

Salvo Chemical Industry Limited

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

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Brief Overview of the Company

1. Date of Incorporation : January 24, 2002
2. Converted to public Limited Company : August 04, 2008
3. Authorized Capital : Tk. 500,000,000
4. Paid up Capital (Pre-IPO) : Tk. 141,000,100

Details of the Issue

Particulars	No. of Shares	Face Value	Amount in Taka
Authorized Capital	50,000,000	Tk.10.00	500,000,000
Paid-Up Capital (31-12-09)	14,100, 010	Tk.10.00	141,000,100

Paid-up Capital after IPO

Particulars	No. of Shares	Face Value (Tk.)	Amount in Taka
Pre-IPO Paid-up capital	14,100, 010	10.00	141,000,100
IPO	26,000,000	10.00	260,000,000
Paid-up capital after IPO	40,100,010	10.00	401,000,100

History of Paid up Capital

Description	Numbers of Shares (Converted by Tk.10 each)	Amount in (Tk.)
Subscribers to the Memorandum & Articles of Association at the time of Incorporation	100,000	1,000,000
Ordinary Shares Issued on 16.05.2004	150,000	1,500,000
Ordinary Shares Issued on 6.06.2005	3,750,000	37,500,000
Ordinary Shares Issued on 26.06.2005	4,000,000	40,000,000
Ordinary Shares Issued on 20.05.2006	40,000	400,000
Ordinary Shares Issued on 06.04.2009	10,000	100,000
Ordinary Shares Issued on 26.12.2009	5,000,000	50,000,000
Ordinary Shares Issued on 26.12.2009 (Stock Dividend)	1,050,010	10,500,100
Total	14,100,010	141,000,100

Issue Manager : AAA Consultants & Financial Advisers Ltd.

Underwriters : Trust Bank Limited
Standard Bank Limited
Swadesh Investment Management Ltd.
Bangladesh General Insurance Company Limited

Auditor : S. F. Ahmed & Co.

Salvo Chemical Industry Limited **At a Glance**

Description of the Business:

Salvo Chemical Industry Limited is a public limited Company, incorporated in Bangladesh on January 24,2002 as a Private Limited Company under the Companies Act 1994. Subsequently the company was converted into Public Limited Company on 04-08-2008 under the companies Act 1994 with the purpose for modern Chemical Industry having production Capacity of 30 MT/Per day Sulfuric Acid. The project is located at Mouja: South Dhanua, P.S. Sreepur, Dist. Gazipur. The company has started its commercial operation on 25-04-2003.

The project of the company is equipped with balanced modern machineries imported from India, Germany, with a view to producing product of international standard. This happens to be the project of state of art, which has earned high reputation in Chemical sector.

Use of Proceeds & Implementation Schedule:

The proceeds from Initial Public Offering will be utilized to finance the expansion of the project and loan repayment. The details are as under:

Particulars	Amount (Tk. in crore)	Projected starting Time
A. Loan Repayment:		
Premier Leasing & Finance Ltd.	0.86	15 days after receiving IPO fund
Standard Chartered Bank	0.52	15 Days after receiving IPO Fund
B. Business Expansion		
Land & Land Development	2.71	6 months after receiving IPO fund
Plant & Machinery with captive power plant Capacity increase from 30mt/pd to100mt/pd	16.50	18 months after receiving IPO Fund
Construction of new shade/ store room for Raw Materials	0.56	6 months after receiving IPO fund
New Shade for Expansion of Project	0.85	6 month after receiving IPO fund
Working capital	4.00	12 months after receiving IPO fund
Total	26.00	

Performance at a Glance

Amount in million Tk.

Particulars	2005	2006	2007	2008	2009
Sales- Net of VAT	13.73	33.24	49.46	110.13	63.40
<i>Growth</i>	-	142.10%	48.80%	122.66%	-42.43%
Cost of goods sold	7.34	23.80	38.79	95.47	38.75
<i>Growth</i>	-	224.38%	62.98%	146.14%	-59.41%
Percentage of COGS to Sales	53.44%	71.60%	78.42%	86.69%	61.13%
Gross Profit	6.39	9.44	10.67	14.66	24.64
<i>Growth</i>	-	47.67%	13.04%	37.35%	68.13%
Operating Expenses	1.44	2.14	3.14	7.22	6.68
<i>Growth</i>	-	48.61%	46.73%	129.90%	-7.47%
Operating Profit	4.95	7.30	7.53	7.44	17.96
<i>Growth</i>	-	47.40%	3.16%	-1.23%	141.48%
Non-operating Income	-	-	3.14	1.22	8.21
<i>Growth</i>	-	-	-	-61.15%	572.95%
Non-operating Expenses	3.70	3.91	4.62	2.26	14.35
<i>Growth</i>	-	5.68%	18.16%	-51.08%	534.96%
Profit/(Loss) adjustment A/C	-	-	-	0.51	-
Net Profit before Tax	1.25	3.39	6.05	6.91	11.82
Net Profit after Tax	1.06	2.04	3.63	4.27	7.39
<i>Growth</i>	-	92.66%	77.97%	17.73%	72.97%
Total Assets	112.02	119.74	122.16	199.43	295.86
<i>Growth</i>	-	6.89%	2.02%	63.25%	48.35%
Total Liabilities	30.18	34.10	30.47	102.66	142.93
<i>Growth</i>	-	13.00%	-10.65%	236.92%	39.24%
Net Assets	81.85	85.64	91.69	96.77	152.92
<i>Growth</i>	-	4.64%	7.06%	5.54%	58.02%
Shareholders' Equity	81.85	85.64	91.69	96.77	152.92
<i>Growth</i>	-	4.64%	7.06%	5.54%	58.02%
Net Assets Per Share (as per draft prospectus)	102.31	106.52	114.04	120.36	10.85
EPS (as per draft prospectus)*	1.57	4.23	7.52	8.59	0.91
EPS (restated)*	2.29	3.74	6.65	5.59	0.80
Long-term Loan- Secured	8.30	6.48	4.34	38.01	38.50
Financial Charges (Payment of interest)	3.63	3.85	4.57	2.21	14.31
Net cash flow by operating activities	(16.83)	38.92	11.01	20.91	(25.86)

* EPS is based on face value of Tk. 100 per share up to 2008 and Tk. 10 in 2009.

Description of property:

The Company has set up its plant at Mouza- Dhanua, P.S. Sreepur, Dist: Gazipur to run the operations and the corporate office is situated at 195, Senakalyan Bhaban, Suit#903/B, Dhaka – 1000. The Company possesses the following fixed assets at written down value:

(As per Audited Accounts amount in Tk.)

Particulars	31.12.2009 (W.D.V)	31.12.2008 (W.D.V)	31.12.2007 (W.D.V)
1. Land & Development	33,458,654	9,953,080	9,953,080
2. Factory Building & Construction	15,024,791	15,054,226	13,018,200
3. Plant & Machinery:	-	-	
a) Plant & Machinery-purchased	60,211,130	58,164,504	57,672,937
b) Plant & Machinery-lease	6,354,734	7,060,815	-
4. Electric Installation	2,103,206	2,336,896	2,564,551
5. Office Equipments	717,929	733,384	491,670
6. Furniture & Fixture	774,185	839,706	407,609
Total Assets	118,644,629	94,142,611	84,108,047

1. Entire above mentioned properties are owned by the Company except some plant and Machineries which are taken on financial lease basis.
2. All Properties of the Company are mortgaged to the lending Institutions namely National Credit & Commerce Bank Ltd. All the machines are purchased in brand new condition. The economic life of machines is 20 years from April, 2003.

Determination of Offering Price:

The net value per ordinary share of Salvo Chemical Industry Ltd. has been determined by Management based on the financial statement for the year ended 31 December, 2009. The calculation is as follows:

Shareholders Equity	31 December 2009
Share capital	141,000,100
Tax Holiday Reserve	3,996,257
Retained Earnings	7,931,162
Total Shareholders' Equity	152,927,519
No. of shares of taka 10 each (weighted Average Quantity)	8,097,041
Net value per share of taka 10 each (weighted Ave. Method)	18.89
No. of shares of taka 10 each (Numerical Quantity)	14,100,010
Net value per share of taka 10 each (Per Unit of Share Method)	10.85

Production Capacity and Current Utilization:

Particulars	Production (M/T)	Percentage (%)
Installed Capacity	9000	100.00
Current Utilization	7200	80.00

Board of Directors:

Name of Durectors	Position	Shareholding	Percentage
Mr. Salam Obaidul Karim	CEO	23,10,000	16.3830
Khondoker Afia Sultana	Managing Director	65,69,800	46.5943
Sayeeda karim	Director	1,28,430	0.9109
Khondoker Aminur Rahman	Director	47,320	0.3356
Liton Kumar Roy	Director	11,115	0.0788
Shoyeb Ahmed	Director	11,115	0.0788
Ahmed Harun	Director	11,115	0.0788
Md. Sohail Rahman	Director	11,115	0.0788
Total		9,100,010	64.54

Involvement of Directors' with other Organizations:

Sl. No.	Name	Designation with SCIL	Entities where they have Interest	Position
1.	Mrs. Khondoker Afia Sultana	Managing Director	Salvo Alkali Chemical Industry Ltd	Director
2.	Mrs. Sayeeda Karim	Director	Salvo Alkali Chemical Industry Ltd	Director
3.	Mr. Khondoker Aminur Rahman	Director	Salvo Alkali Chemical Industry Ltd	Director
4.	Mr. Liton Kumar Roy	Director	Dipa Chemical	Proprietor
5.	Mr. Shoyeb Ahmed	Director	New panama Printers	Proprietor

Family Relationship among the Directors:

Name of the Director	Position in the Company	Relationship
Mr. Salam Obaidul Karim	Chairman	Husband of Managing Director
Mrs. Khondoker Afia Sultana	Managing Director	Wife of Chairman
Mrs. Sayeeda Karim	Director	Sister in law of Managing Director
Mr. Shoyeb Ahmed	Director	Brother in law of Chairman
Mr. Ahmed Harun	Director	Brother in law of Chairman
Mr. Md. Sohal Rahman	Director	Brother in law of Chairman

RISK FACTORS AND MANAGEMENT PERCEPTION REGARDING RISKS

The company is operating in a field involving a great deal of external/internal risk factors and the management of Salvo Chemical Industry Limited perceives the risk factors which are as follows simultaneously:-

Interest rate risks

Interest rate always a concern of the management. If the company has a business transaction with the bank/financial institution always involve with risk of gain or loss. Increase the interest rate over burden the financial charges and squeezes the profit earning of the company.

Company management is well aware of the bank interest and always thrives for procuring long term fund with minimum fixed interest rate. Company is always emphasizing on equity based financing.

Exchange Rate Risk

The company is 100% import oriented organization. Taka may be devalued significantly against dollar and SCIL may suffer due to exchange rate fluctuation in case of import of raw materials.

Appropriate and responsible mechanisms employed by SCIL in the past in case of significant taka devaluation in order to keep the cost minimum and same will be followed in future. However, if the price of US dollar rise so sharply against Taka, this will be a nationwide phenomenon experienced by the whole industry, there will be a market adjustment at the end of product price.

Industry Risks

The company produces and sale sulfuric acid. Major consumers of the products of SCIL are leather industry, soap, detergent, battery industry, glue, rubber, paints, dyes, fertilizers, plastics, water treatment plant, paper mill, iron pickling, still mill, Textiles industry etc. There is a huge demand-supply gap for the product of the Company in the chemical market. The Company earned good name & fame in the chemical market of the country for its quality. As the product is very toxic content, it may bear some industrial risk causing human health effects and aquatic effects including water & environment pollution.

The Company has internal risk mitigate system like using the modern equipped water treatment plant and using of foreign technician for hazard identification, risk analysis and risk management specifying risk acceptance and risk reduction guidelines, process hazards management procedures, including emergency response procedures, structure financial and insurance provisions, and establish communication procedures with affected employees and the public.

Market Risk and Price Risk

The product of SCIL is mainly used in Leather Industry. SCIL covers about 50% market of leather chemical demand and rest 50% covered by Triple Super Phosphate Complex Ltd. (TSPCL) an enterprise of Government owned Bangladesh Chemical Industry Corporation (BCIC). Surplus production of TSPCL and new company may create demand risk for SCIL's product.

However, this situation has not taken place yet. The price of SCIL is heavily influenced by the price strategy of TSPCL. If TSPCL reduces its price or other users directly import at low cost then apparently SCIL reduce its price to compete in the market.

Supply Risk

SCIL is dependent on import for its raw materials. The company imports major raw material i.e Sulphur from Saudi Arabia and UAE. Major suppliers are National Company for Sulfuric Products (KSA), Swiss Singapore Overseas Enterprises PTE (UAE) and Saudi Aramco (KSA) & lead time to receive materials about 35 to 40 days.

To mitigate this type of risk company's has scope to import raw materials from Germany and India and company always keeps a stock of 700 MT to 800 MT for smooth production.

Potential changes in global or national policies

The global and national policies for production of sulfuric acid are favorable. Though the Government has strict monitoring and follow up the retail use of any type of acid due to abusing inhuman way, there is no restriction on production considering the dire necessity of sulfuric acid as raw materials of various on growing industry in Bangladesh. So, the demand of sulfuric acid will increase day by day with the increase of the relevant industries those who are using sulfuric acid.

Technological Related Risk

Although all the production process is not fully automated, the most modern technology and equipment have been set up for production. The risk of technology may incur either for use of most modern technology or for not using of them. Plant & equipment & container/ absorption tanks may be mechanically inactive or broken down causing hampered the production process and the acid may spread over the floor or other mechanical hazard may rise from technological adoption or non-adoption. However, the Company has been using its capacity substantially without such records of significant hazard and technological risk hampering the production since the inception of the Company.

Quality Control risk

SCIL has no formal agreement with the selling distributors who are finally deal with the Customers. Distributors may adulterate the product of SCIL to gain some undue profit, where SCIL has no control over that risk.

The management of SCIL is very much aware of this issue. The company has been maintaining good relationship with distributors who purchase bulk quantity of the company's product to minimize the quality risk.

History of non operation

There is no chance for the Company to become non-operative.

SCIL is a Public Limited Company that have an independent body. It is operated by its Memorandum & Articles of Association and other applicable laws Implemented by the Government. Besides, the Company's financial strength is satisfactory. It has very experienced Directors and Management team to make the Company more efficient and stronger as aviation service provider in future.

Operational Risk

Shortage of power supply & gas, labor shifting jobs, unavailability or price increase of raw materials, natural calamities, political unrest situation may disrupt production of the company and can adversely affect the profitability of company.

The management personnel both in head office and production premise seem to be competent and experienced to run the operation efficiency. However, better human resources development plan for both officers and workers may increase the efficiency in operation. Recently the company introduces a well-designed performance evaluation system. In order to reduce the operational risk, an internal control policy is yet to adopt through an established internal audit department. Due to its own arrangement of Diesel generated power generators and water supply infrastructures, it reduces the operational risk widely.