

Company Background

Bashundhara Paper Mills Limited (BPML) is engaged in manufacturing and selling of all kinds of paper products, tissues, paper sack, hygiene products etc. The company started its operation in 1997 as a concern of Bashundhara Group. In 2009, two more companies of Bashundhara group named "Bashundhara Newsprint & Duplex Board Industries Limited" and "Bashundhara Tissue Industries Limited" merged with BPML. Currently, these three companies are operating as a single entity. BPML's factory is located at Meghnaghat, Narayangonj and the factory has approximate capacity of 175,500 metric ton paper and 120 million bags per annum. Currently, the company is running at around 80% utilization rate. Even though there is high demand in the market, BPML is not able to meet the demand due to lower production capacity. Therefore, the company is planning to establish two more converting units with 500 metric ton capacity each in India. BPML is now the market leader in the paper and printing industry with 42.6% market share. Other competitors in this industry are Hakkani Pulp & Paper Mills Ltd., Karnaphuli Paper Mills, Magura Paper Mills Ltd., T. K. Paper Products Ltd., T. K. Paper Products Ltd. etc. but each of them holds less than 1% of the market share.

IPO Details

BPML will raise BDT 2,000.0 million as IPO proceeds through book building method by offering ~26.0 million ordinary shares of BDT 72.0 each for general public. Proceeds from initial public offering (IPO) will be used for business expansion, purchase of machineries and repayment of long term debt. The break down of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Installment of Factory Machineries	1,350.0	67.5%
Repayment of Bank Loan	600.0	30.0%
IPO Expense	50.0	2.5%
Total	2,000.0	100.0%

Key Points

- During Jan — Jun, 2016, the company generated 57.9% and 30.0% of its revenue respectively from Paper & Exercise product segment and Tissue Paper segment. The company primarily focuses on the domestic market and generated 98.8% of the revenue from the domestic market in 2016.
- All the profitability ratios of BPML are showing upward trend. Gross profit margin increased by 200 bps in last 5 years whereas operating margin went up to 6% in 2016 which was just 2% in 2012. Net profit margin also went up from 1% to 6% within 2012 to 2016.
- BPML also has 6.63% ownership worth of BDT 265.0 million in Bashundhara Industrial Complex Limited (BICL). BICL is now producing Bashundhara Cement in Bangladesh. Large infrastructural projects in Bangladesh in recent years indicates to a prospective future and thus positive return on investment for BEML.
- Bangladesh government imposed 58.7% and 55.1% import duty respectively on paper and tissue products to protect domestic producers. BPML has been capitalizing this opportunity to capture more market share. However, adverse change in regulation may lead to higher competition from foreign companies.
- The company usually sources its raw materials from global suppliers. Notably, BPML imported raw materials worth of BDT 6,245.6 million mainly from Indonesia, Thailand and Korea in 2015. Hence, the company is highly exposed to currency risk. The company also needs to maintain huge amount of inventory to reduce risk of raw material price movement, which puts pressure on the company's liquidity.
- BPML is a highly leveraged company. In 2016, 82% of its total asset is financed through debt. Therefore, the company is highly exposed to interest rate risk.
- BPML recorded 2% de-growth in 2014. National election and political unrest in Bangladesh during that period disrupted the company's business operations in that year and the same thing might happen at the end of 2018 due to the upcoming national election.
- In 2013, BPML reported negative operating cash flow. Mainly increase in inventory, account receivables and advances, deposits & prepayments resulted in this negative operating cash flow.

Comparable & Trading Multiples

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

DSE Ticker	Market Cap (BDT Mn)	TTM Earnings	P/B
HAKKANIPUL	1,212.2	(1.4)	2.4
KPPL	913.0	(2.1)	0.8

Company Summary

Post IPO No. of Shares (Mn)	173.8
Post-IPO Paid-up Capital (Mn BDT)	1,738.0
Pre-IPO Paid-up Capital (Mn BDT)	1,477.5
New Shares Issued (Mn)	26.0
IPO Proceeds (Mn BDT)	2,000
Offer Price (BDT)	72.0
Market Lot	100.0
Free Float	15.0%
Accounting Year End	June
Auditor	Ahmed Zaker & Co.
Issue Manager	AAA Finance & Investment Limited

Income Statement

Mn BDT	2012	2013	2014	2015	2016*
Revenue	10,232	10,502	10,335	10,436	11,385
COGS	(8,598)	(8,790)	(8,545)	(8,633)	(9,327)
Gross Profit	1,634	1,712	1,790	1,803	2,058
Administrative Expenses	359	312	329	297	267
Selling and Distribution Expenses	114	125	120	124	131
Financial expenses	982	1,041	1,077	998	947
Operating Income	179	234	264	383	713
Other Income	7	5	9	2	1
Profit before WPPF & WF	186	239	273	385	714
WPPF & WF expenses	-	-	-	(20)	(36)
EBT	186	239	273	365	678
Income Tax Expense	(121)	(142)	(55)	(100)	(45)
NPAT	65	97	218	265	633
Basic EPS (BDT)	0.4	0.7	1.5	1.8	4.3

Balance Sheet

Mn BDT	2012	2013	2014	2015	2016
Fixed Assets	7,276	7,349	7,581	9,392	9,229
Property, Plant and Equipment:	6,783	6,925	6,982	8,787	8,726
Capital Work in Progress	228	159	334	340	502
Investment in Associates	265	265	265	265	265
Current Assets:	7,398	9,004	9,497	8,692	8,263
Inventory	3,423	5,081	5,066	4,935	5,387
Trade and other receivables	1,867	2,336	2,010	1,685	1,669
Advance, Deposits & Prepayments	785	645	651	702	829
Cash and Cash Equivalents	307	140	264	153	202
Total Asset	14,674	16,352	17,079	18,084	17,491
Share Holders' Equity:	2,427	2,524	2,745	4,213	4,505
Share Capital	191	191	495	1,477	1,477
Retained Earnings	249	378	324	548	856
Non-Current Liabilities:	3,601	4,802	4,976	5,311	4,993
Long Term Borrowing	2,618	3,729	3,197	3,665	3,615
Deferred Tax Liability	983	1,073	1,095	1,389	1,377
Current Liability	8,647	9,026	9,357	8,559	9,411
Current portion of long term loan	507	1,559	1,356	1,203	1,123
Short term borrowings	6,526	6,257	7,012	6,523	7,353
Trade and other payables	499	438	626	681	852
Income Tax Provision	361	413	343	115	65
Total Equity and Liabilities	14,674	16,352	17,079	18,084	18,909

Cash Flow Statement

Mn BDT	2012	2013	2014	2015	2016*
Operating Activities	362	(813)	1,937	2,433	1,385
Investing Activities	(983)	(547)	(759)	(976)	(900)
Financing Activities	793	1,192	(1,054)	(1,568)	(386)
Net Cash Flow	172	(168)	124	(111)	99

Ratios

	2012	2013	2014	2015	2016
Gross Profit Margin	16%	16%	17%	17%	18%
Operating Profit margin	2%	2%	3%	4%	6%
Net Profit Margin	1%	1%	2%	3%	6%
Revenue Growth	13%	3%	-2%	1%	9%
Gross Profit Growth	4%	5%	5%	1%	14%
Operating Profit Growth	-23%	31%	13%	45%	86%
NPAT Growth	-38%	49%	125%	21%	139%
Debt to Asset	83%	85%	84%	77%	82%
Net Debt to Equity	505%	548%	522%	329%	320%
Return on Asset	0%	1%	1%	1%	4%
Return on Equity	3%	4%	8%	6%	14%
Effective Tax Rate	65%	59%	20%	27%	7%

*2016's numbers are annualized.

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