Equity Research

IPO Note

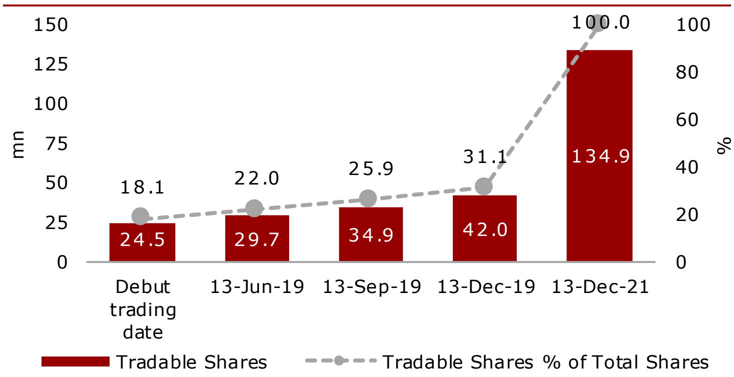
Esquire Knit Composite Limited | Textile

Esquire Knit Composite Limited

Issued 35mn shares at cut-off price of BDT 45 and public offer price of BDT 40

We initiate an IPO note on Esquire Knit Composite Limited (ESQUIRENIT) with no assigned rating. The company plans to raise BDT 1,500mn through initial public offering (IPO) under book building method. The fund would be utilized for construction of new factory building (66.9%), import of new machinery (28.8%) and IPO expenses (4.3%). In FY18, gross profit margin (GPM), EBIT margin and net profit margin (NPM) stood at 24.4%, 11.7% and 7.1% respectively. Return on equity (ROE) and return on asset (ROA) stood at 7.0% and 4.5% in FY18. Presently, ESQUIRENIT doesn't have any subsidiary or associate company.

Lock-in Provision



Source: IPO Prospectus

- Pre-IPO shares of ESQUIRENIT (100.0mn) is classified into just one category - sponsors & directors. In post-IPO basis, total number of shares would increase by 34.9mn to 134.9mn. Of post-IPO shares: sponsors & directors, institution, and general public would hold 100.0mn, 20.8mn, and 14.1mn shares respectively.

- Out of shares issued at IPO (34.9mn), 70.1% (24.5mn) shares will be tradable on the first trading date which implies that on debut trading day total tradable shares as % of total shares will be 18.1%. All shares purchased by general public (14.1mn) and 50% shares of institutional investors (10.4mn) purchased at IPO would be tradable on that day.

- On 13 June 2019, tradable shares will increase by 5.2mn shares and on 13 September 2019, tradable shares will increase by further 5.2mn shares. On 13 December 2019, tradable shares will increase by 7.1mn shares and on 13 December, 2021 shares of sponsors and directors will become tradable, increasing total tradable shares by 92.9mn.

IPO Summary

IPO type	Book building
DSE ticker	ESQUIRENIT
Face value (BDT)	10
Cut off price (BDT)	45
Public offer price (BDT)	40
Authorized capital (BDT mn)	2,000
Issue manager	Prime Finance Capital Management Limited
Underwriters	1. AB Investments Limited 2. AFC Capital Limited 3. Alpha Capital Management Limited
Auditor	ACNABIN Chartered Accountants
Pre-IPO paid-up capital (BDT mn)	1,000
IPO size at offer price (BDT mn)	1,500
Post-IPO paid-up capital (BDT mn)	**1,349**
Share premium (BDT mn)	**1,151**
Pre-IPO number of shares	100.0
IPO issue size (no. of Shares) (mn)	34.9
Post-IPO number of shares	**134.9**
Tradable shares at debut trading Day (mn)	24.5

Shareholding Structure	Pre-IPO Shares (mn)	Pre-IPO BDT Mn	Pre-IPO %	Post-IPO Shares (mn)	Post-IPO BDT Mn	Post-IPO %
Sponsors	100.0	1,000	100%	100.0	1,000	74.1%
Institution				20.8	208	15.5%
Public				14.1	141	10.4%
Total	**100.0**	**1,000**	**100.0%**	**134.9**	**1,349**	**100.0%**

Utilization of IPO proceed

Particulars	BDT mn	%
Building and civil construction	1,004	66.9%
Import of new machinery	431	28.8%
IPO expanses	64	4.3%

Annualized EPS (BDT)	Offer price (BDT)	Theoretical market price (BDT)						
3.03	40.0	45.0	50.0	55.0	60.0	65.0	70.0	75.0
Trailing P/E (x)	13.2	14.9	16.5	18.2	19.8	21.5	23.1	24.8

Financials summary

Particulars (BDT mn)	FY16	FY17	FY18
Revenue	4,426	4,454	4,841
EBITDA	646	675	741
EBIT	512	516	568
Net profit after tax	297	312	344
Total assets	6,747	7,292	7,567
Total liabilities	2,476	2,708	2,640
EPS (post IPO)	2.20	2.31	2.55
OCF/share (post IPO)	1.76	0.74	3.86
NAV per share (post IPO)	31.66	33.98	36.53

Analyst

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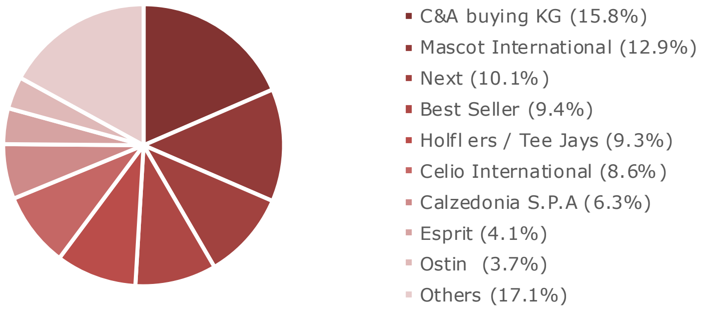
COMPANY BACKGROUND

ESQUIRENIT, an 100% export oriented knit garments manufacturers, was incorporated on 16 February 2000 as a private limited company. Later, the company was converted to public limited company on 28 June 2015. The factory of the company is located at Kanchpur, Sonargaon, Narayngan j. Major buyers of ESQUIRENIT are C&A, Next, Celio, Mascot, Best-Seller (DK) etc.

Major buyers of ESQUIRENIT

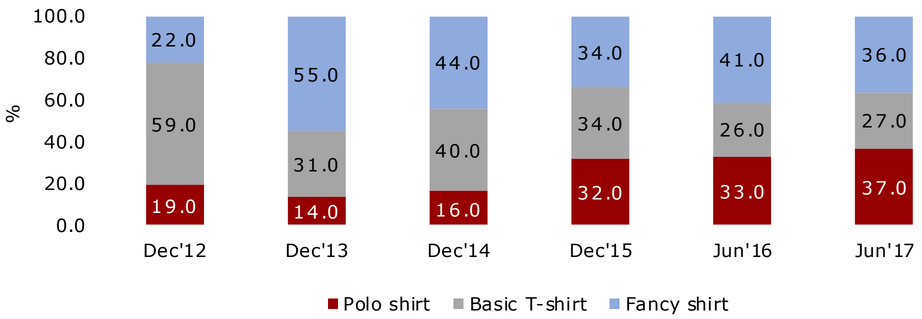


Source: IPO Prospectus

PRODUCT

ESQUIRENIT produces readymade garments such as t-shirt, sweat shirt, tank top and jag suit etc. Majority of the revenue comes from the sales of fancy and polo shirt. In FY17, the company exported USD 20.33mn worth of polo shirt and USD 20.50mn worth of fancy shirt. Revenue from polo shirt increased by 12.8% YoY in FY17 whereas revenue from Fancy shirt declined by 11.7% YoY during the same period.

Revenue Breakdown



Source: IPO Prospectus

CAPACITY UTILIZATION

Currently, the company has 57 sewing lines consisting 3,700 sewing machine, 89 circular knitting machines and 33 flat knitting machines. With the existing capacity, ESQUIRENIT can produce 80,000 pcs of apparels and 18 tons of knitwear daily.

Capacity and capacity Utilization of ESQUIRENIT

Particulars	FY17	FY18
Capacity		
Knitting (MT)	5,500	5,500
Dyeing (MT)	4,700	4,700
RMG (mn Pcs)	21	25
Utilization (%)		
Knitting (%)	72.7	78.2
Dyeing (%)	85.1	91.5
RMG (%)	76.2	72.0

Source: IPO Prospectus

DETAILS ON UTILIZATION OF IPO PROCEEDS

Total cost of the expansion project is BDT 5,766mn of which BDT 1,436mn (24.9% of the project cost) will be financed through IPO proceeds and the rest will be financed through bank, financial institutions and internal sources.

66.9% (BDT 1,004mn) of the IPO proceed will be used to erect building and civil construction. The fund for this purpose is expected to be utilized by August 2020. 28.8% (BDT 431mn) of the IPO proceed will be used to procure garment machineries. The procurement of machineries is expected to be completed by December 2020. Expansion project is expected to be fully operational by August 2022.

Break down of estimated project cost

Particulars (BDT mn)	Total	Source: IPO	Source: Other than IPO
Cost of Machinery			
Procurement of Garments machineries for new project	444	431	13
Procurement of other machineries for new project	3,085		3,085
Sub total	**3,529**	**431**	**3,098**
Civil Construction:			
Buildings and Civil Construction	**1,500**	**1,004**	**496**
Other expenses:			
Utility	326		326
Vehicle	70		70
Furniture & Equipment	70		70
Working capital	200		200
Installation Cost	71		71
Sub total	**737**		**737**
Total	**5,766**	**1,436**	**4,331**

Source: IPO Prospectus

Source of fund for the project

Particulars	BDT mn	%
Total fund required for the project	5,766	100.0
Sources		
IPO Fund	1,436	24.9
Additional Fund	4,331	75.1
Break up of additional fund		
Internal cash generation	861	14.9
International Finance Corporation (IFC)	1,680	29.1
The City Bank Ltd.	1,790	31.0

Source: IPO Prospectus

Utilization of IPO fund

Particulars	BDT mn	%
Buildings and civil construction	1,004	66.9
Procurement of garments machineries for new project	431	28.8
IPO expanses	64	4.3
Total	1,500.00	100.0

Source: IPO Prospectus

DETAILS ON SUPPLIERS

Sl.	Name	Raw materials	Country
1	Lucky Spinning Co. Ltd.	Yarn	Thailand
2	Vardhaman Polytex Ltd.	Yarn	India
3	RSWM	Yarn	India
4	Winsome Textile Industries Ltd.	Yarn	India
5	PT Embeeplumbontekstil	Yarn	Indonesia
6	PT Ramagloriasakittekstilindustri.	Yarn	Indonesia
7	Asia Composite Mills Ltd.	Yarn	Bangladesh
8	Prime Melange Yarn Mills Ltd.	Yarn	Bangladesh
9	RMT Textile Mills Ltd.	Yarn	Bangladesh
10	Kamal Yarn Limited	Yarn	Bangladesh
11	Bezema AG	Dyes and chemicals	Switzerland
13	Dystar Singapore Pte. Ltd.	Dyes and chemicals	Singapore
14	CHT R. Beitlichgmbh	Dyes and chemicals	Germany
15	T&T Industries Corp.	Dyes and chemicals	Taiwan
16	Huntsman (Singapore) Pte Ltd.	Dyes and chemicals	Singapore
17	ASM Chemical Industries Ltd.	Dyes and chemicals	Bangladesh
18	Fair Chemicals	Dyes and chemicals	Bangladesh
19	ACE Trend Ltd.	Accessories and packing material	Hong Kong
20	SK Fashion International	Accessories and packing material	Hong Kong
21	King Choice Group Ltd.	Accessories and packing material	Hong Kong
22	Eastern Hill (Far East) Ltd.	Accessories and packing material	Hong Kong
23	SML (Far East) Pte Ltd.	Accessories and packing material	Singapore
24	Esquire Accessories Ltd.	Accessories and packing material	Bangladesh
25	Uniglory Paper & Packaging Ltd.	Accessories and packing material	Bangladesh
26	Checkpoint Systems (BD) Ltd.	Accessories and packing material	Bangladesh

Source: IPO Prospectus

BOARD OF DIRECTORS

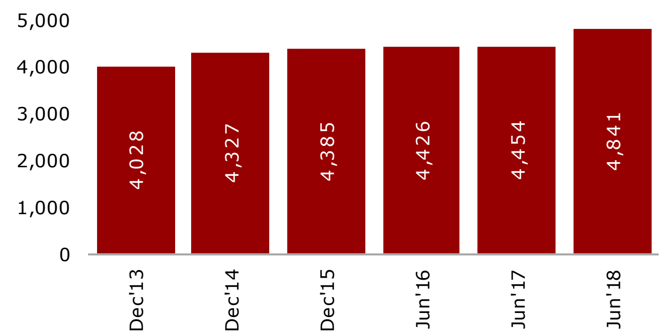
Name	Designation	Shareholdings	
		Pre-IPO	Post-IPO
Md. Mofazzal Hossain	Chainman	28.8%	21.3%
Md. Ehsanul Habib	Managing Director	15.0%	11.1%
Ariful Rahman	Director	7.9%	5.9%
Md. Muddasar Hossain	Director	7.9%	5.9%
Peara Begum	Director	3.7%	2.7%
Swapan Kumar Sarkar	Independent Director		
Placid Gomes FCA	Independent Director		

Source: IPO Prospectus

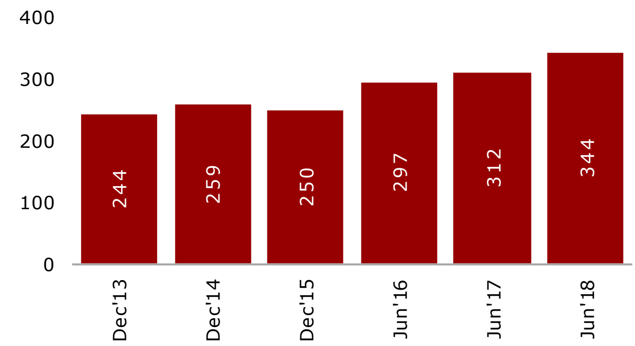
PERFORMANCE ANALYSIS

Revenue grew 8.7% YoY in FY18 and gross profit margin improved by 60 bps. Net profit margin improved by 10 bps in FY18 compared to FY17. Asset turnover increased to 0.64x in FY18 against 0.61x in FY17. Cash conversion cycle improved in FY18 as it decreased to 186 days compared to 202 days in FY17.

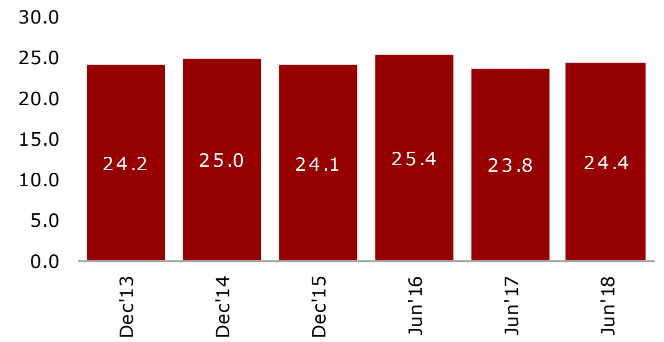
Revenue (BDT mn)



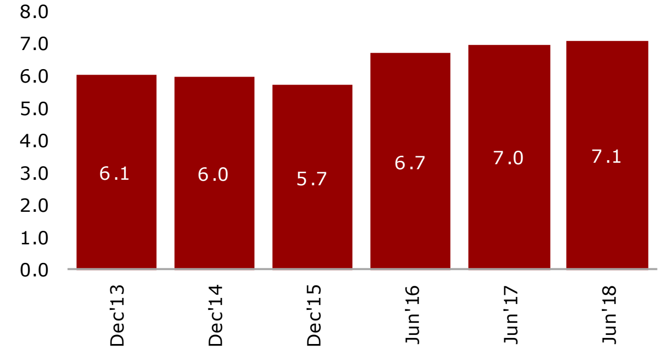
Net Profit (BDT mn)



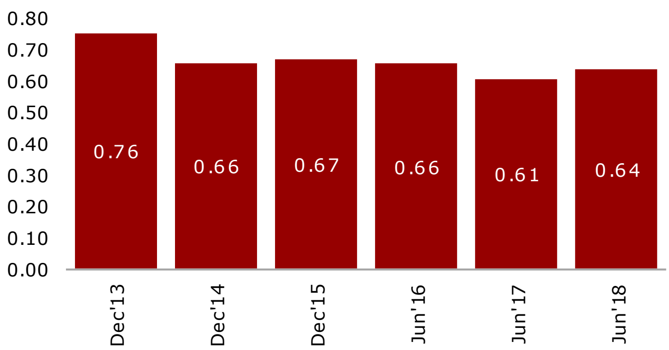
Gross Profit Margin (%)



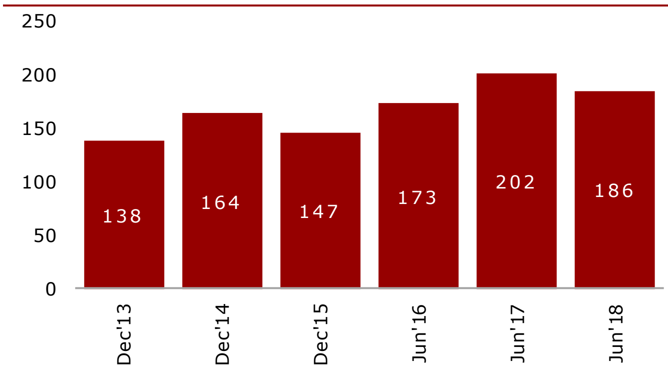
Net Profit Margin (%)



Asset Turnover (X)



Cash Conversion Cycle (day's)



Source: IPO Prospectus

Statement of Comprehensive Income

Particulars (BDT mn)	FY16	FY17	FY18
Revenue	4,426	4,454	4,841
Cost of goods sold (reported)	3,415	3,532	3,804
Cost of goods sold (adjusted)	3,302	3,394	3,659
Gross profit	**1,125**	**1,060**	**1,182**
Operating expenses (reported)	499	406	469
Operating expenses (adjusted)	479	385	441
EBITDA	**646**	**675**	**741**
Depreciation & amortization	134	159	173
EBIT	**512**	**516**	**568**
Financial expenses	140	118	142
Non operating income	6	5	6
Profit before WPPF	**378**	**403**	**432**
WPPF	18	20	22
PBT	**360**	**383**	**411**
Tax Expenses	64	71	67
Net profit after tax	**297**	**312**	**344**
EPS (BDT) - Pre IPO	**2.97**	**3.12**	**3.44**
EPS (BDT) - Post IPO	**2.20**	**2.31**	**2.55**

Statement of Financial Position

Particulars (BDT mn)	FY16	FY17	FY18
Property, plant & equipments	3,845	3,965	4,083
Capital work in progress	45	1	83
Investment in shares	-	-	48
Non current assets	**3,890**	**3,966**	**4,214**
Inventories	1,826	2,003	2,233
Accounts receivables	639	835	558
Other receivables	1	1	2
Advance, deposit and prepayment	247	327	395
Investment	89	93	86
Cash and bank balances	55	66	78
Current assets	**2,857**	**3,326**	**3,353**
Total assets	**6,747**	**7,292**	**7,567**
Share capital	600	1,000	1,000
Revaluation surplus	1,987	1,987	1,987
Retained earnings	1,684	1,597	1,941
Shareholder's equity	**4,271**	**4,583**	**4,927**
Long term loan - non current portion	414	315	460
Deffered tax liabilities	83	108	140
Finance lease obligation - non current portion	16	24	13
Non current liabilities	**513**	**446**	**614**
Short term loan	860	1,039	769
Current portion of long term loan	141	191	241
Current portion of finance lease obligation	8	21	11
Accounts payable	735	762	794
Liabilities of expenses	220	250	211
Current liabilities	**1,964**	**2,262**	**2,025**
Total liabilities	**2,476**	**2,708**	**2,640**
Total liability & owners equity	**6,747**	**7,292**	**7,567**
BVPS (BDT) - Pre IPO	**42.71**	**45.83**	**49.27**
BVPS (BDT) - Post IPO	31.66	33.98	36.53

Statement of Cash Flows

Particulars (BDT mn)	FY16	FY17	FY18
Operating cashflow	237	99	521
Investing cash flow	(167)	(239)	(414)
Financing cash flow	(100)	150	(95)
Net changes in cash	(30)	11	12
Cash & cash equivalents (beginning)	85	55	66
Cash & cash equivalents (ending)	**55**	**66**	**78**
OCF per share (BDT) - Pre IPO	**2.37**	**0.99**	**5.21**
OCF per share (BDT) - Post IPO	**1.76**	**0.74**	**3.86**

Key Ratios

Growth YoY	FY16	FY17	FY18
Revenue growth (%)	0.9	0.6	8.7
Gross profit growth (%)	6.5	(5.8)	11.5
EBITDA growth (%)	20.6	4.5	9.8
EBIT growth (%)	18.9	0.8	10.2
Net profit growth (%)	18.5	5.2	10.2
Margins	**FY16**	**FY17**	**FY18**
Gross profit margin (%)	25.4	23.8	24.4
EBITDA margin (%)	14.6	15.2	15.3
EBIT margin (%)	11.6	11.6	11.7
PBT margin (%)	8.1	8.6	8.5
Net profit margin (%)	6.7	7.0	7.1
Per share data	**FY16**	**FY17**	**FY18**
EPS (BDT) - Pre IPO	2.97	3.12	3.44
EPS (BDT) - Post IPO	2.20	2.31	2.55
BVPS (BDT) - Pre IPO	42.71	45.83	49.27
BVPS (BDT) - Post IPO	31.66	33.98	36.53
OCFPS - Pre IPO (BDT)	2.37	0.99	5.21
OCFPS - Post IPO (BDT)	1.76	0.74	3.86
Return and valuation	**FY16**	**FY17**	**FY18**
Return on equity (%)	6.9	6.8	7.0
Return on assets (%)	4.4	4.3	4.5
DuPont Analysis	**FY16**	**FY17**	**FY18**
Net profit margin (%)	6.7	7.0	7.1
Total asset turnover (x)	0.7	0.6	0.6
Equity multiplier (x)	1.6	1.6	1.5
Cash conversion analysis	**FY16**	**FY17**	**FY18**
Days receivables outstanding	53	68	42
Days inventory outstanding	202	215	223
Days payables outstanding	81	82	79
Cash conversion cycle (days)	173	202	186
Efficiency	**FY16**	**FY17**	**FY18**
Receivable turnover	6.9	5.3	8.7
Inventory turnover	1.8	1.7	1.6
Payables turnover	4.5	4.5	4.6

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Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

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Office Premises

Head Office 6, Dilkusha C/A 1st Floor Dhaka- 1000 Bangladesh	**Corporate Office** Bulus Center (Level-2) Plot-CWS(A)-1, Road No-34 Gulshan Avenue Dhaka-1212 Bangladesh	**DSE Extension Office** Room # 633, 9/E DSE Annex Building (5 th Floor) Motijheel C/A, Dhaka 1000 Bangladesh	**Chittagong Office** Ayub Trade Center 1269/B SK Mujib Road (4th Floor) Agrabad C/A, Chittagong Bangladesh

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