

BRAC EPL Research (research@bracepl.com)
 Oct 12, 2021

 Subscription Start: Oct 12, 2021
 Subscription End: Oct 18, 2021

IPO Details

ACME Pesticides Limited (ACMEPL) will raise BDT 300.0 million through initial public offering (IPO) under fixed price method. The fund will be used for factory building, electrical installation, acquisition of new plant and machinery, and bank loan repayment.

Minimum required investment for general public would be BDT 20,000 in matured listed securities at market price as on October 4, 2021. General Public would be allowed to subscribe BDT 10,000 for a single application. Eligible investors (EI), namely approved pension funds, recognized provident funds and approved gratuity funds shall maintain a minimum investment of BDT 5.0 Mn. Other EIs would maintain BDT 10.0Mn at market price in listed securities as on the end of October 4, 2021.

The breakdown of the IPO proceeds is shown below:

Use of IPO	Mn BDT	% of Proceed
Factory Building and other construction	101.5	33.8%
Electrical installation	20.0	6.7%
Acquisition of new plant & machinery	105.0	35.0%
Bank loan repayment (NFL)	55.0	18.3%
Sub Total	281.5	93.8%
IPO Expenses	18.5	6.2%
Total	300.0	100%

Company Brief

ACMEPL deals in three product categories: agribusiness, crop care and consumer brands. The agribusiness is involved in manufacturing, marketing and distribution of fertilizer, plant nutrient, hormone and stimulants. The crop care category hosts pesticides herbicides, fungicides and other solutions. The consumer brand offers products under air care, home care (mosquito coil, repellent, net), and hygiene care (soap, toilet cleaner, and floor cleaner). ACMEPL was incorporated on 13th April, 2009 as a private limited company and became a public limited company on 28 November, 2019. It commenced its commercial operations on March 7, 2010.

The company's factory is located in Doyarampur, Mymensingh. In FY20, capacity utilization for agro and consumer products was 80.1% (FY19: 79.9%). ACMEPL imports key raw materials namely skillet box, soap & dishwasher bar foil, detergent raw material, wood & tabu powder, and others from China and India.

Product details

ACME Pesticides sells its crop protection chemicals (insecticides, herbicides & fungicides) in granular, powder and liquid form. It also sells mosquito pesticides in the forms of aerosols vaporizers and coils, in addition to household chemicals like toilet cleaners, floor cleaners, dish wash bar & liquid cleaner and hand wash.

Competitive landscape

The key listed competitors of ACMEPL in the crop protection sector include AFC Agro Biotech, ACI Formulations and Agriculture Marketing Company Limited (AMCL). The market share of the mentioned companies are 11.46%, 42.26% and 29.63% respectively. Non-listed competitors are Aftab Fertilizers & Chemicals, Nature & Care Agro Products, ACI Godrej Agrovet and Supreme Seed Company.

Industry Outlook

According to the Ministry of Agriculture, Bangladesh has annual demand of ~5.0 million tons of fertilizer, of which Urea, TSP, DAP and MOP are widely used. With the rapid growth in population of Bangladesh, the demand for food and crop is high. Subsequently, the need for crop protection products has also increased, indicating good growth potential in future. In Bangladesh, the market value of the industry was USD 250.0 Mn in 2016,

IPO Summary

DSE Ticker		ACMEPL
IPO Proceeds	(Mn BDT)	300.0
New Shares Issued	(Mn)	30.0
Pre- IPO No. of Shares	(Mn)	105.0
Post IPO No. of Shares	(Mn)	135.0
Pre-IPO Paid-up Capital	(Mn BDT)	1,050.0
Post-IPO Paid-up Capital	(Mn BDT)	1,350.0
Face Value (BDT)		10.0
Accounting Year End		June
Auditor		Shiraz Khan Basak & Co. Shahjalal Equity Management Limited
Issue Manager		
Sector		Pharmaceuticals & Chemicals
GICS Mapping		15101030

Income Statement

Mn BDT	2016A	2017A	2018A	2019A	2020A
Revenue	942.9	1,056.3	1,186.6	1,312.7	1,538.6
Gross Profit	264.9	293.8	321.6	357.2	420.0
Operating Income	136.4	147.1	156.8	207.9	263.3
Financial Expenses	26.5	22.5	16.0	18.4	25.9
Profit Before Tax	110.0	124.7	141.0	189.9	226.5
Income Tax Expense	27.0	18.7	30.3	22.5	31.8
Profit After Tax	83.1	106.1	110.7	167.5	194.7
Pre-IPO EPS	0.79	1.01	1.05	1.59	1.85
Post IPO EPS	0.62	0.79	0.82	1.24	1.44

Balance Sheet

Mn BDT	2016A	2017A	2018A	2019A	2020A
Total Non-Current Assets	687.7	830.8	946.3	1,084.5	1,401.7
Property, Plant and Equipment	573.5	698.4	855.5	992.9	1,211.5
Total Current Assets	448.9	463.6	503.0	563.8	655.6
Inventories	284.9	314.7	331.4	321.8	347.8
Cash And Cash Equivalent	1.0	1.2	1.1	38.7	54.4
Total Assets	1,136.6	1,294.4	1,449.3	1,648.3	2,057.3
Total Shareholder's Equity	368.8	474.9	585.6	822.7	1,717.8
Share Capital	30.0	30.0	30.0	99.7	1,050.0
Retained Earnings	338.8	444.9	555.6	723.1	667.8
Non-Current Liabilities	662.7	689.4	676.9	739.8	231.5
Share Money Deposit	473.9	473.9	473.9	519.8	-
Long Term Loan (Non Current Portion)	45.1	34.5	21.7	46.6	50.8
Lease Liability (Non Current Portion)	107.3	135.6	126.0	115.5	117.9
Current Liabilities	105.1	130.1	186.8	85.7	108.0
Short Term Loan	22.8	47.1	64.5	-	-
Current Portion of Long Term Loan	19.8	33.2	43.2	8.6	7.8
Current Portion of Lease Liability	17.9	1.3	15.5	24.7	31.5
Total Liabilities	767.8	819.5	863.7	825.5	339.5
Total Shareholder's Equity and Liabilities	1,136.6	1,294.4	1,449.3	1,648.3	2,057.3

Cash Flow Statement

Mn BDT	2016A	2017A	2018A	2019A	2020A
Operating Activities	108.9	150.9	148.3	203.4	221.4
Investing Activities	(106.5)	(167.1)	(151.4)	(187.6)	(373.0)
Financing Activities	(2.3)	16.4	3.0	21.8	167.3
Net Cash Flow	0.1	0.3	(0.1)	37.6	15.7

according to the Bangladesh Crop Protection Association (BCPA), with ten-year CAGR of 10.0%. Pesticide consumption per hectre stood at ~1.86 kg in 2016. As per BCPA, currently ~500 such companies are operational. The crop protection industry is highly regulated, with increased barriers for new entrants.

Ownership Structure

Sponsors and Directors own 40.89% of the pre-IPO shares, which would be 31.80% of post-IPO shares. Placement shareholders (institutional) held 20.96% of pre-IPO shares, which would be 16.31% of post-IPO shares.

Financial Performance

ACMEPL clocked 17.2% YoY growth in FY20, posting revenue of BDT 1.54 Bn (FY19: BDT 1.31 Bn). Gross profit margin averaged 27.20% over the past three years. Operating profit margin improved to 15.8% and 17.1% in FY19 and FY20 respectively, owing to efficient management of operating expenses. Increase in equity in FY20 resulted in massive improvement in both Debt-to-Asset and Debt-to-Equity ratios. In FY20, Debt to Equity ratio stood at 12.1% while Debt to Asset ratio was 10.1%. Return on invested capital (ROIC) stood at 15.9% in FY20 (FY19: 20.0%), while interest coverage ratio stood at 10.2x in FY20 (FY19: 11.3x).

Dividend History

ACMEPL has no cash dividend history in the last five years. They issued 25 million bonus shares as stock dividend in 2019. As per Bangladesh Securities and Exchange Commission's (BSEC) requirement, it cannot issue bonus shares for the next **four years** following the first trading day.

Pricing

Pre-IPO EPS in FY20 was BDT 1.85, whereas post-IPO EPS would be BDT 1.44. Pre-IPO NAVPS was BDT 16.36 in FY20, whereas post-IPO NAVPS would stand at BDT 12.72. Offer price per share is BDT 10.00, implying a **pre-IPO P/E of 5.4x and pre-IPO P/NAV of 0.6x**

Lock-in requirements

Lock-in period is **3 years** for sponsors, existing shareholders who hold more than 10% of shares, and if any sponsor/director transfers shares. Lock-in period is **1 year** for shares allotted to any person before 4 years or more of according consent to the public issue, and shares held by alternative investment funds. For shares not characterized by the mentioned conditions, the lock-in period is **2 years**.

ESG Footprints:

Environment Footprints:

ACMEPL has a setup for Effluent Treatment Plant (ETP) which is used to purify industrial waste water and has an incinerator for waste management. ACMEPL's business strategy involves making quality pesticides and seeds so that crops are not harmed and also includes expansion for eco-friendly manufacturing breed.

Social Footprints

ACMEPL aims to produce quality pesticides and other crop protection items at a low cost to improve accessibility of the poor farmers. It plans on ensuring the availability of crops as the demand for food increases with the population of the country. The company at present has 704 employees (407 officers and executives, and 297 workers).

Corporate Governance

Chairman Shanta Sinha and Managing Director Reza-ur-Rahman Sinha are married and together hold 31.27% pre-IPO ownership, which would stand at 24.32% post-IPO. Director Ahasan Habib Sinha is also from the Sinha family, which takes the total pre-IPO ownership of the family to 36.48% and post-IPO ownership to 28.37%.

Once listed, ACME Pesticides Limited will trade in DSE & CSE and will be placed in the "N" category.

Ratios

	2016A	2017A	2018A	2019A	2020A
Growth					
Revenue	n/a	12.02%	12.34%	10.63%	17.21%
Operating Profit	n/a	7.86%	6.62%	32.54%	26.69%
Net Profit	n/a	27.68%	4.42%	51.23%	16.28%
Profitability					
Gross Margin	28.09%	27.81%	27.11%	27.21%	27.29%
Operating Margin	14.46%	13.92%	13.22%	15.83%	17.11%
Net Margin	8.81%	10.04%	9.33%	12.76%	12.66%
Return on Asset	7.31%	8.73%	8.07%	10.81%	10.51%
Return on Equity	25.38%	25.14%	20.88%	23.78%	15.33%
Liquidity					
Current Ratio	4.3x	3.6x	2.7x	6.6x	6.1x
Quick Ratio	1.56	1.14	0.92	2.82	2.85
Leverage					
Debt to Asset	18.73%	19.45%	18.68%	11.85%	10.11%
Debt to Equity	25.26%	26.54%	25.56%	14.55%	12.11%
Coverage					
Interest Coverage	5.2x	6.5x	9.8x	11.3x	10.2x
Net Debt to EBITDA	1.4x	1.5x	1.4x	0.6x	0.5x
Activity					
Asset Turnover	0.9x	0.9x	0.9x	0.8x	0.8x
Inventory Turnover	2.6x	2.5x	2.7x	2.9x	3.3x
Receivables Turnover	6.1x	7.1x	7.8x	7.8x	7.8x
Payables Turnover	21.0x	21.9x	22.0x	48.1x	62.6x
Cash-Cycle (days)	178	176	164	162	148

Significant Shareholders

Name of Shareholders	Designation	No. of Shares	Pre-IPO Ownership	Post-IPO Ownership
Shanta Sinha	Chairman	9,859,454	9.39%	7.30%
Reza-Ur-Rahman Sinha	Managing Director	22,974,860	21.88%	17.02%
Ahasan Habib Sinha	Director	5,471,158	5.21%	4.05%
K M Heluar	Director	4,627,349	4.41%	3.43%
Chittagong Pesticides And Fisheries Limited	Shareholder	6,030,581	5.74%	4.47%
Heritage Capital Management Ltd.	Shareholder	4,179,608	3.98%	3.10%
Md. Matiur Rahman	Shareholder	3,700,000	3.52%	2.74%
Beacon Medicare Ltd	Shareholder	3,500,000	3.33%	2.59%
Bikrampur Potato Flakes Industries Limited	Shareholder	2,800,000	2.67%	2.07%
Bishwajit Das	Shareholder	2,770,000	2.64%	2.05%
Fatema Zeenat	Shareholder	2,123,782	2.02%	1.57%
Farid Ahmed	Shareholder	1,802,563	1.72%	1.34%
Shubrata Paul	Shareholder	1,250,000	1.19%	0.93%
Bengal Assets Holdings Ltd.	Shareholder	1,134,140	1.08%	0.84%

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Salim Afzal Shawon, CFA	Head of Research	salim@bracepl.com	01708 805 221
Nazmus Saadat, CFA	Research Analyst	nazmus.saadat@bracepl.com	01708 805 229
Anika Mafiz	Research Analyst	anika.mafiz@bracepl.com	01708 805 206
Fahim Hassan	Research Associate	fahim.hassan@bracepl.com	01709 636 546

International Trade and Sales

Ahsanur Rahman Bappi	Chief Executive Officer	bappi@bracepl.com	01730 357 991
----------------------	-------------------------	--	---------------

BRAC EPL Research

www.bracepl.com

Symphony, Plot No. S.E. (F) - 9,
Road No. 142, Gulshan-1, Dhaka
Phone: +880 2 985 2446-50
Fax: +880 2 985 2451
E-Mail: research@bracepl.com