

INDO-BANGLA PHARMACEUTICALS LIMITED

Company Overview

Indo-Bangla Pharmaceuticals Limited (IBPL) is a human health care company. The Company was incorporated and started its commercial operation in June 18, 2014. IBPL is engaged in manufacturing, marketing and distribution of generic pharmaceuticals products (excluding antibiotic) which includes human drugs dosages form such as tablet, capsule, syrup, oral saline, suspension. As per prospectus, the Company has 81 number of products of human products division. The Company applied for permission for production and selling of veterinary medicine (animal drug). The Company has no associates, subsidiary and holding company. The factory of the Company is located at Barisal.

As per prospectus, in 2016-17, revenue of the Company was BDT 617 million registered 38.6% growth over the year 2015-16. Basic raw materials of the Company are mostly imported from India, China Australia and Germany. Around 71.76% of the raw materials consumption are imported.

The Company has increased its installed production capacity of all the segments by 68% in 2016-17 over last year. Total capacity and its utilization are shown in the following table:

Particulars		2014-15	2015-16	2016-17
Tablet (mm pcs)	Installed	84.5	87.0	146.2
	Utilization	55.0	58.0	105.2
	% utilization	65.1%	66.7%	72.0%
Capsule (mm Pcs)	Installed	425.0	435.0	730.8
	Utilization	280.0	290.0	526.2
	% utilization	65.9%	66.7%	72.0%
Liquid (mm liters)	Installed	140.0	145.0	243.6
	Utilization	81.0	87.0	175.4
	% utilization	57.9%	60.0%	72.0%

In August 2018, the Company raised their capital amounting BDT 200 million (20,000,000 shares * BDT 10) through Fixed Price Method of Initial Public Offering (IPO). AFC Capital Limited, EBL Investments Limited and CAPM Advisory Limited are the issue manager and Mahfel Huq & Co is the auditor of the Company.

Utilization of the proceeds of IPO is as follows:

Use of Proceeds	BDT (mn)	%	Implementation Schedule
Construction and other civil works	58.6	29.3%	Within 15 months of receiving IPO fund.
Procuring Machineries	124.7	62.4%	Within 15 months after receiving of IPO fund.
IPO expenses	16.7	8.4%	As and when required
Total	200.0	100%	

Proceeds from IPO will be used for new factory building in industrial area of Barisal and not in existing factory at College Road, Barisal.

IPO Details

No. of Shares (Post-IPO) in mn	93.0
Authorized Capital (BDT mn)	1,000.0
Pre-IPO Paid-up Capital (BDT mn)	730.0
Post-IPO Paid-up Capital (BDT mn)	930.0
IPO size in shares (mn)	20.0
Face value per share (BDT)	10.0
NAVPS (Post-IPO, BDT)	13.0
Annualized EPS (Post-IPO, BDT)	1.1

	2014-15	2015-16	2016-17	2017-18 (6M Ann.)
Financial Information (BDT mn):				
Sales	435	445	617	641
Gross Profit	177	182	235	257
Operating Profit	92	94	132	151
Profit After Tax	60	59	88	97
Assets	383	945	1,078	1,143
CAPEX	48	6	145	2
Long Term Debt	-	-	-	-
Short Term Debt	-	-	-	-
Equity	159	849	938	986

Margin:				
Gross Profit	40.7%	41.0%	38.1%	40.1%
Operating Profit	21.2%	21.2%	21.4%	23.5%
Pre Tax Profit	21.3%	20.4%	22.0%	23.4%
Net Profit	13.8%	13.3%	14.3%	15.2%

Growth:				
Sales	-	2.2%	38.7%	3.9%
Gross Profit	-	2.9%	28.9%	9.3%
Operating Profit	-	2.2%	39.9%	14.1%
Net Profit	-	-2.0%	49.7%	10.2%

Profitability:				
ROA	-	8.9%	8.7%	8.8%
ROE	-	11.7%	9.9%	10.1%

Operating Efficiency Ratios				
Inventory TO*	6.1	3.0	4.01	4.1
Receivable TO	21.0	5.8	4.5	3.7
A/C Payable TO	43.5	18.9	23.4	28.5
Total Asset TO	2.6	0.7	0.6	0.6
Fixed Asset TO	5.9	2.5	1.7	1.1

Leverage:				
Debt Ratio	0.0%	0.0%	0.0%	0.0%
Debt-Equity	0.0%	0.0%	0.0%	0.0%
Int. Coverage	-	-	-	-

Valuation:				
Restated EPS	0.65	0.63	0.95	1.05
Restated NAVPS	1.7	9.1	10.1	10.6

N.B: The Company has started its commercial operation in June 18, 2014.

Board of Directors of the Company

Name of the Directors	Position	% of Holdings Post-IPO
Aziza Yeasmin	Chairman	2.16%
A F M Anowarul Huq	Managing Director	13.37%
Hafiza Yeasmin	Director	2.16%
Md. Amin-Ur-Rashid	Director	2.70%
Sayeda Huq	Director	2.15%
Fatima Parvin	Director	2.65%
Mst. Shahanaz Akter	Director	2.21%
Md. Mizanur Rahman	Director	2.21%
Investment Corporation of Bangladesh	Director	16.13%
Aysha Siddika	Sponsor	2.16%
Md. Bellal Khan	Sponsor	3.38%
Total		51.26%

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. Moreover, this industry contributes nearly 1% of the total GDP. As per 2016-17 annual report of Beximco Pharmaceuticals Ltd., Pharma Industry is currently valued at more than \$2 billion and the market is growing by double digit for the last few years. 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 2017, the Country exported BDT 31.96 billion pharmaceutical products which were 29.69% higher than that of 2016.

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., Oponin Chemicals Ltd. Drug International Ltd., Globe Pharmaceuticals Ltd., Gonoshashtaya 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

- **In 2016-17, the Company has increased its production capacity by 68% to increase its local market share. In line with this, IBPL is investing BDT 183.30 mn for construction, civil works and procuring machineries to increase the production capacity.** The Company has projected to increase its capacity by 68.00%, 75.00% and 43.00% in the year 2017, 2018 and 2019 respectively from this new investment and the expansion project is financed by IPO proceeds. **The Company is expecting to start commercial operation of the new plant within October 2019.**
- The Company's net profit margin is increasing gradually. Net profit margin for the year 2016-17 increased to 14.3% which was 13.3% as of June 2015-16 due to the decrease of operating expenses in percentage of sales.
- Currently, the Company is paying corporate tax at the rate of 35%. This current rate will be reduced to 25% after getting listed with the Exchanges. This reduction in tax rate will improve the net profit of the Company.
- In the National budget of 2018-19, the government exempted duty on import of some pharmaceuticals raw materials which **will decrease the cost of goods sold and improve gross profit margin of the Company.**

Investment Negatives

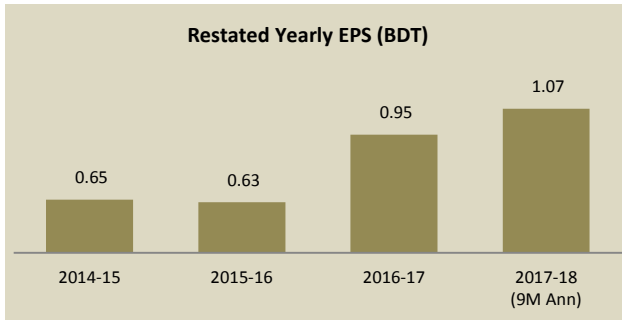
- **The Company is exposed to foreign exchange risk as around 72% of raw materials consumed are imported.** As majority of the Company's foreign currency transactions are denominated in USD, unfavorable foreign exchange movement may affect the profitability of the Company. In recent times, BDT has depreciated against USD by 5.88% as of September 2018 from January 2017.

Lock-in Period

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 prospectus which is March 13, 2018.**

Free-up Date of Lock-in Shares of IBPL:

6 Month	9 Month	1 Year	3 Year
September 13, 2018	December 13, 2018	March 13, 2019	March 13, 2021
2,500,000	2,500,000	25,222,000	47,778,000



Latest Declaration

As per unaudited financial performance for the nine months (Jul-Mar) of 2017-18, **the Company reported profit after tax of BDT 74.35 mn which was BDT 73.99 mn registering 0.49% growth over the same period of last year** and post-IPO EPS was BDT 0.80. NAV per share was BDT 13.03 as of March 2018.

Valuation

	IBPL		
	Multiples	Fundamentals	Value
Market Forward P/E	15.2	EPS* = 1.07 NAVPS =13.03	16.3
Market Trailing P/E	15.8		15.0
Sector Forward P/E	17.3		18.5
Sector Trailing P/E	19.1		18.1
NAVPS			13.0

*EPS = 9 months annualized (post-IPO)

Source: Prospectus of Indo-Bangla Pharmaceuticals Limited (IBPL), newspaper news, the Company website, ILSL Research.

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