

## LUB -RREF (BANGLADESH) LIMITED

### Company Overview

Lub-Rref (Bangladesh) Limited was incorporated in November 18, 2001 and commenced its operation in December 18, 2006. The principal activities of the Company are to manufacture Engine Oil, Generator Oil, Marine Engine Oil, Automotive Gear Oil, Hydraulic Oil, Compressor Oil, Industrial Gear Oil, Machine Oil, Transformer Oil, Greece, laboratory services etc. Different types and qualities of lubricants are made by the Company as per diverse demand in the lubricants market. The Company has more than eighty-five (85) types of product lines, serving wide range of customers from different sectors of the country. The Company also provides a wide range of lube-oil and fuel-oil testing services to the third party. The Company is marketing its products under the "BNO Lubricants" Brand.

The factory is located at BSCIC Industrial Estate, Sagarika Road, Chittagong and corporate office is at Rupayan Trade Centre, Kazi Nazrul Islam Avenue, Banglamotor, Dhaka.

**Subsidiary Company:** Lub-rref (Bangladesh) Limited does not have any subsidiary or holding company.

### Revenue Composition & Growth:

Particulars	Revenue (BDT mn)	Composition 2018-19	Growth	
			2017-18	2018-19
Lub-Blending Oil (Mono Grade)	941	61%	3%	-4%
Multi-Grade	75	5%	13%	35%
Transformer Oil (Industrial Grade)	510	33%	88%	56%
Marine Grade	6	0%	-4%	-37%
Others	2	0%	-23%	-53%
<b>Total</b>	<b>1,534</b>	<b>100%</b>	<b>16%</b>	<b>11%</b>

**Raw Materials:** The major product of Lub-rref (Bangladesh) is various types of lubricants oil and major raw materials are Base Oil and Additives for Blending Unit and Used Oil and Additives for Re-Refinery Unit. The Company procures the base oil from foreign suppliers i.e USA, UK, Thailand, Middle East, Singapore and India. It collects used lube oil from different power plants, workshops, manufacturing plants etc. 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)	2018	2019	2020
Blending Unit (MT)	Installed Capacity	12,550	12,550	12,550
	Actual Production	6,992	9,060	9,516
	Capacity Utilization	55.71%	72.19%	75.82%
Re-refining Unit (MT)	Installed Capacity	4,527	4,527	4,527
	Actual Production	4,102	4,220	4,242
	Capacity Utilization	90.61%	93.22%	93.70%

### Credit Rating Status:

Rated by	Credit Rating Information and Services Limited	
Date of rating	February 18, 2020	
<b>Rating</b>	<b>Long Term: A</b>	<b>Short Term: ST-3</b>
Outlook	Stable	
Validity	February 17, 2021	

### IPO Details

No. of Shares (Post-IPO) in mn	145.24
Authorized Capital (BDT mn)	2,500.00
Pre-IPO Paid-up Capital (BDT mn)	1,000.00
Post-IPO Paid-up Capital (BDT mn)	1,452.43
IPO size in shares (mn)	45.24
Total Issue Size (BDT mn)	452.43
Face value per share (BDT)	10.00
Offer price (For Gen. Public) per share (BDT)	27.00
Offer price (For EIs) per share (BDT)	30.00
NAVPS (Post-IPO, BDT) (December 2020)	34.68
Annualized EPS (POST-IPO, BDT) (HY Ann)	1.20

	2016-17	2017-18	2018-19	2019-20
<b>Financial Information (BDT mn):</b>				
Sales	1,187	1,376	1,534	1,690
Gross Profit	385	442	493	545
Operating Profit	336	384	436	481
Profit After Tax	151	205	208	256.28
Cash & Cash Equiv.	74	131	78	23
Assets	4,160	4,651	5,047	5,308
Long Term Debt	749	744	754	839
Short Term Debt	621	601	674	498
Equity	2,589	2,984	3,193	3,450
Retained Earnings	709	922	1,137	1,400
<b>Margin:</b>				
Gross Profit	32.4%	32.1%	32.1%	32.2%
Operating Profit	28.3%	27.9%	28.4%	28.4%
Pre Tax Profit	17.6%	19.8%	19.6%	20.5%
Net Profit	12.7%	14.9%	13.5%	15.2%
<b>Growth:</b>				
Sales	--	15.9%	11.5%	10.2%
Gross Profit	--	14.9%	11.5%	10.5%
Operating Profit	--	14.3%	13.4%	10.3%
Net Profit	--	35.8%	1.5%	23.4%
<b>Profitability:</b>				
ROA	4.2%	4.6%	4.3%	4.9%
ROE	7.7%	7.3%	6.7%	7.7%
<b>Operating Efficiency:</b>				
Inventory TO	4.0	3.1	3.1	3.2
Receivable TO	3.6	3.9	4.1	4.0
A/C Payable TO	89.6	81.6	51.0	40.4
Total Asset TO	0.3	0.3	0.3	0.3
Fixed Asset TO	0.5	0.4	0.4	0.4
<b>Leverage:</b>				
Debt Ratio	32.9%	28.9%	28.3%	25.2%
Debt-Equity	52.8%	45.0%	44.7%	38.8%
Int. Coverage	2.6	3.4	3.4	4.0

## IPO

The Company raised BDT 1,500 million through Book Building method of Initial Public Offering (IPO) in January 2021. NRB Equity Management Limited is the issue manager and Ashraf Uddin & Co. is the auditor of the Company.

### Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Business Expansion (Acquisition & Installation of Machineries)	980.00	65.33%	W\i 24 months after receiving IPO Fund.
Repayment of Bank Loan	460.00	30.67%	W\i 06 months after receiving IPO Fund.
IPO expenses	60.00	4.00%	As and when required
<b>Total</b>	<b>1,500.00</b>	<b>100%</b>	

## Shareholding Structure:

Name of the Directors	Position	% of Holdings
		Post-IPO
Mrs. Rubiya Nahar	Chairman	2.38%
Mr. Mohammed Yousof	Managing Director	20.36%
Mr. Md. Salauddin Yousof	Director	2.24%
Ms. Israt Jahan	Director	2.15%
Mr. Ahmed Hossain (Representative of Companygonj Agro Ind. Ltd)	Nominated Director	2.42%
Ms. Nusrat Nahar	Sponsor Shareholder	6.05%
Mr. Md. Jashim Uddin	Sponsor Shareholder	1.48%
<b>Total</b>		<b>37.08%</b>

### Category wise shareholding structure

Category of Shareholders	No of ordinary shares	% of Holdings
		Post-IPO
Sponsors & Directors	53,846,301	37.07%
Individual	42,850,999	29.50%
Institution	48,545,844	33.42%
<b>Total</b>	<b>145,243,144</b>	<b>100.00%</b>

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

### Companies under common ownership

Other Businesses of Directors of Lub-rref (Bangladesh) Limited	
Name of the Concern	Nature of Business
Companygonj Agro Industries Ltd.	Agro Based Business (Private Limited company)
Juldha Ship Yard Limited	Shipbuilding and dry dockyard (Private Limited Company)

## Competitive Scenario

Among the listed companies in this sector, MJL Bangladesh Limited and Eastern Lubricants Limited are considered as major competitor of Lub-rref (Bangladesh) Limited. However, there are some other local non-listed companies who are also the competitors of lub-rref (Bangladesh) Ltd those are as follows:

Name of the company	Brand Name
MJL Bangladesh Limited	Mobil
Lub-rref (Bangladesh) Limited	BNO
Megna Petroleum Ltd.	BP
Padma Oil Company	Total
Gulf Oil Bangladesh Ltd.	Gulf
Rahimafrooz Distribution Ltd.	Castrol
Petroleum Ltd.	Conoco
Fuchs Lubricants Bangladesh Ltd.	Fuchs
Navana Petroleum Ltd.	CALTEX
Ranks Petroleum Ltd.	Shell
Pacific Oil	SINO

### Performance of the listed Peer Companies

Company Name	BDT mn	Margin		BDT	
	Net Revenue	Gross Profit	Net Profit	EPS	NAVPS
<b>Lub-Rref</b>	<b>1,690</b>	<b>32.2%</b>	<b>15.2%</b>	<b>1.76</b>	<b>34.50</b>
MJLBD	8,376	31.54%	18.4%	4.87	34.09
EASTRN LUB	45	--	12.1%	5.43	178.45

Data has been derived from 2019-20 annual reports of respective company

## Industry Overview

Bangladesh lubricants industry is the inherent part of the countries core sectors as the lubricants is being used across wide range of industries. Expansion in transportation, driven by development in communication infrastructure and availability of finance, is fuelling the growth of the country's lubricant market at a rapid rate. The lubricant industry in Bangladesh can be segmented into **three categories – industrial lubricant, commercial vehicle lubricant and private vehicle lubricant.**

The **total demand of Lubricants in Bangladesh is 175,000 metric tons** per Annum. The size of the local lubricant market stood at about BDT 60.00 billion in 2018-19 fiscal year, as the market grows by 5% to 7% per annum. (The Dhaka Tribune, October 04, 2019). The demand is estimated at a CAGR of 3% over the forecast period, 2019-24. It is estimated that the sector-wise yearly consumptions of lubricants in Bangladesh - for **Automotive Sector 65%, Industrial sector 30% and Marine & others 5%.**

According to industry people, there are more than **100 lubricant brands** in Bangladesh, with **imported brands dominating the market.** They meet around 60% of the local demand, leaving the rest around 40% to local brands.

BNO lubricant of Lub-rref (Bangladesh) Ltd, FUCHS lubricant of Fuchs Lubricants Bangladesh Ltd and Omera lubricant of Omera Petroleum Ltd, a subsidiary of MJL Bangladesh, are the major local brands. There are also many imported brands in the local lubricant market. BP (British Petroleum), Total, Shell, Castrol, Caltex, GULF, HP (Hindustan Petroleum), Kixx, SK and Mak available in the local market.

According to market research by MJL Bangladesh, **Mobil is by far the market leader with a 26% share**, followed by: BP with 12%, Total with 8%, FUCHS with 7%, Shell with 3%, Castrol with 3%, Caltex with 2%, GULF with 1%, and Servo with one percent (TBS News, July 2020).

All lubricants have a base oil. **These are primarily of two types: mineral and synthetic.** Industrial applications mostly deal with mineral and synthetic base oils. Mineral oil is derived from crude oil and is used mainly in engine oils, industrial lubricants

and processing oils. On the other hand, synthetic oils are man-made fluids that have identical straight-chained structures. One of the benefits of synthetic oil is that the molecular size and weight are constant, hence making the properties predictable, while mineral oil properties vary greatly.

One of the **major factors driving the growth of the lube oil market** in the country is the pace in construction activities. The construction sector is experiencing a CAGR of 7.27% (2013-2018), making it one of the fastest-growing sectors of Bangladesh. Additionally, the growing metallurgy and metal-working activities and the power and RMG sectors are also driving the growth of the lube oil market.

By product type, engine oil is expected to be the largest market for lube oils and is estimated to have accounted for 61.39% of the market in 2018. Engine oil is also expected to record the highest CAGR of 3.15% during the forecast period, owing to a surging automotive industry in the country. (MJLBD Annual report 2018-19).

In 2018, automotive and other transportation sectors dominated the lubricant market in Bangladesh, and is further expected to witness a CAGR of 3.23% through to 2024, thereby ensuring that the fundamental demand structures for lube oil remains intact. (MJLBD Annual report 2018-19).

**Industrialisation** brings significant structural changes in an economy, leading to considerable reduction in poverty, while enabling large-scale job creation and substantial improvement in citizen welfare. The impact of growing industrialisation is well-visible on the socioeconomic construct of Bangladesh, as the nation has been recording a 7%-plus growth rate that has superseded that of many other countries of the world.

Bangladesh underwent structural transformation over the past four decades, which is reflected in the composition of its GDP. The share of manufacturing surged from four percent in the 1970s to 18-20% today, while non-manufacturing (comprising mining, quarrying, construction and electricity and gas) shot up from 2% earlier to 11% today (The Daily Star, July 2018).

**Automotive industry** in Bangladesh is largely dominated by importing reconditioned and new vehicles mostly from Asian countries like Japan, China, India and few from Europe and USA. However, different private endeavour grabs distributorship of different vehicle brands. The country has around **20 companies that sell around 10,000 unit buses and commercial Vehicles a year, and the market is growing by 10-15 percent annually.**

The **market size** of the commercial vehicle segment was about **BDT 50.00 billion in 2018**. Sales of commercial vehicles rose 10.65% year-on-year to 25,980 units in 2018 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. The sale of private cars has increased sharply in the country due to easy access to auto loan and increasing vehicle availability. It is estimated that heavy-duty vehicles will become the largest energy-consuming segment of the transport segment by 2030.

In the automotive sector, 32% of the demand is in the passenger vehicle segment, 62% in the commercial vehicle

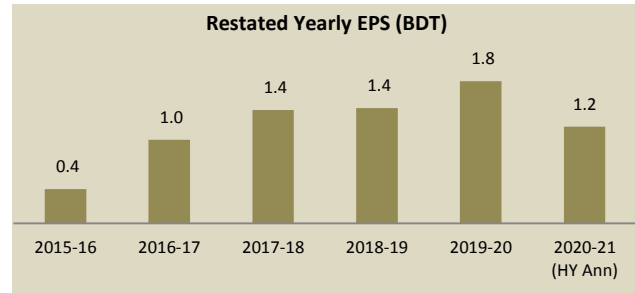
segment and only 6% in the motorcycle segment, according to the market research. (The Dhaka Tribune, October 04, 2019).

#### Investment Positives

- The Company is **setting up the first state of the art Base Oil Refinery plant** in the country with world class technology to produce a higher grade of lubricant products. This project will be **70,000 metric ton per annum of capacity** with an estimated investment of BDT 4,000.00 million. The Company will use BDT 980.00 million from its IPO proceeds and rest from bank loan and equity financing. **Payback period of the project is 3.48 years with an internal rate of return of 9.03%**. This Oil Refinery project will reduce the dependency on imports of lubricant products and might, as well, export in the future. The Company is **expecting the new project to be operational by January 2023**.
- The Lubricant manufacturing plant has modern and latest machinery to produce various types and categories of lubricants, Automotive, Industrial, Marine lubricants and Grease as well as laboratory Services and marketing same conforming to latest claims like of API, ACEA, VOLVO, BMW, MB, Wartsila, MTU, DIN, MAN, Waukesha, Denison, Vickers, AFNOR, etc.
- The Company will develop and increase the national liquid base **energy storage capacity and security by establishing Tank Terminal along with a berth operating jetty. This project will be of 100,000 metric ton of storage capacity.** It will significantly reduce storage, import and transportation costs. This will be made based on the state of the art technology and setup considering the environment.
- The Company will also **set up the first commercially producing hydrogen plant** in Bangladesh. Develop a perennial source of hydrogen for the country. This will also be a state-of-the-art based technology.
- Lub-rref (Bangladesh) Ltd. has taken initiative **to break the domination of foreign brands and make Bangladesh self-reliant in lubricant production** by setting up a world class lubricants manufacturing plant with the Brand Name "BNO Lubricants". The Company has also reached the brink of acquiring Original Equipment Manufacturers (OEM'S) approval from the world most prestigious equipment manufacturer like BMW, Volvo, Scania & Wartsila etc. Lub-rref **aims to export its products** after meeting domestic needs in order to capture a greater share of the rising global demand, which is being driven by the growth of automotive production worldwide.
- The Company will repay its bank loan of BDT 460.00 million out of its total loan (both long term and short term) of BDT 1,337 million as of December 2020 within six months from its IPO proceeds.

### Investment Negatives

- **Lubricating oil market in Bangladesh is very competitive due to the presence of many global giants.** A large number of international lubricating oil companies has been marketing their products directly or through local agencies. The major market players are 'BP' (British Petroleum) marketed by Meghna Petroleum Ltd., 'Mobil' marketed by Jamuna Oil Company & MJL Bangladesh Ltd and 'Total' marketed by Padma Oil Company Ltd. Among all these brands, **'Mobil' is the market leader in Bangladesh in the lubricating oil sector.** Other major international brands include Gulf, Castrol, Servo and Fuchs which are also marketed by local marketing companies. However, the market share of BNO has gradually been increasing over the years.
- In Bangladesh, **lube oil blending and marketing companies are fully dependent on imported raw materials** as no backward linkage is yet to be developed in the country. So, unfavorable foreign exchange movement will affect its profitability.
- The **movement of crude oil price in the international market has a direct impact on the Company** as the Company procures base oils from international market and blends in the country to produce the lube oil. The upward trend of the crude oil price will hamper the profitability.



### Price\* at various Price/Earning (P/E) multiple

	Value (BDT)
At P/E = 25.0, Price would be	30.0
At P/E = 30.0, Price would be	36.0
At P/E = 35.0, Price would be	42.0
At P/E = 40.0, Price would be	48.0

\*Based on latest Half Yearly Financial Statements (July-December 2020)

### Latest Declaration

As per un-audited Q2 financial statements, the Company reported profit after tax of BDT 86.61 mn for the 6 (six) months (July-December 2020) period ended on 31 December 2020 which was BDT 76.59 mn registering 13.08% growth over the same period of last year. Post-IPO EPS was BDT 0.60 for 6 (six) months (July-December 2020) period ended on 31 December 2020 and NAV per share was BDT 34.68 as of December 2020.

**Source:** Prospectus of Lub-Rref (Bangladesh) Limited, newspaper news and ILSL Research.

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