

eGENERATION LIMITED

Company Overview

eGeneration Limited (The Company) was incorporated on November 22, 2003 and started commercial operation on December 01, 2003. The Company is one of the leading IT consulting and software solutions company of Bangladesh. The services of the Company are Management Consulting Related Services – IT Consulting, IT Training, eGovernance, Networking Solutions, Digital Platform Development; Technology Services - Microsoft Solutions, SAP/ERP Solutions, Data Center, Data Analytics, Cisco Solutions, Cyber Security Solutions; Software/System Development & Implementation Services - Accounting Software, HR Management System, Customer Relationship Management Software, Fertilizer Recommendation Software, Inventory Management System, Document Management Software (DMS); Outsourcing - Digital Platform Development, Networking Solutions etc to provide the best solutions for both private and public sector clients. The corporate office is at Gulshan-1, Dhaka.

The Company has no associates, subsidiary or holding company.

Raw Materials: The major raw material of eGeneration is software that is readily available and can be procured locally and imported from Singapore, India and Bangladesh. The Company procures around 34% of its required materials from Microsoft Bangladesh Limited.

Revenue:

Particulars	Revenue (BDT mn)	Contribution	Growth	
	2019-20		2019-20	2018-19
ERP Software	107	27%	1%	29%
Microsoft Solution	226	57%	131%	3%
Digital Platform Development	29	7%	-18%	139%
Others	34	9%	-57%	-31%
Total	396	100%	18%	9%

Bangladesh Computer Council, Robi axiata Limited and Sonali Bank Limited contributed around 21.27%, 19.35% and 11.70% of total revenue respectively.

IPO

The Company raised its capital amounting of BDT 150.00 million in January 2021 through fixed price method of Initial Public Offering (IPO). NRB Equity Management Limited is the issue manager and Shiraz Khan Basak & Co. is the auditor of the Company.

Utilization of the proceeds of IPO is as follows:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Purchase of Commercial Space	80.00	53.3%	Within 24 months after receiving IPO Fund.
Loan Repayment	34.00	22.7%	
Digital Healthcare Platform Development	18.39	12.3%	
IPO expenses	17.61	11.7%	As and when required
Total	150.00	100%	

IPO Details

No. of Shares (Post-IPO) in mn	75.00
Authorized Capital (BDT mn)	1,000.00
Pre-IPO Paid-up Capital (BDT mn)	600.00
Post-IPO Paid-up Capital (BDT mn)	750.00
IPO size in shares (mn)	15.00
Total Issue Size (BDT mn)	150.00
Face value per share (BDT)	10.00
Offer price (per share (BDT)	10.00
NAVPS (Post-IPO, BDT) (December 2020)	20.34
Annualized EPS (Post-IPO, BDT) (2020-21)	1.30
DSE Trading Code	EGEN

	2016-17	2017-18	2018-19	2019-20
Financial Information (BDT mn):				
Sales	241	309	364	396
Gross Profit	112	144	157	157
Operating Profit	87	110	116	109
Profit After Tax	87	105	109	93
Cash & Cash Equiv.	24	197	130	47
Assets	555	1,152	1,312	1,493
CAPEX	--	4	18	4
Long Term Debt	5	2	35	45
Short Term Debt	20	14	26	84
Equity	492	1,124	1,234	1,327
Retained Earnings	233	338	447	541
Margin:				
Gross Profit	46.4%	46.6%	43.1%	39.6%
Operating Profit	36.0%	35.7%	31.7%	27.4%
Pre Tax Profit	36.0%	34.0%	30.3%	23.8%
Net Profit	36.0%	34.0%	30.0%	23.5%
Growth:				
Sales	64.9%	28.2%	17.8%	8.9%
Gross Profit	51.2%	28.7%	8.8%	0.0%
Operating Profit	59.9%	26.9%	4.9%	-6.1%
Net Profit	59.9%	20.9%	4.0%	-14.6%
Profitability:				
ROA	20.0%	12.3%	8.8%	6.6%
ROE	23.2%	13.0%	9.2%	7.3%
Operating Efficiency:				
Inventory Turnover	33.1	75.8	112.0	112.8
Receivable Turnover	3.9	4.5	5.7	4.7
A/C Payable Turnover	31.3	42.3	51.8	26.3
Total Asset Turnover	0.6	0.4	0.3	0.3
Fixed Asset Turnover	4.1	2.3	1.4	1.4
Leverage:				
Debt Ratio	4.5%	1.4%	4.7%	8.6%
Debt-Equity	5.0%	1.4%	5.0%	9.7%
Int. Coverage	--	--	36.3	8.1

Board of Directors of the Company

Name of the directors	Position	% of Holdings
		Post-IPO
Syeda Kamrun Nahar Ahmed	Chairman	8.00%
Shameem Ahsan	Managing Director	22.71%
eGeneration Sourcing Limited	Director	5.35%
Total		36.06%

The chairman and managing director of the Company are husband and wife.

Category-wise shareholding structure

Category	No. of Ordinary Shares Hold (Post-IPO)	% of Holdings
		Post-IPO
Sponsors & Directors	28,045,723	37.39%
Eligible Investors	27,314,876	38.78%
General Public	19,639,401	23.83%
Total	75,000,000	100.00%

The directors of the Company are not associated with the securities market as sponsor/director of any merchant bank, listed company, asset management company, TREC holder.

Companies under common ownership

Name of the Concern
eGeneration Sourcing Limited
eGeneration Solutions Limited
eGeneration B2B Limited
eQuest Limited
eGeneration Asset Management Limited
Akhoni.com

Industry Overview

Digital Bangladesh is one of the nation's dreams, and so special emphasis is given on the application of digital technologies to realize Vision 2021, which we commonly call Digital Bangladesh. By 2021, after 50 years of independence, our goal is to be a middle-income country with peace, prosperity and dignity.

Software and IT service industry in Bangladesh has crossed a long road over the last few decades. It has matured. The industry no more remains at the sideline. It joined the mainstream. Not only the industry is contributing significantly in the national income, but also it has been playing very crucial role in creating high quality employment for a sizable portion of young graduates of the country.

According to the International Telecommunication Union (ITU), the number of internet users has nearly tripled from 6.5 percent of the population in 2013 to 18.2 percent in 2017 and continues to grow.

According to the Bangladesh Association of Software and Information Services (BASIS), around 1500+ software and IT-related companies have registered in Bangladesh. The size of the ICT market, excluding telecommunications, is estimated to be worth \$600 million and approximately 250,000 professionals are now employed in the sector.

According to BASIS, over 400 IT companies currently export to over 60 countries, with North America being the main destination. The growth in the ICT sector is expected to create services, including training, and equipment export

opportunities for U.S. businesses. The prospects of the sector have compelled the government of Bangladesh to set a target of USD 5 billion export earnings by 2021.

In 2017, world's leading management consultancy firm AT Kearney reported that, due to notable growth in IT outsourcing, business processing outsourcing (BPO) and software development, Bangladesh has secured 21st place in Global Service Location Index (GSLI).

There are 500 entities operating ISP business, including 117 nationwide, 73 in Dhaka and adjoining areas, 57 in zones in the rest of the country, 175 in divisional towns, 29 in districts and 48 in upazilas, according to BTRC data.

BASIS recently carried out a survey on three hundred of its member companies. Analysis has been done on business nature, business volume and size of companies. Over 70% of the companies are found to be involved in the development and maintenance of software for their clients. A number of those are simultaneously engaged in providing different IT-enabled services for their clients as well. In total, almost half of the surveyed companies are involved in providing range of IT-enabled services (data/form processing, graphic/web design, content management etc.).

The government can consider the following strategy to compliment the ongoing 'Digital Bangladesh', which will accelerate the IT industry and utilise this sector as a platform for sustainable growth. Through injecting a major investment of USD 1.0 billion over five years (USD 200 million per year), the government can accelerate progress in this sector. This strategy can intensify efforts in specific areas: (a) Speeding up IT training/skills; (b) Actively attracting international IT companies/investors (Google, Intel, etc.) to establish IT centers (R&D, Service); and (c) Helping Bangladeshi entrepreneurs to start IT companies by providing funds/incubation, sales/business development/marketing support.

Peer Companies Listed with DSE

The Company operates in a highly competitive business. As per prospectus, major competitors of listed IT companies are IT Consultant Limited, Daffodil Computers Limited and BDCOM Online Limited. Besides, there are other non-listed companies which are also the competitors of the company.

Particulars	Revenue (BDT mn)	GP Margin	Net Margin	EPS (BDT)	Price (BDT)	P/E
eGeneration	396	40%	24%	1.24	--	--
ITC	--	--	--	1.21	31.6	20.3
DAFODILCOM	--	--	--	0.91	53.4	78.5
BDCOM	640	52%	9%	1.15	20.4	22.7

Investment Positives

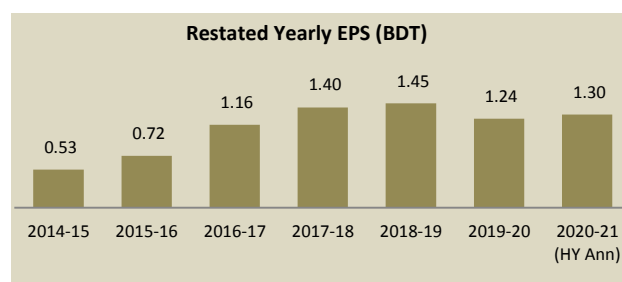
- The Company is planning to invest BDT 80.00 to purchase commercial space for office. The preferred location for the office space will be near Badda area considering the fact that most of its customers are based in Gulshan and Banani area. This initiative will help eGeneration reduce its operating expenditure by saving BDT 585,000 monthly in office rent. Moreover, it will be about twice as big as the current office space. **The size of the office space will be around 4,000 to 5,000 sqft. eGeneration will finance the excess amount above BDT 80.00 from its internal sources.**

This will be implemented by January 2023. Average **payback period of the above projects are 4 years** after implementation of the project. In case of commercial space, it is 10 years considering only the office rent savings of the company. Operating profit from using the space is not considered which might have produced a lower payback period.

- The Company will utilize BDT 34.0 mn of its IPO proceeds for **repaying 26.36% of its existing total loan** as of June 2020 which will reduce its financial leverage and interest expense.
- eGeneration is planning to **invest BDT 18.39 in developing IT infrastructure for digital healthcare platform** development. This will increase the revenue from health technology solutions and enhance eGeneration's capability to serve the current and potential customers in healthcare sector.
- Business of the Company is growing steadily over the periods due to the **expansion of IT industry and digitalization of the local companies**. This is mainly attributable to the increase in the sales of Microsoft, ERP and digital content development.
- The Company has renowned customer base like Bangladesh Computer Council, Robi axiata Limited and Sonali Bank Limited etc.
- eGeneration Ltd is now **competing against global brands in the international market**. The Company have been providing software and other IT services in recent times like Digital Platform Development in Dubai, UAE, Turkey & UK and working in computer vision and artificial intelligence with SCALA of Japan and Teams of UK. The Company **has a plan for opening offices in India, Nepal, Bhutan, Malaysia, Japan, UK, US and various African and European countries**.
- The government had announced **tax holiday for the software sector until 2024** which have a positive impact on the bottom line of the Company.

Investment Negatives

- **Gross profit margin of the Company has declined** to 39.6% in 2019-20 which was 43.1% over the same period of last year due to the **increase in prices of IT hardwares, rise in salary & allowances and depreciation expenses** during the reported period.
- **Net profit margin has dropped to 23.5% in 2019-20** which was 30.0% than that of last year amid **rise in administrative and finance expenses**.
- The Company **lacks in having strong customer base** in the market and **lack of brand image** as a global off-shoring destinations.



Valuation

Pricing Based on Relative Valuation:

	Market Multiples	eGeneration (BDT)	Value/Share
Sector Forward P/E	19.9	Annualized EPS – 1.30	25.9
Market Forward P/E	15.0		19.4
Net Asset Value Per Share		NAVPS – 20.34	20.3

Latest Declaration

As per un-audited Q2 financial statements, the Company reported profit after tax of BDT 48.76 mn for the 6 (six) months (July-December 2020) period ended on 31 December 2020 which was BDT 64.93 mn registering **24.90% negative growth** over the same period of last year. **Post-IPO EPS was BDT 0.65 for 6 (six) months** (July-December 2020) period ended on 31 December 2020 and **NAV per share was BDT 20.34** as of December 2020.

ILSL Research Team:

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

For any Queries: 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.