Pharmaceutical Industry of Bangladesh

The multi-billion Dollar Industry

BDT 205,118 Million

Industry Size

15.6% CAGR (last 5 years)

Industry Growth

15%+ (Next 5 years)

Expected Growth

Industry Overview

Financials of listed Pharmaceutical Companies

Ratings of Listed Pharmaceutical Companies

View of Industry Expert

EBL Securities Ltd.™

Pharmaceuticals Industry of Bangladesh

3rd Edition

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1st Edition: 1st November, 2016
2nd Edition: 4th January 2018
3rd Edition: 28th July 2019

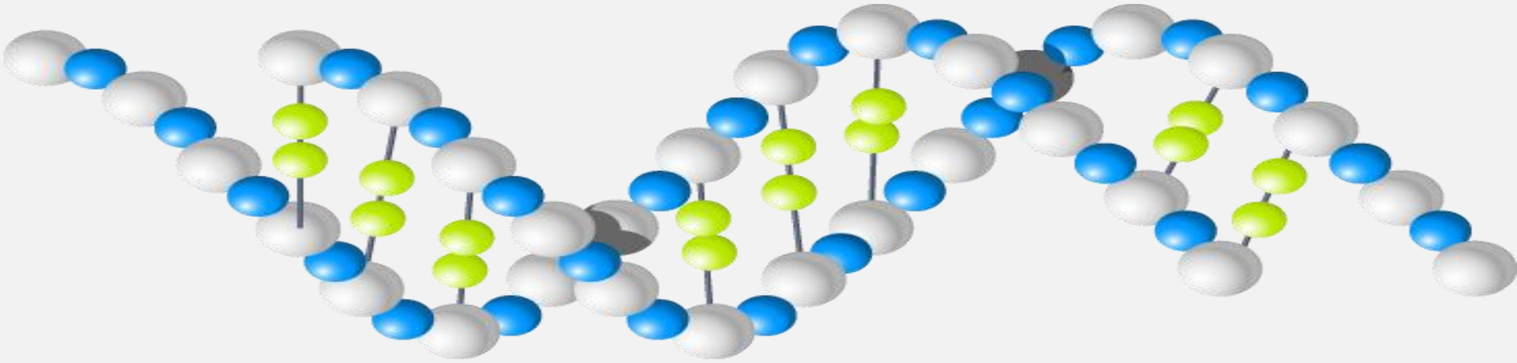
Executive Summary :

Pharmaceuticals industry, the next multi-billion dollar opportunity for Bangladesh, has grown significantly at a **CAGR of 15.6% in the last five years**. The key growth drivers are - growing GNI per Capita, population growth, changing disease profile, lifestyle change and rapid urbanization. These factors will continue to grow pharmaceutical industry in short to mid term as well. Export is opening new venues for the industry and it has grown significantly last financial year. People in the emerging markets will consume more than half of the medicine used globally. Pharmaceutical industry of Bangladesh can become a global player by targeting Pharmerging market which is expected to grow up by 3-6% CAGR for the next 5 years. We have to absorb modern technologies like AI, ML & Biopharma to compete with developed markets. More policy support is required to stay in competition.

Still **Backward linkage** is the Achilles Heels for the overall sector as well as drug **patent exemption** remains in ambiguity amid graduation from LDC. More Greenfield investments are going raise competition among Pharmaceutical companies.

This edition exclusively covers financial performance of pharmaceuticals companies on stand alone basis. We made **rating over the listed companies** using both quantitative and qualitative criteria.

This edition also come up with the **views from the industry expert** to enlighten our readers regarding practical scenario of Pharmaceutical Industry of Bangladesh.



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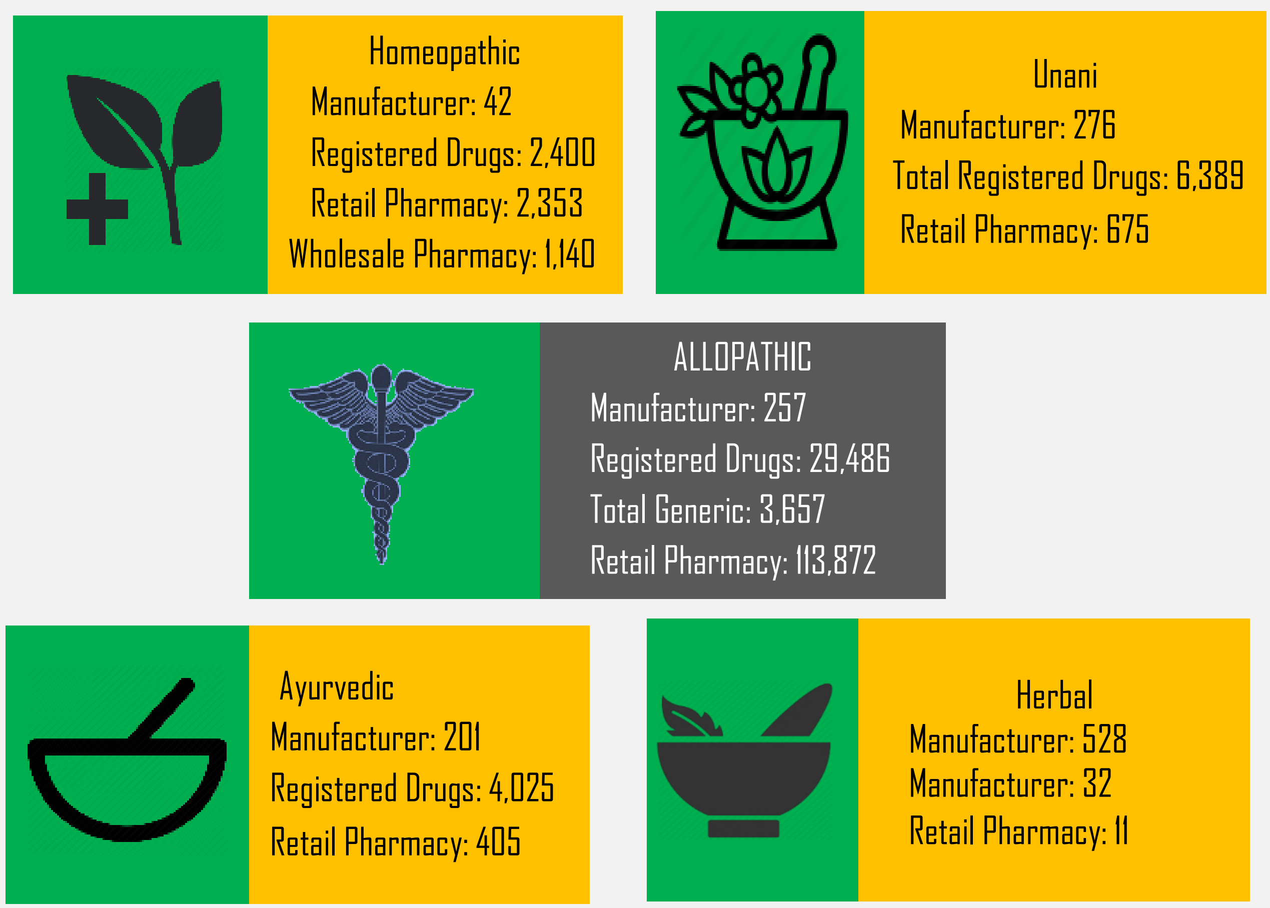
OVERVIEW OF PHARMACEUTICAL INDUSTRY OF BANGLADESH

The Pharmaceutical sector, one of the most developed technology and knowledge based sectors within Bangladesh, has been transforming and evolving since the early 80s. Over the last 4 decades of painstaking effort, Bangladesh is now considered as emerging generic drug hub in the region. According to Bangladesh Association of Pharmaceutical Industries (BAPI) and Directorate General of Drug Administration (DGDA), approximately 257 licensed pharmaceutical manufacturers are operating in Bangladesh and about 150 are functional[1]. These manufacturing companies meet around 98% of local demand. Specialized products like vaccines, anti-cancer products and hormone drugs are imported to meet the remaining 2% of the demand. 80% of the drugs produced in Bangladesh are generic drugs, rest 20% are patented drugs. According to Director General of Drug Administration (DGDA), the industry has 3,657 generics of allopathic medicine, 2,400 registered Homeopathic drugs, 6,389 registered Unani Drugs and 4,025 registered Ayurvedic drugs[2].

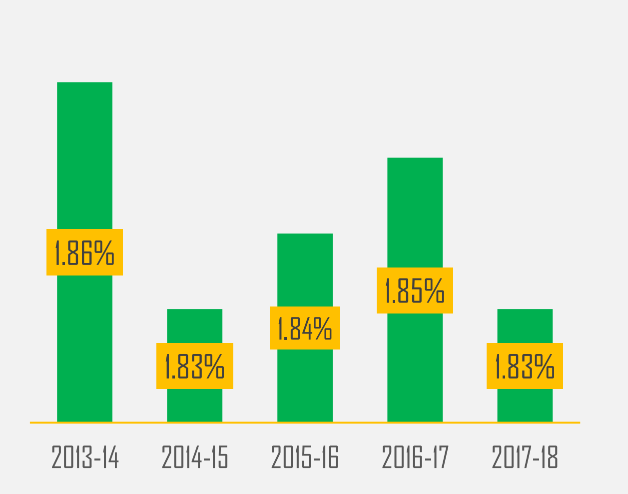


Domestic market of Pharmaceutical products in Bangladesh has shown an increasing trend over the past few years and the market size is BDT 205.12 billion as on 2018 (Source: IQVIA Report). However, this

[1] http://www.bapi-bd.com/bangladesh-pharma-industry/overview

[2] https://dgda.gov.bd/index.php/registration-dashboard

Pharmaceutical industry's contribution to % of GDP



Source: Bangladesh Bureau of statistics & EBLSL

number does not reflect total market size because IQVIA report does not include homeopathic, unani, ayurvedic or herbal medicine information. According to Bangladesh Bureau of Statistics, the industry has contributed 1.83% to the GDP in 2017-18. Pharmaceutical industry of Bangladesh is largely protected from external competition, as there is a restriction regarding import of similar drugs that is manufactured locally. This industry is the second largest contributor to national exchequer. At the same time, the industry provides the largest white collar intensive employment.

Pharmaceuticals industry, the next multi-billion dollar opportunity for Bangladesh, has grown significantly over the last five years. From 2013 to 2018, historical six years CAGR was 14.6% and from 2014 to 2018, historical five years CAGR was 15.6% as stated by IMS Health Report. According to the industry experts, Bangladesh's pharmaceuticals sector will grow 15 percent year-on-year to reach $5.11 billion by 2023, propelled by high investments by local companies as they seek to grab a bigger share of the global market. Bangladesh is going to be a major global hub for high quality and low-cost generic medicine and vaccine in a little while. Bangladesh's pharmaceutical industries aim to capture 10 percent of the global generic market as 5 to 7 companies have received approval from top regulatory bodies. 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 country has already developed production facilities for tablets, capsules, liquid preparations, dry suspension, injections, ointment/cream, nasal spray and granules in sachets. Bangladesh needs to develop the knowledge and capacity to grab a bigger share of the global pharmaceutical market.

Fact box

- ✓ Historical 5 years CAGR: 15.6%
- ✓ $5.11 billion industry by 2023
- ✓ 98% demand met locally, 2% via export
- ✓ 80% Generic drugs, 20% Patented drugs
- ✓ 1.83% contribution to GDP
- ✓ Aim to capture 10 percent of the global generic market

The below table shows year on year size and growth of GDP and size and growth of Pharmaceuticals Industry of Bangladesh. This shows that from 2013-14 to 2017-18. The growth of Pharmaceuticals industry of Bangladesh exceeds the GDP growth of Bangladesh.

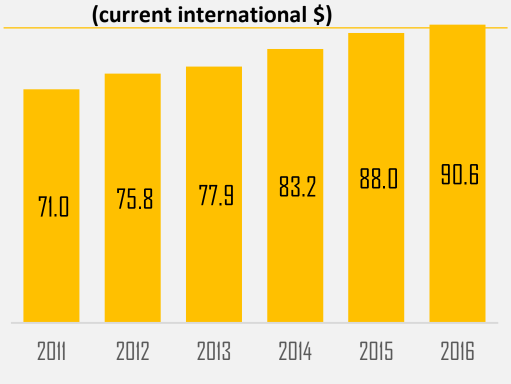
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
GDP (BDT mn)	13,436,744	15,158,022	17,328,637	19,758,154	22,504,793
Nominal Growth Rate %	12.07	12.8	14.3	14.0	13.9
Pharma Market (BDT Million)	105,864	119,548	156,401	187,556	205,118
YoY Pharma Market Growth	8.5%	13.0%	31.0%	20.0%	9.0%

Source: IQVIA and Bangladesh Bureau of statistics

KEY GROWTH DRIVERS OF PHARMACEUTICALS COMPANY IN BANGLADESH

Mean reverting healthcare spending amid growing GNI per Capita will boost overall pharmaceutical industry growth of Bangladesh

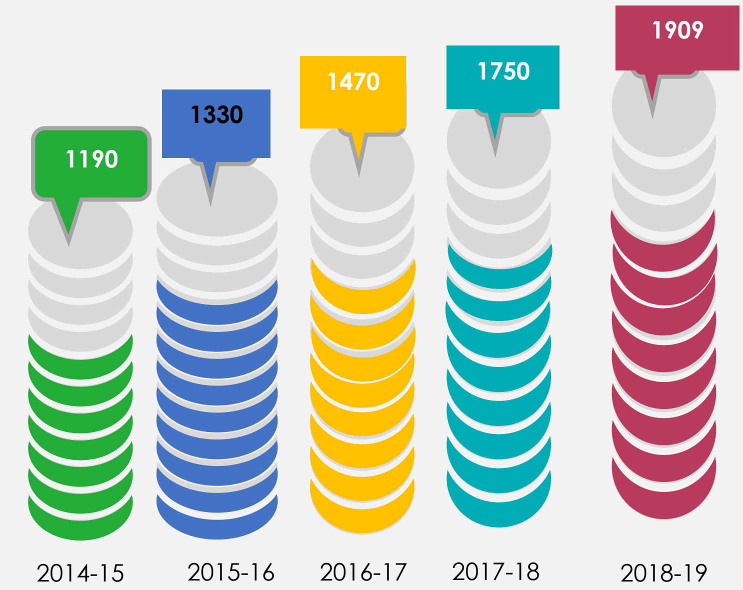
Per Capita Healtcare expenditure, PPP (current international $)



Source: World Bank & EBLSL Research

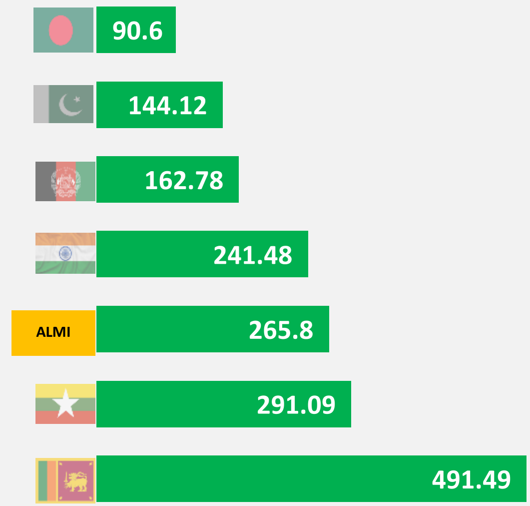
The pharmaceutical industry, winner of global market through dynamism and technology, experienced tremendous growth in the last decade and currently contributes 1.83% to the GDP. Per capita healthcare expenditure of Bangladesh grew at an average rate of 11.0% in the last 10 years whereas gross national income (GNI) per capita grew at a rate of 6.0%. Average income level of people of Bangladesh has increased. According to World Bank data, the per capita Gross National Income (GNI) rose to $1909 in the 2019 fiscal year which was $1,750 in the 2018. Average income has grown by 9.08% from 2018 to 2019. However, per capita healthcare expenditure is lowest compared to other Asian and lower middle income countries. With rising income level, people have more money to allocate for medical expenditure. Healthcare expenditure per capita would continue to grow in the future as education level, health awareness and public expenditure are rising.

GNI per capita of Bangladesh (Atlas method)



Source: World Bank, BBS & EBLSL Research

Current health expenditure per capita, PPP (current international $), 2016



Source: World Bank & EBLSL Research

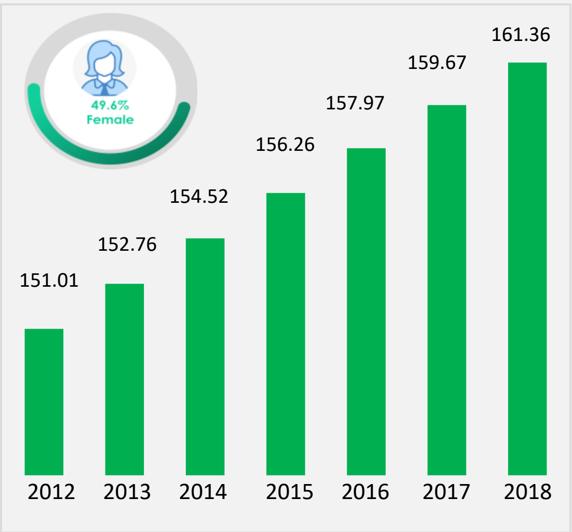
Population growth and rapid urbanization would escalate healthcare expenditure:

Bangladesh is one of the densely populated country (ranked 10th in the world in terms of population density) in the world with 161 million people. According to World Bank and World Meter, from 2012 to 2018 average population growth rate of Bangladesh is 1.1% annually. This drives the growth of Pharmaceuticals sector of Bangladesh. Urban population comprised 36.863% of total population in 2018 which is continuously growing up. Out-of-pocket healthcare expenditure is 71.8% of total healthcare expenditure. More than two third of the healthcare cost is paid by the people personally whereas global standard is less than 32.0%. People living in the city have higher purchasing power and also more health conscious than the rural people. So we expect that private healthcare expenditure as well as out-of-pocket expenditure would rise in the midterm in line with rising urban population.

Fact box:

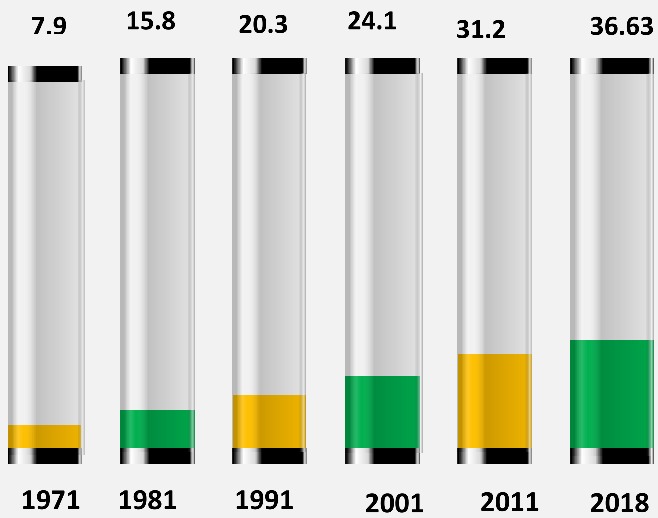
- ✓ 10th densely populated country
- ✓ 1.1% population growth annually
- ✓ Rapid Urbanization

Population of Bangladesh (in Million)



Source: World Bank & EBLSL Research

Urban population (% of Total population)



Source: World Bank & EBLSL Research

Out-of-pocket healthcare expenditure (% of current healthcare expenditure)

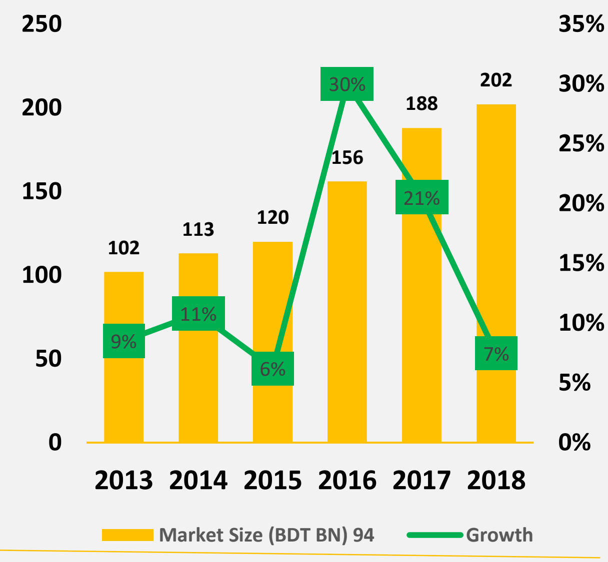
Source: World Bank & EBLSL Research

Upward demand of generic drugs would uplift pharmaceutical industry of Bangladesh

Pharmaceutical industry of Bangladesh is heading toward self-sufficiency in meeting local demand. Local manufacturers currently satisfy 98.0% of total demand and the rest 2.0% are imported. Bangladesh imports vaccines, anti-cancer products, hormone and some specialized drugs which cannot be manufactured locally.

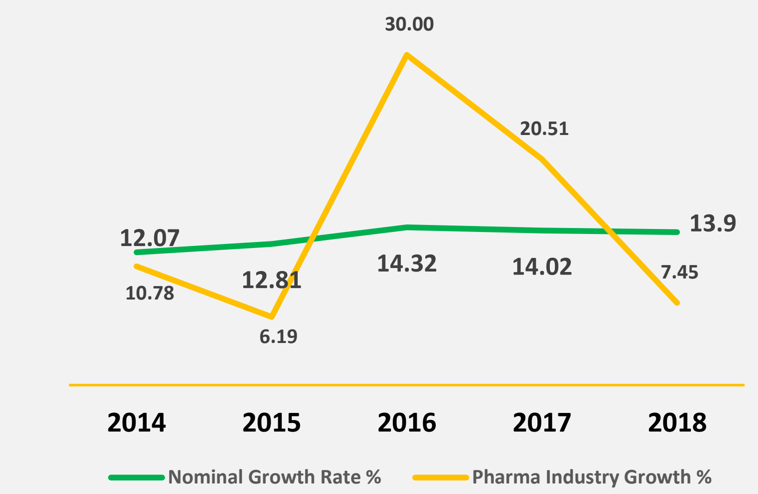
Bangladesh is one of the fastest growing economic region in the world; the country has registered ~7.5% plus real GDP growth rate in each of the last three financial year. Pharmaceutical sector growth exceeded GDP growth in the same period. Revenue of the pharmaceutical industry was BDT 102 Billion in 2013 which grew to USD 202 Billion in 2018 registering CAGR of 14.64%. Industry growth was sluggish in FY 2018 as there was regulatory pressure for the national election, so pharma companies can't pass through higher API's price to end consumers. We believe in the upcoming years industry will grow by 15%+.

Pharmaceutical industry size of Bangladesh



Source: IQVIA & EBLSL

Nominal GDP vs. Pharma industry growth rate



Source: IQVIA, Bangladesh Bureau of statistics & EBLSL

Local drugs manufacturers of Bangladesh mainly produce generic drugs. 80.0% of the drugs manufactured in Bangladesh are generic and 20.0% are patented drugs. Generic drugs are copies of brand-name drugs having same dosage, intended use, side effects, risk, safety and strength as the original drugs.

Increase in modern healthcare facilities

Medical and Pharmaceutical facilities in Bangladesh is adopting modern technology. This will largely contribute to the growth of Pharmaceuticals industry of Bangladesh.

Health awareness of mass people & Changing Life Style

Increasing contribution of Generation X (born from 1965 to 1979) and millennial (born from 1980 to 1994) in total population has changed view about health awareness through social media. People are now more health conscious than before. They consult with doctor whenever feel any disorder which will lead to the growth of pharmaceutical sector of Bangladesh. Life of city dwellers and urban people is changing rapidly. At the same time generation Z (born from 1995 to current) are taking heavy junk food which may lead to more people to buy antiulcerants class (acidity) medicine.

Bangladesh Health Care Scenario

Hospital

- Government Hospital under DGDH: 610
- Private Hospital under DGDH :5,023

Community Clinics

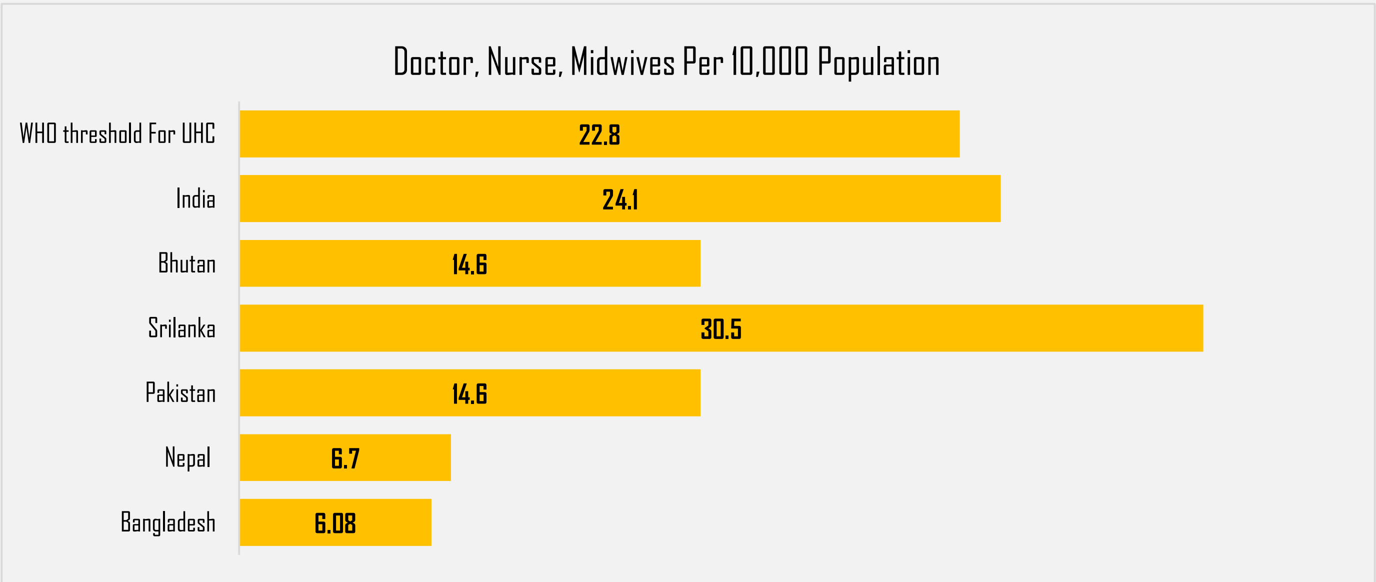
- Number of community clinics: 13,622

Bed

- Government 49,415
- Private :87,610
- Population per hospital bed: 1,528

Physicians

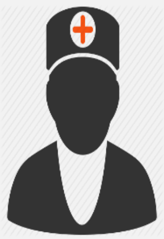
- Number of registered Doctor 93,763
- Number of registered Doctor per 10,000:4.90



Nurse

- Number of registered Nurse 48,001
- Number of registered Nurse per 10,000:2.90

Source: Bangladesh Health Bulletin, 2017



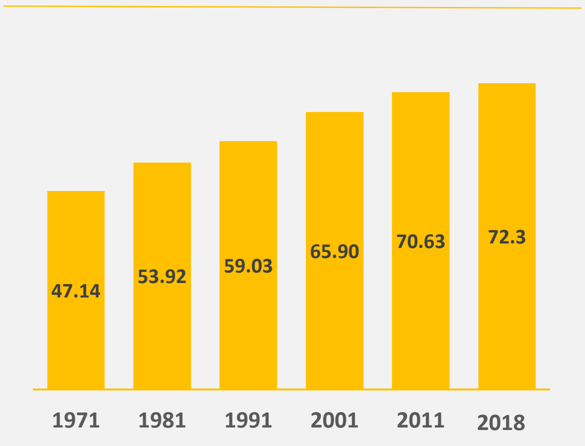
Paramedics

- Number of registered Paramedics 33,644

Demographic shift – creating enormous prospect for generic drug manufacturers of Bangladesh:

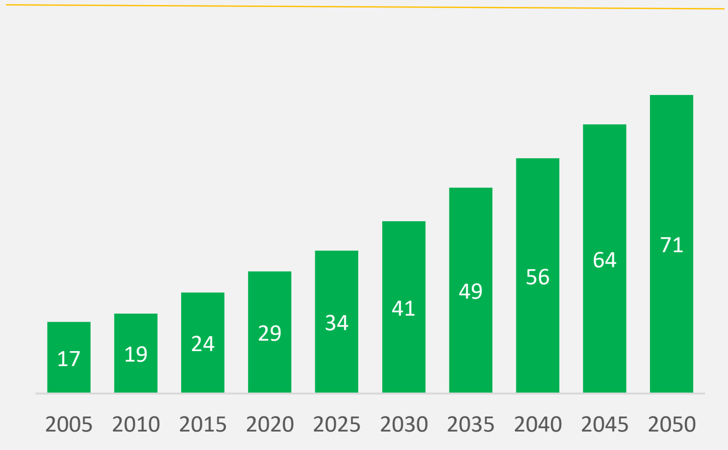
Life expectancy among the people has significantly increased. In 2017, life expectancy at birth is 72.81 years in Bangladesh where it was only 66.4 years in 2002. Going more backwards, in 1971, the average life expectancy of the population was 47 in Bangladesh. As the life expectancy of people is increasing, number of senior citizen has also been rising. By 2036, the percentage of the population aged more than 50 is expected to be ~25.0% (~50mn people) and by 2050 the pro-portion is expected to be ~35.0% (~71mn people). Senior citizens are mainly exposed to four types of diseases i.e. a) cardiovascular diseases, b) cancer, c) diabetes and d) chronic respiratory diseases. Chronic diseases are expected to grow rapidly as the lifestyle and environment factors of Bangladesh are changing. Moreover, to achieve a longer life, people used to consult with physician regularly and take different medicine according to the prescription of doctor.

Life Expectancy at Birth



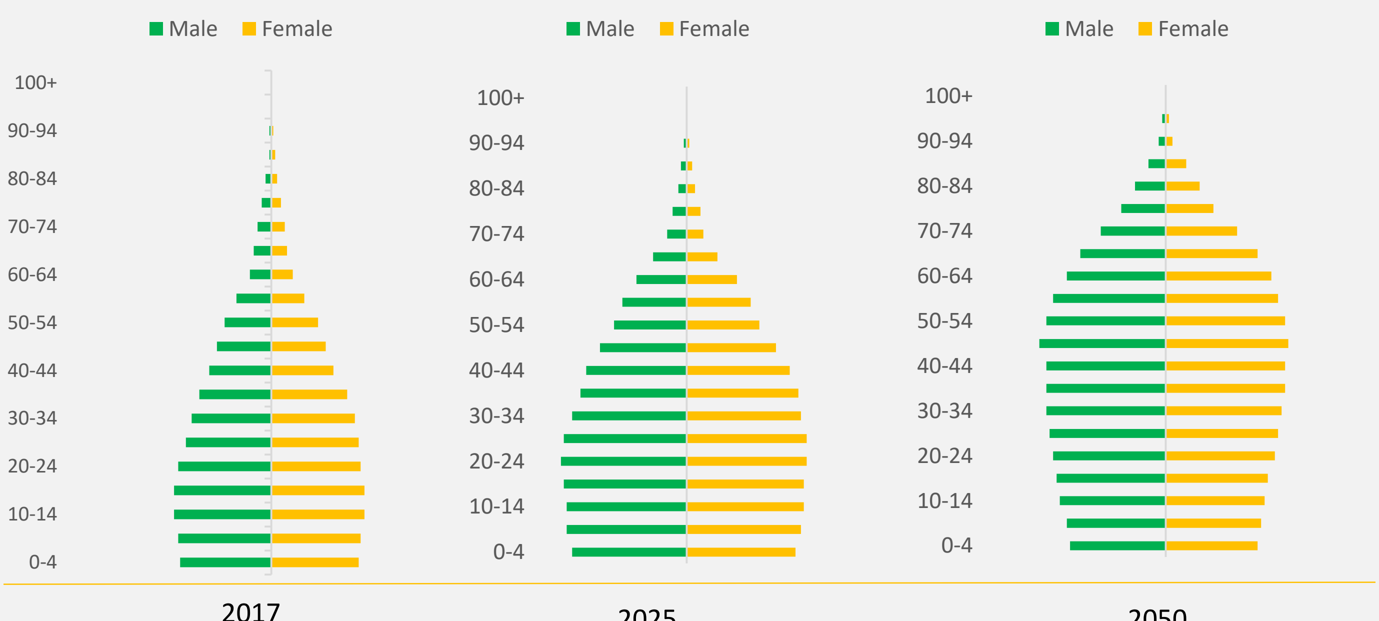
Source: World Bank, BBS & EBLSL Research

People Aged>50



Source: World Bank & EBLSL Research

Age structure of population of Bangladesh in 2017, 2025 & 2050

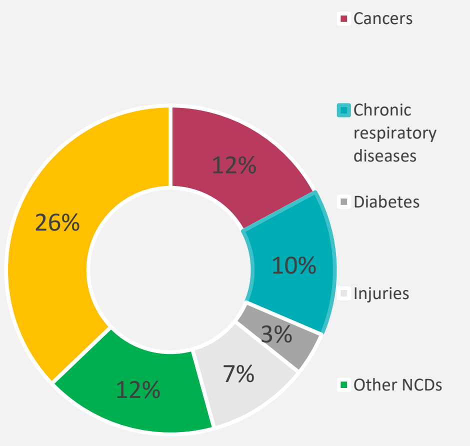


Source: Population Pyramid & EBLSL Research

Diseases profile is changing in correspondence with demographic shift, lifestyle change and rapid urbanization:

Demographic shift, lifestyle change, and rapid urbanization are three main reasons behind the rise of lifestyle diseases. Disease profile of Bangladesh is going through some major shift. Non-Communicable Diseases (NCD) are rising and acute diseases are replaced by chronic diseases. As many as 480,000 people die annually in the country from non-communicable diseases (NCDs), a study has found. Major NCDs include diabetes, kidney failure, stroke, heart attack and cancer. Over 8.0 % of the population has diabetes while 25% has hypertension and 28% has high cholesterol in Bangladesh, according to the report. The study also said that 15.5% people are in risk of contracting cardiovascular disease within the next 10 years. The continuing care required for these diseases and often expensive treatment interventions can result in immense pressure on the health system and potentially catastrophic costs to families through out-of-pocket expenditure. According to the latest survey conducted by WHO (2017), in Bangladesh, every year 200,000 new patients are diagnosed with cancer. Additionally, Chronic Kidney Diseases (CKD) has been significant health issue in Bangladesh. Around 17.0% of the population suffer from CKD.

Proportional mortality – Bangladesh

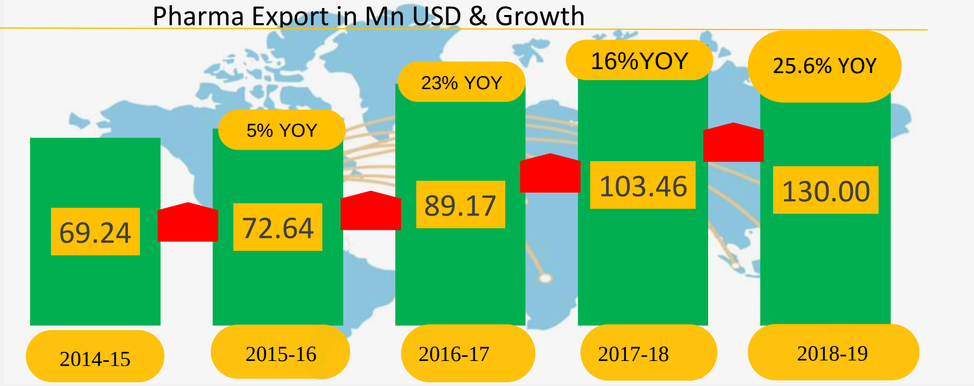


Source: World Health Organization – Non- communicable Diseases (NCD) Country Profiles, 2018

Export – the next growth driver:

According to Bangladesh Association of Pharmaceutical Industries (BAPI), approximately 1,200 pharmaceutical products received registration for export over the last two years. According to Bangladesh Export Promotion Bureau, Bangladesh exported pharmaceuticals product to 147 countries in the fiscal year 2018-19. Among 147 exporting countries, top 7 countries (Myanmar, Sri Lanka, Philippines, Vietnam, Afghanistan, Kenya and Slovenia) constitute 60.32% of total pharma export. Rest 39.68% comes from other countries. Bangladesh has exported pharmaceutical products worth USD $130.0 million in 2018-19 as against USD 103.5 million in 2017-18 (source: Bangladesh Export Promotion Bureau). Pharmaceuticals export has crossed $100-million mark for the 2nd time in the country's history, according to the Export Promotion Bureau.

Pharma Export in Mn USD & Growth



Source: Export Promotion Bureau & EBLSL

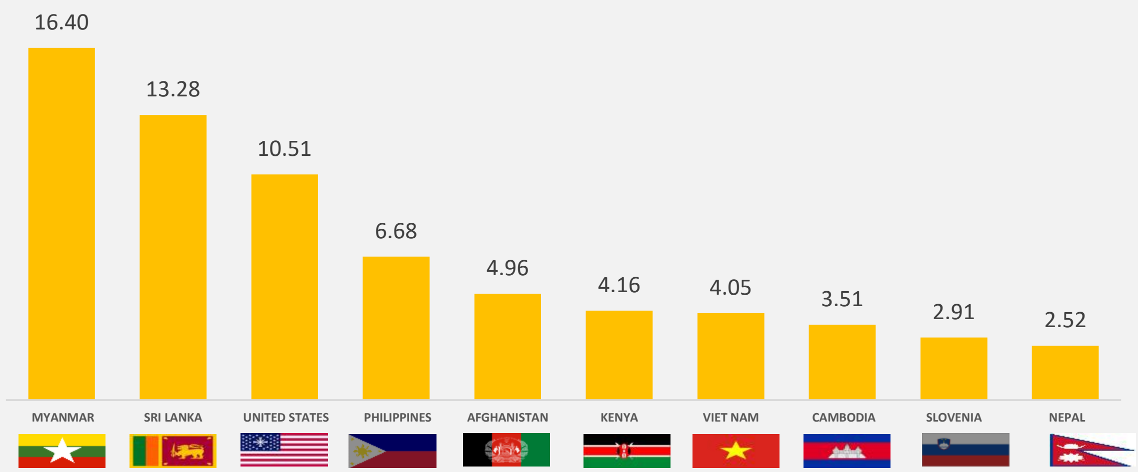
Export earnings from the sector grow up 25.6% from a year ago thanks to improved compliance by the local manufacturers.

However, export sales only contributed 4.3 % of pharmaceuticals market in 2018-19 (Considering USD 1 = BDT 84.5). Hence, the contribution of export sales in pharmaceuticals industry is low.

Pharmaceuticals Company of Bangladesh can only sell different medicine to other country when they get approval of the particular medicine from the drug authority of that particular country. Approval from developed countries signifies that the local medicine has international standard which helps them to build a strong position in local market.

In recent time, the Government of Bangladesh has given huge emphasis on the export of Pharmaceutical products from Bangladesh. It is targeted that Pharmaceutical will be the second exporting product after readymade garments.

Export destination of Pharmaceuticals Product (in Million USD 2018-19; 9 Month

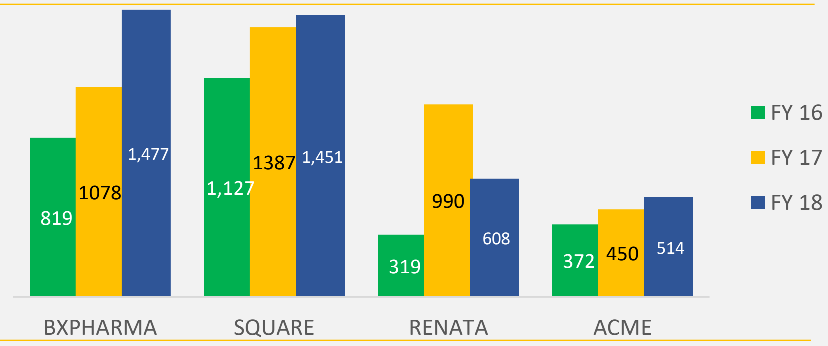


Source: Export Promotion Bureau & EBLSL

Export revenue of Top Players:

In FY18, Square pharmaceuticals ltd reported BDT 1,451 mn in export revenue whereas Beximco pharmaceuticals ltd, ACME Laboratories Ltd and *Renata Limited*, the main competitors in generic drug industry, reported BDT 1,477 mn, BDT 514 mn, and BDT 608 mn respectively. Incepta and Beximco Pharma exports their product to 60 and 55 countries respectively across the world whereas the same number for SQUARE is only 42. We observe that there is scope for expansion for SQUARE especially in pharmerging countries including Brazil, Turkey, and Thailand etc. Top three generic drug manufacturers (Square, Incepta and Beximco) have already received approval from USFDA to export drugs to USA.

Export of Major Player in Mn BDT



Source: Annual Report of respective companies & EBLSL

Pharmerging market – the next frontier:

The world pharmaceutical market is projected to rise between three and six percent from 2018-2022, with the greatest growth expected in 'pharmerging markets'— developing countries where use of pharmaceuticals is growing rapidly. Experts at IQVIA, a leading global provider of advanced analytics, technology solutions and contract research services to the life sciences industry, predicted a compound annual growth rate, or CAGR, of 6 to 9 percent in pharmerging markets. Countries in pharmerging markets have a per capita GDP threshold of USD 25,000 and more than USD one billion spending growth from 2012 to 2016. Aging populations coupled with increasing healthcare expenditure, a growing number of public hospitals and increased disease burden of chronic diseases have boosted the demand for pharmaceuticals in pharmerging markets.

In 2018, pharmerging markets spent the greatest amount of money on therapies marketing towards therapies for pain, antibiotics, high blood pressure, cancer and diabetes, according to a report from IQVIA Health (Institute for Health Informatics).

Therapy Class	2018 Const US$ Spending	2014-18 CAGR Const US$	2023 Const US$ Spending	2019-23 CAGR Const US$
Oncology	99.5	13.10%	140-150	6-9%
Diabetes	78.7	15.20%	115-125	7-10%
Respiratory	60.5	5.70%	70-80	2-5%
Autoimmune	53.5	15.40%	70-85	6-9%
Pain	39.7	0.90%	40-48	0-3%

Source: The global use of medicine in 2019, IQVIA

Pharmerging markets have been divided into three tiers based on economic growth levels. Tier I contains China, which dominated the global pharmerging market because of high government healthcare spending. Tier II is made up of Brazil, India and Russia, all of which feature a rapidly aging population, rise in consumer awareness and favorable government policies. Countries in Tier III, which hold the least market shares among pharmerging countries, include Indonesia, Thailand, Mexico, Turkey, Egypt, Vietnam, and Bangladesh & South Africa.

Leading players in the pharmerging market include Huadong Medicine Co. Ltd., Sun Pharmaceutical Industries Ltd., Tata Consultancy Services Ltd., LUPIN, GlaxoSmithKline Plc., AstraZeneca, Teva Pharmaceutical Industries Ltd., Johnson & Johnson, Novartis AG, Merck & Co. Inc. F. Hoffmann-La Roche Ltd., Koninklijke Philips N.V. and Abbott Laboratories as of April 2017, according to a report from Transparency Market Research.[1]

People in the emerging markets would consume more than half of the medicine used globally consistent with the fact that half of the world's population live in those areas. Pharma companies of Bangladesh can become a global player utilizing this opportunity. Bangladesh offers significant manufacturing cost advantages due to the lower cost of labor. Major generic hubs- India and China are losing cost advantages. Cost of labor in Bangladesh is 3 to 4 times lower than that of China and India. Medicine price in Bangladesh is currently among the lowest in the world. As a result, Bangladesh has opportunity to export pharmaceuticals products more than India and China. At the same time, major producer of pharmaceuticals raw materials India and China won't be able to produce the patented raw material due to the restrictions from World Trade Organization (WTO). Thus, Bangladesh can export to foreign countries easily.

[1] *https://healthcareresearchreports282768962.wordpress.com/2019/05/15/global-pharmerging-market-pharmaceutical-products-to-witness-strong-growth-in-near-future/*

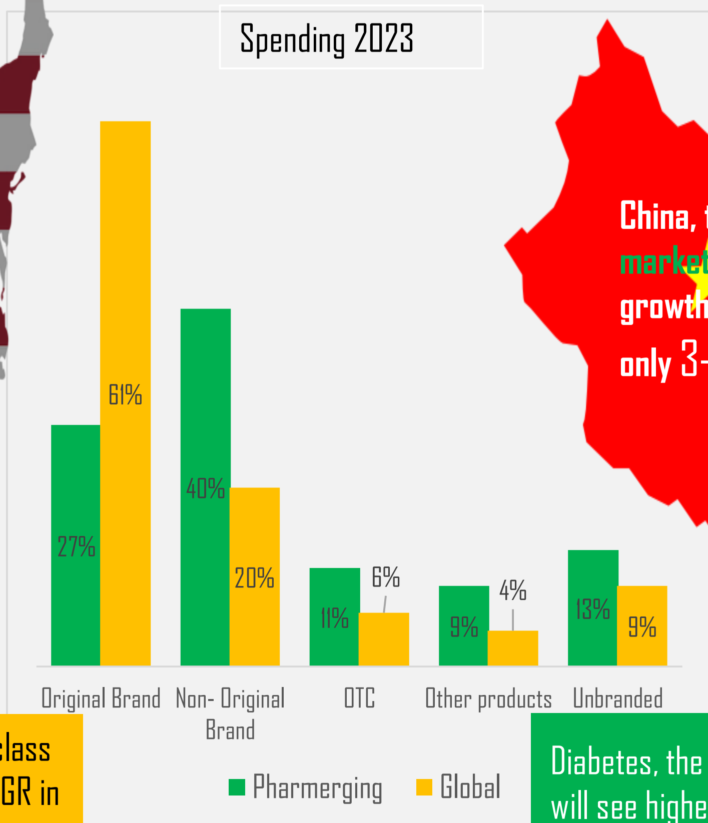
Global Pharmaceuticals Scenario

Global spending on Medicine reached $1.2 trillion in 2018
And is set to exceed $1.5 trillion by 2023.

WORLDWIDE
2018:$1205Bn +4.8%
2014-18:6.3% 5 Year CAGR
2019:$1245Bn +4.5%
2023:$1505-1535Bn+3-6% 5year CAGR

PHARMERGING
2018:$286Bn +6.9%
2014-18:9.3% 5 Year CAGR
2019:$293Bn +7%
2023:$355-385Bn+5-8% 5year CAGR

Invoice spending in USA is expected to grow at 4-7% to 625-655 BN . Declining in growth will come from decreasing price trend



China, the 2nd largest pharma market is witnessing slower growth and is expected to grow only 3-6% next 5 Years

Oncology, the largest therapeutic class around the world will see 6-9% CAGR in next 5 years.

Diabetes, the 2nd largest therapeutic class will see highest CAGR of 7-10% in next 5 years.

54
New Active substances to be launched every year up to 2023

$45.8 billion
Average spending is required to launch New Product

AI, Machine Learning and Deep learning will lead to breakthrough in Pharma Sector

Source: The global use of medicine in 2019, IQVIA

Trade Related Aspect of Intellectual Property Rights (TRIPS):

According to WTO's Trade Related Aspects of Intellectual Property (TRIPS) agreement signed in 2002 in Doha, 49 Least Developed Countries (LDCs) have been allowed to export patent free drugs to any country between 2006 to 2016. This allowed Bangladesh to reverse engineer the original patented medicine to produce generic version of that particular drugs without taking prior permission from innovator. Also, Bangladesh has the opportunity to export to any country if the medicine is not under patent in that particular country. Among all the 49 LDC, Bangladesh has the strongest base to manufacture pharmaceuticals drugs due to cheap labor. The privilege has been further extended in 6th November, 2015 considering the current Least Developed Countries (LDC) status of the country. Being a least developed country, Bangladesh has been exempted from the obligations to implement patents and data protection for pharmaceutical products until January 2033 by the World Trade Organization.

Although highly successful in developing the domestic market, the pharmaceuticals sector of Bangladesh is beset with several long standing challenges which need to be addressed to realize its actual export potentially.

Restrictions of Bangladesh Bank to remit transfer hampering pharmaceutical exports:

Bangladesh bank permits to remit maximum 30,000 USD in a year. Payment for company and product registrations, office establishment and maintenance, manpower cost, marketing expenditure/promotion of drugs, and miscellaneous export related expenditure becomes much higher than the above limit. The government should really understand that this barrier is hampering pharmaceuticals export activities. Therefore, remit limit for smooth operation of pharmaceutical export activities should not be imposed.

Custom harassment in sending drug sample interrupts export promotion:

The customs authority of Bangladesh imposes lots of restrictions in sending drug samples to the importing countries. Instead of doing favor they are rather interrupting normal export activities. Sometimes they apply many restrictions on giving permission to sending drug samples, also limit the quantity of samples to be sent, and above all, don't allow sending drug sample more than BDT 4000 without VAT. It must be realized that without sufficient drug samples, no foreign buyers will be interested to buy our products. Besides, for the testing and promotion purposes, 30-40 % samples is required by the importing countries. Therefore, understanding the reality the custom authority should allow at least 30-40% samples to be sent to the importing countries without VAT.

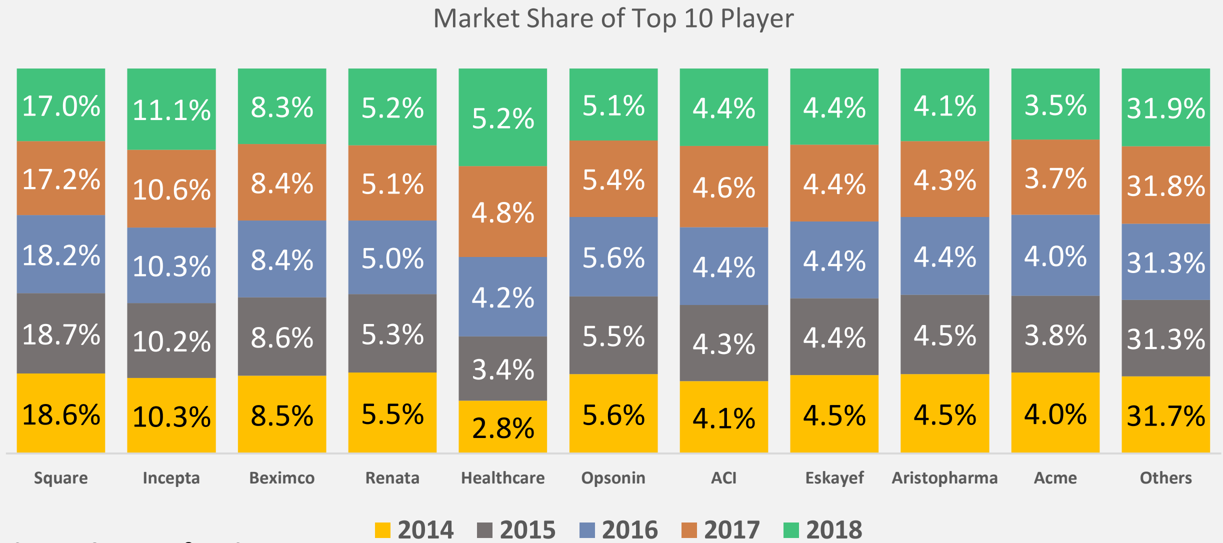
Lack of bioequivalence test facility is a major limitation of pharmaceutical export:

Bioequivalence study of a product is a must for the registration of that product in many of the moderately regulated and regulated foreign countries. At present, we don't have any facilities for bioequivalence study. In order to register a product, a pharmaceutical company has to carry out this test in foreign country by spending of a huge testing charge (USD 50,000-100,000/product). For this reason, many pharmaceutical manufacturers don't show interest to register their products in foreign countries that require Bioequivalence study.

Moreover, country image and production of substandard/fake drugs by some companies are hampering the acceptance of our products to international community.

MARKET POSITION OF DIFFERENT COMPANIES:

Pharmaceutical companies in Bangladesh usually provide branded-generic products. So, established brands are able to charge premium price for their products. According to IQVIA 2018, top 10 companies hold 68.1% of Pharma market share.



Source: IQVIA Data & EBLSL

The size of local pharmaceutical market stood at BDT 205.12 billion in 2018. The industry recorded a CAGR of 16.51% growth between 2014 and 2018. Only five companies hold 46.66% of the market share, Square Pharmaceuticals officials said citing IQVIA data.

Although the annual sales of Square Pharma in 2018 increased by BDT 1.06 Billion from BDT 33.70 billion in 2017, the market share of the company declined by 0.52% points from 17.47%, the data showed. Of the other companies, Incepta holds 11.08% market share with annual sales worth BDT 22.73billion, Beximco 8.26% with BDT 16.94 billion, Renata 5.20% with BDT 10.66 Billion, Health Care 5.17% with BDT 10.61 Billion, Opsonin 5.08 % with BDT 10.42 Billion, ACI 4.38% with BDT 8.99 Billion, Eskayef 4.37% with BDT 8.96 Billion, Aristopharma 4.11% with BDT 8.42 Billion and ACME 3.52% with BDT 7.21 Billion. Square has been the market leader for last 32 years. The reasons are: doctor's confidence, trust of the customers and people because of honesty, transparency, ethics and company's commitment.

Of the top 10 companies, six including Square, Beximco, Opsonin, ACI, Aristopharma and ACME lost their market share in 2018 because of the increasing competition among them. The data also showed that the sales of eight companies increased in 2018 while only two companies including Opsonin and ACME witnessed negative sales growth.

The top 10 companies are much inclined to adopting modern technologies and maintaining excellence in their manufacturing and marketing. Therefore, around 70% of the market share is enjoyed by these companies. The country's top pharmaceutical companies are developing the necessary infrastructures as well as practices to align themselves with global quality standards.

COMPETITIVE STRUCTURE OF THE PHARMACEUTICALS INDUSTRY

Threat of new entrants: Low

A company that wishes to enter in a pharmaceuticals industry requires huge capital expenditure and regulatory permission from the drug authority; which creates a significant barrier to enter in the industry. Furthermore, customer's loyalty to the drugs of established brands, access to distribution channel creates further barrier. This causes threat of new entrants in the industry significantly low.

Threat of substitute product: Medium

The retail consumer of pharmaceuticals product often switch from one brand to another. There are many substitute brands of single medicine. If consumer does not find one brand, he/she switches to another brand very quickly. Thus, the threat of substitute product is very high.

The bargaining power of buyers: Very Low

No threat	0
Very Low	1
Low	2
Moderate	3
High	4

The government strictly maintains the retail price of lifesaving drugs. Pharma companies are free to set up the price of other drugs. The patient typically depends on the prescription provided by physicians. Thus they have no choice to take alternative medicine. Furthermore, the buyers are not concentrated and thus possess low bargaining power.

The bargaining power of the supplier: High

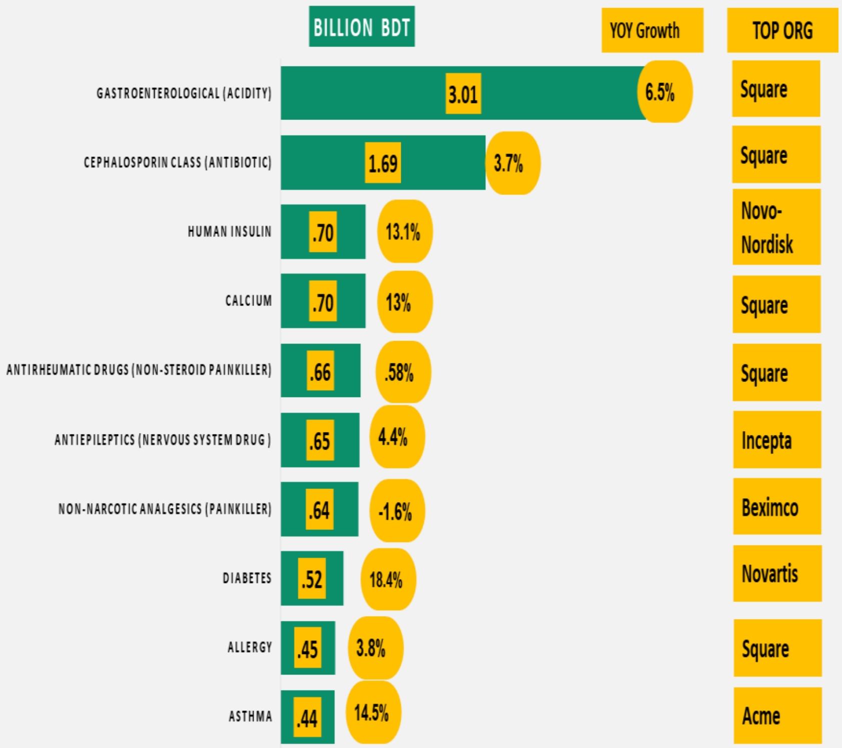
Currently, Bangladesh imports 99.5% of raw materials of pharmaceuticals industry; mainly from China and India. We can also source API from European supplier. But sourcing API from European country lead to more cost. Concentration of the supplier and high switching cost creates high bargaining power of the supplier. However, commercial operation of API Park in Munshiganj will certainly decrease import dependency for raw material. Hence, bargaining power of supplier is expected to decrease in future.

Rivalry among the competitors: High

The pharmaceuticals market is highly concentrated. Top 20 players dominate the major portion of the market. Every company has the same medicine in different brands. The companies are competing with each other fiercely in order to grab market share.

MARKET SHARE OF TOP TEN THERAPEUTIC GROUP:

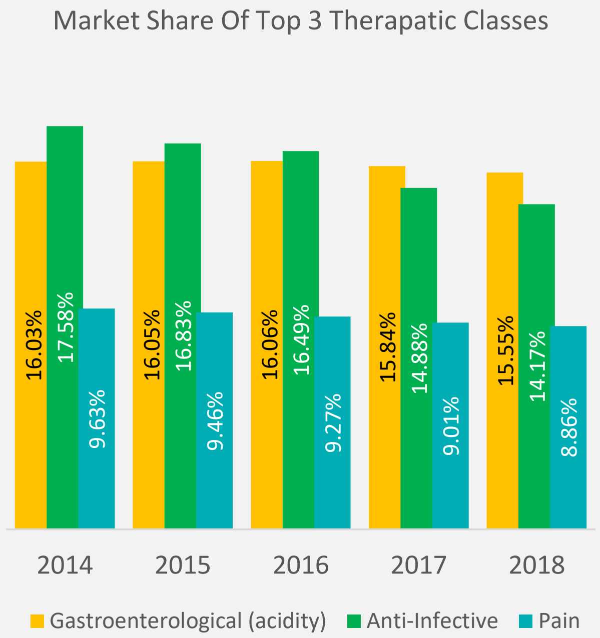
According to IQVIA data 2018, at among the top 20 therapeutic medicines, antiulcerants class (acidity) accounted for the highest sales (BDT 30,134.8 million) in 2018 followed by cephalosporin class (antibiotic) with sales worth BDT 16,876.1 million. Last year, the sales growth of antiulcerants class was 6.55 percent. Square Pharmaceuticals has been selling the most of this class medicines. The company is manufacturing and marketing of medicines named Seclo. Healthcare and Incepta are the 2nd & 3rd best seller in this class. Companies are selling assidy medicines in the name of Sergel and Pantonix. Annual sales of human insulin accounted for BDT 7,021.9 million, calcium BDT 7,009.5 million, antirheumatic drugs (non-steroid painkiller) BDT 6,594.1 million, antiepileptic (nervous system drug) BDT 6508.7 million and non-narcotic analgesics (painkiller) BDT 6434.7 million.

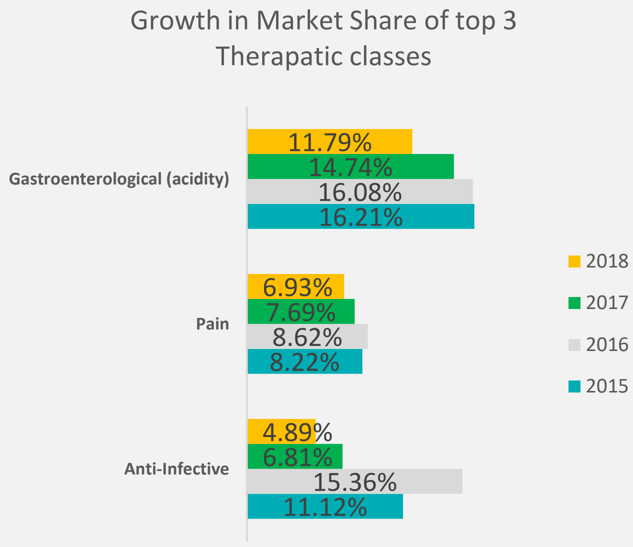


Source: IQVIA Data, 2018 & EBLSL

On the supply side, scarcity of new products in the pharmaceutical market is making it difficult for the market to maintain the growth rate. According to the industry experts, there also has been a shift in the contribution of key therapeutic classes to the overall market. For example, it is well-known that the Bangladesh pharmaceutical market is driven by three disease classes — gastroenterological, infection, and pain. However, the market share and share-of-growth, related to the medicine for these three conditions, have been falling over the last few years because most of the molecules here are quite old, and there has been little development in global R&D for these conditions.

Growth in the market is now coming from a wide range of therapeutic classes, none of which dominates the market as a single group. According to the industry experts, the key implication of such change for the pharmaceutical market is that, as the growth of major therapeutic classes is declining, the overall market growth rate is also likely to slow down. Hence, we assume the pharmaceutical market growth to be ~15.0% per year on average for the next five years.





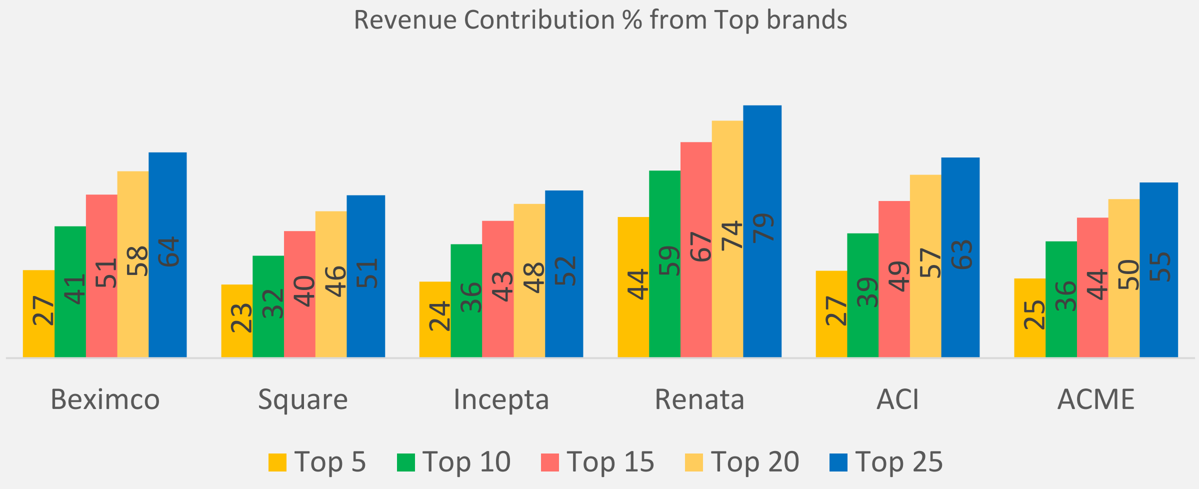
Source: Annual Report of RENATA Ltd & EBLSL.

Top 10 Brands:

Brand	Company	Category	Market Value(In MN)	Market Share
Seclo	Square Pharma	Gastroenterological	3,696	1.86%
Sergel	Healthcare Pharma	Gastroenterological	3,311	1.66%
MAXPRO	Renata	Gastroenterological	2,725	1.37%
PANTONIX	Incepta Pharma	Gastroenterological	2,240	1.13%
CEF-3	Square Pharma	Antibiotics	1,544	0.78%
MIXTARD 30	Novo Nordisk	Insulin	1,471	0.74%
NAPA EXTRA	Beximco Pharma	Antipyretic	1,247	0.63%
LOSECTIL	Eskayef	Gastroenterological	1,233	0.62%
NAPA	Beximco Pharma	Antipyretic	1,222	0.61%
EXIUM	Radiant Pharma	Gastroenterological	1189	0.60%

Source: IQVIA Data & EBLSL Research

Beximco is highly concentrated as almost 41% of total revenue come from its top 10 products whereas Square has only 32% of revenue from its top 10 products which is lower than any other competitors. So Square has more diversified basket in its revenue contribution.



Source: IQVIA Q1, 2018.

RISK ASSOCIATED WITH THE PHARMACEUTICAL INDUSTRY OF BANGLADESH

Backward linkage – the Achilles Heel:

Pharmaceutical industry of Bangladesh is heavily dependent on imported raw materials for manufacturing drugs. While dependency on imported API hinders export growth due to price competitiveness, API price volatility in 2018 was a concern for pharma manufacturers. The shutdown of Chinese factories in 2017 also made some APIs scarce. Local companies increased inventory levels to ensure continuous supply, but the additional working capital requirement increased leverage. 15 companies of Bangladesh including Square Pharma, Beximco Pharma, Active Fine, ACI Limited, Globe Pharma, Gonosastha Pharma, Opsonin Pharma, Drug International and Eskayef produce 40 APIs. Among those, Active Fine is the only company which is fully involved in producing API i.e. the company does not produce any finished medicine. Ganashastha Pharmaceuticals Limited (GPL) alone accounts for about 60% of the raw materials manufactured in Bangladesh. In 2015, the demand was BDT 60,000 million worth of API & Excipient, where Bangladesh imported BDT 59,720 million worth of API & Excipient. Main suppliers of raw material are India, China, Italy and Germany. According to DGDA, there are 2,805 valid sources of raw material from where Pharmaceutical manufacturers of Bangladesh can procure raw materials.

The government has already taken step to shrink API problem by establishing API Park. Some other regulatory measures have already been taken. These are discussed below:

1. API PARK

In order to develop backward linkage, Executive Committee of the National Economic Council (ECNEC), approved the Active Pharmaceutical Ingredient (API) Park at Munshiganj in May 2008. Bangladesh Small and Cottage Industries Corporation (BSCIC) has begun the work of setting up Active Pharmaceutical Ingredients (API) Park on 200 acres of land at Baushia, Gazaria, Munshigonj in the same year. The park is being built under the public-private initiative with the Bangladesh Association of Pharmaceutical

Industries (BAPI). After revising two times, the estimated cost of the project is BDT 3,640 million; 70.8% up from original estimation of BDT 2,130 million. There will be about 42 number of plots. The cost of each acre of land is estimated as BDT 31 million. The Companies will get 10 years' time to pay for the plot. There are 30 plots in "A" category (3.27 acre each), 5 plots in "B" category (2.35 acre each), and 7 plots in "S" category (different size). 32 member companies of BAPI applied for 57 plots.
All infrastructural facilities including Common Effluent Treatment Plant (CETP) and Waste Dumping Yard will be available in this project. The cost of the Common Effluent Treatment Plant (CETP) is estimated as BDT 800 million, to be established by the companies. This API Park is expected to create employment of 25,000 individuals.

Project Initiation:
May 22, 2008

Expected Completion Date:
December 2010 (Revised June, 2020)

Project Cost:
BDT 2,130 million (Revised to BDT 3,810 million)

Amenities:
Common Effluent Treatment Plant (CETP) and waste Dumping Yard

Project Location:
Baushia, Gozaria upazila of Munshiganj

Total Land Area:
200.16 acres of land

Number of Plots:
42 industrial plots allocated to 28 drug manufacturers

Employment:
25,000

The API Park was expected to be operational by late of 2011. But the construction work was delayed.
The Government has handed over 42 plots in the industrial area to 28 drug manufacturers in 20th September, 2017. Square pharma, Beximco Pharma, Globe, Opsonin, Eskayef, JMI got several plots in the park. With the completion of API Park, Bangladesh will be able to decrease the cost of locally manufactured drugs and it will add to the cost advantage for exports. It is expected that the country can

save at least 70% of import cost of raw material by producing raw material at the API Park. This will dramatically reduce the cost of production and help Bangladesh to achieve price competitiveness in Global Market.
API can also be exported to other countries. Currently, Global API market stands at USD 238 billion. At the same time, the Government of Bangladesh has declared Pharmaceuticals sector as thrust sector. The Government has announced Pharmaceuticals "The product of the year 2018." This gives immense opportunity for Bangladesh to export APIs to foreign countries.

2. National Board of Revenue (NBR) has offered 15% VAT waiver to local API producers till December 2025

National Board of Revenue (NBR) has exempted 15% VAT to local API producers on imported raw materials and reagents till December 2025 to support the backward linkage of the country's pharmaceuticals industry. To avail the benefit, the API manufacturers need to fulfill some conditions; according to the SRO the API producers –

- Registered in Bangladesh
- Make at least five molecules in every calendar year
- Add at least 60% value to the imported products
- Maintain standards including the current good manufacturing practice, quality audit and conduct source inspection every year
- Spend at least 1.0% of its annual turnover on research and development purpose on a mandatory basis.
- Moreover, the company will have to expand its alliance with academic and research organizations every year

Volatility in API price & Exchange rate risk – depreciation of BDT can significantly reduce Margin:

Pharmaceutical industry of Bangladesh is heavily dependent on imported raw materials for manufacturing drugs. Therefore, depreciation in local currency would have an adverse effect on the margin of pharma industry. The exchange rate remained stable during FY13-FY17 but value of BDT against dollar is decreasing recently. BDT depreciated 3.8% in FY18. And we expect current account deficit would persist (although slow down to some extent amid lower growth of import of capital machinery), we anticipate that BDT/USD exchange rate would depreciate 2.0% to 2.5% during FY 2019.

More Greenfield investments are going to lead a highly fragmented market

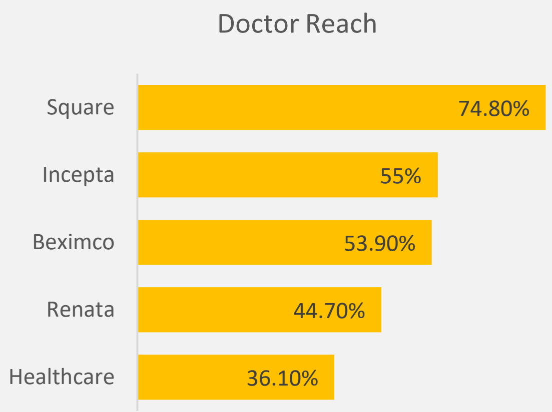
The pharmaceuticals industry is gearing up to expand as 19 companies have got the go-ahead in the last one year to set up facilities at a combined investment of around BDT 6548.2 million. The entry of these new companies will boost competition as there are already more than 200 manufacturers in operations. Most of the 19 companies have completed setting up their facilities and they will start operations within the next one and a half years according to the Directorate General of Drug Administration (DGDA).
JR Pharmaceuticals, the biggest among the investors, will invest BDT 1,060 million to produce different drugs, including antibiotics, anti-ulcer drugs, antihistamines, antivirals, antifungals, vitamin and mineral supplements, anti-diabetics, eye drops, inhalers, oral rehydration salts, and oral liquids. AFC Agro Biotech will spend BDT 750 million to produce advanced drugs used in organ transplants. Another in the list is Promixco Ltd, which is all set to inject BDT 474.9 million to manufacture medical furniture such as hospital beds, equipment for intensive care and diagnostic units, nebulisers, incubators and suction machines. One company, UniMed UniHealth, which has been in the drug-making business since 1997, will be investing BDT 100 million to branch out into herbal medicine. Most of the renowned pharmaceutical companies,

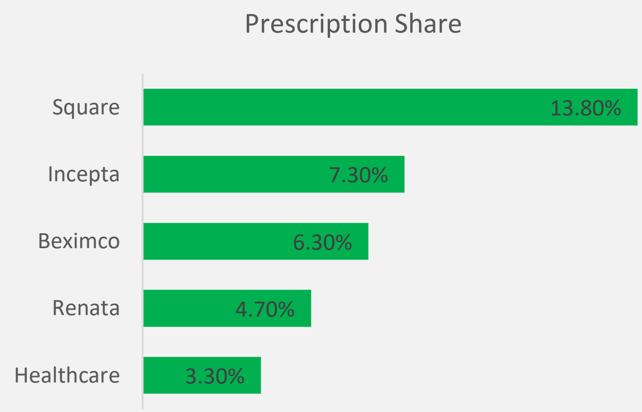
including Square Pharmaceuticals, ACI, Acme Laboratories, Renata and Incepta Pharmaceuticals, already have such products. We believe that there is going to be a price war in the midterm.

Stiff competition leads to higher promotion cost:

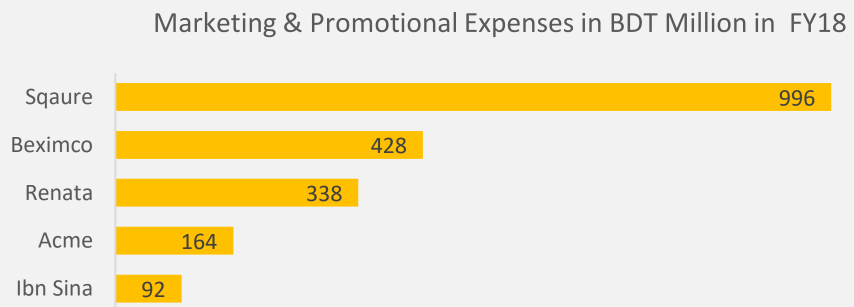
According to the industry experts, the pharmaceutical companies allocate enormous amounts in their annual budgets to distribute gifts among the medical practitioners. And maintaining the relationship with them is getting costlier due to increasing competition among the pharmaceutical companies. Hence, smaller companies with weaker financial health may find it difficult to continue the aggressive promotional activities, which may help top players to sustain leadership in the long run by engulfing smaller players. Marketing and promotion cost is increasing abruptly every year and we believe it will increase in the midterm as well.

Doctor reach for a pharmaceutical company refers to the percentage of total doctors in a country reached by the pharmaceutical company. And, prescription share for a pharmaceutical company refers to the prescribed drugs of the company as a percentage of the total prescribed drugs by the doctors the company has reached. According to 4P Marketing Consultancy (a Dhaka-based specialized Pharmaceutical Research Company), Square is the leader in terms of doctor reach following by Incepta. Hence, one percentage point increase in Square's prescription share is likely to generate higher sales compared to the one percentage point increase in competitors' prescription share. Notably, the table contains data for the period of Dec 16, 2016, to Mar 15, 2017. However, according to the industry experts, doctor reach of all the companies would be higher than mentioned in the table, considering a longer time horizon.





Source: 4P Marketing Consultancy



Source: Annual Reports of the respective company & EBLSL

Drug patent exemption leftovers an uncertainty amid graduation from LDC:

Recently Bangladesh has become eligible to graduate to a developing country from a least developed one as it has met all the three criteria for the first time for getting out of the LDC bloc. According to the UN's graduation threshold, the GNI per capita of a country has to be $1,230 or above. Bangladesh's GNI per capita is now $1,272.In terms of the Human Asset Index, a country must have a score of 66 or above. Bangladesh's score is now 72.8 - well above the threshold. In the economic vulnerability index (EVI), a country's score has to be 32 or below. Bangladesh's score is 25 in the EVI, an indicator of natural and trade-related shocks. The CPD will review Bangladesh's progress in 2021, and the country's official graduation from the LDC category will take place after a three-year transition period. If the country maintains its position in all the three categories for the next six years, it will eventually graduate from the LDC bloc.

Criteria	Gross National Income	Human Asset index	Economic Vulnerability Index
Required	$1230 or above	66 or above	32 or Below
Bangladesh Score	$1272	72.8	25

Among the many difficulties the country is poised to face in the post-LDC period, particularly in the trade arena, is the termination of benefits meant for the LDCs. A country can produce patented drugs if and only if the patent right of that particular medicine is expired according to the TRIPS agreement except Least-developed countries (LDC). Usually, the patent right extends 20 years in USA and 10-15 years in other countries. Bangladesh as a Least-developed countries (LDC) currently enjoys the drug patent exemption until January 1, 2033. The prime drive of the exemption is to create a feasible and effectual technological base in the least developed countries. Moreover, LDC‘s are allowed to reverse engineer the patented medicines. In case of pharmaceutical production, Bangladesh, like most other LDCs, can enjoy a comfortably long transitional timeframe to manufacture generic drugs until 2033. But the country is not going to sit that long with the LDC baggage to avail the benefit. If things move as predicted, Bangladesh will leave the LDC group by 2024.

So, once the prevailing facility is withdrawn, the country's pharma industry will face tough challenge in obtaining licenses from the patent-holding drug manufacturers which will considerably raise their production cost as well as it will lead them to stiff global competition.

The government is preparing to seek extension of TRIPS privileges, particularly those related to pharmaceuticals, even after Bangladesh ceases to remain an LDC, in order to safeguard local pharma industry from the ensuing patent regime. Obtaining a waiver may not be very easy, as big global pharma players will strongly oppose such a move. Bangladesh will thus need to plan how to go about it, preferably by asking for an extension, but not as long as that allowed to LDCs till 2033. Meantime, the local industry must do the needful to be able to face the challenges.

REGULATORY BODY

Directorate General of Drug Administration:

Drug regulatory authority of Bangladesh “Directorate General of Drug Administration (DGDA)” works under the Ministry of Health & Family Welfare of the Government of People’s Republic of Bangladesh. DGDA was established in 1976 as an attached department under Ministry of Health and Population control. In 17 January 2010, Directorate General of Drug Administration was upgraded to a separate division. DGDA supervises and implements drug regulations as well as regulates activities related to import, export, procurement of raw and packing material, sale and pricing of all kind of medicine including Allopathic, Ayurvedic, Unani, Herbal & homoeopathic drugs. DGDA monitors and regulates all the activities of Allopathic, Ayurvedic, Unani, Herbal & homoeopathic drug manufacturer. DGDA also works as Licensing Authority of drugs for the purpose of issuing licenses to manufacture, store, sell, import and export drugs and medicines.[3] There are 55 district offices of DGDA in the country. Currently, DGDA controls the price of 117 generic drug in specified dosage form. It has also put restriction on the manufacturing of 1,700 non-essential or harmful drugs.

DGDA has number of committees for carrying out different function of DGDA. Those committees are:

- Drug Advisory Committee
- Drug Appellate Authority
- Drug Control Committee
- Drug Technical Sub- Committee
- Drug Pricing Committee
- Drug Pricing Technical Sub- Committee
- Manufacturing Project Evaluation Committee
- Standing Committee for Import
- Herbal Drug Advisory Committee
- Adverse Drug Reaction Advisory Committee

The activities of DGDA is guided by the following Laws[4]:

I. The Drug Act 1940
II. The Drug Rules 1945 and their amendments
III. The Drug Rules 1946 and their amendments
IV. The Drug (Control) Ordinance 1982 and its amendments
V. The Drug (Control) Ordinance Amendment Act 2006
VI. National Drug Policy 2016

The Pharmacy Council of Bangladesh:

The Pharmacy Council of Bangladesh (PCB) is an autonomous organization under the Ministry of Health and Family Welfare, Govt. of the People's Republic of Bangladesh. It was established under the Pharmacy Ordinance of 1976. The Main objective of the Pharmacy Council of Bangladesh is to regulate the practice of Pharmacy throughout Bangladesh. Pharmacy Council of Bangladesh is established with the objective to ensure the highest standard of quality required for pharmacy training and practice in different academia[5].

[3] www.dgda.gov.bd/
[4] www.dgda.gov.bd/index.php/downloads/directorate-info
[5] www.pcb.gov.bd/

SUMMARY OF THE COMPARATIVE FINANCIAL PERFORMANCE OF THE LISTED PHARMA COMPANIES ON A STANDALONE BASIS

Financial Performance

Key Financial Performance	Revenue	Net Profit	Total Asset	Total Equity
SQURPHARMA	30,005	8,220	53,329	46,663
RENATA	18,604	3,197	20,812	15,127
IBNSINA	4,657	452	2,442	1,227
BXPHARMA	17,381	2,559	42,165	27,104
ACI	9,203	1,317***	35,687***	14,300***
ADVENT	396	87	1,013	874
ACMELAB	14,814	1,427	32,624	17,645
ORIONPHARM	1,977	175	17,892	12,598
CENTRALPHL	320	61	2,376	1,802
BEACONPHAR	3,761	126	4,908	3,001
SILVAPHL	685	93	2,002	1,711
IBP	660	98	1,220	1,036
SILCOPHL	918	105	2,146	1,741
AMBEEPHA	349	8	444	62

***On standalone basis, revenue from Pharma segment for ACI was BDT 9,203. As ACI doesn't report all data required for our reporting on Pharma on standalone, we have taken data from Pharmaceuticals, Animal Health Care, Consumer brands & Crop care segments to have our ratings.

Growth	Revenue Growth	GP Growth	OP growth	PAT Growth	ROE	ROA
SQURPHARMA	4%	2.45%	-5.48%	5.48%	17.61%	15.41%
RENATA	16%	15.35%	16.72%	22.39%	21.13%	15.36%
IBNSINA	16%	16.58%	21.64%	93.43%	36.86%	18.52%
BXPHARMA	12%	13.09%	15.47%	14.92%	9.44%	6.07%
ACI*	17%	12.77%	5.37%	5.94%	9.21%	3.69%
ADVENT	39%	35.18%	0.00%	78.43%	9.94%	8.58%
ACMELAB	9%	6.05%	-2.29%	2.05%	8.08%	4.37%
ORIONPHARM	-1%	-0.70%	-16.34%	26.19%	1.39%	0.98%
CENTRALPHL	-30%	-32.64%	-41.42%	-44.17%	3.38%	2.56%
BEACONPHAR	28%	25.25%	0.87%	21.56%	4.20%	2.57%
SILVAPHL	14%	15.33%	18.40%	15.84%	5.44%	4.65%
IBP	7%	10.85%	15.85%	11.45%	9.51%	8.07%
SILCOPHL	1%	1.48%	1.16%	2.37%	6.05%	4.91%
AMBEEPHA	-1%	-1.93%	-33.71%	13.91%	13.40%	1.86%

Margin	GP Margin	Operating Margin	PAT Margin	Operating Expense/Revenue
SQURPHARMA	48.01%	25.74%	27.39%	22%
RENATA	50.24%	25.57%	17.18%	25%
IBNSINA	40.64%	8.71%	9.71%	32%
BXPHARMA	46.75%	22.91%	14.72%	24%
ACI*	43.21%	7.84%	6.16%	36%
ADVENT	43.82%	99.10%	21.94%	18%
ACMELAB	39.64%	21.30%	9.63%	19%
ORIONPHARM	55.82%	16.61%	8.84%	39%
CENTRALPHL	46.53%	30.66%	19.06%	16%
BEACONPHAR	48.75%	7.17%	3.35%	42%
SILVAPHL	39.84%	21.54%	13.57%	18%
IBP	39.46%	23.21%	14.92%	16%
SILCOPHL	32.17%	18.63%	11.48%	14%
AMBEEPHA	51.88%	5.59%	2.37%	46%

Financial Leverage & Coverage	Equity/Total Asset	Debt/Equity	EBIT/Interest Expense
SQURPHARMA	0.87	0.02	90,369.18
RENATA	0.73	0.16	22.96
IBNSINA	0.50	0.53	11.32
BXPHARMA	0.64	0.38	7.78
ACI*	0.40	0.80	3.80
ADVENT	0.86	0.04	68.27
ACMELAB	0.54	0.66	2.86
ORIONPHARM	0.70	0.35	1.39
CENTRALPHL	0.76	0.11	7.41
BEACONPHAR	0.61	0.60	1.95
SILVAPHL	0.85	0.06	26.26
IBP	0.85	-	-
SILCOPHL	0.81	-	150.15
AMBEEPHA	0.14	4.92	2.46

Efficiency	Receivables turnover in days	Payables turnover in days	Inventory turnover in days	Cash Conversion Cycle	Total Asset Turnover
SQURPHARMA	22.65	78.88	76.51	20.28	56%
RENATA	40.91	52.85	135.86	123.92	89%
IBNSINA	1.26	41.18	47.48	7.56	191%
BXPHARMA	50.79	28.73	158.18	180.24	41%
ACI*	69.75	82.55	147.11	134.31	60%
ADVENT	44.81	7.33	97.54	135.02	39%
ACMELAB	33.22	8.46	121.79	146.55	45%
ORIONPHARM	970.45	210.95	112.60	872.11	11%
CENTRALPHL	587.50	23.40	944.86	1,508.96	13%
BEACONPHAR	35.20	23.07	197.06	209.19	77%
SILVAPHL	132.20	3.83	331.55	459.92	34%
IBP	96.05	10.46	143.17	228.75	54%
SILCOPHL	132.99	6.73	220.64	346.90	43%
AMBEEPHA	73.46	21.33	341.91	394.04	79%

****All of these information are taken from annual audited financial statement of 2017-18 of respective company in a standalone pharma business unit except ACI.

RATINGS SCORE OF THE LISTED PHARMACEUTICALS COMPANIES

Name	EFFICIENCY	Growth & Profitability	Corporate Governance	Competitive Advantage	Total Score
SQURPHARMA	4.78	2.96	4.60	3.60	4.06
RENATA	3.34	3.44	4.40	3.40	3.69
IBNSINA	3.36	3.13	3.63	2.20	3.25
BXPHARMA	2.14	2.65	3.80	4.00	2.97
ACI	1.86	2.19	4.10	3.60	2.81
ADVENT	3.59	3.71	1.30	1.00	2.68
ACMELAB	1.95	1.64	3.20	2.80	2.31
ORIONPHARM	1.73	1.48	3.35	2.80	2.25
CENTRALPHL	2.00	1.78	2.08	1.60	1.92
BEACONPHAR	1.87	2.28	2.03	0.50	1.90
SILVAPHL	2.36	2.41	1.23	0.80	1.88
IBP	2.14	2.15	1.15	1.00	1.73
SILCOPHL	2.97	1.55	0.93	0.80	1.71
AMBEEPHA	1.21	1.35	1.33	0.90	1.26

***We have used audited financial statement of the pharma unit as well as judgment of our own to come up with this ratings. If you require further information, fell free to contact us.

Criteria	Weight	Broad Sub-criteria	Weight	Sub-Criteria	Weight
Efficiency	**30%**	Financial Leverage	30%	Equity/Total Assets	50%
				Debt/Equity	50%
		Coverage Ratio	25%	Interest coverage	100%
		Operating Efficiency	45%	Receivable turnover ratio	20%
				Inventory turnover ratio	20%
				Payables turnover ratio	20%
				Cash conversion cycle	25%
				Total Asset Turnover ratio	15%
Growth & Profitability	**30%**	Sales Quality	25%	Sales growth	100%
		Profitability growth	40%	Gross profit growth	15%
				Operating Profit growth	15%
				PAT growth	20%
				ROA	25%
				ROE	25%
		Margin	35%	Gross profit margin	25%
				PBT margin	25%
				PAT margin	25%
				Operating expense/Sales	25%
Corporate Governance	**30%**			Senior Executives reputation	20%
				Controlling Director's Reputation	20%
				Disclosure transparency	15%
				Risk Management	15%
				Dividend Payout Ratio	15%
				Paid Up Capital	15%
Competitive Advantage	**10%**			Innovation	25%
				Diversified Product Offering	25%
				Strong Brand Value	25%
				Business Network	25%

STOCK MARKET IMPLICATION

Pharmaceutical as a Sector Remained Highly Undervalued Considering Its Fundamental

	SQURPHARMA	RENATA	IBNSINA	BXPHARMA	ACI	ADVENT	ACMELAB
PRICE (As of 28th July, 2019)	251.7	1171.3	254.3	81.9	254.1	28.9	70.8
Number Of Share (MN)	789	81	31	406	50	75	212
Market Cap (MN BDT)	198,593	94,331	7,945	33,215	12,677	2,181	14,981
52 week Price range (BDT)	244.90 - 295	1,090 - 1,318	231.10 - 345.00	70.10 - 98.50	240.00 - 408.90	29.40 - 51.80	69.00 - 101.90
Category	A	A	A	A	A	A	A
9th Month Revenue	9395.5	2529.04	248.45	2235.07	-289.89	134	1148.3
EPS (Annualized)	15.87	41.86	10.60	7.35	(7.75)	2.37	7.23
P/E	15.86	27.98	23.99	11.15	(32.81)	12.21	9.79
DPS (C/B) %	36% C, 7% B	95% C, 15%B	30% C, 10% B	12.5%C	115% C, 3.5% B	2% C, 10% B	35% C
Dividend Yield	1.4%	0.8%	1.2%	1.5%	4.5%	0.7%	4.9%
NAVPS	78.41	221.45	43.21	66.78	229.86	12.74	83.39
P/B	3.21	5.29	5.89	1.23	1.11	2.27	0.85

	ORIONPHARM	CENTRALPHL	BEACONPHAR	SILVAPHL	IBP	SILCOPHL	AMBEEPHA
PRICE (As of 28th July, 2019)	32.5	10.4	22.2	20.5	24	26.7	584.1
Number Of Share (MN)	234	120	231	130	102	94	2
Market Cap (MN BDT)	7,605	1,246	5,128	2,665	2,455	2,520	1,402
52 week Price range (BDT)	30.40 - 44.40	10.70 - 18.80	16.00 - 21.40	22.00 - 39.80	21.80 - 47.50	23.70 - 29.00	490.1-922.5
Category	A	B	B	N	A	N	A
9th Month Revenue	675.92	52.32	129.94	119.54	110	78.65	6.1
EPS (Annualized)	3.85	0.58	0.75	1.23	1.43	1.11	3.39
P/E	8.44	17.86	29.61	16.72	16.77	24.03	172.40
DPS (C/B) %	15%C	5% B	6% C	N/A	10% B	N/A	30% C
Dividend Yield	4.6%	34.6%	2.7%	N/A		N/A	0.5%
NAVPS	72.88	15.79	12.99	15.47	14.19	18.45	25.68
P/B	0.45	0.66	1.71	1.33	1.69	1.45	22.75

***All of these data are collected from DSE website

Ownership Structure

	Sponsor/Director	Institute	Foreign	Public
SQURPHARMA	34.43	9.95	20.26	35.36
RENATA	51.16	19.33	22.37	7.14
IBNSINA	44.47	18.74	0	36.79
BXPHARMA	13.19	32.71	37.79	16.31
ACI	45.98	29.63	0	24.39
ADVENT	31.44	21.06	0	47.5
ACMELAB	31.98	31.26	0.82	35.94
ORIONPHARM	31.98	47.92	2.98	17.12
CENTRALPHL	25.89	15.66	0	58.45
BEACONPHAR	30	23.27	0	46.73
SILVAPHL	53.49	18.63	0.1	27.78
IBP	51.26	11.56	0.09	37.09
SILCOPHL	39.54	15.9	0	44.56
AMBEEPHA	75.26	3.35	0	21.39

Source: DSE Website & EBLSL

OUR TOP PICKS

SQURPHARMA: A Lucrative Opportunity for the Value Investor to Enter at Current Price

Square Pharmaceuticals Limited is the manufacturer, marketer and distributor of pharmaceuticals drugs, medicine, basic chemicals, animal health product, and agro vet and pesticide products. The Company's product portfolio consist of 669 pharmaceuticals product, 74 agrovet product, 32 pesticide, 14 pellet product and 8 basic chemicals. The products of Square Pharmaceuticals Limited are available in different forms like tablet, capsule, injection, infusion, dry powder, ENT preparation, Opthal preparation, suppository, insulin, pellet etc. Square Pharmaceuticals Limited is renowned for its world class pharmaceuticals product. Square Pharmaceuticals Limited became market leader in 1987 among all the national and multinational companies. Since then Square Pharmaceuticals Limited stayed as the market leader for the last 31 years.

Investment Positive

Market leader with solid fundamental & brand Image: Square Pharmaceuticals Limited is the market leader of pharmaceutical industry in Bangladesh with strong fundamentals and brand image among the customers. It occupies 26 blockbuster drugs among the top 100 medicine sold in Bangladesh according to IQVIA. They have 14 blockbuster drugs ranked within top 50 drug list of the country.

Subsidiary in Kenya is going to be next growth trajectory for Square Pharmaceuticals Limited: The Company is setting up a subsidiary manufacturing plant in Nairobi, Kenya. Square Pharma has invested BDT 216.26 mn as share money deposit in this subsidiary as on June, 2018. Ground development and construction works for this formulation plant is underway which is expected to be completed by 2020.

Square refurbished its sales tactic to recover growth: Square Pharma limited witnessed double digit growth in 3rd quarter after the three consecutive quarters sluggish growth of only single digits, on the back of production bottlenecks, a reshuffling of the sales force, and an aggressive selling push by competitors. The first two items are now over, while the aggressive incentives offered to doctors by Healthcare and Incepta has been a persuasive issue for Square as it limits Square's growth in top therapeutic categories. Square's response to the competition is to assign a specialized salesperson to each therapeutic class. Such specialised salespeople are likely to have better product knowledge, promote Square's brands intensively and build better relationships with the doctors of the assigned category. We acknowledge that the change in strategy will take some time to be reflected in financials. Hence we expect low double-digit top-line growth (c10%) in FY19. But during FY 20 - FY 23, we expect Square to regain its growth trajectory with a CAGR of 12-13% (domestic sales growth 12%, international sales with Square Kenya 24%).

Huge cash reserve may offer high cash pay-out: Square's current cash balance stands at BDT25.323bn. Current balance of cash and cash equivalent is almost equal to the replacement cost of their PPE. As Square can meet its capital expenditure from operating cash flow, we think the company is likely to increase cash dividend payout gradually.

Earning is completely free from interest rate shock: According to latest financial disclosure available up to March, 2019, Square Pharmaceuticals Limited doesn't have any debts of i.e. they don't have any outstanding long term or short term loans. So current liquidity crunch and high interest rate is not going to impact bottom line of Square Pharmaceutical ltd.

Strong corporate governance helps maintaining investors' confidence: Square Pharmaceutical is well-known for their strong corporate governance. Besides, they are good at paying dividend as well.

Historically, company maintained a mixture of cash and stock as its dividend policy and now moving towards disbursing cash rather than stocks.

Initiation of API Park will increase margin significantly: The Company is allocated three plots in API Park in Munshigonj. It is expected that the production cost will significantly decrease with the commercial operation of API Park.

Robust Final performance and Efficiency: After Renata (Solo), Square Pharma has highest Operating Profit margin, Net profit margin in the Pharma Industry of Bangladesh. It's latest ROA and ROE also exceeds its close competitors.

Investment Concern

Intensifying competition leads to declining market share: According to IQVIA Q1, 2018 Square Pharmaceutical Limited holds 16.95% which was 18.06% in 2017 and 18.48% in 2016. Gradually company is losing its market share due to fierce competition among the current players and they don't have any remarkable recent investment in PPE thus it will become difficult for them to retain leading market position in future.

Expansion project will lead to leverage: Square Pharma will avail USD 9 million loan to establish Square Pharmaceuticals Kenya EPZ Ltd. Company may result payment for financial expenses in coming days which is close to 'zero' now.

Currency depreciation is going to have pressure on margin: Company is exposed to foreign exchange and raw materials risk because ≈80% of company raw materials are imported thus any unfavourable change in currency rate will adversely affect company profit.

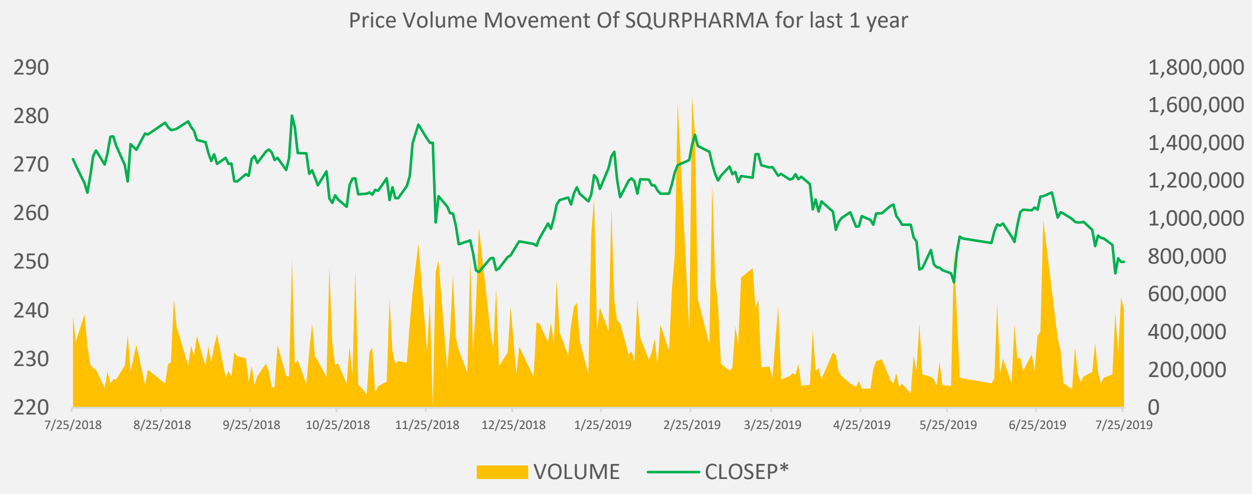
Portfolio Concentration may rise risk to overall performance: Square's product portfolio is particularly focused on proton pump inhibitor (PPI) products with 40% contribution to sales. Of the PPI products, the brand Seclo (omeprazole molecule) consists of 9% of sales. In recent times, omeprazole has been losing market share to its counterpart, esomeprazole. Square has an esomeprazole brand in its product portfolio under the name Nexum, which contributes less than 1.5% of sales. Since Seclo accounts of a large portion of the sales basket, Square seems reluctant to promote Nexum aggressively, fearing cannibalisation. Adhering to such a strategy poses a risk to Square's growth since doctors now prefer esomeprazole over omeprazole because of better drug efficacy of esomeprazole.

Consolidated Statement of Financial Performance

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
Net Turnover	27,531	33,074	36,543	39,654
GROSS PROFIT	12,271	15,991	18,268	19,564
EBITDA	7,616	10,797	12,296	12,781
EBIT	7,616	10,797	12,296	12,781
PROFIT AFTER TAX	5,507	8,287	9,719	10,491
EPS	5.93	9.34	12.32	13.3

Consolidated Statement of Financial Position

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
PPE	18,147	18,848	19,324	20,545
Current Assets	11,041	17,063	23,176	28,442
TOTAL ASSETS	36,639	44,304	52,531	61,273
Shareholders' Equity	32,912	40,558	49,040	57,841
Non-Current Liabilities	1,137	1,054	1,129	1,231
Long Term Loans	237	-	-	-
Current Liabilities	2,590	2,691	2,361	2,200
SHAREHOLDERS' EQUITY & LIABILITIES	36,639	44,304	52,531	61,273
Net Asset Value (NAV) Per Share	59.38	65.04	71.49	78.44
PPE	18,147	18,848	19,324	20,545



ACMELAB: A Smart Choice for the Opportunistic Contrarian Investors

Acmelab is the manufacturer, marker and distributor of generic pharmaceuticals formulation products which includes human drugs dosages form like tablet, capsule, dry syrup, cream, ointment, power, injection, dry power inhaler, metered dosage inhaler, suppository, eye and nasal drop, liquid, liquid in hard gelatin, veterinary drugs and herbal drugs dosage. ACMELAB was incorporated as a private limited company in Bangladesh in March 17, 1976. It commenced its manufacturing operation in 1983.

Investment Positive

Steroid-Hormone and Penicillin project is going to add an attractive growth in top line from FY20: ACME grew at 9% CAGR during FY 16 – FY 18, and by 10% YOY up to the 3rd quarter FY 19. As Steroid-Hormone and Penicillin are in commercial production, we expect ACME to generate c14% top line CAGR during FY 20 – FY 23. Also, ACME is expanding its existing capacity by 40% with capex of cBDT1.5bn to make room for future growth. Steroid-Hormone is expected to add 20% of additional revenue. Penicillin project is expected to yield 10% of additional revenue.

Initiation of API Park will improve margin: Company has applied for three (03) plots in API Park in Gazaria, Munshigonj. Allocation of API plot will enable ACMELAB to produce the API as required by Pharmaceuticals markets. It is expected that the cost of raw material will decrease when the operation of API Park initiates.

Continuous Innovation will lead to high growth story: The Company launched 22 new products during the period 2017-18. These new products are expected to generate additional profit for the company.

Strong Financial performance: NPAT & EPS shows an upward trend over the years. ACME seems to have good control over its COGS as it successfully retained COGS at ≈61% of its total sales for the last two years. Besides administrative costs stood at ≈3% of sales and selling and distribution costs were ≈12% of sales for the last five years.

Investment Concern

High leverage is going to have an adverse impact on bottom line in high interest rate environment: D/E ratio is high compared to peer companies. In 2018-19 as per 3rd quarter statement, ACME D/E ratio was 76% and 39.56% of Operating Profit was used to pay Financial Expenses during the period. ACME has outstanding Loan (Short Term and Long Term) amounting BDT 13,783 million in 2018-19 as per their Q3 financial statement.

More margin pressures are imminent: ACME has a lower net profit margin compared with other Pharmaceutical companies. This might be due to higher financial expenses of the company. Moreover, margins are likely to come under pressure. ACME historically has focused on volume-driven growth at the expense of margin. So, the gross margin level remained below 40% the majority of the time. The expected sales growth is likely to be volume driven as well. Also, the selling of steroid-hormone products is likely to demand more marketing efforts. Since the top players are very competitive in a highly segmented marketplace, both gross margin and selling expense/sales ratio is likely to feel pressure.

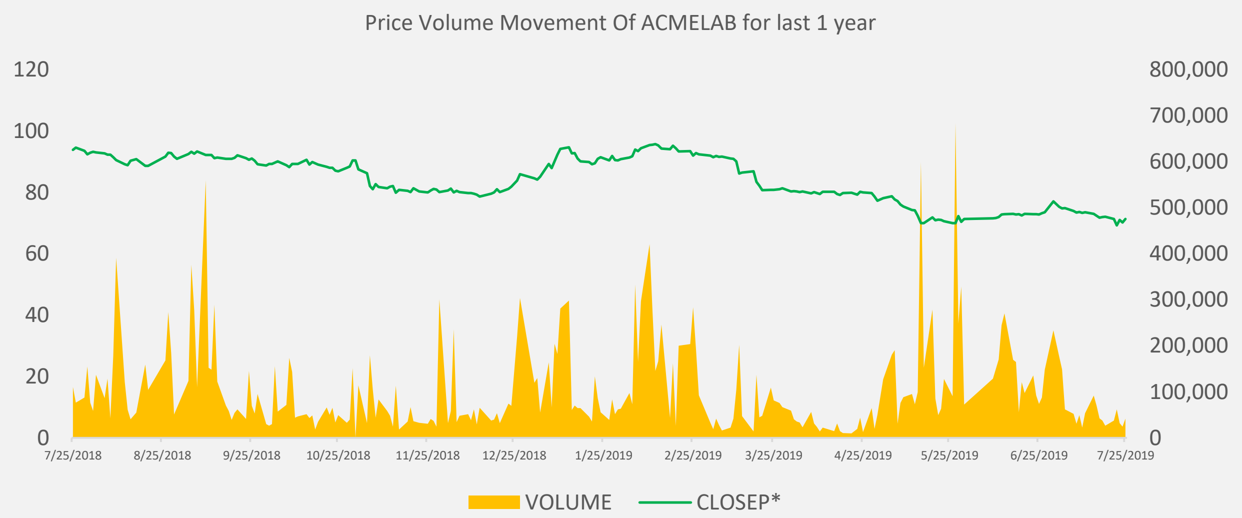
Currency devaluation might worsen margin: ACME imports API for their regular operation. At the same time, the company is in need of importing machinery for steroid, hormone and penicillin project. If the company gets 3 API plot, they will have to purchase more machinery from abroad. Dependence on imported raw materials and machinery increases the foreign exchange risk for the company.

Consolidated Statement of Financial Performance

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
Net Turnover	11,496	12,645	13,576	14813
GROSS PROFIT	4,874	5,471	6,126	6,486
EBITDA	3,068	3,299	3,931	3,886
EBIT	2,399	2,588	3,230	3,155
PROFIT AFTER TAX	922	1,101	1,398	1,425
EPS	4.36	5.20	6.61	6.73

Consolidated Statement of Financial Position

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
PPE	16,027	17,240	18,220	21,105
Current Assets	7,199	11,603	11,671	11,462
TOTAL ASSETS	23,260	28,890	29,947	32,624
Shareholders' Equity	11,373	16,364	16,956	17,645
Non-Current Liabilities	4,905	3,958	3,676	4,615
Long Term Loans	4,721	3,638	3,026	3,781
Current Liabilities	6,982	8,567	9,315	10,364
SHAREHOLDERS' EQUITY & LIABILITIES	23,260	28,890	29,947	32,624
Net Asset Value (NAV) Per Share	54	77	80	83
PPE	16,027	17,240	18,220	21,105



BXPHARMA: A Worthwhile Pick for Intelligent Investors - Buying Cheap & Selling Dear

Beximco Pharmaceuticals Limited (BXPHARMA) is engaged in the manufacturing and marketing of generic pharmaceuticals formulation products including Lifesaving Intravenous Fluids, Therapeutic Nutrition Products and Active Pharmaceutical Ingredients (APIs). Beximco Pharmaceuticals Ltd currently produces more than 400 generic medicines which are available in over 500 different presentations and the broad portfolio encompasses all key therapeutic categories including antibiotics, analgesics, anti-diabetic, respiratory, cardiovascular, central nervous system, dermatology, gastrointestinal etc.

Investment Positive

Robust sales in domestic market and the acquisition is expected to provide a major boost to export earnings: Beximco generates 18% of its sales from cardiovascular products, while the acquisition of Nuvista gave Beximco access to hormone products. These products have the potential to grow at a 20% rate during the next five years, which means Beximco is likely to outperform the sector. In exports, Beximco maintains 19% market share (9% of consolidated revenue). So far, Beximco has obtained approval for six drugs in the US market and launched four of them – the highest among domestic companies. We think Beximco is likely to continue its leadership in the export of pharmaceutical products. Moreover, the acquisition of ANDAs from Sandoz, a global leader in the generics market, significantly strengthens its position in the US, expanding its portfolio to 14 approved products.

Two newly launches diabetes product will increase topline growth: Beximco Pharma has been maintaining its legacy of being a pioneer in making life easier for Bangladeshi patient by launching clinically proven high quality European Insulin "GENSULIN". The leading pharmacy company has also introduced automated ergonomic insulin injecting device "GensuPen2" for the first time in Bangladesh.

Continuous Innovation will lead to high growth story: BPL has rolled out 16 products in 2018 with 3 new products 1st time in Bangladesh market in Gastrointestinal, Antipyretic, Vitamins and Minerals, Antidiabetic, Antibiotics, Antihypertensive, Cough & Cold. Number of new product launched in year 2017, 2016 and 2015 was 5, 20 and 12 respectively.

Fresh capacity expansion on the cards: Beximco has launched its hormone facility in Q1 19 and is going to launch its Unit 3 facility in Q3 19 according the latest audited financial statement. The launch of the hormone facility on top of the Nuvista acquisition will further strengthen its footprint in the hormone segment, while the Unit 3 facility will increase Beximco's production capacity by 100%.

Leverage is likely to decrease when scale is achieved: Beximco's total debt stands at BDT 11, 064mn, taken to finance the hormone facility (BDT2, 300mn estimated), set up the Unit 3 facility (BDT10, 500mn) and acquire Nuvista (BDT2,100mn). Since Beximco has already made the majority of the investment outflow, the company can gradually pay off debt with operating cash flow. The decline in debt level as well as interest expenses during FY 21 – FY 23 is likely to help Beximco achieve 20% bottom line growth.

Strong Final performance: Company margins (gross, operating, pretax and net) show a constant trend and currently stood at 46.5%, 22.6%, 18.6% and 18.9%. Besides last three quarter annualized sales and profit (gross, operating and net) resemble profit potentiality in coming periods.

Investment Concern

Corporate Governance leads to trade the stock at lower multiple than competitors: Controversy regarding the sponsors of the company raises corporate governance risk and may explain why BXPHARMA trades at cheap multiples. Also, high leverage makes earnings more sensitive to an increase in interest rates.

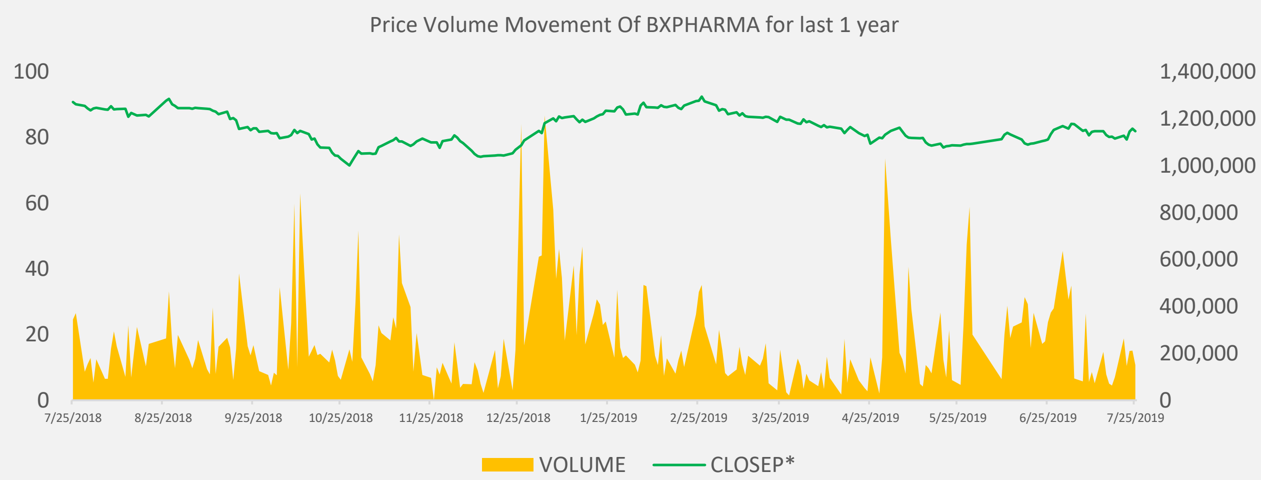
Currency depreciation might worsen margin: Beximco Pharmaceuticals Limited is highly dependent on imported raw materials to produce their products as a result of which they are exposed to substantial raw materials and foreign exchange rate risks.

Consolidated Statement of Financial Performance

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
Net Turnover	11,207	13,785	15,509	17,381
GROSS PROFIT	5,869	7,166	7,967	8,125
EBITDA	3,183	3,871	4,230	3,982
EBIT	2,418	3,114	3,448	3,982
PROFIT AFTER TAX	1,528	1,939	2,227	2,559
EPS	3.77	4.78	5.50	6.31

Consolidated Statement of Financial Position

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
PPE	20,393	22,236	24,472	28,645
Current Assets	8,366	8,528	9,131	10,833
TOTAL ASSETS	29,001	31,149	34,084	42,165
Shareholders' Equity	20,920	23,059	25,072	27,104
Non-Current Liabilities	3,373	5,107	5,606	6,964
Long Term Loans	664	920	716	1,454
Current Liabilities	4,708	2,983	3,406	8,097
SHAREHOLDERS' EQUITY & LIABILITIES	29,001	31,149	34,084	42,165
Net Asset Value (NAV) Per Share	51.58	56.86	61.82	66.83
PPE	20,393	22,236	24,472	28,645



RENATA: A Stable & Consistent Performer & Great Choice for Beating the Market Investors

Renata Limited is the 4th largest pharmaceutical company in Bangladesh and the market leader in Animal Health products. The company is also a contract manufacturer of BRAC, SMC and UNICEF. Pharmaceutical products, Animal Health products and Contract Manufacturing generate 70%, 20% and 10% of revenue respectively.

Investment Positive

Stable financial performer: Renata Limited showed stable performance over the years. The CAGR of revenue and net profit was 17% & 19% respectively in last 5 years. The market share of Renata Limited has also been increased in 2018. In line with the steady business growth, the company has been able to maintain stable profit margins over the years. The company has higher gross profit margin, operating profit margin and net profit margin compared to its peers. In 2017-2018, the operating profit margin of Renata was 26% compared to 8%, 21% and 23% of ACI, Beximco Pharma and Acme laboratories respectively.

Margin is going to improve with the no leverage strategy & high payout is waiting: The Company has been able to minimize its cost structure by retiring its long term debt. The net profit after tax has been increased by 5% in 2017-18 due to the reduction in debt. Since the long term borrowing is effectively zero, the company will be less affected by the rise in bank interest rates. We expect Renata to operate debt-free and start paying higher cash dividend.

Untapped export market will open new windows for Renata: Renata's exports earned BDT608mn in FY 18, contributing 3% of consolidated revenue. Renata has obtained approval for three products in the UK and three products in the US, and the approval of six more products in UK and Ireland is in process. The Company is committed to export in European countries and for that they established a company in UK. However, unfortunately UK had withdrawn them from the European Union (EU) as process known as Brexit. Now they have decided to establish a new company in other EU countries (Ireland) to export un-interrupt in EU countries.

Initiation of API Park will improve margin significantly: It is expected that the cost of sales of Renata Limited will be decreased by 5% from 2021 with the commercial operation of API Park.

Investment Concern

Higher Import leads to Higher Foreign Exchange Risk: The Company is highly dependent on the imported raw materials. Around 58% of total raw material is imported. So the foreign exchange risk of Renata is very high. In 2017-2018, the foreign exchange loss of Renata was BDT 107.86 million. Moreover, the currency of Bangladesh is continuously depreciating against US Dollar.

Bearish Animal Health Business: Animal health industry in Bangladesh is closely linked with poultry business which exhibits a down trend in demand. So Company's animal health business which was growing at 15%-20% shall deliver a below par performance.

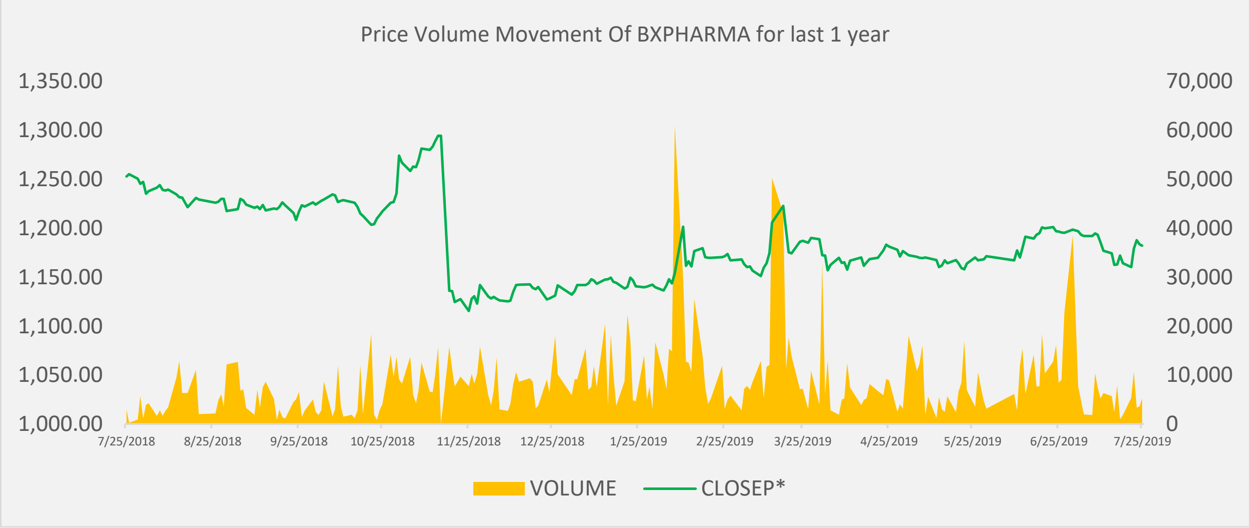
Subsidiary Companies are incurring loss: Purnava Limited has incurred a loss of BDT 59.2 mm and 49.5 mm respectively in 2016-2017 and 2017-2018 financial year. The company has been incurring loss since 2015.In 2017-2018, Renata Agro Industries Limited has also incurred a loss of BDT 29.90 million due to fall in products' price.

Consolidated Statement of Financial Performance

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
Net Turnover	11,904	14,777	16,645	19,050
GROSS PROFIT	6,042	7,434	8,344	9,432
EBITDA	3282.34	3862.41	4771.32	5129.28
EBIT	2850.14	3306.93	3787.27	4382.85
PROFIT AFTER TAX	1803.46	2274.30	2678.07	3106.18
EPS	34.1	37.35	38.24	44.35

Consolidated Statement of Financial Position

Financial Information (BDT 'Million)	2014-2015	2015-2016	2016-2017	2017-2018
PPE	8,538	9,549	9,799	10,203
Current Assets	5,633	6,850	7,649	9,768
TOTAL ASSETS	15,673	17,328	18,719	21,359
Shareholders' Equity	8,666	10,941	12,943	15,508
Non-Current Liabilities	1,683	1,221	1,266	1,245
Long Term Loans	824	250	96	-
Current Liabilities	5,324	5,167	4,510	4,606
SHAREHOLDERS' EQUITY & LIABILITIES	8,666	10,941	12,943	15,508
Net Asset Value (NAV) Per Share	163.66	179.66	184.82	221.45
PPE	8,538	9,549	9,799	10,203



EXPERT OPINION

Mr. S.M Saifur Rahman

EBL Securities Limited Research Team had the opportunity to talk with Mr. S.M Saifur Rahman, Managing Director of Active Fine Chemicals Ltd. He shared his thoughts on the present state of pharmaceuticals industry and its prospect in Bangladesh. We take the pleasure to share an excerpt of the interview.

Q. Please evaluate the prospect of pharmaceuticals industry in Bangladesh.

S.M Saifur Rahman: We as a country are in developing stage and the economy is growing over 7% rate since the last few years. Per capita income is also growing. At the same our per capita healthcare expenditure is lowest compared to other Asian countries. I think, our industry will witness double digit growth mainly driven by local consumers.

Q. Currently Bangladesh's share in global generic market is only 1.12%. If we want to capture 10 percent shares of the global generic market what should we do?

S.M Saifur Rahman: In order to capture over 10% market share, we need to compete with China and India. China can be role model for us. In 1980, China was not a giant country in terms of economy but they have developed thereafter. We need to learn from them. Policy support is required at the infant stage of the development of any industry. We are still in the early stage and we need the policy support like what China got in their early stage of development. Growth dynamics of pharmaceutical industry is not like that of RMG or textile. You can replicate an RMG industry if you have only money. But pharma requires knowledge and intellectual power. At the initiation stage, China subsidized their pharma manufacturers. TRIPS was a game changer for us. There are more than 100 patented drugs that we can manufacture and sell whereas China and India cannot manufacture them. But we failed to take the full advantage of it.

Q. Will Bangladesh be able to get TRIPS advantage after graduation from LDC to a developing one? If not, then what might be the impact on the overall industry?

S.M Saifur Rahman: Look at USA's current policy with other nations. They are now relying more on nationalistic policies. If they pursue same policy up to 2027, then I think we are going to lose TRIPS advantage. Currently, we are more focused on local pharma market. Local business will not be hampered that much but the exporters will face challenges. And most important thing is, market leaders and policy makers are not paying any heed to get TRIPS after the aforementioned time.

Q. Why contribution of export to total sales of pharmaceutical products is insignificant and where do you see this market in next five years?

S.M Saifur Rahman: Our Pharmaceutical industry is mainly driven by local consumption. Bangladesh exports pharma products to 144 countries and caters 98 percent of the domestic need. But the ratio of export to total industry size is relatively low. Bangladesh is yet to have strong global brand image as a pharma products manufacturing country. Quality can never be compromised for pharmaceutical products. Besides, the market is highly regulated and regulation changes overtime. There were no export incentives until the last year. And the margin on export is also relatively lower than local sales. All these factors contributing to the low contribution of export earnings. However, going forward, I think there is a very big market waiting for us. Still we have the opportunity for at least 6-7 years more to mark our footprint strongly in the international arena.

Q. Currently our local manufacturers meet 98% of the total demand and rest 2% of total demand (that constitute vaccine, anticancer and hormone products etc.) are imported. What might be ratio of import to total local demand in near future?

S.M Saifur Rahman: We need to import some products as far quality is concerned. We have to import insulin as we cannot produce quality insulin locally. Insulin requires a large molecule which broke up if we import it directly. Moreover, the disease profile is changing continuously and newer form of disease are coming out. So there should be some import of pharmaceutical products.

Q. What are the key challenges for four pharmaceuticals industry? How technology can affect the industry?

S.M Saifur Rahman: Fourth Industrial Revolution is knocking at the door. We are yet to solve our core problems like ease of doing business. We are not ready to accept these tools in our industry at least for the next 4-5 years. But it is quite simple, if you want to stay in the race, you need to adopt the technology as early as possible.

Q. What's your opinion about the quality of API used in Bangladesh? What might be the probable time for commercial production in API Park? What will be the competitive scenario within API industry after that?

S.M Saifur Rahman: We source API mostly from China. By nature, China develops two types of products; one is best quality with premium price and the other is low quality with comparatively cheaper price. Now it depends upon our manufacturers, which type of APIs they will source. Another important thing is to be noted, if anything comes below expected quality, manufactures cannot claim any damages and they might be required to produce drugs with those APIs.

Our government has already allotted 42 plots to 28 manufacturers. But till now, there is no visible development in the API Park. I think, it will take 3-4 years more to implement the API Park. So, I don't see any major competition in near future in API market.

Q. How will you evaluate latest fiscal measures from the national budget 2019-20 for the Pharmaceutical manufacturers? NBR has recently offered 15% VAT waiver to local producers till December 2025. To avail the benefits, one has to fulfill 6 conditions. Active Fine is a leading pharmaceuticals ingredients manufacture in Bangladesh. Is your company eligible to avail this benefit?

S.M Saifur Rahman: The government has provided 20% cash incentive for the exporters of API in latest fiscal measures. We are one of the most beneficiaries of this directive. However, to avail the benefit 60% value addition from local sources is required. We have already met all the conditions except the 60% value addition requirement. It is not possible to add 60% value to all products locally. Some products require 30% value addition while others require 40% value addition. We are currently in negotiation with the NBR to come up with only 20% value addition requirement. Moreover, the government has also reduced Regulatory Duty on anti-cancer unit. We will also get the benefit once our under construction anti-cancer unit commence commercial operation.

Q. What are the reasons behind low growth in sales of Active Fine Chemicals Limited in recent period? Where do you see your company after 5 years?

S.M Saifur Rahman: Our local sales remained flat in last year as we have made some changes in our business model. We want to focus more on export business as low cash cycle involves with it. For doing so, we have to increase our fixed assets as well. We expect 50-60% of our total earning will come from export in future. Currently we are waiting for the revision of NBR directive regarding 15% VAT exemptions on the import of raw materials and reagents for the production of API. We will be able to meet our goal within next 2 years once we get the VAT exemptions. We have struggled a lot in earlier to establish the brand and to have policy support. Now we have all of these and this is the time for us to move forward.

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