



Company Background

Silco Pharmaceuticals Limited (SILCOPHL) is the 70th largest pharmaceutical company in Bangladesh with a market share of only 0.02% as of June 2018 (Source: IMS). The company offers varieties of product categories including Narcotics, Antipyretics, Anti-inflammatory Drugs, Antulcerants, Multi medicines etc. Under these categories, it produces 99 medicines and new developments are in the pipeline.

SILCOPHL was incorporated as a public limited company and started its commercial operation on October 30, 2003. The registered corporate office of the company is rented and located at Sylhet, Bangladesh. The factory is situated at BSCIC Industrial Estate, Sylhet, Bangladesh. Currently, Mrs. Naim Fatema is serving as the chairman of the company. Dr. Md. Badrul Haque Rukan is the Managing Director of the company and is a Child Specialist with more than 35 years of experience in the pharmaceuticals industry. Mrs. Fatema and Mr. Rukan hold 5.7% and 13.4% shares (post-IPO) of the company, respectively. Notably, 10 out of 11 board members are doctors in profession.

Currently, the company manufactures medicines in its own factory and its capacity is given below:

Product Name	Installed Capacity (Units)	Actual Production (Units)	Capacity Utilization (%)	Revenue contribution (%)
Tablet (pcs)	280 Mn	174.8 Mn	62.43%	59.8%
Capsules (pcs)	150 Mn	82.6 Mn	55.04%	22.6%
Liquid Syrup (bottles)	4 Mn	3.2 Mn	79.00%	5.5%
Dry Syrup (bottles)	1 Mn	0.5 Mn	53.69%	2.6%
Pellet (kg)	0.3 Mn	0.1 Mn	47.29%	2.10%
Powder (phials)	1 Mn	0.5 Mn	52.14%	1.2%
Powder of Suspension (bottles)	0.5 Mn	0.4 Mn	81.02%	0.8%
SRS Saline (pcs)	20 Mn	16.1 Mn	80.56%	5.5%

IPO Details

Silco Pharmaceuticals Limited will raise BDT 300.0 million as an initial public offering (IPO) proceeds through fixed price method by offering 30.0 million ordinary shares of BDT 10.0 each. Net Proceeds from the IPO will be used for the construction of new factory building in the existing vacant area, modernization of existing machinery, QC lab equipment and purchase of delivery van & other vehicles. The company wants to build new three (03) storied factory building to establish a new production unit to expand capacity. The total size of the new expansion will be approximate 20,013 Sft. The break down of the use of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Construction of new factory building	144.7	48.2%
Import of new Machinery	97.4	32.5%
Purchase of Delivery Van	36.3	12.1%
IPO Expenses	21.7	7.2%
Total	300.0	100.0%

Key Points

- Bangladesh is currently undergoing a demographic transition towards a relatively aging population with higher life expectancy and an epidemiological transition in which Non-Communicable Diseases (NCDs) are rising. The number of people highly dependent on medication (60+ years of age) is 11.1 million as of 2017. Over a period of 30 years from 2020 to 2050, this aging population is expected to grow at an annual average rate of 4.0% and makeup 19.9% of the total population in 2050. Moreover, the middle-class category will comprise of 33.0% of the country's population in 2030 from the current level of 20.0%. In Bangladesh, where healthcare expenditure per capita is low, we think such impressive growth in the middle class will help to generate higher demand for pharmaceutical products. The number of registered private hospitals and clinics has significantly increased as well, and we expect the number to increase in the future. Hence, we assume the pharmaceutical market growth to be ~13.0% per year on average for the next five years.
- Silco Pharmaceuticals Limited recorded a 1.2% top-line growth in FY18. IMS data, on the other hand, shows the company posted annual sales growth of 7.3% against the industry growth of 7.7%, as of June 2018. SILCOPHL registered a 5-year top-line CAGR of 3.2%. Nonetheless, the company's bottom line posted a very high 5-year CAGR of 14.9%.
- The major raw materials (Active Pharmaceutical Ingredients) of SILCOPHL are imported from India, China, Taiwan, and Denmark. Since the company is heavily dependent on imported raw materials, we believe exposure to foreign exchange risk might hamper its growth and profitability.
- The company is at the early stage of production with very slim profit margins. It did not start exporting as well. Infrastructures required to scale its business are yet to be built. Last 5-year average CapEx to sales is 5%, however, the ratio might increase if the company utilize its IPO fund within the mentioned period.
- Both ROA and ROE are gradually declining for the last 2 years, indicating the company's poor profitability performance. We think intensifying competition from the market leaders will remain as one of the major threats for the company. Moreover, the company may need to incur huge marketing expense to increase its growth momentum and market share.
- Notably, there is no family relationship among the directors and top five officials of the company. And the company has no subsidiaries or associates.

Comparable & Trading Multiples

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

DSE Ticker	Market Cap (BDT Mn)	TTM Earnings	P/E
SQRPHARMA	215,083.7	12,024.8	17.9x
BXPBARMA	36,419.0	2,707.5	13.5x
RENATA	94,081.8	3,397.0	27.7x
ACMELAB	19,467.4	1,400.2	13.9x
ORIONPHARM	8,330.4	797.6	10.4x

Company Summary

Post IPO No. of Shares (Mn)	94.4
Post-IPO Paid-up Capital (Mn BDT)	944
Pre-IPO Paid-up Capital (Mn BDT)	644
New Shares Issued (Mn)	30
IPO Proceeds (Mn BDT)	300
Face Value	10
Market Lot	500
Free Float	46.61%
Accounting Year End	June
Auditor	Ahmad & Akhtar
Issue Manager	EBL Investments Limited

Income Statement

Mn BDT	2014A	2015A	2016A*	2017A	2018A
Revenue	810	851	439	907	918
Cost of Goods Sold	(594)	(542)	(283)	(616)	(623)
Gross profit	216	309	156	291	295
Operating Expense	(115)	(117)	(59)	(122)	(124)
Profit from operation	101	192	97	169	171
Financial expenses	(4)	(3)	(1)	(3)	(1)
Other Income	0	0	0	1	0
Net Profit before Tax & WPPF	98	189	97	166	170
WPPF	(5)	(9)	(5)	(8)	(8)
Net Profit before Tax	93	180	92	158	162
Income Tax Expenses	(33)	(63)	(32)	(55)	(57)
Net Profit after tax	60	117	60	103	105
Earnings Per Share (BDT)	0.09	0.18	0.09	0.16	0.16

*2016 items are based on 6 month basis

Balance Sheet

Mn BDT	2014A	2015A	2016A*	2017A	2018A
Non-Current Assets	1,067	1,050	1,141	1,256	1,250
Property, Plant & Equipment	952	1,050	1,141	1,196	1,175
Capital work in progress	115	0	0	59	74
Current Assets	592	713	696	735	897
Inventories	333	333	345	365	398
Trade receivable	172	294	274	289	389
Advance, Deposits and Payments	73	78	69	63	93
Cash & Cash Equivalent	14	8	8	18	16
Total Assets	1,659	1,763	1,837	1,990	2,146
Shareholders' Equity	756	1,473	1,533	1,636	1,741
Share Capital	44	644	644	644	644
Retained earning	712	829	889	992	1,097
Non-Current Liabilities	750	158	165	183	196
Long Term Loan	21	9	6	1	0
Deferred Tax Liabilities	128	150	159	181	196
Share Money Deposit	600	0	0	0	0
Current Liabilities	153	132	139	172	209
Trade Payable	91	31	13	16	16
Short term Loan	15	0	0	0	0
Long Term Borrowing (Current)	0	6	6	6	0
Creditors & Accruals	9	11	9	11	12
Liability for WPPF	5	9	14	8	8
Current Tax Liability	33	75	97	131	172
Total Equity and Liabilities	1659	1763	1837	1990	2146

*2016 items are based on 6 month basis

Cash Flow Statement

Mn BDT	2014A	2015A	2016A*	2017A	2018A
Operating Activities	36	77	134	215	88
Investing Activities	(98)	(57)	(130)	(198)	(81)
Financing Activities	64	(25)	(4)	(8)	(8)
Net Cash Flow	1	(5)	0	9	(2)

*2016 items are based on 6 month basis

Ratios

	2014A	2015A	2016A	2017A	2018A
Gross Profit Margin	26.7%	36.3%	35.6%	32.1%	32.2%
Op. Profit margin	12.5%	22.5%	22.1%	18.6%	18.6%
Net Profit Margin	7.5%	13.8%	13.6%	11.4%	11.5%
Revenue Growth	-18.8%	5.1%	3.1%	3.3%	1.2%
NPAT growth	-57.1%	93.6%	2.2%	-13.9%	2.4%
Receivable Turnover	4.7x	3.7x	3.1x	3.2x	2.7x
Inventory Turnover	1.9x	1.6x	1.7x	1.7x	1.6x
Debt to Asset	0.0x	0.0x	0.0x	0.0x	0.0x
Net Debt to Equity	0.0x	0.0x	0.0x	0.0x	0.0x
Return on Asset	3.6%	6.6%	6.5%	5.2%	4.9%
Return on Equity	8.0%	7.9%	7.8%	6.3%	6.1%
Effective Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%

*2016 items are annualized

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