

Issue Price	:30
Face Value	:10
Market Lot	:500
Credit Rating (Long Term)	:A1
Credit Rating (Short Term)	:ST-2
Market Category	:N

Manager to the Issue	: AAA Consultants & Financial Advisers Ltd.
Public Offer	: 20 Million Shares
Subscription Open	: February 02, 2012
Subscription Close	: February 09, 2012
NBR Subscription Close	: February 18, 2012

Corporate Profile

GPH Ispat Limited is one of the leading integrated steel manufacturing companies in Bangladesh engaged in manufacturing of M. S. Billet & M. S. Rod. The Company was incorporated in Bangladesh on 17 May 2006 as a Private Company limited by shares under the Companies Act 1994. The principal activities of the Company are manufacturing and trading of iron products and steel materials of all kinds or other metallic or allied materials and marketing thereof. The commercial production of the factory commenced on 21 August 2008. The Company subsequently converted into a Public Limited Company.

The corporate office of GPH Ispat Ltd. is located at Asadgonj, Chittagong and the plant is located at Sitakund, Chittagong. GPH Ispat plant consists of three units – steel melting, steel re-rolling and captive power plant. GPH has its own captive power plant of 12 MW and it also gets 12 MW electricity from national grid, which is sufficient for its present capacity.

Use of IPO Proceed

GPH Ispat Limited will raise paid-up capital through Initial Public Offering (IPO) in order to repay debt to enhance profitability in the following way:

Utilization of Fund	Amount (in BDT Million)	
A.	Loan Repayment	588
B.	Payment of Tax @ 3% on Share Premium	12
Total	600	

Capital Structure

Currently GPH is very highly leveraged. Currently around 78% of its assets are financed by debt. The debt to equity ratio is very high which is currently 5.08 times. High financial leverage will eat up profit in bad times. They are issuing IPO to repay debt but even after IPO debt ratios will remain high.

	2010	2011	2011 (Considering debt repayment)
Paid up capital(BDT million)	500	500	700
Share Premium(BDT million)			300
Debt Ratio(Debt to Total asset)	72.69%	77.94%	62.91%
Debt to Equity	2.83	5.08	2.07

Business Model

GPH Ispat produces MS billet and MS rod with an integrated system of production. The production process phases in two stages. Firstly billet is produced from scrap, thereafter MS Rod is produced from billet. The Company has its own facility to produce billet. The major competitors of GPH Ispat are BSRM, KSRM, RSRM, Abul Khair Steel Industries Ltd., Rahim Steel etc.

Two types of products are manufactured at GPH ISPAT LTD.

- **BILLET:** Size- 100mm square section.
- **REBAR:**
 - a. Deformed bar (available in sizes 8mm, 10mm, 12mm, 14mm, 16mm, 18mm, 20mm, 22mm, 25mm, 28mm, 32mm, 36mm and as per customers' requirements).
 - b. Plain bar (available in sizes 8mm, 10mm, 12mm, 14mm, 16mm, 18mm, 20mm, 22mm, 25mm, 28mm, 32mm, 36mm and as per customers' requirements).

Company Name	Capacity (in Ton)
BSRM Steel Limited	550000
Rahim Steel Mills	200000
Abul Khair Steel	800000
KSRM	400000
GPH Ispat	120000
Ratanpur Steel	100000
Baizid Steel	50000
Bashundhara Steel	100000
Others	1100000
Total	3420000

Capacity

Currently GPH is using almost full capacity of its billet plant. There is still scope for utilization in M.S. Rod plant. To go for further utilization of Rod plant capacity they will have to import billet or expand existing billet plant.

	M.S. Billet	M.S. Rod
Production Capacity	84000	120000
Capacity Utilization	76221	75099
Capacity utilization	91%	63%

Profitability

Gross profit margin and net profit margin of GPH is 17.45% and 4.96% which are low, but steel is a low margin industry. Net profit margin and operating profit margin for BSRM STEELS is 4.83% and 8.30% respectively. ROAE is 29.49%. This is high but will slide down as BDT 300 million equity adds up with the existing equity.

	2010	2011	2011 (Considering 70 million shares)
EPS	2.21	3.66	2.61
Gross Profit Margin	12.60%	17.45%	
Operating Profit Margin	10.10%	14.27%	
Net Profit Margin	3.43%	4.96%	
ROAE	33.5%	29.49%	
ROAA	5.16%	5.67%	

Analyst Observation:

- At the last audited EPS the P/E stands at 8.19X (for BDT 30 offer price). If the EPS is fully diluted the PE stands at 11.49.
- GPH is very highly leveraged. Though they are taking loan to repay debt the total debt in last balance sheet was around BDT 3110 million, even after repaying 600 million it will remain high.
- Real estate sector is showing signs of slowdown. If the current slowdown in sales of apartment continues, then earning may be hampered. Therefore, the gloomy situation in real estate sector will hit the top line.
- Even expected volume growth in 2012 is low the revenue may boost up due to recent hike in rod price. So there may be a gain from inventory. But it will be a onetime gain. The price hike was due to electricity price rise and taka devaluation. Both these will increase cost.
- There is approximately BDT 6 million unrealized loss in investment.

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