

Company Background

Nailco Alloys Limited (NAL) is involved in the manufacturing of high-grade Bronze and Brass Ingots as per international standards. NAL is a 100% export-oriented company. After receiving orders, NAL procures products as per the customer's requirements and exports them to the client's place. At present, Japan, Germany, Belgium, Italy, and New Zealand are major export destinations of the company.

NAL was incorporated in 2011 as a public limited company and commenced its commercial operation in July 2015. In the first quarter of FY21, NAL posted revenue of BDT 205.6mn. Sorted Copper and Copper alloys (PB Brass) segments contributed 79.6% and 20.4% in revenue, respectively.

Installed Capacity (3 Month)	Actual Production (3 Month)	Utilization
1,512 MT	446 MT	29.5%

NAL is the country's first-ever small and medium enterprise (SME) to get the nod Bangladesh Securities and Exchange Commission (BSEC) for raising funds through IPO. This stock will be traded on the SME platform of the stock exchanges. As per BSEC rule, only qualified individual and institutional investors can subscribe to SME shares.

IPO Details

NAL will raise BDT 75mn as initial public offering (IPO) through the fixed price method. The fund will be used for land and land development acquisition of new Machineries and IPO expenses. The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	BDT Mn	% of Proceed
Land and land development	25.5	34.1%
Plant and Machineries	48.6	64.8%
Sub Total	74.2	98.9%
IPO Expense	0.8	1.1%
Total	75	100.0%

Key Points

- Brass and Bronze are two major alloys of Copper. Around 40% of the annual consumption of Copper alloys is derived from recycled Copper materials. The diversified usage of Copper alloys is evidenced in the range of consumer goods and general products associated with these materials. Virtually all modes of transportation contain Copper alloy products. Marine fittings, bearings, door, and furniture fittings are only a few of the many things made with Copper alloys (Brass and Bronze).
- Global Copper consumption is expected to grow by a CAGR of 2.4% in the next 10 years and reach the level of 38mn Tons in 2030. Factors such as increasing use of consumer durables, wider uptake of electric vehicles (EVs), the emphasis on renewable energy sources, energy efficiency, etc. are driving the demand for Copper.
- The Copper & Copper alloy market is primarily driven by increasing demand from the construction, electrical & electronics industries, marine, automotive, and industrial. Aerospace & defense is expected to drive the demand for bronze in the future. In addition, the rise in demand among the other end-users is expected to lead the market for the global Copper and Copper alloy foil market in the coming years.
- Due to COVID, NAL had a lower quantity of export orders. As a result, the utilization rate of the production capacity was only 29% in the first quarter of FY 21.
- In FY19, sales increased by 336% compared to the previous year due to an increase in global demand for the products but sales in FY20 decreased owing to the COVID-19 pandemic.
- NAL is situated in BSCIC Industrial Area, Chittagong which is advantageous for the company to ship its products from Chittagong port to any overseas country.
- NAL's monthly gas requirement is 2.88 cubic meters, and cylinders from the local marketplace meet this demand. Moreover, the company consumes 1,000 KW electricity per annum, which they directly source from Bangladesh Power Development Board (BPDB). Hence, any utility price hike will certainly increase the production cost of the company.
- Three of the sponsors hold more than 97.0% of the company's pre-IPO ownership. In October 2019, NAL acquired 62.75 decimal land from Gazi Mukarram Ali Chowdhury and Kamal Uddin Ahmed based on Mouja Value, and the company has built factory production sheds and bonded warehouse on this land. In exchange, NAL issued 857,200 ordinary shares @ BDT 10 per share to these two directors.

Use of IPO Proceeds	Position	No. of Shares Held	Pre-IPO Holding (%)
Gazi Mukarram Ali Chowdhury	Chairman	9,340,000	44.5%
Kamal Uddin Ahmed	Managing Director	10,635,000	50.6%
Matin Uddin Ahmed	Director	570,000	2.7%
Total		20,545,000	97.8%

Comparable & Trading Multiples

NAL is the only producer and manufacturer of Bronze Brass ingot in Bangladesh. So, it has no comparable peer company in the country.

Company Summary

Pre IPO Paid up capital (BDT Mn)	210
IPO Proceeds (BDT Mn)	75
New Shares Issued (Mn)	7.5
Face Value (BDT)	10.0
Minimum Subscription	BDT 200,000 or its multiples
Free Float (%)	26.3
Accounting Year End	June
Market for the Security being offered	CSE
Auditor	G.KIBRIA & CO.
Issue Manager	MTB Capital Ltd.

Income Statement

Particulars (BDT Mn)	FY17	FY18	FY19	FY20	3M FY21
Revenue	81	115	387	325	206
Cost of Goods Sold	(76)	(107)	(340)	(285)	(180)
Gross Profit	6	8	47	40	26
Operating Expenses	(4)	(6)	(18)	(17)	(6)
Financial Expenses	(0)	(0)	(5)	(5)	(2)
Operating Profit	1	2	24	18	17
Other Income	-	-	2	1	0
Contribution to WPPF	-	-	(1)	(1)	(1)
Profit before Tax	1	2	24	18	16
Income Tax	(1)	(1)	(5)	(3)	(2)
Net Profit	1	1	20	15	14
EPS (BDT)	0.03	0.07	0.93	0.72	0.66

Balance Sheet

Particulars (BDT Mn)	FY17	FY18	FY19	FY20	3M FY21
PPE	18	16	14	22	45
Capital WIP	-	-	-	9	9
Investment	-	-	39	-	-
Non-Current Assets	18	16	54	31	54
Inventories	12	7	48	288	181
Trade Receivable	2	5	4	50	41
Prepayments	1	0	0	8	76
Cash in Hand	0	2	1	31	96
Current Assets	15	14	53	377	394
Total Assets	33	30	107	409	448
Share Capital	20	20	20	150	210
Retained Earnings	1	2	22	37	51
Shareholders' Equity	21	22	42	187	261
Deferred Tax Liability	-	-	0	0	0
Non-Current Liabilities	-	-	0	0	0
Short Term Borrowings	-	-	53	211	159
Accounts payable	-	-	-	6	23
Liabilities for Expenses	12	8	12	5	6
Current Liabilities	12	8	65	221	187
Total Liabilities	12	8	65	221	187
Total Equity and Liabilities	33	30	107	409	448

Cash Flow Statement

BDT Mn	FY17	FY18	FY19	FY20	3M FY21
Operating Activities	16	2	(16)	(278)	80
Investing Activities	-	-	-	(19)	(23)
Financing Activities	(18)	-	53	288	8
Net Cash Flow	(2)	2	37	(9)	65

Key Ratios

Particulars	FY17	FY18	FY19	FY20	3M FY21
Revenue Growth	215.6%	41.9%	236.2%	-16.2%	-36.7%
NPAT Growth	292.1%	79.2%	980.2%	-25.2%	-8.5%
Gross Profit Margin	6.9%	7.0%	12.1%	12.2%	12.4%
Operating Profit Margin	1.6%	2.0%	6.2%	5.5%	8.1%
Net Profit Margin	0.9%	1.3%	5.1%	4.7%	6.7%
Receivable Turnover	40.6x	32.6x	82.4x	11.9x	4.5x
Inventory Turnover	3.9x	11.1x	12.4x	1.7x	0.8x
Debt to Asset	0.0%	0.0%	49.7%	51.6%	35.4%
Net Debt to Equity	-1.4%	-10.4%	125.7%	96.2%	24.1%
Return on Asset	1.7%	4.6%	28.5%	5.9%	3.2%
Return on Equity	3.4%	6.8%	60.9%	13.2%	24.7%
Effective Tax Rate	44.1%	35.0%	19.9%	17.2%	14.8%
Interest bearing Debt*	--	-	53	211	159

*Interest bearing debt in BDT Mn

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Ayaz Mahmud, CFA	Head of Research	ayaz.mahmud@bracepl.com	01708 805 221
Anika Mafiz	Research Analyst	anika.mafiz@bracepl.com	01708 805 206
Sadman Sakib	Research Associate	sadman.sakib@bracepl.com	01730 727 939
Md. Rafiqul Islam	Research Associate	mrafiqulislam@bracepl.com	01708 805 229
Md Mahirul Quddus	Research Associate	mmahirul.quddus@bracepl.com	01709 636 546

International Trade and Sales

Ahsanur Rahman Bappi	Chief Executive Officer	bappi@bracepl.com	01730 357 991
----------------------	-------------------------	--	---------------

BRAC EPL Research

www.bracepl.com

Symphony, Plot No. S.E. (F) - 9,
Road No. 142, Gulshan-1, Dhaka
Phone: +880 2 985 2446-50
Fax: +880 2 985 2451
E-Mail: research@bracepl.com