Active Fine Chemicals Limited

Nature of Business	Active Fine Chemicals Ltd. was established in 2004 with a vision to share in local market for supply of bulk drug materials. The main objective of the company is to enter into fast growing pharmaceutical local market by providing highest quality products in the market at a competitive price.
Subscription Open	September 14, 2010
Subscription Close	September 20, 2010
For Non-Resident Bangladeshi	September 14, 2010 to September 29, 2010
Authorized Capital	Tk. 1,000 million
Pre- IPO paid-up Capital	Tk. 240 million
Post IPO Paid-up Capital	Tk. 400 million
IPO size	Tk. 160 million
Face Value	Tk. 10.00
Offer Price	Tk. 10.00
Market Lot (Share)	500
Use of IPO Proceeds	Proceeds from IPO of Tk. 16,00,00,000/- will be utilized for settled of Janata Bank Ltd. term loan, supporting of Working Capital and IPO expenses.
NAV per share	Tk. 14.36 considering total number of shares 2,00,00,000 as on 31/12/2009. However, considering total number of shares 2,40,00,000 the same was Tk. 11.97.
EPS	Tk 0.51 for 3 months period from October to December 2009.
Underwriters	ICB Capital Management Ltd., Eastern Bank Ltd., Janata Bank Limited
Issue Manager	Janata Bank Limited
Auditors	Khan Wahab Shafique Rahman & Co.
Website	www.afchem.com

Active Fine Chemicals Limited

(If there is any contrary information please communicate with DSE through email: listing@dsebd.org)

Disclaimer:

The contents of this presentation are entirely based on disclosures made by the company. Therefore, DSE does not assume any responsibility on the authenticity of the facts and figures presented thereof.

Brief Overview of the Company

1. Date of Incorporation : December 01, 2004
2. Converted to public Limited Company : December 09, 2009
3. Authorized Capital : BDT 1,000.00 mn.
4. Paid up Capital (Pre-IPO) : BDT 240.00 mn.
5. Commercial Production Started : October 05, 2009

Details of the Issue

Description	Ordinary Shares	Offer Value In Taka	Capital in Taka
Public Offering	16,000,000	10	160,000,000
Total Issue	**16,000,000**	**10**	**160,000,000**

Paid up Capital after IPO

Particulars	Ordinary Shares	Face Value (Tk.)	Capital in Taka
*Pre-IPO Paid up capital	20,000,000	10	20,00,00,000
Pre IPO Paid up capital as on 06.03.2010	24,000,000	10	240,000,000
IPO	16,000,000	10	160,000,000
Paid up capital after IPO	**40,000,000**	10	**400,000,000**

*The company got consent from The SEC vide letter no: **SEC/CI/CPLC (Pvt.)-201/09/369,dated on February 23, 2010,** to raise its paid up shares from 20,000,000 to 2,40,00,000 subject to the condition that they will comply with the relevant laws and regulatory requirements.

Issue Manager : Janata Bank Limited
Underwriters : ICB Capital Management Ltd., Eastern Bank Ltd., Janata Bank Limited
Auditor : Khan Wahab Shafique Rahman & Co.

Active Fine Chemicals Ltd. (AFCL)
At a glance

Active Fine Chemicals Ltd. (AFCL) had been established on December 01, 2004 as a private limited company with a vision to serve the bulk drugs market in Bangladesh. Subsequently it was converted to public limited company on 9th December 2009, under the same certificate of Incorporation. The key driving force is the opportunity to serve a fast growing pharmaceutical local market, which is heavily import dependent for its raw materials. Providing highest quality materials at a very competitive price is AFCL's goal. AFCL has set up a multi-purpose bulk drugs and fine chemicals manufacturing facility at Munshigonj, 20 Km away from the capital Dhaka. The plant is established on a 3.60-acre land. The existing facility has 40 KL reaction capacity with all kind of installed utility services. AFCL received approval from all regulatory authorities of Bangladesh including Drugs Authority.
AFCL has also become one of the leading chemical reagent manufacturers in Bangladesh. This is the first company to manufacture HULK grade solvents in Bangladesh.

Use of proceed:

Proceeds from IPO of Tk. 160 million will be utilized for business expansion, de-leveraging capital structure and working capital support. Detailed of the utilization plan is as follows:

Year	Source of Fund	Amount (Tk.)	Breakdown of usage of fund	Amount (Tk.)
2010	Initial Public Offering	160,000,000	Janata Bank Loan Paid Support to working capital IPO Expenses	65,500,000 82,500,000 12,000,000
Total		**160,000,000**	**Total**	**160,000,000**

Break down of the IPO expense:

Details of estimated Public Issue expenses are shown below:

Head of Expenses	Amount (appx)
Application fees	10,000
Issue Management Fees	16,00,000
Underwriting Commission	4,00,000
Bankers to the Issue (appx)	8,00,000
Publication	6,00,000
Printing	3,00,000
Data processing	50,00,000
Listing Fees DSE & CSE	20,00,000
Consent Fees to SEC	2,40,000
Lottery and others expenses	500,000
CDBL	200,000
Security deposit to CDBL	300,000
Total	**1,19,50,000**

Description of the Business:

The key driving force is the opportunity to serve a fast growing pharmaceutical local market, which is heavily import dependent for its raw materials. Providing highest quality materials at a very competitive price is AFCL's goal.

Board of Directors:

SL. No	Name of Director	Position
1	Md. Mosleh Uddin	Chairman
2	S.M. Saifur Rahman	Managing Director
3	Md. Zia Uddin	Director
4	Md. Afzal	Director
5	Sifaquat Hussain	Director
6	Md. Sayadur Rahman	Director

Ownership of the company's Security:

SL. No	Name	Position	No of shares	Percentage
1	Md. Mosleh Uddin	Chairman	500000	2.08%
2	S.M. Saifur Rahman	Managing Director	3840000	16.00%
3	Md. Afzal	Director	980000	4.08%
4	Md. Zia Uddin	Director	2090000	8.71%
5	Sifaquat Hussain	Director	100000	0.42%
6	Md. Sayadur Rahman	Director	7,80,000	3.25%
7	Other	-	11,710,000	65.46%
-	**Total**	**-**	**20,000,000**	**100%**

Director's involvement in other organizations:

SL. No	Name of Director	Position	Involvement of the other organization (Name of the organization)	Position
1	Md. Zia Uddin	Director	Hamid Industrial Corporation (Pvt) Ltd. Faijun Industries (Pvt) Ltd. Zia uddin Metal Industries	Director MD Proprietor

Performance at a Glance:

Particulars	2007	2008	2009 (Oct-Dec'09)
Turn Over (Sales)	-	-	*22.53*
Cost of goods sold	-	-	12.63
Gross profit	-	-	*9.90*
Operating Expenses	-	-	1.66
Administrative Expenses	-	-	*0.88*
Selling & Distribution Expenses	-	-	0.77
Operating Profit	-	-	*8.24*
Financial Expenses	-	-	2.68
Net Profit Before Tax	-	-	*5.28*
Provision For income Tax	-	-	0.00
Net Profit After Tax	-	-	*5.28*
Total Assets	96.22	170.58	434.93
Growth	*0.22%*	*77.28%*	*154.97%*
Net Tangible Assets	-	-	28,72,80,422
EPS	-	-	0.51
Shareholders' Equity	96.00	96.00	318.72
No. of Shares	960,000.00	960,000.00	20,000,000.00
No. of Shares as on 06/03/2010	-	-	24,000,000.00
IPO	-	-	16,000,000.00
No. of Shares (Post IPO)	-	-	40,000,000.00

Opening Balance of Outstanding Number of Shares	**9,600,000.00**
(+) Weighted Average number of Shares for the year (10,400,000*23/365)	**655,342.47**
Total Weighted Average Number of Shares outstanding for the year	**10,255,342.47**

Description of property:

a) The company has set up its plant at Mukterpur, Monsigonj, to run operatioins and the corporate office is situated at Tanaka Tower, 2nd floor, 42/1 Gha, Shegun Bagicha, Dhaka, Bangladesh. The company possesses the following fixed assets:
b) All the assets own by the company and the plant & machineries in brand new condition.
c) All property mortgaged with Janata Bank Limited, Principal branch, Dhaka against project loan.
d) Entire plant and machinery is owned by the company and the generator was taken as lease from One Bank Limited and it will expire on March 2012.

The following table demonstrates the company's total value of property as on 31/12/2009:

Particulars	Tk. in million
Land & Land Development	144.00
Building	73.04
Plant & Machinery	100.96
Furniture & Fixture	3.08
Office Equipment	1.00
Vehicles	3.01
Gas Line Inst. & Other Cons	9.75
Total	**334.83**

Details of Revaluation:

The Revaluation of the company has been made by G.K. Adjusters Ltd. Chand Mansion (5th Floor) 66, Dilkusha C/A, DHAKA-1000 as on 15th December 2009.The break-up of Revaluation of Assets is as follows:

Description	Book Value As on 31/12/2009	Revalued book value as on 31/12/2009	Revaluation surplus as on 31/12/2009
Land & Land Development	4,92,00,000	14,40,00,000	9,48,00,000
Building	6,29,28,000	7,34,98,000	1,05,70,000
Plant & Machinery	10,29,79,392	10,35,49,392	5,70,000
Gas line installation & Others Construction	25,00,000	1,00,00,000	75,00,000

Determination of Offering Price:

The offering of the common stock of Active Fine Chemicals Ltd. has been determined by assessing the Net Assets Value (NAV). The financial calculation presented below is from the Audited Accounts as on 31/12/2009.

Offer price considering total number of shares 2,00,00,000 including Revaluation Surplus:

Particulars	Amount in Taka
Assets:	
Fixed Assets at cost less depreciation	33,48,33,141
Current Assets	6,86,59,529
Total Assets (A)	**40,34,92,670**
Liabilities:	
Non Current Liabilities	8,10,85,969
Current Liabilities	3,51,26,279
Total Liabilities (B)	**11,62,12,248**
Net Tangible Assets (A-B=C)	**28,72,80,422**
Number of Ordinary Shares (D)	**2,00,00,000**
Net Tangible Assets Per Shares (C/D)	**14.36**

Offer price considering total number of shares 2,40,00,000 including Revaluation Surplus:

Particulars	Amount in Taka
Assets:	
Fixed Assets at cost less depreciation	33,48,33,141
Current Assets	6,86,59,529
Total Assets (A)	**40,34,92,670**
Liabilities:	
Non Current Liabilities	8,10,85,969
Current Liabilities	3,51,26,279
Total Liabilities (B)	**11,62,12,248**
Net Tangible Assets (A-B=C)	**28,72,80,422**
Number of Ordinary Shares (D)	**2,40,00,000**
Net Tangible Assets Per Shares (C/D)	**11.97**

Offer price considering total number of shares 2,00,00,000 and excluding revaluation surplus:

Particulars	Amount in Taka
Assets:	
Fixed Assets at cost less depreciation	334,830,000
Current Assets	68,660,000
Total Assets (A)	403,490,000
Liabilities:	
Non Current Liabilities	81,090,000
Current Liabilities	35,130,000
Total Liabilities (B)	116,220,000
Revaluation Surplus (C)	113,440,000
Net Tangible Assets (A-B-C=D)	173,830,000
Number of Ordinary Shares (E)	2,00,00,000
Net Tangible Assets Per Shares (D/E)	8.69

Offer price considering total number of shares 2,40,00,000 and excluding revaluation surplus:

Particulars	Amount in Taka
Assets:	
Fixed Assets at cost less depreciation	334,830,000
Current Assets	68,660,000
Total Assets (A)	403,490,000
Liabilities:	
Non Current Liabilities	81,090,000
Current Liabilities	35,130,000
Total Liabilities (B)	116,220,000
Revaluation Surplus(C)	113,440,000
Net Tangible Assets (A-B-C=D)	173,830,000
Number of Ordinary Shares (E)	2,40,00,000
Net Tangible Assets Per Shares (D/E)	7.24

RISK FACTOR & MANAGEMENT'S PERCEPTION ABOUT THE RISKS

Interest Rate Risk:
AFCL financed 31.7% of its asset through a term loan financed by Janata Bank Ltd as on December 31st, 2008. Interest rate structure is declining since the loan was sanctioned. Hence out-of-pocked financing cost is higher than the prevailing borrowing cost. Further decrease in the interest rate structure may increase such cost. AFCL has AFCL has also borrowed BDT 1.1 crore (6.67% of total asset) from its directors other than which the company has no other interest-sensitive asset or liabilities.

Management perception about the risk: *AFCL's long-term financial policy includes delivering the balance sheet to reduce its interest rate sensitivity. AFCL will repay the term loan with the proceeds of the IPO and thereby reducing its financial leverage and interest rate sensitivity. However from short term financial control perspective, the company may lend for financing working capital requirement whose interest rate sensitivity may be actively managed through efficient working capital management (when interest rate has upward trend) and refinancing (when interest rate has downward trend).*

Exchange Rate Risk: Currently most of the raw materials consumed by the company are imported from China whose payments are USD denominated. Fluctuation of USD to BDT exchange rate may have negative impact on the cost structure and profitability of the company.

Management perception about the risk: *USD to BDT exchange rate tends to remain stable as Bangladesh has all time high greenback reserve currently. However AFCL will pursue efficient and effective treasury solutions to mitigate the exchange risk involved with the import payment. For example appropriate forward contract position can be undertaken given the economic circumstances that can affect exchange rate. Moreover AFCL is planning to produce its required raw material in-house rather than import from June 2011. Such backward integration will substantially lessen the exchange rate risk exposure of the company.*

Industry Risks: Competition may increase with too many new players and govt. incentives may lower barriers to entry. Some pharmaceutical companies may integrate backward to secure their supply chain for quality raw material.

Management perception about the risk: *Active Fine Chemicals Ltd. is more likely to outperform potential competition due to their first moving advantage, superior management, premium product line and effective R&D plan.*

Finished pharmaceutical product manufacturers need wide variety of chemicals, APIs & reagents. Producing such raw materials in-house will not be a viable business model for them due to the diversity of the raw material and inefficient scale of economies. Hence AFCL will have competitive advantage relative to the in-house API producing Pharmaceutical companies in producing and marketing pharmaceutical raw materials.

Market & Technology-related Risks: AFCL's investment in plants and technology may become obsolete and the product quality may be impaired due to malpractice or stale technological enforcement.

Management perception about the risk: *AFCL is focused to remain updated in investing in facilities and technologies that will ensure constant quality of its production system. The management has vast experience throughout the industry value chain which helps them to develop insight regarding probable industry development in the technological arena and plan accordingly. Sufficient flexibility such as project sequencing and option based project implementation has been planned to facilitate updated technologically.*

Potential or Existing Govt. Regulation: Govt. is actively pursuing to evolve the API and fine chemical industry. Govt. has taken initiative to construct an API park in Munshigonj and may provide incentive to encourage foreign investment or new entrants to increase the competitiveness of the industry.

Govt. may increasingly monitor and regulate the pharmaceuticals and related industry to ensure quality of products and public health.

Management perception about the risk: *Once the Govt. provides exclusive incentive to encourage local production of API and other chemical reagents, AFCL will be at least equally benefited relative to the potential new entrants.*

The more the Govt. regulates to ensure quality of pharmaceutical products, the more will be the capacity of AFCL to differentiate its product. As AFCL is committed to provide the market with best solutions, Govt's stringent monitoring will expand the market for AFCL's production.

Potential change in Global or National Policies: Changes in the existing global or national policies can have either positive or negative impacts for the company. Any scarcity or price hike of raw materials due to change in policy in the international market might hamper the production and profitability.

Management perception about the risk: *The management of AFCL is always concerned about the prevailing and upcoming future change in the global or national policy and shall response appropriately and timely to safeguard its interest. AFCL's brand image and wide distribution network amongst its customer group will always enable it to withstand any such potential threats. The company can prosper in situation of political stability and a congenial business environment. Political turmoil and the disturbance are bad for the economy and so also for us the company.*

History of non-operation: *There is no history of non-operation of the AFCL.*

Operational Risks: AFCL may not achieve or maintain required quality for its products. Litigation and significant contingent liability including the abolishment of the company can be the result of such product quality failure.

Management perception about the risk: *AFCL ensures never to deliver any defective product, knowingly to any of our customers. The company will take full responsibility of a defective product, if any.*

Ensuring and maintaining quality of its product is one of the top priorities and strategies of the company. For that each required processes has been placed and effective R&D has been enforced. The company is very keen on ensuring quality of its product and working rigorously for continuous improvement.

Business Risks: Import cost of the raw materials such as APIs and reagents may reduce heavily making it uneconomical to produce such pharmaceutical raw materials locally.

Moreover raw chemicals and molecules required to produce APIs & reagents locally are initially imported by AFCL. Import cost of such inputs may hike and create pressure on the profitability and sustainability of the company.

Management perception about the risk: *Most of the APIs and reagents consumed in Bangladesh are imported from China and India. Bangladesh has cost advantage in factors of production relative to these countries in producing APIs & chemical reagents locally. For example white collar employees can be hired at 40-50% lower pay in Bangladesh relative to India and energy cost in Bangladesh is 40% lower than India's. Moreover 5-15% import duty is applied to pharmaceuticals' raw material imported to Bangladesh. So local producers of APIs & chemical reagents will enjoy significant cost advantage given that they can ensure quality of their diversified product-line. AFCL is committed to provide diversified product line with premium quality to face such cross-border challenges.*

AFCL is adding 50-200% value over the import cost of the imported raw molecules and other chemicals. As percentage of value addition is significant and buyers of AFCL's finished products are not cost sensitive rather quality sensitive, price hike of raw materials in the international market would not impair profitability of the company directly. Moreover if the raw material (basic chemical & molecules) prices gone up in the international market, then importing finished products (APIs) will not be cost advantageous over procuring from local market at higher price.

AFCL will produce basic chemicals and its other required raw materials in house from June 2011. Once the company integrates backward, such risk will be mitigated while the value addition margin will increase to increase company's profitability.