

Company Background

Taufika Foods and Agro Industries Limited (TFAIL) is a local ice-cream manufacturer and supplier, which was incorporated in August 2011 and subsequently started its commercial operation in January 2016. TFAIL set up its factory in Valuka, Maysmingsh with an initial investment of BDT 1 bn. TFAIL launched a new ice brand named Lovello in 2016. Lovello products are made of premium quality imported raw materials. Lovello introduced the Shahi Malai Khajur with natural Khajur flavor for the first time in Bangladesh. Lovello brand has more than 60 different ice-cream products and these products are available in 22,000+ stores across the country.

TFAIL intends to add 50,000 liters per day with its existing capacity in near future. Its current and planned product mix includes normal stick, premium stick, cup, cone, 0.5-liter container, 1-liter normal, 1-liter premium, 2-liter container, 5-liter container, and cake.

	Installed Capacity in Liter (Annual)	Actual Production in Liter (Annual)	Utilization
Ice-cream	18,044,445	10,826,667	60.0%

Its product distribution channel works in four steps. First of all, delivery vans transport its finished products from the factory premises to its own distribution centers (DEPO) located in different districts of the Bangladesh. Then DEPOs send products to the local distributors and distributors sell those products to the retailers.

IPO Details

TFAIL will raise BDT 300 mn as an initial public offering (IPO) through the fixed price method. The fund will be used for the acquisition of plant and machinery, freezer purchase, vehicle purchase, investment in building depot, loan repayment, and IPO expenses.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Acquisition of Plant & Machinery	90.4	30.1%
Freezer Purchase	57.8	19.3%
Vehicles Purchase	20.6	6.9%
Investment in Depot	13.2	4.4%
Loan Repayment	90.0	30.0%
Sub Total	272.0	90.7%
IPO Expenses	28.0	9.3%
Total	300.0	100.0%

Key Points

- Current ice-cream market size is BDT 12 bn. The pre-pandemic annual growth rate of the industry was 12.0% mainly driven by rural consumers and a rise in per capita income. Furthermore, massive electrification, availability of refrigerators in rural areas, and changing food habits contributed to the growing demand for the frosty dessert. In Bangladesh, ice-cream is an occasional item and its penetration is about ~2%. Therefore, there is still huge potential for the industry to grow further. As a seasonal product, ice-cream is one of the most sold dessert items in Bangladesh during the summer. The peak season for this industry ranges from March to September. ~75% of the annual sales take place during this period.
- Improvement of the socio-economic condition in rural areas boosted the demand for branded ice-creams. Presently, 79% of the local ice-cream market is dominated by three companies. Igloo and Polar, the two most established brands in this industry, combinedly hold 66% of the market share. Igloo is the market leader with 38% of the market share as it is the most popular take-home ice-cream brand in Bangladesh because of its taste and innovative flavors. After Igloo, Dhaka Ice Cream Industries Limited's Polar Ice Cream holds 28% of the market share. Za'n Zee and Bellissimo were launched in 2013 and now these two brands combinedly hold 13% of the market share. Golden Harvest's Bloop ice-cream has a market share of 12%.
- 85% of the market share is held by different ice-cream brands whereas premium ice-creams serve 15-20% of the industry demand. Needless to say, premium brands are mainly concentrated in megacities because of the cold chain, its limited distribution network, the density of the target market, etc.
- This industry is one of the highest affected industries in FY20 due to COVID-19 pandemic. A rumor was spread on social media that ice-cream consumption may lead to catching coronavirus. Though the United Nations Agency denied such a possibility, people started avoiding ice-cream abruptly. On top of that, the Bangladesh government announced a 2-month long countrywide lockdown to prevent the spread of COVID-19. Therefore, the ice-cream sale in local streets declined sharply in FY20, whereas about 60% of the ice-cream sales take place in the streets. Factories were also closed during the lockdown. Product distribution to local stores was disrupted. The closure of educational institutions was another critical factor that contributed to the sales drop in FY20. Hence, the industry lost ~60% of its annual sales in FY20. To avoid the risk of catching a cold, people are still avoiding ice-cream. TFAIL topline growth of 2.2% in FY20 reflects the impact of the pandemic.
- Moreover, the unsold inventory is causing manufacturers to incur an increasing amount of electricity bills and they are also afraid that the already purchased raw materials may also be distorted if the demand does not pick up quickly. According to the industry experts, sales increased slightly after the lockdown but it may take one year to fully recover the losses of FY20.
- High tariff on the imported raw materials increases the product cost for local ice-cream manufacturers. The main ingredients of ice cream such as milk, dairy products, condensed milk, powdered milk, butterfat, etc. are generally imported from Australia, Malaysia, New Zealand, and Denmark.
- Ice-cream is a perishable product. For this reason, to further expand the ice-cream industry, more cold storage needs to be set up across the country particularly in rural areas. In general, ice-cream manufacturers sponsor these freezers as promotional items and it requires a huge amount of investment. It is also applicable for product distribution. Manufacturers need to keep in mind the available storage capacity of the transport vehicle and the dealers before manufacturing ice-cream.
- Though the company's top line registered a flat topline growth of 2.2%, it has been able to maintain a healthy gross profit margin of ~41.0% in FY20. Interest expense of BDT 155 mn resulting from a total interest-bearing loan of BDT 897 mn put pressure on the bottom of the company in FY20.

Comparable & Trading Multiples

Trailing P/E multiple of the listed comparable stock in the Food & Allied sector is given:

DSE Ticker	Mcap (BDT Mn)*	LTM Earnings (BDT Mn)*	LTM P/E*
GHAL	3,604	(137)	NM

*As of 03 January 2021, Source: DSE, BEPL Research

Company Summary

Pre-IPO Paid-up Capital (Mn BDT)	550.0
New Shares Issued (Mn)	30.0
IPO Proceeds (Mn BDT)	300
Face Value	10.0
Market Lot	500.0
Free Float (%)	35.3
Accounting Year End	June
Auditor	Islam Quazi Shafique & Co.
Issue Manager	Banco Finance And Investment Limited Sandhani Life Finance Limited

Income Statement

Mn BDT	2016A	2017A	2018A	2019A	2020A
Revenue	65	479	779	923	943
Cost of Goods Sold	(45)	(295)	(455)	(538)	(552)
Gross Profit	20	183	324	385	390
Administrative Expenses	(22)	(3)	(9)	(14)	(19)
Marketing Expenses	-	(60)	(107)	(121)	(131)
Operating Expenses	(22)	(63)	(116)	(135)	(149)
Operating Profit	(1)	120	208	251	241
Finance Expenses	(16)	(94)	(126)	(161)	(155)
Non-Operating Income	-	3	5	6	3
Net Profit Before WPPF	(17)	29	87	96	90
WPPF	-	-	(4)	(5)	(4)
Profit Before Tax	(17)	29	83	91	85
Income Tax Expense	(0)	(26)	(40)	(30)	(23)
Profit after tax	(17)	3	43	62	62
EPS	(0.32)	0.05	0.77	1.12	1.13

Balance Sheet

Mn BDT	2016A	2017A	2018A	2019A	2020A
Non-Current Assets	697	884	1,021	1,075	1,189
PPE	697	808	1,014	1,062	904
Intangible Assets	0	0	1	1	1
Capital Work-in-Progress	0	76	6	12	0
Other Non-Current Assets	0	0	0	0	284
Current Assets	165	210	568	553	694
Inventories	87	113	171	219	265
Trade Receivables	22	50	141	220	269
Prepayments	29	20	34	50	56
Cash and Cash Equivalents	16	27	222	59	105
Other Current Assets	11	0	0	5	0
Total Assets	862	1,094	1,589	1,628	1,883
Shareholders' Equity	-16	39	82	425	701
Share Capital	1	54	55	65	550
Share Money Deposit	0	0	0	270	0
Retained Earnings	-17	-15	28	89	151
Non-Current Liabilities	462	614	706	782	746
Long term loan	351	385	390	470	462
Lease loan	97	204	260	249	219
Other Liabilities	14	25	56	63	65
Current Liabilities	416	440	801	421	436
Trade and Other Payables	39	28	21	19	91
Short Term Loan	135	205	344	123	84
Long Term Loan	100	84	85	134	132
Other Current Liabilities	142	124	350	144	129
Total Equity and Liabilities	862	1,094	1,589	1,628	1,883

Cash Flow Statement

Mn BDT	2016A	2017A	2018A	2019A	2020A
Operating Activities	-	143	147	247	316
Investing Activities	-	(268)	(232)	(163)	(240)
Financing Activities	-	136	280	(247)	(30)
Net Cash Flow	-	11	195	(163)	46

Ratios

	2016A	2017A	2018A	2019A	2020A
Gross Profit Margin	31.3%	38.2%	41.6%	41.8%	41.4%
Op. Profit margin	-1.7%	25.1%	26.7%	27.2%	25.6%
Net Profit Margin	-26.5%	0.5%	5.5%	6.7%	6.6%
Revenue Growth	NA	633.1%	62.8%	18.5%	2.2%
NPAT growth	NA	NM	1601.6%	44.9%	0.7%
Receivable Turnover	5.9x	13.2x	8.2x	5.1x	3.9x
Inventory Turnover	1.0x	3.0x	3.2x	2.8x	2.3x
Debt to Asset	79.3%	80.3%	67.9%	60.0%	47.7%
Net Debt to Equity	-4090.7%	2174.5%	1042.9%	216.2%	113.1%
Return on Asset	-3.0%	0.3%	3.2%	3.8%	3.5%
Return on Equity	106.1%	6.4%	51.8%	14.5%	8.9%
Effective Tax Rate	2.3%	91.3%	48.7%	32.5%	27.2%

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BRAC EPL Stock Brokerage Limited

Research

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

Management

Ahsanur Rahman Bappi	CEO (Acting)	bappi@bracepl.com	01730 357 991
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BRAC EPL Research

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

E-Mail: research@bracepl.com