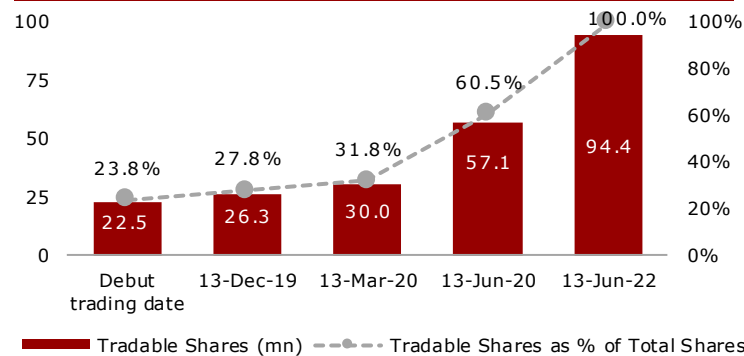


Silco Pharmaceuticals Limited

Issued 30mn shares at offer price BDT 10

We initiate an IPO note on Silco Pharmaceuticals Limited (SILCOPHL) with no assigned rating. The company plans to raise BDT 300mn through initial public offering (IPO) under fixed price method. The fund would be utilized for construction of new factory building (48.2%), import of new machinery (32.5%), purchase of delivery van (12.1%) and IPO expenses (7.2%). In FY18, gross profit margin (GPM), EBIT margin and net profit margin (NPM) stood at 41.1%, 18.6% and 11.5% respectively. Return on equity (ROE) and return on asset (ROA) stood at 6.1% and 4.9% in FY18. Presently, SILCOPHL doesn't have any subsidiary or associate company.

Lock-in Provision



Source: IPO Prospectus

- Pre-IPO shares of SILCOPHL (64.4mn) is classified into two categories: sponsors & directors (37.3mn) and public (27.1mn). In post-IPO basis, total number of shares would increase by 30.0mn to 94.4mn. Of post-IPO shares: sponsors & directors, institution, and general public would hold 37.3mn, 15.0mn, and 42.1mn shares respectively.
- Out of shares issued at IPO (30.0mn), 75.0% (22.5mn) 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 23.8%. All shares purchased by general public (15.0mn) and 50% shares of institutional investors (7.5mn) purchased at IPO would be tradable on that day.
- On 13 December 2019, tradable shares will increase by 3.8mn shares and on 13 March 2019, tradable shares will increase by further 3.8mn shares. On 13 June 2020, tradable shares will increase by 27.1mn shares and on 13 June, 2022 shares of sponsors and directors will become tradable, increasing total tradable shares by 37.3mn.

IPO Summary

IPO Type	Fixed Price
DSE Ticker	SILCOPHL
Face Value (BDT)	10
Offer Price (BDT)	10
Authorized Capital (BDT mn)	1,050

Issue Manager	1. EBL Investment Limited
	2. City Bank Capital Resources Limited
	3. Citizen Securities & Investment Limited

Underwriters	1. EBL Investment Limited
	2. MTB Capital Limited

Auditor	Ahmed & Akhtar
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Pre-IPO paid-up Capital (BDT mn)	644
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IPO size at offer price (BDT mn)	300
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Post-IPO Paid-up Capital (BDT mn)	944
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Pre-IPO Number of Shares	64.4
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IPO Issue size (No. of Shares) (mn)	30.0
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Post-IPO Number of Shares	94.4
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Tradable Shares at Debut Trading Day (mn)	22.5
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Shareholding Structure	Pre-IPO			Post-IPO		
	Shares (mn)	BDT Mn	%	Shares (mn)	BDT Mn	%
Sponsors & Directors	37.3	373.2	58.0%	37.3	373.2	39.5%
Institution	0.0	0.0	0.0%	15.0	150.0	15.9%
General Public	27.1	270.5	42.0%	42.1	420.5	44.6%
Total	64.4	643.7	100.0%	94.4	943.7	100.0%

Utilization of IPO Fund

Particulars	BDT mn	%
Construction of New Factory Building	145	48.2%
Import of New Machinery	97	32.5%
Purchase of Delivery Van	36	12.1%
IPO Expenses	22	7.2%

Annualized EPS (BDT)	Offer price (BDT)	Theoretical market price (BDT)							
		10.0	15.0	20.0	25.0	30.0	35.0	40.0	45.0
1.11	10.0	15.0	20.0	25.0	30.0	35.0	40.0	45.0	
Trailing P/E (x)	9.0	13.6	18.1	22.6	27.1	31.6	36.2	40.7	

Financials Summary

Particulars (BDT mn)	FY16	FY17	FY18
Revenue	886	907	918
EBITDA	271	253	258
EBIT	194	169	171
Net Profit After Tax	119	103	105
Total Assets	1,837	1,990	2,146
Total Liabilities	305	354	405
Post IPO EPS (BDT)	1.26	1.09	1.12
Post IPO OCFPS (BDT)	1.92	2.28	0.93
Post IPO NAVPS (BDT)	16.24	17.33	18.45

Analyst

Anik Mahmood
Research Associate
anik.mahmood@ucb.com.bd

COMPANY BACKGROUND

SILCOPHL was incorporated on January 25, 1995. The company received drug manufacturing license on October 29, 2003 and started commercial operation on October 30, 2003. The manufacturing is situated at BSCIC Industrial Estate, Khadimnagar, Sylhet. SILCOPHL produces different types of generic drugs under a wide range of therapeutic classes including Antibiotics,, Analgesics, Anti-diabetics, Antipyretics and Anti-inflammatory etc. The company sell its products throughout Bangladesh and currently does not export drugs overseas.

PRODUCT

Product portfolio of SILCOPHL consists of 99 medicines - both biological and non-biological. SILCOPHL offers its products under eight major dosage forms including tablet, capsule, liquid & dry syrup, pallet, powder and SRS Saline etc. Bactazim, Peristal, Cefusil, Panosa, Azosil are some of the popular products of SILCOPHL. Top ten products of SILCOPHL contributes ~75.0% to the total sales.

CAPACITY UTILIZATION

With the existing capacity, the company can produce 280mn pcs tablet and 150mn pcs of capsule annually. The detail capacity and utilization rate of SILCOPHL has shown below:

Capacity Utilization of SILCOPHL

Product Categories	Unit	Installed Capacity (mn)	Actual Production (mn)	Utilization Rate %
Tablet	Pcs.	280.0	189.6	67.7%
Capsules	Pcs.	150.0	89.6	59.7%
Liquid Syrup	Pcs.	4.0	3.4	85.7%
Dry Surup	Bottles	1.0	0.6	58.2%
Pellet	Bottles	0.3	0.2	51.3%
Powder	Kg	1.0	0.6	56.6%
Powder of Suspension	Phials	0.5	0.4	87.9%
SRS Saline	Bottles	20.0	17.5	87.4%
Total		456.8	301.8	66.1%

Source: IPO Prospectus

DETAILS ON UTILIZATION OF IPO FUND

Out of total IPO proceeds of BDT 300 mn, 144.7mn (48.2%) will be used for the construction of new factory building, BDT 97.4mn (32.5%) will be used for the import of new machinery, BDT 36.3mn (12.7%) will be used for the purchase of delivery van and the rest BDT 21.7mn (7.2%) will be used to meet the IPO expenses.

IPO fund Utilization Schedule

Particulars	BDT mn	BDT mn	Expected time of Implementation
Construction of New Factory Building		145	
A. Civil Works	127		
B. Internal Electrification Works	6		W/I 18 months after receiving IPO fund
C. Sanitary & Water Supply Works	6		
D. Installation of Sub-Station	6		
Import of New Machinery		97	W/I 20 months after receiving IPO fund
Purchase of Delivery Van		36	W/I 3 months after receiving IPO fund
IPO Related Expenses		22	As and when required
Total		300	

Source: IPO Prospectus

DETAILS ON SUPPLIERS

SILCOPHL imports majority of its raw materials from overseas. The company primarily imports APIs from India, China, Taiwan and Honk Kong to manufacture different types of drugs.

Major suppliers of SILCOPHL

Sl.	Name of Suppliers	Country
1	Kerry Ingredients India Pvt.Ltd.	India
2	Arshine Pharmaceutical Co. Ltd.	China
3	Formosa Lab. Inc.	Taiwan
4	Hingtai Chemcial Co. Ltd	Taiwan
5	Xiamen Wiew Import & Export Co. Ltd	China
6	Vasudha Pharma Chem Ltd.	India
7	Morepen Laboratories Limited	India
8	Nectar Lifesciences Ltd	India
9	M/s Supriya Lifescience Ltd	India
10	Health Products Imporet and Export Co. Ltd.	China
11	Hongkong Gustar Iternational Trade Co. Ltd.	Hong Kong
12	Weifang Shengtai Medicine Co. Ltd.	China
13	Metro Chem API Private Ltd.	India
14	Biobase Meihua Trading Co. Ltd.	China
15	Projapoti Traders	Dhaka
16	Qualitex BD Ltd.	Dhaka
17	M/S Shajib Enterprise	Dhaka
18	Uniliver Bangladesh Ltd.	Dhaka
19	Abdul Momen Sugar Refinery Ltd.	Narayongonj
20	Alam Trading Corporation	Dhaka
21	Bright International	Dhaka

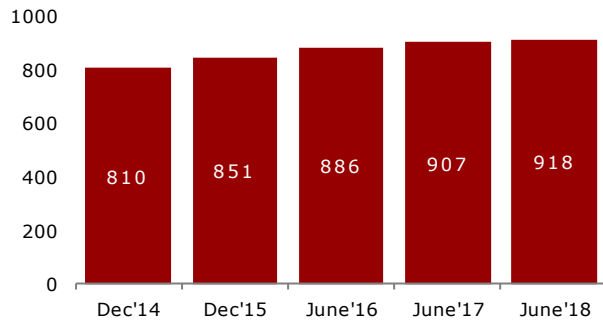
BOARD OF DIRECTORS

Name	Designation	Shareholdings	
		Pre-IPO	Post-IPO
Mrs. Naim Fatema	Chairman	8.40%	5.73%
Dr. Md. Badrul Haque Rukan	Managing Director	19.76%	13.42%
Dr. Md. Azizur Rahman	Director	4.69%	3.20%
Dr. Shahana Ferdous Chowdhury	Director	5.17%	3.53%
Dr. Gulshan-E-Jahan	Director	4.91%	3.35%
Prof. Dr. Md. Harunur Rashid	Director	4.94%	3.37%
Dr. Mahmudul Majid Chowdhury	Director	4.58%	3.13%
Prof. Dr. Faisal Ahmed	Director	4.52%	3.08%
Prof. Dr. Md. Abul Ahab	Independent Director	0.16%	0.11%
Prof. Dr. Md. Rezaul Karim	Independent Director	0.31%	0.21%
Dr. Iqbal Hossain Chowdhury	Independent Director	N/A	N/A

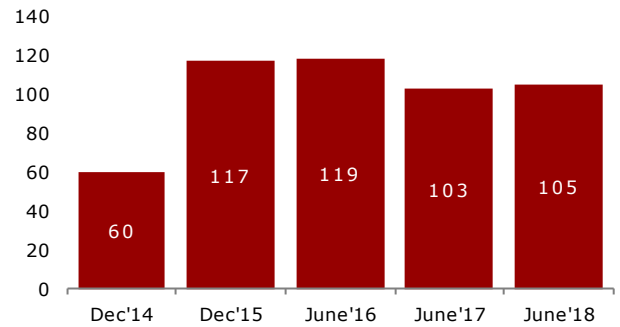
PERFORMANCE ANALYSIS

Revenue grew meagre 1.2% YoY in FY18 and gross profit margin improved by 30 bps. Net profit margin improved by 10 bps in FY18 compared to FY17. Asset turnover declined to 0.43x in FY18 against 0.46x in FY17. Cash conversion cycle deteriorated in FY18 as it increased to 413 days compared to 354 days in FY17.

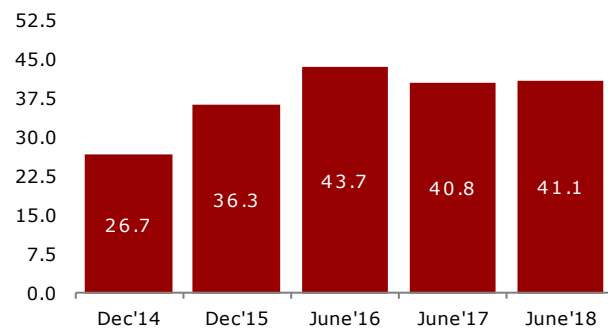
Revenue (BDT mn)



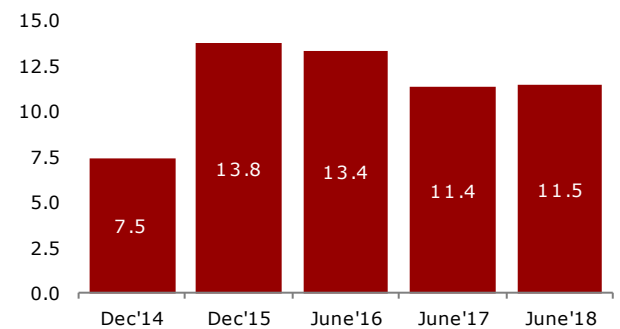
Net Profit (BDT mn)



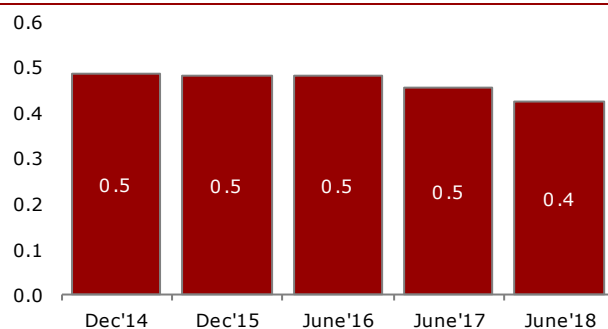
Gross Profit Margin (%)



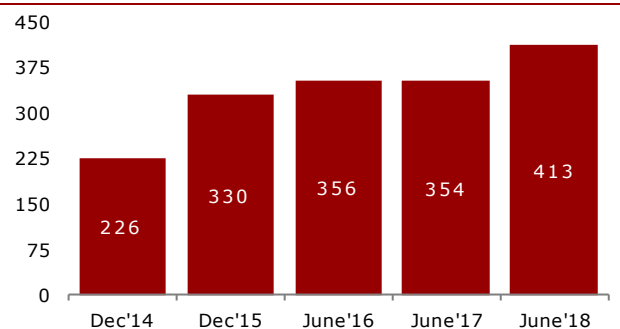
Net Profit Margin (%)



Asset Turnover (X)



Cash Conversion Cycle (day's)



Source: IPO Prospectus and UCBCML Research

Statement of Comprehensive Income

Particulars (BDT mn)	June' 16	June' 17	June' 18
Sales	886	907	918
Cost of Sales (adjusted)	499	537	541
Gross Profit	387	370	377
Operating Expenses (adjusted)	116	117	119
Administrative expense (adjusted)	20	20	20
Marketing, selling & distribution expenses (adjusted)	96	97	99
EBITDA	271	253	258
Depreciation	78	84	87
EBIT	194	169	171
Financial Expenses	2	3	1
Other Income/(expense)	0	1	0
Net profit before contribution to WPPF	192	166	170
contribution to WPPF	9	8	8
Net Profit before Tax	182	158	162
Income tax expenses	64	55	57
Current Tax	43	33	42
Deferred Tax	21	22	15
Net Profit after Tax	119	103	105
Total Compressive Income	119	103	105
Pre IPO EPS (BDT)	1.84	1.60	1.64
Post IPO EPS (BDT)	1.26	1.09	1.12

Statement of Financial Position

Particulars (BDT mn)	June' 16	June' 17	June' 18
Assets:			
Non-Current Assets	1,141	1,256	1,250
Property, Plant & Equipment	1,141	1,196	1,175
Capital wrok-in-progress		59	74
Current Assets	696	735	897
Inventories	345	365	398
Trade and Other Receivable	274	289	389
Advance, Deposit & Prepayments	69	63	93
Cash & Bank Balances	8	18	16
Total Assets	1,837	1,990	2,146
Shareholders' Equity	1,533	1,636	1,741
Share Capital	644	644	644
Retained Earnings	889	992	1,097
Non-Current liabilities	165	183	196
Long Term Loan from Bank	6	1	0
Deferred Tax Liabilities	159	181	196
Current Liabilities	139	172	209
Trade and Other Payable	13	16	16
Long Term Borrowings	6	6	0
Creditors & Accruals	9	11	12
Current Tax Liability	97	131	172
Obligation to WPPF	14	8	8
Total Liabilities	305	354	405
Total Shareholders' Equity & Liabilities	1,837	1,990	2,146
Pre IPO NAVPS (BDT)	23.8	25.4	27.05
Post IPO NAVPS (BDT)	16.2	17.3	18.45

Statement of Cash Flows

Particulars (BDT mn)	June' 16	June' 17	June' 18
Net cash from operating activities	181	215	88
Net cash used in investing activities	-176	-198	-81
Net cash used in financing activities	-5	-8	-8
Net increase/(decrease) in cash & cash equivalents:	0	9	-2
Cash & cash equivalents at the beginning of the year	8	8	18
Closing cash & cash equivalents at the end of the year	8	18	16
Pre IPO OCFPS (BDT)	2.8	3.3	1.4
Post IPO OCFPS (BDT)	1.9	2.3	0.9

Key Ratios

Growth YoY	June' 16	June' 17	June' 18
Revenue Growth (%)		2.4	1.2
Gross Profit Growth (%)		-4.5	2.0
EBITDA Growth (%)		-6.7	2.1
EBIT Growth (%)		-12.7	1.2
Net Profit Growth (%)		-13.2	2.4
Margins	June' 16	June' 17	June' 18
Gross Profit Margin (%)	43.7	40.8	41.1
EBITDA Margin (%)	30.6	27.9	28.1
EBIT Margin (%)	21.9	18.6	18.6
PBT Margin (%)	20.6	17.5	17.7
Net Profit Margin (%)	13.4	11.4	11.5
Per share data	June' 16	June' 17	June' 18
Pre IPO EPS (BDT)	1.84	1.60	1.64
Post IPO EPS (BDT)	1.26	1.09	1.12
Pre IPO BVPS (BDT)	23.81	25.41	27.05
Post IPO BVPS (BDT)	16.24	17.33	18.45
Pre IPO OCFPS (BDT)	2.81	3.35	1.36
Post IPO OCFPS (BDT)	1.92	2.28	0.93
Return and valuation	June' 16	June' 17	June' 18
ROE (%)	7.7	6.3	6.1
ROA (%)	6.5	5.2	4.9
Dupont Analysis	June' 16	June' 17	June' 18
Net Profit Margin (%)	13.4	11.4	11.5
Total Asset Turnover (x)	0.48	0.46	0.43
Equity Multiplier (x)	1.2	1.2	1.2
Cash conversion analysis	June' 16	June' 17	June' 18
Days Receivables Outstanding	113	116	155
Days Inventory Outstanding	252	248	269
Days Payables Outstanding	9	11	11
Cash Conversion Cycle	356	354	413
Efficiency	June' 16	June' 17	June' 18
Receivable Turnover (x)	3.2	3.1	2.4
Inventory Turnover (x)	1.4	1.5	1.4
Payables Turnover (x)	39.1	34.2	33.1

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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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