

Company Snapshot	
Paid-up Capital	BDT 552.0 Mn
Total No. of Securities	55.2 Mn
Free Float (estimated)	
Market Capitalization	BDT 3405.84Mn
Reserve & Surplus	BDT 183.26Mn
52 Week Price Range	42.4 – 89.3
Average Daily Turnover	BDT 31.31 Mn
Face Value	Tk. 10
Market Lot	500
Category	A



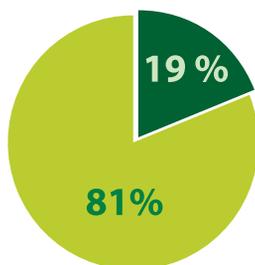
Price Performance			
Price Performance (%)	3 M	6 M	12 M
DGEN	-8%	-13%	-25%
Active Fine Chemicals	4%	10%	4%

**Company Profile**

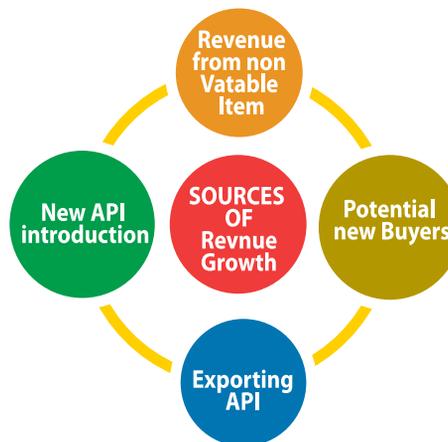
Active Fine Chemicals Limited (AFCL) is a pharmaceutical company,

**Sales Contribution (in 2011)**

- Sales from API & peagentservices (Vatable)
- Chemicals (Non-vatable)



Source: Annual Report 2011



which is focused on the production of pharmaceutical raw materials. It has been established in 2004 with a view to supplying bulk drug materials. It has started its operation in 2009 and listed in Dhaka stock exchange in 2010. The total paid up capital of the company is BDT 552.0 Mn. Within the three years of its commencement, its total turnover reached at BDT 442.64 mn at the end of 2011. In pharmaceutical industry, there are only 23 pharmaceutical companies (Finished goods producers) those have sales amount above BDT 500 Mn. Apparently, it's a great achievement for AFCL to reach near about this figure (BDT 500 Mn) just within three years. Moreover, from the very beginning they didn't have to fight anymore for showing profit in their financial statement as they have set customers for their raw materials.

**Investment synopsis**

**Untapped Growth Opportunity**

There are 258 pharmaceutical companies are operating their business in Bangladesh. Most of them are importing APIs (Active Pharmaceutical Ingredients) from abroad (around 90% APIs are imported). As of September 2011, pharmaceutical industry size stood at BDT 8048 Crore, as against BDT 6457 crore in 2010. Since cost of raw materials account for 50% of total industry revenue, then the total market size of pharmaceutical raw materials would be around BDT 4000 crore. Existing pharmaceutical companies are producing around 10% of total API and rest of percentage is imported. Therefore, the remaining industry size (BDT 3600 crore) is available for Active fine chemicals to extend their business. Now, here they have to compete with foreign sellers in terms of cost and quality.

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Research Analyst  
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AFCL has come up with that dream to serve the pharmaceutical industry by producing API. However, in 2011, they generated only 19% revenue from selling APIs and providing reagent services, 81% from Non-Vat able items (chemicals). Having only four APIs in 2011 was the prime cause behind this lesser contribution. Moreover, as a newly established firm, they are yet to reach at new customers.

However, in 2011, they received permission for producing another 10 APIs. Definitely, it will boost up their revenue in forthcoming days significantly. Among the 10 APIs, six APIs are expected to be introduced within 2012 and the other four in 2013. Therefore, in forthcoming days, AFCL's revenue may realize significant growth, given that their APIs are reasonably accepted to the pharmaceutical finished goods producer.

On the other hand, they have started exporting APIs in Vietnam from 2011. Definitely, it's an important benchmark that they had attained in last year. However, it's not about only revenue that they had earned from exporting APIs, it's about accreditation that they got through exporting. Moreover, exporting APIs are much easier than the finished pharmaceutical products, as it is transacted between businesses to business.

Particulars	Income Statement (BDT in mn)			Growth (in %)	
	2011	2010	2009	2011	2010
Net turnover	442.6	166.4	22.5	166%	639%
Gross profit	206.8	83.4	9.9	148%	743%
Profit from operation	165.1	52.3	8.2	216%	534%
Net profit before WPPF	152.4	91.2	5.6	67%	1541%
Net profit before tax	145.2	86.9	5.3	67%	1545%
Net profit after tax	133.5	83.0	5.3	61%	1472%
Particulars	Balance Sheet (BDT in mn)			Growth (in %)	
	2011	2010	2009	2011	2010
Property, plant and equipments	548.23	408.17	334.83	34%	22%
Intangible assets	79.23	82.07	31.44	-3%	161%
Investment	37.20	107.10	0.00	-65%	-
Current assets	236.79	143.91	68.66	65%	110%
Total assets	901.44	741.25	434.93	22%	70%
Shareholders' equity	735.26	601.74	318.72	22%	89%
Non-current liabilities	1.97	0.00	81.09	-	-
Current liabilities	164.21	139.50	35.13	18%	297%
Total shareholder's equity and liabilities	901.44	741.25	353.85	22%	109%

### Ongoing Business Expansion

Recently, active fine chemical has received BDT 14.49 crore for balancing and expansion program from BDBL (Bangladesh Development Bank Ltd). That means they are responding to the growth using financial leverage as well.

### Tax Holiday Benefits

The company is enjoying tax exemption facility in the following manner:

2010 and 2011	100% tax exemption
2012 and 2013	50% tax exemption
2014	25% tax exemption

### Business-to-Business Distribution

AFCL's target customers are finished pharmaceutical product manufacturers. They are following Business-to-Business marketing strategy, which is less costly than the marketing channel of finished goods producer as promotional cost is very minimum.

### Backward Linkage Development

AFC Agro Biotech Ltd. and AFC solvents Ltd. are the two associates of Active fine chemicals those were developed for backward linkage. The main products of these two associates will be used as raw materials in the API and Laboratory Reagent manufacturing process of AFCL. Presently, they are importing raw materials from china and India. Thus, by producing these materials in Bangladesh from locally available sources, the company will be able to better serve the industry.

### Industrial Policy Support

If the country is sufficient to produce any API locally, then this API will be restricted for importing. For example, Paracetamol and Amoxicillin are two restricted APIs, as the country is sufficient to meet up industry demand. It's a positive incentive for API producers in Bangladesh.

### Low Competition In Industry

In Bangladesh, some companies are producing API as backward linkage. But the total size of API production is very minimum. Moreover, most of them don't produce these APIs for commercial purpose. There is only one pharmaceutical raw material producer except AFCL, name sunipun pharmaceutical, produces only paracetamol. Actually, there is no local competitor exists in Bangladesh for AFCL. Therefore, they have to replace the import of API through local production.

### Risk factors of the investment:

#### Low sponsor's holdings

Active fine's business looks promising and much profitable. But, their sponsors' holdings is only 19%, which hardly reflects their commitment to the business. According to SEC directive, they had to increase their sponsor's holding up to 30% in 2012. But we didn't find any notification on that.

#### Quality is big issue for market penetration

For grabbing the attention of big buyers and large buy order from them, they have to come up with better quality with reasonable cost.

#### Capacity constraint

In last two years, they recorded significant amount of revenue growth. However, this growth may stall if they can't expand its capacity in forthcoming days.

## API List

### Existing APIs

1. Azithromycin
2. Erythromycin Base
3. Erythromycin Ethyl Succinate
4. Erythromycin Stearate
5. Clarithromycin

### Eleven new API (Got registration in 2011)

1. Atorvastatin
2. Erythromycin Base

3. Metformin
4. Pentoprazole Sodium
5. Rabeprazole Sodium
6. S-Omperazole, Omeprazole
7. Clopidogrel
8. Losartan Potassium
9. Flucanazole
10. Fexofenadine
11. Citrazine dihydrochloride

A company selects an API for production only when they can assure economies of scale. AFCL is not an exception in that case. They are producing and marketing four APIs, which are from Macrolide group antibiotics. Moreover, they received permission from directorate general of drug administration in 2011 for producing another eleven APIs.

The existing four APIs are very much demanding and most of the pharmaceutical finished goods producers are using these APIs. Among them, Azithromycin is a subclass of macrolide antibiotics, which is derived from erythromycin. It is used to treat or prevent certain bacterial infections, most often those causing middle ear infections, strep throat, pneumonia, typhoid and sinusitis. On the other hand, erythromycin is in the same group and used to treat many different types of infections caused by bacteria. Clarithromycin is also an antibiotic, which is successfully used in the treatment of chronic cold disease

In new eleven APIs, most of the APIs are for the treatment of Gastro esophageal reflux disease, Gastric and duodenum ulceration, gastric and diabetetics etc. Moreover, they have some blockbuster APIs in upcoming list; omeprazole is one of them, which is used in top three selling pharmaceutical products in Bangladesh, such as: SECLLO, LOSECTIL and EXELDRIN etc.

Top selling products which use Omeprazol	Sales Value (BDT in Mn)	Annual sales growth (2011)
SECLLO	1,345	37.34
LOSECTIL	926	33.31
XELDRIN	428	18.04

Source: IMS

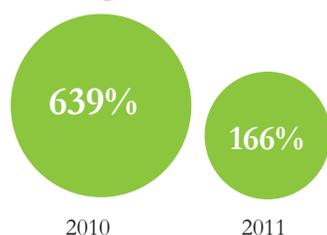
Top selling products which use Azithromycin	Sales Value (BDT in Mn)	Annual sales growth (2011)
ZIMAX	537.75	22.72
ZITHRIN	241.53	12.93

Source: IMS

The market size of existing four API and newly registered API couldn't be identified properly, as we don't have any molecule data. We are trying collect this data from directorate of drug administration, and then we hope we will be able to provide this in our valuation report. However, we have provided you the companies list and the products in which these API are used.

## Financial Performance Analysis

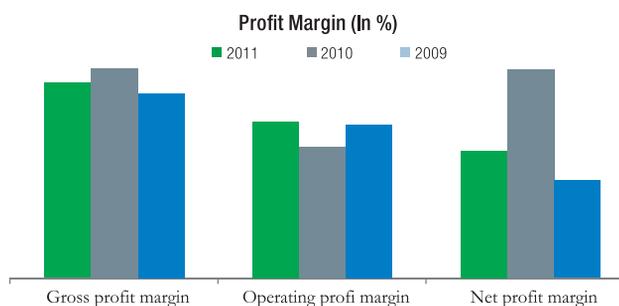
### Revenue growth



Over the last two years, AFCLs revenue growths were 166% and 639% respectively in 2010 and 2011. However, in 2012 (according to half-yearly statement), they have registered 45% growth in revenue compared to previous half yearly. Apparently, they couldn't keep the pace of revenue growth, as they are yet to manufacture their newly registered APIs. However, revenue growth may accelerate again in 2013, when their newly introduced APIs get full exposure in the pharmaceutical market.

### Profitability

Increasing profitability of AFCL is mainly facilitated by higher gross profit margin, relatively stable operating cost and 100% tax holiday period over the last three years. AFCL's gross profit margin was above 45%. Though their gross profit margin declined in 2011, but still it was equal to the average gross profit margin of top pharmaceutical finished goods producers. Moreover, their operating profit margin (37.3% in 2011) was above the industry average, as their marketing distribution channel is Business to Business. On the other hand, net profit margin was (30.2%) in 2011.



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