

DSE Ticker: VFSTDL
Date: 9/9/2018

Analyst
Md. Fozlul Hoque
md.fozlul.hoque@lbsbd.com

Table : IPO Snapshot

IPO Size (BDT mn)	220.0
IPO Size (Shares mn)	22.0
Face Value Per Share (BDT)	10.0
Offer Price Per Share (BDT)	10.0
Year End	June
Sector	Textile
Revenue in 2017 (BDT mn)	880.8
Net Profit in 2017 (BDT mn)	141.1
Latest EPS Annualized (Post IPO) (BDT)	1.5
Issue Date of Prospectus	27-May-18
Subscription Open Date	24-Jun-18
Subscription Close Date	2-Jul-18

Source: LBSL Research and Company Prospectus

Table : Capital Structure of the Company

Particulars	Amount (BDT mn)
Paid-up Capital (Prior to IPO)	62.7
Capital to be issued as IPO	22.0
Paid-up Capital (after IPO)	84.7

Source: LBSL Research and Company Prospectus

Table : Current Production Capacity and Capacity Utilization Rate (1 year after IPO issue)

Products	Expected Production capacity	Expected Utilization	Capacity Utilization rate
Spun Polyester and Sewing Thread	5.3	3.4	66.9%
Poly Core Spun	0.3	0.2	66.8%
Textured Polyester	1.0	0.6	66.1%

Source: LBSL Research and Company Prospectus

Table : Projected Production Capacity (lbs) and Capacity Utilization Rate (1 year after IPO issue)

Products	Expected Production capacity	Expected Utilization	Capacity Utilization rate
Spun Polyester and Sewing Thread	5.3	3.42	65.0%
Poly Core Spun	0.3	0.21	65.0%
Textured Polyester	1.0	0.64	65.0%

Source: LBSL Research and Company Prospectus

Company Overview

VFS Thread Dyeing Ltd. is a 100% export oriented manufacturer of high quality sewing thread products incorporated in Bangladesh on April 20, 2010. The company started its commercial operation on 2nd July 2012. Later on, it converted into a public limited company on 10th January 2013. The principal activities of the company are to carry on the business of dyeing and finishing of sewing thread of different types for export oriented RMGs in Bangladesh. The main product of the company are high quality Spun Polyester Sewing Thread, Poly Core Spun, and Synthetic Filament Yarn. The company focuses on quality of products by maintaining number of standards and techniques. High resistance to abrasion, excellent seam strength and appearance, high productivity, extensive color range are some of the main qualities of the products of the company.

Table : Revenue Contribution FY17

Name of Products	Types of product	% Holding
Spun Polyester and Sewing Thread	Knit & Oven	80.0%
Textured Polyester (Synthetic Filament Yarn)	Knit / Fliss	15.0%

Source: LBSL Research and Company Prospectus

Table : Principal Suppliers of Raw Material (Yarn)

Name of Principal Suppliers	Country of
NINGBO S.DERONS IMPORT AND EXPORT CO., LTD	China
HUBEI MINGREN DONGFANG INDUSTRY AND TRADE CO., LTD.	China
ARTWAY ENTERPRISE LIMITED	China
WUHAN YUANAO TRADING CO., LTD.	China
SPARK TRADING COMPANY	Hong Kong

Source: LBSL Research and Company Prospectus

Principal Products and Services

The principal product of the company is high quality Sewing Thread products. The principal activities of the company include dyeing and finishing of different types of sewing thread. The main buyers of the products of this company are the ready made garments companies in the country.

Table : Use of IPO Proceeds

Particulars	Use of IPO Proceeds in BDT mn	Use of IPO Proceeds in %
Acquisition of Plant & Machinery	177.4	80.6%
Partial Repayment of Term Loan (Sonal Bank Limited, Local Office)	25.1	11.4%
IPO Expenses	17.5	8.0%
Total IPO Proceeds Utilization	220.0	100.0%

Source: LBSL Research and Company Prospectus

Table : Source and Requirement of Utilities

Particulars	Source
Power	Power requirement for the project is 1MW (approx.) which are met up from the project power connection from REB. The Company also have duel fuel generator with capacity of 600 KVA for smooth running of the business.
Water	The project is required 200m3 (approx.) of water per day which is met up by its own deep tube well
Gas	VFS have gas and oil duel fuel generator and boiler with the capacity of 600 KVA and 5 Ton respectively to ensure smooth production of the company.
Contingency Plan	The Company has set up a gas and oil duel fuel generator having flexibility of duel fuel firing capabilities in case of emergency or non-committal supply lapses

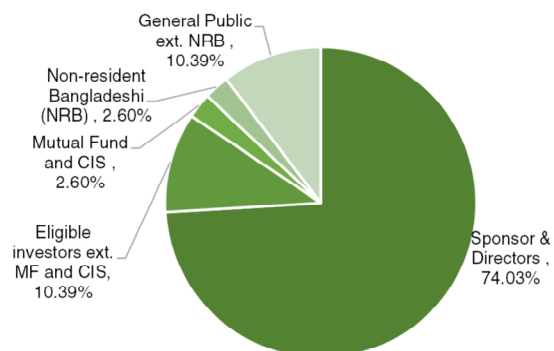
Source: LBSL Research and Company Prospectus

Lock-in Period

41,664,800 shares held by Sponsors/Directors are locked-in until May 27, 2021 and 21,050,000 shares held by private placement in Pre-IPO period is locked-in until May 27, 2019.

25% shares of Mutual Fund and Eligible Investors (2,750,000 shares) are locked-in until November 27, 2018, and another 25% (2,750,000 shares) is locked-in until February 27, 2019. To be precise, 16,500,000 shares will have no lock-in provision on the first trading day.

Chart : Shareholding Pattern (Post IPO)



Source: LBSL Research and Company Prospectus

Table : Number of Securities to be Entitled for Each Category of Applicants

Particulars	Number of shares	Percentage of holding
Eligible investors ext. MF	8,800,000	40.0%
Mutual Fund and CIS	2,200,000	10.0%
Non-resident Bangladeshi (NRB)	2,200,000	10.0%
General Public ext. NRB	8,800,000	40.0%
Total number of IPO shares	22,000,000	100.0%

Source: LBSL Research and Company Prospectus

Business Highlights

- The company achieved outstanding performance throughout the year 2017 with topline and bottom-line growth of 120.8% and 100.6% respectively. The gross profit margin of the company increased by 122.7% from the earlier period. During the period the return on average equity was 6.0% where it was 3.3% in the previous year. At the end of 2017 the company's return of average asset was 10.2% that was 5.5% in 2016. The debt to equity ratio of the company decreased to 1.3% from 2.6% in the earlier periods. All these indicators represent outstanding operating and financial performance of the company.
- At the end of year 2017 the post IPO EPS of the company amounted to BDT 1.67 while pre-IPO EPS was BDT 2.3. The pre-IPO EPS was been calculated based on 62.7 million outstanding shares of the company while post-IPO EPS has been calculated using 84.7 million share.
- Currently the company has 66.9% capacity utilization rate in its Spun Polyester and Sewing Thread segment, 66.8% in Poly Core Spun segment, and 66.1% in Textured Polyester segment. One year after the IPO issue the company has plan to maintain this capacity utilization ratio to 65.0% in all the three segments.
- 80.0% of the total revenue of the company comes from Spun Polyester and Sewing Thread and 15.0% comes from Textured Polyester. VFS Thread Dyeing Limited doesn't have any associates, subsidiary or holding company.

Table : Price with post-IPO EPS (Amount in BDT)

FY 18 annualized EPS	1.5	1.5	1.5	1.5	1.5
P/E ratios	5.0	10.0	15.0	20.0	25.0
Price per share	7.4	14.8	22.2	29.6	37.0

Source: LBSL Research and Company Prospectus

Table : Income Statements (Amount in BDT mn)

Particulars	FY 2013 (As of Dec 31)	FY 2014 (As of Dec 31)	FY 2015 (As of Dec 31)	FY 2016 (As of June 30)	FY 2017 (As of June 30)
Sales	635.3	765.4	781.9	398.9	880.8
Less: Cost of Goods Sold	477.1	579.6	597.4	299.2	681.2
Gross Profit	158.1	185.9	184.6	99.7	199.7
Less: Operating Expenses	15.3	15.1	15.9	8.7	18.8
Operating Income	142.9	170.8	168.6	90.9	180.9
Less: Financial Expenses	13.5	8.9	12.4	9.0	15.2
Net Operating Income	129.4	161.9	156.2	81.9	165.6
Add: Other non-operation Income	1.2	1.2	1.2	0.5	0.5
Profit before Tax	130.5	163.1	157.5	82.4	166.1
Less: Provision for Income Tax	19.8	24.7	12.5	12.1	25.0
Net Profit after Tax	110.7	138.4	145.0	70.3	141.1
EPS (Fully Diluted by Post-IPO Number of Shares)	1.3	1.6	1.7	0.8	1.7

Source: LBSL Research and Company Prospectus

Table: Statement of financial position (Amount in BDT mn)

Particulars	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Assets					
Non-Current Assets	630.1	602.7	744.1	784.0	805.2
Property, Plant & Equipment (Restated)	629.3	601.9	743.3	783.2	804.4
Security Deposits	0.8	0.8	0.8	0.8	0.8
Current Assets	270.7	408.1	525.0	531.4	634.6
Inventory	150.4	166.3	206.3	192.9	228.0
Trade and Other Receivable	117.7	237.1	300.4	328.2	369.5
Advances, Deposits and Prepayments	0.6	2.8	4.3	22.50	35.9
Cash and Cash Equivalents	2.0	1.9	3.2	2.0	1.2
Total Assets	900.8	1,010.8	1,258.1	1,329.6	1,439.7
Shareholders Equity & Liabilities					
Shareholders' Equity	749.8	888.2	1,040.0	1,107.7	1,247.8
Share Capital	627.2	627.2	627.2	627.2	627.2
Retained Earnings	122.6	261.0	412.9	480.5	620.6
Non-Current Liabilities	50.3	48.7	64.9	72.2	58.6
Long Term Loan from Bank	43.4	30.4	53.3	56.1	32.4
Deferred Tax liabilities	6.9	18.3	11.6	16.2	26.3
Current Liabilities	100.7	73.9	164.2	135.5	133.3
Trade and Other Payable	39.1	35.3	38.3	19.5	6.0
Current portion of Long Term Loan	11.8	11.8	19.6	10.7	16.7
Short term Loan from Bank	30.6	10.8	77.9	83.3	58.8
Creditors & Accruals	6.6	3.0	3.0	3.3	4.0
Provision for Income Taxes	12.7	13.1	14.4	32.88	47.8
Total Shareholders' Equity & Liabilities	900.8	1,010.8	1,258.1	1,329.6	1,439.7

Source: LBSL Research and Company Prospectus

Table : Key Ratios

Particulars	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Gross Profit Margin	24.9%	24.3%	23.6%	25.0%	22.7%
Operating Profit Margin	22.5%	22.3%	21.6%	22.8%	20.5%
Net Profit Margin	17.4%	18.1%	18.5%	17.6%	16.0%
ROAE	7.4%	8.5%	7.5%	3.3%	6.0%
ROAA	12.3%	14.5%	12.8%	5.5%	10.2%
Debt to Equity	2.9%	1.7%	2.6%	2.5%	1.3%

Source: LBSL Research and Company Prospectus

LBSL's research reports are also available on

Bloomberg LANB <GO>

& Lankabd.com

This document ("the Report") is published by LankaBangla Securities Ltd ("LBSL") for information only for its clients. All information and analyses in this Report have been compiled from and analyzed on the basis of LBSL's own research of publicly available documentation and information. LBSL has prepared the Report solely for informational purposes and it is consistent with the Rules and Regulations of SEC. The information provided in the Report is not intended to, and does not encompass all the factors to be considered in a best execution analysis and related order routing determinations. LBSL does not represent, warrant, or guarantee that the Report is accurate. LBSL disclaims liability for any direct, indirect, punitive, special, consequential, or incidental damages related to the Report or the use of the Report. The information and analysis provided in the Report may be impacted by market data system outages or errors, both internal and external, and affected by frequent movement of market and events. Certain assumptions have been made in preparing the Report, and changes to the assumptions may have a material impact on results. The Report does not endorse or recommend any particular security or market participant. LBSL, its analysts, and officers confirm that they have not received and will not receive any direct or indirect compensation in exchange for expressing any specific recommendation, opinion, or views in its Report. The information and data provided herein is the exclusive property of LBSL and cannot be redistributed in any form or manner without the prior written consent of LBSL. This disclaimer applies to the Report in its entirety, irrespective of whether the Report is used or viewed in whole or in part.

LBSL Capital Market Research Department

Zobayed Al Mamun Hasan

Head of Research

zobayed.hasan@lbsbd.com

Analyst	Designation	E-mail
Ahmed Irtiza	Senior Research Associate	ahmed.irtiza@lbsbd.com
Mashqurur Rahman	Research Associate	mashqurur.rahman@lbsbd.com
Md. Fozlul Hoque	Research Associate	md.fozlul.hoque@lbsbd.com
Rufaiya Zabin	Research Associate	rufaiya.zabin@lbsbd.com

Institutional & Foreign Trade Department

Rehan Muhammad

Head of Institutional & Foreign Trade

rehan@lbsbd.com/ rmuhammad1@bloomberg.net

LankaBangla Securities Limited

Research & Analysis Department
Corporate Office
A.A. Bhaban (Level-5)
23 Motijheel C/A
Dhaka-1000, Bangladesh
Phone: +880-2-9513794 (Ext-118)
Fax: +880-2-9563902
Website: lankabd.com