

Company Background

Index Agro Industries Limited (IAL) is involved in the manufacturing and marketing of poultry feed and fish feed. It also produces Day-old Chicks (DOC). IAL was incorporated in September 2000 as a private limited company and commenced its operation in July 2004. Afterward, the company was converted into a public limited company in 2015.

	Installed Capacity	Actual Capacity	Actual Production	Utilization (%)
Feed Mill (Metric Ton)	150,000.0	114,000.0	103,397.0	90.70%
DOC (Mn)	30.0	30.0	29.8	99.17

In FY19, IAL reported a total sales revenue of BDT 4,326mn. Feed and DOC segments contributed 65.7% and 34.3% in revenue, respectively.

Though IAL has no subsidiary, it has an associate company named X-Ceramics Ltd. It is the first Italian Joint Venture in Bangladesh ceramic industry. X-ceramics manufactures ceramic tiles in Bangladesh and presently, it has three different tiles brands (Xmonica, Xmonalisa, and Xalexander). IAL holds 24.39% ownership of X-Ceramics.

IPO Details

IAL will raise BDT 500mn as initial public offering (IPO) through the book building method. The fund will be used for building construction, machinery purchase, and IPO expenses.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Machineries and Equipment	299.6	59.9%
Building & Civil Construction	175.4	35.1%
Sub Total	475.0	95.0%
IPO Expenses	25.0	5.0%
Total	500.0	100.0%

Key Points

- In Bangladesh, poultry is the most consumed protein. Currently, the poultry industry size is USD 4.16bn, and more than 130,000 local poultry farms are operating across the country. Approximately 525mn broiler DOCs and 60mn layer DOCs are produced annually. The industry size is expected to double in the next decade, whereas the current industry growth is 15.0% per year. The poultry industry is the second-largest contributor to the GDP after ready-made garments (LightCastle). According to the Ministry of Fisheries and Livestock, per capita meat consumption stood at 45.6 kg in FY19, increasing from 37.5 kg in FY15. The growing number of restaurants and changes in food habits are two key drivers of the industry demand.
- Poultry industry is highly exposed to different diseases, which may also have a severe impact on the demand side. Therefore, farmers always need to maintain a hygienic environment in their farms to prevent the chicks from diseases like Bird Flu, Avian Flu, etc. Besides, the news of any outbreak creates panic among the consumers, which causes the demand to fall sharply.
- One of the major raw materials of the poultry and fisheries industry is feed. It generally includes corn, soybean, rice barn, minerals, and medicines. Bangladesh is largely dependent on India, China, and South America for the raw materials as the local supply is insufficient to meet the demand, and it varies with seasonality. However, to secure the local feed industry, the Bangladesh government has imposed a 5.0% advance tax on imported raw materials.
- The combined market size of poultry, and fish feed is USD 2.1bn. As per DATABD.CO, poultry and fish feed form about 86% of the local feed industry. Farmers use feed for better and healthy production. With the increasing demand for chicken and fish, demand for feed is also escalating. According to LightCastle Primary Research, the poultry feed and fish feed segments are expected to grow at an average rate of 5.6% and 4.6%, respectively in the next 5 years.
- Approximately 140 feed manufacturers operate in Bangladesh. However, Paragon, Nourish, Kazi, CP, Aftab, and Quality are the major players in the industry. Large companies are enjoying economies of scale, while small feed manufacturers are struggling to keep up with the competitive pricing. As a result, the top 10 companies in the industry account for 75% of the market.
- The feed industry is also exposed to the seasonality effect. Particularly, poultry feed demand falls during November-February and rises during July-September. Conversely, demand for fish feed plunges during a lengthy monsoon.
- As mentioned above, X-Ceramics manufactures tiles in its domestic plant. Steady economic growth and rapid urbanization have led to the boom of the local tiles industry. As reported by Bangladesh Ceramic Manufacturers & Exporters Association (BCMEA), the annual demand for tiles is 200mn square meter and 80% of the demand is served by the local manufacturers. Around 28 companies are operating in this industry, and the industry size was USD 485mn in FY18. RAK ceramics, Star ceramics, Great Wall Ceramic, Akij, and Mir Ceramic are the key players in the industry.
- Gas is an essential input for tiles manufacturing. However, the Bangladesh government is looking for alternatives to natural gas due to the scarcity of the non-renewable resource. Hence, an uninterrupted supply of gas is a major challenge for the ceramics industry.
- IAL's top-line grew by a 5-year CAGR of 11.8%. In FY17, the top-line growth rate declined because of the volatile DOC market. However, the YoY top-line growth has flattened in FY19 and FY20.

Comparable & Trading Multiples

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

DSE Ticker	Mcap (BDT Mn)*	LTM Earnings (BDT Mn)*	LTM PE*
AMANFEED	4,073	363	11.2x
NFML	1,858	49	37.6x

*As of 18 February 2021. Source: DSE, BEPL Research

Company Summary

Pre-IPO Paid-up Capital (Mn BDT)	390
New Shares Issued (Mn)	N/A
IPO Proceeds (Mn BDT)	500
Face Value (BDT)	10
Market Lot	N/A
Free Float	N/A
Accounting Year End	June
Auditor	FAMES & R
Issue Manager	AFC Capital and EBL Investments

Income Statement

Mn BDT	2016	2017	2018	2019	9M 2020
Revenue	3,219	3,580	4,325	4,326	3,271
COGS	(2,776)	(3,066)	(3,726)	(3,653)	(2,786)
Gross Profit	443	513	598	673	485
Administrative expenses	(43)	(41)	(55)	(56)	(42)
Sales expenses	(80)	(125)	(149)	(146)	(109)
Operating Profit	320	347	394	471	334
Non-Operating Income	5	7	7	7	5
Financial expenses	(126)	(110)	(98)	(158)	(99)
Profit before WPPF	199	244	303	320	240
WPPF	(9)	(12)	(14)	(15)	(11)
Profit from Associate	13	12	18	23	18
Profit before Tax	203	244	307	328	246
Income Tax	(24)	(30)	(42)	(52)	(31)
Profit after Tax	179	214	265	276	215
EPS (BDT)	4.60	5.50	6.80	7.07	5.51

Balance Sheet

Mn BDT	2016	2017	2018	2019	9M 2020
P, P & E	821	880	840	895	856
Capital Work-in-Progress	100	-	108	-	-
Parent Stocks	60	66	98	125	145
Long Term Investments	209	228	253	283	306
Non-Current Assets	1,190	1,174	1,299	1,304	1,307
Inventories	494	375	458	883	947
Trade Receivables	346	444	519	618	687
Advances, Pre-Payments	75	84	162	268	330
Cash and Cash Equivalents	90	180	100	108	129
Current Assets	1,005	1,083	1,239	1,877	2,093
Total Assets	2,195	2,257	2,538	3,181	3,399
Share Capital	390	390	390	390	390
Retained Earnings	567	783	1,051	1,328	1,545
Revaluation Reserve	44	42	40	38	36
Shareholders' Equity	1,001	1,215	1,481	1,756	1,971
Long Term Loan	130	53	141	91	73
Deferred Tax Liabilities	38	43	46	50	52
Non-Current Liabilities	168	97	187	141	125
Current Portion of Loan	76	25	18	33	26
Short Term Loan	741	724	639	1,010	1,063
Accounts payables	150	100	81	65	48
Provision for expenses	59	95	132	176	166
Current Liabilities	1,026	944	870	1,284	1,303
Total Liabilities	1,194	1,041	1,057	1,425	1,428
Total Equity & Liabilities	2,195	2,257	2,538	3,181	3,399

Cash Flow Statement

Mn BDT	2016	2017	2018	2019	9M 2020
Operating Activities	385	458	250	(117)	195
Investing Activities	(284)	(113)	(228)	(109)	(72)
Financing Activities	(52)	(255)	(102)	234	(102)
Net Cash Flow	49	90	(80)	8	21

Ratios

	2016	2017	2018	2019	9M 2020
Revenue Growth	29.0%	11.2%	20.8%	0.0%	0.8%*
NPAT growth	14.0%	19.5%	23.6%	4.0%	4.0%*
Gross Profit Margin	13.8%	14.3%	13.8%	15.6%	14.8%
Operating Profit margin	9.9%	9.7%	9.1%	10.9%	10.2%
Net Profit Margin	5.6%	6.0%	6.1%	6.4%	6.6%
Receivable Turnover	9.3x	8.1x	8.3x	7.0x	6.3x*
Inventory Turnover	5.6x	8.2x	8.1x	4.1x	3.9x*
Debt to Asset	43.1%	35.6%	31.5%	35.6%	34.2%
Net Debt to Equity	85.6%	51.2%	47.2%	58.4%	52.4%
Return on Asset	8.2%	9.5%	10.4%	8.7%	6.3%
Return on Equity	17.9%	17.6%	17.9%	15.7%	10.9%
Effective Tax Rate	13.1%	13.8%	15.7%	19.0%	14.6%
Interest bearing Debt (Mn BDT)	947	802	798	1,133	1,162

*Annualized

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