

FEASIBILITY OF TEXTILE SECTOR IN CAPITAL MARKET



COURSE: BUS 400 INTERNSHIP

Prepared For

Samina Haque

Internship Supervisor

BRAC Business School

BRAC University

Prepared By

Md. Mozammel Hossain

ID: 09304028

Internship Tenure: 12th August'13-12th December'13

Dated: 15th January, 2014

LETTER OF TRANSMITTAL

Jan 15, 2014

Samina Haque

Internship Supervisor

BRAC Business School

BRAC University

66 Mohakhalu, Dhaka-1212

Subject- Submission of Internship Report

Dear Madam,

With great pleasure I am submitting the report on '*Feasibility of Textile sector in Capital Market*' that you have assigned me as an important requirement of BUS400 course. This course has really helped me in accessing new knowledge that is interesting and beneficial. I have tried my level best to prepare an effective and creditable report.

I have tried my best to follow your guidelines in every aspect of planning and preparing the report. I wanted to collect what I believe to be most important information to make this report as specific & coherent as possible. Here I have gathered information based on different sources such as observation, job task, interviews and World Wide Web.

I honestly hope that my analysis, findings and opinion will give you real idea about *Feasibility of Textile sector in Capital Market*.

I welcome your entire query and take pride to answer them

Thank you

Sincerely

.....

Md. Mozammel Hossain

ID: 09304028

ACKNOWLEDGEMENT

All praise to Allah the almighty and the merciful. Without his blessing and endorsement this report would not have been accomplished.

The successful completion of this report might never be possible in time without the help of some person whose inspiration and suggestion made it happen. First of all, I wish to express my sincere gratitude to my internship supervisor Samina Haque for her continuous support and guidance while preparing this report. I am highly acknowledged for her insightful guidance and continuous cooperation.

I am really thankful to Md. Shiful Islam, Manager and Salim Afzal Shawon, Assistant Manager of IDLC Investments Ltd for providing me with all the necessary information to facilitate my overall understanding of this project.

Furthermore, I want to thank all the concerning officials of the organization for furnishing me with all the vital information and advice. I am heartily apologizing of any omitted name whose contribution was also complimentary for any possible aspect. Without them this project would have been very difficult.

I would also give thanks to my parents and some friends who kept supporting me on this long process and it will be my utter pleasure if I can offer my gratitude for them.

EXECUTIVE SUMMARY

IDLC Finance Limited is the leading non banking financial institution that started its journey in 1985 as pioneer in lease financing. Gradually during last 25 years of operations they provided the Bangladeshi corporate and retail customers in various forms of financial services which are new in kind in Bangladesh. At the moment they offer financial services under four divisions. Firstly, Personal Division that offers deposit schemes, home loan, car loan, personal loan etc. Secondly, SME Division which provides lease, term loan, factoring facilities to small and medium sized enterprises in Bangladesh. Thirdly, Corporate Division which provides wide range of services to large corporations of Bangladesh such as lease financing, sale and lease back, term loan, project financing and many more. And the fourth division of IDLC Finance Limited is Capital Markets Division. Under this division IDLC offers to its client merchant banking and brokerage services of all sorts. The operations of this division are conducted through two subsidiaries IDLC Investment Limited is the subsidiary which provides the merchant banking services. And IDLC Securities is the subsidiary which provides the securities services.

Merchant Banking is one of the key capital markets service provided by IDLC Finance Ltd. They are the first Bangladeshi Financial Institutions to receive merchant banking license in January, 1998. And They Started Merchant Banking operation from 1999. Under the merchant banking wing the services such as issue management, portfolio management and Corporate Advisory Services are provided. During 2010 SEC came up with the law which required all the financial institutions to make the merchant banking operation separate. As per requirement of the Securities & Exchange Commission (SEC), IDLC formed a separate subsidiary on May 19, 2010 in the name of 'IDLC Investments Limited', in order to transfer its existing merchant banking activities to the newly formed entity. IDLC applied to SEC to transfer the existing merchant banking license of IDLC Finance Limited to IDLC Investments Limited. Accordingly, IDLC Investments Limited has started its operations from August 16, 2011 to offer merchant banking services to both our individual and institutional clients. Lastly this report contains overview of IDLC finance and investments, job description, findings and analysis, detailed study on textile sector, recommendation and calculation.

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1. INTRODUCTION

1.1 Overview of the report: This report is about the activities of research department of IDLC Investments and detailed overview of textile sector in capital market. In this report the entire activities of research department of IDLC Investments has been illustrated. The report provides detailed description of textile sector. And lastly provide few recommendations which may help research department to develop further.

1.2 Objectives:

- To Provide Detailed Description of IDLC Investments Research Department Activities.
- To Provide Detailed Description of Textile Sector in Capital Market.
- To provide Detailed Financial Analysis of Textile companies.
- To Identify Feasibility of Textile sector in Capital Market
- To Provide Recommendation which may help Capital Market Investor to Invest in Textile Sector.

1.3 Limitations:

- Due to Confidentiality Important are missing which could make the report more meaningful.
- Dividend Discount Model Does Not Always Provide Right Investment Decision.
- Resource Constraints.

1.4 Methodology:

- Information Used for preparing this Report is collected from IDLC Finance Ltd's Website and Annual Reports from IDLC Investments Research Departments Archive.
- Therefore, The Source of Information for this Report is both Primary and Secondary.
- The Financial Analysis Part is Self Generated.
- Websites of Different Company and Organization.

2. OVERVIEW OF IDLC FINANCE LIMITED

2.1 Company Profile: IDLC Finance Limited Commenced its Journey in 1985 as The First Leasing Company of the Country. In 1995, IDLC was licensed as a Financial Institution by the Country's Central Bank following the enactment of Financial Institution Act 1993. Over The Last Two and a Half Decades IDLC Has grown in tandem with the country's transition into a developing country and emerged as Bangladesh's leading multiproduct Financial Institutions. In August 2007 it has changed its name to IDLC Finance Ltd from Industrial Development Leasing Company of Bangladesh Ltd.

Since 1985, IDLC was the pioneer and Market Leader in Leasing Services. And The Company Was Always regarded as an innovative financial solution provider. Now IDLC is able to offer its customers integrated and customized financial solutions. The Company's products and services ranges from home loans, car loans, corporate and SME lease and term loan, structured finance services ranging from capital restructuring and a complete suite of merchant banking and capital market services.

IDLC Finance was established with the collaboration of reputed international development agencies such as:

- Korean Development Leasing Corporation (KDLC), South Korea.
- Kookmin Bank, South Korea.
- International Finance Corporation (IFC)
- Aga Khan Fund for Economic Development (AKFED)
- German Investment and Development Company (DEG)

The primary goal of IDLC was to help modernize the financial services industry by introducing modern modes of financing. And IDLC did it by pioneering the launch of a multitude of financial products and services.

2.2 IDLC Finance Ltd's Vision: "We will be the best financial brand in the country."

2.3 IDLC Finance Ltd's Mission: "We will focus on quality growth, superior customer experience and sustainable business practices."

2.4 IDLC Finance Ltd's Corporate Philosophy: "Discharge IDLC's functions with proper accountability for actions and results and bind ourselves to the highest ethical standards."

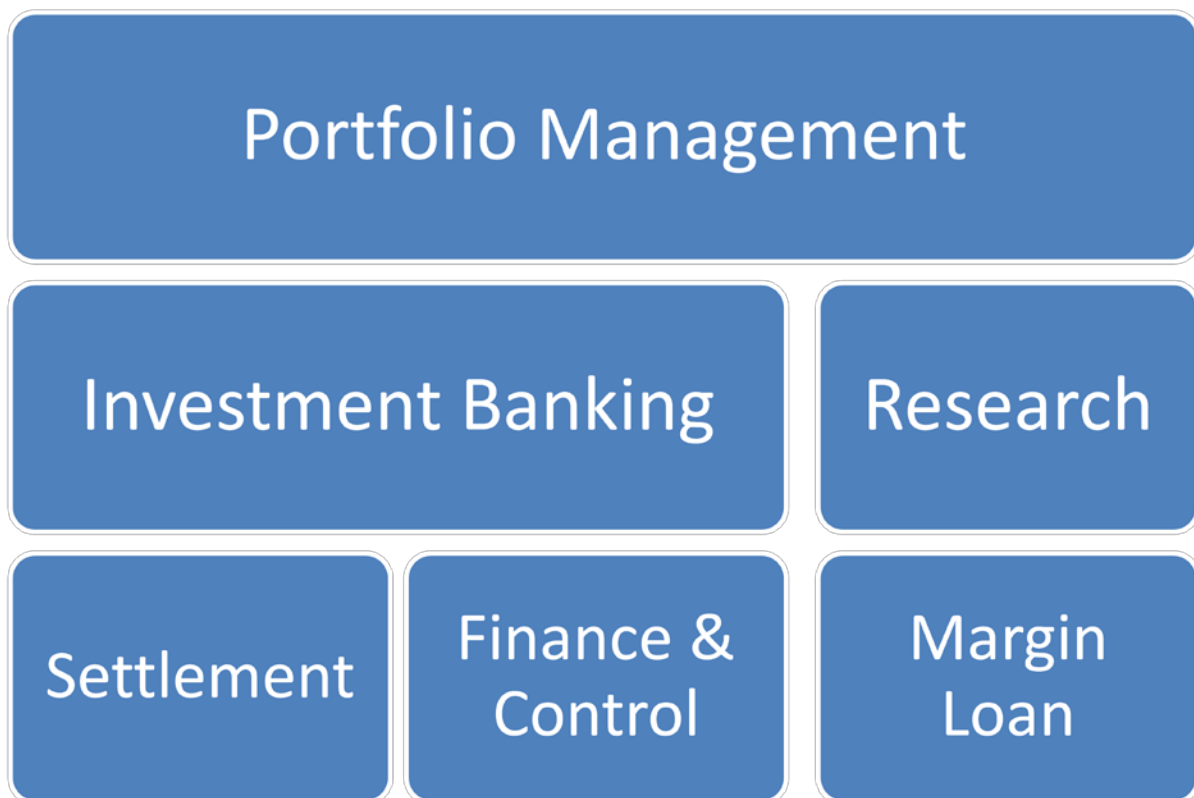
2.5 IDLC Finance Ltd's Strategic Objectives:

- Grow and develop our talent pool
- Fully leverage new core banking platform
- Optimize distribution points
- Grow and Diversify funding sources
- Grow Sales and Service Capabilities in Consumer Division
- Aggressively grow SME Portfolio.
- Focus on top tier clients in corporate
- Consolidate capital market operations and enhance capabilities.
- Embrace internationally accepted corporate governance and sustainable business practices.

3. OVERVIEW OF IDLC INVESTMENTS LTD

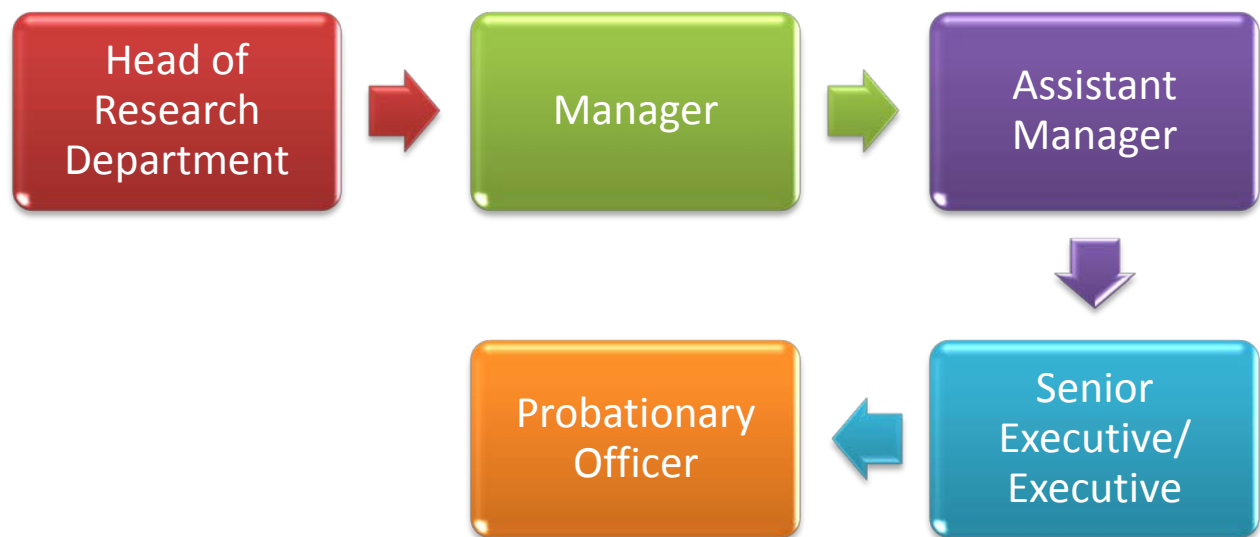
3.1 Company Profile: As per requirement of the Securities & Exchange Commission (SEC), IDLC formed a separate subsidiary on May 19, 2010 in the name of IDLC Investments Ltd in order to transfer its existing merchant banking activities to the newly formed entity. IDLC applied to SEC to transfer the existing Merchant Banking License of IDLC Finance Ltd to IDLC Investments Ltd. Accordingly IDLC Investments Ltd has started its operation from August 16, 2011 to offer merchant banking services to both our individual and institutional clients.

3.2 Departments of IDLC Investments Ltd: Departments of IDLC Investments are as follows



3.3 Overview of Research Department: Research Department is involved with various by side research activities. They prepare research reports based on funds manager needs. Only fund manager can use their research reports.

3.4 Hierarchy of Research Department: Hierarchy of Research Department is given below



3.5 Services offered by Research Department: Products and Services offered by IDLC Investments Ltd are as follows



In Company Coverage Selected Company of a particular section has been taken for analysis. Analysis has been done based on various methods. Secondly In Sector Coverage Analysis has been done for selected sectors like Non Life Insurance, Pharmaceuticals, Banks, Non Banking Financial Institution, Cement etc. Thirdly In Economic Coverage Analyst try to compare a particular sector considering various factors like inflation, GDP growth, opportunities & threats etc. Lastly Market Commentary is prepared everyday for investors and uploaded t into IDLC's official website. In preparation of this report various factors is considered which may have impact on capital market. Beside this Shiful Islam, Manager (Research) is covering Non Life Insurance and Fuel & Power Sector, Salim Afzal Shawon, Assistant Manager (Research) is covering Bank, Non Banking Financial Institution & Pharmaceuticals Sector, Itrat Hossain, Executive (Research) is covering Textile Sector and Daily Commentary Part, Arman Chowdhury Nayan, Executive (Research) is covering Cement Sector.

4. JOB DESCRIPTION:

I did my internship in Research department of IDLC Investments Ltd. Mr. Salim Afzal Shawon, Assistant Manager was my on site supervisor. I was assigned with several tasks based on my supervisor needs and other team member's needs. I did following tasks for my supervisor

- ❖ Project on Pharmaceuticals Sector.
- ❖ Project on Banks and Non Banking Financial Institutions.
- ❖ Project on Eastern Bank Ltd.
- ❖ Prepare report on Bank's Margin Loan.
- ❖ Project on Square Pharmaceuticals.
- ❖ Project on Bank Asia, BRAC Bank and South East Bank Ltd.
- ❖ Project on Pioneer Insurance, City General Insurance and Northern Insurance Ltd.
- ❖ Business Database update
- ❖ Bank input data (No. of employees and credit rating)
- ❖ Project on Square group.

Secondly I was assigned for following tasks by Md. Shiful Islam, Manager, and Research Department:

- ❖ Project on Non Life Insurance Company.
- ❖ Prepare IPO Database.
- ❖ Project on Bengal Windsor Ltd.
- ❖ Project on Aftab Automobiles.

Thirdly I was assigned for following tasks by Itrat Hossain, Executive, and Research Department:

- ❖ Project on Textile Sector .

Lastly I was assigned for following tasks by Arman Chowdhury Nayan, Executive, and Research Department

- ❖ Project on Premier Power Generation Ltd.
- ❖ Project on National Cement Mills Ltd.

Beside this I was assigned for management of annual report archive and categorization of quarterly statements as per my respective department's requirements.

5. OVERVIEW OF TEXTILE SECTOR OF BANGLADESH

5.1 Introduction: The Textile and Clothing Industries provide the single source of economic growth in Bangladesh's rapidly developing economy. In our country 40% industrial value addition comes from Textile Industry. Textile industry provides 5 million jobs of which 80% are women. In our Country over 81% of the export earning comes from textile and textile related products. Bangladesh is the second largest apparel exporter of western countries. Sixty percent of the export contracts of western brands are with European buyers and about sixty percent with American buyers. Only 5 % of textile factories are owned by foreign investors with most of the production being controlled by local investors. Structure of Textile Industry of Bangladesh is given below

Particulars	No of Mills
Yarn Manufacturing	373
Fabric Manufacturing	703
Dyeing, Printing and Finishing	203
Total	1306

5.2 Company's in Textile Sector: Name of company's listed under textile sector in DSE and CSE are given below:

Ticker	Company Name
ASHRAFTEX	ASHRAF TEXTILE MILLS LTD
DELTASPINN	DELTA SPINNERS LTD

ALLTEX	ALLTEX INDUSTRIES LTD
ANLIMAYARN	ANLIMA YEARN DYEING LTD
HRTEX	H.R. TEXTILE MILLS LIMITED
SQUARETEXT	SQUARE TEXTILES LTD
MALEKSPIN	MALEK SPINNING MILLS LTD
DSHGARME	DESH GARMENTS LIMITED
APEXSPINN	APEX SPINNING & KNITTING MILLS LIMITED
PRIMETEX	PRIME TEXTILE SPINNING MILLS LTD
DACCADYE	THE DACCA DYEING & MANUFACTURING CO.LTD
METROSPIN	METRO SPINNING LTD
SAIHAMTEX	SAIHAM TEXTILE MILLS LTD
DULAMIACOT	DULAMIA COTTON SPINNING MILLS LIMITED
RAHIMTEXT	RAHIM TEXTILE MILLS LTD
MODERNDYE	MODERN DYEING & SCREEN PRINTING LTD
CMCKAMAL	CMC KAMAL TEXTILE MILLS LTD
TALLUSPIN	TALLU SPINNING MILLS LIMITED
MITHUNKNIT	MITHUN KNITTING AND DYEING) LTD
SAFKOSPINN	SAFKO SPINNING MILLS LTD
STYLECRAFT	STYLECRAFT LIMITED
MAKSONSPIN	MAKSONS SPINNING MILLS LIMITED
AL-HAJTEX	AL-HAJ TEXTILE
RNSPIN	R.N. SPINNING MILLS LIMITED
ZAHINTEX	ZAHINTEX INDUSTRIES LIMITED
SAIHAMCOT	Saiham Cotton Mills Limited
GENNEXT	GENERATION NEXT FASHIONS LIMITED
ENVOYTEX	ENVOY TEXTILES LIMITED
ARGONDENIM	ARGON DENIMS LIMITED
FAMILYTEX	FAMILYTEX (BD) LIMITED
PTL	Paramount Textile Limited

Currently there are thirty one company listed in capital market. **Source:** StockBangladesh.com

5.3 Risk free rate: Risk free rate is the compensation that would be demanded by a representative investor holding a representative market portfolio. I have considered 182 days t-bill rate which is 8.14% as risk free rate. For every calculation, we will use 8.14% as risk free rate.

5.4 Beta: Beta is a measure of the volatility or systematic risk of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected returns. We have found beta as follows:

Serial No:	Company Name	Beta
1.	Square Textiles Ltd	0.9713
2.	APEX SPINNING & KNITTING MILLS LIMITED	0.6808
3.	Desh Garments Limited	0.8668
4.	H.R. Textiles Mills Ltd	1.12
5.	Rahim Textile Mills Ltd	0.5736
6.	Stylecraft Ltd	0.2664
7.	Saiham Textile Mills Ltd	1.20

5.5 Risk Premium: A risk premium is the minimum amount of money by which the expected return on a risky asset must exceed the known return on a risk-free asset.

5.6 CAPM Model: CAPM says that the expected return of a security or a portfolio equals the rate on a risk free security plus a risk premium. If this expected return does not meet or beat the required return then the investment should not be undertaken.

6. ANALYSIS OF TEXTILE SECTOR

6.1 Square Textiles Ltd: Square Textile is a subsidiary company of Square Group. The Company was incorporated as a public limited company in the year of 1994. . The operation was started in 1997. It was enlisted in Dhaka Stock Exchange & Chittagong Stock Exchange in 2002. Within a very short time of span the company achieved some significance success. Square Textile receives Oeko-Tex standard 100 and ISO-9002 certificates in the year 2000.

Following formula will be used to find out the required rate of return of **Square Textiles Ltd**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

$$K_e = \text{required rate of return} = 10.38\%$$

$$R_m = \text{Return from market} = \frac{\text{November '13} - \text{June '13}}{\text{June '13}}$$

$$= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\%$$

$$R_f = \text{Risk free rate} = .0814 = 8.14\%$$

$$B = \text{Beta} = 0.9713$$

$$\text{So, } K_e = R_f + (R_m - R_f) * \beta$$

$$= .0814 + (.1045 - .0814) * 0.9713 \quad [\text{By Replacing Value}]$$

$$= .1038$$

$$= 10.38\%$$

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

Cs= Present value of common stock=?

D₀ = Last Year Dividend 1.33Tk per Share

K_e= required rate of return=.1038or 10.38%

g= Growth rate= 10%

Square Textiles Ltd	2008	2009	2010	2011	2012
Dividend Paid	98583425	105876079	112934485	109744384	155849589
# Shares Outstanding	58820044	70584053	81171661	97405993	116887192
Dividend Per Year	1.68	1.50	1.39	1.13	1.33

F_v= Dividend paid in 2012 =1.33 tk/per share

PV = Dividend paid in 2008=1.68 tk/per share

Now,

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

$$= \frac{1.33(1+.10)}{.1038-.10}$$

= 385 taka

Assumption and Observation: Square Textile announced dividend in last 5 years. But the amount of dividend reduces every year except in 2012. However, the dividend decreased, but it decreased in a marginal amount. Increasing number of shares is one of the reasons behind lower amount of dividend compared to that of previous years. The company increased the number of shares for strengthening their paid up capital and expanding the business. The paid up capital became twice in the last five years through bonus issuance. On the other hand, the company also provided dividend to their shareholders. It was only possible for doing flourishing businesses in the industry. As a result in 2012, the company offered 17% more dividend in per share compared to that of previous year. But for conservative approach, I am assuming that dividend amount will increase by 10% in next year. So I have considered growth rate= 10%.

Decision: Current market price of square textile is 91. On the other hand calculated intrinsic value is 385 which are undervalued. If we consider 9% growth, the intrinsic value becomes 106.01 taka which is also higher than the market value. So I recommend investor to buy this stock.

6.2 Apex Spinning & Knitting Mills Ltd: Apex Spinning and Knitting Mills Limited (ASKML) was incorporated in 1990 as a public limited company and listed with our national stock exchanges, which are Dhaka Stock Exchange, and Chittagong Stock Exchange. The company was initially formed for processing and export of knit garments, however subsequently, state of the art plant and equipment was added for handling all kinds of knitted fabrics and now ASKML is a leading manufacturer and exporter of all kinds of textiles knitted garments. The products of the Company include Pique Polo-shirts, Jersey Polo-shirts, Bubble knit Polo-shirts, Golf shirts, Sweat shirts, Hooded Sweat shirts, Polo shirts, Sweat Pants, Basic Tee-shirts, Track suits, Tank Tops, Big Tee-shirts, Heavy Tee-shirts, Jogging Suits, Turtle Neck Tee-shirts, Jackets, Underwear, Children wear, men wear, babies wear etc.

Following formula will be used to find out the required rate of return of **Apex Spinning & Knitting Mills Ltd**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

Ke= required rate of return=9.71%

$$\begin{aligned} R_m = \text{Return from market} &= \frac{\text{November '13} - \text{June '13}}{\text{June '13}} \\ &= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\% \end{aligned}$$

Rf= Risk free rate=.0814=8.14%

B= Beta=0.6808

So, Ke = Rf+ (Rm-Rf)*β

$$=.0814 + (.1045 - .0814) * 0.6808 \quad [\text{By Replacing Value}]$$

$$=.0971$$

$$=9.71\%$$

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

Cs= Present value of common stock=?

Do = Last Year Dividend 1.47Tk per Share

Ke= required rate of return=.0971 or 9.71%

g= Growth rate= 8%

Apex Spinning & Knitting Mills Ltd	2008	2009	2010	2011	2012
Dividend Paid	23450860	8763310	20178799	12083214	12327769
# Shares Outstanding	8400000	8400000	8400000	8400000	8400000
Dividend Per Year	2.79	1.04	2.40	1.43	1.47

Fv= Dividend paid in 2012 =1.47tk/per share

PV = Dividend paid in 2008=2.79tk/per share

Now,

Assume, growth rate 8%	Assume, growth rate 7%	Assume, growth rate 6%	Assume, growth rate 5%
$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.47(1+.08)}{.0971 - .08}$ <p>= 92.84taka</p>	$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.47(1+.07)}{.0971 - .07}$ <p>= 58.04taka</p>	$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.47(1+.06)}{.0971 - .06}$ <p>= 42taka</p>	$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.47(1+.05)}{.0971 - .05}$ <p>= 32.77taka</p>

Assumption and observation: The Company is not doing business on a consistent basis. The dividend rewarded to the shareholder is an evidence of it. Their paid up capital remained same during the last five years. It reflects a more debt base financing. In 2012, the company paid dividend 2% more than that of previous year. In this scenario, it is quite optimistic to hold a growth rate 4%. Current market price of apex spinning and knitting mills ltd is 70.9 taka. If we

consider 8% growth rate, then it exceeds the current market price which is not realistic at all considering the fundamentals of this company. Except this 8% growth rate, all other assumptions are giving intrinsic values which are lowered than the market price.

Decision: Therefore, from my observation, it is extremely overvalued and my suggestion would be not to buy this stock.

6.3 Desh Garments Limited: Desh Garments Ltd. (established 27th December 1977) was the first export oriented ready-made garment industry in Bangladesh. It was set-up in joint venture with Daewoo of South Korea. At its time of inception, Desh was the single largest and most modern garment-manufacturing unit in the sub-continent. The import and introduction of garments technology itself is credited to Desh Garments Ltd. In 1978, Desh Garments sent 130 workers and management trainees to be trained at Daewoo's state-of-the-art garment factories in South Korea. The 130 Desh-selected trainees returned home after a six-month training period to form the nucleus of the Ready Made Garment sector's technology and its core human resource base. Desh Garment is seen as having given re-birth to the garments industry. It is a unique example of a company establishing an industry and against all odds. Despite severe national foreign exchange constraints and bureaucratic obstacles Desh became a very successful and competitive producer in the international market.

Following formula will be used to find out the required rate of return of **Desh Garments Limited**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

$$K_e = \text{required rate of return} = 10.14\%$$

$$R_m = \text{Return from market} = \frac{\text{November '13} - \text{June '13}}{\text{June '13}}$$

$$= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\%$$

$$R_f = \text{Risk free rate} = .0814 = 8.14\%$$

B= Beta=0.8668

So, $K_e = R_f + (R_m - R_f) * \beta$

=.0814+ (.1045-.0814)*0.8668 [By Replacing Value]

=.1014

=10.14%

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

C_s = Present value of common stock=?

D_0 = Last Year Dividend .29Tk Per Share

K_e = required rate of return=.1014or 10.14%

g = Growth rate= (Ending value/Beginning Value) ^ (1/# of years) -1

$$= (.29/.21)^{(1/5)} - 1$$

=6.67%

Desh Garments Limited	2008	2009	2010	2011	2012
Dividend Paid	706800	706800	565440	706800	989520
# Shares Outstanding	3370000	3370000	3370000	3370000	3370000
Dividend Per Year	.21	.21	.18	.21	.29

Now,

$$P_0 = \frac{D(1+g)}{K_e - g}$$

$$= \frac{.29(1+.08)}{.1014 - .0667}$$

= 9.03 taka

Again,

If we consider the growth rate 9%, then we get

$$P_0 = \frac{D(1+g)}{K_e - g}$$

$$= \frac{.29(1+.08)}{.1014 - .09}$$

= 27.47 taka

Assumption and observation: The Company paid dividend during the last five years. Except in 2010, the amount paid in dividend holds a constant growth. In 2012, the company paid dividend more than that of the previous years. We are assuming that in 2013, the investors are going to get dividend again. For calculating the growth rate, we take the cumulative average growth rate and we obtain the growth rate 6.67%. Holding this growth rate, we find the intrinsic value 9.03 taka.

The market value is 61.6 taka. So if we hold this growth rate, the stock is highly overvalued. Again, if we reflect on all positive things for the company and assume the growth rate 9%, we get the intrinsic value 27.47 taka which is also very lower than the market value.

Decision: So we can easily say that the stock is highly overvalued. In this regard, I would like to suggest investors to not hold this stock.

6.4 H.R. Textiles Mills Ltd: This is a public limited company incorporated in Bangladesh under the Companies Act 1913 on 3 December 1984 under the entrepreneurship of the Pride Group. The company owns textile mills and its principal activities are knitting, processing and finishing of textile products and making garments. The production capacity for the current year is 28 lac Pcs for Finished Garments and 1980 MTs for Knit Fabrics.

Following formula will be used to find out the required rate of return of **H.R. Textiles Mills Ltd**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

$$K_e = \text{required rate of return} = 10.72\%$$

$$R_m = \text{Return from market} = \frac{\text{November '13} - \text{June '13}}{\text{June '13}}$$

$$= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\%$$

$$R_f = \text{Risk free rate} = .0814 = 8.14\%$$

$$B = \text{Beta} = 1.12$$

$$\text{So, } K_e = R_f + (R_m - R_f) * \beta$$

$$= .0814 + (.1045 - .0814) * 1.12 \text{ [By Replacing Value]}$$

$$= .1072$$

$$= 10.72\%$$

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

Cs= Present value of common stock=?

D₀ = Last Year Dividend .22Tk Per Share

K_e= required rate of return=.1072or 10.72%

g= Growth rate= 8%

H.R. Textiles Mills Ltd	2008	2009	2010	2011	2012
Dividend Paid	13246711	13246711	10076831	8071735	5716390
# Shares Outstanding	20000000	20000000	20000000	22000000	25300000
Dividend Per Year	.66	.66	.50	.37	.22

F_v= Dividend paid in 2012 =.22 tk/per share

P_v = Dividend paid in 2008=.66tk/per share

Assume, growth rate 10%	Assume, growth rate 9%	Assume, growth rate 8%
$P_0 = \frac{D_0 (1+g)}{K_e - g}$ $= \frac{.22(1+.10)}{.1072 - .10}$ $= 33.61 \text{ taka}$	$P_0 = \frac{D_0 (1+g)}{K_e - g}$ $= \frac{.22(1+.09)}{.1072 - .09}$ $= 13.94 \text{ taka}$	$P_0 = \frac{D_0 (1+g)}{K_e - g}$ $= \frac{.22(1+.08)}{.1072 - .08}$ $= 8.73 \text{ taka}$

Assumption and observation: In 2008 and 2009, the company paid dividend .66 taka per share. However, there was no growth but they hold a consistency. But in 2010, the company failed to keep the consistency and reduced the amount compared to that of previous years. The same incidents also happen in 2011 & 2012. In this scenario, it is very unlikely to predict a steady growth rate. However I've taken 10%, 9% and 8% growth and get the value less than the market price. The current market price of the stock is 41.5 taka. So the current market price is overvalued compared to the intrinsic value which is calculated by assuming maximum growth rate.

Decision: Therefore, I would like to suggest investors not to hold this stock.

6.5 Rahim Textile Mills Ltd: Rahim textile mills Ltd, a Public Limited Company has been envisaged by a group of dynamic entrepreneurs who have been immense contribution to development of the textile sector of Bangladesh. The sponsors have a very long history in industrial management with the earlier generation starting in Bombay in the early 20th century. Later on Moved to Bangladesh in 1974. The Company was incorporated in Bangladesh on November 02, 1989 as Private Limited Company. Subsequently the company was converted into a Public Limited Company on September 14, 2008 under the Companies Act 1994. The existing project is located at Shafipur, Kaliakoir, and Gazipur and started its commercial operation on January 01, 1991. Presently the project has in total 63,624 spindles with daily production capacity of 32 tons of Combed and Carded Cotton Yarn. MSML is a deemed exporter and majority of its goods are supplied to Knit industries for export.

Following formula will be used to find out the required rate of return of **Rahim Textile Mills Ltd**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

$$K_e = \text{required rate of return} = 9.46\%$$

$$R_m = \text{Return from market} = \frac{\text{November '13} - \text{June '13}}{\text{June '13}}$$

$$= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\%$$

$$R_f = \text{Risk free rate} = .0814 = 8.14\%$$

$$B = \text{Beta} = 0.5736$$

$$So, K_e = R_f + (R_m - R_f) * \beta$$

$$= .0814 + (.1045 - .0814) * .5736 \quad [\text{By Replacing Value}]$$

$$= .0946$$

$$= 9.46\%$$

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

C_s = Present value of common stock = ?

D_0 = Last Year Dividend .45Tk Per Share

K_e = required rate of return = .0946 or 9.46%

g = Growth rate = 9.25%

Rahim Textile Mills Ltd	2008	2009	2010	2011	2012

Dividend Paid	2511758	2511758	3043836	486576	916475
# Shares Outstanding	1820000	1820000	1820000	1820000	2002000
Dividend Per Year	1.38	1.38	1.67	.26	.45

Fv= Dividend paid in 2012 =.45tk/per share

PV = Dividend paid in 2008=1.38tk/per share

Assume growth rate 9%	Assume growth rate 9.25%
$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{.45(1+.09)}{.0946 - .09}$ <p>= 106.63 taka</p>	$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{.45(1+.0925)}{.0946 - .0925}$ <p>= 234.1071 taka</p>

Assumption and observation: In 2008 and 2009, the company gave the same amount as dividend. There was not any growth but at least there wasn't any diminution. In 2010, the company paid a higher dividend compared to that of previous years. It was increased by almost 20%. But in 2011, the amount decreased by a huge amount. It might have several reasons. The company could use the profit in different machineries or in other capital expenditure. In 2012, the company increased their paid up capital as well as provided dividend which was two times compared to that of previous year. In 2012, amount of dividend increases by 32% compared to that of previous year. Considering the situation, I've made my valuation for the conservative and risky investors. For conservative investors, I have assumed the growth rate 9% which makes the stock overvalued in the market. The current market price of the stock is 231.2 taka. On the other hand, I've also assumed a growth rate of 9.25% which makes the stock undervalued.

Decision: Considering last two years scenario, I would like to suggest investors to buy this stock because 9.25% growth is not unachievable for this company.

6.6 Stylecraft Ltd: Stylecraft Limited was incorporated on 25 January 1983 as a private limited company in Bangladesh. On 1983 it was made into a public limited company as well. Stylecraft Limited is one of the age-old manufacturers of garments in Bangladesh. In 2011 the company reached all time high of production of 470431 dozens of garments as compared to 390945 dozens during the year 2009-2010.

Following formula will be used to find out the required rate of return of **Stylecraft Ltd**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

$$K_e = \text{required rate of return} = 8.75\%$$

$$R_m = \text{Return from market} = \frac{\text{November '13} - \text{June '13}}{\text{June '13}}$$

$$= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\%$$

$$R_f = \text{Risk free rate} = .0814 = 8.14\%$$

$$B = \text{Beta} = 0.2664$$

$$\text{So, } K_e = R_f + (R_m - R_f) * \beta$$

$$= .0814 + (.1045 - .0814) * 0.2664 \quad [\text{By Replacing Value}]$$

$$= .0875$$

$$= 8.75\%$$

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

Cs= Present value of common stock=?

D₀ = Last Year Dividend 3.82 Tk per Share

K_e= required rate of return=.0875or 8.75%

g= Growth rate=8%

Stylecraft Ltd	2008	2009	2010	2011	2012
Dividend Paid	1382051	1628178	1629345	1634880	2104880
# Shares Outstanding	550000	550000	550000	550000	550000
Dividend Per Year	2.51	2.96	2.96	2.97	3.82

Now,

$$FV = PV(1+g)^n$$

$$3.82 = 2.51(1+g)^5$$

$$(1+g)^5 = 3.82/2.51$$

$$g = .087622 \text{ or } 8.76\%$$

We'll take 8% as growth rate.

Now,

Assume growth rate 8%	Assume growth rate 6%	Assume growth rate 4%
$P_0 = \frac{D(1+g)}{Ke-g}$ $= \frac{3.82(1+.08)}{.0875-.08}$ $= 550.08 \text{ taka}$	$P_0 = \frac{D(1+g)}{Ke-g}$ $= \frac{3.82(1+.06)}{.0875-.06}$ $= 83.63 \text{ taka}$	$P_0 = \frac{D(1+g)}{Ke-g}$ $= \frac{3.82(1+.04)}{.0875-.0}$ $= 147.24 \text{ taka}$

Assumption and observation: During 2008 to 2012, the company paid dividend on a consistent basis. Prior to 2012, the amount increased in a marginal rate. But in 2012, it improved in a huge amount. For getting the growth rate, we've convert the future values into present values. We got the growth rate 8.76%. Assuming growth rate 8%, we are getting the intrinsic value of 550.08 taka. If we assume the worst scenario, at least a growth of 4%, we get the intrinsic value of 147.24 taka. The current market price of Stylecraft is 41.5 taka. So it is undervalued in market considering the growth rate 4%. Considering the scenario of this company, it is absolutely achievable to maintain a growth rate of 4%.

Decision: So I would like to suggest investors to buy this stock.

6.7 Saiham Textile Mills Ltd: This modern composite Textile Mill was established in 1982 with New Japanese machineries with a capacity of producing 7 million yards of finished fabrics per year. In 1992 a modern Yarn Spinning Unit with 30,000 spindles equipped with Japanese machinery was added in the Textile Unit. This mill produces cotton and polyester yarns for domestic and export market. Currently the management of this industrial unit is in a process of turning the entire Textile Mill into a Yarn-Spinning Mill. To manufacture quality yarns the management uses lean manufacturing methods, statistical process control, total preventive maintenance and statistical quality control in their factory production line. This helps to maintain the high class quality that is demanded by various customers.

Following formula will be used to find out the required rate of return of **Saiham Textile Mills Ltd**

$$K_e = R_f + (R_m - R_f) * \beta$$

In this Formula,

K_e = required rate of return = 10.91%

$$\begin{aligned} R_m = \text{Return from market} &= \frac{\text{November '13} - \text{June '13}}{\text{June '13}} \\ &= \frac{4230.72 - 3830.26}{3830.26} = .1045 = 10.45\% \end{aligned}$$

R_f = Risk free rate = .0814 = 8.14%

B = Beta = 1.20

So, $K_e = R_f + (R_m - R_f) * \beta$

$$= .0814 + (.1045 - .0814) * 1.20 \text{ [By Replacing Value]}$$

$$= .1091$$

$$= 10.91\%$$

Present value of Common stock:

Following Formula will be used to calculate present value of common stock

$$P_0 = \frac{D_0 (1+g)}{K_e - g}$$

Here,

C_s = Present value of common stock = ?

D_0 = Last Year Dividend 1.5Tk Per Share

K_e = required rate of return = .1091 or 10.91%

g = Growth rate = ?

Saiham Textile Mills Ltd	2008	2009	2010	2011	2012
Dividend Paid	12500000	12500000	12500000	0	37500000
# Shares Outstanding	12500000	12500000	12500000	25000000	25000000
Dividend Per Year	1	1	1	0	1.5

Fv= Dividend paid in 2012 =1.5tk/per share

PV = Dividend paid in 2008=1 tk/per share

CAGR=.0845 or 8.45%

Assume growth rate 8.45%	Assume growth rate 6%	Assume growth rate 4%
$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.5(1+.0845)}{.1091 - .0845}$ <p>= 66.12 taka</p>	$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.5(1+.06)}{.1091 - .06}$ <p>= 32.38 taka</p>	$P_0 = \frac{D_0(1+g)}{K_e - g}$ $= \frac{1.5(1+.04)}{.1091 - .04}$ <p>= 22.79 taka</p>

Assumption and observation: The Company paid the dividend during last five years except in 2011. In 2008, 2009 & 2010, the company provided the same amount. In 2011, the company didn't disburse any dividend. Increasing paid up capital might be one of the reason and we got the result immediately in the next year. The company did the business well in 2012 and rewarded the shareholder three times dividend in 2012. It means with their increased paid up capital, the company increased their profit and provided a good amount as dividend to their shareholder. For calculating the growth rate, we used cumulative average growth rate and we found a growth rate of 8.45%. Assuming this growth rate, we found the intrinsic value 66.12 taka. The current market

price of this stock is 28.5 taka. So if we consider this growth rate, the stock is undervalued. On the other hand, if we consider the growth rate 6%, we get the intrinsic value 32.38 taka and the market price also becomes undervalued compared to intrinsic value. Again if we consider 4%, we obtain an intrinsic value of 22.79 taka and the market price is slightly overvalued compared to intrinsic value. Now, reflect on the business in 2012, it is very much achievable to maintain a growth rate of 6 to 8% for the company. The 6-8% growth rate makes the stock undervalued compared to market price. So I would like to suggest the investors to buy this stock.

Decision: Current market price of Saiham textile is 28.5 taka. On the other hand calculated intrinsic value is 66.12 taka which is undervalued. So I recommend to buy this stock.

7. FINDINGS AND ANALYSIS

Findings and Analysis of analysis part are given below

- ❖ In 2012 Square Textile increased the number of shares for strengthening their paid up capital and expanding business.
- ❖ Square Textile paid up capital became twice in the last five years through bonus issuance.
- ❖ Apex Spinning paid up capital remain same during the last five years which reflects more debt base financing.
- ❖ In 2012 Desh Garments paid more dividend compared to previous year which is promising to shareholders.
- ❖ HR Textile declares dividend to the shareholders consistently but there is no growth.
- ❖ In 2011 Rahim Textile dividend decreased by huge amount. It might have several reasons such as the company could use the profit in different machineries or in other capital expenditure.
- ❖ In 2012 Rahim Textile increased their paid up capital as well as provided dividend which is two times higher compared to previous year.
- ❖ In 2012 Stylecraft's dividend amount increased in a marginal rate.

- ❖ In 2012 Saiham Textile increased their profit and provided a good amount of dividend to their Shareholder

8. RECOMMENDATION

IDLC's Research coverage includes but not limited to listed companies, sector and economy of Bangladesh. Our qualified and dedicated professionals provide insightful opinion regarding different covered areas to facilitate your investment decision. Our footprint reached at global village through information hubs like Bloomberg along with frequent publications in local media. Recommendations for Analysis part are given below

- ❖ Investors should focus on company fundamentals rather than market trends. Company fundamentals are as follows
 - ✓ Total Sales
 - ✓ Earnings Per Share
 - ✓ Net Asset Value
 - ✓ Net Profit
 - ✓ Net Profit Margin and so on.
- ❖ Investors should also analysis macroeconomic environment before buying any textile company's share. Macroeconomic environment consists of
 - ✓ Political Factors
 - ✓ Relationship with foreign buyers
 - ✓ Relationship between labor and owner and so on
- ❖ Investors should also focus on price sensitive information for buying any textile company's share. Price sensitive information might be:
 - ✓ Purchase new assets
 - ✓ Increase paid up capital and so on

9. CONCLUSION

IDLC Finance Ltd operates its capital market operation via to subsidiaries. One is IDLC Investments Ltd. Which look after IDLC's merchant banking operation such as issue management, portfolio management, Research, Finance and Control, Settlement etc. The Capital Markets operation of IDLC Finance Ltd was offered since 1999 but its activities started increasing gradually during 2007 onwards. And by 2010 this division became the most dominant contributor to the revenue and profit of entire IDLC Finance Ltd. And Now IDLC is determined to improve these services further in order to strengthen their position in capital markets and contribute heavily in making this market efficient in near future. Moreover I have applied CAPM model in order to asses' feasibility of textile sector in capital market. In addition dividend discount model is not the only method to asses' feasibility of textile sector. There are many promising companies in textile sector like argon denim, malek spinning, paramount textile, envoy textile who didn't provide dividend. These companies are doing well and investors can buy these companies share.

10. REFERENCES

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11. APPENDIX

List of Abbreviation:

- **DSE:** Dhaka Stock Exchange
- **CSE:** Chittagong Stock Exchange
- **SEC:** Securities and Exchange Commission
- **CAGR:** Compound Annual Growth Rate