

**Company Overview**

GPH Ispat Limited (GPHISPAT), an integrated steel manufacturing Company, was incorporated on May 17, 2006 and started commercial operation on August 21, 2008. The Company is engaged in manufacturing of M.S. Billet from Steel Scrap & M.S. Rod from M.S. Billet. The factory of the Company is located at Sitakunda, Chittagong.

The principal activities of the Company are manufacturing and trading of structural bar of iron products and steel materials of all kinds (60 grade, TMT 500W etc.) as well as other metallic or allied materials of low & medium carbon and low alloy steel billets (main ingredient of manufacturing graded steel bar) and marketing thereof.

**Revenue Composition & Growth**

Particulars	Contribution			Growth		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
M.S. Rod	94.8%	90.8%	99.3%	20%	-4%	43%
M.S Billet	3.5%	8.0%	0.0%	--	130%	-100%
Cut Pieces	--	0.2%	0.1%	--	--	-13%
Misroll & others	1.7%	1.0%	0.6%	330%	-42%	-25%

\*Growth for 2014-15 & 2015-16 is calculated for May-April over last year and for 2016-17 is calculated for Jul-Jun over last year;

In 2016-17, turnover of the Company increased by 36.5% than that of last year due to the substantial increase of production of M.S. Billet and M.S. Rod. Gross profit margin has increased to 17.52% in 2016-17 from 16.72% in last year as the price of raw materials was lower compared to that of last year. After nourishing internal demand, GPH steel billets and Bars are exported to other countries to some extent which is below 1% of total revenue.

The Company's main raw materials are melting scrap which are available both in local and international market. These raw materials are sourced from local market through ship breaking yard as well as from foreign market.

**Installed Capacity & Utilization**

Particulars	Installed Capacity (MT)	Capacity Utilization (%)			
		2013-14	2014-15	2015-16	2016-17
MS Billet	168,000	50%	67%	71%	74%
MS Rod	120,000	64%	81%	89%	100%

**Shareholding Structure**

The Company became enlisted with the Dhaka Stock Exchange and Chittagong Stock Exchange in 2012. Historical shareholding status:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-17	56.03%	0.00%	13.17%	0.00%	30.80%
31-Dec-16	56.03%	0.00%	13.45%	0.00%	30.52%
30-Jun-16	56.03%	0.00%	12.78%	0.00%	31.19%
31-Dec-15	56.03%	0.00%	15.00%	0.00%	28.97%

**Company Fundamentals**

Market Cap (BDT mn)	12,475.6
Market weight	0.4%
Free-float	43.9%
Paid-up Capital (BDT mn)	3,274.4
3 Months Average Turnover (BDT mn)	6.1
3 Months Return	-4.6%
Current Price (BDT)	37.7
52-week price range (BDT)	35.0 – 49.8
Sector Forward P/E	19.3

	2014-15	2015-16	2016-17	2017-18 (HY Annu.)
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**Financial Information (BDT mn):**

Sales	5,988	5,744	7,840	8,460
Gross Profit	902	960	1,374	1,438
Operating Profit	732	754	1,095	1,134
Profit After Tax	335	287	591	601
Assets	6,004	10,294	12,866	15,286
Long Term Debt	531	342	1,822	3,118
Short Term Debt	3,009	4,316	5,054	5,718
Equity	2,045	4,819	5,036	5,180

**Margin:**

Gross Profit	15.1%	16.7%	17.5%	17.0%
Operating Profit	12.2%	13.1%	14.0%	13.4%
Pretax Profit	7.1%	6.7%	10.0%	9.4%
Net Profit	5.6%	5.0%	7.5%	7.1%

**Growth\*:**

Sales	27.8%	0.3%	36.5%	7.9%
Gross Profit	3.9%	10.9%	43.1%	4.7%
Operating Profit	2.8%	10.1%	45.2%	3.6%
Net Profit	24.3%	10.8%	105.9%	1.7%

**Profitability:**

ROA	5.7%	3.5%	5.1%	4.3%
ROE	16.9%	8.4%	12.0%	11.8%

**Operating Efficiency Ratio:**

Inventory Turnover	2.5	2.2	2.8	3.1
Receivable Turnover	5.9	5.4	5.4	4.7
A/C Payable Turnover	17.2	11.7	10.5	9.3
Total Asset Turnover	1.0	0.7	0.7	0.6
Fixed Asset Turnover	3.7	3.7	4.9	5.2

**Leverage:**

Debt Ratio	58.1%	44.9%	52.5%	57.1%
Debt-Equity	170.6%	96.0%	134.1%	168.3%
Int. Coverage	2.19	1.89	2.22	2.16

**Dividend History**

Dividend (C/B)%	17/-	12/-	5/5	-/-
Dividend Yield	4.8%	4.0%	1.1%	-/-
Dividend Payout	166.1%	137.0%	27.7%	-/-

**Valuation:**

Price/Earnings	36.6	42.8	20.9	20.6
Price/BV	6.0	2.5	2.5	2.4
EPS (BDT)	1.0	0.9	1.8	1.8
NAVPS (BDT)	6.2	14.7	15.4	15.8

\*Growth for 2015-16 is calculated for May-April over last year and for 2016-17 is calculated for Jul-Jun over last year; N.B. The Company has changed its FY from May-Apr to Jul-Jun

## 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 0.4 mn tones (market value of BDT 300 bn). The government projects account for nearly 40% of total steel consumption.

Bangladesh is one of the lowest consumers of steel products in the world. The per capita steel consumption is only around 35 kg, which is 65-70 kg in India and 200-250 kg in Thailand, and the world average per capita steel consumption is over 200 kg.

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.

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.

The steel sector in Bangladesh has recorded a 15% growth in 2015. Riding on government programs centering vision for 2021, the local manufacturers believe that steel industry would continue to grow above 12% in the next few years. 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.

Over capacity of the steel industry also indicates enormous export potential, though the option is yet to explore.

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, implementation of the 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.

Bangladesh has more than 400 steel, re-rolling and auto-re-rolling mills with a combined annual production capacity of 8.0 million tons. At present Bangladesh has a demand for roughly 4 million tons of metal / steels as per the market players. Within this Bangladesh's annual demand for quality rod is estimated at more than 2.5 million MT, where country usually consumes over 70% of its annual demand in the peak season. The expected growth rate is approximately 10%. 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 now stands at only 26 kilograms, while it is 55 Kilograms in India, 324 kilograms in developed nations. A number of companies of the sector, including BSRM, GPH, RSRM, Rahim Steel and Bashundhara Steel, are producing the raw material billet locally. Currently at least 70% of raw materials are imported. However, Bangladesh will fully depend on locally manufactured billets within 2016 as large investments have been made by some leading market players.

According to the market players, presently 65% of the country's annual need is met by the graded millers, such as BSRM, AKS, RSRM, and GPH Ispat. The smaller mills in Bangladesh are 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.

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, Initiation of Padma Bridge construction, 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 increasing the production capacity of MS Billet by 840,000 MT/per annum and MS Rod/Medium Section product by 640,000 MT/per annum which will be added to the existing annual capacity of 168,000 MT MS Billet and 120,000 MT MS Rod respectively with an estimated cost of BDT 17,000 million.** The Company is expecting average net profit after tax will increase by BDT 1,403.70 mn per annum over first 5 years after implementation of the project. Upon implementation of the project, it will substantially reduce the use of power and gas consumption, help to save foreign currency by importing melting scrap as raw materials instead of importing MS billet, H-Beam, I-Beam etc. In May 2016, the Company raised BDT 2,619.54 million through rights share issue for the expansion purpose and secured around BDT 12,000 million from a syndicated loan led by United Commercial Bank for financing the expanded project. As of December 2017, the Company has made around 4,235 million as capital expenditure which is around one fourth of the total budget. **As per annual report 2016-17, the Company is expecting to complete the expansion project by FY 2018-19.**
- Steel consumption is expected to increase in the coming years due to flourishing of the real estate sector and government spending for infrastructure development programs. Successful implementation of the expansion project will stimulate both the topline and bottom line growth of the Company.
- As per DSE news published on 13 July 2016, **the Company has been outsourcing for additional sales of MS Rod from local manufacturers approximately 60,000 MT per annum from July 2016.** The Company generates an approximate amount of BDT 3,000.00 mn revenue and BDT 60.00 mn net profit per annum from such activity.
- As per the Financial Express news published on 31 August 2016, **the Company is going to install a 250 metric ton (MT) production capacity cryogenic Air Separation Plant (ASP) per day** which will be the first ever high capacity ASP plant in the country. Linde Bangladesh Ltd. has the other Air Separation Plant with a daily production capacity of 80 MT on an average.

## Investment Negatives

- GPH Ispat Ltd. is heavily exposed to leverage. As of December 2017, debt to total asset ratio stood at 57.1%. High interest eats-up a significant portion of its operating profit. Interest coverage ratio was only 2.22x in 2016-17. The Company availed long term loan of BDT 2,802 million

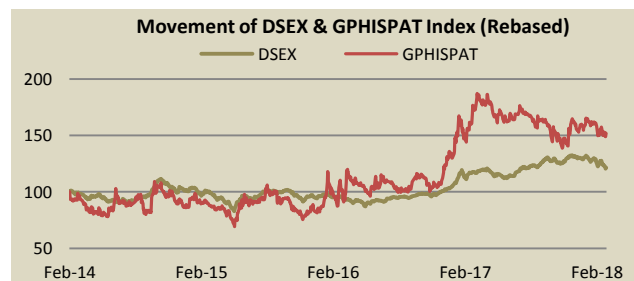
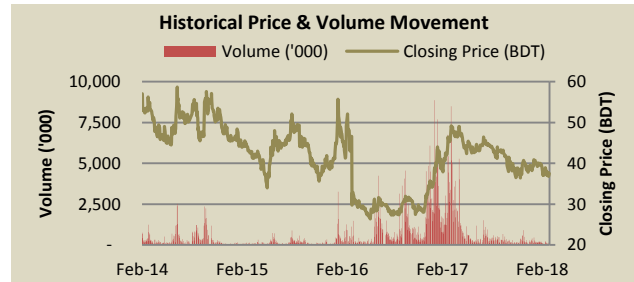
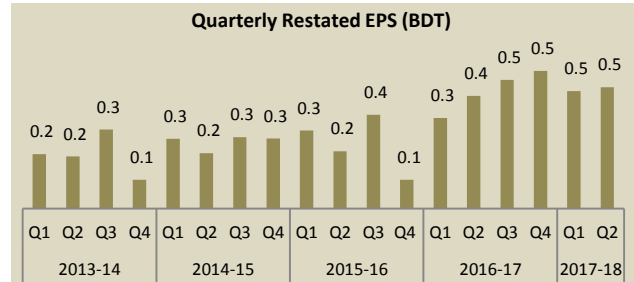
in July 2016 to December 2017 for its expansion purposes which will be incurring finance expenses in the coming years.

- The Company is exposed to foreign exchange risk in certain purchase of raw materials from abroad. Movement in prices of billet and melting scrap in international market might hamper the profit margins of the Company. Majority of the foreign currency transactions are denominated in USD.
- The Company is operating in a highly competitive industry with low profit and highly price sensitive to the market. Hence, inability of offering competitive price and quality products will hinder the profitability of the Company.

#### Latest Quarter Update

Particulars (BDT mn)	Jul-Dec 2017	Jul-Dec 2016	Oct-Dec 2017	Oct-Dec 2016
<b>Net Turnover</b>	<b>4,230</b>	<b>3,682</b>	<b>2,147</b>	<b>1,837</b>
<i>Growth</i>	14.9%	--	16.9%	--
<b>Gross Profit</b>	<b>719</b>	<b>591</b>	<b>376</b>	<b>316</b>
<i>Margin</i>	17.1%	16.1%	17.5%	17.2%
<i>Growth</i>	21.6%	--	18.9%	--
<b>Operating Profit</b>	<b>567</b>	<b>444</b>	<b>297</b>	<b>238</b>
<i>Margin</i>	13.4%	12.1%	13.8%	12.9%
<i>Growth</i>	27.7%	--	24.8%	--
<b>Net Profit</b>	<b>290</b>	<b>243</b>	<b>152</b>	<b>139</b>
<i>Margin</i>	6.8%	6.6%	7.1%	7.5%
<i>Growth</i>	19.0%	--	9.9%	--

- Turnover of the Company has increased by 14.9% in the Jul-Dec of 2017-18 over the same period of last year due to increased production volume of the products for higher demand.
- Gross profit margin increased due to lower raw material prices in the period.
- Net profit has increased by 19.0% in the Jul-Dec of 2017-18 over the same period of last year because of increase in turnover, decreased COGS to sales and operating expenses.



#### Concluding Remark

GPH Ispat is operating in a high cost - low margin steel industry. Besides producing steel, the Company is also produces mild steel billet in the country, the main ingredient of manufacturing graded steel bar. It has renovated its Continuous Casting Machine for Billet Plant, which helped to increase the capacity utilization. Upon operational of the new projects, profitability of the Company will get momentum.

Source: Annual Reports, DSE news, Company website, the newspaper news, ILSL Research

#### ILSL Research Team:

Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst
Mumitul Islam	Executive - Research

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For any Queries: [research@ilsibd.com](mailto:research@ilsibd.com)

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