



Company Background

VFS Thread Dyeing Limited (VFSTDL) is a sewing thread manufacturer located in Gazipur. The principal activities of the Company are dyeing and finishing of sewing thread of different types for 100% export-oriented RMG companies in Bangladesh. Main products of the company are Spun Polyester Yarn (SPY), Poly Core Spun (PCS), and Textured Polyester (TP). Notably, SPY makes up around 80.0% and TP makes up around 15.0% of total revenue of VFSTDL. The Company commenced commercial operation in July 2012 and was converted to Public Limited Company in January 2013.

As of June 2017, the installed capacity of the Company is 3,505,904 lbs of SPY, 219,119 lbs of PCS and 657,357 lbs of TP with capacity utilization of 66.9%, 66.8% and 66.1% respectively. According to the management, over the next three years, the total capacity and production are expected to grow at a CAGR of 14.5% and 18.9% respectively. Finally, VFSTDL does not have any associates, subsidiary or holding company.

IPO Details

VFSTDL will raise BDT 220.0 million as Initial Public Offering (IPO) proceeds through fixed price method by offering 22.0 million ordinary shares of BDT 10.0 each. Proceeds from IPO will be used for acquisition of plant & machinery, partial repayment of term loan and for IPO expenses.

The break down of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Acquisition of Plant & Machinery	177.4	80.6%
Partial Loan Repayment (Sonali Bank Limited)	25.1	11.4%
IPO Expense	17.5	8.0%
Total	220.0	100.0%

Key Points

- VFSTDL registered a continuous growth in sales revenue from 2012-2017. The company reported a top line CAGR of 8.5% in the last five years with an average gross profit margin of 24%. The bottom line CAGR was 6.3% with an average net profit margin of 17.5%. Though the company's NPAT continuously increased for last five years, its net profit margin declined due to increasing operating expense. One of the reasons of such high operating expenses is that the minimum wages of workers increased in 2016, affecting the profitability margins in 2016 and 2017.
- VFSTDL is raising IPO proceeds primarily for purchasing capital equipment. 80.6% of the IPO proceeds will be utilized for acquisition of plant and machinery. These purchases are expected to increase the volume and efficiency of the company's manufacturing line, and therefore expected to increase revenue from 2019. Furthermore, the company has increased advertising and sales promotion expenses in recent years to gain more customers.
- The Company has been heavily investing in fixed assets for last several years. As a result, it has a negative net cash flow for last two years. However, the company is likely to grow in upcoming years because of those investments.
- The finance cost of the company increased over time due to loan taken from banks. The company intended to decrease the dependence on loan finance and focused on equity finance.
- The market of sewing thread is very much competitive and saturated. No big players in the market has significant market shares than other players. Currently, the market share of VFSTDL is approximately 6%. Coats Bangladesh Limited has the highest market share of 11% followed by Simtex Industries Limited (9%), Etafil Bangladesh Limited (9%), Well Thread Limited (8%) and American & Efir Ltd (7%). Among all the major players in this market, Simtex Industries Limited (SIMTEX) is the only listed company in stock exchange.
- The major raw material of the company is yarn. The company is mainly dependent on nine major suppliers. Apart from that, they have plenty of suppliers available in the market. As a result, the company gets advantage in terms of price and availability of the raw materials.
- VFSTDL procures a good amount of raw materials from foreign suppliers in China, India, Singapore and Hong Kong. Therefore, any fluctuation of currency and raw material prices in international markets will impact the company's COGS and the profitability margins. The company is particularly susceptible to movements of Yen, as more than 80% of the raw materials are imported from China.

Comparable & Trading Multiples

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

DSE Ticker	Market Cap *	TTM Earnings*	P/E
SIMTEX	1,720.4	149.7	11.5x

* in BDT Million

Company Summary

Post IPO No. of Shares (Mn)	84.7
Post-IPO Paid-up Capital (Mn BDT)	847.1
Pre-IPO Paid-up Capital (Mn BDT)	627.1
New Shares Issued (Mn)	22.0
IPO Proceeds (Mn BDT)	220.0
Face Value & Offer Price (BDT)	10.0
Market Lot	500.0
Free Float	21.6%
Accounting Year End	June
Auditor	Ahmad & Akhter .
Issue Manager	Citizen Securities & Investment Ltd.

Income Statement

Mn BDT	2013	2014	2015	2016*	2017*
Revenue	635	765	782	800	881
COGS	(477)	(580)	(597)	(600)	(681)
Gross Profit	158	186	185	194	200
Administrative Expenses	(15)	(15)	(16)	(17)	(19)
Selling and Distribution Expenses	143	171	169	178	181
Financial expenses	(13)	(9)	(12)	(15)	(15)
Operating Income	129	162	156	162	166
Other Income	1	1	1	1	0
EBT	131	163	157	163	166
Income Tax Expense	(20)	(25)	(12)	(24)	(25)
NPAT	111	138	145	139	142
Basic EPS (BDT)	1.77	2.21	2.31	2.22	2.25

*From 2016, the company changed their accounting year end from December to June.

Balance Sheet

Mn BDT	2013	2014	2015	2016 *	2017*
Fixed Assets	630	603	744	784	805
Property, Plant and Equipment	629	602	743	783	804
Security Deposits	1	1	1	1	1
Current Assets:	271	408	514	546	635
Inventory	150	166	206	193	228
Trade & other receivables	118	237	300	328	369
Advance, Deposits & Prepayments	1	3	4	22	36
Cash and Cash Equivalents	2	2	3	2	1
Total Asset	901	1,011	1,258	1,330	1,440
Share Holders' Equity:	750	888	1,040	1,108	1,248
Share Capital	627	627	627	627	627
Retained Earnings	123	261	413	481	621
Non-Current Liabilities:	50	49	65	72	59
Long Term Borrowing	43	30	53	56	32
Deferred Tax Liability	7	18	12	16	26
Current Liability	101	74	153	136	133
Trade & Other Payables	39	35	38	20	6
Current Portion of Long Term Loan	12	12	20	11	17
Short Term Borrowing	31	11	78	83	59
Total Equity and Liabilities	901	1,011	1,258	1,315	1,440

*From 2016, the company changed their accounting year end from December to June.

Cash

Mn BDT	2013	2014	2015	2016*	2017*
Operating Activities	44	59	103	163	126
Investing Activities	(27)	(20)	(191)	(156)	(78)
Financing Activities	(17)	(39)	88	(7)	(50)
Net Cash Flow	0.42	(0.15)	1.29	0.49	(0.79)

*From 2016, the company changed their accounting year end from December to June.

Ratios

	2013	2014	2015	2016*	2017*
Gross Profit Margin	24.9%	24.3%	23.6%	24.3%	22.7%
Operating Profit margin	22.5%	22.3%	21.6%	22.2%	20.5%
Net Profit Margin	17.4%	18.1%	18.5%	17.4%	16.0%
Revenue Growth	NA	20.5%	2.2%	N/A	10.1%
Gross Profit Growth	NA	17.5%	-0.7%	N/A	2.7%
Operating Profit Growth	NA	19.6%	-1.3%	N/A	1.9%
NPAT Growth	NA	25.0%	4.7%	N/A	1.4%
Debt to Asset	9.5%	5.2%	12.0%	11.3%	7.5%
Net Debt to Equity	12.1%	7.8%	15.3%	14.8%	10.7%
Return on Asset	13.1%	14.5%	12.8%	10.8%	10.2%
Return on Equity	15.9%	16.9%	15.0%	13.0%	12.0%
Effective Tax Rate	15.2%	15.1%	7.9%	14.9%	15.1%

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