

Company Background

Silva Pharmaceuticals Limited (SILVAPHL) is a pharmaceutical company engaged in manufacturing and marketing of pharmaceutical finished products in the categories of antibiotics, analgesics, anti-diabetics, narcotics, anti-pyretic, anti-inflammatory drugs, anti-ulcerants, antiemetic, gastroprokinetic, anti-histamine, anti-spasmodic expectorants, vitamins & minerals medicines. All the categories of this company are produced in the form of tablets, capsules, liquid and dry syrup. Tablets and capsules contribute almost 58.2% and 31.5% to the revenue respectively. SILVAPHL sells these products mainly in the domestic market.

The company commenced commercial operation in July 2003 and was converted to a public limited company in April 2014. The company doesn't have any subsidiary, associate company or joint venture.

As of June 2017, the installed capacity of the company was 198.0 million pcs tablets, 52 million pcs capsules, 1.8 million phial liquid and 0.22 million phial dry syrup with an annual capacity utilization rate of 60.1%, 61.2%, 69.8% and 81.2% respectively. According to the management of the company, over the next three years, the overall installed capacity and utilization rate is going to be increased at a CAGR of approximately 12% and 8% respectively once new types of machinery are introduced. Currently, the company has almost 1,100 full-time employees.

IPO Details

Silva Pharmaceuticals Limited will raise BDT 300.0 million as IPO proceeds through fixed price method by offering 30.0 million ordinary shares of BDT 10.0 each. Proceeds from initial public offering (IPO) will be used for the acquisition of machineries and equipment, construction of a factory, repayment of loan and IPO expenses. The break down of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Acquisition of new machinery & equipment	122.5	40.8%
Civil construction of two storied new factory building	56.0	18.7%
Repayment of the term loan	99.0	33.0%
IPO Expense	22.5	7.5%
Total	300.0	100.0%

Key Points

- Silva Pharmaceutical Limited has reported a top line CAGR of 12% over the last 5 years with an average gross profit margin of 41.0%. This ratio is in line with the industry average gross margin ratio 46.1%. The bottom line CAGR was 11.6% with an average net profit margin of 12.1%. This ratio is also satisfactory to the industry average net profit margin ratio which is 13.7%. The increase in bottom line CAGR is due to the increase in the efficiency of its operations.
- SILVAPHL is raising IPO proceeds primarily for the acquisition of 15 types of brand new types of machinery and equipment and civil construction of a new factory building. These ventures are expected to increase the capacity of the company's manufacturing lines which is expected to increase the revenue.
- The company will repay BDT 99.0 million term loan from NCC Bank Limited by using their IPO proceeds which will reduce the company's financial expenses.
- SILVAPHL has a Fixed Deposit Receipt (FDR) with Union Bank and Jamuna Bank totaling BDT 120 million, which is 6.2% of the total asset. From 2016 to 2017, the company has generated interest income of BDT 41.9 million from this FDR. According to the company, this FDR will be withdrawn and will be used for expansion of the business and repayment of loan.
- The pharmaceutical market in Bangladesh is highly concentrated with the top five players having almost half of the total market share. Notably, despite having 210 active pharmaceutical companies in the market, top 30 players hold almost 94% market share, making it very difficult for small companies to gain market share. Therefore, being a player in this market, Silva Pharmaceuticals will also have to face challenges gaining a significant percentage of market share soon even if the company's revenue continues to grow at a good rate.
- For better quality assurance and steady production, the company depends on both foreign and local suppliers. Most of the raw materials of SILVAPHL are imported; mainly from India and China. Hence, BDT depreciation against USD may affect the company's margins. Additionally, SILVAPHL procures a good amount of packaging materials from local suppliers as well.
- One of the major share-holders of the company is the Investment Corporation of Bangladesh (ICB) with 23.1% post-IPO shares.

Comparable & Trading Multiples

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

DSE Ticker	Market Cap *	TTM Earnings*	P/E
ORIONPHARM	9664.2	734.8	13.4x
CENTRALPHL	1757.1	29.7	60.8x
BEACONPHAR	4227.3	90.1	46.9x

*in BDT Million

Company Summary

Post IPO No. of Shares (Mn)	130.0
Post-IPO Paid-up Capital (Mn BDT)	1300.0
Pre-IPO Paid-up Capital (Mn BDT)	1000.0
New Shares Issued (Mn)	30.0
IPO Proceeds (Mn BDT)	300.0
Face Value & Offer Price (BDT)	10.0
Market Lot	500.0
Free Float (mn BDT)	23.1%
Accounting Year End	June
Auditor	Mahfuz Huq & Co.
Issue Manager	Prime Finance Management Capital Ltd., Imperial Capital Ltd. and SBL Capital Ltd.

Income Statement

Mn BDT	2013-14	2014-15	2015-16	2016-17	2017-18*
Turnover	493.9	503.9	586.0	602.5	517.4
Cost of Goods Sold	(290.4)	(314.3)	(354.7)	(365.8)	(304.7)
Gross Profit	203.6	189.6	231.2	236.7	212.7
Operating Expenses	(59.9)	(66.2)	(86.5)	(112.1)	(93.0)
Operating Income	143.6	123.4	144.7	124.6	119.6
Financial Expenses	(66.7)	(44.5)	(33.3)	(0.4)	(2.9)
Net Operating Profit	76.9	78.9	111.4	124.3	116.8
Other Income	2.0	1.1	0.9	5.7	7.4
EBCWPPF	78.9	79.9	112.4	130.0	124.1
Provision for WPPF	-	-	(5.4)	(6.2)	(5.9)
EBT	78.9	79.9	107.0	123.8	118.2
Income Tax Expenses	(29.6)	(28.0)	(37.5)	(43.5)	(41.6)
NPAT	49.3	52.0	69.6	80.3	76.6
Basic EPS	1.00	1.06	1.13	1.03	0.77

*9 months from 1st July 2017 to 31st March 2018

Balance Sheet

Mn BDT	2013-14	2014-15	2015-16	2016-17	2017-18*
Fixed Assets:	609.7	601.1	802.0	843.7	896.1
Property, Plant and Equipment	609.7	601.1	683.1	706.7	712.9
Capital Work in Progress	0.0	0.0	118.9	137.0	183.2
Current Assets	505.0	632.9	836.9	1097.4	1106.1
Inventories	202.3	277.3	305.3	369.5	387.0
Trade and Other Receivables	232.2	249.2	283.7	253.5	247.9
Advances, Deposits & Prepayments	42.7	58.5	203.0	270.9	325.3
Investment in FDR	0.0	0.0	0.0	120.0	97.5
Cash & Cash Equivalents	27.8	47.8	44.9	83.5	48.4
Total Assets	1114.7	1234.0	1638.9	1941.2	2002.3
Share Holders' Equity:	685.8	848.6	1239.4	1647.8	1694.2
Share Capital	120.0	120.0	500.0	1000.0	1000.0
Retained Earnings	475.8	510.7	585.4	647.8	694.2
Non-Current Liabilities:	189.1	177.9	175.3	86.0	89.9
Long Term Borrowing	128.0	111.3	97.0	0.0	0.0
Deferred Tax Liability	61.1	66.7	78.3	86.0	89.9
Current Liability:	239.8	207.5	224.2	207.3	218.1
Trade & Other Payables	12.4	10.2	9.9	4.3	3.2
Current Portion of Long Term Loan	15.3	16.8	17.4	99.0	101.7
Short Term Borrowings	167.5	132.0	114.6	0.0	0.0
Provision for Current Tax	44.6	48.5	82.4	104.0	113.2
Total Equity and Liabilities	1114.7	1234.0	1638.9	1941.2	2002.3

*9 months from 1st July 2017 to 31st March 2018

Cash Flow Statement

Mn BDT	2013-14	2014-15	2015-16	2016-17	2017-18*
Operating Activities	191.8	18.8	90.7	80.4	93.3
Investing Activities	(99.1)	(31.5)	(335.0)	(240.0)	(98.2)
Financing Activities	(93.3)	32.6	242.6	198.1	(30.2)
Net Cash Flow	(0.65)	19.90	(1.66)	38.57	(35.09)

*9 months from 1st July 2017 to 31st March 2018

Ratios

	2013-14	2014-15	2015-16	2016-17	2017-18*
Gross Profit Margin	41.2%	37.6%	39.5%	39.3%	41.1%
Operating Profit margin	29.1%	24.5%	24.7%	20.7%	23.1%
Net Profit Margin	10.0%	10.3%	11.9%	13.3%	14.8%
Revenue Growth	25.0%	2.0%	16.3%	2.8%	N/A
Gross Profit Growth	9.5%	-6.8%	21.9%	2.4%	N/A
Operating Profit Growth	11.1%	2.6%	41.3%	11.5%	N/A
NPAT Growth	9.9%	5.3%	33.9%	15.4%	N/A
Debt to Asset	27.9%	21.1%	14.0%	5.1%	5.1%
Net Debt to Equity	41.3%	25.0%	14.9%	0.9%	3.1%
Return on Asset	4.1%	4.2%	3.6%	3.9%	4.1%
Return on Equity	6.6%	6.4%	5.0%	4.8%	4.8%
Effective Tax Rate	37.5%	35.0%	35.0%	35.1%	35.2%

*9 months from 1st July 2017 to 31st March 2018

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