

**Company Overview**

Renata Limited was incorporated in 1972. In 1993, the Company renamed as Renata Limited from Pfizer Laboratories (Bangladesh) Limited after divestment of shareholdings by Pfizer Corporation, USA. The principal business of the Company is manufacturing, marketing and distribution of Pharmaceuticals, Animal Health Medicines, Nutritionals and Vaccines. Renata has contract manufacturing of general products for UNICEF and SMC. Some of the flagship products are Maxpro®, Zithrin®, Fenadin®, Orcef®, Algin®, Furocef® etc. The registered office and manufacturing sites are situated at Mirpur, Dhaka and Rajendrapur, Gazipur.

The Company's products are exporting to 16 countries. The Company is the marketer and distributor of nine international pharmaceutical and animal health care companies. Among all national and multinational pharmaceuticals companies in Bangladesh, the Company is currently holding around 5% of market share (Source: IQVIA Data 2018). The Company is the market leader in animal health product (Source: Renata Annual Report 2018).

Renata has 99.99% shareholding in Renata Agro Industries Limited that engage in poultry breeding and selling various agro based products, 99.99% shareholding in Purnava Limited that carries on the business of marketing and distribution of consumer goods, consumer durables, food items, edible oils, beverages etc. and 99.99% shareholding in Renata Oncology Limited that manufactures, markets and distributes various oncology based products.

**Revenue Composition & Growth**

Particular (BDT mm)	2015-16*	2016-17	2017-18	2018-19* (9M)
<b>Pharmaceutical</b>	<b>10,382</b>	<b>11,284</b>	<b>13,288</b>	<b>12,787</b>
Contribution	69.9%	67.5%	69.2%	71.6%
Growth	--	8.7%	17.8%	16.7%
<b>Animal Health</b>	<b>2,899</b>	<b>3,175</b>	<b>3,464</b>	<b>2,946</b>
Contribution	19.5%	19.0%	18.0%	16.5%
Growth	--	9.5%	9.1%	4.1%
<b>Contract Manufacturing</b>	<b>920</b>	<b>1,585</b>	<b>1,852</b>	<b>1,587</b>
Contribution	6.2%	9.5%	9.6%	8.9%
Growth	--	72.3%	16.9%	-10.1%
<b>Agro Business</b>	<b>540</b>	<b>524</b>	<b>348</b>	<b>280</b>
Contribution	3.6%	3.1%	1.8%	1.6%
Growth	--	-2.8%	-33.7%	6.9%
<b>Purnava</b>	<b>108</b>	<b>159</b>	<b>249</b>	<b>252</b>
Contribution	0.7%	1.0%	1.3%	1.4%
Growth	--	47.8%	56.2%	42.8%
<b>Total</b>	<b>14,848</b>	<b>16,727</b>	<b>19,200</b>	<b>17,852</b>
Growth	--	12.7%	14.8%	11.4%

\*Growth for 2015-16 was not calculated due to unavailability of data and for 2018-19 for 9 months over the same period of last year

**Shareholding Structure**

The Firm has been enlisted in the DSE in 1979.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Aug-19	51.16%	0.00%	19.37%	22.31%	7.16%
31-Dec-18	51.16%	0.00%	19.09%	22.39%	7.36%
31-Dec-17	51.16%	0.00%	17.49%	21.78%	9.57%
31-Dec-16	51.12%	0.00%	15.45%	21.78%	11.65%

**Company Fundamentals**

Market Cap (BDT mn)	102,264.2
Market weight	3.2%
Free-float Shares (Institute + Foreign + Public)	48.8%
Paid-up Capital (BDT mn)	805.4
No. of Shares (in mn)	80.5
3-month Average Turnover (BDT mn)	20.5
3-month Return	7.5%
Current Price (BDT)	1,269.8
52-week price range (BDT)	1,090.0 - 1,322.8
Sector Forward P/E	17.9

	2015-16	2016-17	2017-18	2018-19 (9M Ann.)
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Financial Information (BDT mn):				
Sales	14,777	16,645	19,050	20,697
Gross Profit	7,434	8,344	9,432	11,119
Operating Profit	3,747	4,174	4,673	5,169
Profit After Tax	2,274	2,678	3,106	3,369
Assets	17,328	18,719	21,359	25,299
CAPEX	1,230	1,279	1,269	1,256
Long Term Debt	250	96	-	-
Short Term Debt	2,634	1,972	2,405	2,749
Retained Earnings	10,177	12,082	14,550	16,353
Equity	10,941	12,943	15,508	17,372

Margin:				
Gross Profit	50.3%	50.1%	49.5%	53.7%
Operating Profit	25.4%	25.1%	24.5%	25.0%
Pretax Profit	22.3%	22.7%	22.3%	23.3%
Net Profit	15.4%	16.1%	16.3%	16.3%

Growth*:				
Sales	--	12.6%	14.4%	8.6%
Gross Profit	--	12.2%	13.0%	17.9%
Operating Profit	--	11.4%	12.0%	10.6%
Net Profit	--	17.8%	16.0%	8.5%

Profitability:				
ROA	13.6%	14.9%	15.5%	14.4%
ROE	22.6%	22.4%	21.8%	20.5%

Operating Efficiency Ratio:				
Inventory TO*	4.2	4.8	5.2	4.3
Receivable TO	6.9	7.1	7.7	7.7
A/C Payable TO	4.8	32.9	43.1	4.7
Total Asset TO	0.9	0.9	1.0	0.9
Fixed Asset TO	1.6	1.7	1.9	2.0

Leverage:				
Debt Ratio	17.5%	17.2%	11.7%	10.9%
Debt-Equity	27.8%	11.9%	16.2%	15.8%
Int. Coverage	13.4	20.7	22.3	46.9

Dividend History				
Dividend (C/B)%	85/15	130/15	95/15	-/-
Dividend Yield	0.7%	1.1%	0.7%	-/-
Dividend Payout	30.1%	39.1%	24.6%	-/-

Valuation:				
Price/Earnings	45.6	38.7	33.4	30.4
Price/BV	9.5	8.0	6.7	6.0
EPS (BDT)	28.2	33.3	38.6	41.8
NAVPS (BDT)	135.9	160.7	192.6	215.7

N.B: The Company changed its financial year to Jul-Jun from Jan-Dec.\*TO= Turnover; \*Growth for 2015-16 was not calculated due to unavailability of data

### Shareholding position as of June 2018

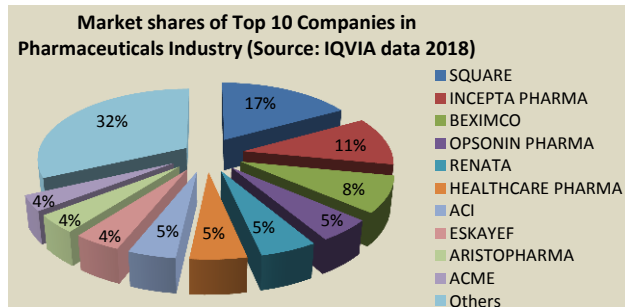
Name of Shareholders	Nationality	No. of Shares	% of Holding
Sajida Foundation	Bangladesh	35,715,518	51.0%
Business Research International Corp. Inc.	Panama	15,227,512	21.7%
ICB Unit Fund	Bangladesh	3,228,218	4.6%
Shadharan Bima Corporation	Bangladesh	3,063,838	4.4%
Investment Corporation of Bangladesh	Bangladesh	2,509,791	3.6%
Other shareholders	Bangladesh & others	10,286,145	14.7%

### Industry Overview

Pharmaceutical Industry is one of the most developed manufacturing industries in Bangladesh which is considered second largest sector in terms of contribution of government exchequer. Moreover, this industry contributes nearly 1.83% of the total GDP. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

In 2018, the country's **domestic pharmaceutical market size** stood at BDT 205.12 billion with 15.6% compound annual growth rate (CAGR) for the last five years. On top of that, the sector is expected to grow at 15% year-on-year to reach \$5.11 billion by 2023, propelled by high investment by local companies as they seek to grab a bigger share of the global market.

According to IQVIA Report 2018, top 10 companies occupy almost 70% of the total **market share** and top 20 manufacturers grabbed 87.01% of total market.



Source: IQVIA Data 2018

**Export** is a promising but untapped segment for the country's pharmaceutical sector. According to Bangladesh Association of Pharmaceutical Industries (BAPI), approximately 1,200 pharmaceutical products received registration for export in the last two years. According to DGDA (Directorate General of Drug Administration), Bangladesh exports drugs to 199 countries. In 2018-19, the Country exported \$130 million pharmaceutical products which were 25.65% higher than that of 2017-18.

Growing per capita income, population growth, rise in life expectancy, changing disease profile, lifestyle change and rapid urbanization are the **key drivers** for boom in the domestic market consumption.

However, supply side of this industry mostly depends on import. Around 80% of required **raw materials** are imported from China and India whereas some local companies – Beximco Pharmaceuticals Ltd., Square Pharmaceuticals Ltd., Opsonin Chemicals Ltd. Drug International Ltd., Globe Pharmaceuticals Ltd., Gonoshastaya Pharmaceuticals Ltd, Sunipun

Pharmaceuticals Ltd. etc. – produce certain APIs on smaller scale for mainly in-house use.

Meanwhile, construction of 200-acre **API Park** is in progress. A total of 42 industries would be set up under the project; expected total cost is BDT 4.39 billion. Upon operational of the plant, the raw material imports are expected to come down to 30% and the costs of APIs are estimated to decrease by around 20%. The API industrial park promises to propel Bangladesh to the next level as a drug exporter since it is expected to help the local pharma companies gain more export orders with a competitive edge and maintain stable prices in the domestic market.

A policy gazette titled “National Policy on API (Active Pharmaceutical Ingredients) and Laboratory Reagents production and Export” was passed in May 2018 to encourage local manufacture of APIs as a backward linkage to cater to the requirement of the domestic pharmaceutical formulations companies and to reduce dependence on import. The policy offers several fiscal and non-fiscal incentive measures including tax holidays, exemptions from Value Added Tax, 20% cash incentives for export, a liberal credit policy, priority in government procurement etc. among others.

WTO (World Trade Organization) member countries have extended the deadline to comply with the **TRIPS (Trade-Related Aspects of Intellectual Property Rights)** agreement, allowing LDCs to avoid applying and enforcing IP (Intellectual Property) rights on pharmaceutical products until 2033. Bangladesh will get more benefit from the extension of drug patent waiver as the country is more capable of manufacturing pharmaceutical products than any other LDCs.

### Investment Positives

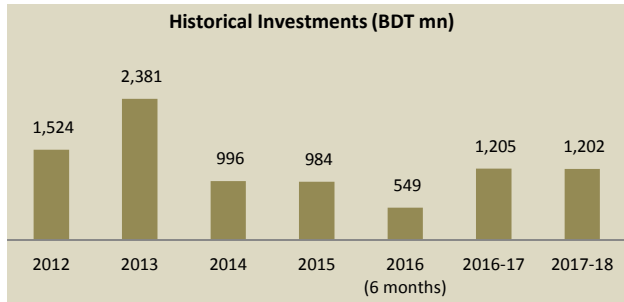
- **Renata has been in operation in the pharma industry in Bangladesh since 1972 and maintaining undisputed goodwill in both the local and international markets. The Company is currently holding around 5% of the pharmaceuticals market share of Bangladesh (Source: IQVIA Data 2018).**
- The pharmaceutical business of the Company grew by 17.8% against the industry growth of 14.7% in 2017-18 over last year. In line with the steady business growth, it was also able to maintain stable profit margins over the years. **The Company (standalone) has higher profit margin compared to its peers.**

Company Name	Market Share (IQVIA 2018)	Margin			
		BDT mn	Net Revenue	Gross Profit	Operating Profit
<b>RENATA*</b>	<b>5.20%</b>	<b>18,604</b>	<b>50.2%</b>	<b>25.6%</b>	<b>17.2%</b>
SQURPHARMA	16.95%	30,005	48.0%	25.7%	27.4%
BXPBARMA	8.26%	17,717	46.8%	22.7%	14.3%
ACMELAB	3.52%	14,814	39.6%	21.3%	9.6%

Data has been derived from 2017-18 annual reports of respective company.

\*Renata includes revenue from animal health

- The Company has been investing a considerable amount as capital expenditure to upgrade its capacity, technological process, research and training which has led the Company to register an outstanding performance over the years. The investments were funded from internally generated cash and bank loans.



Source: Annual Reports of Renata Limited

- The Company has increased the capacity of tablet/capsule segment by 10%, 46% & 10% in 2015, 2016-17 & 2017-18 respectively. The Historical capacity and its utilization are stated below:

Major Product Group / (Unit in '000)	Capacity 2017-18	Utilization			
		2014	2015	2016-17	2017-18
Sterile dry fill (injectable) / Vials	7	71%	77%	97%	98%
Sterile liquid (inj) / Vials / ampoule	12	101%	113%	122%	147%
Ointments / Tubes	2	30%	31%	47%	32%
Capsules and tablets / Cap / Tab	1,595	141%	144%	125%	130%
Oral liquid & dry syrup / Bottles	16	118%	130%	143%	152%
Water for injection / Ampoules	6	162%	175%	107%	130%
Premix feed supplement / Kg	5	120%	130%	126%	136%
Premix feed suppl. / Sachets	3	122%	136%	156%	202%
ORAL saline / Sachets	355	141%	163%	124%	163%
Potent Products / Tablets	2,460	115%	129%	118%	102%

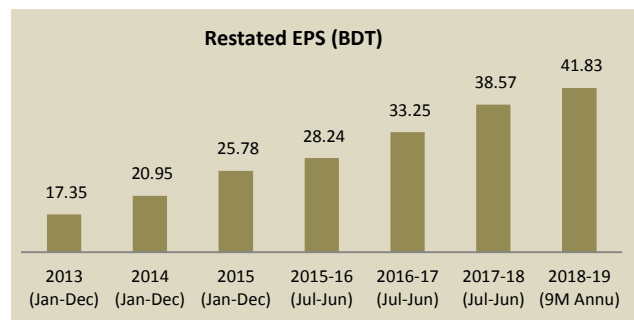
The Company changed its financial year to Jul-Jun from Jan-Dec.

- **Revenue from contract manufacturing grew by 17% in 2017-18 over last year** from supplying Oral Rehydration Salt (ORS), birth control pills and micronutrient powders to Social Marketing Company (SMC), UNICEF and the Government of Bangladesh. While the business grew with SMC and UNICEF, the main tender for the Government's family planning programme was delayed by a few months leading to a short-fall from the revenue target. However, the Company is optimistic that a tender shall be called very soon. **Contract manufacturing contributed around 10% to the consolidated revenue in 2017-18.**
- From the last 20 years, the Company has been the no.1 in the Animal Health market (Source: Annual report of the Company). **The Company's 18% of the revenue is generated from animal health products in 2017-18 which was 19% in 2016-17. The animal health business of the Company grew by 9% compared to industry growth of 7% in 2017-18 over last year.** Most of this growth occurred during the last six months of 2017. During the first half of 2018, the industry actually contracted. However, the animal health industry in Bangladesh is closely linked with the local poultry business, which exhibits extreme volatility since the end of 2017. The poultry industry along with hatcheries and feed-mills suffered decline in both price and volume.

- **Renata Agro plans to build a new hatchery building and double the existing hatchery capacity to 3,60,000 pieces of DOCs (day-old-chicks) per week.** Additional breeder sheds may also be added to the existing farms incrementally increasing total DOC production. This will decrease overheads and consequently decrease the cost of production of DOCs. Increased DOC production, decreased unit cost of production and modestly favorable DOC prices in the market is expected to lead to modest to reasonable profits in the coming years.
- As part of its continuous process for increasing its product baskets, **the Company launched 17 new products in 2017-18.** The Company's endeavor of introducing new products and diversification of products basket will support its steady growth in the coming years.
- The Company has given a thrust for increasing the export volume. During 2017-18, export sale of pharmaceutical products were BDT 608.25 million lower by 38.57% from BDT 990.11 million in 2016-17. The Company has established a subsidiary company in UK and has decided to establish a new company in Ireland to export uninterruptedly in the EU countries. The Company has already shipped its products to the UK and is expecting to receive approvals for six more products for UK. The Company is expecting to start business in US in 2019. A contract-manufacturer has been identified in New Jersey, the raw-materials have been ordered, and a marketing-partner has been selected.

#### Investment Negatives

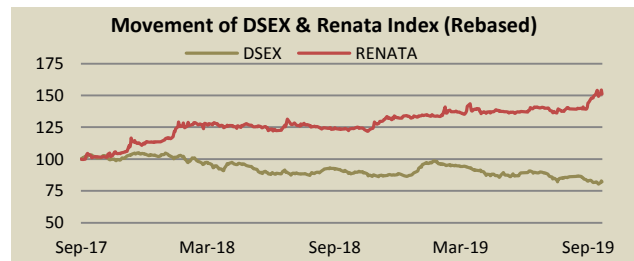
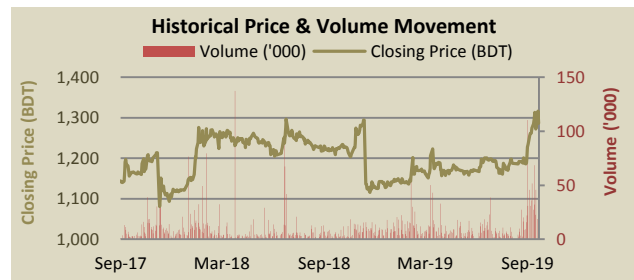
- **The Company is highly dependent on imported raw materials as around 65.54% of the costs of goods sold are imported.** Therefore, unfavorable foreign exchange movement may affect the profitability of the Company. **Moreover, higher environmental standards have caused widespread closure of chemical-synthesis factories in China which resulted a rise in prices of Active Pharmaceutical Ingredients (API).** However, cost of raw materials is expected to reduce considerably upon operational of the country's API Park.
- Purnava Limited (99.99% owned by Renata) has incurred loss of 49.55 mm and 59.19 mm in 2017-18 and 2016-17 respectively. The Company has been incurring loss since 2015.
- **The government has increased gas price by 38% in industry level with effect from July 2019.** This initiative is increasing the factory overhead cost that will have a negative impact on the profit margins.



**Latest Quarter Update – March 2019 (Q 3)**

Particulars (BDT mn)	Jul-Mar 2018-19	Jul-Mar 2017-18	Jan-Mar 2019	Jan-Mar 2018
<b>Consolidated Turnover</b>	<b>15,522</b>	<b>13,939</b>	<b>4,952</b>	<b>4,601</b>
Growth	11.4%	--	7.6%	--
<b>Gross Profit</b>	<b>8,339</b>	<b>7,250</b>	<b>2,569</b>	<b>2,310</b>
Margin	53.7%	52.0%	51.9%	50.2%
Growth	15.0%	--	11.2%	--
<b>Operating Profit</b>	<b>3,877</b>	<b>3,304</b>	<b>937</b>	<b>862</b>
Margin	25.0%	23.7%	18.9%	18.7%
Growth	17.3%	--	8.7%	--
<b>Net Profit</b>	<b>2,527</b>	<b>2,181</b>	<b>830</b>	<b>774</b>
Margin	16.3%	15.6%	16.7%	16.8%
Growth	15.9%	--	7.1%	--

- The Company has achieved 11.4% growth during Jul-Mar of 2018-19 over the same period of last year, which is mainly driven by the 16.7% increase in sales of pharmaceutical product. Revenue of Animal Health, Renata Agro Industries Limited and Purnava Limited posted 4.1%, 6.9% & 42.8% growth respectively where contract manufacturing & exports posted 10.1% negative growth during the reported period over the same period of last year.
- Gross profit margin has improved to 53.7% during the reported period than that of last year because of lower costs of goods sold in percentage of sales.
- The net profit margin has increased to 16.3% during the period which was 15.6% over the same period of last year because of increase in consolidated revenue and decrease in cost of sales in percentage of sales.


**Concluding Remark**

Renata Ltd. is a leading manufacturer of medicines in Bangladesh. The Company showed stable performance over the years. In line with the steady business growth, it was also able to maintain stable profit margins over the years. Many of its brands remain consistent leaders in their respective therapeutic categories and the Company continuously reviews and expands its product portfolio in order to ensure that people have access to newer, better treatment options at affordable cost.

Source: Annual Report, Company Website, the newspaper news, ILSL Research

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