

### Company Background

Kattali Textile Limited (KTL) is a 100% export oriented company engaged in manufacturing, sewing, cutting and finishing of different types of garment products. The company mainly produces woven garments of various specifications, compositions, color and qualities, which in total generate 100% of the total revenue. The company does not sell any product in the domestic market.

The company commenced commercial operation in March 2004 and was converted to a public limited company in October 2016. The company does not have any subsidiary, associates company, joint venture or holding company.

As of June 2017, the installed capacity of the company was 404,250 pcs of garments and woven products per month with an actual capacity utilization rate of 86.9%. According to the management of the company, over the next three years, the overall installed capacity and actual capacity utilization rate is going to be increased at a CAGR of approximately 12.1% and 0.2% respectively as the total market of the garments and woven products and the market share of KTL in this market is increasing. Major shareholders of the company are individuals and sponsors & directors with 45.4% and 30.3% of post-IPO shares respectively. Currently, the company has around 1,235 full-time employees.

### IPO Details

Kattali Textile Limited will raise BDT 340.0 million as IPO proceeds through fixed price method by offering 34.0 million ordinary shares of BDT 10.0 each. Proceeds from initial public offering (IPO) will be used for the construction of a factory building and dormitory, acquisition of new machinery, electric installation of transformer and generator, bank loan repayment and IPO expenses. The break down of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Construction of a Factory Building Expansion Unit	172.8	50.8%
Construction of Dormitory for employee	25.3	7.4%
Acquisition of New Machinery for Expansion Unit	89.8	26.4%
Electric Installation of Transformer & Generator	8.0	2.4%
Bank Loan Repayment (One Bank Limited)	25.0	7.4%
IPO Expenses	19.1	5.6%
<b>Total</b>	<b>340.0</b>	<b>100.0%</b>

### Key Points

- Kattali Textile Limited has reported a top line CAGR of 3.6% over the last 5 years from 2013-2017 with an average gross profit margin of 24.4%. The bottom line CAGR was 12.3% with an average net profit margin of 13.4%. The increase in bottom line CAGR is due to the increase in the efficiency of its operations.
- KTL is raising IPO proceeds primarily for the construction of a factory building and acquisition of brand new machinery and equipment. These ventures are to be implemented within 24 months of receiving the IPO proceeds and expected to have a positive impact on the revenue and the company's manufacturing line. The company will also use BDT 25 million from the IPO proceed for repayment of bank loan, which will reduce the company's financial expenses. According to the management, the company is trying to mitigate the dependency on debt financing and focus on equity financing.
- In the budget of FY 2018-19, the Government has proposed a reduction in the corporate tax rate for the listed export-oriented textile companies from 15% to 12.5%. This is going to impact the NPAT margin of KTL positively.
- The company mainly serves products in the North American and European markets. In 2017, Regatta Limited contributed ~27.1% of the total turnover of KTL, followed by Norwest Industries Limited (22.7%), JCORP INC (13.7%), White Wave Sportswear Inc. (12.2%) and Onia LLC (12.0%). The company also has buyers like Wal-Mart, Gran Inc., Calvin Klein, Weatherproof, Kohls and JC Penney. As the top five buyers of the company generate ~88% of the total revenue, losing any of these buyers will impact the top line significantly.
- The Textile and Apparel industry in Bangladesh comprises over 5,000 manufacturers, most of which are Ready Made Garments manufacturers. However, among the listed companies in the textile sector, only 6 companies are considered as major competitors of KTL among which C&A Textile Limited (CNATEX) has the highest market share of 24.7% with a turnover of BDT 1.9 billion followed by Zahintex Industries Limited (ZAHINTEX) (16.9%) with a turnover of 1.3 billion, Alltex Industries Limited (ALLTEX) (14.5%) with a turnover of BDT 1.2 billion and HWA Well Textiles (BD) Limited (HWAWEWELLTEX) (14.3%) with a turnover of BDT 1.1 billion in 2017. The other two competitors are Regent Textile Mills Limited (REGENTTEX) and Rahim Textile Mills Limited (RAHIMTEXT) with a market share of 13.3% and 9.0% and turnover of BDT 1.1 billion and BDT 0.7 billion in 2017 respectively. Kattali Textiles Limited had a turnover of BDT 595.3 million in 2017.
- The major raw materials for KTL is garment and accessories. Most of the raw materials of KTL are imported; mainly from China (67.3%) and Taiwan (10.2%). Additionally, KTL procures a good amount of packaging and carton materials from local suppliers as well. As the company imports most of the raw materials, fluctuations in the related foreign currency rates may adversely affect the company's liquidity and profitability. Therefore, the company is exposed to exchange rate risks.

### Comparable & Trading Multiples

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

DSE Ticker	Market Cap *	TTM Earnings*	P/E
HWAWELLTEX	2178.4	131.6	16.3x
ZAHINTEX	1186.5	59.7	20.3x
REGENTTEX	2587.2	135.1	19.6x
RAHIMTEXT	3011.5	60.4	51.1x

\*in BDT Million

### Company Summary

Post IPO No. of Shares (Mn)	89
Post-IPO Paid-up Capital (Mn BDT)	890.0
Pre-IPO Paid-up Capital (Mn BDT)	550.0
New Shares Issued (Mn)	34.0
IPO Proceeds (Mn BDT)	340.0
Face Value & Offer Price	10.0
Market Lot	500.0
Free Float	38.2%
Accounting Year End	June
Auditor	Shiraz Khan Basak & Co.
Issue Manager	NRB Equity Management Ltd.

### Income Statement

Mn BDT	2014	2015	10M 2016*	2017	9M 2018**
Turnover	561.6	564.4	486.3	595.3	490.5
Cost of Goods Sold	-451.1	-459.0	-376.5	-459.3	-372.2
<b>Gross Profit</b>	<b>110.5</b>	<b>105.4</b>	<b>109.8</b>	<b>135.9</b>	<b>118.2</b>
Operating Expenses	-24.1	-23.6	-19.3	-24.4	-18.3
<b>Operating Income</b>	<b>86.4</b>	<b>81.8</b>	<b>90.4</b>	<b>111.5</b>	<b>99.9</b>
Financial Expenses	-3.0	-4.5	-8.8	-5.8	-6.0
<b>Net Operating Profit</b>	<b>83.3</b>	<b>77.3</b>	<b>81.7</b>	<b>105.7</b>	<b>93.9</b>
Other Income	2.7	2.1	1.4	1.3	1.1
<b>Profit Before WPPF</b>	<b>86.0</b>	<b>79.4</b>	<b>83.1</b>	<b>107.0</b>	<b>95.0</b>
Provision for WPPF	0.0	0.0	0.0	0.0	-4.5
<b>EBT</b>	<b>86.0</b>	<b>79.4</b>	<b>83.1</b>	<b>107.0</b>	<b>90.5</b>
Income Tax Expenses	-17.8	-11.9	-25.2	-0.1	-10.9
<b>NPAT</b>	<b>68.2</b>	<b>67.5</b>	<b>57.9</b>	<b>106.9</b>	<b>79.6</b>
<b>Basic EPS</b>	<b>2.7</b>	<b>1.2</b>	<b>2.0</b>	<b>2.1</b>	<b>1.5</b>

\*10 months from August 2015 to June 2016; \*\*9 months from July 2017 to March 2018

### Balance Sheet

Mn BDT	2014	2015	10M 2016*	2017	9M 2018**
<b>Fixed Assets:</b>	<b>559.4</b>	<b>571.4</b>	<b>594.1</b>	<b>776.9</b>	<b>745.7</b>
Property, Plant and Equipment	559.4	571.4	568.4	711.5	676.9
Capital Work in Progress	0.0	0.0	25.7	65.4	68.8
<b>Current Assets</b>	<b>270.6</b>	<b>319.3</b>	<b>442.8</b>	<b>485.2</b>	<b>593.0</b>
Inventories	92.4	96.7	137.7	161.1	201.9
Accounts Receivable	151.5	193.1	224.5	254.7	312.3
Advances, Deposits & Prepayments	23.5	27.7	78.5	69.0	72.9
Cash & Cash Equivalents	3.2	1.8	2.1	0.3	5.9
<b>Total Assets</b>	<b>830.0</b>	<b>890.7</b>	<b>1037.0</b>	<b>1262.0</b>	<b>1338.7</b>
<b>Share Holders' Equity:</b>	<b>390.2</b>	<b>457.7</b>	<b>543.5</b>	<b>1126.4</b>	<b>1206.1</b>
Share Capital	5.0	5.0	100.0	550.0	550.0
Retained Earnings	385.2	452.7	443.5	576.4	656.1
<b>Non-Current Liabilities:</b>	<b>223.1</b>	<b>232.5</b>	<b>306.6</b>	<b>33.1</b>	<b>33.8</b>
Share Money Deposit	203.6	203.6	264.4	0.0	
Deferred Tax Liability	19.5	25.7	39.6	30.9	32.6
Long Term Loan	0.0	3.1	2.7	2.3	1.2
<b>Current Liability:</b>	<b>216.6</b>	<b>200.5</b>	<b>186.8</b>	<b>102.4</b>	<b>98.8</b>
Bank Draft	26.2	23.2	27.9	32.3	30.8
Accounts Payable	6.0	4.9	3.4	3.9	3.1
Current Portion of Long Term Loan	0.0	0.0	0.4	0.4	0.8
Liabilities For Expenses	21.0	27.2	37.9	39.4	48.6
Short Term Loan	163.3	145.2	117.3	26.4	11.0
<b>Total Equity and Liabilities</b>	<b>830.0</b>	<b>890.7</b>	<b>1037.0</b>	<b>1262.0</b>	<b>1338.7</b>

\*10 months from August 2015 to June 2016; \*\*9 months from July 2017 to March 2018

### Cash Flow Statement

Mn BDT	2014	2015	10M 2016*	2017	9M 2018**
Operating Activities	92.8	78.0	2.4	116.2	37.2
Investing Activities	-171.7	-56.9	-58.7	-210.9	-8.1
Financing Activities	71.9	-22.4	56.6	93.0	-23.6
<b>Net Cash Flow</b>	<b>-7.0</b>	<b>-1.4</b>	<b>0.3</b>	<b>-1.8</b>	<b>5.6</b>

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### Ratios

	2014	2015	10M 2016*	2017	9M 2018**
Gross Profit Margin	19.7%	18.7%	22.6%	22.8%	24.1%
Operating Profit margin	15.4%	14.5%	18.6%	18.7%	20.4%
Net Profit Margin	12.1%	12.0%	11.9%	18.0%	16.2%
Revenue Growth	8.5%	0.5%	N/A	22.4%	N/A
Gross Profit Growth	16.5%	-4.6%	N/A	23.9%	N/A
Operating Profit Growth	15.5%	-7.2%	N/A	29.5%	N/A
NPAT Growth	1.4%	-1.1%	N/A	84.7%	N/A
Debt to Asset	19.7%	16.7%	11.6%	2.3%	1.0%
Net Debt to Equity	41.0%	32.0%	21.7%	2.6%	0.6%
Return on Asset	9.0%	7.9%	7.0%	5.0%	8.2%
Return on Equity	18.9%	16.1%	13.5%	6.9%	9.2%
Effective Tax Rate	20.7%	15.0%	30.3%	0.1%	12.0%

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