

Company Overview

IFAD Autos Limited (IAL) was incorporated on February 17, 1988 and commenced its commercial production on April 20, 1988. The Company imports different models of complete Ashok Leyland's Indian vehicles as well as imports CKD (completely knocked down) & spares from Ashok Leyland and assemble locally to promote in Bangladesh. The Company also deals in Farmtrac brand agri machineries and related spares imported from Escorts Ltd., India and market the same in Bangladesh since March 01, 2016. The registered office of the Company is at Dhamrai, Dhaka, corporate office is at IFAD TOWER, Tejgaon Industrial Area, Dhaka and assembling plant is located at Dhamrai, Dhaka.

The Company's product portfolio includes AC Buses, Deluxe Buses, Goods Trucks, Dump Trucks, Prime Movers and agricultural equipment etc. In addition, the LCV (light commercial vehicle) range offers lighter cargo vehicles and passenger vans made by Ashok Leyland in joint venture with Nissan of Japan.

Revenue & Growth

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue (BDT mn)	6,933	10,23	15,005	11,017	7,773
Growth	37%	48%	47%	-27%	-29%
No. of Vehicles sold	3,821	5,620	7,503	5,372	4,081
Growth	52%	47%	34%	-28%	-24%
Segment Wise No. of Vehicles Sold					
Truck	2,287	3,635	6,453	3,803	1,817
Growth	37%	59%	78%	-41%	-52%
Mid-size carrier	646	633	525	683	1,000
Growth	35%	-2%	-17%	30%	46%
Bus	888	1,116	375	645	1,069
Growth	135%	26%	-66%	72%	66%
Tractors*	--	235	150	236	195
Growth	--	--	-36%	57%	-17%

*The sale of agricultural tractors from ESCORTS Limited, India since March 2016

The Company has been selling imported vehicles on demand basis. Meanwhile, it has started commercial operation of its assembling unit and body building unit from February 02, 2017 and November 01, 2017 with a capacity of 10,000 units and 3,000 units per annum respectively.

The Company imports vehicles, fuel and lubricant from Ashok Leyland Ltd., Chennai, India. Other materials such as MS sheet, Woods, Paints are purchased locally. The customer group comprises both from public and private sectors.

Due to nature of business, most of the sales of the Company are transacted on credit. Therefore it consistently operates its business with negative operating cash flows.

Shareholding Structure:

The Company was listed with the DSE and CSE in January 2015.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-20	57.48%	0.00%	25.88%	1.55%	15.09%
31-Dec-19	62.77%	0.00%	20.47%	4.26%	12.50%
31-Dec-18	62.77%	0.00%	21.77%	4.56%	10.90%
31-Dec-17	62.77%	0.00%	16.96%	3.45%	16.82%

Company Fundamentals

Market Cap (BDT mn)	12,065.7
Market Weight Sector Weight	0.3% 2.3%
Free-float (Public + Inst. + Foreign)	42.5%
No. of Shares Outstanding (mn)	252.9
Paid-up Capital (BDT mn)	2,529.5
3 Months Average Turnover (BDT mn)	69.2
3-month Return (Dividend Adjusted)	21.8%
Current Price (BDT)	48.1
52-Week Price Range (BDT)	32.7 - 58.0
Sector Forward P/E	17.8

	2017-18	2018-19	2019-20	2020-21 (6M Ann.)
Financial Information (BDT mn):				
Sales	15,005	11,017	7,773	8,244
Gross Profit	2,867	2,264	1,336	1,790
Operating Profit	2,319	1,715	824	1,286
Profit After Tax	1,554	1,137	230	839
Cash & Cash Equiv.	2,822	2,238	1,087	1,247
Assets	28,981	32,654	33,634	35,614
CAPEX	531	631	455	412
Long Term Debt	7,963	9,379	10,836	12,048
Short Term Debt	9,644	11,169	11,944	11,591
Equity	8,624	9,716	9,854	10,190
Retained Earnings	4,472	5,201	5,341	5,638
Margin:				
Gross Profit	19.1%	20.6%	17.2%	21.7%
Operating Profit	15.5%	15.6%	10.6%	15.6%
Pretax Profit	13.8%	13.5%	6.5%	13.6%
Net Profit	10.4%	10.3%	3.0%	10.2%
Growth:				
Sales	46.5%	-26.6%	-29.4%	6.1%
Gross Profit	55.8%	-21.0%	-41.0%	34.0%
Operating Profit	59.1%	-26.0%	-51.9%	56.0%
Net Profit	48.3%	-26.8%	-79.8%	264.9%
Profitability:				
ROA	6.1%	3.7%	0.7%	2.4%
ROE	21.2%	12.4%	2.3%	8.4%
Operating Efficiency:				
Inventory Turnover	11.7	4.9	3.2	5.1
Receivable Turnover	0.9	0.5	0.3	0.3
A/C Payable Turnover	17.5	6.9	9.5	24.7
Total Asset Turnover	0.6	0.4	0.2	0.2
Fixed Asset Turnover	5.7	4.1	2.5	2.2
Leverage:				
Debt Ratio	60.8%	62.9%	67.7%	66.4%
Debt-Equity	204.2%	211.5%	231.2%	232.0%
Int. Coverage	7.8	6.3	2.1	4.1
Dividend History:				
Dividend (C/B)%	22/10	10/-	9/2	-/-
Dividend Yield	2.0%	2.5%	2.3%	--
Dividend Payout	35.1%	21.8%	99.0%	--
Valuation:				
Price/Earnings	7.9	10.7	53.1	14.5
Price/BV	1.4	1.3	1.2	1.2
EPS (BDT)	6.1	4.5	0.9	3.3
NAVPS (BDT)	34.1	38.4	39.0	40.3

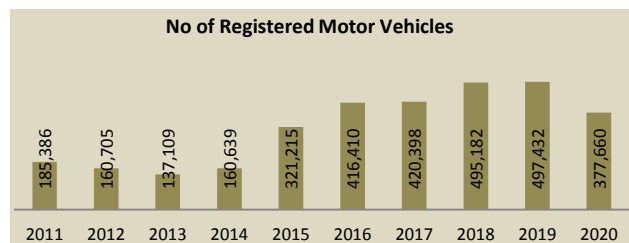
Shareholding Pattern as on 30 June 2020:

Name of Directors	Position	Number of Shares Hold (mn)	% of Total
Mr. Iftekhar Ahmed Tipu	Sponsor Director and Chairman	82.89	33.42%
Mr. Taskeen Ahmed	Managing Director	18.19	7.34%
Mr. Tanveer Ahmed	Director	18.19	7.34%
Mrs. Nilufar Ahmed	Sponsor Director	20.22	8.15%
Mr. Tashfeen Ahmed	Director	16.17	6.52%
Total		155.66	62.77%

Industry Overview

The Bangladesh commercial vehicle industry remains dependent on imports from Asian countries – specifically India, Japan, and China. This includes both reconditioned and new vehicles. India is the 6th largest automobile manufacturer in the world, and Bangladesh is its 5th largest automotive market. Indian manufacturers are moving quickly to establish plants and contracts in the Bangladeshi market, capitalizing on their easy access to the market due to proximity.

Market Size: The commercial vehicle market grew 15 to 20% every year in the last one decade fuelled by rising economic activities amid stable political situation, according to data from Bangladesh Road transport Authority. According to industry insiders, around 35,000 commercial vehicles are sold in the country each year; out of which, around 12,000 vehicles belong to the medium and heavy vehicle category. There are about 4 lakh registered trucks (small pickups to large trucks) in Bangladesh presently, of which 1 lakh runs on the road every day.



Source: Bangladesh Road Transport Authority

Types of Vehicles: Heavy Commercial Vehicle (**HCV**) usually contains more than 15,500 Kg of heavy goods. Containers, Tanker Coal, Timber, Edible Oil, Bitumen, Material Sand, Brick, Stone, Auto Parts, Fertilizers, Cement Bulk and Bags, and Woods etc. are carried with HCVs. Medium Commercial Vehicles (**MCV**) usually contains 7,500 kg to 15,500 kg goods and generally carries construction materials - Sand, Brick, Stone etc., Garment Goods, Fabrics, Cotton, Industrial Raw-Materials, Packaging Products, Vegetables and Seeds. Light Commercial Vehicles (**LCV**) contains 3,500 kg- 7,500 kg of light goods and generally carries Agricultural Goods, Poultry Products, Light Industrial and Construction Goods, Plastic and Packaging Products etc. Vehicles containing less than 3,500 Kg of goods are classified as Small Commercial Vehicles (**SCV**).

Market Competitors: Among the major vehicle importers in Bangladesh - Nitol Motors Limited is the sole distributor of TATA, IFAD Autos of Ashok Leyland, Runner Motors Ltd. of Eicher Mini Truck, Energypac Power Generation Ltd. of JAC, Uttara Motors Limited of Isuzu, Swaraj, Mazda, Suzuki, FAW,

Rangs Motors Limited of Eicher Heavy Truck, Mitsubishi FusoTruck, Mahindra Ltd.

Progoti Industries Ltd. and Aftab Automobiles Ltd., a concern of Navana Group, assemble vehicles in Bangladesh. IFAD Autos Limited has started to assemble Ashok Leyland's vehicle in Bangladesh while Chittagong based PHP group is set to assemble Malaysian Proton Cars locally. Nitol Tata is setting up a commercial vehicle manufacturing plant at the Kishoreganj Economic Zone to meet growing demand. The beginning of assembling of bus bodies may save a lot of foreign currencies and cut the sale prices of the vehicles in Bangladesh.

Some automobile products in Bangladesh & their brand name:

Products	Brand Name
Heavy Bus	Hino, Isuzu, Volvo, Scania, Hyundai, Tata, Mercedes Benz etc.
Mini Bus	Hino, Mitsubishi, Isuzu, Toyota, Sawraj Mazda, Tata, Eicher etc.
Microbus	Nissan, Mitsubishi, Toyota etc.
Heavy Truck	Hino, Tata, Bed Ford, Isuzu, Ashok Leyland
Mini Truck	Hino, Tata, Mitsubishi, Isuzu, Toyota, Eicher, Sawraj, Mazda etc.
Motor Car	Toyota, Mercedes-Benz, Nissan, Mitsubishi, Ford, Daewoo, Proton Saga, Hyundai, BMW, Maruti Suzuki etc.
Four Wheels	Toyota, Tata, Mitsubishi, Nissan etc.
Motor-cycle	Honda, Xingfu, Jialing, Zongshen, Yamaha, Suzuki, Hero, TVS Victor, Bajaj, Vespa etc.
Light & Heavy Commercial Vehicles	Nissan, Daewoo, Hyundai, Volvo, Ashok Leyland, Tata, Hino, Mitsubishi etc.
Agricultural Vehicles	Hyundai, Daewoo, Dong-fang, Dong-chang etc.

Market Share: The market for commercial vehicles is oligopolistic in nature, with high capital investment and regulation under the BRTC. The market leader is Nitol Motors Limited, with a market share of 40%, closely followed by IFAD Autos with 38%. Runner Motors Limited is also a significant player with a share of 10%. The dominance of these three companies over 88% of the market limits the buying power of consumers (Annual report of IFAD Autos Limited 2019-20).

Drivers for the Industry: The commercial vehicle market is growing as the capacity of the Bangladeshi economy grows. The government is developing supply-side policies by improving infrastructure, which will provide support to all industries and increase the need for local transport. The development of megaprojects and the Belt and Road Initiative will allow businesses to access new markets and expand operations, putting demand pressure on companies to build assembly plants. The commercial vehicle market is likely to grow in the future due to rising regional trade, a booming economy that is feeding greater urbanization and industrialization, and road network expansion. E-commerce is another sector directly impacting the commercial vehicle market as goods need to be transported throughout the country. Another reason is axle load policy that limits the weight carried by each truck to reduce damage to roads. The growing population and its rising income have also increased the demand for passenger commercial vehicles, such as buses.

Investment Positives

- IFAD Autos Limited is the sole local agent of Ashok Leyland, the second largest commercial vehicle manufacturer in India. **IAL has secured second position by capturing 38% of commercial vehicle market in Bangladesh** (annual report 2019-20). Currently, there are over sixty thousand ASHOK LEYLAND vehicles moving on roads across Bangladesh (annual report 2019-20). To hold dominant portion of market share, IFAD established a **strong distribution channel** all over Bangladesh. Its distribution channel comprises of 21 selling points, 9 mega service centers, 30 service points and 11 offices and ~120 dealers in different corners of Bangladesh.
- The Company has **commenced operation of its cabin manufacturing unit from December 31, 2020**. The plant can **produce 3,600 cabins in a single shift and it will go up to 10,000 units per annum** when it runs at full-swing which was financed using the proceeds from rights share issuance. It will add up additional gross profit margin and increase the bottom line.
- The Company's local assembling plant for heavy-duty trucks with a capacity of 10,000 units per year** is in operation since 2017. The Company is expecting the production will **gradually increase to 10,000 vehicle units per year** in three shifts by FY 2021. The Company is transforming its business model from Complete Buildup Unit (CBU) to Semi-Knock Down Model. This will support to increase the price competitiveness of its products. The **capacity of Body Building Unit is 3,600 units per year**. It will provide one-stop solution for the customers of IFAD Autos Limited.

Sales of Vehicles (number)	2017	2018	2019	2020
Imported Vehicles	5,620	6,435	3,918	2,953
Assembling Vehicles	12	1,068	1,454	1,128

- The Company's joint venture **Gulf Oil Bangladesh Limited (49% equity shares)**, a subsidiary of Gulf Oil International Limited (UK), is **engaged in importing and selling of lubricant, grease and car care products** in Bangladesh. The Company has itself a huge amount of captive consumption of lubricant and grease.
- As per annual report 2019-20, **to become a country leading commercial vehicle provider, the Company has launched its vision 'Strategy 2022'**. A glimpse of the strategy is given below:
 - Sharpen the positioning of brands** by setting up needs based automobile specific customer segments.
 - IAL will invest heavily in light commercial vehicles (LCV)** on which the future vehicle market will depend.
 - Moving forward from complete build-up unit to semi knock down business model** will increase the gross profit margin as well as price competitiveness.
 - Leveraging assembly plants, trucks and buses body building plants, cabin manufacturing unit and localizations will improve profit margins.
 - A digital platform project will be in application** which covers Vehicle Tracking Systems, SAP Implementation, ERP Implementation, Dash board & BI tools and digital products and platform development. It is basically a cargo transport solution (**Truck Sharing App**).

- To achieve sustainable growth, **the Company is moving forward aggressively with volume of products with constantly launch of new models** to reinforce the IAL's vehicle line-up.
- IAL will **adopt Listen, Learn and Act approach** which will help the company's service excellence and customer interactions to gain market share.
- In December 2020, the Company has decided to **purchase measuring area 1 Bigha (33 decimal) land** at Tejgaon Industrial Area, Dhaka-1208, for total consideration of **BDT 198.40.00 million** (including all registration cost). This land **will be used for the future expansion** of the business of the company. Furthermore, this investment will be carried out from the **Company's own fund** (DSE news).
- The government imposed a new **axle load policy** in December 2017 limiting transport weight to help maintain the highway and reduce repair costs. **The new axle load policy has restricted the overloaded trucks and vehicles on the road** which has increased the demand for commercial vehicles. Moreover, constant GDP growth along with heavy investment in the transport sector will also help to boost the demand for the vehicles.
- ERP implementation of the Company is on the process** and it will help the Company for better operational efficiency, accelerate recovery system and service excellence.
- In November 2019, the Company has decided to **raise up to BDT 3.00 billion only in the form of coupon bearing non-convertible fully redeemable bonds (with a tenor of 5 years)**, hereinafter called the "Ifad Autos Coupon Bearing Bond" to a group of investors subject to the approval of the Bangladesh Securities and Exchange Commission (BSEC).

Investment Negatives

- Revenue of the Company has declined by 29% in 2019-20** over the same period of last year **as the overall commercial vehicle market including IFADAUTO suffered substantially due to covid-19 pandemic** and delaying in implementation of mega infrastructure projects. **The sale of number of vehicles declined by 24% in 2019-20 over last year.**
- The Company is highly exposed to leverage. As of December 2020, debt ratio was 66.4%.** The Company **sells the vehicles through medium-term credit facilities** to the clients along with cash sells. The Company borrows the fund from financial institutions to meet its import payments and also provides credit facilities to the clients. Maximum term of the credit facility is 4 years which is repayable on monthly installments.

Particulars (BDT mn)	2017-18	2018-19	2019-20	2020-21 (HY)	Interest Rates*
LT Loan	588	685	648	600	9.0% - 17.0%
Current Portion	119	203	239	229	
Leasehold Obligations	7,375	8,694	10,188	11,448	9.5% - 17.0%
Current Portion	5,107	5,280	5,926	5,922	
ST Bank Loan	4,418	5,687	5,779	5,441	9.0% - 13.5%
Finance Expense	297	271	400	155	

LT= Long Term; ST= Short Term; *Interest rate per annum, as per Q2 report of 2020-21

As per the Company officials, the Company is using the distributor lease financing method. Hence, the effective interest rate is around 1.34%. Financial expenses include finance cost and interest received from customers on credit sale which is netted off against relevant interest expenses.

- As the Company is engaged in transport business, it has significant exposure to country specific risk. Any political turmoil may hamper the distribution network of the Company and plunge its turnover as well as profitability.
- The Company is completely dependent on a single supplier (Ashok Leyland) for its products/raw materials. Termination of the contract between the companies will cease the operations of the Company.

Latest Quarter Update - December 2020 (HY)

Particulars (BDT mn)	Jul-Dec 2020	Jul-Dec 2019	Oct-Dec 2020	Oct-Dec 2019
Turnover	4,122	4,379	2,244	2,580
Growth	-5.87%	--	-13.02%	--
Gross Profit	895	956	508	564
Margin	21.71%	21.83%	22.64%	21.86%
Growth	-6.38%	--	-9.93%	--
Operating Profit	643	688	382	425
Margin	15.60%	15.71%	17.02%	16.47%
Growth	-6.54%	--	-10.12%	--
Share of Profit of Joint Venture	19	16	11	10
Net Profit	419	364	247	238
Margin	10.16%	8.31%	11.01%	9.22%
Growth	15.11%	--	3.78%	--
EPS (BDT)	1.66	1.44	0.98	0.94

- Revenue has decreased by 6% during the reported period over the same period of last year due to the plunge in sales of vehicles amid covid-19 pandemic.
- Gross profit margin remained almost same during the reported period mainly for the duty savings of the changing business models from CBU to CKD. The Company is expecting further rise in this margin in the coming years.
- Finance expenses has decreased despite increase in loan amount during the reported period because of decrease in interest rates in both long term and short term loans.
- Net profit has increased during the reported period than that of last year due to the decrease in finance expenses and increase in share of profit of joint ventures.

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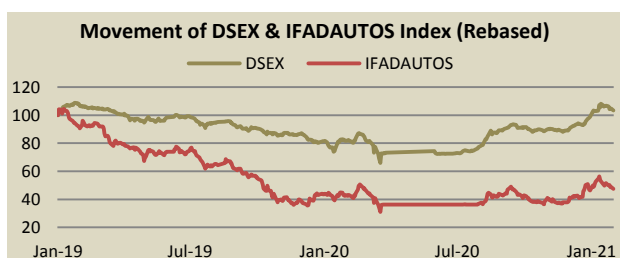
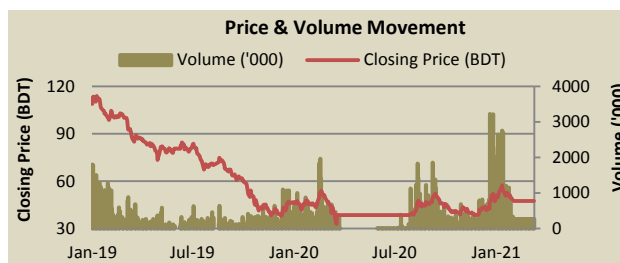
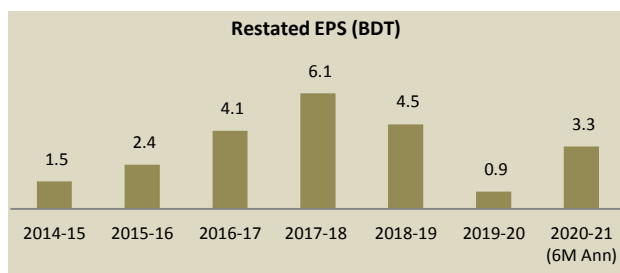
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Concluding Remark

IFAD Autos Limited is one of the leading automobile distributor providers in Bangladesh. IAL provides a full line of heavy duty trucks, buses and light cargo vehicles from Ashok Leyland of India as a sole representative in Bangladesh. The production capacity of assembling and bodybuilding unit of the Company has the potential of contributing substantially to the revenue in the coming years. In line with the increased production capacity, the Company will also be able to produce the vehicles at 60% reduced time and sell the vehicles at 15% lower rate which will enable it to achieve higher growth in both revenue and profitability.

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

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