

## Abridged Version of Prospectus



## ACI Limited

## ACI 20% Convertible Zero Coupon Bonds

Advanced Chemical Industries Limited (ACI)

ACI Centre, 245 Tejgaon Industrial Area, Dhaka- 1208, Tel: (02) 9885694-8 Fax: (8802) 9884784,9565257, Website: www.aci-bd.com

## Public Offer of 106,868 lots of Convertible Zero Coupon Bonds of Tk 3,743 each (Face Value Tk. 5,000)

Subscription for General Public

Opening date: 31 January 2010

Closing date: 04 February 2010

Subscription for NRB Applicants

Opening date: 31 January 2010

Closing date: 13 February 2010

## MANAGER TO THE ISSUE

Alliance Financial Services Limited

Rahman Chamber (3rd Floor), 12-13, Motijheel C/A, Dhaka-1000. Tel: 88-02-9515468, 9515469, Fax: 88-02-9515467, E-mail: info@allfin.org, Website: www.allfin.org

## FACILITY ARRANGER &amp; TRUSTEE

Industrial &amp; Infrastructure Development Finance Co. Ltd. (IIDFC)

Chamber Building (6th &amp; 7th floor), 122-124 Motijheel C/A, Dhaka-1000, Tel: 9559311-12, 9553387, Fax: 88-02-9568987, www.iidfc.com

## CREDIT RATING BY

Credit Rating Information and Services Limited (CRISL)

Issue Rating (ACI 20% Convertible Zero Coupon Bond)	A - (Indicative)
Entity Rating - 2008	A+
Date of Rating Declaration	29 April 2009

## SPECIAL NOTE

Please read the prospectus carefully which includes "Risk Factors" before taking your investment decision.

An applicant cannot submit more than two applications, one in his/her own name and another jointly with another person. In case an applicant makes more than two applications, all applications will be treated as invalid and will not be considered for allotment purpose. In addition, whole or part of application money may be forfeited by the Commission.

\*CONSENT OF THE SECURITIES AND EXCHANGE COMMISSION HAS BEEN OBTAINED TO THE ISSUE/OFFER OF THESE SECURITIES UNDER THE SECURITIES AND EXCHANGE ORDINANCE, 1989, AND THE SECURITIES AND EXCHANGE COMMISSION (PUBLIC ISSUE) RULES, 2006. IT MUST BE DISTINCTLY UNDERSTOOD THAT IN GIVING THIS CONSENT THE COMMISSION DOES NOT TAKE ANY RESPONSIBILITY FOR THE FINANCIAL SOUNDNESS OF THE ISSUER COMPANY, ANY OF ITS PROJECTS OR THE ISSUE PRICE OF ITS SECURITIES OR FOR THE CORRECTNESS OF ANY OF THE STATEMENTS MADE OR OPINION EXPRESSED WITH REGARD TO THEM. SUCH RESPONSIBILITY LIES WITH THE ISSUER, ITS DIRECTORS, CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER, ISSUE MANAGER, UNDERWRITERS AND/OR AUDITOR.

## USE OF PROCEEDS

ACI Pharmaceuticals is expected to be introducing three new lines of medicine products namely Anti Cancer, Hormone & Steroid and Amino Acid. For this new initiative, ACI is expected to be invested Tk. 597 million in new pharmaceutical projects and the balance Tk. 463 million is proposed to be used for working capital and to reduce current bank borrowings.

## BRIEF DESCRIPTION OF ACI 20% CONVERTIBLE ZERO COUPON BOND

## A. Issuer: ACI Limited

## B. Issue size: Tk. 1 Billion, the face value of which is Tk. 1.34 Billion

## C. Major features

► **Zero Coupons:** No interest will be payable on periodical basis. Bonds will be issued at discounted value (Tk. 3,743 per lot) but will be payable at face value (Tk. 5,000 per lot). The difference between the issue price and repayment value (Tk. 1,257) will be redemption income to the bondholders.

► **Effective rate of return (discount rate):** 10.5% p.a. excluding tax exemption benefits and capital gain from conversion.

## ► Selling units:

- Total number of bonds to be issued: 1,335,850 (the face value of each bond is Tk. 1,000)
- Total number of lots: 267,170 (the face value of each lot is Tk. 5,000 and issue value is Tk. 3,743)

## ► Formation of Lot:

- The face value of each bond will be Tk. 1,000 and five bonds will be bundled together to make a lot; that is each lot will be consisted of five bonds (five series) with five different maturity dates ranging from 1 year to 5 years.

## ► Maturity and redemption:

- Five bonds in a lot will have five different maturity dates i.e. at the end of each year one bond from a lot will mature.
- At maturity of each respective bond, redemption will be made at cash to the extent of 80% and rest 20% will be converted into ordinary shares of ACI Limited. However the bondholders will have option to redeem 100% in cash.
- The strike price to convert bonds into ordinary share will be the net asset value per share as per the last annual audited accounts X 1.1

## ► Tradability: Will be listed in the DSE and CSE and freely transferable.

► **Tax exemption:** As per Clause 40 of the amended Sixth Schedule of Income Tax Ordinance No. XXXVI of 1984 published in Bangladesh Gazette dated June 30, 2008, the redemption income to the bondholders is fully tax exempted except for banks, insurance and financial institutions.

## D. Bond schedule for each lot:

Series	Terms	Maturity date	Issue Price	Face value	Redemption income	*Effective rate of return	80% Cash Share	20% Share
1	1 year	After 1 year	905	1,000	95	10.50	800	200
2	2 year	After 2 year	819	1,000	181	10.50	800	200
3	3 year	After 3 year	741	1,000	259	10.51	800	200
4	4 year	After 4 year	671	1,000	329	10.49	800	200
5	5 year	After 5 year	607	1,000	393	10.50	800	200
Total			Tk. 3,743	Tk. 5,000	Tk. 1,257	10.5%	4,000	1,000

\* This rate of return is excluding tax exemption benefits and capital gain from conversion.

## E. The return of bondholders will be comprised of the following three components:

- Redemption income; the difference between issue price and the face value.
- Tax exemption benefits; grossing up tax benefits.
- Capital gain from conversion; the difference between strike price and market price.

## Convertibility Option:

The investors have the option of redeeming the entire face value of the bond in cash upon maturity or can redeem 80% in cash and convert 20% of the bond value in the common stock of the company. Odd lot and fractional amount of shares will be paid through warrant on disposal at prevailing market price.

## Conversion date:

Conversion date will be same as the Principal Payment Date at the end of each maturity.

## RATIONALE FOR INVESTING IN ACI 20% CONVERTIBLE ZERO COUPON BOND

Zero-coupon bond is an attractive product from the viewpoint of both the investors and issuers. Some of the salient advantages of zero-coupon bond are as follows:

## 1. First Ranking Claim on Shareholders

Bonds are debt, whereas stocks are equity. This is the most important distinction between the two securities. By purchasing equity (stock) an investor becomes an owner in a company. Ownership comes with voting rights and the right to share in any future profits. By purchasing debt (bonds) an investor becomes a creditor to the company. The primary advantage of being a creditor is that the investor has a higher claim on assets than shareholders do; that is, in the case of bankruptcy, a bondholder will have the first charge on assets of the company (except specific charges).

## 2. Convertibility Option

The investor has the option to convert 20% of the bond at face value in a predetermined conversion strike price. The investor will execute the convertibility option assuming that the market value of ACI stock is higher than the conversion strike price on the conversion date.

## 3. Short Term Volatility of the Stock Market

Bonds are appropriate particularly when investors cannot tolerate the short-term volatility of the stock market. Bonds are perceived as more secured and

stable investment as investors are assured of guaranteed return. Therefore, for a fixed income earner it is more lucrative to invest in zero-coupon bond.

## 4. Extra income potential

It leaves the investor with the option of earning more by converting 20% of the investment into common stocks depending on the market condition. Due to high profit growth, the shares of ACI enjoys high market price.

## 5. Win-win situation-Tax free benefits

Government of Bangladesh is promoting the bond market as an alternate source of investment for infrastructure projects and as such tax exemption allowed to any income derived from zero coupon bond received by a person other than bank, insurance or any financial institution under certain prescribed conditions. Consider the case of a corporation and other investors that invests in ACI 20% Convertible ZCB and the scenario will be as below:

Particulars	Tax Rate	Yield = Discount Rate of ZCB / (1 - Tax Rate)
Limited Company	37.50%	16.80%
Individuals	25.00%	14%
Banks/FLs/Insurances	45.00%	10.5% since Tax exemption not allowed

Even if GOB changes the regulations there would be no retrospective effect on those ZCBs issued under Clause 40 of the amended Sixth Schedule of Income Tax Ordinance No. XXXVI of 1984 published on Bangladesh Gazette dated June 30, 2008. This Product is a win-win situation for both the investor and the issuer. Because net return is guaranteed for the investors and on the other hand the issuer also gets fund in a competitive rate.

## 6. Strong sponsors and management team

ACI is one of the emerging corporate houses in the country. They have a sound management structure with a proven track record. Annual turnover of ACI Limited in the year 2008 was BDT 7,365 million.

## SCENARIO ANALYSIS OF INVESTING IN ACI ZCB

## SCENARIO: 1- Return without conversion

If the market price of the ACI stock is equal or less than the strike price, investors won't exercise the convertibility option. In that case, the return from investment will be as follows:

ZCB Maturity	Issue Price/Unit	Face Value/Unit	Redemption Income	Return
1 year	905	1,000	95	10.50%
2 year	819	1,000	181	10.50%
3 year	741	1,000	259	10.51%
4 year	671	1,000	329	10.49%
5 year	607	1,000	393	10.50%
Total	3,743	5,000	1,257	10.50%

In the above example, we have assumed that an investor will invest in single lot of ACI Convertible ZCB and he/she won't exercise the convertibility option in that case the investors holding period yield will be equal to the ZCB's yield to maturity.

## SCENARIO: 2- Return with conversion

The bond has a convertibility option which is very much in the discretion of the potential investors. The investor will exercise the convertibility option if the conversion strike price is lower than the prevailing market price of Ordinary Share of ACI Limited during the conversion date.

Based on the expected share price, assuming that the investors will exercise the convertibility option the expected return would be as follows:

Year	Issue Price/Unit	Face Value/Unit	Redemption Income	Return
1	905	1,000	95	10.50%
2	819	1,000	181	10.50%
3	741	1,000	259	10.51%
4	671	1,000	329	10.49%
5	607	1,000	393	10.50%
Total	3,743	5,000	1,257	10.50%

## FINANCIAL STATEMENTS IN ACCORDANCE WITH SECTION 135 OF THE COMPANIES ACT, 1994

The statement of assets and liabilities of the company are as under:

Particulars	2008	2007	2006	2005	2004
<b>Property and assets</b>					
Fixed assets	1,122,833,227	859,414,939	694,319,626	743,466,107	680,835,067
Capital work-in-progress	135,998,300	213,870,224	27,004,294	12,990,851	60,138,205
Investments	670,267,741	536,629,241	438,814,241	380,781,241	295,381,241
Current assets	4,986,884,853	3,120,888,791	1,755,046,647	1,536,955,964	1,342,353,580
<b>Total property and assets</b>	<b>6,915,104,121</b>	<b>4,730,813,195</b>	<b>2,915,188,811</b>	<b>2,674,494,145</b>	<b>2,378,609,093</b>
<b>Liability and capital</b>					
Share capital	161,700,000	161,700,000	161,700,000	161,700,000	161,700,000
Reserve and surplus	1,792,933,500	843,312,229	562,349,437	494,212,795	449,784,462
Share premium	250,022,474	250,022,474	250,022,474	250,022,474	250,022,474
<b>Shareholders' equity</b>	<b>2,204,655,974</b>	<b>1,255,034,703</b>	<b>974,071,911</b>	<b>905,935,269</b>	<b>861,506,936</b>
Long term liabilities	3,096,663,853	3,423,218,818	2,000,078,466	244,355,147	356,247,707
Current liabilities	4,400,794,166	3,133,547,474	1,741,038,501	1,524,203,729	1,160,955,430
<b>Total liabilities &amp; shareholders' equity</b>	<b>6,915,104,121</b>	<b>4,730,813,195</b>	<b>2,915,188,811</b>	<b>2,674,494,145</b>	<b>2,378,609,093</b>
<b>B. Statement of operating result of the company is as follows:</b>					
Revenue	7,365,103,541	4,917,304,331	3,515,862,372	3,088,714,707	2,557,772,237
Cost of sales	(5,087,311,224)	(3,250,711,677)	(2,379,975,816)	(2,131,538,267)	(1,817,394,259)
Gross profit	2,277,792,317	1,666,592,654	1,135,886,556	957,176,440	740,377,978
Administrative, selling and distribution expenses	(1,679,967,083)	(1,240,354,781)	(884,474,379)	(726,132,328)	(540,425,340)
Net profit before tax	647,825,234	426,237,873	291,412,177	231,044,112	199,952,638
Other income (Non-operating)	58,209,036	22,346,716	35,345,860	30,326,861	42,043,347
Profit from sale of shares	779,634,140	118,818,000	326,758,237	261,370,973	241,995,985
Financial costs	(280,811,155)	(119,087,159)	(81,555,964)	(83,396,930)	(83,164,270)
Profit before contribution to WPP	1,204,856,755	449,305,430	245,202,273	177,974,037	148,831,715
Provision for contribution to WPP	(21,261,132)	(22,729,566)	(12,260,106)	(8,999,722)	(2,451,586)
Profit before tax	1,183,595,623	426,575,864	232,942,167	168,974,315	146,380,129
Tax expense	(107,828,740)	(118,807,480)	(79,116,544)	(56,864,522)	(51,873,927)
Net profit after tax	1,075,766,883	307,768,384	153,825,623	112,109,793	89,516,202

## KEY FINANCIAL RATIOS

Particulars	2008	2007	2006	2005	2004
<b>A. Liquidity ratio:</b>					
Current ratio	1.13	1.00	1.01	1.01	1.16
Quick ratio	0.66	0.65	0.58	0.55	0.55
Time Interest earned ratio	5.29	4.77	4.01	3.13	2.60
Debt to equity ratio	2.14	2.77	1.99	1.95	1.76
<b>B. Operating ratio:</b>					
Accounts receivable turnover ratio	6.18	7.51	9.54	10.55	12.04
Inventory turnover ratio	3.20	3.56	3.25	3.02	2.42
Asset turnover ratio	1.26	1.29	1.26	1.22	1.16
<b>C. Profitability ratio:</b>					
Gross profit ratio	31%	34%	33%	31%	29%
Operating profit ratio	10%	9%	9%	8%	8%
Net profit ratio	15%	16%	14%	14%	13%
Return on asset ratio (excluding capital gain)	13%	12%	12%	10%	11%
Return on asset ratio (including capital gain)	26%	15%	12%	10%	11%
Return on equity ratio (excluding capital gain)	23%	20%	16%	13%	12%
Return on equity ratio (including capital gain)	62%	28%	16%	13%	12%
Earnings per share (EPS) in Taka	66.52	19.03	9.51	6.94	5.54

## DIRECTORS INVOLVEMENT WITH OTHER LISTED COMPANIES AS DIRECTORS

Sl No.	Name	Involvement with other listed Companies as Director
01	Mr. M. Anis Ud Dowla	ACI Formulations Limited, Pioneer Insurance Co. Ltd.
02	Dr. Arif Dowla	ACI Formulations Limited, Pioneer Insurance Co. Ltd., Mutual Trust Bank Ltd.
03	Mr. Syed Manzur Elahi	Apex Tannery Limited, Apex Adelski Footwear Ltd., Pioneer Insurance Co. Ltd., Mutual Trust Bank Ltd.
04	Ms. Najma Dowla	ACI Formulations Limited
05	Mr. Waliur Rahman Bhuiyan, OBE	BOC Bangladesh Limited
06	Ms. Shumita Anis Salam	ACI Formulations Limited
07	Mr. Wazed Salam	ACI Formulations Limited
08	Ms. Sheema Abed Rahman	ACI Formulations Limited
09	Mr. Md. Humayun Kabir	BOC Bangladesh Limited, Apex Tannery Limited, Heidelberg Cement Bangladesh Limited, Glaxo SmithKline Bangladesh Limited, Renata Limited, Bangladesh Shipra Rin Sangstha, Standard Bank Limited, British American Tobacco Bangladesh Limited, National Tea Company Limited, Aramit Group

## SHORT DESCRIPTION OF THE DIRECTORS

**Mr. M. Anis Ud Dowla:** Mr. Dowla, the Chairman of ACI Limited, is one of the most eminent business personalities in Bangladesh. He has maintained a high profile and has provided leadership to business community in different capacities. Mr. Dowla served in the British Oxygen Group of UK in Pakistan, Bangladesh and Kenya for 27 years, including 12 years as Managing Director of Bangladesh Oxygen Limited. In 1987, he became the Group Managing Director of ICI Bangladesh Limited.

With experience gathered while working with British Multi-nationals for over 32 years, Mr. Dowla has continued to maintain the multinational culture and management style in ACI, with special emphasis on quality, productivity and customer services.

Mr. Dowla was the President of Metropolitan Chamber of Commerce & Industry for three terms in 1975, 1976 & 1977 and the President of Bangladesh Employees Federation for four terms in 1976, 1977, 1994 and 1995.

Mr. M. Anis Dowla was exposed to lots of international training programme.

**Ms. Najma Dowla:** Ms. Najma Dowla joined ACI Limited as Director on 6 January 1996. She is also Director of Consolidated Chemicals Limited, ACI Salt Limited, Stochastic Logic Limited, Premieria Plastics Limited, ACI Pure Food Limited, ACI Foods Limited, ACI Motors Limited, Creative Communication Limited and Apex Leather Craft Limited. She is the wife of Mr. M. Anis Ud Dowla.

**Dr. Arif Dowla:** Dr. Arif Dowla took over the charge of Managing Director of ACI Limited in June 2005. Previously, he was the Deputy Managing Director of the same company. He is also the Vice Chairman of Mutual Trust Bank and Board member of Pioneer Insurance Limited. He obtained PhD degree in Mathematics from the University of California, San Diego. He is also a member of the American Mathematical Society. His doctoral dissertation was on non-stationary stochastic processes, which is a field of study related to probability theory and statistics.

Dr. Dowla was exposed to lots of international training program. He is the son of Mr. M. Anis Ud Dowla.

**Ms. Shumita Anis Salam:** Ms. Salam is a Graphic Designer in profession and settled in U.S.A. She was inducted as Director in ACI Limited in the year 2000. She is the daughter of Mr. M. Anis Ud Dowla.

**Mr. Wazed Salam:** Mr. Salam is engaged in real estate business in USA. He was inducted as Director in ACI Limited in the year 2001. He is the son-in-law of Mr. M. Anis Ud Dowla.

**Mr. Syed Manzur Elahi:** Mr. Elahi joined ACI Limited as director on May 24, 1997. He was the founder Chairman of Mutual Trust Bank Limited. He has made significant contribution in various industrial & business enterprises including banking. He completed his M.A. in Economics from University of Dhaka. Mr. Elahi is the Chairman of Bangladesh Association of Banks, Vice Chairman, Bangladesh Association of Publicly Listed Companies and Director of ACI Limited.

He was appointed as Advisor to the Caretaker Government of Bangladesh twice for his leadership qualities and professionalism. He is the founder Chairman of Apex Tannery Group, Pioneer Insurance Co. Limited, Grey Advertising (Bangladesh) Ltd., President of East West University and Director of International Chamber of Commerce, International Publications Ltd. He was the director of Bangladesh Bank, Sonali Bank Limited, Bangladesh Krishi Bank Limited, Export Promotion Bureau and Metropolitan Chamber of Commerce & Industry. Besides being an eminent industrialist and businessman, Mr. Elahi is the Honorary Counselor of the Republic of Belgium in Bangladesh. A widely traveled man in connection with business and industrial establishments Mr. Elahi was awarded "Business Executive of the year 2000" by the American Chamber of Commerce in Bangladesh and later "Business Person of the Year" award sponsored by DHL and The Daily Star.

**Ms. Sheema Abed Rahman:** Mrs. Rahman joined the company in the year 1987. Prior to joining ACI, she worked for British American Tobacco Bangladesh (BAT) for 14 years. During the 35 years of service, her major contribution is in Human Resource Management. She has done her Bachelor of Arts from Dhaka University with Post Graduation in Human Resource Management. She is also a fellow member of the Institute of Chartered Secretaries and Managers of Bangladesh. She was inducted in the Board as a Director in the year 2001.