

SILCO PHARMACEUTICALS LTD.

Company Overview

Silco Pharmaceuticals Limited (SPL) was incorporated on 25th January, 1995 and started its commercial operation on 30th October, 2003. The principal products of the Company are Tablet, Capsule, Liquid and Dry Syrup. The Company is engaged in manufacturing and marketing of pharmaceuticals finished products in the categories of Antibiotics, Analgesics, Anti diabetics, Narcotics, Anti pyretic, Vitamins, Minerals etc which is selling mainly in the local market. There is no subsidiary, associate or holding Company of SPL. The Company has its corporate office at Subid Bazar, Sylhet and factory office is located at Khadimnagar, Sylhet, Bangladesh.

As of June 30, 2018, the Company reported BDT 918 million of revenue grew by 1.2% over last year. As of June 2018, the Company's Tablet and Capsule products contributed 59.8% & 22.6% 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.

The major raw materials are contain different drugs used for medicine manufacture. The raw materials of the Company are procured from overseas market, mainly from India, china, Taiwan and Denmark. The Company's raw materials are purchased from various suppliers and no single supplier provides 10% or more of the Company's total raw materials.

Installed capacity and its utilization:

Particular		Production Capacity	Utilization Rate
		2017-18	2017-18
Tablet	Pcs.	280,000,000	67.71%
Capsule	Pcs.	150,000,000	59.70%
Liquid Syrup	Bottles	4,000,000	85.69%
Dry Syrup	Bottles	1,000,000	58.24%
Pellet	Kg	300,000	51.29%
Powder	Phials	1,000,000	56.55%
Powder of Suspension	Bottles	500,000	87.88%
SRS Saline	Pcs.	20,000,000	87.38%

The Company raised its capital amounting of BDT 300 million in March 2019 through fixed price method of Initial Public Offering (IPO). EBL Investments Limited, City Bank Capital Resources Limited and Citizen Securities & Investment Limited are 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	%	Implementation
Acquisition of brand new Machineries & Equipment	97.4	32.5%	Within 20 months after receiving IPO Fund.
Civil construction of new factory building	144.6	48.2%	Within 18 months after receiving IPO Fund.
Purchase of Delivery Van	36.3	12.1%	Within 3 months after receiving IPO fund.
IPO expenses	21.7	7.2%	As and when required
Total	300.0	100%	

IPO Details

No. of Shares (Post-IPO) in mn	94.4
Authorized Capital (BDT mn)	1,050.0
Pre-IPO Paid-up Capital (BDT mn)	643.7
Post-IPO Paid-up Capital (BDT mn)	943.7
IPO size in shares (mn)	30.0
Face value per share (BDT)	10.0
NAVPS (Post-IPO, BDT, March 2019)	22.5
9M Ann. EPS (Post-IPO, 2018-19, BDT)	1.1

	2015 (Jan-Dec)	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)	2017-18 (Jul-Jun)
Financial Information (BDT mn):				
Sales	851	886	907	918
Gross Profit	309	314	291	295
Operating Profit	192	194	169	171
Profit After Tax	117	119	103	105
Assets	1,763	1,837	1,990	2,146
Capex	-	176	139	19
Long Term Debt	9	6	1	-
Short Term Debt	6	6	6	-
Equity	1,473	1,533	1,636	1,741
Margin:				
Gross Profit	36.3%	35.5%	32.1%	32.2%
Operating Profit	22.5%	21.9%	18.6%	18.6%
Pre Tax Profit	21.2%	20.6%	17.5%	17.7%
Net Profit	13.8%	13.4%	11.4%	11.5%
Growth*:				
Sales	5.1%	-	2.4%	1.2%
Gross Profit	43.1%	-	-7.4%	1.5%
Operating Profit	89.6%	-	-12.7%	1.2%
Net Profit	93.6%	-	-13.2%	2.4%
Profitability:				
ROA	6.8%	6.6%	5.4%	5.1%
ROE	10.5%	7.9%	6.5%	6.2%
Operating Efficiency Ratios:				
Inventory TO*	2.55	2.61	2.56	2.41
Receivable TO	3.65	3.12	3.22	2.71
A/C Payable TO	25.04	-	-	-
Total Asset TO	0.50	0.49	0.47	0.44
Fixed Asset TO	0.85	0.81	0.78	0.77
Leverage:				
Debt Ratio	0.9%	0.7%	0.4%	0.0%
Debt-Equity	1.0%	0.8%	0.4%	0.0%
Int. Coverage	60.9	83.7	50.4	150.1

*TO indicates Turnover; *Growth for 2015-16 is not calculated due to unavailability of data. *The Company has changed the reporting period to July-June from Jan-Dec in 2015.

Board of Directors of the Company

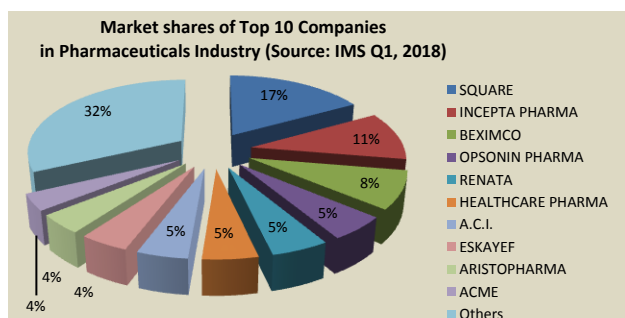
Name of the directors	Position	% of Holdings Post-IPO
Mrs. Naim Fatema	Chairman	5.73%
Dr. Md Badrul Haque Rukan	Managing Director	13.42%
Dr. Md. Azizur Rahman	Director	3.20%
Dr. Shahana Ferdous Chowdhury	Director	3.53%
Dr. Gulshan-E-Jahan	Director	3.35%
Dr. Md. Harunur Rashid	Director	3.37%
Dr. Mahmudul Majid Chowdhury	Director	3.13%
Prof. Dr. Faisal Ahmed	Director	3.08%
Total		38.81%

The Chairman & Managing directors are involved in other organizations namely North East Medical College Hospital & Parkview Medical College Hospital. There is no family relationship among the directors.

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. In the 2017-18, the market size of pharmaceutical products in Bangladesh was BDT 201.7 billion and the market is growing by double digit for the last few years. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

According to IMS Report, 2017-18, top 10 companies occupy 70% of the total market share and top 20 manufacturers grabbed 87.01% of total market.



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 2017-18, the Country exported \$103.46 million pharmaceutical products which were 16.03% higher than that of 2016-17.

However, supply side of this industry mostly depends on import. Around 80% of required raw materials are imported from China and India whereas some local companies – Beximco Pharmaceuticals Ltd., Square Pharmaceuticals Ltd., Opsonin 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.

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.

Peer Companies Listed with DSE

The performance of major competitors for the companies with same core operating activities listed with the Dhaka Stock Exchange is shown in the following table:

	SPL	CENTRALPHL	IBP	SILVAPHL
Turnover (BDT mn)	918	320	660	685
Gross Profit Margin	32.2%	46.6%	39.5%	39.9%
Net Profit Margin	11.5%	25.3%	14.9%	13.6%
EPS (BDT)	1.12	0.51	0.96	0.72
NAVPS (BDT)	18.4	15.0	10.1	13.2
P/E	-	25.5	26.6	33.9
Current Price	-	13.0	25.5	24.4

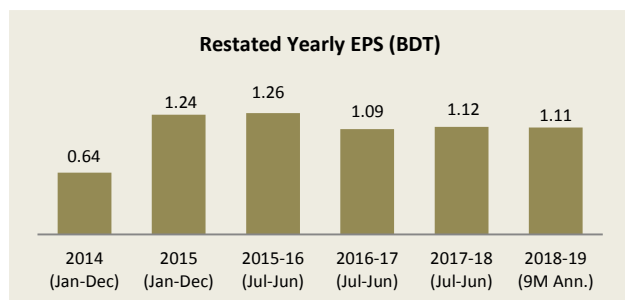
The above mentioned figures are based on 2017-18 (Jul-June).

Investment Positives

- **The Company will increase its installed production capacity of Tablet, Capsule, Dry Liquid & Powder project to 364, 195, 1.3 & 1.3 million (Pcs. & Bottles) which is up by 30%, 30%, 30% & 30% respectively from its existing capacity.** For this expansion purpose, acquisition of machineries & equipment and construction of new factory building for an estimated amount of BDT 97.4 & 144.6 million will be required which will be financed from its IPO proceeds. **The Company is expecting to start commercial operation from the expanded capacity by November 2020.**
- **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.

Investment Negatives

- **The Company is exposed to foreign exchange risk as it has to depend on imported raw materials.** 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 7.3% as of May 2019 from January 2017.
- **Bangladesh Govt. has planned to increase the gas price soon.** It will increase the cost of production which will eventually affect the profitability of the Company.



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 first day of trading which is June 13, 2018**.

Free-up Date of Lock-in Shares:

First day of trading	6 Month	9 Month	1 Year	3 Year
June 13, 2019	December 13, 2019	March 13, 2020	June 13, 2020	June 13, 2021
22,500,000	3,750,000	3,750,000	27,053,300	37,316,700

Latest Declaration

As per un-audited consolidated third quarter (Jan-Mar, 2019) financial statements, the Company reported profit after tax of BDT 30.49 million which was 1.80% lower over the same period of last year. Moreover, profit after tax was BDT 78.65 mn for the 9 (nine) months (July 2018- March 2019) period ended on 31 March 2019 registering 0.45% growth over the same period of last year. Post-IPO EPS was BDT 0.83 for Jul-Mar of 2018-19 and NAVPS was BDT 22.46 as on March 2019.

Valuation

Pricing Based on Relative Valuation:

	Market Multiples	Silco Pharmaceuticals Limited	Value/ Share
Sector Forward P/E	18.0	9M Ann. EPS – 1.1	20.0
Market Forward P/E	14.5		16.1

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