth in 2015. The growth trend will continue for the next 20 years to 25 years and the steel demand will also increase in line with development activities of the government and the booming housing sector in both urban and rural areas. The ongoing major projects like 'Padma Bridge', 'Dhaka-Chittagong Access Control Highway' and the upcoming major projects like 'Dhaka Elevated

Expressway' and the 'Deep Sea Port' would be requiring huge quantity of quality construction materials.

Real estate now contributes around 7% to the GDP, and employs around 1 lakh skilled people. About 3.5 million people work in our construction industry, according to the construction workers union and REHAB.

Since steel demand is derived from other sectors like construction buildings, roads, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. However, construction of Padma Bridge, acceleration of Government's big infrastructure projects under Annual Development Program (ADP) and revival of the local real-estate industry will undoubtedly boost-up the steel consumption locally.

## Investment Positives

- **The Company is setting up a new melting plant with a capacity of producing 430,000 MT MS Billets per annum at Mirsarai, Chittagong with an approximate cost of BDT 7,250.00 million** which will reduce the dependency on imports and local purchase of its raw materials. This will also protect the Company from volatile billet prices. **The plant is expecting to start its commercial operation by early 2019.**
- **The Company was able to reduce its dependency on imported billet upon operational of its associate Company (25.35% ownership), BSRM Steels Mills Limited, with an annual capacity of producing 8,62,000 M.Ton MS billets since June 16, 2016.** The associate can meet around 65% of its billet demand by supplying 500,000 MT billet approximately per annum.
- In 2016-17, around 27% of raw materials consumption was imported which was around 20% of sales. Before operational of the associate company, BSRM imported around 74% of its raw materials consumed which was around 44% of total sales. The Company will be benefited from the volatility of the raw materials prices in the long run in terms of sources of raw materials.
- The Company is supplying specialized reinforcing steel for construction of Padma Multi-purpose Bridge and Rooppur Nuclear Power plant and new Kanchpur Meghna Gumti bridges.
- In 2016-17, the Company rolled out new grade reinforcing steel conforming to the US standard ASTM 706 Grade 80 which will be more economical as it will require 20% less steel in construction along with higher elongation than the older Grade 60.
- BSRM Group is setting up a coal based 150 MW merchant power plant by investing BDT 1.0 billion, which is likely to commence operation by 2018. The plant will benefit the Company by providing smooth power supply at reduced cost.
- In June 2016, BSRM Steels Limited raised BDT 2.45 billion at a discount rate of 9.5% p.a. through issuance of zero coupon bond. The proceeds of the bond utilized for BSRM Steels' capital expenditures, refinancing of costly loans and equity investment in the power project of BSRM Group of companies.
- BSRM Group is the pioneer and leading the steel market from the front in the branded steel products with a market share of 20% (Source: The Daily Star, June 13, 2016).

### Investment Negatives

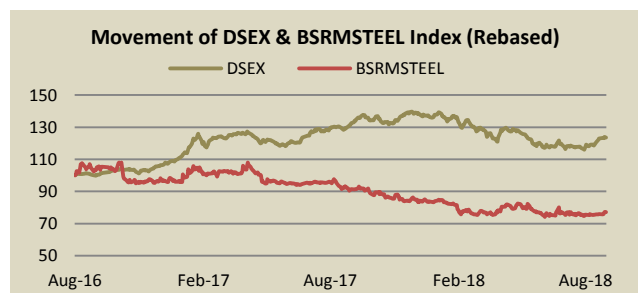
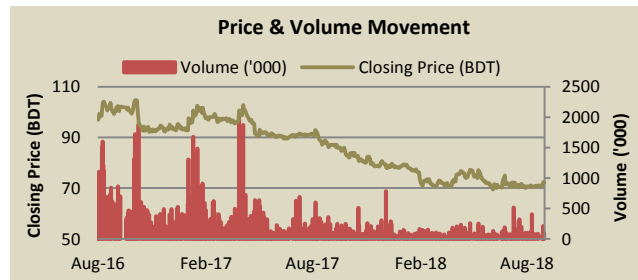
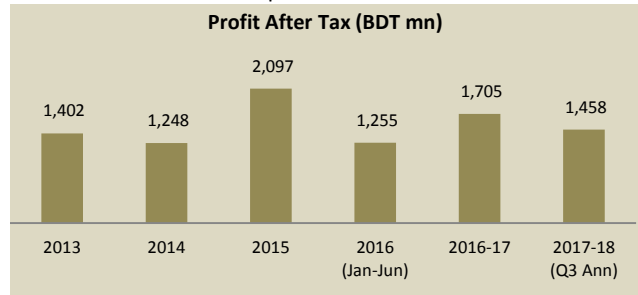
- The gross profit margin of the Company decreased significantly to 12.0% as of June 2017 which was 16.6% in June 2016 due to the increase of billet prices in international market and imposition of higher import tax on raw materials by the government. Meanwhile, the government has already lowered the import tax on raw materials in the national budget for FY 2018-19 to lower the production cost as well as for the finished products. Increase in salary and wages, factory overhead expenses mainly for carrying charges for raw materials and depreciation charges also pushed down the gross profit margin.
- The Company is exposed to leverage as the nature of business requires substantial working capital. High interest eats-up a significant portion of its operating profit. Finance expenses have accounted for 72.10% of its operating profit in July-March of 2017-18. As of March 2018, debt ratio of the Company was 45%.
- The group is exposed to foreign exchange risk in certain purchase of raw materials from abroad. Majority of the foreign currency transactions are denominated in USD and relate to procurement of raw-materials from abroad.
- The inadequate infrastructural support i.e. shortage of gas supply hinders the business growth of the Company. However, operational of the power plant will ease the situation.

### Latest Quarter Update – March 2018 (Q 3)

Particulars (BDT mn)	Jul-Mar 2018	Jul-Mar 2017	Jan-Mar 2018	Jan-Mar 2017
<b>Turnover</b>	<b>35,663</b>	<b>23,588</b>	<b>17,037</b>	<b>9,891</b>
Growth	51.2%	--	72.2%	--
<b>Gross Profit</b>	<b>3,170</b>	<b>3,485</b>	<b>1,443</b>	<b>1,148</b>
Margin	8.9%	14.8%	8.5%	11.6%
Growth	-9.0%	--	25.7%	--
<b>Operating Profit</b>	<b>1,981</b>	<b>2,632</b>	<b>899</b>	<b>749</b>
Margin	5.6%	11.2%	5.3%	7.6%
Growth	-24.7%	--	20.0%	--
<b>Net Profit</b>	<b>1,087</b>	<b>1,531</b>	<b>495</b>	<b>417</b>
Margin	3.0%	6.5%	2.9%	4.2%
Growth	-28.9%	--	18.7%	--

- Revenue has increased by 51.2% in Jul-Mar of 2017-18 over the same period of last year due to the increase in supply of MS Rod to some special government projects i.e. construction of Padma Multi-purpose Bridge and Rooppur Nuclear Power plant and new Kanchpur Meghna Gumti bridges.
- Gross profit margin has significantly decreased to 8.9% in the reported period which was 14.8% than that of last year. This was due to the increase in salary and wages, factory overhead expenses mainly for carrying charges for raw materials and depreciation charges. Besides these, around 30% of raw-materials consumption is imported where there is fluctuation of raw materials prices in international market along with depreciation of BDT against USD.
- Finance cost increased significantly due to the rise in interest rate in the period which eats up a healthy portion of its operating profit.

- Net profit decreased by 28.9% in the period over the same period of last year because of decrease in gross profit and increase in finance expenses.



### Pricing\* Based on Relative Valuation:

	Multiple	Value (BDT)
Market Forward P/E	15.7	66.8
Market Trailing P/E	16.1	80.3
Sector Forward P/E	19.2	81.9
Sector Trailing P/E	22.9	113.9

\*Based on latest Quarter Financial Statements (July-March 2017-18)

### Concluding Remark

BSRM is operating in a high cost - low margin steel industry. The Company is expected to perform better in the coming days as it has successfully completed its BMRE project and started its associate Company's operation, which will surge its production as well as profitability. Setting up new billet and merger of the subsidiary company will increase the productivity and profitability of the Company in the coming years.

Source: Annual Reports, DSE news, Company website, the Financial Express, the Daily Star, ILSL Research

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