

VFS THREAD DYEING LIMITED

Company Overview

VFS Thread Dyeing Limited (VFSTDL) was incorporated on April 20, 2010 and started its commercial operation on 02 July 2012. The principal activities of the Company are dyeing and finishing of sewing thread of different types for 100% export oriented ready-made garments industries. The Company produces sewing thread of Spun Polyester, Core Spun and Synthetic Filament of all grades. There is no subsidiary, associates or holding company of VFSTDL. The Company has its registered office at Baridhara DOHS, Dhaka and the factory is located at Gazipur, Bangladesh.

As of June 30, 2017, the Company's three main products i.e. Spun Polyester and Sewing Thread, Textured Polyester (Synthetic Filament Yarn) and Poly Core Spun contribute 80%, 15%, & 5% respectively to its revenue. The Company's products are sold to various customers and no single customer provides 10% or more of the Company's total revenue.

VFSTDL's major raw materials is mainly Yarn. Almost 100% raw materials of the Company are imported from overseas market, mainly from China, Korea, Singapore and Hong Kong. The Company's raw materials are purchased from various suppliers and no single supplier provides 10% or more of the Company's total supply of raw materials.

Installed capacity and its utilization are shown in the following table:

Product	Types of product	Production Capacity (lbs)	Utilization Rate
Spun Polyester and Sewing Thread	Knit & Oven	3,505,904	66.85%
Poly Core Spun	Fashion Apparels	219,119	66.83%
Textured Polyester	Knit / Fliss	657,357	66.10%

As per the prospectus, market share of the Company is around 6% where the listed company, Simtex Industries Limited has 9% market share. Coats Bangladesh Limited is the market leader in the industry having 11% market share and others Major competitors are Etafil (Bangladesh) Limited, Well Thread Limited, Active Industries Limited and American & Efirid (Bangladesh) Ltd. holding 9%, 8%, 5% & 7% of total market share.

The Company raised its capital amounting of BDT 220 million in July 2018 through fixed price method of Initial Public Offering (IPO). Citizen Securities & Investment Limited and First Security Islami Capital & Investment Limited is the issue manager and AHMAD & AKHTAR is the auditor of the Company.

Utilization of the proceeds of IPO is as follows:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Acquisition of Plant & Machinery	177.4	80.64%	Within 18 months after receiving IPO Fund.
Partial Repayment of Term Loan (Sonali Bank Ltd Local Office)	25.1	11.41%	Within 15 days of IPO fund received.
IPO expenses	17.5	7.95%	As and when required
Total	220	100%	

IPO Details

No. of Shares (Post-IPO) in mn	84.71
Authorized Capital (BDT mn)	1,000.0
Pre-IPO Paid-up Capital (BDT mn)	627.15
Post-IPO Paid-up Capital (BDT mn)	847.15
IPO size in shares (mn)	22.0
IPO size in amount (BDT)	220.0
Face value per share (BDT)	10.0
NAVPS (Post-IPO, BDT) (March 2018)	18.4
Annualized EPS (Post-IPO, BDT)	1.5

	2015	2015-16	2016-17	2017-18 (6m Ann)
Financial Information (BDT mn):				
Sales	782	800	881	847
Gross Profit	185	194	200	153
Operating Profit	169	178	181	133
Profit After Tax	145	139	141	96
Assets	1,258	1,315	1,440	1,489
Capex	190	69	77	78
Long Term Debt	53	56	32	23
Short Term Debt	98	94	76	79
Equity	1,040	1,108	1,248	1,296
Margin:				
Gross Profit	23.6%	24.3%	22.7%	18.1%
Operating Profit	21.6%	22.2%	20.5%	15.7%
Pre Tax Profit	20.1%	20.4%	18.9%	13.5%
Net Profit	18.5%	17.4%	16.0%	11.3%
Growth*:				
Sales	2.2%	--	10.1%	-3.9%
Gross Profit	-0.7%	--	2.7%	-23.3%
Operating Profit	-1.3%	--	1.9%	-26.5%
Net Profit	4.7%	--	1.4%	-32.0%
Profitability:				
ROA	12.8%	10.8%	10.2%	6.6%
ROE	15.0%	13.0%	12.0%	7.5%
Operating Efficiency Ratios:				
Inventory TO*	4.20	4.01	4.18	3.71
Receivable TO	2.91	2.55	2.53	2.26
A/C Payable TO	16.25	20.96	53.36	203.31
Total Asset TO	0.69	0.62	0.64	0.58
Fixed Asset TO	1.16	1.05	1.11	1.04
Leverage:				
Debt Ratio	12.0%	11.4%	7.5%	6.9%
Debt-Equity	14.5%	13.5%	8.6%	7.9%
Int. Coverage	13.6	11.7	11.9	9.8

*The Company has changed the reporting period to July-June from January-December in 2016.

*TO indicates Turnover; *Growth of 2017-18 is calculated based on 6 months annualized data over last year. *Growth of 2015-16 data not available.

Board of Directors of the Company

Name of the directors	Position	% of Holdings
		Post-IPO
Sarwat Khaled	Chairman	7.66 %
M. Azhar Rahman	Managing Director	16.24%
Rumana Hashem	Director	3.29 %
Tariqul Islam	Director	3.58%
Mo Lai Mei	Sponsor	18.30%
Total		49.07%

The Managing directors are involved in other organizations namely Oryza Agro Industries Limited and Decolete Collections Limited.

Mrs. Sarwat Khaled (Chairman), Mrs. Rumana Hashem (Director) and Mr. Tariqul Islam (Director) are the wife and Daughter and brother of M. Azhar Rahman (Managing Director).

Industry Overview

The readymade garments industry and its backward linkages act as the backbone of our economy and as a catalyst for the development of our country. Bangladesh take pride in the sector that has been fetching billions of dollars as export earnings and creating jobs for millions of people in the country. Bangladesh with its limited resources has been maintaining more than 6% annual average GDP growth rate and has brought about remarkable social and human development and now we envision that Bangladesh achieving the middle-income country status by 2021.

The industry that has been making crucial contribution to rebuilding the country and its economy is none other than the readymade garment (RMG) industry which is now the single biggest export earner for Bangladesh. Textile and Apparel Sector of Bangladesh contributes more than 16% of GDP and about 80% of export income of the country. Such achievement became possible by strong backward linkages established by the local firms.

It is also mentionable that the primary textile sector, which includes spinning, weaving, printing, dyeing and finishing, plays a vital role as backward-linkage industry of woven and knitwear garments by supplying fabrics and yarns. Currently, the backward-linkage industry supplies around 90 percent raw materials to the knit wear sub-sector and 40 percent to the woven sub-sector. The rest of the demand is met with imports, mainly from China and India. At present, there are about 402 spinning mills, 809 fabrics and 237 dyeing, printing and finishing units under Bangladesh Textile Mills Association (BTMA) with total investment of about 4 billion US dollars.

Garments Accessories & Packaging Industry is the backward linkage industry for RMG sector. The product lines are Sewing Thread, Button, Bag, Elastic, Ribbon, Cartoon, Gum Tape, Tissue Paper, Tag, Labels, Polly, Photo Card, Back Board, Drawstring, Zipper and Hanger. More than 400,000 (four lac) people work in this sector. This sector has immense contribution to our economy in terms of employment and foreign exchange earnings. In the financial year 2016-17, this sector generates USD 6.70 billion. If the sector gets policy support and co-operation from government, the earning of this sector is likely to increase up to US\$ 12 billion by the end of 2018, and to US\$ 18 billion by the end of the year 2025. Total investment of this sector is about US\$ 30 billion & value addition is near about 40 percent.

Peer Companies Listed with DSE

The performance of the companies with same operating activities listed with the Dhaka Stock Exchange is shown in the following table as per prospectus:

	VFSTDL	SIMTEX
Turnover (BDT mn)	881	1,382
Gross Profit Margin	22.7%	21.7%
Net Profit Margin	16.0%	10.9%
EPS (BDT)	1.67	2.52
NAVPS (BDT)	14.73	2.73
P/E	-	17.98
Current Price	-	45.30

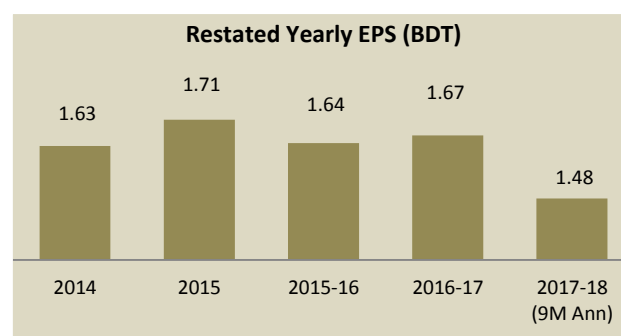
The above mentioned figures are based on 2016-17.

Investment Positives

- **The Company will increase its installed production capacity by 50% to 6.6 million lbs from its existing 4.4 million lbs which will be financed from its initial public offerings. The Company is expecting to start commercial operation from the expanded capacity by December 2019.**
- The Company's debt-equity ratio is decreasing over the years as the Company is repaying both long term and short term loan. This will improve the operating profit of the Company due to the reduction of finance expense.

Investment Negatives

- **Though the turnover of the Company increased by 1.69% in July-December of 2017-18, yet net profit decreased by 2.80% in the reported period over the same period of previous year.** Net profit decreased due to the introduction of workers profit participation fund in the period.
- **Profit margins of the Company has dropped significantly in the annualized data for 2017-18** due to the increase in cost of goods sold in percentage of sales, operating expenses and introduction of workers profit participation fund.
- **The Company is exposed to exchange rate fluctuation as it imports all of its raw materials from abroad.** So unfavorable currency fluctuation affect its profitability.



Lock-in Period & Indicative Price

Lock-in for 25% of the shares allotted to eligible investors shall be for 06 months and other 25% of the shares allotted to them will be for 09 months from **the date of issuance of the prospectus which was May 27, 2018.**

Latest Declaration

As per its latest 9 months (July 2017 - March 2018) performance declaration, the Company reported profit after tax of BDT 94.05 mn which was 96.37 mn over the same period of last year posted 2.41% negative growth, Post-IPO annualized EPS was BDT 1.48 and NAV per share was BDT 18.44 as of March 31, 2018.

Valuation

Pricing Based on Relative Valuation:

	Market Multiples	VFS Thread Dyeing Annu. EPS – 1.48	Value/ Share
Sector Forward P/E	18.7		27.7
Market Forward P/E	15.7		23.2
NAVPS		NAVPS – 18.4	18.4

ILSL Research Team:

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