

## Company Background

eGeneration Limited (EGL) commenced its operation as a management consulting, technology services, and outsourcing company in December 2003. The company provides a one-stop consulting service and IT services to both national and international organizations. Now EGL is offering Data Science, System Integration, Cyber Security, Natural Language Processing, and Capacity Development services to its clients.

EGL offers low cost IT service to both local and foreign clients. Banks and financial institutions, RMG factories, textiles, consumer goods industries, E-commerce, B2B platform, and different departments of the government fall under its potential market segment. ICT Division of the Bangladesh government, Sonali Bank, Robi, bKash, S. Alam Group, BRAC University, etc. are some of the notable customers of EGL. Apart from that, EGL is seeking opportunities in the foreign market and the company is already working on the internet of things (IoT) in Japan and on a cloud-based application in the Middle East. The company is also doing extensive research on advanced technologies such as Machine Learning, Artificial Intelligence, and Natural Language Processing. Some of its upcoming products are Blockchain, Cloud Computing, Data Center, Agriculture Prediction System, Money Laundering Detector, Agriculture Automation System, etc.

Being the only local Licensing Solutions Partner (LSP) of Microsoft and Premier partner of SAP (ERP solutions provider), EGL gets competitive advantage over its competitors. Hence, more than 80% of EGL's revenue comes from Microsoft and ERP products in FY20. 52.33% of the revenue is attributable to three clients i.e. Bangladesh Computer Council (21.3%), Robi (19.4%) and Sonali Bank Ltd. (11.7%).

Revenue Breakdown	Amount (BDT Mn)	Revenue Contribution
Solutions Developed in Microsoft Platform	226	57.1%
ERP Software	107	26.9%
Digital Platform Development	29	7.3%
Miscellaneous	34	8.7%
<b>Total Revenue</b>	<b>396</b>	<b>100.0%</b>

## IPO Details

EGL will raise BDT 150.0 million as IPO proceeds through fixed price method by offering 15.0 million ordinary shares of BDT 10.0 each. Proceeds from the initial public offering will be used for business expansion and market development. Break down of the use of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Purchase of Commercial Space for Office	80.0	53.3%
Loan Repayment	34.0	22.7%
Digital Healthcare Platform Development	18.4	12.3%
<b>Sub-Total</b>	<b>130.1</b>	<b>88.3%</b>
IPO Expenses	17.6	11.7%
<b>Total IPO Fund</b>	<b>150.0</b>	<b>100.0%</b>

## Key Points

- According to Bangladesh Telecommunication Regulatory Commission, the number of internet subscribers grew at a CAGR of 177.8% in the last 8 years and stood at 111mn in November 2020, which indicates the potential of digital services and overall IT sector in Bangladesh. To grab the opportunity, more than 1,500 IT and software related companies have already entered into the local IT industry (Source: Bangladesh Association of Software and Information Services). The local industry size stood at USD 1.bn in 2020.
- 400 IT companies export their products to 60 countries. In 2017, export revenue stood at USD 190mn and ~35% of the revenue came from the USA followed by 15% from the UK. Denmark, the Netherlands, UAE, Saudi Arabia, South Africa, Malaysia, and Singapore also buy IT products from Bangladesh.
- To reach the target revenue of USD 5bn from this industry by 2021, the Bangladesh government has declared a tax holiday for the IT companies till 2024. Furthermore, the government announced a 10% cash incentive on software and service export. In addition to that, there is VAT exemption for software production, export, and import. Therefore, EGL is trying to export its IT products and services in different countries i.e. India, Nepal, Bhutan, Malaysia, and several other African countries. To receive further government incentives, EGL has started its operation in Jessore and Gazipur Hi-Tech Park.
- Although the industry can be run remotely, the regular activities of the industry were hampered due to cancellation or postponement of products from the client-side resulting from the COVID-19 pandemic. Demand for IT products from overseas clients also plunged at the same time. According to industry experts, annual revenue declined by 20-25% in FY20. Despite facing all these obstacles, EGL registered 8.9% top-line growth in FY20. However, video streaming, machine learning, and online learning related IT products are in high demand for the last 1 year since the emergence of work from home culture. Thus, it has opened a window of opportunity for local IT companies.

## Comparable & Trading Multiples

DSE Ticker	Market Cap (BDT Mn)	TTM Earnings	P/E
ITC	4,604	158	29.1x
DAFODILCOM	3,159	45	69.6x
BDCOM	1,316	57	23.0x

## Company Summary

Post IPO No. of Shares (Mn)	75
Post-IPO Paid-up Capital (Mn BDT)	750
Pre-IPO Paid-up Capital (Mn BDT)	600
New Shares Issued (Mn)	15
IPO Proceeds (Mn BDT)	150
Face Value	10
Market Lot	500
Free Float	25%
Accounting Year End	June
Auditor	Shiraz Khan Basak & Co.
Issue Manager	NRB Equity Management Ltd

## Income Statement

Mn BDT	2016A	2017A	2018A	2019A	2020A
Revenue	146	241	309	364	396
Cost of Goods Sold	(72)	(129)	(165)	(207)	(239)
<b>Gross Profit</b>	<b>74</b>	<b>112</b>	<b>144</b>	<b>157</b>	<b>157</b>
Operating Expenses	(20)	(25)	(34)	(44)	(48)
WPPF	-	-	(5)	(6)	(5)
<b>Operating Profit</b>	<b>54</b>	<b>87</b>	<b>105</b>	<b>107</b>	<b>104</b>
Non-Operating Income	-	-	-	3	(9)
<b>Profit Before Tax</b>	<b>54</b>	<b>87</b>	<b>105</b>	<b>110</b>	<b>95</b>
Income Tax	-	-	-	(1)	(1)
<b>Net Profit</b>	<b>54</b>	<b>87</b>	<b>105</b>	<b>109</b>	<b>93</b>
<b>EPS (BDT)</b>	<b>0.90</b>	<b>1.45</b>	<b>1.75</b>	<b>1.82</b>	<b>1.55</b>

## Balance Sheet

Mn BDT	2016A	2017A	2018A	2019A	2020A
<b>Non-Current Assets</b>	<b>252</b>	<b>450</b>	<b>890</b>	<b>1,045</b>	<b>1,186</b>
Property, Plant & Equipment	63	55	216	307	278
Intangible Assets	80	212	218	243	315
Investments	-	39	197	245	253
Other Non-Current Assets	110	144	259	250	341
<b>Current Assets</b>	<b>60</b>	<b>106</b>	<b>263</b>	<b>268</b>	<b>307</b>
Inventories	9	5	3	3	4
Trade and Other Receivables	47	75	61	66	103
Advances and Prepayments	2	2	2	68	153
Cash and Cash Equivalents	2	24	197	130	47
<b>Total Assets</b>	<b>313</b>	<b>555</b>	<b>1,152</b>	<b>1,312</b>	<b>1,493</b>
<b>Shareholders' Equity</b>	<b>224</b>	<b>333</b>	<b>1,124</b>	<b>1,234</b>	<b>1,327</b>
Share Capital	4	100	600	600	600
Share Premium	-	-	186	186	186
Retained earnings	220	233	338	447	541
<b>Non-Current Liabilities</b>	<b>36</b>	<b>164</b>	<b>2</b>	<b>35</b>	<b>45</b>
Term Loan (Non-Current Portion)	3	5	2	35	45
Share Money Deposit	32	159	-	-	-
<b>Current Liabilities</b>	<b>53</b>	<b>58</b>	<b>26</b>	<b>44</b>	<b>122</b>
Term Loan (Current Portion)	2	10	4	16	27
Accounts Payable	3	5	3	5	13
Liabilities for Expenses	3	4	4	7	19
Liability for WPPF	-	-	5	6	5
Bank Overdraft	-	10	10	10	58
Related Party Transactions	44	29	-	-	-
<b>Total Equity and Liabilities</b>	<b>313</b>	<b>555</b>	<b>1,152</b>	<b>1,312</b>	<b>1,493</b>

## Cash Flow Statement

Mn BDT	2016A	2017A	2018A	2019A	2020A
Operating Activities	39	119	191	116	81
Investing Activities	(65)	(248)	(505)	(225)	(218)
Financing Activities	26	150	487	42	54
<b>Net Cash Flow</b>	<b>1</b>	<b>22</b>	<b>173</b>	<b>(66)</b>	<b>(83)</b>

## Ratios

	2016A	2017A	2018A	2019A	2020A
Gross Profit Margin	50.7%	46.4%	46.6%	43.1%	39.6%
Op. Profit margin	37.1%	36.0%	34.0%	29.4%	26.2%
Net Profit Margin	37.1%	36.0%	34.0%	30.0%	23.5%
Revenue Growth	40.5%	64.9%	28.2%	17.8%	8.9%
NPAT growth	35.9%	59.9%	20.9%	4.0%	-14.6%
Current Ratio	1.15x	1.82x	10.18x	6.09x	2.52x
Receivable Turnover	4.0x	3.9x	4.5x	5.7x	4.7x
Debt to Asset	28.3%	39.9%	2.4%	6.0%	11.1%
Net Debt to Equity	38.6%	59.4%	-15.0%	-4.1%	9.0%
Return on Asset	19.9%	20.0%	12.3%	8.8%	6.6%
Return on Equity	27.5%	31.1%	14.4%	9.2%	7.3%
Effective Tax Rate	0.0%	0.0%	0.0%	1.1%	1.4%
Interest bearing Debt (BDT Mn)	5	15	6	51	71

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