

## INDEX AGRO INDUSTRIES LIMITED

### Company Overview

Index Agro Industries Limited (IAL) was incorporated on September 13, 2000 and started its commercial operation on July 01, 2004. The principal activities of this Company are manufacturing and marketing of poultry feed, fish feed and producing Day Old Chicks (DOC). The corporate office of the Company is situated at Middle Badda, Progoti Saroni, Dhaka. IAL has set up 01 Feed Mill at Valuka of Mymensingh, 01 Hatchery & Breeder Farm at Rajendrapur of Gazipur, 01 Hatchery at Rangpur and another Breeder Farm at Bogura. The company has total 1,381.89 decimals of land located at Valuka, Gazipur, Abdullahpur & Bogura.

**Subsidiary Company:** The Company has no subsidiary company but it has an associate company named X-Ceramics Ltd. where the issuer holds 24.39% shares. X-Ceramics Ltd. is engaged in manufacturing ceramic tiles in Bangladesh.

### Revenue Composition & Growth:

Particulars	Revenue (BDT mn) 2018-19	Composition 2018-19	Growth	
			2017-18	2018-19
Layer Feed	1,184	27.4%	31%	-1%
Broiler Feed	1,171	27.1%	8%	-2%
Sinking Feed	124	2.9%	84%	179%
Floating Feed	366	8.5%	91%	-3%
Day Old Chicks	1,482	34.3%	13%	-2%
<b>Total</b>	<b>4,326</b>	<b>100%</b>	<b>21%</b>	<b>0%</b>

**Raw Materials:** The main raw materials are parents stock (Parent Stock are the breeders used to produce the layers or broilers used it in the production house), maize, soyabean and medicine which are procured from both local and foreign sources i.e. U.S.A., Netherlands, India, Argentina, Brazil, Indonesia, Thailand and Bangladesh. None of the supplier provides 10% or more of the Company's total supply of raw materials.

### Installed Capacity and Utilization:

Products	Particulars (in mn)	2017	2018	2019
Feedmill Unit ('000 MT)	Installed Capacity	96.00	114.00	114.00
	Actual Production	84.05	102.08	103.40
	Capacity Utilization	88%	90%	91%
Poultry & Hatchery Unit (Mn DOC)	Installed Capacity	24.00	30.00	30.00
	Actual Production	22.80	28.47	29.75
	Capacity Utilization	95%	95%	99%

### IPO

The Company intends to raise BDT 500.00 million through Book Building method of Initial Public Offering (IPO). AFC Capital Limited and EBL Investments Limited is the issue manager and FAMES & R is the auditor of the Company.

### Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Building & Civil Construction	175.37	35.07%	W/i 18 months after receiving IPO Fund.
Machineries and Equipment	299.63	59.93%	W/i 18 months after receiving IPO Fund.
IPO expenses	25.00	5.00%	As and when required
<b>Total</b>	<b>500.00</b>	<b>100%</b>	

### IPO Details

No. of Shares (Post-IPO) in mn	47.25
Authorized Capital (BDT mn)	1,000.00
Pre-IPO Paid-up Capital (BDT mn)	390.00
Post-IPO Paid-up Capital (BDT mn)	472.54
IPO size in shares (mn)	8.25
Total Issue Size (BDT mn)	500.00
Face value per share (BDT)	10.00
Offer price (For Gen. Public) per share (BDT)	50.00
Offer price (For EIs) per share (BDT)	62.00
NAVPS (Post-IPO, BDT) (December 2020)	56.12
Annualized EPS (Post-IPO, BDT) (Q2 Ann)	5.54

	2016-17	2017-18	2018-19	2019-20
<b>Financial Information (BDT mn):</b>				
Sales	3,580	4,325	4,326	4,047
Gross Profit	513	598	673	608
Operating Profit	347	394	471	423
Profit After Tax	214	265	276	264
Cash & Cash Equiv.	180	100	108	147
Assets	2,257	2,538	3,181	3,245
CAPEX	111	118	154	73
Long Term Debt	53	141	91	38
Short Term Debt	749	657	1,042	885
Equity	1,215	1,481	1,756	2,021
Retained Earnings	783	1,051	1,328	1,595
<b>Margin:</b>				
Gross Profit	14.3%	13.8%	15.6%	15.0%
Operating Profit	9.7%	9.1%	10.9%	10.5%
Pre Tax Profit	6.8%	7.1%	7.6%	7.5%
Net Profit	6.0%	6.1%	6.4%	6.5%
<b>Growth:</b>				
Sales	11.2%	20.8%	0.0%	-6.5%
Gross Profit	15.9%	16.5%	12.5%	-9.8%
Operating Profit	8.6%	13.5%	19.4%	-10.1%
Net Profit	19.5%	23.6%	4.0%	-4.1%
<b>Profitability:</b>				
ROA	9.6%	11.1%	9.6%	8.2%
ROE	19.4%	19.7%	17.0%	14.0%
<b>Operating Efficiency:</b>				
Inventory TO	8.2	10.4	6.4	4.6
Receivable TO	9.1	9.0	7.6	6.6
A/C Payable TO	24.5	41.2	49.9	60.3
Total Asset TO	1.6	1.8	1.5	1.3
Fixed Asset TO	4.2	5.0	5.0	4.7
<b>Leverage:</b>				
Debt Ratio	35.6%	31.5%	35.6%	28.4%
Debt-Equity	66.0%	53.9%	64.5%	45.7%
Int. Coverage	3.1	4.0	3.0	3.1

**Credit Rating Status:**

Rated by	Credit Rating Agency of Bangladesh Limited (CRAB)	
Date of rating	28 December 2020	
<b>Rating</b>	<b>Long Term: A<sub>3</sub></b>	<b>Short Term: ST-3</b>
Outlook	Stable	
Validity	30 September 2021	

**Shareholding Structure:**

Name of the Directors	Position	% of Holdings
		Post-IPO
Md. Mazherul Quader	Chairman	8.25%
Mahin Bin Mazher	Managing Director	8.25%
Mehzabin Binte Mazher	Nominated Director	4.13%
Mrs. Khurshid Mazher	Sponsor Shareholder	4.13%
Mrs. Esha Mahin	Sponsor Shareholder	4.13%
Md. Mamunur Rashid (Nominated by Index Holdings Ltd.)	Director	20.63%
Mehzabin Mazher (Nominated by Index Construction Ltd.)	Director	8.25%
<b>Total</b>		<b>57.77%</b>

All the directors of the Company are the members of the Chairman's family.

**Category wise shareholding structure**

Category of Shareholders	No of ordinary shares	% of Holdings
		Post-IPO
Sponsors & Directors	27,300,000	57.77%
Individual	11,700,000	24.76%
Eligible Investors	3,893,265	8.24%
General Investors	4,360,384	9.23%
<b>Total</b>	<b>47,253,649</b>	<b>100.00%</b>

**Companies under common ownership**

Name of the Concern	Nature of Business
X-Ceramics Ltd.	Manufacturing and distribution of porcelain and ceramic tiles
Monalisa Ceramics (BD) Ltd.	
Index Poultry (Pvt) Ltd.	Poultry breeding
Index Construction Ltd.	Building construction, architecture and real estate sectors of the economy
Index Holdings Ltd.	
Nitol Insurance Co. Ltd.	General insurance
West Zone Power Distribution Co. Ltd	Power Distribution
Rupali Bank Limited	Bank

The Directors of Index Agro Industries Limited are not associated with any other listed companies other than the following:

Name of Directors	Engagement in Listed Company
Md. Mamunur Rashid FCMA (Nominated by Index Holdings Limited)	Nitol Insurance Co. Ltd.
A.K.M. Delwer Hussain, FCMA (Independent Director)	Rupali Bank Limited

**Competitive Conditions**

The Company manufactures all kinds of layer & boiler poultry feed and fish feed for the commercial poultry farms, hatchery and also producing Day Old Chicks (DOC). Major competitors of the Company are: Aman Feed, National Feed Mills, Quality Feed, Paragon Feed Mill, Nourish Poultry & Hatchery, Provita

Feed Mill, RAC Poultry Feeds Ltd., New Hope Feed Mill (BD), Kazi Feed Limited, ACI -Godrej Agrovet (Pvt), Aftab Feed Products.

Among the companies in this sector - Aman Feed Limited and National Feed Mills Limited are listed with the exchanges.

**Performance of the listed Peer Companies**

Company Name	BDT mn	Margin		BDT	
	Revenue	Gross Profit	Net Profit	EPS	NAVPS
<b>IAIL</b>	<b>4,047</b>	<b>15.0%</b>	<b>6.5%</b>	<b>5.6</b>	<b>42.8</b>
AMANFEED	6,217	18.9%	7.7%	3.7	32.5
NFML	763	13.6%	1.9%	0.2	12.8

Data has been derived from 2019-20 annual reports of IAIL & NFML and 2018-19 for AMANFED.

**Industry Overview**

The role of Fisheries and Livestock sectors in the development of agro-based economy of Bangladesh is very important and promising. They contribute around 8% to national income, which also is 32% of the total agricultural income.

about 80% of animal protein in our diet comes from fish and livestock. The poultry industry in Bangladesh plays a crucial role in economic growth and simultaneously creates numerous employment opportunities. The poultry industry, as a fundamental part of animal production, is committed to supplying the nation with a cheap source of good quality nutritious animal protein in terms of meat and eggs. Approximately 20% of the protein consumed in Bangladesh originates from poultry. A gap still exists between the requirement and supply of poultry meat and eggs.

The sector shows significant development over the last 20 (twenty) years. While there was no use of industrial feed in 1990, currently broiler industry use 100% industrial feed while layer and fish industry use 50% industrial feed and the market size is increasing every year.

The government declared poultry and fish farming as a thrust sector and classified as agro based industry. Government also liberalized its policies by introducing easier loan procedure, lower interest rate, tax holiday etc. National nutrition surveys of Bangladesh indicated the average fish intake was 11.7-13.5 kg/capita/yr for rural and urban populations, with a national average of 12 kg/capita/yr. The availability of non-cereal protein food in Bangladesh has reportedly increased significantly and has had a sustained growth rate of over 8% (eight percent) per annum in the fishery and livestock sectors in recent years.

Bangladesh is gradually increasing the dimension and horizon of the feed milling industry with the total investment for the poultry sector of the country is more than BDT 50.00 billion and more than 130,000 Poultry Farms have been established in the rural areas throughout the country. About 6,000,000 people are directly and indirectly involved in the poultry sector for their livelihood.

There is a massive gap between production & supply of the feed items. Current annual turnover in feed industry is over BDT 100.00 billion and increasing at a rate of 10% every year. As our consumption is very low compare to other country, our internal growth scope is immense.

As per the standard of World Health Organization (WHO), a matured person should intake 22 Kg of protein per year; whereas average intake of protein per person per year is 4.5 Kg in Bangladesh. A study shows that 6% GDP growth leads to 11% growth in poultry industry.

Demand for feed varies seasonally. Demand for fish feed and poultry feed decreases around thirty percent during the period from November to February. But demand for the feed increases during the period from July to September by 50%.

The threat of epidemic is one of the major risks for poultry industry. The probabilities of several diseases including Avian influenza (Bird Flu), Pasteurella multocida (Fowl Cholera) causes the major business risk for any poultry farm which eventually forced to shut down thousands of poultry farms of Bangladesh in the recent past.

#### Investment Positives

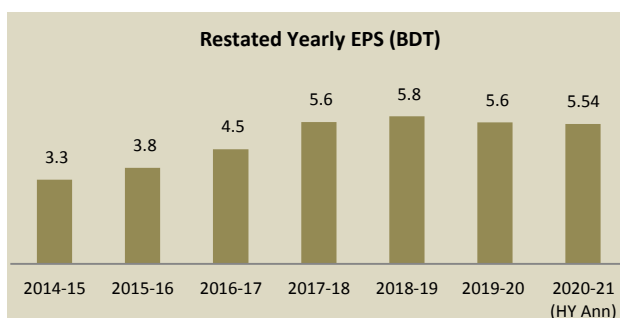
- The Company has planned to **expand its existing projects by acquisition of machinery and civil Construction by 35%** by June 2022 which will be financed from its IPO proceeds. The Company is expecting to **start commercial operation from the expanded project by September 2022.**
- **Geographical diversification of production facility would reduce production hinder risk** in case of disease outbreak of Avian Influenza (Bird Flu) in one area to some extent.

#### Investment Negatives

- Approximately **60% of the consumed raw materials are imported** from India, Argentina, Brazil and some other countries. Sourcing of maize and some other base materials basically depends on the seasonality and price. **Unfavorable currency movement and raw materials prices hampers the profitability** of the Company.
- **Pandemics, such as Avian Influenza (Bird Flu) may have a severe effect on the revenue of the Company.** Apart from this, the probabilities of Pasteurella multocida (Fowl Cholera) causes the major business risk for the Company. However, **geographical diversification of production**

**facility would reduce production hinder risk** in case of disease outbreak in one area to some extent.

- **High inventory reserve requirement & credit sales** may created working capital pressure which might result in negative cash flow.



#### Valuation

Pricing Based on Relative Valuation:

	Market Multiples	IAIL	Value/Share
Sector Forward P/E	24.2	Forward EPS – 5.44 (HY Annualized)	134.1
Sector P/B	1.7	NAVPS – 56.12	96.9

#### Latest Declaration

As per un-audited Q2 financial statements, the Company reported profit after tax of BDT 131.06 mn for the 6 (six) months (July-December 2020) period ended on 31 December 2020 which was BDT 141.12 mn registering 7.13% negative growth over the same period of last year. Post-IPO EPS was BDT 2.77 for 6 (six) months (July-December 2020) period ended on 31 December 2020 and NAV per share was BDT 56.12 as of December 2020.

**Source:** Prospectus of Index Agro Industries Limited, newspaper news and ILSL Research.

#### ILSL Research Team:

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

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

#### Research Distribution Partners:



To access research through **Bloomberg** use <ILSL>

**Disclaimer:** This document has been prepared by International Leasing Securities Limited (ILSL) for information only of its clients on the basis of the publicly available information in the market and own research. This document has been prepared for information purpose only and does not solicit any action based on the material contained herein and should not be construed as an offer or solicitation to buy or sell or subscribe to any security. Neither ILSL nor any of its directors, shareholders, member of the management or employee represents or warrants expressly or impliedly that the information or data of the sources used in the documents are genuine, accurate, complete, authentic and correct. However all reasonable care has been taken to ensure the accuracy of the contents of this document. ILSL will not take any responsibility for any decisions made by investors based on the information herein.