

RENATA LIMITED

Current Price per Share: **BDT 1,347**
Intrinsic Value per Share: BDT 2,095

Resistance: **BDT 1,379.90**
Support: **BDT 1,304.60**
MFI(14): **74.44 point**
RSI(14): **68.21 point**

Market Data

Market Cap (BDT mn)	144,388.95
Market Weight	2.62%
Paid-up Capital (BDT mn)	1,071.93
No. of Share outstanding (mn)	10.71
Free-float Shares (mn)	5.22
3 Months Avg. Turnover (BDT mn)	30.90
52-week price range (BDT)	1,140-1,485
Sector P/E	19.76
Market P/E	16.29

Industry Overview & Prospects

The COVID-19 pandemic has been the most impactful global public health crisis for decades. The global medicine market (using invoice price levels) is expected to grow at 3-6% CAGR through 2026, reaching about \$ 1.8 trillion in total market size in 2026. (According to the IQVIA)

The pharmaceuticals market in Bangladesh has enormous growth in recent years. It is expected to have annual growth rate of more than 12% during the next few years. Growing per capita, lifestyle changes, population growth, changing disease profile and increasing patient population are some of the key drivers that are boosting this industry in Bangladesh. In addition to meeting local demand (Local institutions meeting 98% of the country's overall need for pharmaceuticals) also export pharmaceuticals in several countries. Bangladesh mainly exports medicines related to malaria, cancer, penicillin, kidney dialysis, leprosy, tuberculosis, Ayurveda. At least 10 companies, including Square, Beximco, Beacon, Eskayef, Acme are exporting drugs. Local 257 companies hold 90% of the market share with only 10% supplied by multinationals.

Important Aspects:

- ❖ Domestic Market Size Tk. 276.59 billions
- ❖ 257 local pharmaceuticals company's occupy 90% of market
- ❖ Major Players : Square, Incepta, Beximco, Renata, Eskayef, ACI, Opsonin, Beacon.
- ❖ Bangladesh exports pharma products worth BDT 11 billions in a year and it may beat BDT 38.34 billion by

Pharmaceuticals industry of Bangladesh is rapidly growing and the noise of this industry is growing over time. This industry is playing an important role in healthcare by producing life saving medicines and also creates many opportunities for employment.

Company Overview
Company Profile

Renata Limited (formerly Pfizer Limited) is one of the leading and fastest growing pharmaceutical company in Bangladesh. Renata Limited is the 4th largest pharmaceutical company in Bangladesh and the market leader in Animal health product by holding a market share of 8.01%. Renata The company started its operations in 1972 as Pfizer (Bangladesh) Limited. In 1993, Pfizer transferred the ownership of its Bangladesh operations to local shareholders and the name of the company was changed to Renata Limited. Renata has ten manufacturing facilities on three separate sites. It has ten manufacturing facilities spread over three manufacturing sites while the product distribution is carried out by 19 depots across the country. Renata Ltd is involved in research, development and commercialization of pharmaceutical products, offering: creams, drug injections, syrups, tablets, and capsules. It also provides medicines and vitamins for animal nutrition.

Subsidiaries:

- Renata Agro Industries Limited (Renata Ltd. holds 99.99% of equity interest)
- Purnava Limited (Renata Ltd holds 99.99% of equity interest)
- Renata (UK) limited (Renata Ltd. holds 100% of equity interest)
- Renata Pharmaceuticals (Ireland) Limited (Renata Ltd. holds 100% of equity interest)

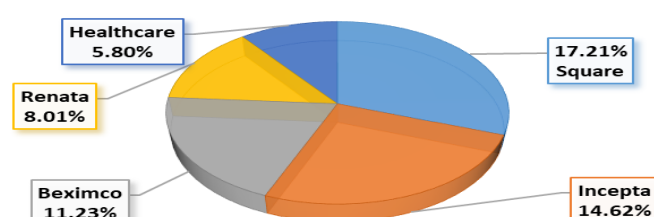
Key Personnel:

Chairman: Dr. Sarwar Ali
CEO & MD: Kaiser KABir
Director: A. Hasant Khan

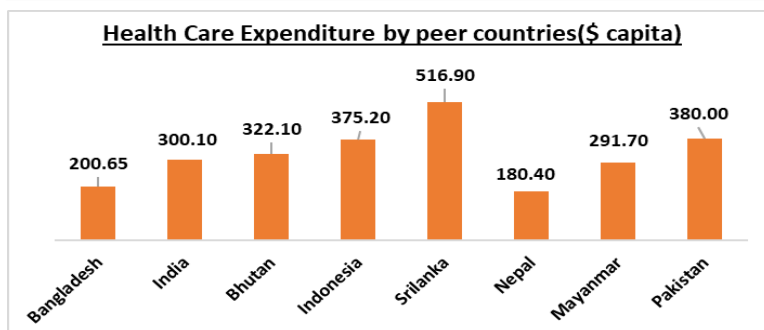
Business Model
Nature of Business

Renata Limited works at various dimension work in Pharmaceuticals sectors through continuous improvement and research. The core businesses of Renata Limited are human pharmaceuticals and animal health products, oncology-based products, agro-based products, poultry products, consumer products, foods and beverage and so on. In Bangladesh, it is the 4th largest pharmaceutical company and the market leader in animal health products.

MARKET SHARE OF TOP 5 COMPANIES IN BANGLADESH



Bangladesh's pharmaceuticals industry accounts for 1.83% of the country's GDP. 80% of the drugs are generic drugs, rest 20% are patented drugs. (According to Director General of Drug Administration; DGDA) Bangladesh is capable of producing specialized delivery products like inhalers, pre-filled syringe injections, lyophilized injections and dry powder inhaler and sustained release formulations.



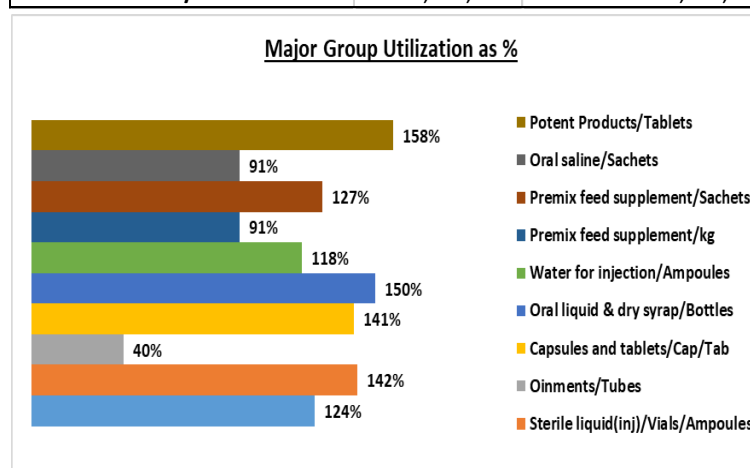
The pharmaceuticals sector as a whole has great potential ahead given the country's population of 16 crore and the high economic growth. Bangladesh's per capita healthcare spending is nearer the bottom of the list among the Asian Countries and it is also expected to have a double digit growth in upcoming years. In future Bangladesh is now capable of producing world class drugs and the government of Bangladesh has declared the drug industry as a "Thrust" sector. Various initiatives are being taken to increase the export of drugs. For example, liaising with the embassies of Bangladesh abroad and in collaboration with the Bangladesh Pharmaceuticals Industries Association to organize Bangladesh Pharmaceuticals Fairs, Seminars in different countries to promote the products of Bangladesh.

Key Financials

	2019	2020	2021	2022E	2023E
Financial Information (BDT mn)					
Net Sales	2,222	2,416	2,925	3,510	4,212
Gross Profit	1,115	1,153	1,395	1,755	2,119
Operating Profit	563	651	723	1,042	1,349
EBITDA	521	599	673	1,042	1,475
Profit After Tax	382	413	503	726	946
Total Assets	2,420	2,904	3,524	3,842	4,176
Total Debt	-	-	-	-	-
Equity	1,828	2,154	2,545	2,832	3,122
Retained Earnings	1,730	2,054	2,434	2,724	3,014
Cash & Cash Equivalent	80	137	136	104	104
Profitability					
Gross Profit	50.2%	47.7%	47.7%	50.0%	50.3%
Operating Profit	25.3%	27.0%	24.7%	29.7%	32.0%
Pretax Profit	23.5%	24.8%	23.0%	27.6%	29.9%
Net Profit	17.2%	17.1%	17.2%	20.7%	22.5%
ROA	17.2%	17.1%	17.2%	20.7%	22.5%
ROE	82.3%	74.2%	87.0%	80.7%	74.1%

Capacity Utilization

Major product group /Unit	2020-2021	
	Capacity (in 000)	Actual production (in 000)
Sterile dry fill (injectable)/Vials	8,155	10,095
Sterile liquid (inj)/Vials/Ampoules	15,350	21,860
Ointments/Tubes	1,500	605
Capsules and tablets/Cap/Tab	2,116,800	2,981,467
Oral liquid & dry syrup/Bottles	19,650	29,527
Water for injection/Ampoules	9,400	11,105
Premix feed supplement/kg	6,500	5,912
Premix feed supplement/Sachet	11,800	15,009
Oral saline/Sachets	540,000	491,147
Potent Products/Tablets	2,650,000	4,189,561



The capacity utilization FY'20-21 shows us that, actual production of all major unit (except premix feed supplement) is greater than the company's capacity. The company produced 44% larger than the actual capacity. Total 7 out of 10 major product groups are utilizing more than their capacities. As it exceeds actual capacity it may require huge CAPEX to its existing production base.

Forward and Backward Integration

Backward Integration:

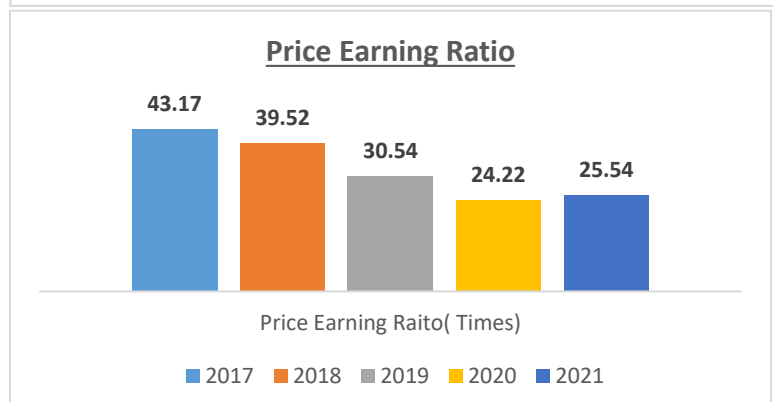
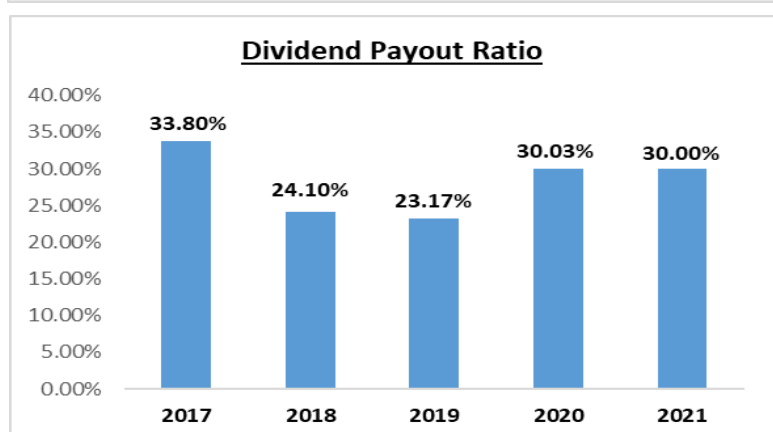
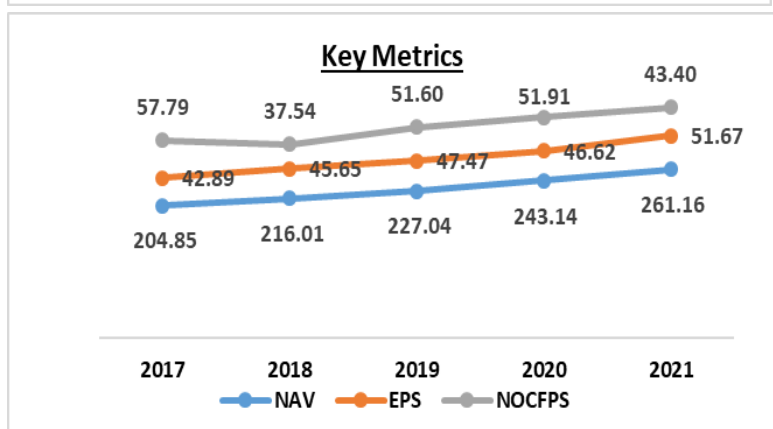
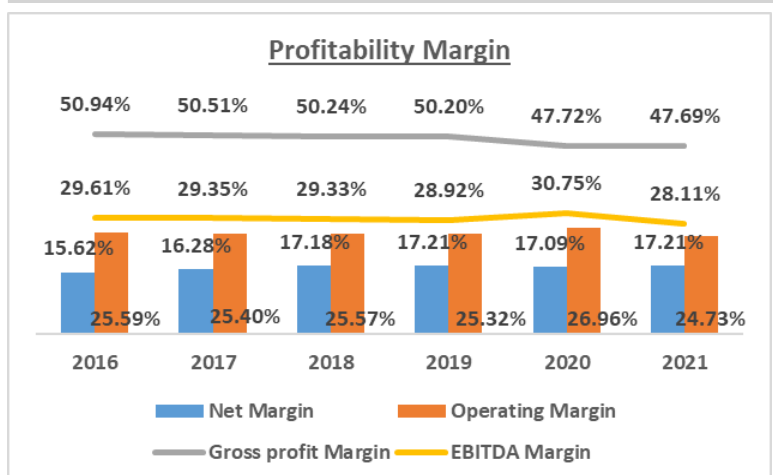
Renata Limited deals with large number of products both locally made and imported. Materials available in local market are procured from the local manufacturers. Materials are imported directly from the manufacturers or suppliers approved by the Drug Administration such as: India, Japan, Italy, USA, UK, Germany, South Korea, Denmark, Brazil, Hong Kong etc.

Purchase, issues and stocks of raw materials are of over 3000 items involving production of 840 finished goods formulations.

Bulk materials -1,79.46 m

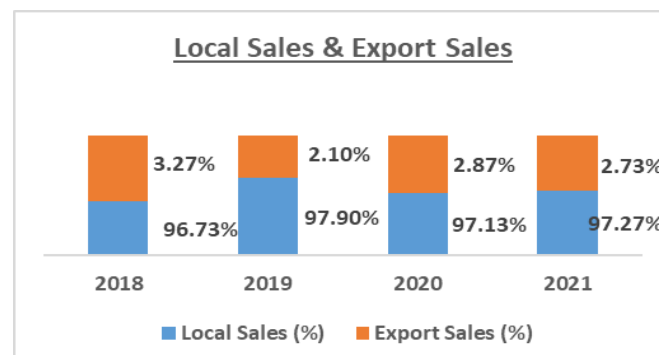
Raw materials -65.15 m

Asset Management					
Inventory Turnover Ratio	265.2%	246.4%	258.1%	252.1%	252.1%
Asset Turnover Ratio	91.8%	83.2%	83.0%	91.4%	109.6%
DSO(X)	50.63	53.76	60.08	78.66	78.66
DPO(X)	18.75	49.72	34.07	27.58	27.58
Liquidity Ratio					
Current Ratio(X)	2.67	2.53	2.40	2.63	2.72
Quick Ratio(X)	2.21	1.68	1.62	1.74	1.76
Cash Ratio(X)	0.17	0.23	0.18	0.13	0.12
Investment Valuation					
P/E(X)	30.54	24.22	25.54	17.67	13.55
Price to Cash Flow Ratio(X)	42.64	45.70	43.40	44.20	45.35
P/B Ratio(X)	187.64	221.03	261.16	290.65	320.39



Forward Integration:

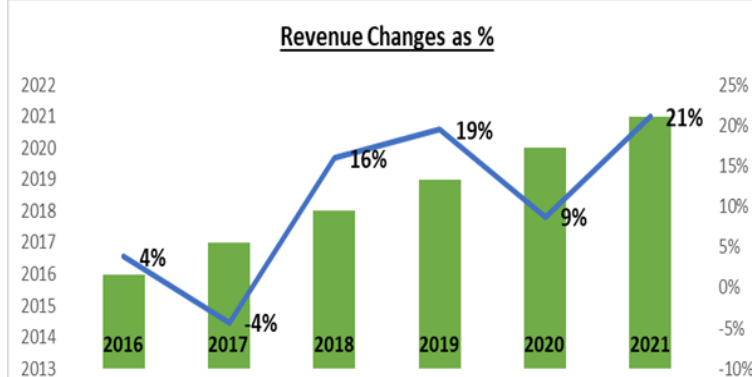
Renata is set to become the third local drug marker to export products to the tightly regulated US market. (Source: The daily star) .Export sales amounted to Taka 798.6 million in FY'21 as against Taka 693.6 million of previous year FY'20 which exposed 15.1% increase.



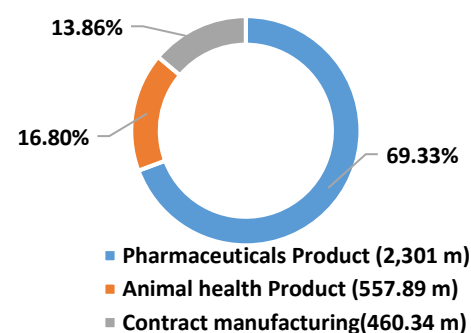
Renata exports its products to the **UK, Hong Kong, Sri Lanka, Vietnam, Myanmar, Nepal, Malaysia, Jordan** etc.

Revenue Model

Revenue of Renata Limited accounts Tk. 2,925.09 million for the FY '20-21, while it was Tk. 2,416.40 million in the previous year. As a result, the revenue has increased by 21% YoY. Profit after tax for the FY' 20-21 amounting of Tk. 503.48 million while it was Tk. 412.95 million in the previous year; profit after tax has increased by 21.92%. Renata Limited receives revenue for supply of goods to external customers against orders received. The majority of contracts that Renata Limited enters into relate to sales orders containing single performance obligations for the delivery of pharmaceutical and animal health products.



Renata's Turnover Composition FY'21



Valuation Method(BDT)	
Residual Earning	BDT 2558.11
DCF	BDT 2095.39
Average Value Per Share	BDT 1897.93
Investment Rating	Undervalued

The market price per share of Renata Limited is BDT 1,347 which implies the share price is undervalued compared to its average price of BDT 1897.93. There would be attractive long term growth prospects of Pharmaceutical industry in Bangladesh. So, the investors may get a potential return of 48% from investing this share at the current price level.

The graph of Renata's turnover composition FY'21 represents the source of total net revenue. We see that, from pharmaceuticals product this company earns BDT 2,301.5 m which performs 69.33% of total turnover.

The company's sales grew by 15.6% (CAGR) against the market growth of 12%. Renata realized 16.80% from animal health product of total turnover. The sales growth of this product is 8.8% (CAGR) compared to the market growth of 8.4% though the sales of animal health product has remained below during Pandemic period. From contract manufacturing this company derives BDT 460.34m which presents 13.86% of net revenue.

Investment Insights

Investment Merits

- Renata Limited has a steady profit growth over the year. Company's net profit growth in last two years were 20.7% and 22.50% respectively.
- Company's ROA has increased which indicates company's good management efficiency to generate earnings.
- ROE of the company is higher than the cost of equity which represents its value generation ultimately.
- Company's asset management ratios are prudent enough to drive its good amount of sales revenue.
- The drop in gearing level ensures its lower default risk and better liability management. As a result, finance cost has been reduced by 26% in FY2020-21.

Investment Concerns

- One of the most vital threats is the TRIPS ending. As Bangladesh move from LDC status in 2024, it may not be able to manufacture patented drugs for free in the later future.
- As per company's statement, cash ratio is less than 1 that means the company has shorter amount of cash on hand to pay off short term debt.
- Renata Limited must take initiative to expand its global presence strongly. But some major barriers like regulatory requirements, lack of adequate testing facilities at home.
- Most of the cases the company depends on foreign experts, technology and raw materials. Therefore, the company may face problems in marketing the products.

This publication is produced by Research and Innovation Lab at Royal Capital Limited (RCL) solely for information purpose of Clients of RCL. Clients are expected to make investment decisions on their own. The information presented in this report is not to be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. Projections of potential risk is based on published information but does not guarantee of any actual risk or return to be materialized. Comments and suggestions should be sent at: ril@royalcapitalbd.com or call 16379.

The End