

Envoy Textiles Limited

IPO Information

Issue Price (BDT)	30
Face Value (BDT)	10
Authorized Capital (BDT Million)	2750
Paid Up Capital (Prior to IPO) (BDT Million)	1000
Paid Up Capital (Post IPO) (BDT Million)	1300
Market Lot (Shares)	200
Market Category	N
Manager to the Issue	LankaBangla Investments Limited
Public Offer (Shares in Millions)	30
Issue Size (BDT Million)	900
Subscription Open	16-Oct-12
Subscription Close	22-Oct-12
NRB Subscription Close	31-Oct-12
Credit Rating (Long Term)	AA3
Credit Rating (Short Term)	ST-2
Credit Rating Agency	Credit Rating Agency Bangladesh (CRAB)
Auditor	Ahmad & Akhtar Chartered Accountants

Source: IPO Prospectus

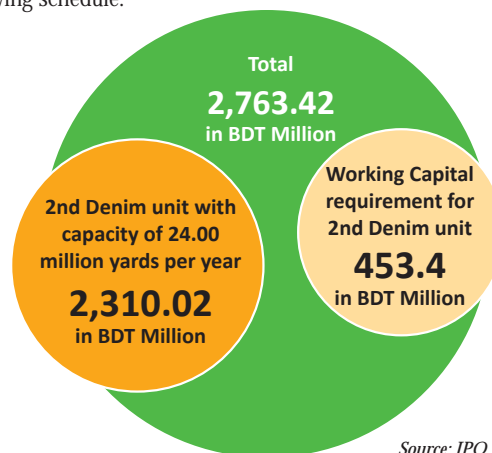
Corporate Profile & Business Model

According to the company prospectus submitted to SEC, Envoy Textiles Limited (ETL) was incorporated on June 18, 1995 as a Private Limited Company. On October 25, 2009 it has been converted into a Public Limited Company. Envoy Textiles Limited is a manufacturer of 100% export oriented denim fabric. The company is the pioneer of Rope Dyeing technology in Bangladesh and is one of the country's leading companies in this sector. Envoy Textiles Limited is a leading denim manufacturing company with a yearly production capacity of 24.00 million yards. They produce a range of high quality denim products featuring a wide range of yarns and weaves in various shades of indigo and black.

Use of IPO Proceeds

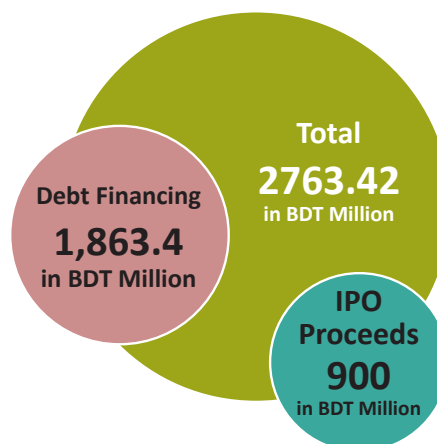
With the proceeds from IPO, Envoy Textiles Limited plans to expand its existing business by increasing its capacity of 24.00 million yards of denim fabrics per year by setting up a fully automated state of the art rope denim plant. All the machineries will be imported from Europe and Japan in brand new condition. With the expansion of this new unit, total fabrics production capacity will be double of the existing capacity.

The Company will utilize the net proceeds of public offer as per following schedule:



Source: IPO Prospectus

Sources of Fund



Source: IPO Prospectus

Implementation Schedule of Use of IPO proceeds

Expansion of Second Denim Unit:

Utilization of Fund	Amount in BDT Million	Tentative Timeline
Land Development	20	Investment is done
Building	427.90	30% of the Building is completed and remaining will be completed by March, 2013
Plant and Machinery	1862.123	Within 09 months of getting IPO proceeds
Working Capital Requirement	453.4	Immediately after getting IPO proceeds
Total	2763.419	

Source: IPO Prospectus

Shareholding Pattern of Envoy Textiles Limited

Shareholding of 5% or more of the Company's Securities is given below:

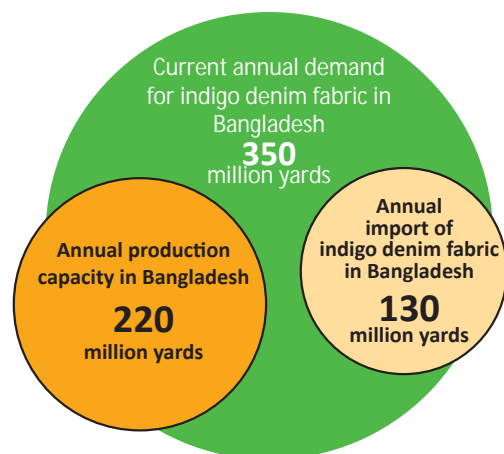
SL. No.	Name of the Shareholders	Type	Nos. of Shares subscribed	Subscribed Amount	% of Shares hold
1	Pastel Apparels Ltd.	RMG Industry	6,203,000	62,030,000	6.20%
2	Dornick Apparels Ltd.	RMG Industry	10,017,000	100,170,000	10.02%
3	Envoy Towers Ltd.	Real Estate Co.	8,750,000	87,500,000	8.75%
4	Fontina Fashions Ltd.	RMG Industry	6,000,000	60,000,000	6.00%
5	Alpha Start Limited	Textile Industry	5,000,000	50,000,000	5.00%
6	LankaBangla Finance Ltd. - IP Account	Various	6,885,000	68,850,000	6.89%

Source: IPO Prospectus

Major Competitors of Envoy Textiles Limited

- Shasha Denims Ltd
- Partex Denims Ltd
- Ha-meem Denims Ltd
- Sinha Denims Ltd
- Nassa Taipei Denims Ltd
- Argon Denims Ltd
- Chittagong Denims Ltd
- Jamuna Denims Ltd

Demand and Supply conditions of the industry



The growth of our textile sector is underway as:

The minimum wages in China has been raised and the Chinese currency is likely to appreciate against the US\$. People will look for a cheaper location for production to remain competitive in the world market.

Bangladesh will gain from the increased production costs of China and Turkey and will also gain from

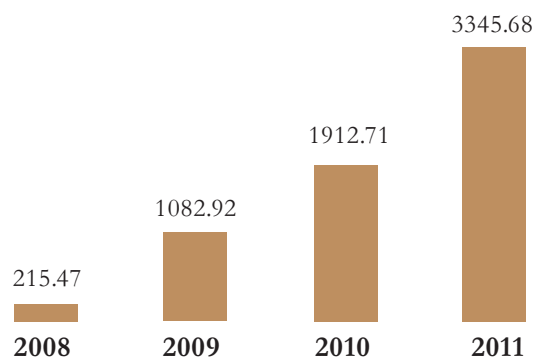
the political unrest in Pakistan.

Performance Analysis

Increased capacity utilization has supported Revenue Growth

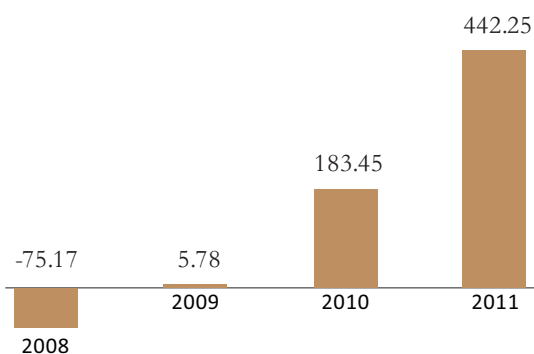
Envoy Textiles Limited had started its commercial operation from 1st March 2008. The result shown for the year ending 30th Sept 2008 is for a period of 7 month only. During the start of any operation there is always a huge requirement of sample development. This has affected the production and as a result the capacity utilization for this period was as low as 12%. Due to this the net operating loss was of BDT 75.17 million. For the year ending 30th Sept 2009, revenue increased by BDT 867.452 million. The production efficiency had increased from a very low of 12% to a better average of approximately 60%. This had resulted in a net income of BDT 5.78 million for the year ended 2008-09. During 2009-10, the owners of the company appointed few highly professional, foreign expatriates to manage the company. There was a focused effort on two fronts - (i) to improve the efficiencies in different areas and (ii) to reduce the unnecessary expenditures. There were massive improvements in different areas of business including production & sales. This was possible due to the numerous steps taken by the new management which had resulted in the growth of revenue by 76.62% and achievement of production capacity utilization from 60% to a much improved 77.37%. During the year 2010-11 there was massive improvement in production & sales which is resulted because of the efficiencies achieved in each and every areas of the company like increase in production and sales and increase in sales price per unit. Therefore sales growth of the company is 74.92% and Net profit growth of the company is 141.15% in compared to last year. Capacity is utilized 77.37% and 72.32% against 20.00 million and 24.00 million yards respectively for the year ended September 2010 and 2011. The Industry average of capacity utilization in denim textile sector is almost 85.00% (world standard) moreover, the production benefit for capacity enhancement started from July- 2011, in this scenario they got only three month time to utilize the extended capacity during the accounting year ended 2011. Therefore the capacity utilization percentage is showing 5.05% lower in compared to last year in spite of being higher production of 1.88 million. During the year 2011, the utilization percentage on weighted average capacity is around 82.65%.

Revenue (BDT Million)



Source: IPO Prospectus and LBSL Research

Profit after tax (BDT Million)



Source: IPO Prospectus and LBSL Research

Income Statement Position (BDT Million)

	2008	2009	2010	2011
Revenue	215.47	1082.92	1912.71	3345.68
Cost of Goods Sold	205.09	883.70	1500.11	2643.45
Gross Profit	10.38	199.23	412.60	702.23
Administrative & General Expenses	5.62	13.42	36.85	61.86
Selling & Distribution Expenses	8.03	15.95	14.05	15.72
Operating Profit	-3.27	169.86	361.69	624.65
Financial Expenses	77.69	176.84	181.07	162.92
Other income	5.79	12.77	2.83	2.77
Profit Before Tax	-75.17	5.78	183.45	464.50
Provision for WPPF	0.00	0.00	0.00	22.12
Provision for Current Tax	0.00	0.00	0.00	0.13
Profit after tax	-75.17	5.78	183.45	442.25
EPS		3.47	1.83	4.42

Source: IPO Prospectus and LBSL Research

Common Size Income Statement Analysis

	2008	2009	2010	2011
Revenue	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	95.18%	81.60%	78.43%	79.01%
Gross Profit	4.82%	18.40%	21.57%	20.99%
Administrative & General Expenses	2.61%	1.24%	1.93%	1.85%
Selling & Distribution Expenses	3.73%	1.47%	0.73%	0.47%
Operating Profit	-1.52%	15.69%	18.91%	18.67%
Financial Expenses	36.06%	16.33%	9.47%	4.87%
Other income	2.69%	1.18%	0.15%	0.08%
Profit Before Tax	-34.89%	0.53%	9.59%	13.88%
Provision for WPPF	0.00%	0.00%	0.00%	0.66%
Provision for Current Tax	0.00%	0.00%	0.00%	0.00%
Profit after tax	-34.89%	0.53%	9.59%	13.22%

Source: IPO Prospectus and LBSL Research

Key Ratios

Year	2009	2010	2011
Profitability Ratios			
Gross Profit Margin	18.40%	21.57%	20.99%
Operating Profit Margin	15.69%	18.91%	18.67%
Pretax Margin	0.53%	9.59%	13.88%
Net Profit Margin	0.53%	9.59%	13.22%
ROAE	2.43%	9.29%	12.32%
ROAA	0.25%	4.66%	7.90%

Solvency Ratios

Debt to Equity	2.24	0.32	0.26
Debt to Total Assets	0.46	0.21	0.16
Financial Leverage	4.89	1.55	1.57
Interest Coverage Ratio	0.96	2.00	3.83

Activity Ratios

Receivables Turnover	3.18	2.87	3.79
Inventory Turnover	6.27	7.48	6.20
Payable Turnover	2.98	2.82	3.59
Total Asset Turnover	0.47	0.49	0.60

Source: IPO Prospectus and LBSL Research

Analyst Observation

Tax holiday period of this company is over and the company will have to pay a tax rate of 13.5% in coming years. Moreover, 30% dilution of earnings is underway as the company is issuing 30 million shares in IPO. So, to maintain current EPS, net profit of

this company will have to grow by 43.5% in the next year. As the company will not be able to add additional production capacity till the end of 2013, and profit margin is shrinking due to increased pressure from European economy and sluggish economic growth in USA, earning growth is expected to remain flat in 2012 financial year. In 2013, partial utilization of additional capacity may contribute 25-30% topline growth. But earning per share (EPS) is expected to hover around at current level till 2013.

Forward P/E Multiple of listed textile companies

Company	Forward P/E
Saiham Textile Limited	11.2
Square Textile Limited	15.11
H.R Textile Limited	19.46
ZahinTex Industries Limited	15.2
CMC Kamal Limited	20.69

Source: LBSL Research

Forward P/E of listed companies has been calculated by using stock price as of 12th November, 2012 and by annualizing latest quarterly EPS.

The Post-IPO fully Diluted EPS of Envoy Textiles Limited stands at BDT 3.40. Net Asset Value per share without considering revaluation surplus stands at BDT 19.90. Having analyzed the company, we are providing below a scenario analysis of this stock valuation which will help the investors take their decision.

Price (BDT)	EPS (BDT) (considering post-IPO no of shares outstanding)	P/E
35	3.4	10.29
40	3.4	11.76
45	3.4	13.24
50	3.4	14.71

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