

## Company Background

Esquire Knit Composite Limited (EKCL) is a 100% export-oriented company in the textile sector in Bangladesh. Located at Narayanganj, EKCL is engaged in knitting, fabric dyeing & finishing, cutting, sewing, industrial laundry, embroidery and printing under one roof. The company was incorporated in 2000 as a private limited company and commenced commercial operation in 2001. EKCL converted to a public limited company on 28 June 2015.

The current installed capacity of the company for textile and apparels is about 4,015 ton and 12,480 ton respectively whereas the actual quantity of production is 2,975 ton (75%) and 8,904 ton (71%) respectively. The overall present capacity of production goes over 2 million pieces of garments per month. The company currently employs around 8,000 people, serving customers in mainly European countries. EKCL also serves customers in American chain-stores, fashion brands and super markets. The company has no associate, subsidiary or holding company.

## IPO Details

EKCL will raise BDT 1.5 billion as IPO proceeds through book building method. The main purpose is to set up a new composite garments factory in Mymensingh. Proceeds from initial public offering (IPO) will be used for building and civil construction, procurement of yarn dyeing machineries, procurement of washing plant machineries and for IPO expense. The breakdown is given below.

Use of IPO Proceeds	Mn BDT	% of Proceed
Building and Civil Construction	1004.2	67.9%
Procurement of Yarn Dyeing Machineries	212.3	14.2%
Procurement of Washing Plant Machineries	219.1	14.6%
IPO expense	64.4	4.3%
<b>Total</b>	<b>1500.0</b>	<b>100.0%</b>

## Key Points

- EKCL reported a top line CAGR of 3.3% over last five years with an average gross profit margin of 19.6%. The bottom line CAGR was 12.1% with an average net profit margin of 5.8%. Margin improvement significantly over the period drove the bottom-line growth.
- EKCL is raising IPO proceeds primarily for purchasing capital equipment. BDT 1436 million of the IPO proceeds will be utilized for setting up a new composite garments factory to enhance production capacity. One of the reasons is the company intends to enter in the emerging market of South America, Africa, East Asia and other European markets yet to be entered. The project will also be financed by sponsors and though long term loans from banks and financial institutions.
- EKCL only focuses on exports which allows the company to avoid uncertainties in domestic demand and grab opportunities provided by foreign clients all around the world. Its experience may allow it to pursue more foreign clients as this sector has promising growth
- EKCL has entered into a long-term loan finance for ~USD 22 million with International Finance Corporation (IFC). Effective rate will be floating rate with a margin of 3.75% net over the 6 month USD LIBOR for the 8 year whole term.
- There are 8 listed companies that have similar business nature as EKCL. They are HWAWELLTEX, TOSRIFA, APEXSPINN, CNATEX, FEKDIL, GENNEXT and MITHUNKNITEKCL. EKCL has higher revenue and NPAT than all of these companies' for last two years.
- For better quality assurance and steady production, the company depends on both foreign and local suppliers. As numbers of suppliers of raw materials are plenty in the market, it is not dependent on single supplier for sourcing raw materials. EKCL procures a good amount of raw materials from foreign suppliers of India, China, Indonesia, Switzerland, Singapore, Germany, Taiwan and Hong Kong. Therefore, any fluctuation of currency and raw material prices in international markets, specially rupee and yen, as one of the major raw materials yarn is imported from India and China, will impact the company's COGS and hence the margins.
- The company always had a positive cash flow from operation. The liquidity position of the company remained stable from the inception of the cash conversion cycle of the company (70 days). The company does not face any liquidity risks as all of the exports are guaranteed by lenders.

## Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Textile sector are given below:

DSE Ticker	Market Cap*	TTM Earnings*	P/E
SQUARETEXT	9862.6	375.7	26.25x
APEXSPINN	1366.7	24.7	55.44x

\* in BDT Million

## Company Summary

Post IPO No. of Shares (Mn)	N/A
Post-IPO Paid-up Capital (Mn BDT)	2500
Pre-IPO Paid-up Capital (Mn BDT)	1000
New Shares Issued (Mn)	N/A
IPO Proceeds (Mn BDT)	1500.0
Face Value (BDT)	10.0
Market Lot	N/A
Free Float	60.0%
Accounting Year End	June
Auditor	ACNABIN.
Issue Manager	Prime Finance Capital Management Ltd

## Income Statement

Mn BDT	2013	2014	2015	2016	2017
Revenue	4,028	4,327	4,385	4,426	4,454
COGS	(3,241)	(3,438)	(3,426)	(3,415)	(3,532)
<b>Gross Profit</b>	<b>788</b>	<b>888</b>	<b>959</b>	<b>1,011</b>	<b>922</b>
Operating Expenses	(417)	(458)	(529)	(499)	(406)
<b>Gross Operating Profit</b>	<b>370</b>	<b>430</b>	<b>431</b>	<b>512</b>	<b>516</b>
Financial Expenses	(112)	(140)	(147)	(140)	(118)
<b>Operating Income</b>	<b>258</b>	<b>290</b>	<b>284</b>	<b>372</b>	<b>398</b>
Other Income	11	8	6	6	5
<b>Profit before WPPF &amp; WF</b>	<b>270</b>	<b>298</b>	<b>290</b>	<b>378</b>	<b>403</b>
WPPF & WF Expenses	-	(14)	(14)	(18)	(20)
<b>EBT</b>	<b>270</b>	<b>284</b>	<b>276</b>	<b>360</b>	<b>383</b>
Income Tax Expense	(26)	(25)	(14)	(64)	(71)
<b>NPAT</b>	<b>244</b>	<b>259</b>	<b>262</b>	<b>297</b>	<b>312</b>
<b>Basic EPS (BDT)</b>	<b>28.23</b>	<b>25.93</b>	<b>6.04</b>	<b>4.95</b>	<b>3.12</b>

\*From 2016, the company changed their accounting year end from December to June.

## Balance Sheet

Mn BDT	2013	2014	2015	2016	2017
<b>Fixed Assets</b>	<b>3,295</b>	<b>3,760</b>	<b>3,858</b>	<b>3,890</b>	<b>3,966</b>
Property, Plant and Equipment	3,230	3,541	3,831	3,845	3,965
Capital Work in Progress	65	219	28	45	1
<b>Current Assets:</b>	<b>2,023</b>	<b>2,786</b>	<b>2,677</b>	<b>2,857</b>	<b>3,326</b>
Inventory	1,225	1,739	1,672	1,826	2,003
Accounts Receivables	571	590	506	639	835
Advance, Deposits & Prepayments	142	268	289	247	327
Investment	64	162	123	89	93
Cash and Bank Balances	20	27	86	55	66
<b>Total Asset</b>	<b>5,318</b>	<b>6,547</b>	<b>6,535</b>	<b>6,747</b>	<b>7,292</b>
<b>Share Holders' Equity:</b>	<b>3,633</b>	<b>3,950</b>	<b>4,118</b>	<b>4,271</b>	<b>4,583</b>
Share Capital	86	100	600	600	1,000
Retained Earnings	1,308	1,561	1,531	1,684	1,597
<b>Non-Current Liabilities:</b>	<b>94</b>	<b>740</b>	<b>571</b>	<b>513</b>	<b>446</b>
Long Term Borrowing	87	734	476	414	315
<b>Current Liability</b>	<b>1,590</b>	<b>1,857</b>	<b>1,847</b>	<b>1,964</b>	<b>2,262</b>
Short Term Loan	888	650	712	860	1,039
Current Portion of Long Term Loan	87	340	236	141	191
Accounts Payable	501	726	716	735	762
Liabilities for Expenses	112	138	179	220	250
<b>Total Equity and Liabilities</b>	<b>5,318</b>	<b>6,547</b>	<b>6,535</b>	<b>6,747</b>	<b>7,292</b>

\*From 2016, the company changed their accounting year end from December to June.

## Cash Flow Statement

Mn BDT	2013	2014	2015	2016	2017
Operating Activities	282	12	474	237	99
Investing Activities	(110)	(717)	(121)	(167)	(239)
Financing Activities	(180)	712	(293)	(100)	150
<b>Net Cash Flow</b>	<b>(8)</b>	<b>6</b>	<b>60</b>	<b>(30)</b>	<b>11</b>

\*From 2016, the company changed their accounting year end from December to June.

## Ratios

	2013	2014	2015	2016	2017
Gross Profit Margin	19.6%	20.5%	21.9%	22.9%	20.7%
Operating Profit margin	6.4%	6.7%	6.5%	8.4%	8.9%
Net Profit Margin	6.1%	6.0%	6.0%	6.7%	7.0%
Revenue Growth	5.7%	7.4%	1.4%	N/A	0.6%
Gross Profit Growth	26.9%	12.8%	8.0%	N/A	-8.9%
Operating Profit Growth	33.4%	12.4%	-2.3%	N/A	6.8%
NPAT Growth	38.4%	6.1%	1.2%	N/A	5.2%
Debt to Asset	20.0%	26.3%	21.8%	21.0%	21.2%
Debt to Equity	28.6%	43.0%	32.5%	31.8%	32.2%
Return on Asset	6.0%	4.4%	4.0%	4.5%	4.4%
Return on Equity	10.1%	6.8%	6.5%	7.1%	7.1%
Effective Tax Rate	9.5%	8.9%	5.0%	17.6%	18.5%

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### BRAC EPL Stock Brokerage Limited

#### Research

Ayaz Mahmud, CFA	Deputy Head of Research	<a href="mailto:ayaz.mahmud@bracepl.com">ayaz.mahmud@bracepl.com</a>	01708 805 221
Md. Sakib Chowdhury	Research Analyst	<a href="mailto:sakib.chowdhury@bracepl.com">sakib.chowdhury@bracepl.com</a>	01709 641 247
S. M. Samiuzzaman	Research Analyst	<a href="mailto:sm.samiuzzaman@bracepl.com">sm.samiuzzaman@bracepl.com</a>	01708 805 224
Sadman Sakib	Research Associate	<a href="mailto:sadman.sakib@bracepl.com">sadman.sakib@bracepl.com</a>	01730 727 939
Ahmed Zaki Khan	Research Associate	<a href="mailto:zaki.khan@bracepl.com">zaki.khan@bracepl.com</a>	01708 805 211
Md. Rafiqul Islam	Research Associate	<a href="mailto:mrafiqulislam@bracepl.com">mrafiqulislam@bracepl.com</a>	01708 805 229

#### International Trade and Sales

Ahsanur Rahman Bappi	Head of International Trade & Sales (Acting)	<a href="mailto:bappi@bracepl.com">bappi@bracepl.com</a>	01730 357 991
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#### BRAC EPL Research

[www.bracepl.com](http://www.bracepl.com)

Symphony, Plot No.: S.E.(F) – 9(3rd Floor), Road No.: 142

Gulshan Avenue, Dhaka – 1212

Phone: + (880)-2-9852446-50

Fax: + (880)-2-9852451-52