

A study on
THE IMPACT OF GOING PUBLIC
on
RAK CERAMICS (BANGLADESH)
LIMITED



Letter of Transmittal

9th February, 2014

Sohana Wadud Ahmad,
Lecturer,
BRAC Business School,
BRAC University.

Subject: Submission of Internship report

Dear Madam,

This is to inform you that I have completed internship report on ‘A study on the impact of going public on RAK Ceramics (Bangladesh) Limited’. This report is a summary and analysis of my three months of internship experience at BRAC EPL Investments Limited, Gulshan Branch. I have had the opportunity to observe and work with the Structured Finance department of BEIL and understand its working pattern, management and other company activities, in order to earn experience about the corporate environment in my three months’ stay. Apart from this, a comparative analysis has been done on BRAC EPL’s client, RAK Ceramics (Bangladesh) Limited with the objective to study the effect of its IPO issue on its financial performance.

All your instructions regarding the structure of preparing the report have been adhered to when writing the report and I am willing to shed light on any discrepancies that may arise.

Yours Sincerely,

Shamima Johera Ahmed
Student ID: 10104037

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank BRAC EPL Investments Limited for giving me the chance to complete my internship at their organization. I express my gratitude to my academic supervisor Ms. Sohana Wadud Ahmad. Without her constant guidance, endless efforts and joyful encouragement, this study would have not been successful. It is her perseverance and inspiration that encouraged and pushed me to successfully complete this report.

I also want to thank my field supervisor, Shafkat Mahmud (Senior Associate, Structured Finance department) who had been more like a brother who constantly gave me advice about how to survive not only in the corporate world but also in my everyday life. Moreover, he allowed me to work on my internship report during office hours for which I am very grateful to him.

Last but not least, I am very thankful to Fatema Akter Merry and Md. Ashakur Rahman Khan from the Research Department who have made the environment at BRAC EPL a more pleasant and fun place to work in. My three months' stay at this organization has allowed me to rediscover myself in many ways and I shall make sure that I apply my learnings in the years to come.

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Appendix A

Appendix B

Executive Summary

BRAC EPL Investments Limited has made its mark in Bangladesh in a matter of a few years by providing assistance to thousands of clients across the country. It has excelled in the provision of all its services till date, with its IPO issue management services being one of them. The purpose of writing this paper was to gain a thorough understanding of this particular service that is provided by the investment banking department by looking into the process that a company has to follow to enlist itself on the stock exchange and the role that BRAC EPL has to play in such a process. Furthermore, to acquire a more practical knowledge of the topic, a study was conducted on RAK Ceramics (Bangladesh) Limited, a client of BRAC EPL who was provided assistance in its IPO issue in 2010. The major part of this study consists of a section that investigates whether the move to go public turned out to be a financially sound decision for the company/client. The results of the study show that though the company's growth rate in terms of net sales and assets acquisition had fallen after its IPO issue, the ratio analysis of the company shows that its performance gained substantial improvement after it went public. Thus, it can be said that going public turned out to be a right decision taken by the company's management.

Chapter 1

BRAC EPL Investments Limited

1.1 Introduction

The investment banking industry is large and complex and operates to help large-sized corporations and governments acquire money. The banks in the industry assist clients in investing financial products that are bought, sold or created, and thus get a return from these financial instruments. Investment banks are also involved in forwarding loans to clients, which is a great help to the individuals who are not directly concerned with such firms. Moreover, many businesses and corporations also seek advisory services from investment banks regarding mergers and acquisitions. Merrill Lynch & Co. and Goldman Sachs are examples of renowned investment banks.

In Bangladesh, BRAC EPL Investments Limited (BEIL) is a leading investment bank that serves more than 4600 clients in the country from seven different locations, and has successfully included itself among the list of the top portfolio managers. Regulatory guidelines are strictly adhered to, and there is no room for non-compliance when it comes to discharging their professional services. Within its short period of operation, the company has acquired considerable respect and reputation by displaying efficiency in managing its public offerings. An encouraging market response was obtained from both initial and right issues that were handled by BEIL. Moreover, the first public issue under the newly introduced Book Building Method was jointly brought into the Bangladesh capital market.

A full array of financial services across debt, hybrid, derivative and equity-linked products are offered by the Structured Finance team at BEIL. The team at BEIL concentrates on originating, structuring, underwriting and carrying out debt-financing alongside the syndication of foreign and local corporate bonds, bridge financing, mezzanine debt and other such debt-related products. The company also excels in mergers and acquisitions, private equity and displays proficiency in aligning the goals of those who wish to acquire funds for the purpose of joint venture opportunities in the country. In addition to this, value-added services are also provided like capital market research. Furthermore, BEIL has expanded its scope into Social & Sustainable Investment Solutions with the addition of its latest unit named Impact Investments.

1.2 History

BRAC EPL Investments Limited (BEIL) was formerly known as Equity Partners Limited, which was established in January 2000. In August 2009, BRAC Bank obtained 51 percent stake in Equity

Partners Limited and BRAC EPL was formed. Thus, BEIL formally began its operation as a public limited company under a new management on 1st October, 2009 after it obtained its merchant bank license from the Securities and Exchange Commission (SEC). The company's board consists of dynamic and renowned professionals who are highly visionary and achievement-oriented.

The company's main aim is to provide a wide range of investment banking solutions, which includes traditional merchant banking activities, and to position itself as a leading merchant bank. In its short journey so far, the company has successfully completed 29 transactions in the debt, equity, mergers and acquisitions (M&A) and advisory under its wing, establishing itself as the investment bank of choice in the country. Some of its major achievements include its advisory services to the DSE in preparing the demutualization of Dhaka Stock Exchange in September this year where it helped to prepare the demutualization scheme, business plan and conduct valuation that resulted in the successful completion of the fastest demutualization in the world and BEIL's role as an issue manager to Lafarge Surma Cement Ltd. for helping raise the largest rights offer in the history of the Bangladeshi secondary market. Today, 76 percent of the equity of BEIL is held by BRAC Bank, while the remaining is held by a diverse range of national and international fund managers and capital market institutions.

1.3 Product and service offerings

1.3.1 Investment Banking

The Investment Banking department at BRAC EPL Investments Limited is involved in providing a full suite of Investment Banking services, alongside the traditional merchant banking activities like Issue Management and Underwriting. Value-added services like Corporate Advisory and Strategic Capital Raising Initiatives are also provided by the department. Furthermore, BEIL is also involved in the provision of investment services to cross border transactions. BEIL's proficiency in the provision of the best in class advisory and execution excellence along with a high level of integrity to its clients since its inception has allowed the company to acquire a reputation as a leading provider of Investment Banking services.

The details of the services offered by the team in the Investment Banking department are as follows:

Initial Public Offering (IPO) and Repeat Public Offering (RPO)

- valuation of the issuing company and determining the price of the securities that are to be offered to the public through the use of different financial modeling techniques
- framing the Information Memorandum/Prospectus
- due diligence is conducted for all material agreements and documents such as joint venture agreements and asset title deeds, etc.)
- assessment and settlement of tax and/or legal issue with the help of the company and other professionals such as legal and financial advisors/auditors
- facilitating the coordination of work of other professionals and organizations such as lawyers, accounting firms, credit rating agencies, bankers to the issue, underwriters, etc.
- facilitating the coordination of work with different regulator authorities such as Securities and Exchange Commission (SEC), Bangladesh Bank, Stock Exchanges, Registrar of Joint Stock Companies (RJSC), etc.
- obtain, arrange and present all the necessary document in order to file the application to the SEC while ensuring compliance with the Public Issue Rules and Regulations of Bangladesh
- carry out the submission of the complete application along with all the relevant documents to the SEC and Stock Exchange(s)
- arranging bankers for the issue and underwriting syndication
- liaising with the SEC on all issues related to the IPO
- administering the coordination of post issue management services

Rights Issue

- reviewing the Issuer Company's financial position and forecasts
- making an evaluation of the issue structure as per the requirement of the Issuer and determining its potential demand of the investors in the market
- making an assessment of the capital structure of the offering
- providing advice on the timing of the offering
- carrying out the development of the transaction/offering strategy, work plan and implementation strategy
- conducting the overall due diligence of the Issuer Company

- preparing a comprehensive compilation of Offer Document(s) on the basis of the information provided by the Issuer
- facilitating the coordination of the necessary documents for the purpose of issuance of securities
- providing assistance to the Issuer to coordinate the publicity of the fund-raising
- resolving legal and regulatory issues
- valuation of Issuer and its respective securities through the use of various financial modeling techniques
- facilitating the coordination of the work of other professionals and organizations, such as lawyers, accounting firms, credit rating agencies, bankers to the issue, underwriters, etc.
- arranging the syndication of underwriters
- obtaining, arranging and presenting all the necessary documents in order to file the application to the Securities and Exchange Commission (SEC)
- submit the complete application along with all the relevant documents to the SEC
- facilitating the coordination of work with different regulator authorities such as Securities and Exchange Commission (SEC), Bangladesh Bank, Stock Exchanges, Registrar of Joint Stock Companies (RJSC), etc.

Capital Raising

- valuation of Issuer Company through the use of various financial modeling techniques
- preparing the Information Memorandum with the help of the Company and professional legal and financial advisors/auditors
- facilitating the coordination of work of other professionals and organizations such as lawyers, accounting firms, credit rating agencies, etc.
- obtaining, arranging and presenting all the necessary documents in order to file the application to the Securities and Exchange Commission (SEC)
- submitting the complete application along with all the relevant documents to the SEC
- liaising with the SEC regarding all issues related to the Capital Raising

Corporate Advisory

- reviewing the capital structure
- structuring the transaction

- providing assistance in the formal capital planning exercise for the Company
- carrying out a complete due diligence for the preparation of the desired strategy (IPO, Restructuring, Expansion, etc.)
- resolving legal and regulatory matters
- providing advice on the timing of the offering of the securities
- providing assistance in the workings of other corporate advisors

Underwriting

- providing underwriting services for Initial Public Offering, Repeat Public Offering and Rights Issue

1.3.2 Structured Finance

The Structured Finance Department (SFD) was established in June 2010 with the objective of becoming the market leader in debt arrangement, project financing, private equity placement and M&A (merger and acquisition) transactions. The company is equipped with the resource and has acquired experience in raising some of the largest debt syndications in Bangladesh. The dedicated client-focused principles and deliberate value-added mandate of the department has been successful in creating and building long term relationships and unprecedented brand loyalty starting from the multinational power houses to the emerging companies.

The details of the services offered by the team in the SFD are as follows:

Loan Syndication

- originating, structuring and distributing debt in the form of syndicated loans
- preparing and issuing a comprehensive Information Memorandum and taking the responsibility of giving detailed presentations to the potential lenders
- establishing a syndicate of financiers so as to arrange the debt finance facility
- negotiating the terms of the debt finance facility agreements
- facilitating the coordination of the documentation of financing agreements
- facilitating the coordination of the signing ceremony and publicity of the fund raising

Bond and Convertibles

- structuring an apt facility i.e., zero-coupon bonds, subordinated bonds and convertible bonds, that is both optimal for the concerned company and palatable to the investors
- providing the client/issuer assistance in securing regulatory approvals by leveraging the exceptional rapport that BEIL has with the SEC, Bangladesh Bank, etc.
- carrying out the compilation of a comprehensive Information Memorandum (IM) and taking the responsibility of giving detailed presentations to and negotiations with the potential investors
- establishing a syndicate of investors for the purpose of arranging the facility for client/issuer
- assisting the client/issuer in negotiating the terms of the facility agreements
- facilitating the coordination of the signing ceremony and publicity of the fund raising

Private Equity

- reviewing as well as appraising the business plan of the client and providing advice on the most applicable capital structure and pricing for fund arrangement
- preparing and issuing a comprehensive Information Memorandum
- setting up road shows for PE investors
- determining the long term value offered by the client and convincing the strategic partners to appreciate this value
- coordinating with various regulatory authorities such as the SEC, Bangladesh Bank and Board of Investments
- carrying out the legal, financial and technical due diligence for the investor(s)
- coordinating the documentation of private equity arrangement

Merger and Acquisition (M&A)

- providing the best-in-class M&A advisory solutions for the BEIL clients for the purpose of buying, selling or consolidating companies across all industries and beyond the country's borders
- as the buyer's agent, assistance is provided in the following areas
 - ✓ finding and evaluating potential target companies or sellers
 - ✓ structuring the transaction and valuation of the target

- ✓ assisting in legal, technical and other necessary due diligence
- ✓ negotiating on the buyer's behalf to realize the most suitable price
- ✓ negotiating with the regulators for all the required approvals
- ✓ assessing the material agreements such as asset title deeds, joint venture agreements, etc.
- ✓ ensuring the smooth closure of the transaction
- as the seller's agent, assistance is provided in the following areas
 - ✓ structuring the transaction and valuation of the company
 - ✓ assisting in legal, technical and other necessary due diligence
 - ✓ negotiating on the seller's behalf to realize the maximum possible price
 - ✓ negotiating with the regulators for all the required approvals
 - ✓ assessing the material agreements such as asset title deeds, joint venture agreements, etc.
 - ✓ ensuring the smooth closure of the transaction

1.3.3 Portfolio Management

Individual investors as well as institutional investors are catered to by the Portfolio Management Department at BEIL. Whether an investor chooses to hand the management of the portfolio to BEIL or decides to trade shares on his/her own, the proprietary research provided by the department will ensure that the investor's needs are rightfully met. The investor's portfolio is constructed and managed in such a way that his/her objectives will be achieved using the best method. Moreover, the investors are also assisted in identifying their respective objectives, provided with an outline of the important requirements such as liquidity, capital appreciation, current income, time span and fiscal implications, and subsequently suggested with an appropriate portfolio.

The three distinct products offered by the department are as follows:

CAP Edge

Cap Edge is an investor-controlled account where the portfolio managers only provide assistance with the trade execution and give continuous advice while the actual authority and power to buy and sell the items lies with the investor. Investors are required to pay management fees and brokerage commissions for trading. For this account, the department has its specialties in:

- experienced portfolio managers

- excellent sales and customer service
- fastest possible response to regulatory changes
- economies of scale
- 4x5 trading and 24x7 advising services
- disciplined approach
- prudence and conservatism

Managed CAP Edge

This particular account is a portfolio manager controlled account where the investor's role here is only to guide the manager with the former's return and risk preference while the manager has full power to select the items that are to be bought or sold. Investors are required to pay management fees, which is an amount that is higher than that charged in Cap Edge, and brokerage commissions for trading. For this account, the department has its specialties in:

- in-depth risk assessment
- rigorous risk management
- fastest possible response to market changes
- providing value service at competitive rates

CAP Cash

This type of account is a unique one offered to clients where both margin and non-margin services are provided through individual BO (Beneficial Owner) Account. Through this account, clients are able to link their existing BO accounts in BEIL with those in other brokerage houses. For this account, the department has its specialties in:

- experienced portfolio managers
- excellent sales and customer service
- fastest possible response to regulatory changes
- economies of scale
- 4x5 trading and 24x7 advising services
- disciplined approach
- prudence and conservatism

1.3.4 Impact Investment

The latest service line that has been added to the company is the Impact Investment department. Here, a positive risk-adjusted financial return is expected from investments without compromising the social and environmental impact with the objective to build a dynamic and sustainable economy through the provision of capital and advisory services to scale up social business organizations.

The details of the services offered by the team in the department are as follows:

Clean Development Mechanism (CDM) Advisory services

- UNFCCC CDM loan processing
- Project Idea Note (PIN) & Project Design Document (PDD) Development
- Assistance with validation
- Registration of CDM project with UNFCCC
- Development and implementation of monitoring plan
- Verification and issuance of Certified Emission Reductions (CER)s

Carbon Asset Commercialization services

- Carbon brokerage
- Carbon portfolio management

Financial Advisory services

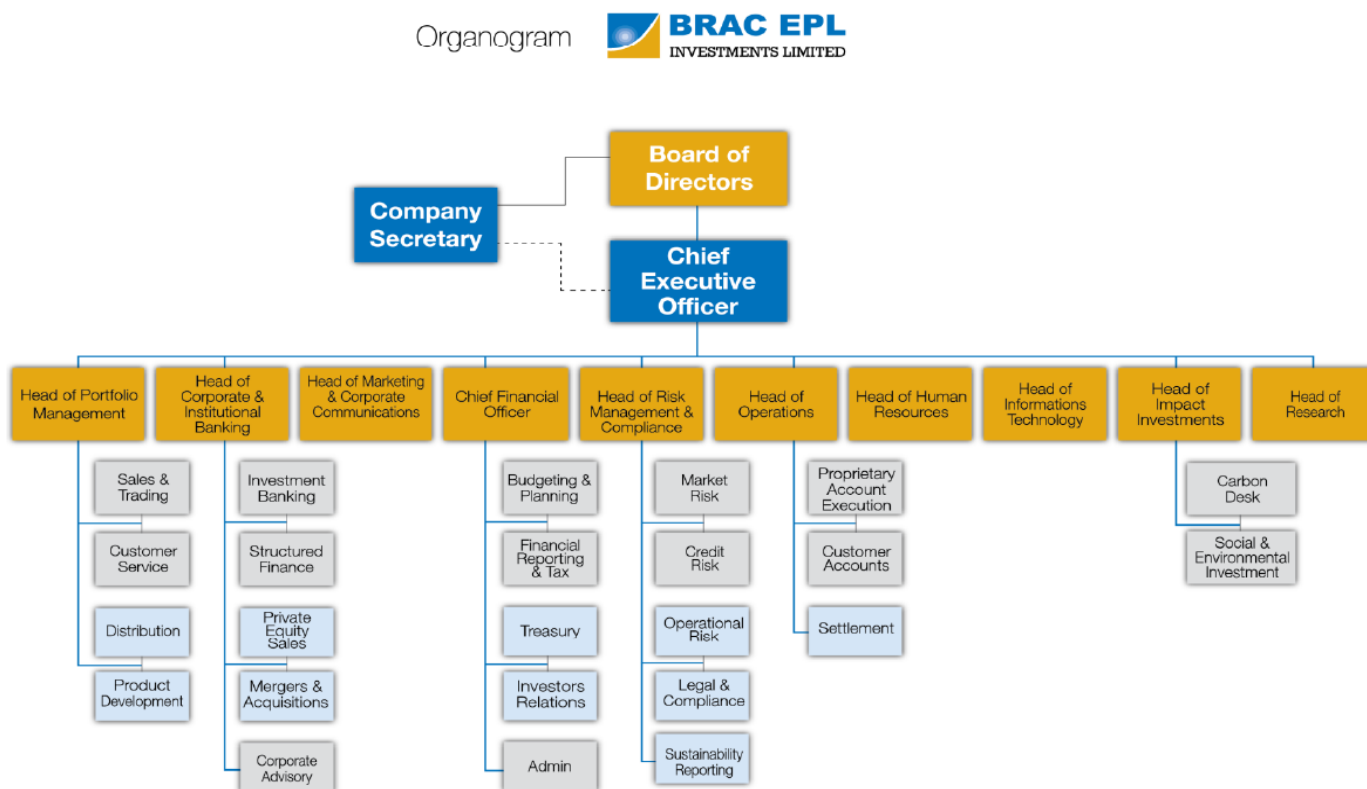
- Impact finance advisory
- Carbon finance advisory

The ongoing projects of the department are listed below:

- Energy Efficiency Program in Rural Bangladesh
- Municipal Solid Waste Management Facility Project at Tongi, Gazipur, Bangladesh
- Preparatory Survey on BoP Business on Non-firing Solidified Brick Technology

1.4 Operational network organogram

The organogram structure of BRAC EPL has been shown below:



1.5 Visions for the future

Vision statement of BEIL

“BRAC EPL Investments Limited aims to provide innovative, pioneering and world-class sustainable investment banking solutions including creation of access to capital markets for individual investors and social enterprises.”

Mission

Business principles of BEIL

“We believe in...

- Taking pride in the fact that we are a member of the BRAC family.

- Maximizing profit while ensuring optimum values for our stakeholders.
- Business policies, processes and people that enable sustainable business growth for our customers.
- Being the employer of choice through equal opportunity, development and empowerment of our people.
- Practicing the highest ethical standards in all our dealings through an honest, open and enabling organization culture.
- Zero tolerance in breach of compliance, regulatory requirements and laws of the land
- Being sensitive to social and environmental needs.
- Taking lessons from global markets in terms of innovation, knowledge and best practices for building an internationally reputed institution.”

Chapter 2

Internship at BRAC EPL Investments Limited

2.1 Description of the job

The objective of doing an internship is to obtain exposure to the job world and have a platform to apply the theoretical concepts learnt in university in real-life situations. Thus, as part of the BRAC Business School's academic program, I was given the opportunity to work as an intern at the Structured Finance department at BRAC EPL Investments Limited (BEIL) at Gulshan 1 for a period of 3 months, starting September 15th, 2013 and ending on December 15th, 2013. According to the contract, I had to work under a supervisor in the department, who would guide me throughout my period of stay in the organization and assign me with work based on the department's requirements. My working days were from Sunday to Thursday, 9.30am to 5.30pm. However, on several occasions I was required to stay beyond 5.30pm due to the department's workload.

2.2 Specific responsibilities of the job

The specific responsibilities that I was assigned with during the three months have been described below in detail.

Prepare industry reports: A major part of the work I had done at the Structured Finance department involved preparing industry reports. For this, it was crucial to make use of valid sources to write a report that consisted of accurate and up-to-date information. Thus, for the preparation of each report, a news run had to be done where data was collected from two reliable online newspapers, namely, The Daily Star and The Financial Express. All the recent articles related to the industry were first collected from these two websites and arranged in a Microsoft Word file in chronological order, with the most recent article on top. Next, all the relevant information in the articles had to be highlighted and then compiled in a single write up. The content in each of the reports included general information about the industry, historical background, present market situation, demand and supply, prospects, challenges and future outlook of the industry. When writing each report, I had tried to the best of my abilities to be as comprehensive and particular as possible and I proof read each document several times before I submitted them.

An industry report is required in various stages of the daily operations of BEIL. For instance, some of the major reasons that a company decides to go for a merger or an acquisition are to strengthen competitive advantage, enhance customer base and also provide better service to the customers. When a merger or acquisition takes place, an important decision needs to be taken regarding the debt and equity proportion in the new capital structure. BEIL's structured finance department

assists such companies by helping them decide which particular combination will prove to be best and result in a greater return. For the department to be able to provide such advice, one of the key considerations is to look into the industry's current condition, advantages and disadvantages. Moreover, if a company wants to go for a merger in order to achieve synergy, the relevant sector needs to be looked into so as to figure out whether the merger will lead to the intended result.

An industry report also plays an important role in the decision-making process for the issue selection of portfolio management in the research department. Portfolio management primarily consists of two approaches, namely, top-down and bottom-up approach. In the top-down approach, a series of analysis is made in the following order:

- global economy analysis
- prevailing trends analysis of a country
- macro-economic analysis
- *relevant industry analysis*
- company analysis
- relevant company's stock analysis

In case of the bottom-up approach, an analysis is made in the order listed below:

- company analysis
- relevant company's stock analysis
- *industry analysis*
- macro-economic impact on industry

Once all the necessary information has been collected, the research department sends it over to the portfolio managers. Subsequently, the extent to which the future anticipation of the stock performance matches with the initial assumptions that were made is taken into account. Then, a decision is made at the end regarding whether the stock of the concerned company should be bought or not. The purpose of conducting such research is to determine how the stock is currently performing by keeping the industry's current performance as the benchmark.

Besides this, an industry report is also a vital part of the information memorandum or prospectus that BEIL prepares on behalf of its clients in the provision of its various services like IPO, RPO, rights issue, capital raising, loan syndication, bond and convertibles, and private equity.

Proof reading documents: The structured finance department had recently provided assistance to DSE in preparing its recent demutualization scheme. Thus, I was required to assist my supervisor in proof reading documents in this regard so as to ensure that they did not contain typos or any other errors.

Preparing directories: The department had recently taken up the task of assisting a client who was looking to acquire a company in the packaging industry. For this, I had to prepare a directory of the board of directors at the BGAPMEA (Bangladesh Garments Accessories & Packaging Manufacturers & Exporters Association) and record their contact details and other information about their company.

2.3 Different aspects of job performance

During the period of my three-month internship, I had tried to the best of my abilities to approach any task with full effort and utmost determination. My field supervisor was of the opinion that I have sincerely carried out all the tasks that I was assigned, stringently keeping in mind my responsibilities, and have completed them within the allotted time. My major strengths included my proficient and consummate writing skills and fluency in the English Language. However, one area that he believes I needed to work on is my interpersonal skills. It is very important for any individual working in the business front to be an extrovert, especially when it comes to dealing with clients in the business and being the face of the business. With this in mind, my supervisor believes that I need to develop my interpersonal skills not only for the abovementioned reason, but also in order to achieve proper progression professionally. In comparison the interpersonal skills that I walked in with to BRAC EPL, I had made some progress over the three months, but there is still room for improvement.

2.4 Critical observations and recommendations

In the course of my 3-month internship at BEIL, I had the chance to observe the daily workings of the structured finance department and the functioning of the organization as a whole. Some of my observations and recommendations in this regard during have been listed below:

- The members of the department and the department head maintain a very friendly and warm relationship. This not only facilitates team work in the department but also helps them pull through days when the working hours are longer than normal. Moreover, this also contributes

towards instilling a positive attitude towards work and pushes them to go that extra mile so as to ensure that the work is completed with full accuracy.

- Like the structured finance department, all the other departments in the organization too have a friendly work environment. This will, no doubt, contribute towards employee retention in the company in the long term.
- Employees are given timely promotions based on their performance and duration in the company. During my 3 months, two people were promoted in the organization.
- BEIL also seeks to place special emphasis on the training and development of its employees. The Vice President of the department had been sent to Hong Kong for training for a period of one week during my stay.
- In the first month of my internship, an Employee Welfare Week was observed, which was concerned with how employees can keep themselves healthy, how to identify symptoms of common diseases and focus on their prevention. For this purpose, a seminar was held where a doctor was invited to come and talk to the employees regarding these issues. At the end of the seminar, the employees were also allowed to have a one-on-one session with the doctor free of cost.
- Owing to the fact that BRAC is the umbrella organization and an NGO, the employee pay scale at BEIL is comparatively lower than the other investment banks in the country. Thus, this may create dissatisfaction and contribute towards a higher turnover among the employees. In order to counter this, BEIL may choose to resort to providing its employees with other non-monetary benefits.
- When developing the industry reports, I was instructed to focus more on the positive aspects of each industry and less on the problems. The purpose for doing so was that in order to sell a business or investment to a client, the positive side is required to be emphasized on and shown. However, according to me, this will not give a true picture of the industry to the reader/client and he/she may end up making a wrong decision to invest. So, instead of ignoring the negative aspects of a business, it would be more practical to mention “areas of improvement” for the organization and positively outline reasons for the required improvements, as well as possible approaches to administer these improvements.

Chapter 3

A study on the Impact of Going Public on RAK Ceramics (Bangladesh) Limited

Description of the report

Many companies consider going public to be a ‘rite of passage’ in business as it acts as a means of legitimizing their legacy and reaffirming their success. Going public has the effect of forever changing how a company goes about running its business. Thus, it goes without saying that it is a monumental decision and a transformational event for any company when it decides to go public. Although becoming a public company gives a firm access to a much deeper source of capital than a private company, the actual process can be very time-consuming and it exposes the company to certain unique challenges which the company should be well prepared to counter.

On July 2010, RAK Ceramics (Bangladesh) Limited, previously known as RAK Ceramics Bangladesh Private Limited, became listed in Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The main objective that the company was looking to achieve by issuing shares to the public through an Initial Public Offering (IPO) was to use the proceeds to repay its outstanding long term and short term bank loans. In this transaction, BRAC EPL Investments Limited (BEIL) acted as the joint issue manager. Thus, this paper not only looks into the meaning and process of issuing IPOs but also includes an analysis of the financial statements of RAK Ceramics so as to analyze how the company’s financial position responded to becoming a public entity and whether it proved to be a sound decision on the part of the management.

Objectives of the project

The general objective of this report is to look into what IPOs are and whether the firm that has been chosen for this report was actually able to benefit from it.

The specific objectives of this project are as follows:

- To study the meaning, advantages and disadvantages of IPOs
- To understand the procedure that a company needs to follow in order to get itself listed on the Dhaka Stock Exchange (DSE) for an IPO issue and an investment bank’s role in the overall process
- To investigate the impact of an IPO on a previously private company

Methodology

In order to write this paper, data has mainly been collected from secondary sources. The secondary sources include the information that was collected from BRAC EPL Investments Limited’s

Investment Banking department regarding how investment banks handle IPO issues. Besides this, other data sources include websites containing information about IPOs, annual reports from RAK Ceramics (Bangladesh) Limited's official website as well as the company's prospectus.

The data from the annual reports and prospectus of RAK Ceramics has been used for the analysis part of the report. Selective data from the yearly financial statements have been analyzed to determine the yearly growth of the company and to calculate their mean values. Apart from this, the financial statements have been used to calculate the ratios for each year, which was then organized in table form to calculate their yearly growth and mean values. All the mean values were then put side by side in the results and discussion part in order to compare the pre- and post-IPO state of the company to reach a conclusion as to whether going public had proved to be the right decision for RAK Ceramics.

Limitations

The limitations faced when writing this report were ample. Firstly, it was not possible to perform a standard five-year study on the company as the IPO was issued only a few years ago in 2010. Thus, only a time frame of three years before and after the IPO issue could be analyzed for this study. Moreover, BEIL maintains high confidentiality regarding information concerning the intricacies of its role in IPO issues. Therefore, it was difficult to obtain a more detailed understanding about the department in this aspect.

3.1 Understanding IPOs

Companies usually resort to two options when it is looking to raise money – debt and equity. A debt is where a company borrows money through a bond, loan, mortgage, or any other type of credit facility. It is an obligation under which the company is to make regular payments in the form of interest as well as eventually pay back the entire amount borrowed once the loan matures. The second option that a company can choose is equity financing. This is where a company issues shares and allows investors to buy them. A share is defined as a unit of ownership interest in a corporation and represents a claim of the corporation's assets and earnings by the shareholder. The company may either choose to make its shares available to retail and institutional investors, and operate as a private company, or a previously private company may go public by selling its shares to the public, better known as an initial public offering (IPO). Moreover, it is important to mention that companies usually choose to have a combination of both debt and equity based on their own discretion. Raising capital through equity has the most distinct advantage of not having to pay interest or worry about loan maturity dates. Such public offerings are usually carried out by a team of professional underwriters. An underwriter is a company or an entity that takes the responsibility of executing the public issuance and distributing the shares to investors through its distribution network.

The main reason that investors find shares an attractive investment is because it is an easy way to make money with a possibility of the highest returns, especially in the lucrative and vibrant secondary market. However, the bigger question in this context is - why do companies go public and allow the general public to suddenly gain partial ownership in a company that they built with years-long effort? When a company goes public or makes a public offering, not only does it create a market where its shares can be subsequently sold, but it also raises the public profile of the company and thus creates more awareness about its existence. Thus, the advantages gained by such companies are numerous; but these may at times outweigh the disadvantages that the company will have to face.

3.1.1 Why firms decide to go public

The advantages enjoyed by a company that goes public have been described below:

Reduced capital expenditure: Companies usually get the push from their management to go public when the latter is convinced that it can raise more money by doing so, alongside being able

to fetch a better price for its shares through an IPO rather than selling to private investors. And when this really is the case, a public offering proves to be a means through which money can be raised at a lower cost. Moreover, it becomes more cost effective to go public when a company has the necessary profile that will attract institutional investors to the IPO.

Allows company to enhance growth: The most apparent merit of going public is the cash proceeds generated from the offering. As long as the company discloses the purpose for which it is using the money, it may freely use it in a variety of ways to help the company. In most cases, the money is used to increase working capital, to enhance marketing efforts, to acquire new technologies or divisions, to pay for research or invest in plant modernization, or to repay its debt.

Shareholder liquidity: A company's decision to go public enables investors to sell off their shares at any time in the secondary market, making them an attractive and highly liquid instrument to opt for. Moreover, even the shares that are in the hands of private institutional investors can be easily liquidated.

Ease of future financing: In most instances, companies are able to raise a considerable amount of equity capital, which in turn takes the company's net worth and debt-to-equity ratio through a dramatic improvement. This rewards the company with the ability to borrow money at competitive rates from commercial lenders. Furthermore, the company can easily issue more shares for its financings in its existing market, should the need arise in the future.

Boost in company's image: When a company goes public, all the disclosure of its financial information as well as the investor relations planning that is made brings the company into the attention of the business and financial press. This enriches a company's image with all the free publicity and the perception of going public becomes a sign of company success.

Increases scope for expansion: Another way that companies have been known to use the proceeds of their IPO is expansion through mergers and acquisitions. Since registered shares can easily be liquidated, public companies can often use stock instead of cash as a means to acquire a company or a valuable property.

3.1.2 Cons of going public

Whether a company finds success after going public usually depends on the management's goals and the circumstances under which the company operates. Thus, it is not the right decision for every company as it does not always translate into a future success. The disadvantages that such a company may possibly face include the following:

High costs: The cost of hiring an underwriter and other similar expenses, which includes the out-of-pocket expenses of the underwriter, transfer agent fee, legal fees, printing fees and accounting fees, end up becoming a very huge expense for companies. Moreover, a majority of these expenses are to be paid at the closing of the offering made by the company. Apart from these costs, once a company becomes public, it is required to publish annual and quarterly financial reports as imposed by the Securities and Exchange Commission (SEC). Thus, in an attempt to fulfill these requirements, a company ends up with an increased cost of doing business as both time and money are needed to generate and compile the information used to prepare these reports.

Lack of confidentiality: Once a company goes public, it is forced to make detailed disclosures to potential investors by preparing and distributing to them a complete description of the company, its history, strengths, weaknesses, future plans as well as its financial information. Moreover, all this information needs to be updated on a regular basis as made mandatory by the SEC, and once these are filed, they need to be readily made available to stakeholders, which include employees, suppliers, customers, investors. However, competitors may use this information to their advantage.

Dilution of control: If the situation is such that outsiders of a public company take possession of enough stock to elect a majority of the company's board of directors, then it may result in a reduction in the management's control over the company. This may eventually lead to the shareholders dismissing members from the management team. Another risk lies in the fact that any sale in shares that hold voting rights reduces the percentage of ownership held by the management. In fact, selling to a few private investors makes it more difficult for the management to retain control as against the distribution of the same shares to a greater number of investors. Another point to consider here is that public companies are more vulnerable to unfriendly takeovers as their shares become more easily accessible.

Pressure from shareholders: Even when the case is such that a company is able to retain its voting rights, it may still find itself in a situation where it is being pressurized regarding the way in which it runs its business. Shareholders' expectations and reporting requirements of the SEC together create a considerable amount of pressure on the firm to improve its performance on a quarterly basis. Thus, when the company fails to do so, it can cause a subsequent decline in the market value of its stock, which makes it become more difficult to raise money or use stock to acquire companies. Furthermore, such pressures to meet short term goals may lead to the management making decisions to forgo necessary long term planning, which may lead to present day sacrifices that will eventually be reflected in the company's quarterly reports in the long term.

3.2 RAK Ceramics (Bangladesh) Limited and its IPO issue

RAK Ceramics (Bangladesh) Limited, a UAE-Bangladesh joint venture company, was incorporated as a private company in Bangladesh on 26th November, 1998. Alongside being the market leader in the ceramics industry in Bangladesh, it is the largest ceramic brand in the country, the entire Middle East and in most of the countries worldwide. The company claims ownership to a portfolio of over 1,000 unmatched tiles models and more than 40 models of exclusive sanitary ware, to which it keeps adding new designs every year.

As discussed earlier, one of the services provided by BRAC EPL Investments' Investment Banking department is the provision of corporate advisory to companies that wish to go for an Initial Public Offering (IPO). On July 2010, when RAK Ceramics went public, while IDLC Finance Limited acted as the lead issue manager, BEIL played the role of the joint issue manager in the IPO transaction. The other parties involved in the transaction included ICB Capital Management Ltd., Prime Bank Ltd., Trust Bank Ltd., Eastern Bank Ltd., Southeast Bank Ltd., Lanka Bangla Finance Ltd., Prime Finance & Investments Ltd., Bangladesh Mutual Securities Ltd., Green Delta Insurance Co. Ltd., BRAC EPL Investments Limited and IDLC Finance Ltd., who acted as underwriters to the issuing company. Apart from having the responsibility of an underwriter, a lead manager has the added responsibility of organizing the syndicate, distributing member participation shares and making stabilizing transactions.

What made this IPO historical was the fact that for the first time in the history of Bangladesh an IPO was being issued under the book building method that was introduced by the SEC in the capital market. This is a method of IPO placement that is used by an issuer in an attempt to determine the price at which its securities will be offered based on the demand of selective institutional investors like merchant banks, mutual funds, banks and non-banking financial institutions, etc. For this, an automated bidding system is used where different financial institutions are required to participate so as to come up with a price for the shares at IPO road-shows. Subsequently, the weighted average of all the bid prices or the average of the highest and lowest bid prices are used to determine the final market price after which the shares become accessible to IPO participants. In case of RAK Ceramics (Bangladesh), the highest bidding price was Tk. 48 and the lowest bidding price was Tk. 40. The cut-off price that was finally decided upon was Tk. 48.

Thus, a public offer of 34,510,000 ordinary shares of Tk. 10 was made available to potential investors at an issue price of Tk. 48 each, which totaled Tk. 1,656,480,000. The shares were subscribed in the following two ways:

- Eligible institutional investors subscribed 6,902,000 ordinary shares at Tk. 48 each;
- 27,608,000 ordinary shares at an issue price of Tk. 48 per share (cut-off price) were offered to the General Public, NRB, Mutual Funds and Collective Investment Scheme registered with the Commission.

3.2.1 An overview of the listing process with Dhaka Stock Exchange

For a company to go public, it needs to be listed in the stock exchange as well as prepare a detailed offering circular called a prospectus. The general process that RAK Ceramics (Bangladesh) Limited and other companies in Bangladesh looking to go public need to follow to become listed in the Dhaka Stock Exchange (DSE) can be described as follows:

- A company that intends to enlist its securities with DSE through an IPO needs to appoint an issue manager so as to proceed with the listing process of the company with the Exchange;
- The issue manager undertakes the responsibility of preparing the draft prospectus of the issuing company while complying with the Public Issue Rules of the SEC and then submits the same to the SEC and the Exchange(s) for the necessary approvals;

- It is also mandatory for the issuer to make an agreement with the underwriter(s) and bankers to the issue for the purpose of the IPO;
- Once the Exchange receives the draft prospectus, it is required to examine and evaluate the overall performance as well as financial features of the company that may have a short term and long term impact on the stock market;
- The Exchange is to send its opinion to the SEC within 15 days of receipt of the draft prospectus for the purpose of the SEC's consideration;
- After proper scrutiny, the SEC gives its consent for a floating IPO as per Public Issue Rule;
- Once the SEC gives its consent, the issuer is required to file an application to the Exchange for listing its securities within 5 days from the date of issuance of its prospectus;
- On successful subscription, the company needs to complete its distribution of the allotment/refund warrants within 42 days of the closing of subscription of the securities;
- After a 100% distribution of the shares/refund warrants and compliance with other requirements is completed, the application for listing of the issuer is placed to the Exchange's meeting for the necessary decision of the Board of DSE;
- The Board of DSE then takes the decision regarding the listing/non-listing of the company, which must be completed within 75 days from the closure of the subscription.

3.2.2 BRAC EPL Investments' role in the IPO issue process

Since companies are required to consult with an investment banker to determine the ideal structure for an offering and how it should be distributed, RAK Ceramics had to comply with a rule no different. Thus, IDLC Finance Limited and BRAC EPL Investments Limited jointly played the role of the lead arranger/issuer in RAK's IPO issue. As the joint issue manager in the transaction, the role played by BRAC EPL (and IDLC Finance) in the transaction has been outlined below:

- One of the first steps involved arranging bankers and underwriting syndication to the IPO issue;
- A valuation of the issuer company, i.e. RAK Ceramics (Bangladesh) Limited, and the pricing of the securities that were to be offered to the public was conducted using various appropriate financial modeling techniques as deemed suitable for the issuing company;

- Assistance was provided with regards to the preparation of the prospectus. A prospectus is a formal legal document that provides details about an investment offering that is up for public sale. It contains all the necessary details that an investor needs to make an informed investment decision;
- All the material agreements like asset title deeds and other such agreements were looked into so as to ensure they are in order through due diligence;
- An assessment and settlement was made regarding tax and/or legal issue with the help of the issuing company and other parties involved in the transaction;
- Smooth coordination of the work of all the professionals and organizations like lawyers, accounting firms, credit rating agencies, banker to the issue, underwriters, etc., involved in the transaction was ensured;
- Negotiation with other parties is also required for a company that intends to get listed on the Exchange. For this, the negotiation process and smooth coordination of work with regulatory bodies like Bangladesh Bank (BB), Registrar of Joint Stock Companies (RJSC) and Bangladesh Securities and Exchange Commission (BSEC) were facilitated by BRAC EPL;
- All necessary documents required to file the application to the SEC were obtained, arranged, and presented in compliance with the Public Issue Rules & Regulations of Bangladesh;
- Once all the relevant documents were collected, a complete application was submitted to the SEC and the Exchanges;
- Lastly, any post-issue management services deemed necessary were also coordinated accordingly.

3.3 A Comparative Analysis

The IPO issue of RAK Ceramics proved to be a huge success for the company management in 2010. This was evident in the fact that the shares were oversubscribed by 16.56 times by investors - against the company's mobilization target of Taka 1,1656.48 million, it was able to collect Taka 27,431.30 million.. The issue generated over 1.5 million applications, which was also the highest ever for any primary issue in the country. The IPO proceeds of the company were used to clear its long term debts as well as utilized to fund working capital requirements. However, after achieving such success, the question is whether RAK Ceramics was able to uphold itself as it did before it

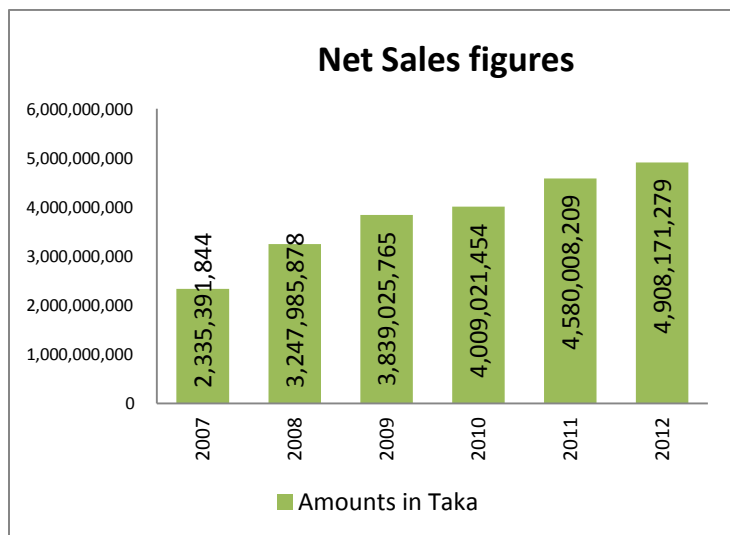
went public or did it fall victim to the pangs of becoming a public company. In light of this, a study has been conducted to investigate and analyze the financial performance of the company before and after it became a public company.

3.3.1 Analysis of selective figures from the yearly financial statements of the company

In this section, the net sales, operating income, total assets, total debt and total equity values of RAK Ceramics have been analyzed in the course of the 3 years before and after the company went public. The period between 2007 and 2009 depict the pre-IPO issue stage while the period between 2010 and 2012 depict the post-IPO stage. The values, growth rate and average calculations of these figures have been shown in Appendix A.

Net sales:

The figure below is a graphical representation of the net sales figures of RAK Ceramics from 2007 to 2012.

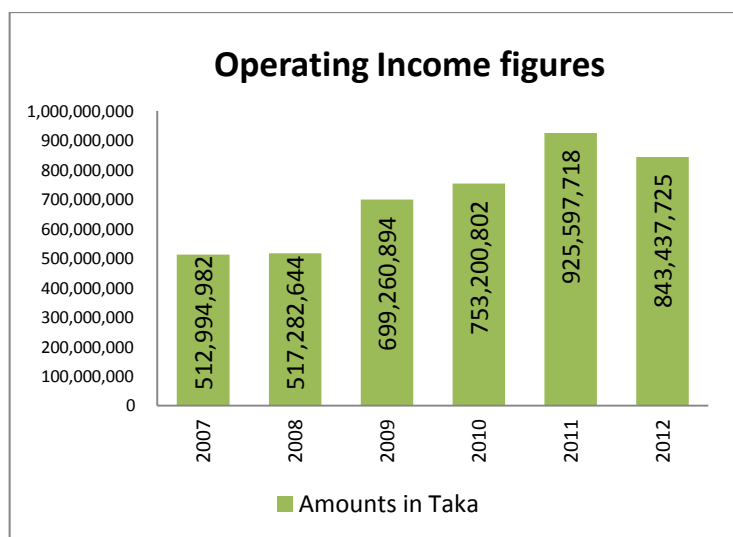


In 2007, the net sales of RAK Ceramics stood at Tk. 2,335,391,844. The following year, the sales went up largely by 39%, mainly due to the expansion of the production plant capacity of its tiles and sanitary ware, which in turn allowed the company to sell a higher volume and thus earn higher revenue. The percentage increase in sales however dropped to 18% the next year, but the revenue generated still remained high at Tk. 3,839,025,765.

Post-IPO, however, the growth rate of the sales generated was not as high. In 2010, the sales value for RAK Ceramics was Tk. 4,009,021,454. That year 20 new models of ceramics tiles and 2 new models of sanitary ware were introduced and well-received in the market. The following year saw a 14% increase in this value as the company placed its dealers close to customers. Moreover, the company increased its visibility in the print and electronic media through billboards and TV commercials. 2012 saw a smaller increase in value, i.e. 7%, which may be explained by the slight stagnation in the real estate sector due to the acceleration in the inflation rate that year that rose to 10.62% from the 8.80% in the previous year.

Operating income:

The figure below is a graphical representation of the operating income of RAK Ceramics from 2007 to 2012.

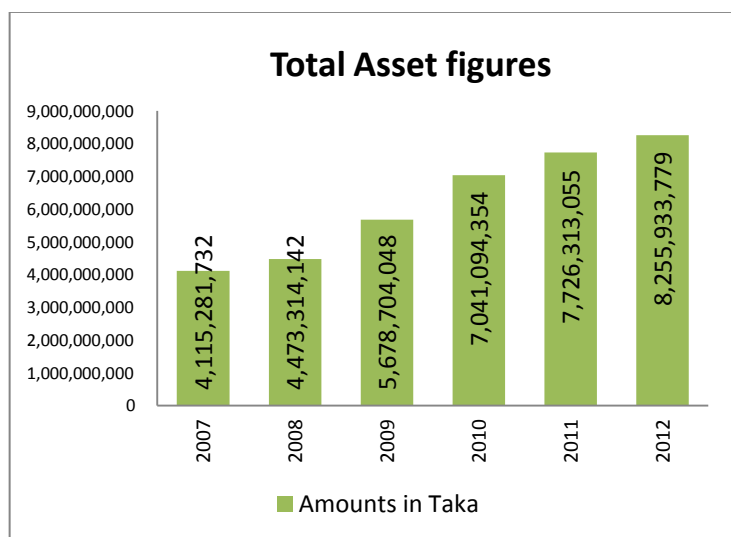


Operating income is a measurement of the income that a company is able to generate from its own operations. In 2007, the company's operating income stood at Tk. 512,994,982. The following year, in 2008, though the net sales saw a considerable increase in value, the operating income only experienced a 1% increase in value. This may be attributed to the fact that expansion in the company's production capacity resulted in an increase in the direct costs incurred by RAK Ceramics, which did not allow the operating income to increase as much. However, in 2009, the company was able to bring its direct costs under control, generating Tk. 699,260,894 in the process, which was a 35% increase in value from the previous year.

In 2010, the operating income of the company stood at Tk. 753,200,802. The following year saw a 23% growth in this value. Thus, despite the company facing a challenging year owing to the currency fluctuation that increased the raw material cost and interest rates (due to the government's excessive borrowing), the company was still able to adapt to the situation by replacing its conventional technology with one that was cutting-edge. Finally, in 2012, the operating income saw a 9% decrease in value due to increase in labor and raw materials cost due to the devaluation of the local currency against the dollar as well as the inflation.

Total assets:

The figure below shows a graphical representation of the total asset figures of RAK Ceramics from 2007 to 2012.

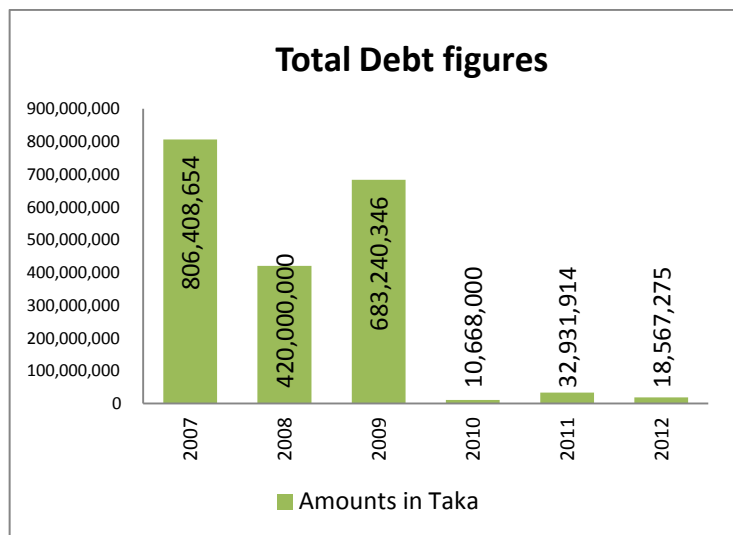


The company's total asset value stood at Tk. 4,115,281,732 in 2007. The following year, it increased by 9% but in 2009, RAK Ceramics experienced a 27% increase in asset value.

Post-IPO, the growth rates were much lower. The value saw a 10% increase in 2011 from the value in 2010, and the growth dropped by a few percentage points the following year as it finally reached a total value of Tk. 8,255,933,779.

Total debt:

The figure below shows a graphical representation of the total debt figures of RAK Ceramics from 2007 to 2012

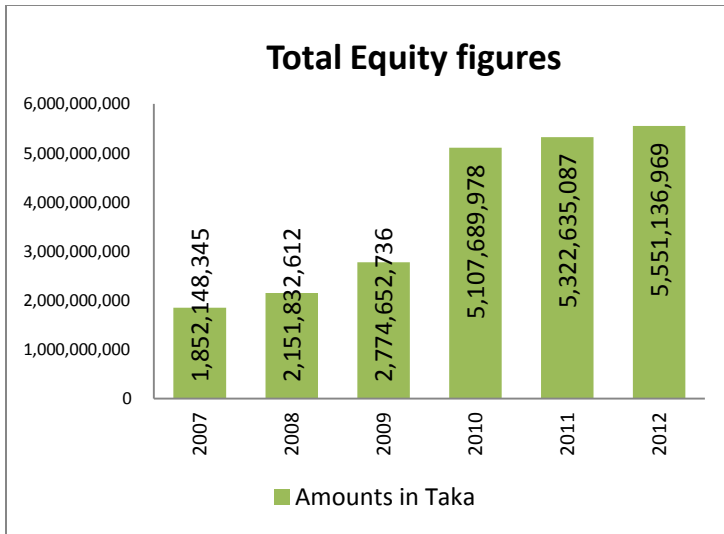


Prior to the IPO issue by the company, the total long term obligations of the company stood at a very high value. Though the total debt value of Tk. 806,408,654 fell by 48% in 2008, it again saw a rise in value by 63% the following year.

The total debt held by the company fell by a substantial amount to Tk. 10,668,000 in 2010. This was due to the fact that the company had issued shares to the public so as to use the proceeds to repay its long term debt. The following year the debt however increased by a whopping 209% as the interest rates in the country increased. But, subsequently, RAK Ceramics was able to bring the situation under control, and realized a nearly debt-free status due to its timely management as the debt fell by 44%.

Total Equity:

The figure below shows a graphical representation of the total equity figures of RAK Ceramics from 2007 to 2012.



The total equity held by private equity investors stood at Tk. 1,852,148,345 in 2007. The value then experienced a 16% and 29% increase in value in 2008 and 2009, respectively. In 2010, once the company shares were made available to the public, the shares brought in the highest ever collections with regards to the amount subscribed as well as the number of applications received, as mentioned before. The equity value then increased at a constant rate of 4% in the following two years, finally reaching a value of Tk. 5,551,136,969 in 2012.

Therefore, in light of the overall scenario prior to the IPO issue by RAK Ceramics in 2010, the company's performance continued to improve year on year. However, after the company went public, the figures in question witnessed a decline in its growth trend. The growth was mainly constrained by the challenging economic situation in the country which increased the costs for the firm.

3.3.2 Analysis of financial ratios from the yearly financial statements of the company

This section looks into the performance of RAK Ceramics before and after the company went public in terms of its profitability, liquidity and leverage ratios. The period between 2007 and 2009 depict the pre-IPO issue stage while the period between 2010 and 2012 depict the post-IPO stage. The calculation of the mean values, growth rates and the calculation of the ratios can be found in Appendix A and Appendix B, respectively.

PROFITABILITY RATIOS

Profitability ratios are used to evaluate a company's ability to generate earnings in comparison to its expenses and other relevant costs that are incurred during a specific period of time. These include gross profit margin, net profit margin, return on assets, return on equity, earnings per share and return on capital employed.

Gross profit margin:

The gross profit margin (GPM) of a company serves as a source that is used to pay operating expenses and future savings. Ideally, the gross profit margin should be stable as fluctuations tend to have an impact on the cost of goods sold or pricing policies.

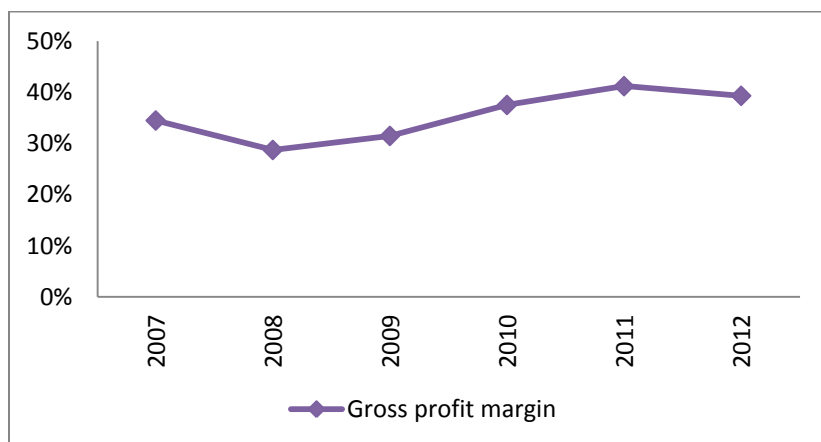
The table below shows the relevant figures used for the calculation of the GPM of RAK Ceramics followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Sales	2,335,391,844	3,247,985,878	3,839,025,765
Cost of sales	1,530,281,434	2,315,174,472	2,631,107,917
Gross profit margin	34%	29%	31%

*amounts in Taka

Year	2010	2011	2012
Sales	4,009,021,454	4,580,008,209	4,908,171,279
Cost of sales	2,505,064,934	2,693,527,991	2,979,160,088
Gross profit margin	38%	41%	39%

*amounts in Taka



RAK Ceramics' GPM was roughly able to match up to this rule in its pre-IPO phase as it was fairly able to keep the increase in its cost of sales proportionate with the increase in the sales value with 34%, 29% and 31% in 2007, 2008 and 2009, respectively.

Post-IPO, the GPM jumped to 38%, implying a greater ability to pay operating expenses. The sales then continued to increase, but the corresponding cost of sales increased at a slow pace as the GPM stood at 41% in 2011. However, in the following year, as the cost of sales increased at a higher proportion in comparison to the sales, the GPM dropped to 39%. Since the company was subjected to such an inconsistent margin, the pricing policies of the company may have been affected.

Net profit margin:

Net profit margin (NPM) is a good measure of how much out of every dollar of sales a company actually keeps in its earnings, with a higher profit margin indicating a more profitable company.

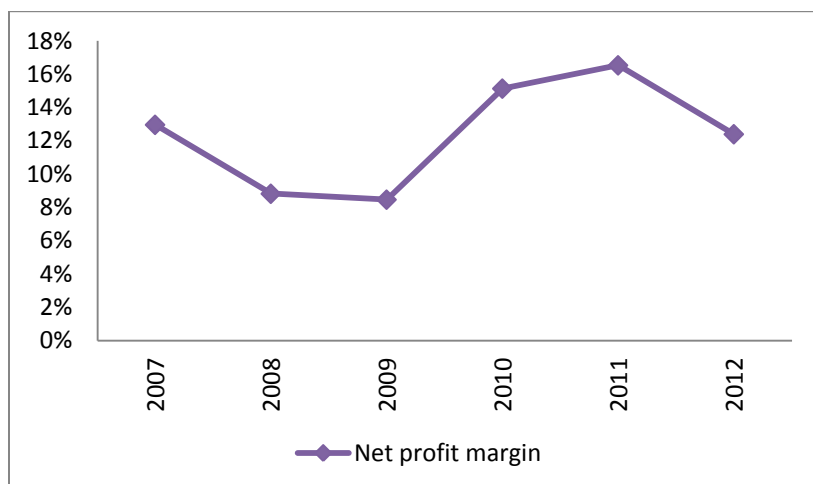
The table below shows the relevant figures used for the calculation of the NPM of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Net profit after tax	302,574,644	286,401,153	324,876,139
Sales	2,335,391,844	3,247,985,878	3,839,025,765
Net profit margin	13%	9%	8%

*amounts in Taka

Year	2010	2011	2012
Net profit after tax	606,521,109	756,952,645	608,123,157
Sales	4,009,021,454	4,580,008,209	4,908,171,279
Net profit margin	15%	17%	12%

*amounts in Taka



The NPM of RAK Ceramics stood at 13% in 2007. The ratio, however, saw a downward trend as it fell by 4% in 2008 and then by a further 1% in 2009, indicating inefficiency on the company's part in generating a good amount of profit on the sales made. Though the company was able to increase its sales value year on year, it was unable to obtain a proportionate amount of net profit, which brought down the overall profit earned by the company. This implies that the cost incurred by the company during this period was very high, which in turn translated into a lower ratio.

Post-IPO, the net profit margin of the company almost doubled as it jumped to 15% in 2010. Even though the company experienced a decreased growth in its sales value in comparison to the growth in the previous years, RAK Ceramics was still able to generate a higher net profit mainly due to the halving of its financial expense. In 2011, the ratio increased to 17% as the company was able to bring down its financial expense even further. However, the cost of sales experienced a slight hike the following year, which acted as the main reason behind the ratio dropping to 12% despite an increase in the sales value.

Return on Assets:

A firm's return on assets (ROA) is a good indicator of how profitable a company is in comparison to its total assets, and it shows how efficient a company's management is in using its assets to generate earnings.

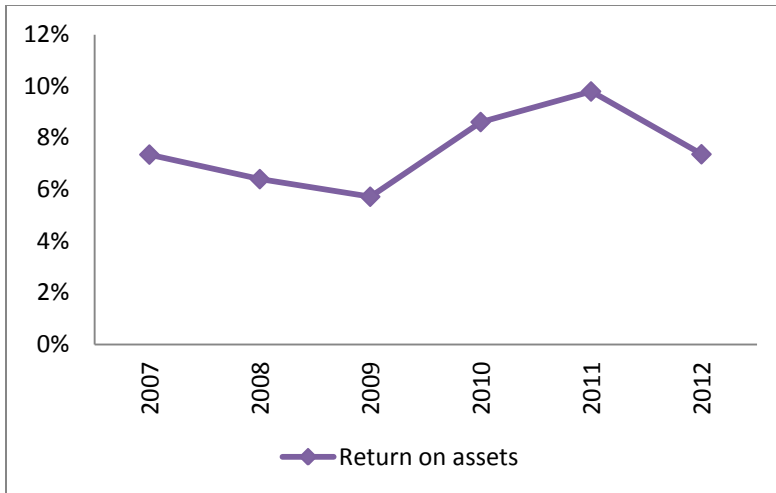
The table below shows the relevant figures used for the calculation of the ROA of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Net profit after tax	302,574,644	286,401,153	324,876,139
Total assets	4,115,281,732	4,473,314,142	5,678,704,048
Return on assets	7%	6%	6%

*amounts in Taka

Year	2010	2011	2012
Net profit after tax	606,521,109	756,952,645	608,123,157
Total assets	7,041,094,354	7,726,313,055	8,255,933,779
Return on assets	9%	10%	7%

*amounts in Taka



In 2007, RAK Ceramics' return on assets stood at 7%. The following year, the ROA dropped to 6% as the net profit fell slightly in value even though the total assets value increased. In 2009, though both the net profit and total assets values increased, the ROA remained constant. This shows that the management was not very efficient in bringing in earnings through proper asset utilization.

After RAK Ceramics went public, the ROA went up by 3% as it reached 9%. This was due to the fact that the net profit of the company increased two folds. The next year, the return increased further to 10%. The ROA value for these two years display the company's enhanced profitability. However, 2012 saw a 3% fall in the ROA as it dropped to 7%. This was due to the fact that though the total asset value of the company continued to increase, its net profit value decreased.

Return on equity:

Return on equity (ROE) is another measure of a corporation's profitability. It is an indication of how much profit a company is able to generate with the money that has been invested by shareholders.

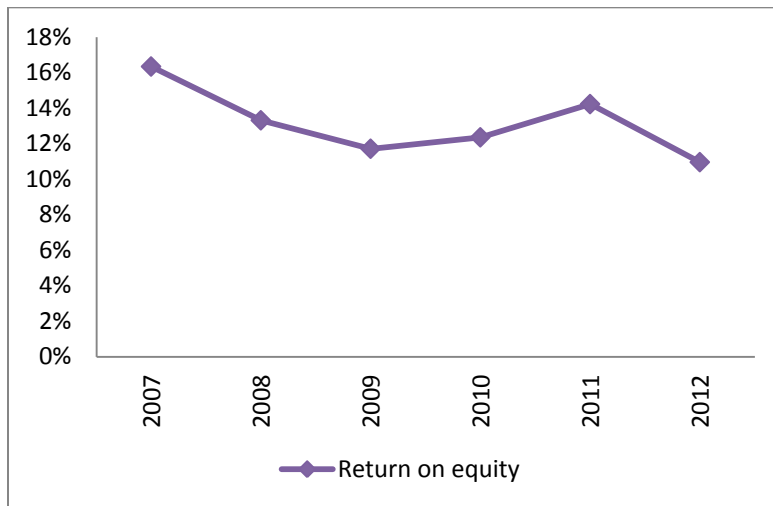
The table below shows the relevant figures used for the calculation of the ROE of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Net profit after tax	302,574,644	286,401,153	324,876,139
Shareholders fund	1,852,148,345	2,151,832,612	2,774,652,736
Return on equity	16%	13%	12%

*amounts in Taka

Year	2010	2011	2012
Net profit after tax	606,521,109	756,952,645	608,123,157
Shareholders fund	4,910,792,692	5,322,635,087	5,551,136,969
Return on equity	12%	14%	11%

*amounts in Taka



RAK Ceramics' return on equity dropped by 3% from 2007 to 2008, as it reached 13% in 2008. This was mainly due to the fact that the net profit had fallen in value while the shareholder's fund increased in value. In 2009, the ROE dropped further to 12% as the shareholder's fund went up by a higher magnitude in comparison to the net profit earned.

Post-IPO, though both the net profit and shareholder's fund doubled in value, the ROE remained constant at 12%. However, it saw improvement the following year as the company gained efficiency in generating profit through effective utilization of its investors' money. As the net profit dropped to 11% the following year, there was a corresponding effect on the ROE.

Earnings per share:

The earnings per share (EPS) of a company is another indicator of its profitability. It is generally assumed to be the single most important variable factor in determining the price of a share. Investors should pay special attention to a company's EPS when evaluating its return rather than

just looking at the dividend received. It shows the return generated for every one dollar investment made. The higher a company's EPS, the higher its prospects.

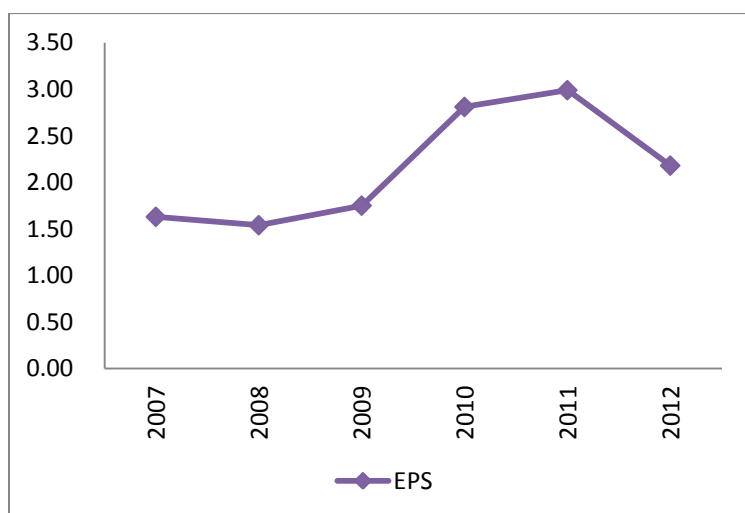
The table below shows the EPS values of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
EPS	1.63	1.54	1.75

*amounts in Taka

Year	2010	2011	2012
EPS	2.81	2.99	2.18

*amounts in Taka



The EPS of RAK Ceramics enjoyed an upward trend throughout both the pre- and post-IPO period, except for a fall in value in 2008 and 2012. In 2007, the company's EPS stood at Tk.1.63. The following year, it registered a 6% decline as the value fell to Tk. 1.54. In 2009, it recovered in value with a 14% increase, as it reached Tk.1.75, indicating an increase in the firm's prospects. In the post-IPO period, the EPS stood at Tk. 2.81 in 2010 and increased to Tk. 2.99 the following year as it experienced a 6% increase in value. However, in 2012, the EPS of RAK Ceramics dropped sharply by 27%, reaching Tk. 2.18. This reflects the investors' loss of confidence in the company to some extent.

Return on capital employed:

This ratio is an indication of the efficiency with which the company's capital is utilized. A higher return on capital employed (ROCE) is an indication of a more efficient use of capital. Investors generally prefer companies that have a stable and upward moving ROCE.

The table below shows the relevant figures used for the calculation of the ROCE of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Operating income	512,994,982	517,282,644	699,260,894
Total assets	4,115,281,732	4,473,314,142	5,678,704,048
Current liabilities	1,454,429,929	1,893,671,550	2,211,903,525
Return on capital employed	19%	20%	20%

*amounts in Taka

Year	2010	2011	2012
Operating income	753,200,802	925,597,718	843,437,725
Total assets	7,041,094,354	7,726,313,055	8,255,933,779
Current liabilities	1,922,736,376	2,196,879,220	2,456,242,485
Return on capital employed	15%	17%	15%

*amounts in Taka



The ROCE of RAK Ceramics stood at 19% in 2007. This remained stable for the following two years at 20%, which implies that the management was able to gain proficiency by increasing the operating income generated relative to the capital that was in use. This stable value presented the company in a favorable light to investors.

Subsequent to the company going public, the return dropped to 15% due to insufficient generation of operating income relative to the capital employed. It then underwent a 2% increase in 2011 due to the operating income gaining a greater momentum in comparison to the capital employed.

However, in 2012, the operating income dropped while the capital employed continued to increase in value as before, indicating inefficient capital utilization on the part of the company. Such fluctuations in the value of the ROCE may have projected the company in a slightly unfavorable manner in the eyes of its investors.

Therefore, except for the ROCE, the other five profitability ratios were seen to be moving along the same trend over the six years. They first dipped slightly in 2008 and 2009 and then after the IPO issue they improved in values despite the happenings in the external environment of the company. In 2012, they all registered a fall due to the inflationary pressures in the company.

LIQUIDITY RATIOS

Liquidity ratios are those ratios that are used to gauge a company's ability to pay its short term obligations on time. These usually include the current ratio and acid-test ratio.

Current ratio:

The current ratio is a measure of the company's ability to pay its short term obligations with its short term assets. While the ideal ratio here is 2:1, a ratio under 1 indicates that the company will not be able to pay off its liabilities that are to come due at that point of time. Moreover, inability to meet the debt on time means that the company's credit rating will be affected, and as a result, it may not be able to receive credit purchases from its suppliers in the foreseeable future. This in turn will lead to the cash being used up in cash purchases and the company will lose out on being able to use it for expansion of the company and other capital expenditures or interest receivables. The higher the ratio, the more able the company is of taking care of its obligations. Alternatively, a current ratio that is too high is an indication of the funds being idle, which is not considered to be a positive sign either.

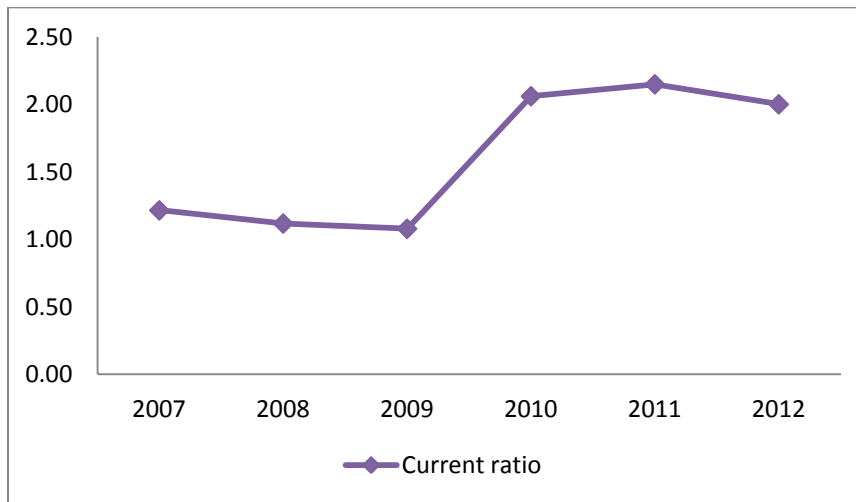
The table below shows the relevant figures used for the calculation of the current ratio of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Current assets	1,767,681,957	2,116,579,485	2,386,173,371
Current liabilities	1,454,429,929	1,893,671,550	2,211,903,525
Current ratio	1.22	1.12	1.08

*amounts in Taka

Year	2010	2011	2012
Current assets	3,961,808,405	4,720,917,880	4,913,984,328
Current liabilities	1,922,736,376	2,196,879,220	2,456,242,485
Current ratio	2.06	2.15	2.00

*amounts in Taka



In 2007, the current ratio of RAK Ceramics stood at 1.22:1. The following year, it experienced an 8% drop in value as it reached 1.12:1 owing to the current liabilities increasing by a greater value in comparison to the increase in current assets, which indicated a decrease in the ability of the company to pay its debt on time. The current ratio further fell down to 1.08:1 in 2009, as the short term assets and liabilities became almost equal in value. This may be an indication of the fact that the company will have some trouble covering its liabilities due to shortage of cash and accounts receivables. However, though such a decreasing trend may be unfavorable for the creditors, the ratio was able to keep itself above the 1:1 margin.

Post-IPO, RAK Ceramics gained a very favorable position in its current ratio as it crossed the 2:1 benchmark, as the current assets increased while the current liabilities dropped in value. RAK Ceramics was able to maintain its position at a good standing the following year as the current ratio further increased to 2.15:1 from 2.06:1 while the current assets increased at a greater proportion in comparison to the current liabilities. However, in 2012, the ratio dropped by 7%, reaching the

standard benchmark of 2:1. Thus, throughout the entire period, the ratio remained at and above the ideal value, indicating that the company was able to meet its obligations on time.

Acid-test ratio:

The acid-test ratio is a strong indicator of whether the company has enough short term assets to pay off its immediate liabilities without selling inventory. A ratio of less than 1 is an indication that the company is unable to pay off its current liabilities on time. This may lead to the company having to take a bank loan in order to pay on time and not harm the company’s goodwill, increasing the debt burden of the company in the process.

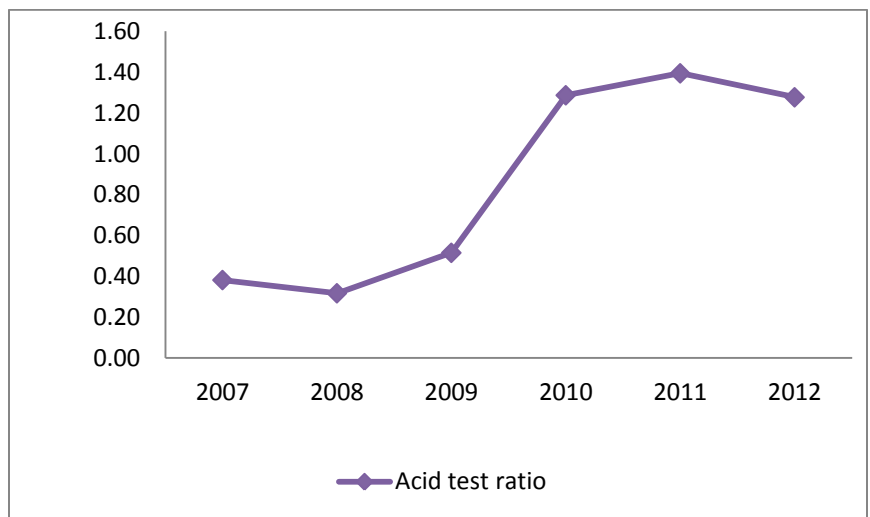
The table below shows the relevant figures used for the calculation of the acid-test ratio of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Current assets	1,767,681,957	2,116,579,485	2,386,173,371
Stock	1,212,186,577	1,515,813,255	1,246,404,612
Current liabilities	1,454,429,929	1,893,671,550	2,211,903,525
Acid-test ratio	0.38	0.32	0.52

*amounts in Taka

Year	2010	2011	2012
Current assets	3,961,808,405	4,720,917,880	4,913,984,328
Stock	1,487,724,337	1,658,062,569	1,777,888,718
Current liabilities	1,922,736,376	2,196,879,220	2,456,242,485
Acid-test ratio	1.29	1.39	1.28

*amounts in Taka



The acid-test ratio of RAK Ceramics stood at 0.38:1 in 2007. This fell to 0.32:1 the following year mainly due to a considerable increase in current liabilities and stock value. However, the ratio made some recovery in 2009 as it reached 0.52:1 due to a fall in stock value and a rise in both current liabilities and current assets. Throughout the pre-IPO period, the ratio remained well below 1. This means that the company did not have enough short term assets in hand to pay off its immediate liabilities and would need to resort to putting up its inventory for sale.

Post-IPO, the acid-test ratio made considerable improvement as it crossed the benchmark value of 1, owing to a rapid increase in primarily the value of the current assets, signifying that RAK Ceramics had adequate short term assets. Though the ratio increased further to 1.39:1 the following year, it fell again to 1.28:1 mainly due to a rise in the current liabilities value. Despite this fall, the ratio maintained itself above 1 throughout the period.

LEVERAGE RATIOS

Leverage ratios are those that used to calculate a company's financial leverage so as to determine the company's ability to meet its financial obligations. These usually include interest coverage ratio, debt-to-equity ratio and debt-to-assets ratio.

Interest coverage ratio:

The interest coverage ratio is often used to find out how easily a company is able to pay its interest on outstanding debt. A lower ratio signifies the presence of a higher debt expense burden in the company. Moreover, an interest coverage ratio of 1.5 times or lower is undesirable and a value less than 1 means that sufficient revenue is not being generated to meet the interest expense.

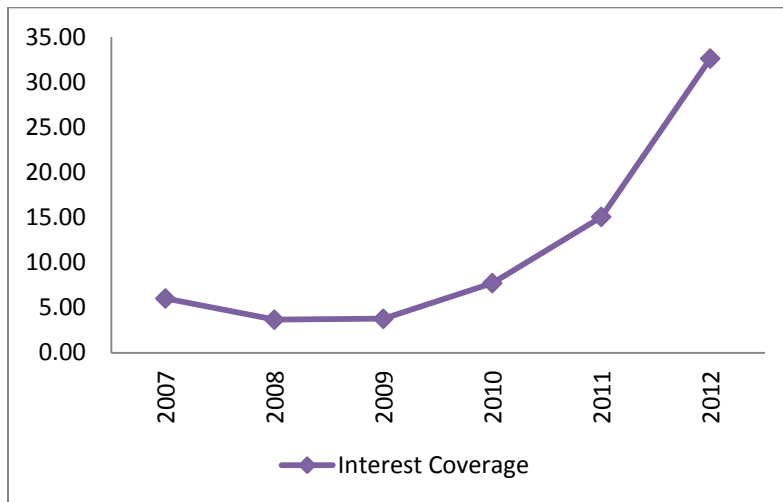
The table below shows the relevant figures used for the calculation of the interest coverage ratio of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Operating Income	512,994,982	517,282,644	699,260,894
Interest Charges	85,258,635	141,170,017	185,707,263
Interest Coverage	6.02	3.66	3.77

*amounts in Taka

Year	2010	2011	2012
Operating Income	753,200,802	925,597,718	843,437,725
Interest Charges	97,574,871	61,462,608	25,867,434
Interest Coverage	7.72	15.06	32.61

*amounts in Taka



The interest coverage ratio of RAK Ceramics was 6.02 times in 2007. The following year, the company debt increased considerably due to which the interest charges also went up in value while the operating income remained almost constant. This in turn resulted in a fall in RAK Ceramics' interest coverage by almost half. Then again in 2009, the ratio slightly increased to 3.77 times as both the income as well as the interest charges went up in value. The ratio remained above 1.5 times throughout, which implies that the company's ability to meet its interest expenses was unquestionable. Moreover, any overdrafts that previously had to be taken for the purpose of paying back current liabilities could have been easily paid back.

Subsequently RAK Ceramics' interest coverage ratio stood at 7.72 times in 2010 in the aftermath of the company going public. The following year, the ratio more than doubled, and this trend was also witnessed in the next year as well. This was mainly possible due to a steep fall in the interest charges that had to be paid by the company. Furthermore, the primary reason behind RAK

Ceramics' decision to go public was to lighten its debt burden and this ratio shows strong evidence of such a happening.

Debt-to-equity ratio:

The debt-to-equity ratio is a representation of a company's debt proportion that is being used to finance its assets in comparison to its equity. When a company is aggressive in financing its growth with debt, then it usually has a high debt-to-equity ratio. However, this may lead to volatile earnings due to the extra amount of interest expense that will need to be paid. Thus, a high ratio means that the company's financial position is risky while a low ratio implies that the company has a safer financial stance.

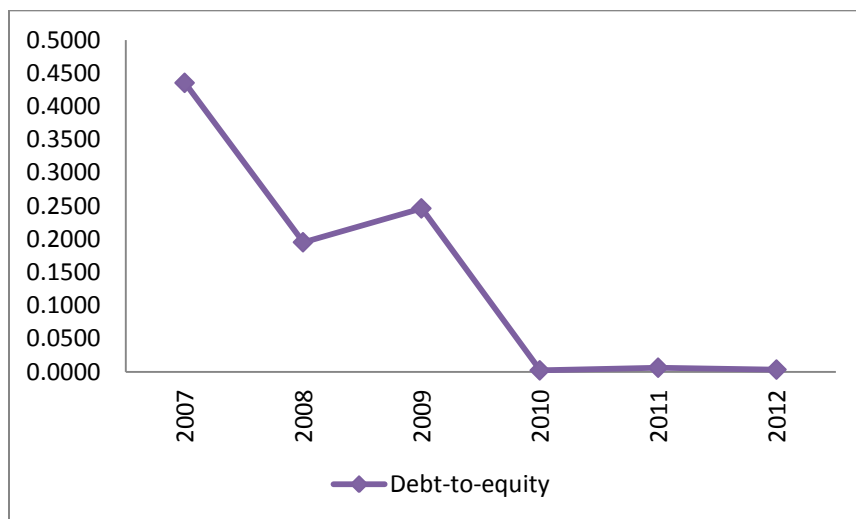
The table below shows the relevant figures used for the calculation of the debt-to-equity ratio of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Total debt	806,408,654	420,000,000	683,240,346
Total shareholders' equity	1,852,148,345	2,151,832,612	2,774,652,736
Debt-to-equity	0.4354	0.1952	0.2462

*amounts in Taka

Year	2010	2011	2012
Total debt	10,668,000	32,931,914	18,567,275
Total shareholders' equity	4,910,792,692	5,322,635,087	5,551,136,969
Debt-to-equity	0.0022	0.0062	0.0033

*amounts in Taka



The year 2007 ended with a debt-to-equity ratio of 0.4354:1 as the total debt of the company was a little less than half of the total equity of the company held by private investors. Subsequently, the ratio fell largely due to the total debt that was slashed into half. The following year, in 2009, both the debt and equity value rose due to which the debt-to-equity ratio also rose to 0.2462:1.

In the post-IPO period, the company found itself on safe grounds as the ratio fell to a value as low as 0.0022:1 in 2010. This was mainly due to a sharp drop in the company's debt and the doubling of the equity as a result of the company's debt being repaid through the amount gained from the equity investors as the company went public. The following year the debt tripled in value, but this was still a relatively very low amount when compared to the total equity of the company. Again in 2012, the debt-to-equity ratio reached 0.0033:1 as the debt almost halved and the total equity of RAK Ceramics went up by a very small amount.

Debt-to-assets ratio:

The debt-to-assets ratio denotes the total value of debt in relation to the total assets. A higher ratio is an indication of a higher degree of financial leverage, which in turn implies more financial risk.

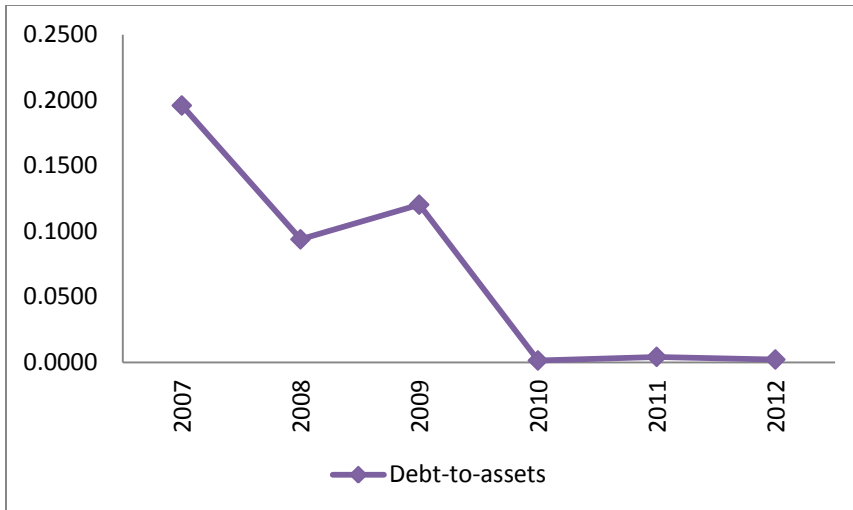
The table below shows the relevant figures used for the calculation of the debt-to-assets ratio of RAK Ceramics, followed by a graphical representation of the ratios from 2007 to 2012.

Year	2007	2008	2009
Total debt	806,408,654	420,000,000	683,240,346
Total assets	4,115,281,732	4,473,314,142	5,678,704,048
Debt-to-assets	0.1960	0.0939	0.1203

*amounts in Taka

Year	2010	2011	2012
Total debt	10,668,000	32,931,914	18,567,275
Total assets	7,041,094,354	7,726,313,055	8,255,933,779
Debt-to-assets	0.0015	0.0043	0.0022

*amounts in Taka



The debt-to-assets ratio was 0.1960:1 in 2007. Over time the debt value fluctuated in the same manner described above, which resulted in the debt-to-asset ratio first dropping in 2008 and then rising again in 2009, as it reached 0.1203:1.

After the company went public, the debt-to-asset ratio dropped to a very low ratio of 0.0015:1. While the company debt observed some fluctuations, the total assets of the company continued to increase at a slow pace. Lastly, the debt-to-asset ratio stood at 0.0022:1 in 2012. This implies that the financial risk of the company decreased tremendously.

3.4 Results and discussion

The tables below show a summary of the findings of the pre and post-IPO state of RAK Ceramics (Bangladesh) Limited based on its 3-year performance in each stage so as to determine the financial health and impact of the IPO issue on the company.

IMPORTANT FIGURES FROM FINANCIAL STATEMENTS

	<u>Pre-IPO (3 yrs mean)</u>	<u>Post-IPO (3 yrs mean)</u>
Net Sales	3,140,801,162	4,499,066,981
Operating Income	576,512,840	840,745,415
Total Assets	4,755,766,641	7,674,447,063
Total Debt	636,549,667	20,722,396
Total Equity	2,259,544,564	5,327,154,011

*Amounts in Taka

GROWTH RATE OF IMPORTANT FIGURES FROM FINANCIAL STATEMENTS

	<u>Pre-IPO (3 yrs mean)</u>	<u>Post-IPO (3 yrs mean)</u>
Net Sales	29%	11%
Operating Income	18%	7%
Total Assets	18%	8%
Total Debt	7%	83%
Total Equity	23%	4%

The average values of selective figures from the financial statements of RAK Ceramics indicate that all values have shown improvement post-IPO. After the company went public, its total equity value increased by more than two folds on average while the company debt saw a desirable fall in value. The total assets experienced its highest growth in 2009 at 27% in the pre-IPO stage, while its other growth rates were mostly one digit numbers. Furthermore, the net sales of the company underwent tremendous growth in the pre-IPO stage, but later this growth saw a decreasing trend, which inevitably resulted in the net sales just increasing by one and half times in value in the post-IPO phase. Apart from these, the operating income saw improvement in value as well as increased in tandem with the sales volume generated by the company.

Furthermore, a closer look at these figures will reveal that though these important values from the financial statements of RAK Ceramics have shown improvement in the post-IPO stage, their growth rates were not as impressive as they were in their pre-IPO phase due to reasons already explained.

In fact, the growth rate for net sales, operating income, and total assets were less than half. One vital issue that should be pointed out here is that though the total debt of the company had increased by 83% on average in the post-IPO phase as compared to the 18% in the pre-IPO phase, the total debt value was as much as 30 times lower in the post-IPO phase. Thus, taking this issue into consideration, the total debt growth rate after the IPO issue is somewhat acceptable.

The three tables below show the summary of the findings of the ratio analysis of the pre and post-IPO state of RAK Ceramics (Bangladesh) Limited based on its 3-year performance in each stage so as to determine the financial health and impact of the IPO on the company.

PROFITABILITY RATIOS		
Ratios	Pre-IPO (3 yrs mean)	Post-IPO (3 yrs mean)
GPM	32%	39%
NPM	10%	15%
ROA	6%	9%
ROE	14%	13%
EPS	1.64	2.66
ROCE	20%	15%

The table above indicates that out of the six profitability ratios, a total of four ratios showed improvement in the post-IPO period. Thus, the company was able to achieve a more profitable growth as a result of its ability to cap costs and extraordinary interest on the IPO proceeds. Moreover, the gross profit margin and EPS of the company increased by more than one and half times. Also, any deterioration in the ratios, namely the ROE and ROCE were minimal, the main reason behind the deterioration being that the IPO proceeds were mainly used to pay off company debt rather than put to productive use. Thus, it can be said that the profit earning capability of RAK Ceramics attained considerable enhancement after RAK Ceramics gained more public limelight by making its shares available to the general public. One point to consider here is that the ROCE of a company is a very powerful tool that savvy investors use to measure corporate performance. The underperformance of this ratio may make the share market investors choose other companies over

RAK Ceramics, making the share illiquid in the market. Thus, RAK Ceramics should always make sure that its ROCE is always up to the mark.

LIQUIDITY RATIOS

Ratios	Pre-IPO (3 yrs mean)	Post-IPO (3 yrs mean)
Current Ratio	1.14	2.07
Acid-Test	0.40	1.32

According to the table above, when compared to the pre-IPO stage, the post-IPO liquidity ratios saw a positive change as both went up in value. Moreover, both the current and acid-test ratios were able to outdo their benchmark of 2:1 and 1:1, respectively. Thus, after the company went public, it gained a good standing in terms of its credit worthiness and was able to meet its short term obligations with ease.

LEVERAGE RATIOS

Ratios	Pre-IPO (3 yrs mean)	Post-IPO (3 yrs mean)
Interest Coverage	4.48	18.46
Debt-to-Equity	0.2923	0.0039
Debt-to-Assets	0.1367	0.0027

From the above table it can be said that the leverage ratios of RAK Ceramics also observed a substantial boost in performance post-IPO. The interest-paying ability of the company increased by more than four folds on average, while the debt-to-equity ratio and debt-to-asset ratio of the company saw a major fall in value post-IPO, indicating that the company was successful in reducing its debt burden substantially, which in turn brought down the financial risk of the company, making it more appealing to investors as well as creditors.

Therefore, in view of the above discussion, if this analysis is seen strictly in terms of the financial figures of the company, other than being able to reduce its debt burden, one cannot say the company was able to experience much growth in terms of its sales, income and asset after it released its IPO due to the fact that the average growth rate of the other figures had diminished to quite an extent. For this, the company's own performance cannot be blamed as it was the happenings outside the company that had lead to such a slump in the growth. However, when the focus is shifted to the ratio analysis of the financial statements, it is a completely different picture

that comes out in the open. Merely looking at the figures will not reveal to investors, creditors or the company's management itself the true state of the company in question. A ratio analysis will bring to light the true picture of the financial health of a company as it takes into account a comparative study of the figures. Thus, the liquidity, financial leverage and most of the profitability ratios in the post-IPO stage as against the pre-IPO stage clearly indicate that the company was able to equip itself with further operational efficiency within its company after going public. With the IPO issue, RAK Ceramics was able to bring about an appreciable decline in its gearing and was able to attain a more stable financial structure. Moreover, since the company's annual reports were now more easily accessible to investors, in order to uphold its reputation as the market leader, RAK Ceramics made sure that it performed in a sound manner so as to live up to the expectations of its shareholders who had confidently subscribed to its shares by 16.56 times.

3.5 Recommendations

Although RAK Ceramics is doing exceptionally well at present as the market leader in the ceramics industry in Bangladesh, below are a few recommendations that it may follow in order to enhance itself even further in the future:

- The net sales of RAK Ceramics (Bangladesh) registered a noticeable fall in its growth after the company went public, mainly due to the external environment, i.e. currency fluctuation and rise in interest rates, even though the company was continuously working towards increasing its sales volume. Thus, the company can further work on its revenue generation by allowing customers to not only view its products online but also allow them to place online orders, making the buying procedure a more convenient one. This should not involve more than three to four clicks and any unnecessary steps should be eliminated. Apart from this, RAK Ceramics can also seek to provide after-sales services to its customers by following up on its clients to see whether any additional services can be provided.
- The company's costs have been seen to rise after the company went public mainly due to currency fluctuation as it imports most of its raw materials. Thus, instead of depending on foreign suppliers, RAK Ceramics can look to acquire or arrange a contract with a quality local supplier's company. In this way, it can have a more reliable source of supply as well as not have to worry about currency fluctuations affecting the profitability of the company. However, the problem with this solution lies in the fact that Bangladesh lacks in raw materials supply in the ceramics industry and almost 100% of the raw materials are imported by ceramic companies. So, for this, RAK Ceramics can look to acquire its foreign suppliers, where it can adopt a just-in-time system, by way of which it will be able to obtain its raw materials in a more reliable manner as well as at a lower cost.
- Not resorting to a high level of debt financing definitely has its advantages; however, too much reliance on equity financing, as is the case with RAK Ceramics, implies that the company's management is not utilizing its capital in a productive manner, which is reflected in the ROCE of the company. This poses the risk of creating a negative impression in the eyes of its stakeholders. Moreover, the company loses out on the advantage of enjoying tax deductions due

to its interest payments. Apart from this, sometimes a company ends up paying more to its shareholders than it would have had to pay as interest charges. If such a case happens with RAK Ceramics then it would end up invalidating the main purpose behind issuing an IPO in the first place. Thus, the company should look to structure its debt-to-equity ratio in a more balanced manner.

- In the post-IPO phase, RAK Ceramics' return on capital employed has been seen to be 15% on average compared to the 20% that it had prior to going public. This may lead to cause dissatisfaction among its private equity holders who were earlier enjoying a greater return. Thus, it is important that the company finds ways to improve its ROCE. For this, the company should try to bring down its expenses as well use its idle cash to acquire more assets or increase the value of its current ones.

Apart from the above recommendations, there are many other factors that any company needs to consider when it decides to go public. Some of them are as follows:

- A reputed brand gives investors an insight into the past performance of a company and how strongly it will be able to withstand and react to competitors in the coming future. Thus, for a company that does not have a strong brand, investors' confidence in the company can still be instilled by developing and defining the brand during the IPO process. This can have the effect of providing investors with a more vivid view of the company's business and its future performance.
- Choosing a reputed investment bank in itself sends a strong message across to investors. This is due to the fact that such banks bring in a level of credibility which in some cases makes the offering more lucrative as investors are often of the belief that experienced banks tend to do their homework better and thus only select the promising IPO candidates. This in turn makes investors more likely to opt for the offering of such companies.
- When a company decides to go public, it becomes vital for it to move forward with a multi-disciplinary approach that takes all areas of the organization into account, which includes the

board of directors, shareholders, accounting and financial reporting, legal, treasury and risk management, human resource, information technology, etc. A mistake made by many organizations is that they assume that the responsibility of the IPO issue is to be shouldered by one group alone – accounting, finance and legal. However, this should not be the case. It is important for all department heads to be aware of what is happening in the firm and ensure a proper evaluation of the current workings of every department so as to develop a coherent transformation plan for the new organization that is to be formed.

- After going public, it is important that companies proceed to meet the expectations of its shareholders. An inability to do so can prove to be damaging to the credibility of the company in question. Thus, effective communication is required between the company and its analysts. It is important that the right finance organization with the right capabilities to produce quality financial reporting at the right time is put to work for the company for it to have a successful IPO.

4. Conclusion

Companies take the decision to make a transition from the private market to the public market for it is an easy means to not only raise capital for its business but also to achieve several other objectives like business expansion or boosting its image in the eyes of its customers. In case of RAK Ceramics (Bangladesh) Limited, the main objective was to reduce the company's debt burden. Thus, the results from the study that has been conducted on the before and after financial condition of the company with regards to how it performed show that the company was able to improve substantially after going public. The ratio analysis clearly shows that the company observed a positive change in its operational efficiency. Not only was it able to pay back its long term obligations and reduce its financial risk, but it was also able to elevate its level of profitability as well as liquidity, making itself more favorable from the perspective of investors and creditors.

The joint issue manager in the IPO issue of RAK Ceramics, i.e. BRAC EPL Investments Limited, did a commendable job as not only were the issued shares oversubscribed, claiming the highest ever collections in terms of amount subscribed and number of applications received, but the company's financial performance also stood out as phenomenal after it went public. Today, three out of every four sanitary wares fixed is RAK and every fourth tile fixed is RAK. It can thus be said that RAK Ceramics was well able to face the challenges of becoming a public company. Furthermore, the company has the full potential to reach greater heights and continue to hold its presence as the market leader in the Bangladeshi ceramics industry.

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Definitions collected from www.investopedia.com

Company details about BEIL collected from its official website www.bracepl.com

APPENDIX A

	2007	2008	% change 2007-2008	2009	% change 2008-2009	Mean value	Overall growth
Net Sales	2,335,391,844	3,247,985,878	39%	3,839,025,765	18%	3,140,801,162	29%
Operating Income	512,994,982	517,282,644	1%	699,260,894	35%	576,512,840	18%
Total Assets	4,115,281,732	4,473,314,142	9%	5,678,704,048	27%	4,755,766,641	18%
Total Debt	806,408,654	420,000,000	-48%	683,240,346	62.68%	636,549,667	7%
Total Equity	1,852,148,345	2,151,832,612	16%	2,774,652,736	28.94%	2,259,544,564	23%

*Amounts in Taka

	2010	2011	% change 2010-2011	2012	% change 2011-2012	Mean value	Overall growth
Net Sales	4,009,021,454	4,580,008,209	14%	4908171279	7%	4,499,066,981	11%
Operating Income	753,200,802	925,597,718	23%	843,437,725	-9%	840,745,415	7%
Total Assets	7,041,094,354	7,726,313,055	10%	8,255,933,779	7%	7,674,447,063	8%
Total Debt	10,668,000	32,931,914	209%	18,567,275	-44%	20,722,396	83%
Total Equity	5,107,689,978	5,322,635,087	4%	5,551,136,969	4%	5,327,154,011	4%

*Amounts in Taka

	2007	2008	% change 2007-2008	2009	% change 2008-2009	Mean
Gross Profit Margin	34%	29%	-6%	31%	3%	32%
Net Profit Margin	13%	9%	-4%	8%	0%	10%
Return on Assets	7%	6%	-1%	6%	-1%	6%
Return on Equity	16%	13%	-3%	12%	-2%	14%
Earnings Per Share	1.63	1.54	-6%	1.75	14%	1.64
Return on Capital Employed	19%	20%	1%	20%	0%	20%
Current Ratio	1.22	1.12	-8%	1.08	-3%	1.14
Acid-Test Ratio	0.38	0.32	-17%	0.52	62%	0.40
Interest Coverage	6.02	3.66	-39%	3.77	3%	4.48
Debt-to-Equity	0.4354	0.1952	-55%	0.2462	26%	0.2923
Debt-to-Assets	0.1960	0.0939	-52%	0.1203	28%	0.1367

	2010	2011	% change 2010-2011	2012	% change 2011-2012	Mean
Gross Profit Margin	38%	41%	4%	39%	-2%	39%
Net Profit Margin	15%	17%	1%	12%	-4%	15%
Return on Assets	9%	10%	1%	7%	-2%	9%
Return on Equity	12%	14%	2%	11%	-3%	13%
Earnings Per Share	2.81	2.99	6%	2.18	-27%	2.66
Return on Capital Employed	15%	17%	2%	15%	-2%	15%
Current Ratio	2.06	2.15	4%	2.00	-7%	2.07
Acid-Test Ratio	1.29	1.39	8%	1.28	-8%	1.32
Interest Coverage	7.72	15.06	95%	32.61	117%	18.46
Debt-to-Equity	0.0022	0.0062	185%	0.0033	-46%	0.0039
Debt-to-Assets	0.0015	0.0043	181%	0.0022	-47%	0.0027

APPENDIX B

2007

Gross Profit Margin	=	$\frac{\text{Sales} - \text{COGS}}{\text{Sales}}$	=	$\frac{2,335,391,844 - 1,530,281,434}{2,335,391,844}$	=	34%
Net Profit Margin	=	$\frac{\text{Net Profit After Tax}}{\text{Sales}}$	=	$\frac{302,574,644}{2,335,391,844}$	=	13%
Return on Assets	=	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	=	$\frac{302,574,644}{4,115,281,732}$	=	7%
Return on Equity	=	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' fund}}$	=	$\frac{302,574,644}{1,852,148,345}$	=	16%
Earnings Per Share	=	$\frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}}$	=	1.63	(given)	
Return on Capital Employed	=	$\frac{\text{Operating Income}}{\text{Total capital employed}}$	=	$\frac{512,994,982}{4,115,281,732 - 1,454,429,929}$	=	19%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	$\frac{1,767,681,957}{1,454,429,929}$	=	1.22
Acid-Test Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	$\frac{1,767,681,957 - 1,212,186,577}{1,454,429,929}$	=	0.38
Interest Coverage	=	$\frac{\text{Operating Income}}{\text{Interest Charges}}$	=	$\frac{512,994,982}{85,258,635}$	=	6.02
Debt-to-Equity	=	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	=	$\frac{806,408,654}{1,852,148,345}$	=	0.4354
Debt-to-Assets	=	$\frac{\text{Total debt}}{\text{Total Assets}}$	=	$\frac{806,408,654}{4,115,281,732}$	=	0.1960

2008

Gross Profit Margin	=	$\frac{\text{Sales} - \text{COGS}}{\text{Sales}}$	=	$\frac{3,247,985,878 - 2,315,174,472}{3,247,985,878}$	=	29%
Net Profit Margin	=	$\frac{\text{Net Profit After Tax}}{\text{Sales}}$	=	$\frac{286,401,153}{3,247,985,878}$	=	9%
Return on Assets	=	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	=	$\frac{286,401,153}{4,473,314,142}$	=	6%
Return on Equity	=	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' fund}}$	=	$\frac{286,401,153}{2,151,832,612}$	=	13%
Earnings Per Share	=	$\frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}}$	=	1.54	(given)	
Return on Capital Employed	=	$\frac{\text{Operating Income}}{\text{Total capital employed}}$	=	$\frac{517,282,644}{4,473,314,142 - 1,893,671,550}$	=	20%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	$\frac{2,116,579,485}{1,893,671,550}$	=	1.12
Acid-Test Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	$\frac{2,116,579,485 - 1,515,813,255}{1,893,671,550}$	=	0.32
Interest Coverage	=	$\frac{\text{Operating Income}}{\text{Interest Charges}}$	=	$\frac{517,282,644}{141,170,017}$	=	3.66
Debt-to-Equity	=	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	=	$\frac{420,000,000}{2,151,832,612}$	=	0.1952
Debt-to-Assets	=	$\frac{\text{Total debt}}{\text{Total Assets}}$	=	$\frac{420,000,000}{4,473,314,142}$	=	0.0939

2009

Gross Profit Margin	=	$\frac{\text{Sales} - \text{COGS}}{\text{Sales}}$	=	$\frac{3,839,025,765 - 2,631,107,917}{3,839,025,765}$	=	31%
Net Profit Margin	=	$\frac{\text{Net Profit After Tax}}{\text{Sales}}$	=	$\frac{324,876,139}{3,839,025,765}$	=	8%
Return on Assets	=	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	=	$\frac{324,876,139}{5,678,704,048}$	=	6%
Return on Equity	=	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' fund}}$	=	$\frac{324,876,139}{2,774,652,736}$	=	12%
Earnings Per Share	=	$\frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}}$	=	1.75	(given)	
Return on Capital Employed	=	$\frac{\text{Operating Income}}{\text{Total capital employed}}$	=	$\frac{699,260,894}{5,678,704,048 - 2,211,903,525}$	=	20%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	$\frac{2,386,173,371}{2,211,903,525}$	=	1.08
Acid-Test Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	$\frac{2,386,173,371 - 1,246,404,612}{2,211,903,525}$	=	0.52
Interest Coverage	=	$\frac{\text{Operating Income}}{\text{Interest Charges}}$	=	$\frac{699,260,894}{185,707,263}$	=	3.77
Debt-to-Equity	=	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	=	$\frac{683,240,346}{2,774,652,736}$	=	0.2462
Debt-to-Assets	=	$\frac{\text{Total debt}}{\text{Total Assets}}$	=	$\frac{683,240,346}{5,678,704,048}$	=	0.1203

2010

Gross Profit Margin	=	$\frac{\text{Sales} - \text{COGS}}{\text{Sales}}$	=	$\frac{4,009,021,454 - 2,505,064,934}{4,009,021,454}$	=	38%
Net Profit Margin	=	$\frac{\text{Net Profit After Tax}}{\text{Sales}}$	=	$\frac{606,521,109}{4,009,021,454}$	=	15%
Return on Assets	=	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	=	$\frac{606,521,109}{7,041,094,354}$	=	9%
Return on Equity	=	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' fund}}$	=	$\frac{606,521,109}{4,910,792,692}$	=	12%
Earnings Per Share	=	$\frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}}$	=	2.81	(given)	
Return on Capital Employed	=	$\frac{\text{Operating Income}}{\text{Total capital employed}}$	=	$\frac{753,200,802}{7,041,094,354 - 1,922,736,376}$	=	15%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	$\frac{3,961,808,405}{1,922,736,376}$	=	2.06
Acid-Test Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	$\frac{3,961,808,405 - 1,487,724,337}{1,922,736,376}$	=	1.29
Interest Coverage	=	$\frac{\text{Operating Income}}{\text{Interest Charges}}$	=	$\frac{753,200,802}{97,574,871.00}$	=	7.72
Debt-to-Equity	=	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	=	$\frac{10,668,000}{4,910,792,692}$	=	0.0022
Debt-to-Assets	=	$\frac{\text{Total debt}}{\text{Total Assets}}$	=	$\frac{10,668,000}{7,041,094,354}$	=	0.0015

2011

Gross Profit Margin	=	$\frac{\text{Sales} - \text{COGS}}{\text{Sales}} = \frac{4,580,008,209 - 2,693,527,991}{4,580,008,209}$	=	41%
Net Profit Margin	=	$\frac{\text{Net Profit After Tax}}{\text{Sales}} = \frac{756,952,645}{4,580,008,209}$	=	17%
Return on Assets	=	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}} = \frac{756,952,645}{7,726,313,055}$	=	10%
Return on Equity	=	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' fund}} = \frac{756,952,645}{5,322,635,087}$	=	14%
Earnings Per Share	=	$\frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}} =$	=	2.99 (given)
Return on Capital Employed	=	$\frac{\text{Operating Income}}{\text{Total capital employed}} = \frac{925,597,718}{7,726,313,055 - 2,196,879,220}$	=	17%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{4,720,917,880}{2,196,879,220}$	=	2.15
Acid-Test Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{4,720,917,880 - 1,658,062,569}{2,196,879,220}$	=	1.39
Interest Coverage	=	$\frac{\text{Operating Income}}{\text{Interest Charges}} = \frac{925,597,718}{61,462,608.00}$	=	15.06
Debt-to-Equity	=	$\frac{\text{Total debt}}{\text{Total stockholders' equity}} = \frac{32,931,914}{5,322,635,087}$	=	0.0062
Debt-to-Assets	=	$\frac{\text{Total debt}}{\text{Total Assets}} = \frac{32,931,914}{7,726,313,055}$	=	0.0043

2012

Gross Profit Margin	=	$\frac{\text{Sales} - \text{COGS}}{\text{Sales}}$	=	$\frac{4,908,171,279 - 2,979,160,088}{4,908,171,279}$	=	39%
Net Profit Margin	=	$\frac{\text{Net Profit After Tax}}{\text{Sales}}$	=	$\frac{608,123,157}{4,908,171,279}$	=	12%
Return on Assets	=	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	=	$\frac{608,123,157}{8,255,933,779}$	=	7%
Return on Equity	=	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' fund}}$	=	$\frac{608,123,157}{5,551,136,969}$	=	11%
Earnings Per Share	=	$\frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}}$	=	2.18	(given)	
Return on Capital Employed	=	$\frac{\text{Operating Income}}{\text{Total capital employed}}$	=	$\frac{843,437,725}{8,255,933,779 - 2,456,242,485}$	=	15%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	$\frac{4,913,984,328}{2,456,242,485}$	=	2.00
Acid-Test Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	$\frac{4,913,984,328 - 1,777,888,718}{2,456,242,485}$	=	1.28
Interest Coverage	=	$\frac{\text{Operating Income}}{\text{Interest Charges}}$	=	$\frac{843,437,725}{25,867,434.00}$	=	32.61
Debt-to-Equity	=	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	=	$\frac{18,567,275}{5,551,136,969}$	=	0.0033
Debt-to-Assets	=	$\frac{\text{Total debt}}{\text{Total Assets}}$	=	$\frac{18,567,275}{8,255,933,779}$	=	0.0022