INTERNATIONAL LEASING SECURITIES LIMITED

IPDC FINANCE LIMITED

DSE: **IPDC**
BLOOMBERG: **IPDC:BD**

Company Overview

IPDC Finance Limited (was formerly known as Industrial promotion and development Company of Bangladesh limited) was incorporated in 1981 and commenced its operation in 1983. The Company was formed by International Finance Corporation (IFC), German Investment and Development Company (DEG), The Aga Khan Fund for Economic Development (AKFED), Switzerland, Commonwealth Development Corporation (CDC), UK and the Government of Bangladesh. In 2004, AKFED acquired 70% stake in IPDC by purchasing the shares from IFC, CDC and DEG. In 2016, BRAC (25%), Ayesha Abed Foundation (10%), RSA Capital Limited (5%) acquired 40% shares from AKFED with AKFED retaining 11.05% of the shares.

The Company initially started with Lease Financing as core product. Later, it has changed its focus to multi-products of finance and finance associate activities. The Company is working with 12 branches including head office in the major cities of the country.

Composition of Consolidated Operating Income:

(BDT mn)	2014	2015	2016	2017	2018(9M)
Interest Income	929	805	1,482	2,991	3,566
Interest Expense	513	373	844	1,919	2,442
Net Interest Income	416	431	638	1,073	1,124
*Growth**	37%	4%	48%	68%	47%
Net Interest Margin	7.3%	7.1%	4.9%	4.0%	4.0%
As % of Operating Income					
Net interest income	72%	67%	76%	86%	90%
Investment income	15%	9%	6%	5%	4%
Commission and brokerage	1%	1%	4%	7%	5%
Other operating income	12%	23%	14%	2%	1%
Growth*					
Net interest income	37%	4%	48%	68%	47%
Investment income	0%	-36%	-15%	39%	-6%
Commission and brokerage	-39%	34%	378%	127%	11%
Other operating income	-8%	104%	-18%	-79%	-2%

*Growth for 2018 is calculated for 9 months over same period of last year
Net Interest Margin: Net interest income/average of loans & advances (approx.. calculation)

Historical Loans & Advances and Term Deposits:

BDT mn	2015	2016	2017	2018 (Sep)	5 Year CAGR
Loans & Advances	6,416	19,481	34,467	39,763	--
% of Total Asset	78%	86%	86%	88%	--
Growth (YoY)	13%	204%	77%	15%*	44%
Term Deposits	4,745	17,179	29,747	33691	--
% of Total Asset	58%	76%	76%	75%	--
Growth (YoY)	19%	262%	73%	13%*	53%
Credit-Deposit Ratio	135%	113%	116%	118%	--

*Growth for 2018 is calculated over December 2017

Shareholding Structure:

The Firm was enlisted with DSE & CSE in 2006.

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Sep-18	51.05%	21.88%	13.51%	0.17%	13.39%
31-Dec-17	51.05%	21.88%	14.12%	1.07%	11.89%
30-Jun-17	51.05%	21.88%	7.92%	2.80%	16.35%
31-Dec-16	51.05%	21.88%	10.54%	3.08%	13.45%

Company Fundamentals

Market Cap (BDT mn)	8,399.2
Market weight	0.3%
No. of Share Outstanding (in mn)	218.2
Free-float (Public +Inst.+ foreign)	27.1%
Paid-up Capital (BDT mn)	2,181.6
3 Months Average Turnover (BDT mn)	43.8
3 Months Return	34.1%
Current Price (BDT)	38.5
52-week price range (BDT)	28.4 - 53.3
Sector Forward P/E	16.3

	2015	2016	2017	2018 (9M Annu)
Financial Information (BDT mn):				
Operating Income	640	841	1,246	1,668
Operating Profit	446	502	673	950
Profit After Tax	240	303	335	382
Equity	2,475	2,775	3,111	3,397
Deposit	4,745	17,179	29,747	33,691
Loans and Advances	6,416	19,481	34,467	39,763
Total Asset	8,202	22,577	39,289	45,148
Margin:				
Operating Profit	69.7%	59.6%	54.0%	57.0%
Net Profit	37.5%	36.0%	26.9%	22.9%
Growth:				
Loans & Advances	13.0%	203.6%	76.9%	15.4%
Deposits	18.7%	262.1%	73.2%	13.3%
Equity	8.0%	12.1%	12.1%	9.2%
Operating Income	10.3%	31.5%	48.0%	33.9%
Net Profit	45.1%	26.2%	10.7%	14.0%
Financial Indicators:				
Credit/Deposit	135%	113%	116%	118%
Asset/Equity	331%	814%	1,263%	1,329%
Capital Adequacy	49.2%	22.1%	15.1%	--
NPL	1.9%	0.7%	0.6%	--
Cost to Income	30.3%	40.4%	46.0%	43.0%
Profitability:				
ROA	3.0%	2.0%	1.1%	0.9%
ROE	10.1%	11.5%	11.4%	11.8%
Dividend History:				
Dividend % (C/B)	0/20	0/20	0/20	-/-
Dividend Yield	--	--	--	-/-
Dividend Payout	--	--	--	-/-
Valuation:				
Price/Earnings	37.8	29.9	22.9	22.0
Price/BV	3.7	3.3	2.5	2.5
EPS (BDT)	1.3	1.7	1.5	1.8
DPS (BDT)	--	--	--	--
NAVPS (BDT)	13.6	15.3	14.3	15.6

INTERNATIONAL LEASING SECURITIES LIMITED

Industry Overview

As financial intermediaries, Non-Bank Financial Institution (NBFI) plays vital role in the development of the country. The main activities of NBFIs are consisted of syndicated financing, bridge financing, lease financing, securitization instruments, private placement of equity etc.

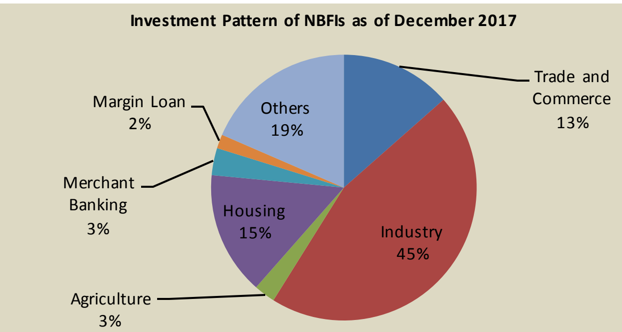
Number of NBFIs: According to latest Bangladesh Bank (BB) statistics, out of 34 NBFIs, 3 are Government-owned, 12 are joint venture and the rest 19 are locally private-owned. Meanwhile, the branch network increased to 255 as on December 2017. So far 23 NBFIs are listed in the capital market. NBFIs have significant contribution to the country's Capital Market through its separate subsidiaries – Merchant Banks and Brokerage houses. Few NBFIs are specialized in Real Estate sector financing.

Growth of the Sector: Major sources of funds of NBFIs are term deposits, credit facilities from banks and other NBFIs, the call money market, as well as bonds and securitizations. The assets of the sector have increased substantially by 17.6% to BDT 841 bn, liabilities by 19.3% to BDT 726 bn and equity by 7.8% to BDT 115.1 bn in CY17.

Loans and lease is the major component of the NBFI's asset base consists of approximately 73.0% of total assets in 2017. In December 2017 aggregate loan and lease was BDT 614.6 bn grew by 15.1% from December 2016. Over last 5 year, Loan portfolio of the sector grew at a CAGR (Compound Annual Growth Rate) of 20.0%.

On the other hand, **Deposit** accounts for around 64.5% of total liabilities. Aggregate deposit of NBFI sector was BDT 468 bn in 2017 increased by 22.0% from 2016. 5-year CAGR of the sector deposit was 17.0%.

Sector wise composition of NBFIs' investment at the end of December 2017 was as follows:



Source: Bangladesh Bank

Profitability: NBFIs' profit before taxes has increased by 40.2% in 2017 mainly due to 31.4% increase in net interest income, 88.9% increase in investment income and 150.0% increase in commission and brokerage income. However, other operating income decreased by 17.9%. On the other hand, operating expenses and tax provisions increased by 25.3% and 5.4% respectively, while loan loss provisions has remained the same, compared with those of the previous year.

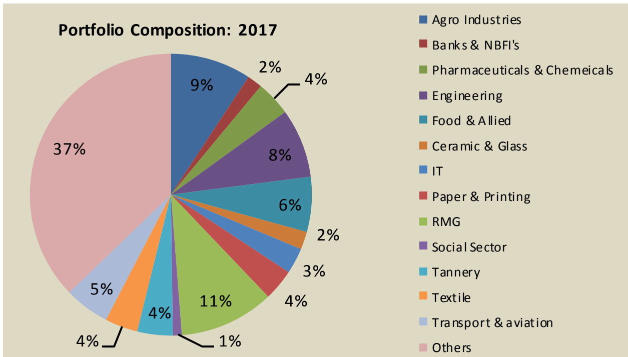
ROA (Return on Asset) and ROE (Return on Equity) measures the profitability relative to asset and equity. In 2017, ROA and ROE was 1.1% & 7.9% respectively which was 0.7% & 4.4% in last year.

Asset quality: The ratio of non-performing loans/lease (NPL) to total loans/lease is one of the key indicators to identify problems with asset quality in the loan portfolio. Total classified loan of the sector stood at BDT 45.2 bn in December 2017 which is 7.3% of total industry loan.

Impact of Liquidity crisis: The performance of NBFI is greatly influenced by the banking sector of the country. The banking sector has continued to struggle in 2018 due to rising non-performing loans against increased loan portfolio amid lower deposit growth. For facing increasingly more demand for loans from the private sector, a few banks had exceeded the allowable loan-deposit ratio (LDR) of 85% as a result central bank has advised banks to reduce the LDR to 83.5% by December 2018. The reduction of LDR has abridged the banking ability of disbursing loan. For tackling the situation banks and financial institutions have tried to collect more funds by increasing the rate of interest in deposit. Eventually, the increased deposit rate squeezes the interest margin of the NBFIs.

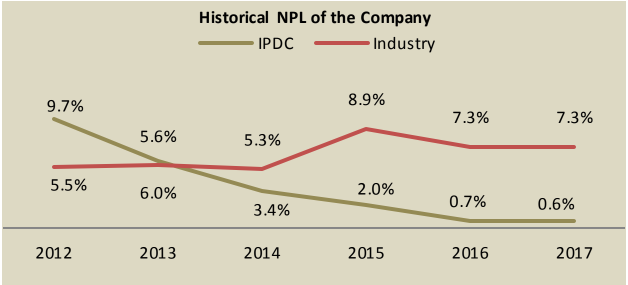
Investment Positives

- As of September 2018, the balance-sheet size of the Company stood at BDT 45.15 bn increased by 14.91% over December 2017. **The 5-year CAGR (Compound Annual Growth Rate) of the balance-sheet size was 40.2%.**
- **As of September 2018, the Company holds a Loan Portfolio of BDT 39.76 bn increased by 15.3% compared to December 2017.** In 2017, loan portfolio of the Company was BDT 34.47 bn up by 76.9% from 2016.
- As of Dec 31, 2017, Loan Diversification was ensured as **RMG got 10.9% of total loan portfolio followed by agro industries 9.3% and engineering sector 7.9%.** The Company is focusing its business growth driven by SME, women entrepreneurship, retail and housing sector. SME and Retail portfolio consists of 24.4% & 20.3% respectively as of December 2017. **In 2017, SME and Retail portfolio grew by 196.6% & 139.2% respectively over last year**.



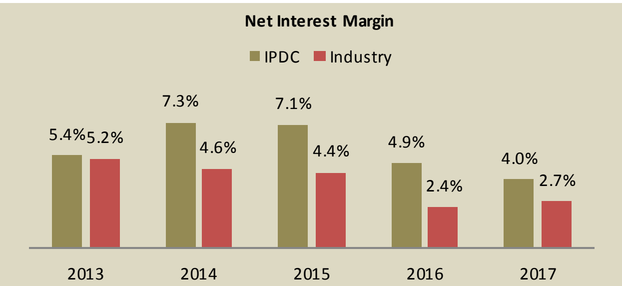
Source: Annual Report

- As of September 2018, **the Company obtained around 80.70% of financing from Deposits,** the less costly means of financing compared to bank's borrowing, which was 82.2% in December 2017. As of December 2017, the industry average was 64.5%.
- The Company is continuously giving emphasis to maintain the quality of the total loan portfolio. **Non-performing loan (NPL) of the Company has dramatically moved down over the last five years and hit industry record low to 0.62% as of December 2017** which was 0.71% in December 2016. As of December 2017, industry NPL was 7.3%.



Source: Bangladesh Bank and Annual Report of IPDC

- **The Company has planned to increase the loan portfolio to BDT 110.0 billion in the next five years**. Around 50% of that loan portfolio will be targeted at the consumers, 30% will be catered to the industries while the remaining 20% will be served to small and medium entrepreneurs. **In collaboration with BRAC, the Company has the plan to make the financial products available at BRAC centers across the country** (The Financial Express news published on 24 October 2016)**.**
- The Company has outperformed the industry in terms of net interest margin. The net interest margin of the industry has been witnessing downtrend trend due to the decrease in lending and deposit rate in last few years.



Note: Net interest margin of the IPDC has been calculated (approx.. calculation) based on the net interest income and average loan of the Company, Industry interest margin is taken from financial stability report 2017, Bangladesh Bank.

- In October 2018, **BSEC has given consent for raising of capital of the company of BDT 1,000.00 million by issuing 'Fully Redeemable Subordinated Bond'** through private placement to other than existing shareholders of the Company in cash consideration. Moreover, in March 2017, **BSEC approved the issuance of Non-Convertible Zero Coupon Bond of BDT 3,000.00 million** to raise capital of the Company. Meanwhile, in February 2018, the Company has decided to raise paid up capital through issuance of Rights share at a ratio of 1R:2 (1 Rights Share for every 2 shares held) at BDT 13.00 each including premium of BDT 3.00 per share upon regulatory approval to cope with the business growth and strengthen the capital base of the Company with capital adequacy compliances.
- The Company has 12 branches including head office as of December 2017. **The Company has the plan to open 6 more branches in 2018** (subject to Bangladesh Bank's approval) in the potential areas of the country to capture the emerging customers.

Investment Negatives

- **Interest rate spread of the Company has been squeezing over the periods which ultimately lowering the net interest income which is now around 90% of the operating income.**

Interest Rate (IPDC)	2014	2015	2016	2017	2018 (9M)
Lending Rate*	16.3%	13.3%	11.4%	11.1%	12.8%
Deposit Rate*	12.2%	8.5%	7.7%	8.2%	10.3%
Spread	4.1%	4.8%	3.7%	2.9%	2.5%

*Lending rate: Interest income/average of loans & advances
*Deposit rate: Interest expense/average of total deposit
(approx.. calculation)

- **Cost to income ratio of the Company is in increasing trend due to higher growth of operating expenses than that of operating income.** The Company's operating expenses increased by 68.6% in 2017 over last year as the Company opened three new branches, upgraded technological platform and strengthened human capital.

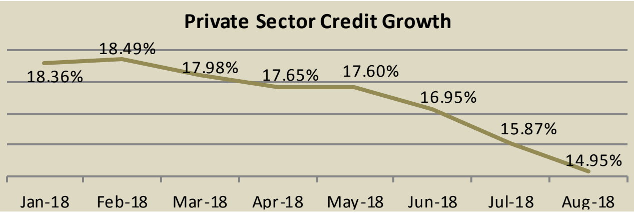
Particulars	2013	2014	2015	2016	2017	2018 (9M)
Cost to Income Ratio	32.0%	31.9%	30.3%	40.4%	46.0%	43.0%

- Business model of the Company is not diversified like its peers* as around 90% of total operating income comes from net interest income.
*Total operating income of IDLC, LANKABAFIN and ILFSL is more diversified
- The Company's business faces competition from the commercial banks in terms of sources of fund. The banks can obtain fund from cheaper sources where the Company has to offer higher deposit rates compared to the banks. The Company has to depend on other banks and NBFIs to fulfill its financing needs. This source of fund is costlier than deposit. However, the Company intends to gradually reduce its dependence on bank borrowing.
- The Company is also facing tough competition in consumer loan & SME financing from banks & non-bank financial institutions. To cope up from this, IPDC is improving its products mix and service efficiency to attract and retain the customers.

Latest Quarter Update – September 2018

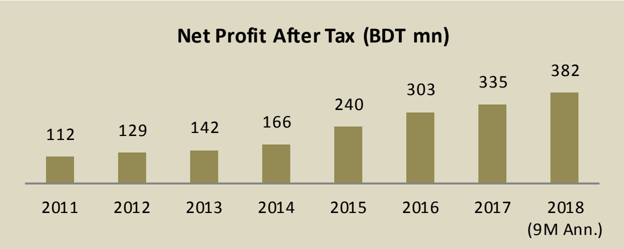
Particulars (BDT mn)	Jan-Sep 2018	Jan-Sep 2017	Jul-Sep 2018	Jul-Sep 2017
Net Interest Income	**1,124**	**763**	**451**	**263**
Growth	*47.3%*	--	*71.5%*	--
% of Operating Income	*89.9%*	*86.1%*	*90.7%*	*84.2%*
Investment Income	**46**	**49**	**15**	**18**
Growth	*-5.8%*	--	*-17.1%*	--
% of Operating Income	*3.7%*	*5.5%*	*3.0%*	*5.8%*
Commission, Exchange and Brokerage Income	**67**	**60**	**26**	**26**
Growth	*10.7%*	--	*0.8%*	--
% of Operating Income	*5.3%*	*6.8%*	*5.3%*	*8.3%*
Other Operating income	**14**	**14**	**5**	**5**
Growth	*-1.6%*	--	*-1.9%*	--
% of Operating Income	*1.1%*	*1.6%*	*1.0%*	*1.7%*
Total Operating Income	**1,251**	**886**	**498**	**313**
Growth	*41.1%*	--	*59.2%*	--
Operating Profit	**713**	**467**	**321**	**176**
Growth	*52.5%*	--	*82.9%*	--
Net Profit	**286**	**220**	**116**	**88**
Growth	*30.5%*	--	*31.8%*	--

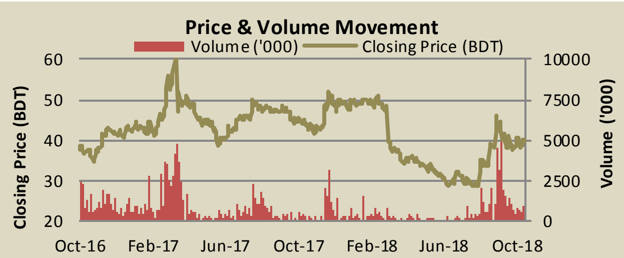
- Net interest income of the Company has registered 47.3% growth in the reported period than that of last year due to the 15% growth in loan portfolio though the whole financial market faced liquidity crisis in nine months of 2018.

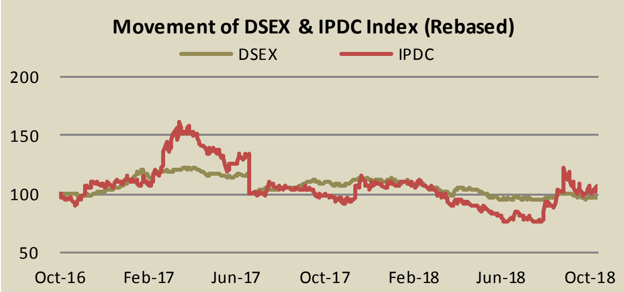


Source: Bangladesh Bank

- Operating profit of the Company increased because of increase in operating income by 41.1% against 28.5% growth in operating expenses.
- Though the operating profit increased by 52.5%, yet net profit increased by 30.5% in the period over the same period of last year because of increased provision for loans and advances and for income tax.







Concluding Remark

IPDC Finance Ltd. is the first private sector non-banking financial institution in the country. The Company is well-known for its strong ethical practices as well as standard corporate governance and statutory compliance. It maintained higher Capital Adequacy Ratio of 15.14% in 2017 against the required 10.0%. The Company has been registering strong operating performances mainly driven by the solid balance sheet growth. Moreover, the Company's initiatives to make the financial products available at BRAC centers across the country will strengthen the Company's position in the financial sector of the country.

Source: Annual Reports, DSE Website, the Financial Express, the Daily Star, ILSL Research, IPDC website.

ILSL Research Team:

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