

Company Background

Aman Cotton Fibrous Limited (AFCL) is a yarn manufacturing company located at Gazipur. The company is engaged in manufacturing of high quality combed and carded yarn from raw cotton which together generates 100% revenue of the company. Most of the clients of AFCL are export-oriented garment manufacturing companies.

AFCL commenced commercial operation in November 2007 and was converted to a public limited company in April 2012. The company doesn't have any subsidiary, associate company or joint venture.

As of June 2017, the installed capacity of the company is 6,780 MT of yarn per year with an actual capacity utilization of 93%. According to the management, a total installed capacity of the company will grow by 125% by June 2019 and actual capacity utilization ratio will be the same. The company has ~700 full-time employees.

IPO Details

AFCL has raised BDT 800.0 million as Initial Public Offering (IPO) proceeds through book building method. Proceeds from IPO will be used for acquisition & installation of machineries, loan 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 & installation of machineries	663.4	82.9%
Loan Repayment	101.6	12.7%
IPO Expense	35.0	4.4%
Total	800.0	100.0%

Key Points

- AFCL registered a continuous decline in the sales revenue from 2012-2016 and an increase in 2017. The company reported a top line CAGR of -2.9% in the last five years with an average gross profit margin of 25.2%. Declining price of yarn during 2012-13, 2014-15 & 2015-16 affected the top line negatively. The bottom line CAGR was 0.3% during last five years with an average net profit margin of 15.2%.
- AFCL is raising IPO proceeds primarily for purchasing capital equipment. 82.9% of the IPO proceeds will be utilized for acquisition of 19 types 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.
- AFCL has a sister concern namely Aman Tex Ltd which is involved in the production of RMG products with a production capacity of ~8.5K/day. Aman Tex Ltd buys yarn from AFCL which in total generates almost 15% of the total revenue of AFCL.
- The major raw material of the company is raw cotton. For raw materials, the company is mainly dependent on five major suppliers from countries like Uzbekistan, India, Singapore, and Switzerland. Hence, BDT depreciation against USD may affect the company's margins. Apart from that, they have plenty of suppliers available in the market. As a result, the company gets the advantage in terms of price and availability of the raw materials. However, the company procures a good amount of packaging materials from local suppliers as well.
- There is no significant seasonal aspect on the company's business except purchase of raw materials which are procured mostly during the cotton harvesting time, March — July.
- There are 341 yarn manufacturing companies in Bangladesh, which are currently in operation. Some of the major listed competitors are Square Spinning Mills Limited, Maleque Spinning Mills Limited, Apex Spinning & Knitting Mills Limited, Delta Spinning Limited and Zaheen Spinning Limited. However, there is no data available regarding market shares of the yarn manufacturing companies.
- The company intends to decrease the dependence on loan finance and focused on equity finance. One of the major portions that would come from IPO will be used to repay the loans taken from Islami Bank Bangladesh Limited and Union Capital Limited.

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
ZAHEENSPIN	1478.3	123.2	12.6x
APEXSPINN	1246.6	24.7	50.0x
DELTASPINN	1481.7	36.6	40.0x

* in BDT Million

Company Summary

Post IPO No. of Shares (Mn)	100.8
Post-IPO Paid-up Capital (Mn BDT)	1,008.3
Pre-IPO Paid-up Capital (Mn BDT)	800.0
New Shares Issued (Mn)	20.8
IPO Proceeds (Mn BDT)	800.0
Offer Price for general public (BDT)	36.0
Market Lot	100.0
Free Float	20.7%
Accounting Year End	June
Auditor	Mahfel Huq & Co.
Issue Manager	ICB Capital Management Limited

Income Statement

Mn BDT	2013	2014	2015	2016	2017
Revenue	1,974	1,970	1,710	1,694	1,734
COGS	(1,479)	(1,476)	(1,278)	(1,261)	(1,292)
Gross Profit	494	494	432	434	443
Administrative Expenses	(17)	(21)	(24)	(26)	(27)
Selling and Distribution Expenses	(10)	(23)	(22)	(16)	(14)
Operating Profit	467	449	386	392	402
Financial Expenses	(82)	(82)	(78)	(61)	(63)
Other Income	(11)	1	9	4	5
EBT	356	351	302	319	360
Income Tax Expense	(67)	(55)	(45)	(49)	(51)
NPAT	289	296	257	271	310
Basic EPS (BDT)	3.61	3.70	3.21	3.38	3.46

Balance Sheet

Mn BDT	2013	2014	2015	2016*	2017*
Fixed Assets	1,370	1,404	1,423	1,695	1,794
Property, Plant and Equipment	1,370	1,321	1,272	1,381	1,443
Capital Work-in-Progress		83	151	313	352
Current Assets:	271	408	514	546	635
Investment in listed securities	5	5	4	4	6
Inventories	989	979	1,007	959	982
Accounts receivables & others	991	990	811	775	843
Cash and Cash Equivalents	12	9	12	41	39
Total Asset	3,409	3,724	3,872	4,085	4,338
Share Holders' Equity:	2,000	2,296	2,551	2,850	3,129
Share Capital	800	800	800	800	800
Retained Earnings	963	1,259	1,516	1,787	2,064
Non-Current Liabilities:	262	185	158	151	152
Long Term Borrowing	196	108	73	84	73
Deferred Tax Liability	66	77	85	67	78
Current Liability	1,146	1,244	1,163	1,084	1,057
Short Term Borrowings	925	987	918	903	924
Current Portion of Long Term Loan	111	113	77	60	33
Liabilities for Expenses	28	30	28	39	36
Provision for Income Tax	75	108	136	79	60
Total Equity and Liabilities	3,409	3,724	3,872	4,085	4,338

Cash Flow Statement

Mn BDT	2013	2014	2015	2016*	2017*
Operating Activities	258	221	315	676	320
Investing Activities	(292)	(119)	(95)	(547)	(222)
Financing Activities	(3)	(105)	(218)	(100)	(100)
Net Cash Flow	(38)	(3)	3	29	(2)

Ratios

	2013	2014	2015	2016*	2017*
Gross Profit Margin	25.0%	25.1%	25.3%	25.6%	25.5%
Operating Profit margin	23.7%	22.8%	22.6%	23.1%	23.2%
Net Profit Margin	14.7%	15.0%	15.0%	16.0%	17.9%
Revenue Growth	-1.7%	-0.2%	-13.2%	-0.9%	2.3%
Gross Profit Growth	-1.3%	-0.1%	-12.5%	0.3%	2.1%
Operating Profit Growth	-0.4%	-3.7%	-14.0%	1.5%	2.5%
NPAT Growth	-5.3%	2.5%	-13.4%	5.5%	14.4%
Debt to Asset	36.1%	32.5%	27.6%	25.6%	23.8%
Net Debt to Equity	61.0%	52.2%	41.4%	35.3%	31.7%
Return on Asset	9.5%	8.3%	6.8%	6.8%	7.4%
Return on Equity	16.6%	13.8%	10.6%	10.0%	10.4%
Effective Tax Rate	11.2%	12.6%	12.3%	12.0%	11.0%

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