

**Company Overview**

Renata Limited incorporated in 1972 as Pfizer Laboratories (Bangladesh) Limited, subsidiary of Pfizer Corporation, USA. In 1993 the company renamed as Renata Limited after divestment of shareholdings by Pfizer Corporation, USA. The main fields of conducting business are manufacturing, marketing and distribution of Pharmaceuticals, Animal Health Medicines, Nutritionals and Vaccines.

The revenue of the company mainly generated from three revenue segments; Pharmaceutical products, Animal health products and Contract manufacturing generate 70%, 20% and 10% of the revenue respectively. Renata has contract manufacturing of general products for BRAC, UNICEF and SMC. Around 93.82% of Renata's revenue comes from domestic sales. As of July 2017, the company's products were exporting to 16 countries. The company is the marketer and distributor of nine international pharmaceutical and animal health care companies, Current market share of Renata is around 5%. The company is the market leader in animal health product.

**Revenue segments & growth**

Particular (BDT mm)	2014 (Jan-Dec)	2015 (Jan-Dec)	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)
<b>Pharmaceutical products</b>	<b>7,988</b>	<b>9,605</b>	<b>10,382</b>	<b>11,284</b>
<i>Growth</i>	20.9%	20.2%	--	8.7%
<b>Animal health products</b>	<b>1,832</b>	<b>2,409</b>	<b>2,899</b>	<b>3,175</b>
<i>Growth</i>	11.5%	31.5%	--	9.5%
<b>Contract manufacturing</b>	<b>1,287</b>	<b>867</b>	<b>920</b>	<b>1,585</b>
<i>Growth</i>	153.6%	-32.7%	--	72.3%
<b>Total</b>	<b>11,107</b>	<b>13,425</b>	<b>14,201</b>	<b>16,645</b>
<i>Growth</i>	26.8%	20.9%	--	17.2%

Ranata has 99.99% shareholding in Renata Agro Industries Limited that engage in poultry breeding and selling various agro based products, 99.99% shareholding in Purnava Limited that carries on the business of marketing and distribution of consumer goods, consumer durables, food items, edible oils, beverages etc. and 99.99% shareholding in Renata Oncology Limited that manufactures, markets and distributes various oncology based products. In 2016-17, the Company earned 93.8% of its revenue from local sales.

**Revenue & Growth**

Particulars (BDT mn)	2013	2014	2015	2016-17
Local Sales	8,757	11,107	12,881	16,043
Export	207	248	695	990
<b>Growth*</b>				
Local Sales	14.2%	26.8%	16.0%	--
Export	-21.2%	19.8%	79.8%	--

\* Growth for 2016-17 is not calculated due to unavailability of data.

The Firm has been enlisted in the DSE in 1979.

**Shareholding Structure**

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-17	51.16%	0.00%	17.49%	21.78%	9.57%
30-Jun-17	51.16%	0.00%	17.18%	21.78%	9.88%
31-Dec-16	51.12%	0.00%	15.45%	21.78%	11.65%

**Company Fundamentals**

Market Cap (BDT mn)	86,152.2
Market weight	2.4%
Free-float	70.0
Paid-up Capital (BDT mn)	48.8%
No. of Shares (in mn)	700.3
3-month Average Turnover (BDT mn)	15.4
3-month Return	20.1%
Current Price (BDT)	1,230.2
52-week price range (BDT)	1,080.0-1,284.8
Sector Forward P/E	19.9

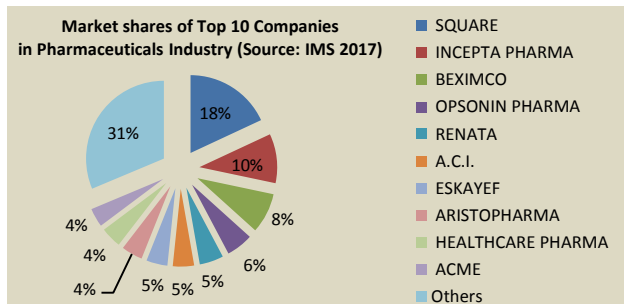
	2015 (Jan-Dec)	2016 (Jan-Jun)	2016-17 (Jul-Jun)	2017-18 (6M Ann.)
<b>Financial Information (BDT mn):</b>				
Sales	13,425	7,686	16,645	18,676
Gross Profit	6,716	3,945	8,344	9,880
Operating Profit	3,258	2,203	4,174	4,883
Profit After Tax	2,076	1,228	2,678	2,812
Assets	16,021	17,328	18,719	20,621
Long Term Debt	366	250	96	15
Short Term Debt	2,609	2,634	1,972	1,793
Equity	9,188	10,941	12,943	13,815
<b>Margin:</b>				
Gross Profit	50.0%	51.3%	50.1%	52.9%
Operating Profit	24.3%	28.7%	25.1%	26.2%
Pretax Profit	21.0%	26.0%	22.7%	23.7%
Net Profit	15.5%	16.0%	15.2%	15.1%
<b>Growth*:</b>				
Sales	17.4%	21%	17%	20.6%
Gross Profit	17.5%	22%	12%	19.7%
Operating Profit	13.4%	28%	11%	19.1%
Net Profit	23.1%	19%	18%	15.5%
<b>Profitability:</b>				
ROA	13.5%	14.2%	14.9%	14.3%
ROE	24.2%	22.5%	22.4%	21.0%
<b>Operating Efficiency Ratio:</b>				
Inventory TR*	4.2	4.3	4.8	5.4
Receivable TR	7.5	7.2	7.1	7.8
A/C Payable TR	31.8	25.6	32.9	38.8
Total Asset TR	0.9	0.9	0.9	1.0
Fixed Asset TR	1.6	1.7	1.7	1.9
<b>Leverage:</b>				
Debt Ratio	19.5	17.5%	11.9%	9.5%
Debt-Equity	34.1%	27.8%	17.2%	14.3%
Int. Coverage	11.1	20.6	20.7	20.8
<b>Dividend History</b>				
Dividend (C/B)%	-/-	85/15	130/15	-/-
Dividend Yield	-/-	0.7%	1.2%	-/-
Dividend Payout	-/-	29.6%	21.7%	-/-
<b>Valuation:</b>				
Price/Earnings	31.5	33.1	32.7	31.1
Price/BV	9.5	6.5	6.8	6.3
EPS (BDT)	29.7	35.1	38.2	40.2
NAVPS (BDT)	131.2	156.2	184.8	197.0

N.B: The Company has changed its financial year to July-June from January-December. \*Growth for 2016 was calculated for 6 months over same period last year. \*TR= Turnover Ratio

### Industry Overview

Pharmaceutical Industry is one of the most developed manufacturing industries in Bangladesh which is considered second largest sector in terms of contribution of government exchequer. Prior to 1982, there were about 10 multinational companies securing 80% of total market share. At present, this industry primarily produces generics drugs of around 8,300 different brands that furnish up to 98% of the domestic demand. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

According to IMS Report 2017, top 10 companies occupy 68.68% of the total market share and top 20 manufacturers grabbed 86.21% of total market which was 85.91% in last year.



Export is a promising but untapped segment for the country's pharmaceutical sector. According to DGDA (Directorate General of Drug Administration), Bangladesh exports drugs to 87 countries. In FY 2015-16, the Country exported USD 82.11 million pharmaceutical products which were 13% higher than that of FY 2014-15. According to Export Promotion Bureau, the export target for FY 2016-17 is USD 95 million.

However, supply side of this industry mostly depends on import. Around 90% of required raw materials are imported from China and India whereas some local companies – Beximco Pharmaceuticals Ltd., Square Pharmaceuticals Ltd., Opsonin Chemicals Ltd. Drug International Ltd., Globe Pharmaceuticals Ltd., Gonoshastaya Pharmaceuticals Ltd, Sunipun Pharmaceuticals Ltd. etc. – produce certain APIs on smaller scale for mainly in-house use. The local companies usually run the relatively easier final chemical synthesis stage with API intermediaries, instead of the complete chemical synthesis.

Meanwhile, construction of 200-acre API Park is in progress. A total of 42 industries would be set up under the project; expected total cost is BDT 4.39 billion. Upon operational of the plant, the raw material imports are expected to come down to 30% and the costs of APIs are estimated to decrease by around 20%. The API industrial park promises to propel Bangladesh to the next level as a drug exporter since it is expected to help the local pharma companies gain more export orders with a competitive edge and maintain stable prices in the domestic market.

WTO (World Trade Organization) member countries have extended the deadline to comply with the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement, allowing LDCs to avoid applying and enforcing IP (Intellectual Property) rights on pharmaceutical products until 2033. Bangladesh will get more benefit from the extension of drug patent waiver as the country is more capable of manufacturing pharmaceutical products than any other LDCs.

### Investment Positives

- **The Company showed stable performance over the years. The 5 years CAGR of the revenue and net profit are 18.55% and 19.27% respectively.** The sales growth is mainly stimulated by the increase in pharmaceutical product sales.
- In line with the steady business growth, it was also able to maintain stable profit margins over the years. **The company has higher gross margin and net profit margin compare to its peers.**

Margin*	RENATA	SQURPHARMA	BXPHARMA	ACMELAB
Gross Profit	52.90%	49.81%	46.14%	37.60%
Operating Profit	26.15%	32.91%	22.92%	22.50%
Pretax Profit	23.67%	35.86%	19.47%	15.12%
Net Profit	15.06%	27.31%	15.06%	11.13%

\*Margins have been calculated based on the financial statements of Jul-Dec 2017-18.

- **According to the DSE news (January 18, 2018), the two factories of Renata got approval from the Medicines and Healthcare products Agency (MHRA) of the UK and the Company has received registration for two products in the UK. From the February of this year the sales of Hydrocortisone tablets shall begin followed by Colchicine tablets. This will boost the companies export revenues.** The company is also expected to enter in the Ireland and Germany's market very soon.
- **The company has recently been approved by the government of Bangladesh for acquisition of two Abbreviated New Drug Applications (ANDAs). Therefore, the company expects to begin its US business by the end of 2018.**
- From the last 20 years the Company has been the no.1 in the Animal Health market. The company's 20% of the revenue is generated from animal health products. The company has showed continual effort to dominate in this market. During the year 2016-17 the introduced 14 new formulation out of which nine are animal health products.
- The company has paid most of its long term debts. In the dec-2014 the long term loans were 782.51 mm whereas in the end of the 1<sup>st</sup> quarter of 2017-18 long term loans reduced to 52.03 mm. This reduction in debt would positively affect the earnings of the company.

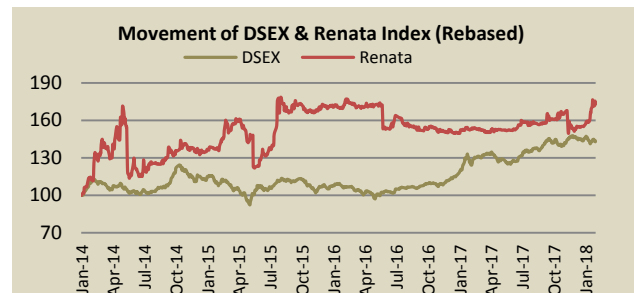
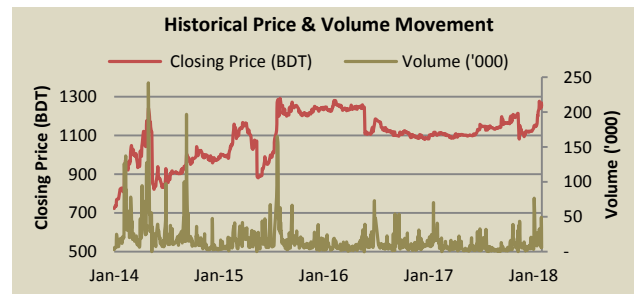
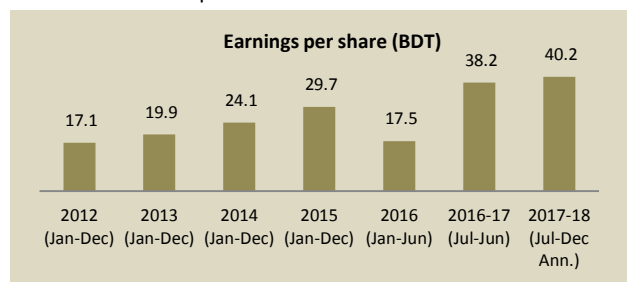
### Investment Negatives

- **The company's 8 out of 10 major product groups are utilizing more than 100% of its capacity. So without increasing the production capacity, the company may fail to keep pace with the growth of the domestic and foreign demand.**
- The Company is highly dependent on imported raw materials as around 51% of the costs of goods sold are imported. In 2017 alone, the Bangladeshi taka has depreciated against US dollar by 5.43% and matter of concern is that it is in downward trend. Therefore unfavorable foreign exchange movement may affect the profitability of the Company.
- Total BDT 687.76 mn contingent liabilities (Income Tax BDT 55.78 mn and VAT BDT 631.98 mn) claim against the firm may badly affect its future profitability.
- Purnava Limited has incurred loss of 20.20 mm and 59.19 mm in 2015-16 and 2016-17 respectively. The company has been incurring loss since 2015.

**Latest Quarter Update –December 2017 (Q 2)**

Particulars (BDT mn)	Jul-Dec 2017	Jul-Dec 2016	Oct-Dec 2017	Oct-Dec 2016
Revenue	9,338	7,746	4,681	4,226
<i>Growth</i>	20.6%	--	10.8%	--
Gross Profit	4,940	4,128	2,522	2,272
<i>Margin</i>	52.9%	53.3%	53.9%	53.8%
<i>Growth</i>	19.7%	--	11.0%	--
Operating Profit	2,441	2,050	1,256	1,105
<i>Margin</i>	26.1%	26.5%	26.8%	26.1%
<i>Growth</i>	19.1%	--	13.7%	--
Net Profit	1,406	1,208	699	650
<i>Margin</i>	15.1%	15.6%	14.9%	15.4%
<i>Growth</i>	16.4%	--	7.5%	--

- The company has achieved 20.6% growth in Jul-Dec of 2017-18 over the same period of last year, which is mainly driven by the 28.9% increase in sales of pharmaceutical product.
- Net profit in Jul-Dec of 2017 has increased by 16.4% over the same period of last year due to the increase in sales.
- The net profit margin decreased to 15.1% in the Jul-Dec of 2017 from 15.6% over the same period of last year because of increase in Administrative, selling & distribution expenses.


**Concluding Remark**

Renata Ltd. is a leading manufacturer and exporter of medicines in Bangladesh. The company has maintained strong growth rate in its revenue and net profit over the years. The Company is also the market leader in Animal health market. With the MHRA approval Renata's export will be boosted in the future. Recent Bangladesh government approvals for the acquisition of two ANDAs will also stimulate its entry to the US market and resulting into higher revenue growth.

Source: Annual Report, 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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