

# Prospectus: Lexco Limited

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**APPLICATION NOT IN CONFORMITY WITH THE ABOVE REQUIREMENTS AND THE INSTRUCTIONS PRINTED ON THE APPLICATION FORM IS LIABLE TO BE REJECTED.**

## ALLOTMENT

The Company reserves the right to accept any application in whole or in part. Successful applicants will be informed of allotment by despatching Letter of Allotment within 40 (forty) days of closing of subscription. Where application is not accepted in full or in part, the money received on application will be refunded to the applicant within 40 (forty) days of closing of subscription by cheque without interest. Interest at 5% above bank rate will be paid to the unsuccessful applicants where application money is refunded after 40 (forty) days for which the directors, in addition to the company shall be responsible.

Bangladeshi nationals including non-resident Bangladeshis residing/working abroad and foreign nationals shall be entitled to apply for the share.

## PART VI THE PROJECT

Lexco a most modern tannery in Bangladesh was incorporated as a private limited company in 1979. Equipped with latest European machinery and technology Lexco is the pioneer in crust and finished leather manufacturer in Bangladesh.

The project was jointly sponsored by Bangladesh Shilpa Bank, Asian Development Bank and Islamic Development Bank, Jeddah. Lexco has earned world wide reputation for its products, specially for full vegetable crust/finished upper and case leather. In recognition of its performance, Lexco received three presidential Export Trophy for the year 1983, 1984, 1986.

The objective of this project is to boost up foreign earnings through processing hides and skins into value added finished leather.

### Project Capacity & Production process:

At 100% production capacity based on 3 shifts per day during a year of 300 working days the project is now capable of processing 12 million square feet finished leather per annum. The project consists of four main processing section viz.,

- I. Wet Blue Section (Beam house)
- II. Retanning Section (Dyeing and fatliquoring)
- III. Crusting Section.
- IV. Finishing Section.

Primitive system of making leather out of smoke has changed a lot and now its the time to produce leather by synchronisation of man, machine, chemical and most equipped technology. Lexco procures raw hides from all over Bangladesh to fulfill its massive consumption. These wet salted preserve hides are then assorted in various sizes and different district origins to maintain the quality standard.

### Wet blue Section:

In wet blue section firstly leather starts with various chemical and mechanical operations where the leather gets preserved not to rot but for further process. And it is call the basic foundation to treat the leather for different purposes for further procedure. From raw hide till wet blue normally following operations are required, viz., soaking, liming, fleshing, lime splitting, deliming, bating, pickling, wetblue tanning.

### Retanning Section:

In retanning section the wet blue have taken for its further procedure according to customers' requirement in different type of tanning where leather slowly steps towards finish leather. In this stage leather can be made softer, harder, thinner, thicker and other physical type according to customers' choice. So in this stage actually we can say leather gets prepare same like cooking with various spices for different recipes of food. In this stage mechanical and chemical application requires.

### Crusting Section:

To bring the leather in dry condition with certain moisture content inside the leather and to maintain the physical aspects is the major job of this yard. To prepare the leather for final operation in finishing what ever remains should be fill up in this section. The operation which are done in this yard are; samming, setting, heated rolling, vacuum drying, natural drying, humidity control drying, conditioning, staking, buffing, toggling and trimming.

### Finishing Section:

This stage is the last make up section of leather, like the way a lady finally get ornamented to show her beauty. In this stage in different recipes with the most equipped technology various type of chemical are applied to prevent the leather against the weather and, to give it the exact approach of it along with leather physical properties to bring it back to its originality. In this stage the mechanical operations required are sorting, application of surface coating, plating, glazing, polishing, ironing etc. Finally it goes for final inspection and selection to maintain the Lexco Standard and then turn to ware house for measuring and packing which is then ready for export.

## OTHER KEY INFORMATION:

### Land and location

The project is located at Hazaribag tannery area, Dhaka, on a landed area of about two acres. The land is sufficiently high and there is no chance of affecting by flood.

### Building

The architectural structure of the factory building of Lexco is on two-storied building, reinforced concrete construction, with more than 50,000 sq. ft. covered area on each level.

### Infrastructural facilities

All kinds of infrastructural facilities like internal road, water, power, gas, etc. are available at the project. Furthermore Lexco has own deep tubewell, 500 KVA substation and 200 KVA standby gas operated generator.

### Machinery and Equipment

The machinery and equipment of the project were procured from Italy, France and Germany. According to the project valuation report evaluated by an efficient Government approved valuer, the machineries are in a good working condition and the project will not face any problem to increase its production capacity in future years.

### Raw material

The raw material for the project is raw hides (cow hide) and chemicals. Raw hides are procured from many local sources and chemicals, which is an internationally standardized commodity and are available from many foreign and local sources.

### Technical Expertise

As the company is 100% export oriented so technical department is the key root of this industry and well balanced in order to have better foreign manpower utilization, to send technical people abroad for more modern technology, and to follow the fashion in its own industry always keeping in touch with latest international trend.

For carrying raw material and finished leather, Lexco is using hired transport services.

## MARKET OUTLOOK:

Leather industry based on local indigenous raw materials, hides and skins, the animal by products occupies an important position in the economy of the country in terms of gross out, value addition, manufactured export and employment. The annual supply of hides and skins is estimated to be about 160 million square feet, out of which 15 to 18% is locally consumed and the rest is exported. Indeed, the leather industry is one of the major foreign exchange earner of the country ranking fifth, next to readymade, jute and jute goods, knitwear and frozen food, sharing about 7 to 8 per cent of the total export earnings. In 1993-94 export earning of leather industry was equivalent to Tk. 6701.60 million. Until early 1980s, the leather industry was producing wet blue for export and low grade finished leather using primitive technology for domestic consumption. The Government realizing the potentials of leather industry in export growth, introduced some tax-incentive policy measures in 1977, to encourage transportation of the industry from wet-blue to higher stages of production for export, which resulted into a significant development in crust and finished leather production capacity and export growth during the last decade. The Government finally banned wet blue export in 1990.

The leather industry is now reasonably established and exporting crust and finished leather, the later being 20-25 per cent of total export. But to have better value addition and international competition the industry needs to produce 100% finished leather give additional strength to have better competitive marketing prospect and to go for subsequent shoe, leather garments and leather goods industries, the base of which has already been developed.

With the increasing awareness regarding environment pollution in the developed countries, they are increasingly declining to import leather in wet blue or semi-finished form. This indicates a very favourable situation ahead for Bangladesh so far export of finished leather is concerned. Italy, France, Holland, West Germany and the countries of former Russian Federation are the major importers of Bangladeshi leather.

Many tanneries in USA, Europe and Australia are facing closure due to pollution control and increased labour cost. This has resulted in substantial increase in demand for finished leather. Subsequently several developing countries like Argentina, Brazil, Indonesia, Pakistan, India and Bangladesh have graduated into finished leather production. Our Government has also been pushing to increase the production of finished leather to earn more foreign exchange and increase employment.

## PART VII

## FINANCIAL PROJECTION

### Basic of assumptions and forecast:

1. Capacity utilization:
 

1994 - 36%	1997 - 49%
1995 - 47%	1998 - 50%
1996 - 49%	1999 - 50%
2. Inventory:
 

Finished goods	36 days	Chemicals	75 days
Work in process	52 days	Packing material	18 days
Wet blue	40 days	Printing & Stationery	8 days
Raw hides	20 days	Stores	2.5 times
3. Other direct charges will be accelerated with the acceleration of capacity utilization. (base yr. 1994)
4. Advance and prepayments 2.5% of raw hides purchase.
5. Bills receivable 4.5 days.
6. Trade creditors 45 days.
7. Sales price, 5% acceleration (base yr. 1994).
8. Price of raw hide, 5% acceleration (base yr. 1994).
9. Cost of chemical 30% of raw hide consumption (average).
10. Selling & Distribution expense at 3.5% of sale.
11. Administrative expenses are expected to be the same as incurred in 1994.
12. Export rebate at Tk. 4.65 per sq. ft. sold (average).
13. Bank borrowing as per requirement.
14. Fixed assets except land and land development are depreciated on reducing balance method at the rate varying from 5% to 20%.
15. Amortization of issue expense over 5 years (i.e. Tk. 1,80,000 per year).

## PROFITABILITY INDICATORS:

Particulars	1995	1996	1997	1998	1999
Gross Profit/Sales	13.75%	20.38%	20.23%	20.30%	20.00%
Net Profit/Sales	1.00%	7.73%	8.37%	9.22%	9.72%
Face value per share (Tk.)	100.00	100.00	100.00	100.00	100.00
Dividend	0%	15%	15%	15%	15%
Net Asset Value (NAV) per share (Tk.)	85.35	244.62	428.43	647.38	891.90
Earning per share (Tk.)	19.65	173.32	197.86	233.00	258.56
Price Earning Ratio	5.09	0.58	0.51	0.43	0.39
Equity Growth (over previous year)	-	186.60%	75.14%	51.10%	37.77%

\* Share Price = Issue Price. These are not actual but forecast only, actual vary from forecasts

## SALES ESTIMATE:

Year	Production in unit	Op. stock	Cl. stock	Sales in Unit (sft)	Price (sft)	Sales Amount
1995	5640000	395249	676800	5358449	69.30	371,340,515.79
1996	5880000	676800	705600	5881200	72.77	425,791,824.00
1997	5880000	705600	705600	5880000	76.41	449,290,800.00
1998	6000000	720000	720000	5985600	80.23	480,224,688.00
1999	6000000	720000	720000	6000000	84.24	505,440,000.00

## REQUIREMENT: (AS PER PRODUCTION)

### RAW HIDES CONSUMED:

Year	Production in Unit	Price/sft	Raw hides consumed
1995	5640000	44.31	249,908,400.00
1996	5880000	46.53	273,596,400.00
1997	5880000	48.86	287,296,800.00
1998	6000000	51.3	307,800,000.00
1999	6000000	53.87	323,220,000.00

### RAW HIDES PURCHASE:

Year	Production in Unit	Op. Stock	Cl. Stock	Purchase Unit (sft)	Price/sft	Purchase (Tk.)
1995	5640000	197320	376000	5818680	44.31	257,825,710.80
1996	5880000	376000	392000	5896000	46.53	274,340,880.00
1997	5880000	392000	392000	5880000	48.86	287,296,800.00
1998	6000000	392000	400000	6008000	51.3	308,210,400.00
1999	6000000	400000	400000	6000000	53.87	323,220,000.00

## COST OF GOODS SOLD ESTIMATE: (Tk. in '000)

Particulars	1995	1996	1997	1998	1999
Raw hides	249908	273596	287297	307800	323220
Chemicals	74972	82079	86189	92340	96966
Other direct charges	12126	12642	12642	12900	12900
Stores	4934	5144	5144	5249	5249
Total Manufacturing Cost	341940	373461	391272	418289	438335
Opening Work in Process	70478	59270	64733	67820	72503
Total Cost imputed the Process	412418	432731	456005	486109	510838
Closing Work in Process	59270	64733	67820	72503	75978
Cost of Goods Manufactured	353148	367998	388185	413606	434860
Opening Finished Goods Inventory	34417	42378	44160	46582	49633
Cost of Goods Available for Sales	387565	410376	432345	460188	484493
Closing Finished Goods Inventory	42378	44160	46582	49633	52183
COST OF GOODS SOLD	345187	366216	385763	410555	432310

## PROJECTED INCOME & RETAINED EARNINGS: (Tk. in '000)

Particulars	1995	1996	1997	1998	1999
Sales Revenue	371341	425792	449291	480225	505440
Export Rebate	24917	27208	27342	27833	27900
Total	396258	453000	476633	508058	533340
Cost of Goods Sold	345187	366216	385763	410555	432310
Gross Profit	51071	86784	90870	97503	101030
Depreciation	3825	3825	3825	3825	3825
Administrative Expense	6763	6763	6763	6763	6763
Selling & Distribution Expense	12997	14903	15725	16808	17690
Amortization	180	180	180	180	180
Operating Profit	27306	61113	64377	69927	72572
Financial Charges	22711	20582	18107	15440	12107
Profit Before Income Tax	4595	40531	46270	54487	60465
Income Tax	862	7600	8676	10216	11337
Profit After Tax	3733	32931	37594	44271	49128
Dividend	0	2850	2850	2850	2850
Retained Earnings	3733	30081	34744	41421	46278
Cumulative Retained Earnings	-2063	28018	62762	104183	150461

These are not actual but forecast only, actual may vary from forecasts.

## PROJECTED BALANCE SHEET : (Tk. in '000)

Particulars	1994	1995	1996	1997	1998	1999
Fixed Assets	218367	218367	218367	218367	218367	218367
Accumulated Depreciation	0	3825	7650	11475	15300	19125
Net Fixed Assets	218367	214542	210717	206892	203067	199242
IPO Expense	0	720	540	360	180	0
Current Assets	200913	195418	211032	221028	235708	246777
Cash and Bank	5752	7780	10871	15128	20184	26449
Profit & Loss A/C	5796	2063	0	0	0	0
Total Assets	430828	420523	433160	443408	459139	472468

Particulars	1994	1995	1996	1997	1998	1999
Paid up Capital	14250	19000	19000	19000	19000	19000
Revaluation Reserve	169065	169065	169065	169065	169065	169065
Retained Earnings	0	0	28018	62762	104183	150461
Loans & Advances	10440	10440	10440	10440	10440	10440
Machinery Loan Accounts	2771	0	0	0	0	0
Outstanding Dividend	0	0	2850	2850	2850	2850
Outstanding Tax	1053	862	7600	8676	10216	11337
Sundry Creditors	66377	38674	41151	43095	46231	48483
Bank Borrowings	166872	182482	155036	127520	97154	60832
Total Capital & Liabilities	430828	420523	433160	443408	459139	472468

## PROJECTED CASH FLOW STATEMENT : (Tk. in '000)

Particulars	1995	1996	1997	1998	1999
Sources of Cash:					
Operating Profit	27306	61113	64377	69927	72572
Depreciation	3825	3825	3825	3825	3825
Amortization	180	180	180	180	180
Fund from Operation	31311	65118	68382	73932	76577
Increase in Working Capital	6598	40583	35568	41910	45139
Cash from Operation	24713	24535	32814	32022	31438
Issue of Ordinary Shares	4750	0	0	0	0
Total Sources of Cash	29463	24535	32814	32022	31438

### Application of Cash:

Particulars	1995	1996	1997	1998	1999
Issue Expense	900	0	0	0	0
Financial Charges	22711	20582	18107	15440	12107
Dividend	0	0	2850	2850	2850
Repayment of Machinery Loan	2771	0	0	0	0
Income Tax	1053	862	7600	8676	10216
Total Application	27435	21444	28557	26966	25173
Cash Surplus	2028	3091	4257	5056	6265
Opening Cash Balance	5752	7780	10871	15128	20184
Cumulative Cash Balance	7780	10871	15128	20184	26449

## WORKING CAPITAL ESTIMATE: (Tk. in '000)

Particulars	1995	1996	1997	1998	1999
Wet Blue Section:					
Raw Hides	16661	18240	19153	20520	21548
Work in Process	13678	14938	15651	16731	17533
Wet Blue	4165	4560	4788	5130	5387
Chemicals	6248	6840	7183	7695	8081

### Finished Section:

Finished Section:					
Wet Blue	29156	31919	33518	35910	37709
Work in Process	45592	49795	52169	55772	58445
Finished Leather	42378	44160	46582	49633	52183
Chemicals	12495	13680	14365	15390	16161
Spare Parts, Tools & Implements	12335	12860	12860	13123	13123
Packing Materials	347	397	419	448	472
Printing & Stationery	347	397	419	448	472
Advance, Deposit & Prepayment	6446	6859	7182	7705	8081
Bills Receivable	5570	6387	6739	7203	7582
<b>Total Current Assets</b>	<b>195418</b>	<b>211032</b>	<b>221028</b>	<b>235708</b>	<b>246777</b>
Long Term Creditors	38674	41151	43095	46231	48483
Bank Borrowing (current)	182482	155036	127520	97154	60832
<b>Net Working Capital</b>	<b>-25738</b>	<b>14845</b>	<b>50413</b>	<b>92323</b>	<b>137462</b>
Increase in Working Capital	6598	40583	35568	41910	45139