

“ Renata’s top line growth will persist in forthcoming days due to growing pharmaceutical and animal health segments. However, earnings growth wouldn’t be rosy in 2011 and 12 like 2010, but will emerge again in 2013. ”

**INVESTMENT RATIONALE**

- Renata Limited (RL) is the fifth largest pharmaceutical company in Bangladesh, which diversified its business line to pharmaceuticals, animal health and nutrition products, agriculture and consumer goods respectively. Due to prudent diversification, renata ltd registered 25% growth in consolidated turnover, while their earnings grew at 35% over the last five years. Historic growth of the company largely fostered by the sensible strategy of the company and extraordinary performance of tax holiday units.
- Future growth of the company will boost up by the rising turnover and profit from tax holiday units. Besides, they have taken huge expansionary strategies over past years, which will yield in forthcoming periods. Among the expansionary strategies, the major steps were:
  1. They have constructed a second potent product facility at their Rajendrapur site, which will raise Renata’s capacity by 1.4 billion tablets per annum. Even it will provide the facilities for producing oral contraceptives in Bangladesh and internationally.
  2. They have licensed five products to increase the overseas transaction.
  3. Purnava limited, one of its subsidiaries, has made significant progress in developing a strong product pipeline of non-medicated healthcare products, which will be in profit within next few years.

Moreover, they obtained tax holiday benefits for potent product facility (PPF) in Mirpur from 2006-2010. While another unit, Rajendrapur Cephalosporin Facility, will enjoy tax holiday benefit till 2014.

- The company’s sales revenue grew at a CAGR of 25% over the last 5 Years. This growth mainly spurred from the sales growth of tax holiday units. Besides, animal health segment did extremely well. Based on the given plan and expected future growth in pharmaceutical industry, it is obvious that their top line growth will persist in forthcoming days as well.
- In 2010, Renata’s profitability was mainly supported by the rising profit from tax holiday units. Moreover, pharmaceutical industry performed strongly during the similar period. Consequently, Renata came up with 49% growth in earnings in last year.

**RISK FACTORS**

In 2011, dollar rate against BDT appreciated by 15.9%, which eventually raised its raw material cost. Moreover, due to greater expansion in 2010 their operating cost shot up significantly in 2011. For these reasons, Renata wouldn’t be able to maintain its lustrous growth in earnings as they did in last year. Meanwhile, they recorded 15.5% growth in earnings in their third quarterly report, as against the 24.8% growth in sales. The same scenario will persist in 2012 as well due to worsening economic situation and rising dollar rate.

COMPANY SNAPSHOT	
Paid-up Capital	BDT 226.0 Mn
Total No. of Securities	2.26 Mn
Free Float (estimated)	49%
Market Capitalization	BDT 27634.11Mn
Reserve & Surplus	BDT 3058.24Mn
52 Week Price Range	1160.1 – 1410.0
Average Daily Turnover	BDT 166.69 Mn
Face Value	Tk. 10
Market Lot	50
Category	A

SOURCE: DSE AND LBSL RESEARCH

PRICE PERFORMANCE			
Price Performance (%)	3 M	6 M	12 M
DGEN	-11.3%	-14.3%	-36.8%
Renata Pharmaceuticals	-7.5%	14.4%	-5.5%

SOURCE: LBSL RESEARCH

Financial Year	Revenue (BDT Mn)	PAT (BDT Mn)	EPS (BDT)	NAV Per Share	Earnings Growth	PER (X)	PBV
2007	2729.92	358.02	15.85	61.87	11.7%	20.17	5.17
2008	3203.23	438.67	19.42	79.13	22.5%	25.67	6.30
2009	4102.59	660.12	29.22	105.76	50.5%	32.99	9.11
2010	5424.44	981.89	43.46	145.36	48.7%	29.78	8.90

SOURCE: LBSL RESEARCH

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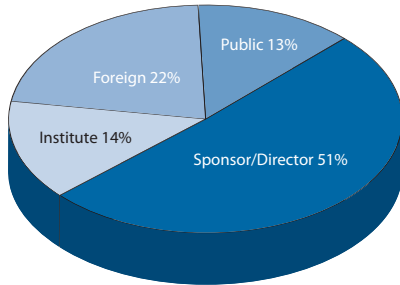
**COMPANY PROFILE**

The foundation of Renata Limited was laid down in 1972 as Pfizer Laboratories (Bangladesh), under the Companies Act 1913. In 1993, the Company was renamed as "Renata Limited". Renata extended its business to pharmaceutical, animal healths, animal nutritional, oral saline, hormone and other medical products in the local market. Even the company exports a few of its pharmaceutical products to some foreign markets.

At the end of 2010, total paid up capital of the company stood at BDT 226.0 Mn with 22.6 Mn outstanding shares. Out of total share holdings, company sponsor/Director held 51%, Institute and foreign holdings shared 36% and rest of the percentage captured by local shareholder. Therefore, it is quite apparent that management is largely committed to the company performance, besides foreign and institutional holdings pointed up its dependability among the other investors.

Moreover, the company has two subsidiaries named Renata Agro Industries limited and Purnava Limited, in which they have 99.99 percent shareholdings. These businesses are growing and contributing gradually in greater percentage to consolidated revenue.

**Share Holding Pattern**



**Renata Limited**

**Renata Agro Industries Ltd**

**Shareholding 99.99%**

**Purnava Ltd**

**Shareholding 99.99%**

**PURNAVA LIMITED**

Purnava Limited, another subsidiary company of Renata Limited, was incorporated on 17 August 2004 as a private limited company. The company commenced its commercial operation in 2009 with a view to carry on business of manufacturing, marketing and distributing all kinds of consumer goods, consumer durables, food items, edible oils, etc. and to engage in the business as traders, importers, exporters, commission agents of all kinds of goods and services including pharmaceutical products.

After its inception, its turnover grew by 43% in 2010, but gross profit margin grew more than that as its sales grew with the increasing spread. Conversely, its net profit and operating profit decline considerably in 2010, because of soaring operating cost. Nevertheless, in forthcoming periods it will emerge as profitable and be able to create synergy for other business segment by ensuring an efficient distribution channel.

**SUBSIDIARY REVIEW**

**RENATA AGRO INDUSTRIES LIMITED**

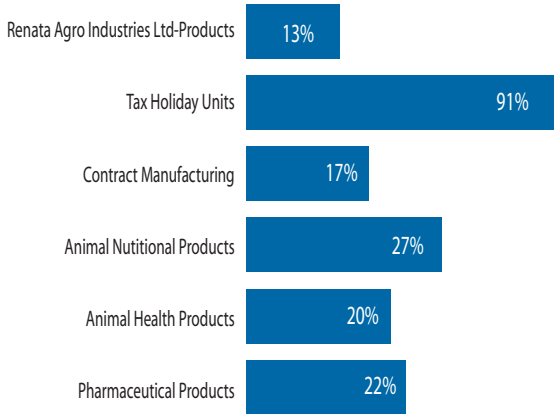
Renata Agro Industries Limited, a subsidiary company of Renata Limited, was incorporated on 7 September 1997 as a private limited company. The company initiated its commercial operation from October 1998. Producing and sale of various agro-based products, poultry breeding and hatching, and sale of poultry products are the principal activities of the company.

The contribution of Renata agro in consolidated turnover is gradually increasing as it recorded 89% and 62% sales growth consecutively in last two years. In addition, gross profit and operating profit margin of the company are increasing over the years as its OCGS is declining with the increasing sales due to greater economies of scale. On the other hand, net profit margin of the company stood at 37.6% as it is relishing tax holiday benefit.

Renata Agro Industries Limited	Financials			Growth		Profit Margin		
	2008	2009	2010	2009	2010	2008	2009	2010
Turnover	113.48	214.01	346.25	89%	62%			
Gross Profit	18.49	74.67	153.47	304%	106%	Gross Profit Margin	16.3%	34.9%
Operating Profit	7.49	60.08	137.11	702%	128%	Operating Profit Margin	6.6%	28.1%
Net Profit	5.52	56.34	130.33	920%	131%	Net Profit Margin	4.9%	26.3%

Purnava Limited	Financials		Growth	Profit Margin	
	2009	2010	2010	2009	2010
Turnover	69.98	100.34	43%		
Gross Profit	1.54	10.90	608%	Gross Profit Margin	2.20%
Operating Profit	0.41	0.21	-49%	Operating Profit Margin	0.59%
Net Profit	0.26	0.13	-49%	Net Profit Margin	0.37%

**Turnover growth according to Business segment (CAGR of Five Years)**

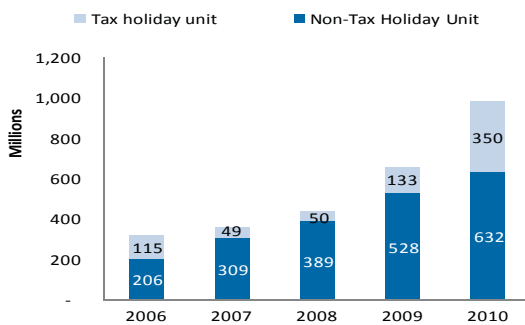
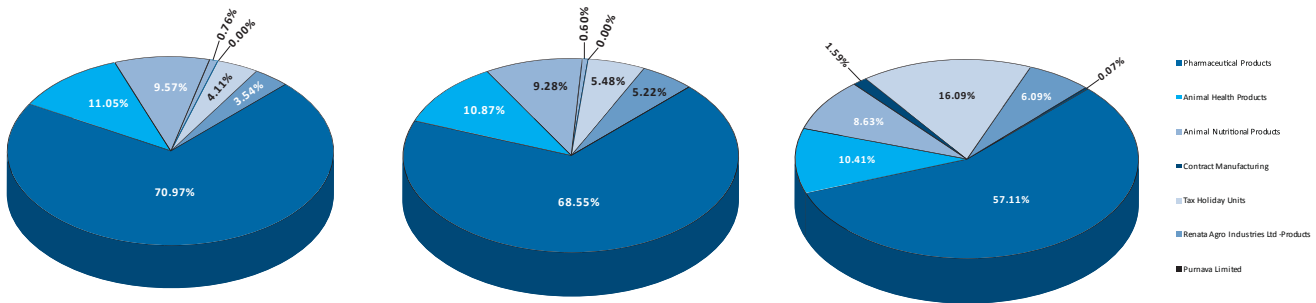


**Revenue growth**

Renata limited is one of the diversified business entities in pharmaceutical industry of Bangladesh. It produces its turnover from seven units, which ranges to pharmaceutical, animal health products, animal nutritional products, agricultural sector and contract manufacturing segment etc. Over the last five years, their sales revenue grew at a CAGR of 25%, while in last year their consolidated revenue increased by 36%. Considering the sales growth pattern, there was a transformation in contribution among the business units. In 2010, pharmaceuticals sales contributed 57.11% of total sales, while in 2008 this contribution was 70.97%. Comparatively reasonable growth in this segment, introduction of other business unit and tremendous sales growth in tax holiday units trimmed down the pharmaceutical's contribution. On the other hand, tax holiday unit's contribution in total sales stood at 16.09% in 2010, while in 2008 it was only 4%. Besides, Animal Health products and nutritional products collectively contributed 19% of consolidated turnover. Moreover, their 16 percent sales came from the OTC segment and rest of the percentage came from the Non-OTC products.

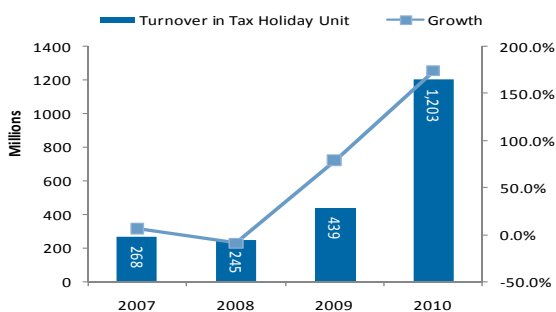
In terms of growth, tax holiday units grew at CAGR of 91% in last five years, followed by Animal nutritional products 27%, Pharmaceutical products 22%, Animal health products 20%, Contract manufacturing 17% and Agro industries Ltd 13% respectively.

**Turnover contribution**



**Tax holiday units**

Over the last five years, tax holiday units of Renata endowed with expanding turnover and profit. They obtained tax holiday benefits for Potent Product Facility (PPF) and the Rajendrapur Cephalosporin Facility (RCF). Between these two, PPF's tax holiday period ended in 2010 and the RCF will enjoy tax holiday benefit up to 2014. Therefore, 2011, wouldn't as rosy as it was in 2010 in terms of profitability because of expiring tax holiday benefit from potent products facility. These two tax holiday units came up with significant top line growth over the last couple of years, eventually with the increasing profit. Moreover, one of its subsidiaries, Renata Agro Industries Ltd, is enjoying the similar feature. Over the last five years, renata's net profit grew at a CAGR of 35%, while turnover grew at 25%. Apparently, it is due to increasing profit contribution from tax holiday unit.



In 2010, profit contribution from tax holiday units was 36% as against 13% in 2009, which eventually conferred the company with 49 percent earnings growth during the year. In forthcoming periods, Renata's earnings growth will substantially depend on the performance of these tax holiday units.

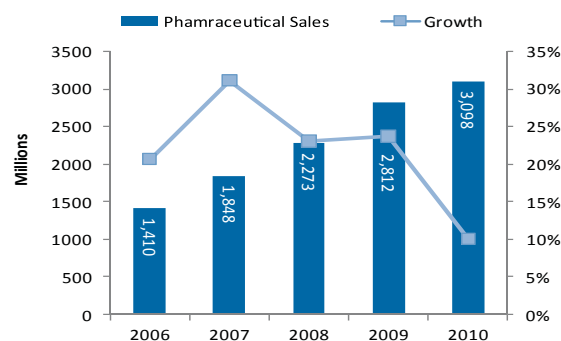
### Growing pharmaceutical segment

Pharmaceutical sales of Renata grew at double-digit rate in last five years, but relative to the other business units, it had underperformed in terms of sales growth. However, in forthcoming days, this segment may come up with reasonable growth, as the industry itself is growing by the local demand. Besides, company

has taken expansionary strategy by developing API facility and registering five products in overseas to grab the potential export market. According to IMS report, Renata's pharmaceutical sales grew by 27.86% in latest twelve months. Besides their top seven pharmaceutical products contributed sales around BDT 190 crore.

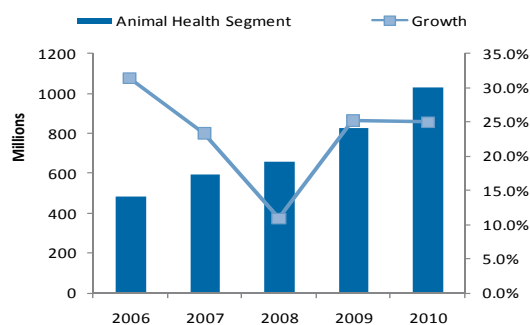
Top Pharmaceutical Products of Renata	Sales in Last 12 Months	Market Share (In %)	Growth in last 12 Months (In %)
MAXPR	562.6	0.7	66.26
FUROC	336.7	0.42	34.64
ROLAC	311.9	0.39	26.6
ZITHR	241.5	0.3	12.93
ORCEF	173.9	0.22	21.37
ALGIN	138.5	0.17	49.88
NORME	137.5	0.17	27.68

Source: IMS



### Growing animal health segment

Renata is the market leader in animal health segment. It has two units classified as animal health products and nutritional products under this segment. Consecutively in last two years, these two units collectively grew at 25% and 25.2% respectively, which widened the gap between the second largest company in this field with them. To uphold the shining growth, they signed a distributorship agreement with BOMAC, an animal health company from New Zealand.



### Inception of Purnava Ltd.

Purnava limited commenced its operation in 2008. Within these two years, it has very small contribution in turnover and profitability. However, in forthcoming periods this unit may emerge as profitable with the introduction of OTC products and consumer foods.

	2008	2009	2010
<b>Renata Limited</b>			
Inventory Processing Period	190	198	174
COGS % of sales	50.6%	47.4%	47.5%
<b>Beximco Pharma</b>			
Inventory Processing Period	226	201	204
COGS % of sales	52.7%	51.1%	50.0%
<b>Square Pharma</b>			
Inventory Processing Period	129	122	101
COGS % of sales	59.3%	56.7%	60.6%

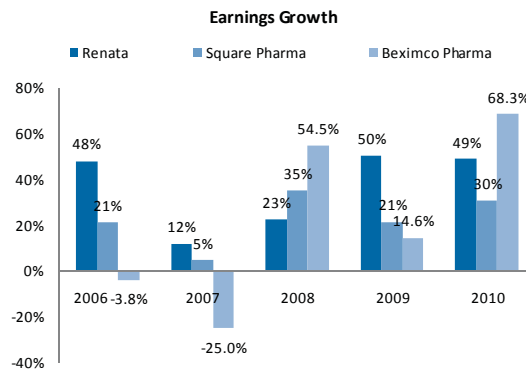
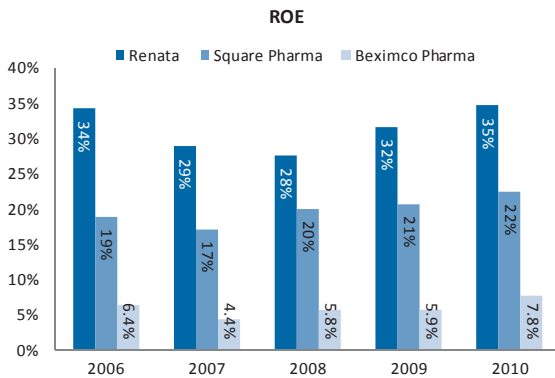
### Inventories and Cost of Goods Sold

Renata limited follows the FIFO method for tracking the inventory. Conversely, square pharma and beximco pharma both are using weighted average method. Due to using FIFO and having effective inventory management, they were able to reduce its cost of goods sold significantly than its closest competitors. Moreover, Renata's inventory management is gradually improving as in its total assets inventory comprises 39% of total asset at the end of 2010, while in 2006 this percentage was around 54%. In last year, their finished goods percentage of total inventory went up to 45% from 39% in 2009, but increasing inventory turnover indicates that they piled up more finished goods to support the growing pharmaceutical market.

## Profitability

In terms of profitability, Renata outplayed the square and Beximco pharmaceutical. Over the last five years, it consistently provided its equity holders higher ROE regardless of insignificant financial leverage. Moreover, its earnings grew at a CAGR of 35% over the

last five years. The profitability of the company largely fostered by the growth of tax holiday units. They had to pay lower tax due to lower taxable income, which eventually contributed to the increasing earnings growth.



## Quarterly Review

During the 3rd quarter of 2011, the company performed moderately in terms of revenue growth and profitability. Their consolidated turnover and other income soared by 24.8%. The profitability indicator of the company is showing declining operating profit margin due to increasing operating cost. Eventually, they have registered only 16% growth in earnings in third quarter, 2011.

Income Statements Review	Particulars	Growth	Common size Statement		
	2011 Q3	2010 Q3	2011 Q3	2011 Q3	2010 Q3
Turnover and other income	5216861	4180128	24.8%	100.0%	100.0%
Gross Profit	2838118	2274288	24.8%	54.4%	54.4%
Operating Profit	1335293	1106761	20.6%	25.6%	26.5%
Net profit after tax	847529	730505	16.0%	16.2%	17.5%

## PROFORMA FINANCIAL STATEMENTS

Balance Sheet (BDT In Mn)					
	2009	2010	2011	2012	2013
<b>ASSETS</b>					
Non-current assets	875.0	1251.5	1760.4	2333.4	3315.4
Current assets	1043.4	1074.8	1557.6	1730.1	2142.7
Total assets	1918.5	2326.3	3318.0	4063.5	5458.1
<b>EQUITY AND LIABILITIES</b>					
Equity	1080.4	1397.8	1787.8	2389.6	3284.2
Non-current liabilities	169.2	182.8	197.3	235.0	291.3
Current liabilities	669.0	745.8	1332.9	1439.0	1882.6
Total equity and liabilities	1918.5	2326.3	3318.0	4063.5	5458.1

Income Statement (BDT In Mn)					
	2006	2007	2008	2009	2010
Turnover	2,165.6	2,729.9	3,203.2	4,102.6	5,424.4
Gross profit	1,062.9	1,273.8	1,581.7	2,156.4	2,849.3
Other income	21.5	18.2	19.3	10.1	11.1
Gross Profit & Other Income	1,084.4	1,292.0	1,601.0	2,166.5	2,860.4
Operating profit	491.5	576.9	741.0	1,030.0	1,449.6
Profit before tax	425.5	488.7	615.4	879.8	1,260.1
Tax expenses	-105.1	-130.7	-176.8	-219.7	-278.3
Net profit after tax for the year	320.4	358.0	438.7	660.1	981.9

FINANCIAL PERFORMANCE ANALYSIS		
	2009	2010
<b>Liquidity Ratio</b>		
Current Ratio	1.2	1.14
Quick Ratio	1.08	1.03
Cash ratio	0.12	0.11
<b>Activity Ratio</b>		
Inventory Processing Period	198.09	173.6
Average Collection Period	29.07	26.73
Average Payment Period	14.78	4.6
Cash Conversion Cycle	212.38	195.72
Total Assets Turnover	1.11	1.14
Equity Turnover	1.96	1.91
Fixed Assets Turnover	2	1.92
<b>Profitability Ratio</b>		
Gross Profit Margin	52.60%	52.50%
Operating profit margin	25.10%	26.70%
Net Profit Margin	16.10%	18.10%
ROA	18%	21%
ROE	32%	35%
<b>Solvency Ratio</b>		
Debt to Equity Ratio	0.33	0.34
Interest coverage Ratio	10.3	12.4
<b>Growth Analysis</b>		
Sales Growth	28%	32%
Earnings Growth	50%	49%
Assets Growth	22%	34%
Equity Growth	34%	37%
Fixed Assets Growth	28%	32%

**Disclaimer:** The analysis made here is the own view of the analyst. Analysis is only based on company financial statement and disclosure without any management discussion and meeting.

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