

IPO Information			
Issue Price:	BDT 20	Manager to the Issue:	LankaBangla Investments Ltd
Face Value:	BDT 10	Public Offer:	47.5 Million Shares
Authorized Capital:	BDT 2000 mn	Issue Size	BDT 475 mn
Market Lot:	250	Subscription Open:	4-Mar-12
Credit Rating (Long Term):	A3	Subscription Close:	8-Mar-12
Credit Rating (Short Term):	ST3	NBR Subscription Close:	March 17, 2012
Market Category:	N		

Source: IPO Prospectus

Corporate Profile

Saiham Spinning Mills Limited (SSML) was incorporated on May 30, 2002 as a Private Limited Company. With effect from April 16, 2003 the name of the company has been changed to Saiham Cotton Mills Limited (SCML). It has been converted into a Public Limited Company on March 25, 2010.

The production of SCML started from April 1, 2005 with an installed capacity of 30,960 spindles capable of producing 6,480,000 KGs of yarn per year. The mill is situated at Noyapara, Saihamnagar of Hobigonj district. Total area of the factory is 5.725 acres, where almost 60% is covered area for main factory building, quality control, utility, store, workshop, dormitory, office and others. At present, the company has a wide reputation in the local and international market. Employees are fully covered with safety measures including standard in-house medical facilities. SCML also managed to comply with the international standard of its management. This is reflected in the attainment of ISO 9001:2000 Certificate conferred for fulfilling the norms of ISO standard.

From the very beginning of operational procedures, the entrepreneurs established strong IT infrastructure through installation of customized ERP (Enterprise Resource Planning) software. Through own radio link connection, the top management in the head office have access to all processes of production in almost real time basis. SCML was awarded "Best IT user in textile sector" by BASIS in 2005.

Use of IPO Proceeds		
Utilization of Fund	Amount (in BDT mn)	Schedule of Implementation
Land and Land Development	50	Within 3 Months of Getting IPO Proceeds
Building	100	Within 7 Months of Getting IPO Proceeds
Infrastructural Development (Plant and Machinery)	800	Within 12 Months of Getting IPO Proceeds
Total	950	

Source: IPO Prospectus

Business Model

The main product of SCML is cotton yarn, made of raw cotton. SCML produces 100% cotton yarn both carded and combed.

SCML produces different counts of yarn from imported raw cotton. They import raw materials from USA, Uzbekistan, Turkmenistan, Tajikistan, West Africa, Syria, and India. They produce various counts of export quality cotton carded & combed single yarn for export oriented readymade garments industries.

Lock In Provisions	
1 Year Lock In	35.12%
3 Year Lock In	50.46%
No Lock In	14.42%
1 Year Lock In Period Will Over	20-Dec-12
3 Year Lock In Period Will Over	20-Dec-14

Source: IPO Prospectus

With the proceeds from IPO, the company plans to expand its existing business by increasing its capacity by setting up another 30,000 spindles state of the art Spinning Unit with machineries of Europe and Japan origin with latest technology. With the installation of this factory the production is expected to double. With the growing demand for good quality Export Yarn and Bangladesh becoming a dominant apparels and garments producer of the world, the requirement of export quality Yarn will further enhance in the future. With SCML's reputation for producing export quality Yarn and timely delivery, the management is confident in marketing this extra 550 MT of Yarn.

Shareholding Pattern		
Name of Shareholder	No. of Shares	Percentage
S M Faisal	34125000	38.89
Syed Ishtiaq Ahmed	11780925	13.43
S F A M Shahjahan	3900000	4.44
Syed Shafqat Ahmed	11780925	13.43
Mrs Yasmin Faisal	5678400	6.47
Mrs Tasmina Ahmed	492375	0.56
Mrs Natasha Ahmed	492375	0.56
Institutions, Employees, and Others	19500000	22.22
Total	87750000	100

Source: IPO Prospectus

Business Performance Analysis at a glance			
Key Operating Performance	2009	2010	2011
Installed Capacity (MT/per year)	6480	6480	6480
Total Production (MT/per year)	5588.4	5699.4	5921.6
Capacity Utilization	86.24%	87.95%	91.38%
Turnover (BDT in millions)	1074.21	1101.80	1909.86
Turnover Growth	-0.83%	2.57%	73.34%
Cost of goods sold (BDT in millions)	888.42	897.09	1553.57
COGS growth	1.75%	0.98%	73.18%
Net Profit after tax (BDT. In Millions)	47.39	103.17	203.63
Net Profit Growth	-33.57%	117.72%	97.37%

Source: IPO Prospectus

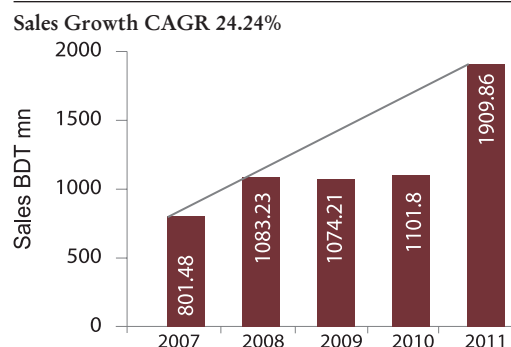
Financial Performance			
Profitability Ratios	2009	2010	2011
Return on average assets before tax	3.51%	4.94%	6.91%
Return on average equity before tax	9.05%	10.67%	12.49%
Return on average assets after tax	3.51%	4.94%	6.76%
Return on average equity after tax	9.05%	10.67%	12.22%
Return on average capital employed	12.37%	8.93%	10.86%
Gross Profit Margin	17.30%	18.58%	18.66%
Operating Profit Margin	5.67%	9.77%	10.91%
Net profit margin	4.41%	9.36%	10.66%
Net profit margin without non-operating income	4.41%	9.30%	10.14%

Source: IPO Prospectus

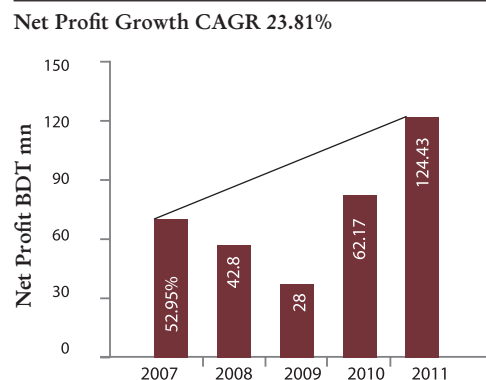
Financial Strength and Solvency			
Particulars	2009	2010	2011
Current Assets	679,790,103	1,344,584,070	1,764,820,225
Less: Current Liabilities			
Bank Loan and Overdraft	416,697,992	866,182,738	566,473,854
Other Current liabilities	146,872,593	239,674,270	613,189,670
Net Current Assets	116,219,518	238,727,062	585,156,701
Fixed Asset- Net	716,710,059	1,436,853,711	1,476,061,427
Net capital Employed	832,929,577	1,675,580,773	2,061,218,128
Financed by-			
Non-Current Liabilities	285,721,636	289,181,589	115,335,770
Adjusted Capital			
Share Capital	350,000,000.00	525,000,000.00	675,000,000.00

Capacity of Peers		
Spinning Company	Type of Yarn Produced	Capacity (No. of Spindles)
RN Spinning	Acrylic	52000
Square Textile	Cotton	59472
Makson Spinning	Cotton	45000
Metro Spinning	Cotton	34872
Malek Spinning	Cotton	63624
Saiham Cotton	Cotton	30960 (Existing)
		30000 (Proposed Addition)

Source: Company Reports and LBSL Research



Source: Company Reports and LBSL Research



Source: Company Reports and LBSL Research

Financial Strength and Solvency			
Particulars	2009	2010	2011
Retained Earnings	1,807,315.00	3,580,466.00	180,050,513.00
Others	481,122,262	1,147,000,307	1,206,167,615
Total	832,929,577	1,675,580,773	2,061,218,128
Leverage Ratio(x)	1.58	1.16	0.81
Interest Coverage Ratio(x)	1.6	2.5	2.8

Liquidity Position			
Liquidity Position	2009	2010	2011
Current Ratio (X)	1.2	1.3	1.5
Quick Ratio (X)	0.9	1	1.1
Net Working Capital (BDT mn)	116	239	585
Operating Cash Flow (BDT mn)	18.9	-68.4	48.4

Peers' Valuation			
Company	Trailing P/E	PBV	Market Cap BDT mn
Makson Spinning	5.57	1.18	4429.48
Malek Spinning	15.83	0.94	4347.20
Metro Spinning	12.73	1.12	1109.31
RN Spinning	6.96	2.41	12411.40
Square Textile	15.05	2.84	10734.14
Saiham Cotton**	8.78	0.93	-

Price Earning Ratio and Price to Book Value ratio are based on last audited EPS and NAV. Share price of 28th Feb 2012 was considered. For Saiham Cotton offer price of BDT 20 was considered to calculate the ratios.

Source: DSE, Company Annual Reports, LBSL Research

Analyst Observation:

Existing spindle capacity of the Saiham cotton mills is 30960 and the company is raising the IPO capital for setting additional 30000 spindles for capacity expansion in producing cotton yarn.

Because of raw cotton price hike in 2010, Saiham Cotton Company has been able to cash in the bonanza of international cotton price hike. Due to supply shortage, cotton price increased more than 80 percent in international market and local cotton spinners have been benefited from low price inventory holding.

Though total production of SCML in MT increased 3.93 percent in 2011, revenues spiked 73.34 percent. Also, net profit growth was 97.37 percent in the year ended April, 2011.

From the date of commercial operation since April 01, 2005, Saiham cotton has been enjoying tax holiday being situated in the special processing zone in Habiganj, Sylhet. The tax rate on export oriented textile companies is 15 percent and the expiration of the tax holiday on March 31, 2012 will put a drag on bottom line in 2012.

The company has highly de-leveraged the balance sheet by paying BDT 515 mn worth bank loan partly from pre IPO share capital and share premium. Consequently, solvency parameter; leverage ratio reduced to 0.81 and interest coverage ratio shot up to 2.4 times in 2011.

The company has been efficiently managing its working capital. Receivable and inventory turnover ratio slightly increased in 2011. The company has sufficient liquid assets to meet the short term obligation.

Return on the equity is expected to slide in 2012 due to increase in equity base through additional capital but the proceed utilization of BDT 950 mn in year 2012 on new machineries and infrastructures will contribute to higher return on equity from 2013.

Both revenue and profit of Saiham Cotton for Half year ended in October 2012 is expected to be bearish as the company has not been immune to current slump in cotton prices in the international market and subsequently bearing the burnt of high cost raw materials. Also, economic recession in Europe has already slowed down the yarn demand of forward linkage textile, knit and woven industry.

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