

## PARAMOUNT TEXTILES LIMITED

DSE: PTL

BLOOMBERG: PTL:BD

### Company Overview

Paramount Textile Limited (PTL) was incorporated on June 12, 2006 and started commercial operation on September 01, 2008. PTL is engaged in manufacturing a diversified range of yarn & solid dyed woven fabrics that are consumed by export oriented garments industries. PTL's product portfolio includes 100% cotton yarn dyed fabrics, cotton solid white fabrics, striped and check shirts, stretch fabric etc. The Company also has yarn dyeing and fabrics processing facilities to support the core activity. The manufacturing facility of the Company is situated at Sreepur, Gazipur.

The Company has been graded as an Oeko-Tex Standard 100 (STANDARD 100 by OEKO-TEX® is an independent product label for all types of textiles tested for harmful materials) export oriented Bangladeshi manufacturer.

### Revenue Composition & Growth

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Sales (BDT mn)	2,935	3,018	3,352	4,120	5,674
Growth	1.5%	2.8%	11.1%	22.9%	37.7%
Sales volume (mn yards)	18.54	21.16	22.15	26.44	35.27
Growth	9.6%	14.1%	4.7%	19.4%	33.4%
Avg price per mn yards (approx)	158	143	151	156	161

Particulars	Composition		Growth*		
	2018-19	2016-17	2017-18	2018-19	2019-20 (3M)
Yarn dyed fabrics	85%	17.0%	22.1%	33.6%	-2.2%
Knit Yarn Dyeing	7%	-23.0%	5.2%	10.3%	-12.2%
Sweater yarn dyeing	0%	56.4%	-94.1%	-50.9%	--
Printing	7%	--	--	243.4%	20.1%

\*Growth for 2019-20 is calculated for 9 months than that of last year. --Data is not available. Printing unit has started its operation in 2017-18.

Raw materials accounted for 74% of cost of goods sold in 2018-19 of which around 76% of its major raw materials consumed were imported.

### Production Capacity and its Utilization

Particulars	2015-16	2016-17	2017-18	2018-19
Yarn dyed fabric (Ypd*)	Installed	66,000	74,000	90,000
	Growth	11.9%	12.1%	21.6%
	% utilization	97.6%	97.8%	96.4%
Dyed Yarn (Tpd*)	Installed	25	25	32
	Growth	--	--	28%
	% utilization	81.1%	82.2%	89.5%
Printing (Tpd*)	Installed	--	--	10
	% utilization	--	--	91.0%

\*Yards per day; \*Ton per day

Paramount Textile Ltd has invested 49.00% shares in Paramount BTrac Energy Ltd. (PBEL) which was incorporated on 25th February, 2018 for establishing a 200 MW HSD Fired Engine Based Power Plant on Build, own and operate (BOO) basis at Baghabari, Sirajgonj, Bangladesh which has commenced operation from 25 June 2019.

### Company Fundamentals

Market Cap (BDT mn)	7,975.5
Market Weight   Sector Weight	0.3%   7.5%
Free-float (Public + Inst. + Foreign)	39.1%
No. of Shares Outstanding (mn)	147.7
Paid-up Capital (BDT mn)	1,476.9
3 Months Average Turnover (BDT mn)	21.5
3-month Return (Dividend & Free-float Adjusted)	0.6%
Current Price (BDT)	54.0
52-Week Price Range (BDT)	41.0 – 66.1
Sector Forward P/E	17.3

	2016-17	2017-18	2018-19	2019-20 (9M Ann.)
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Financial Information (BDT mn):				
Sales	3,352	4,120	5,674	5,556
Gross Profit	564	693	855	905
Operating Profit	371	487	585	623
Profit After Tax	225	278	412	752
Cash & Cash Equiv.	44	12	25	39
Assets	5,653	7,349	8,245	8,685
CAPEX	887	2,362	325	366
Long Term Debt	243	1,974	2,063	1,857
Short Term Debt	2,287	2,453	2,816	2,954
Equity	2,469	2,682	3,004	3,484
Retained Earnings	559	661	917	1,264

Margin:				
Gross Profit	16.8%	16.8%	15.1%	16.3%
Operating Profit	11.1%	11.8%	10.3%	11.2%
Pretax Profit	7.8%	8.0%	8.2%	14.6%
Net Profit	6.7%	6.7%	7.3%	13.5%
Growth:				
Sales	11.0%	22.9%	37.7%	-2.1%
Gross Profit	9.7%	22.9%	23.5%	5.8%
Operating Profit	13.9%	31.3%	20.2%	6.5%
Net Profit	11.5%	23.4%	48.3%	82.7%

Profitability:				
ROA	4.3%	4.3%	5.3%	8.9%
ROE	9.3%	10.8%	14.5%	23.2%

Operating Efficiency:				
Inventory Turnover	2.4	2.3	2.4	2.1
Receivable Turnover	3.1	5.5	14.3	13.7
A/C Payable Turnover	5.4	10.2	29.2	21.7
Total Asset Turnover	0.6	0.6	0.7	0.7
Fixed Asset Turnover	1.8	1.6	1.7	1.7

Leverage:				
Debt Ratio	44.7%	60.2%	59.2%	55.4%
Debt-Equity	102.4%	165.1%	162.4%	138.1%
Int. Coverage	3.2	2.8	2.5	2.4

Dividend History:				
Dividend (C/B)%	5/10	7/5	7/9	-/-
Dividend Yield	2.7%	1.3%	1.2%	--
Dividend Payout	30.1%	34.2%	23.0%	--

Valuation:				
Price/Earnings	35.5	28.7	19.4	10.6
Price/BV	3.2	3.0	2.7	2.3
EPS (BDT)	1.5	1.9	2.8	5.1
NAVPS (BDT)	16.7	18.2	20.3	23.6

### Shareholding Structure

The Company was enlisted with the DSE in November 2013. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Jun-20	60.9%	0.0%	12.9%	4.2%	22.0%
31-Dec-19	60.8%	0.0%	11.5%	4.1%	23.6%
31-Dec-18	60.8%	0.0%	9.9%	0.0%	29.3%
31-Dec-17	60.8%	0.0%	8.3%	0.0%	31.0%

#### Ownership Structure of the Company – June 2020

Name of Shareholders	No. of Holding Shares	% of Holding
Paramount Spinning Ltd.	19,587,942	13.26%
Paramount Holdings Ltd.	17,303,337	11.72%
Mr. Shakhawat Hossain	12,986,730	8.79%
Mr. Alock Kumar Das	12,986,730	8.79%
Mrs. Samsun Nahar	10,627,085	7.20%
Mrs. Aparna Ghosh	10,627,085	7.20%
Mrs. Anita Haque	2,953,894	2.00%
Mrs. Anita Das	2,953,894	2.00%
General Shareholders	32,528,897	22.02%
Institution	18,989,020	12.86%
Foreign	6,150,200	4.16%
<b>Total</b>	<b>147,694,814</b>	<b>100%</b>

### Industry Overview

The textile sector has played a significant role in Bangladesh's economy for decades. Textile and Apparel Sector of Bangladesh contributes more than 13% of GDP. This sector generates employment of 4.2 million people directly of which 80% are women. Around 40% value addition of manufacturing sector comes from textiles.

**Raw Materials:** At present, Bangladesh does not produce enough cotton to meet the local demand. As a result, most of the cotton is imported from foreign sources. The RMG sector imports raw cotton, synthetic or viscose fibre, synthetic or mixed yarn, cotton yarn and textile fabrics and accessories for garments as inputs for the production. For the production of the export items, the sector import raw materials worth \$12.18 billion, representing 35.68% of the RMG export value.

Bangladesh is the largest importer of cotton in the world. African nations have surpassed India to become the largest source of cotton for Bangladesh as local spinners and millers look to cut down their dependence on a single source for their vital raw material. India accounted for 26% of the total cotton imports, down from more than 60% two years ago, according to data from the Bangladesh Textile Mills Association (BTMA). In fiscal 2018-19, Bangladesh imported 6.9 million bales of cotton from the world to meet its demand.

**Investment:** According to BTMA, from 2014 to 2018, local entrepreneurs invested an average of BDT 13,800 million per year in the primary textile sector. During this period, 44 new textile mills also became members of the association. As per the BTMA, there are 430 yarn manufacturing mills, 802 fabrics manufacturing mills, and 244 dyeing-printing finishing mills in Bangladesh, along with 32 denim fabrics manufacturing mills and 22 home textile manufacturing mills.

**Export:** Bangladesh exports a wide range of apparel products in North America, Europe, Asian and countries in many other geographic regions. Generally, the export products can be categorized into two major categories - Woven and Knitwear.

These two categories include a wide range of products but the key products which take up the majority of the product mix are denim, shirts, trousers, sweaters etc. Currently, 145 countries are using knit garments and 126 countries are using Bangladesh's woven products. Around 40% value addition of manufacturing sector comes from textiles. Around 85% of the export earnings come from the textile sector. The country's RMG exports declined by 18.84% to US\$ 27.70 billion in FY 2019-20. The sector had fetched \$ 34.13 billion in the FY 2018-19.

Key prospect of the sector lies in the size of the global apparel business which is worth USD 1 trillion a year. According to Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), the EU and the US are the two largest importers of Bangladeshi garments and 86% of the total exports are serving these two giants. Bangladesh caters to only 6.8% of their total apparel demand, as opposed to China, which serves 30%.

**Market Share of RMG:** China, alone holds 31% of the total global market share. Bangladesh is now the second biggest exporter of readymade garments in the world with a market share of 6.8% after China followed by Vietnam with 6.2%. According to Mckinsey's apparel CPO survey, due to production cost increase, large share of sourcing value will be moved away from china to other countries over the years. As a low cost manufacturing destination Bangladesh is expected to benefit from Chinese loss of market share.

**Global Market:** According to the BKMEA, within 2020 there will be a demand for US\$ 650 billion in the global clothing & apparel market, where there is a scope for Bangladesh to contribute \$ 44.56 billion. This would be affected through higher growth in emerging and developing economies like Bangladesh. The Bangladesh textile industry is yet to avail the benefit of global growth, as foreign buyers are continuing their pressure for lower price, shorter lead time and better quality, apart from other external competitive factors.

**Industry Drivers:** Due to the quota free access in EU, Bangladesh holds the position of top denim exporter in the EU countries with a market share of 21.18%. Bangladesh has always experienced the advantage of having cheap labor for manufacturing industry. This results in a cheaper cost of production and draws attention of companies across the globe. China's increase in wage and inclination to move towards higher value added industries are expected to open up new opportunities for many Asian countries, since the businesses will be looking for alternatives. In Europe, Bangladesh has already captured two-third of low end manufacturing market previously occupied by China. Bangladesh's clothing industry has significant advantage in labor cost which is less than a fifth of the labor costs in China. Geographically, Bangladesh is located in an area with easy access to seaports, land ports and airports.

**Power Sector:** Fuel and power sector is the most important sector for the development of the economy. Like the other developing countries, the demand for electricity is increasing day by day in Bangladesh. According to Power System Master Plan (PSMP) the growth of demand will be almost 11% on an average for the next five years. **As on June 2020, installed power generation capacity of the country is 23,500 MW where maximum power generation was 12,893 MW as on 29 May 2019.** As of June 2020, public and private sector contribution is 50%-50% of the total power generation in the country. The

government has set a target to bring the country under electricity coverage by 2021. **The government plans to raise electricity production to 24,000 MW by 2021 and to 40,000 MW by 2030, as part of its plan to provide electricity to all.**

Currently, **natural gas is the prime source of fuel** in Bangladesh. As of June 2019, as per Bangladesh Power Development Board (BPDB) data, **57.37% of power producing plants are natural gas based**, 26.16% are furnace oil based, 7.23% are diesel fuel based, 2.75% are coal based, 1.21% are hydro based and 6.12% are imported.

### Investment Positives

- The Company has been continuously investing for increasing the production capacity of Yarn Dyed Fabrics unit to supply to the growing demand. It has **invested around BDT 2.0 billion for BMRE** (Balancing, Modernization, Rehabilitation and Expansion) for **increasing the capacity of Yarn Dyed Fabric and Knit Yarn Dyeing units**. The **5-year CAGR** (compound annual growth rate) **in capacity and actual production** of Yarn Dyed fabric Unit was **13.66% & 13.80%** respectively.

Particulars		2015-16	2016-17	2017-18	2018-19
Yarn dyed fabric (Ypd*)	Installed	66,000	74,000	90,000	110,000
	Growth (unit)	7,000	8,000	16,000	20,000
	Growth (%)	11.9%	12.1%	21.6%	22.2%
	Actual Production	64,416	72,372	86,770	101,887
Dyed Yarn (Tpd*)	Installed	25	25	32	32
	Growth (unit)	--	--	7	--
	Growth (%)	--	--	28%	--
	Actual Production	20.28	20.55	29.65	28.93

\*Yards per day; \*Ton per day

- In November 2019, **the Company has decided to invest around USD 9.75 million** in Thermosol dyeing, Solid dyeing, Continuous washing, bleaching unit etc. through installing brand new capital machineries for enhancing and upgrading existing production capacities & business to meet up the buyers choice & demand and the post import facilities will be settle down **under the credit facilities**.
- In July 2019, **the Company has decided to purchase brand new capital machineries** from abroad due to enhancement and replacement of machineries for increasing existing production capacity **under the credit facilities**. Total price of the machinery: USD 1,000,000.00 and Euro 340,000.00 respectively.
- The Company has diversified its investment by investing for 49% stake in a 200 MW (net) High Speed Diesel (HSD) based power plant with Bangla Trac Limited** on the basis of Build, Own and Operate (BOO) for a period of 5 years commencing on Commercial Operation Date (COD). **The COD was 25 June 2019. The Company mainly receives only the capacity payments from the government as the plant remains idle since its COD.** As per the agreement, the government would purchase electricity at BDT 19.96 per kW/h from this diesel-based power plant.

Particulars (BDT mn)	Q1, 2019-20 (Jul-Sep)	Q2, 2019-20 (Jul-Dec)	Q3, 2019-20 (Jul-Mar)
Profit from Associate	105	226	331
% of Profit before WPPF	109%	119%	119%

- The Company has decided to invest in Paramount Dredging Limited with its sister concern Paramount Holdings Limited where paramount Textile Ltd. will hold 65% stake of the proposed company. Initially, the Paid-up capital of Paramount Dredging Limited would be BDT 10.00 million (Source: DSE news, November 28, 2019).

### Investment Negatives

- Gross profit margin (GPM) of the Company is in declining trend. This was because of increase in raw materials costs mainly for yarn purchases.** Yarn is the basic raw material for the Company's products. **Raw materials accounted for 74% of cost of goods sold in 2018-19 of which around 76% of its major raw materials consumed were imported in 2018-19.** Hence, fluctuation of yarn price in the international market affects its profit margins.

Major Items of Cost of Production					
Particulars (BDT mn)	2014-15	2015-16	2016-17	2017-18	2018-19
Cost of Production	2,332	2,577	2,854	3,706	4,812
Raw Materials Consumed	65.3%	61.1%	61.5%	61.1%	64.5%
Fuel/Power	3.3%	5.5%	4.9%	5.2%	5.7%
Spare Parts	1.2%	1.3%	1.0%	0.5%	0.6%
Wages & Salaries	14.5%	15.1%	16.7%	13.5%	13.0%
Other Overhead	15.7%	16.9%	15.8%	19.6%	16.3%

Source: Annual Report

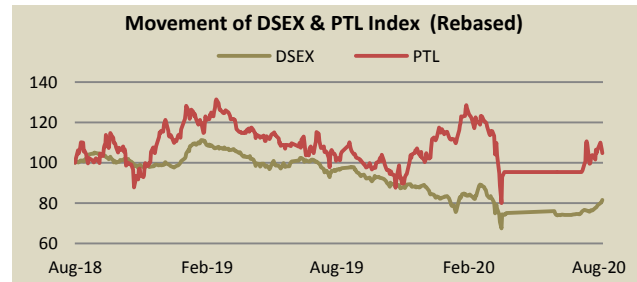
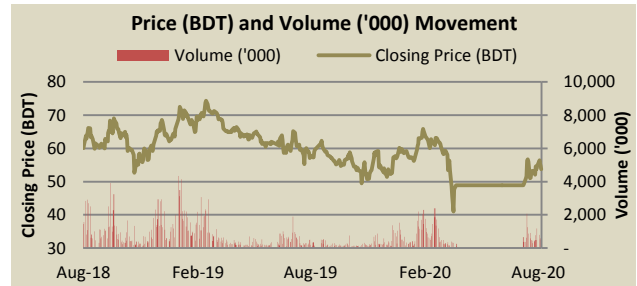
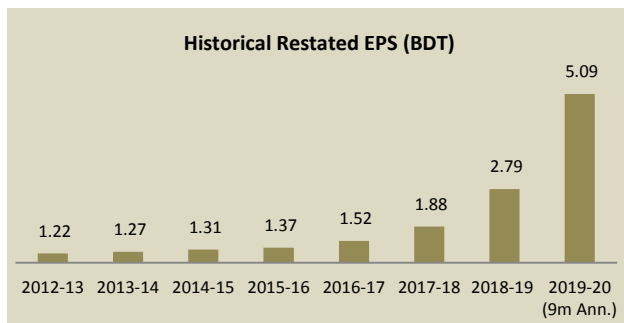
- The Company is heavily exposed to leverage. **As of March 2020, debt to total asset ratio stood at 55.4%. High interest eats-up around 42% of its operating profit** in the nine months of 2019-20 which was 40% in 2018-19. Interest coverage ratio was 2.4x as of March 2020. **The finance cost is going to rise further due to debt financing to another BMRE project which was declared recently.**
- The Company has entered into **Power Purchase Agreement with BPDB for a period of 5 years** from the date of commercial operation which is 25 June 2019. As the plant is a HSD (high speed diesel) based quick rental project so it is **unlikely that BPDB will extend the contract.**
- The Company cannot sell its power to the BPDB as the BPDB has kept the plant idle as reserve.** So, it has to satisfy with the capacity payment only.

### Latest Quarter Update – March 2020 (Q3)

Particulars (BDT mn)	Jul-Mar 2020	Jul-Mar 2019	Jan-Mar 2020	Jan-Mar 2019
Revenue	4,167	4,233	1,378	1,434
Growth	-1.5%	--	-3.9%	--
Gross Profit	679	713	219	243
Margin	16.3%	16.9%	15.9%	16.9%
Growth	-4.9%	--	-9.8%	--
Operating Profit	467	455	150	144
Margin	11.2%	10.8%	10.9%	14.4%
Growth	2.7%	--	4.0%	--
Net Profit	564	287	178	124
Margin	13.5%	6.8%	12.9%	8.7%
Growth	96.4%	--	43.1%	--

- Turnover of the Company has slightly decreased by 1.5% during July-March of 2019-20 over the same period of last year due to decrease in sales of yarn dyed fabric unit and knit yarn dyeing unit by 2.2% & 12.2% respectively.

- Gross profit margin has slightly dropped to 16.3% during the period which was 16.9% in the same period of last year due to the increase in raw materials price in international market.
- Operating profit margin has increased to 11.2% during the reported period as the operating expenses has decreased to 5.1% of sales during the period which was 6.1% than that of last year due to the decrease of administrative expenses.
- Finance expenses have increased as the Company availed short term debt during the period over June 2019.
- The Company's associate income (49.00% equity interest at Paramount BTrac Energy Ltd., 200 MW HSD fired power plant) was 119% of its Profit Before WPPF during the period. The commercial operation date of the associate was June 25, 2019.
- Net profit grew by 96% during the reported period over the same period of last year riding on the contribution of its associate income.



**Pricing\* Based on Relative Valuation:**

	Multiple	Value (BDT)
Market Forward P/E	13.8	70.5

\*Based on 3rd Quarter annualized data.

**Concluding Remark**

PTL is a manufacturer of yarn & solid dyed woven fabrics which are consumed by export oriented garments industries in Bangladesh. Recently, the Company has made significant investment for BMRE purpose of its textile unit. Meanwhile, it has engaged in power generation business. The Company's net profit is expected to boost significantly with the contribution from the BMRE and power generation project.

Source: Annual Reports, DSE website, newspaper news, BGMEA, BTMA, ILSL Research.

**ILSL Research Team:**

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

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