

Analyst
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Table 1: IPO Snapshot

IPO Size (BDT mn)	240
IPO Size (Shares mn)	12
Face Value Per Share (BDT)	10
Offer Price Per Share (BDT)	20
Year End	December
Sector	Engineering
Revenue in 2013 (BDT mn)	1647.25
Net Profit in 2013 (BDT mn)	85.87
Pre-IPO No. of Shares (mn)	40
Post-IPO No. of Shares (mn)	52
PRE-IPO EPS (2014)	2.22
Diluted Post-IPO EPS*	1.71

*Calculated based on 2014 earnings and post-IPO total no. of shares instead of weighted average no. of shares.

Source: LBSL Research and Company Prospectus

Company Overview and Business Model

KDS Accessories Limited (formerly KDS Packaging Industries Limited) was incorporated as private limited company on 21st April 1991 and started production on the 1st July 1991 in Chittagong. In 2009, it established a second factory in Mirjapur, Gazipur. KDS Packaging Industries changed to KDS Accessories Limited on 22 April 2010. KDS Accessories Limited is the largest garments accessories maker in Bangladesh. It produces different types of textiles accessories like cartons, labels, tags, printings, narrow fabrics, elastics, heat transfer printing and buttons.

Principal Products and Services

KDS Accessories Limited (KDSAL) products serves renowned retailers like Wal-Mart, George UK, ZARA, K-Mart, C & A, JCP, CSI, Marks & Spencer, Tesco, H&M, Levies, GAP, American Eagle, Nike, POLO, Promodoro, IKEA etc. Packaging is the principal product of the company bringing almost 90% of its revenues. KDSAL produces corrugated cartons with state of the art automatic board plants with advanced machineries. In addition to carton, back board, neck board, Bottom Board, Divider, Card Board, Sticker and Top Bottom are also manufactured by the company. Its other products include Heat Transfer Label, Labels & Tags, Offset Printing, and Button.

Table 2: Description of Products

Product	Revenue 2013 (BDT mn)	Contribution to revenue (%)
Carton	1500.64	91.1%
Label	81.101	4.92%
Offset Printing	33.78	2.05%
Elastics	18.33	1.11%
Narrow Fabrics	1.93	0.12%
Heat-transfer printing	10.62	0.65%
Button	0.833	0.05%
Total	1647.256	100.0%

Source: LBSL Research and Company Prospectus

Table 3: Capacity	Installed Capacity (Mn pcs)	Actual Capacity (Mn pcs)	Utilization
Carton	25.50	22.40	87.9%
Label	175.96	75.44	42.8%
Narrow Fabrics	11.23	1.30	11.3%
Elastics	19.34	12.10	62.4%
Offset Printing	150.00	32.10	21.3%
Heat-transfer printing	24.96	11.10	44.3%
Button	0.36	0.002	0.51

Source: LBSL Research and Company Prospectus

Table 4: Capital Structure of the Company

Allotment Date	No. of Shares issued	Face Value	Amount (BDT mn)
2009	2,101,000	10	21.01
2010	12,606,000	10	126.06
2011	12,606,000	10	126.06
2012	30,128,340	10	301.12
2013	40,000,000	10	400.00
Pre-IPO	40,000,000	10	400.00
IPO	12,000,000	10	120.00
Post-IPO	52,010,000	10	520.00

Source: LBSL Research and Company Prospectus

Table 5: Suppliers of the Company

Suppliers	Country	Product
Firm Overseas and Packaging Ltd.	UK	Liner Paper-250, 250 GSM, SCF-160, GSM
Visy Paper Pte Ltd	Australia	Liner Paper-250, 250 GSM, SCF-180, GSM
CellMark Asia Pte Ltd	Singapore	Liner Paper-250, GSM
Sun Trade Company	South Korea	Liner Paper-150, GSM
Kokusai Pulp & Paper Co. Ltd	Japan	Liner Paper-150, GSM
Paccess Packaging L.L.C	USA	Fluting Paper-150, GSM
Lekok Paper SDN BHD	Malaysia	Medium paper– 115 GSM
Packway Inc.	Taiwan	PP Strap
Chemanax Exports (Pvt.) Ltd.	Srilanka	Stitching Wire
Spark trading Company	Hong Kong	Printing Ink

Source: LBSL Research and Company Prospectus

Table 6: Major Customers of the Company

Customers	Country
KDS Garment Inds. Ltd	Bangladesh
KDS Fashion Ltd.	Bangladesh
Kenpark Bangladesh (Pvt) Ltd.	Bangladesh
Chittagong Asian Apparels Ltd.	Bangladesh
Liberty Knitwear Ltd	Bangladesh

Source: LBSL Research and Company Prospectus

Table 7: Major Competitors of the Company

Taehung Packaging Limited
Babylon Packaging Limited
MNU Packaging Limited
Olympic Accessories Limited

Source: LBSL Research and Company Prospectus

Table 8: Use of IPO Proceeds & Implementation Schedule

Particulars	BDT mn	Implementation Schedule
Construction of Packaging Unit-3	150.0	Within 6 months after receiving IPO fund
Repayment of Bank Loan	70.0	Immediately on availability of IPO Fund
IPO Expenses	20.0	Immediately on availability of IPO Fund
Total	240.00	

Source: LBSL Research and Company Prospectus

Table 9: Source and Requirement of Utilities

Particulars	Source
Electricity	Gas based generator of 525KW capacity as main source of power and 2 diesel generators of 160KW & 135KW as backup. Also, 25 KW connection from Rural Electrification Board. Chittagong factory is connected to 550KW PDB electricity line. The company has access to 40% capacity of a 805 KW standby gas generator
Gas	Mirjapur Factory—Requirement: 10,500 cft/hr, supply: 18,000 cft/hr Chittagong Factory—Requirement: 73,559 cm/month, supply: 211,910 cm/month
Water	Mirjapur Factory—Requirement: 1000 ltr/hr, supply: 15,000 ltr/hr Chittagong Factory—Requirement: 75 cm/month, supply: 240 cm/month

Source: LBSL Research and Company Prospectus

Table 10: Post-IPO Shareholding Pattern

Ownership Type	No. of Shares (mn)	Ownership Percentage
Sponsors & Other Shareholders	40.00	76.93
Public	12.00	23.07
Total	52.00	100%

Source: LBSL Research and Company Prospectus

Table 11: Lock in Period

Tenure	No. of Shares (mn)	Percentage
3 Years	40.00	76.9
No lock in	12.00	23.1
Total	52.00	100%

Source: LBSL Research and Company Prospectus

Business Highlights

• **Increase in revenue in 2013:** In 2013, the revenue of KDSAL increased by 9.1% to BDT 1647.2 mn compared to BDT 1510.3 mn in 2012. In 2013, there was minimal growth in sales of its core product “cartons” which fetches 91.1% of its revenue. The growth in overall turnover is due to massive growth in sales of its other products such as Label, Narrow Fabrics, Elastics, etc. From the capacity utilization figures we see that further growth can be achieved in those product segments. Gross margin in 2013 decreased by 209 basis points compared to that of 2012.

• **Increased level of debts:**

Short term bank loan shot up by 47.4% from BDT 865.8mn in 2013 compared to 587.2mn in 2012. This was used mainly for inter-company transactions and repayment of long term loan. Due to this increased leverage, financial expenses increased by 13.3% compared to 2012. This has caused a reduction of 215 points in the net profit margin.

Table 12: Comparison with a peer company

Particulars	KDS Accessories	OAL Accessories
Business Operation	Manufacturing garments accessories	Manufacturing garments accessories
Major Products	Carton, Label	Hanger, Photo, Card, Carton, Back Board
Debt to Equity Ratio (Times)	1.28	0.21
Gross Margin	22%	22%
Operating Income Margin	17%	18%
Net Income Margin	5%	11%
Return on Assets	4%	10%
Return on Equity	11%	12%

Table 13: Income Statement (BDT mn)

Particulars	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Turnover	1,647.3	1,510.4	1,146.1	950.6	753.1
Less: Cost of Goods Sold	1,278.9	1,141.0	850.8	761.5	602.5
Gross Profit	368.3	369.3	295.4	189.1	150.6
Less: Operating Expenses	0.0	0.0	0.0	0.0	0.0
Operating Expenses	57.6	57.0	41.4	33.0	29.9
Selling & Distribution Expenses	24.2	24.0	17.9	13.7	9.3
Operating Profit	286.5	288.4	236.0	142.3	111.4
Less: Financial expenses	162.5	143.5	113.8	36.6	11.4
Profit Before Other Income	124.0	144.9	122.2	105.7	100.0
Add: Other Income	-8.3	5.5	-3.0	1.5	0.7
Add: Income from Associates	1.2	2.1	3.3	-	-
Net profit/ (Loss) before Income Tax & WPPF	116.9	152.5	122.5	107.2	100.6
Less: Contribution to WPPF	5.6	7.3	5.9	5.3	0.0
Profit before Income Tax	111.3	145.2	116.6	101.9	100.6
Less: Deferred Tax Expenses	9.1	8.6	22.9	-	-
Less: Current Tax Expenses	16.4	25.4	21.6	19.4	19.0
Profit after Income Tax	85.9	111.2	72.1	82.5	81.7

Source: LBSL Research and Company Prospectus

Note: During Q2 of 2015 (April 2015 to June 2015), KDS Accessories Ltd. earned BDT 30.30 mn as profit compared to BDT 22.60 mn during Q1 of 2014, registering 34.07% growth. The earnings of the company in H1 of 2015 (January 2015 to June 2015) stood at BDT 63.17 mn against BDT 40.52 mn in H1 of 2014, registering 55.89% growth. The post -IPO half yearly EPS of the company stood at BDT 1.21.

Table 14: Balance Sheet (BDT Mn)

Particulars	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
ASSETS					
Property, Plant & Equipment	1017.76	903.51	579.63	427.87	418.66
Intangible Asset	3.28	0.46	-	-	-
Capital Work In Progress	6.76	25.18	69.66	27.67	-
Investment	38.00	35.70	32.60	28.59	13.96
NON CURRENT ASSETS	1065.81	964.84	681.89	484.12	432.62
Inventories	732.29	768.64	681.65	376.43	200.00
Advances, Deposits & Prepayments	30.16	15.01	7.31	8.20	3.90
Trade Receivables	514.31	350.07	341.26	374.22	242.05
Interest Receivables	0.62	0.51	0.50	0.35	-
Due From Affiliated Companies	26.19	34.30	18.92	2.36	-
Cash and Cash Equivalent	8.32	10.71	38.12	27.95	23.44
CURRENT ASSETS	1311.89	1179.24	1087.75	789.51	469.39
TOTAL ASSETS	2377.70	2144.08	1769.63	1273.63	902.01
EQUITY & LIABILITIES					
Share Capital	400.00	301.28	126.06	126.06	21.01
Retained Earnings	170.78	183.62	247.61	175.48	193.38
Revaluation Reserve	214.39	214.39	-	-	-
Tax- Holiday Reserve	0.00	-	-	-	4.61
SHAREHOLDERS' EQUITY	785.17	699.30	373.67	301.54	219.00
Long Term Bank Loan	77.28	92.88	32.84	57.57	74.09
Lease Finance	2.65	0.73	0.97	-	-
Deferred Tax Liability	40.61	31.51	22.92	-	-
NON CURRENT LIABILITIES	120.54	125.12	56.74	57.57	74.09
Short Term Bank Loan	865.81	587.26	950.79	699.56	440.38
Current Portion of Long Term Bank Loan	60.27	77.42	35.00	35.00	35.00
Current Portion of Lease Finance	1.53	0.44	0.44	-	-
Trade and Other Payable	484.58	468.86	303.16	128.38	91.13
Due To Affiliated Companies	0.00	125.55	-	-	-
Workers' Profit Participation & Welfare Fund	27.05	19.98	11.83	5.29	-
Current Tax Liability	32.74	40.15	38.00	46.30	42.40
CURRENT LIABILITIES	1471.98	1319.66	1339.22	914.52	608.92
TOTAL LIABILITY & OWNERS EQUITY	2377.70	2144.08	1769.63	1273.63	902.01

Source: LBSL Research and Company Prospectus

Table 15: Ratios

Name of Ratios	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Current Ratio (Times)	0.89	0.89	0.81	0.86	0.77
Times Interest Earned Ratio (Times)	1.69	2.01	2.02	3.79	9.82
Debt to Equity Ratio (Times)	1.28	1.08	2.73	2.63	2.51
Accounts Receivable Turnover Ratio	3.81	4.37	3.20	3.08	3.83
Inventory Turnover Ratio (Times)	1.70	1.57	1.61	2.64	3.80
Gross Margin Ratio (%)	22%	24%	26%	20%	20%
Operating Income Ratio (%)	17%	19%	21%	15%	15%
Net Income Ratio (%)	5%	7%	6%	9%	11%
Return on Assets Ratio (%)	4%	5%	4%	6%	9%
Return on Equity Ratio (%)	11%	16%	19%	27%	37%
Earning per Share (EPS)	2.14	2.78	2.39	6.55	6.48

Source: LBSL Research and Company Prospectus

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Recommendation Interpretation

Overweight	Stock is expected to give positive return over 20% in one year horizon.
Add	Stock expected to give a return of 0-10%+ in one year horizon
Neutral	Current price of the stock reasonably reflects fundamental value.
Reduce	Stock is expected to fall up to 10% in one year horizon.
Underweight	Stock is expected to fall by more than 10% in one year horizon.

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