

# United International University

## **Project Report**

On

Valuation of Square Pharmaceuticals Limited

### **Prepared For**

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Date: 26-06-2019



## **Latter Of Transmittal**

26<sup>th</sup> June, 2019

Mohammad Musa

Professor

School of Business and Economics

United International University

Dear Sir,

I am Nusrat Yeasmin. I would like to submit my project report titled “Valuation of Square Pharmaceuticals Limited” which has been prepared as a requirement for the completion of the BBA program of United International University.

While working on the report, I have tried to follow each and every guideline that you have advised. I have tried my best to prepare an effective and creditable report. It has been very instructive experience to work in this project.

If you kindly grant my project report, I would very grateful to you.

Sincerely,

Nusrat Yeasmin

ID: 111 142 146



## **Acknowledgement**

I would like to thank my project supervisor, Professor Mohammad Musa who has helped me in every step of my project work. I also want to thank him for his support and patient and I appreciate the opportunity provided by him through assigning me to work such as thoughtful project. I am really thankful to him. Without his direct guidelines the report could not be possible. A very dynamic personality, Professor Mohammad Musa constantly inspired me all the time to develop my career and share his knowledge. I will remain ever grateful to my supervisor, Professor Mohammad Musa for his relentless support and effort.



## Declaration

I am Nusrat Yeasmin, a student of School of Business and Economics (major: Finance), United International University. I hereby declare that the project report on “Valuation of Square Pharmaceuticals Limited” is an original work and has not been previously submitted for any degree, diploma, title, or recognition.

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## Executive Summary

The main aim of this report is to know broadly about how to do the valuation of a company and to evaluate the intrinsic value of a company or firm.

In this report, at first, the background or origin of the report, the objectives of the report, methodology, and the limitation during preparing the report are given. Then, the overall pharmaceutical industry's situation in Bangladesh as well as the regulatory authorities of pharmaceuticals industry in Bangladesh is presented as the report is on the 'Valuation of Square Pharmaceuticals Limited.'

After that, a brief overview about Square Pharmaceuticals as well as its mission, vision, objectives, Products mix, sister concern of SPL, corporate social responsibilities and the exporting countries of Square Pharmaceuticals Limited is given. Then, approaches of business valuation of a firm, and the methods that are used to value a firm have been discussed broadly. Finally, several findings and summary are given.



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***Chapter One: Introduction***



## **1.1 Origin of the Report:**

This report is prepared to enrich the knowledge on “The Valuation of the SQUARE Pharmaceuticals Limited of Bangladesh”. It is required to complete the BBA program.

The report is accomplished by the supervision of Mohammad Musa, Ph. D, and Professor of United International University.

## **1.2 Objectives of the Report:**

The main objective of the study is to learn how to prepare a report and how to evaluate a company. My respectable professor assign me this report so that I can improve my performance, effectiveness, and competence in the labor market and can illuminate the goodwill of the university and the teacher.

Others objectives of preparing this report are:

- ✚ Complete the academic requirements
- ✚ Learn about the economy and industrial scenario of Pharmaceutical Industry in Bangladesh.
- ✚ Know in details of Square Pharmaceuticals Ltd.
- ✚ Analyze the financial scenario of SPL
- ✚ Evaluate their financial statements and do the valuation of the company
- ✚ Analysis the strength, weakness, opportunity, and threat of SPL.

## **1.3 Methodology of the Report:**

For the purpose of the valuation of SQUARE Pharmaceutical Limited, I used the information from the secondary sources.



## Secondary Sources:

Secondary sources of information include the following:

- + Annual Reports
- + Publications such as, textbooks and news items, etc.
- + Websites
- + Textbooks
- + Articles

## 1.4 Limitation of the study:

In the way of my study, I faced some problems that are mentioned as the impediments to the analysis process. The following are some of the limitations/shortcomings of my study:

- + **Confidentiality of information:** Because of divisional and private issues, I have not been able to obtain sufficient data. Each association has its own privacy that is not disclosed to other people.
- + **Insufficient information:** There is a lack of data on the distinctive techniques of costs connected by various organizations and also on the size of the cost applications. The books distributed lacking important for the point and the lack of accessibility of reality and the figure have had an effect. These obligations limit the scope of the exact investigation.



***Chapter Two: Pharmaceutical Industry in Bangladesh***



## 2.1 Industry Analysis:

Pharmaceutical industry is raising at very amazing rate and contributing to the nationwide economy. The current enterprise measurement with potential international requirements and can emerge as principle revenue producing quarter of the country. Bangladesh is self-sufficient in assembly of local pharmaceutical demand. Bangladesh earned \$82.11 million with the aid of exporting pharmaceutical product. This is a magnificent sign of improvement.

Bangladesh local market of pharmaceutical product is growing over the past few years and currently the market stood at BDT 142 billion. The demand for good quality remedy growing and it is anticipating the nearby market will attain BDT a hundred and sixty billion in 2018. (Pharmaceutical sector overview, EBL securities Ltd.)

Bangladesh pharmaceutical companies provide general product and in a position to top class for its products. Top 10 organizations such as BEXIMCO, SQUARE Pharmaceutical Ltd. INCEPTA PHARMA, OPSONIN PHARMA, RENATA, ACI, ARISTOPHARMA etc. keep about 70% of market share. It is exceedingly complex to enter into this enterprise because of large funding requirements. Square pharmaceutical is the market chief having 21.15% market share observed Incepta, Beximco, Opsonin and Renata. (Pharmaceutical Sector Overview, EBL securities Ltd.)

Bangladesh pharmaceutical company's exports are increasing over the time. According to some reports, current export of pharmaceutical product is \$82.11 million which is 13.04% greater than the previous period. Bangladesh exports pharmaceutical products to hundred and five countries. Myanmar imports the best possible volume of drug treatments worth \$13.60 million accompanied by using Sri Lanka with \$13.38 million, the Philippines with \$6.10 million, Vietnam \$5.32 million, Kenya \$4.60 million, Afghanistan \$4.18 million, Slovenia \$3.38 million. Bangladesh pharmaceutical export will go \$1 billion landmark inside in 2018. (Pharmaceutical sector overview, EBL securities Ltd.)



## 2.2 Regulatory Authorities:

Generally two organizations, one government (Directorate of Drug Administration) and one semi- government (Pharmacy Council of Bangladesh), control the pharmacy practice in Bangladesh.

The Bangladesh Pharmaceutical Society is affiliated with international organizations such as International Pharmaceutical Foundation and Commonwealth Pharmaceutical Association. Companies of the regulatory authorities are:

### **Companies:**

- Advance Chemical Industries (ACI) Ltd.
- Adco Pharmaceutical & Chemical Ltd.
- Aristopharma Ltd.
- Beacon Pharmaceutical Ltd.
- Beximco Pharma
- Bristol Pharma
- Delta Pharma Limited
- Eskayef Bangladesh Ltd.
- Gaco Pharmaceutical Ltd.
- The ACME Laboratories Ltd.
- Axim Pharmaceutical Ltd.
- Al-Madine Pharmaceutical Ltd.
- Albert Devid (BD) Ltd.
- Healthcare Pharmaceutical Ltd.
- IBN Sina
- Jayson Pharmaceutical Ltd.
- Incepta Pharmaceuticals
- Monico Pharma Ltd. Bangladesh



- GlaxoSmithKline Bangladesh Ltd.
- Globe Pharmaceutical Ltd.
- Orion Pharma Ltd.
- Paradise Chemical Ltd
- Renata Limited
- Syntho Laboratories Ltd.
- Silva Pharmaceutical Ltd.
- Novo Healthcare and Pharma Ltd.
- Opsonin Pharma Ltd.
- Square Pharmaceuticals
- Supreme Pharmaceutical Ltd.
- Sonear Laboratories Ltd.
- UniMed & UniHealth Pharma Ltd.
- Zenith Pharmaceuticals Ltd.



**Chapter Three: Overview of SQUARE Pharmaceuticals  
Limited.**



### 3.1 About SQUARE Pharmaceutical Ltd.:

Square Pharmaceuticals Limited is the largest pharmaceutical corporation in the country, is confided with the identity in the pharmaceuticals division of Bangladesh. Like most indigenous challenge it made its presentation submissively in 1958 as a partnership firm under the authority of Late Samson H Chowdhury. The subsequent year, 12 working individuals, convoluted floor space 3,000 square feet , first era EASTON'S syrup made a turnover of taka 55,000.

In 1964, partnership firm changed over into a Private Limited Company. Based on the factor in 1991, Square Pharmaceuticals changed over into a Public Limited Company and flip out to be Publicly Listed Company in 1995.

Square today symbolize a name- a perspective. From the commencement in 1958, it has today expand intone of the quality line aggregates in Bangladesh. SQUARE Pharma, the chief organization, is protecting the solid initiative role in the pharmaceutical industry in Bangladesh in view that 1958.

The scope of administration has broadened towered the roadway of international market. It spearheaded fares of meds from Bangladesh in 1987 and has been sending out anti-infection marketers and different pharmaceuticals items. This augmentation in business and administration has confirmed the believability of square Pharma. SQUARE Pharma is to accentuate on the nature of items, method and administrations prompting boost of the corporation introduced down with wonderful administration rehearses.

#### **Location:**

SQUARE Center

48, Mohakhali, C/A

Dhaka 1212, Bangladesh.



## **3.2 Founder Chairmen:**

Samson H Chowdhury

Founder Chairmen

1926-2012



## **3.3 Mission, Vision, Objective of SPL:**

### **3.3.1 Mission Statement:**

Mission is to produce and supply high-quality and progressive healthcare alleviation for people, stringently hold the moral standard in the business operation additionally ensure the advantage to the shareholders, stakeholders, and the society at large.

### **3.3.2 Vision Statement:**

View business as a capacity to the material and social well-being of the investors, personnel and the society at large, main to accretion of wealth thru economic and ethical features as a phase of the method of the human civilization.

### **3.3.3 Objective:**

To operate business operation primarily based on market mechanism inside the legal and social framework with aims to gain the mission reflected by means of the vision.



### 3.4 History and Growth:

Year	History and Growth
1958	Debut of Square Pharmaceuticals as a partnership firm.
1964	SPL converted into a Private Limited Company.
1974	Contract of technical collaboration with Janseen Pharmaceuticals, Belgium, a subsidiary of Johnson & Johnson Intl, USA.
1985	SPL achieved market leadership in the pharmaceuticals market in Bangladesh among all the national and multinational companies.
1987	Become the pioneer in Pharmaceutical export from Bangladesh.
1991	SPL started its journey as a Public Limited Company.
1994	Square Pharmaceuticals offers the Initial public offering (IPO) shares.
1995	SPL's Chemical Division starts production of pharmaceutical bulk products (API)
1997	SQUARE Pharmaceuticals won the National Export Trophy for exporting pharmaceuticals.
2001	Under the supervision of Bovis Land Lease, UK, UK FDA/ UK MHRA started new pharmaceutical factory goes into operation.



2002	SQUARE Pharmaceuticals registered as UNICEF’s global supplier.
2005	Commencement of Square Herbal and Nutraceuticals Ltd.
2007	Dhaka unit of Square Pharmaceuticals Ltd. gets the UK MHRA endorsement.
2009	SPL started the production of insulin, hormone, and steroid products upholding value standard of US FDA, MHRA in devoted manufacturing
2013	SPL’s founder Samson H Chowdhury “Center of Excellence” Starts its journey.
2014	Square Pharmaceutical’s Liquid Formulation unit in pana site gets PIC/S (Pharmaceutical Inspection of Co-operation Scheme) approval.
2015	Square Pharmaceuticals acquires the authorization of USFDA.
2016	Sloid dosage and Metered Inhaler unit of Dhaka site acquire MCC (Medicine Control Council), South Africa and PIC/S authorization.
2017	SPL achieved the National Environment Award, Received GMP certification from MOH Azerbaijan.
2018	Received authorization ANDA of Valsartan of US market, Received GMP approval of manufacturing facilities from NPRA, Malaysia. Won National Export Trophy (Gold), Won ICMABAward.



### 3.5 Product Mix:

SQUARE Pharmaceuticals Ltd has latest developments for creation of wide assortments of its products consisting of Tablet, Sustained release detailing, capsule, metered dose inhaler (MDI), injectable, syrup (fluid and dry), suspension (fluid and dry), pediatric drops, nasal and ophthalmic definitions, topical gel/ointment/ cream, and oral consideration plans.

Current product mixture of SQUARE Pharmaceuticals Ltd. contained items from the accompanying varieties of Drug Delivery System:

#### **Tablets**

- Non-coated (Vaginal, Dispersible, Chewable, Plain)
- Coated (Sugar Coated, Film Coated, Enteric Coated)
- Sustained released ( coated/non-coated)

#### **Capsules**

#### **Injectable**

- Vials containing dry powder for injections
- Small volume parenteral

#### **Liquids**

- Oral (suspension, syrup, drops, and stemmatological)
- Topical solution
- Nasal drops

#### **Dry powders**

- Oral (for reconstitution to make suspension, syrup, and drops)
- Topical

 Semisolid (cream, ointment, gel), solid suppository formulations, Metered dose Inhalers (MDIs), Dry Powder Inhalers (DPIs), Sterile Ophthalmic Formulation (drops) etc.



### 3.6 Sister Concern:

- ✚ SQUARE Hospitals Ltd.
- ✚ SQUARE Fashions Limited
- ✚ SQUARE Herbal and Nutraceuticals Ltd.
- ✚ Maasranga Communication Ltd.
- ✚ SQUARE Toiletries Ltd.
- ✚ Mediacom Limited.
- ✚ SQUARE Food & Beverage Ltd.
- ✚ Sabazpur Tea Company Limited
- ✚ SQUARE Informatix Ltd.
- ✚ Aegis Service Ltd.
- ✚ Square Collage of Nursing
- ✚ SQUARE Textile Limited
- ✚ Astras Limited
- ✚ SQUARE Yarn Limited
- ✚ SQUARE Air Limited

### 3.7 Corporate Social Responsibility:

Corporate Social Responsibility (CSR) is about doing business with morality, maintain ethical structure and duty to add financial advancement whilst bettering the private satisfaction of the workforce and their households simply as of the nearby network and society on the loose.

The business motivation is being good by the way of doing well and to direct straightforward business activities by depending on the market aspects such as lawful, ethical, social system to achieve the mission which is reflected by the vision. They scale-up the exercise of corporate social responsibility considering the interest of the inside and outside partners such as clients, workers, merchants, investors, society, and government. Square Pharmaceuticals is one of the pioneer signatories of United Nation Global Compact (UNGC) in Bangladesh.



SQUARE believe that dynamic work policies are exceptional enterprise rehearses, mainly for an organization like SPL that has international desire. Following the legal guidelines and support work that offers decent principle and furthermore pursue non-segregation and realistic management strategy in the deployment and choice procedure and execution the broad framework. SPL have Trade Union and their HR arrangements have been relentlessly up to date according to present work law of the nation. They don't allow any female employees amid night time move activities and they entirely disallow any kind of constrained work.

Truthfulness and business ethics is the guiding principle of SQUARE and it is completely perused at every development of business procedures. SQUARE pharmaceuticals displayed its every business in a way that authorizes the administration to ensure best astounding level of money related as well as social responsibility.

Various actions by the Square Pharmaceuticals Limited goes well during the past circle of the business. SPL established as a socially acquainted and successful corporate organization and focus on the enrichment of the general public overall. The famous show 'Meril-Prothom Alo celebration has turned into a national schedule occasion which is sponsored by SQUARE Pharmaceuticals Limited. SPL helps many NGO's in order to help the hassled populace of the nation. It supports initiatives to gather mindfulness on the human service require. Square Pharmaceuticals is moreover a remarkable backer of wearing occasions in the country.



### 3.8 Exporting Countries:

SQUARE Pharmaceuticals Limited has own the broad market position in the international market. Exporting countries of the company are:

<b>Asia</b>	Afghanistan, Azerbaijan, Bhutan, Cambodia, Georgia, Hong Kong, Iraq, Laos, Macau, Malaysia, Maldives, Nepal, Philippines, Singapore, Sri Lanka, Tajikistan, Vietnam, Yemen.
<b>Africa</b>	Cameroon, Eritrea, Ivory, Coast, Kenya, Libya, Mauritania, Mauritius, Mozambique, Nigeria, Somalia, Sudan, Tanzania, Uganda.
<b>Oceania</b>	Fiji, Papua, Papua New Guinea.
<b>Central &amp; South America</b>	Belize, Costa Rica, Jamaica, Nicaragua, Panama, Suriname.
<b>Europe</b>	UK (Contract Manufacturing)

Square Pharmaceuticals have some best part of their export procedure. The parts are:

- SPL exports their pharmaceuticals finished product since 1995
- They offer superior product at a competitive price
- SPL offers more than 250 off-patent and on-patent molecules
- They provide amenities for contract manufacturing
- More importantly SPL provide support in product advancement and training in foreign market



**Chapter Four: Valuation of SQUARE Pharmaceuticals  
Limited.**



## **4.1 Business Valuation:**

Business valuation is a set of strategies and technique used to evaluate the financial position of a business. The business valuation is utilized through the financial market individuals to determine the cost they are prepared to pay or get to influence a closeout of a business. A comparable valuation procedures are regularly utilized by means of business evaluators, through assessing the moving value of a business. It is done to determine the controversy which is associated with estate and gift taxation, distribution of business acquisition price among business resources, divorce proceedings, formulate an equation to evaluate the value of the business partners ownership interest for buy sell covenant, and numerous different business and lawful process, etc. some of the cases, the court would appoint a forensic accountant who is expert of doing or measuring the valuation procedures.

## **4.2 Approaches of Valuation:**

There are most common three approaches which are used to determine the fair market value of a firm or business. The three approaches are:

- I. Market Approach of Valuation
- II. Income Approach of Valuation and
- III. Asset Based Approach of Valuation.

### **4.2.1 Market approach of valuation:**

Market approach of valuation is a technique to determine the estimated value of an asset by depending on the selling price of similar items or asset. This valuation approach can be used for the calculation of the value of a property or as a part of the valuation procedure for a nearby business. To determine of an interest, property, or intangible asset that is owned by a company or firm, can use the market approach of valuation. Regardless of the value being assessed, the



market approach studies recent sales of similar assets, making adjustments for differences in size, quantity or quality.

Multiple Analysis or Method of Comparable is the most common method which is used in the market base approach of valuation.

#### **4.2.2 Income Approach of Valuation:**

Income Approach of Valuation described that the value of a company or a firm is depend on the expected economic or financial benefit and the level of risk associated with the investment of the firm. Dividing the flow of benefits generated by the target company by a discount or capitalization rate, Income Based Valuation approach determine the fair market value of the firm. The discount or capitalization rate is used to convert free cash flow or benefit of a firm to present value.

Different income methods are used to determine the value of a firm. The most common methods are Discounted Cash Flow (DCF) method, Capitalization of Earning Cash Flows, and the Excess earning method.

#### **4.2.3 Asset-Based Approach of Valuation:**

Asset-based approach of valuation is the value of a company through the identification and sum of the value of its assets. By deducting the value of the debt from the value of the equity, the net asset value is calculated. To company valuation, the asset-based approach of valuation is reported in the books of the company in question at its acquisition value, net of depreciation, where applicable. Whenever possible these values should be adjusted to fair market value.

The asset-based valuation assessment attempts to repeat the financial statements by obtaining the current market value of the assets and the liabilities which is indicated in the financial statements. It's identifies the omitted asset and assigns a market value.



### 4.3 Methods of the Business Valuation:

In the corporate landscape business valuation has become an intrinsic part. As mergers and acquisitions, corporate restructuring and share repurchase have taken place in record numbers both in United State and abroad, the business landscape has been seen to change dynamically. For this, the concept of the evaluation become the heart of dynamics of all these activities. Evaluation methods are necessary for both of the accounting purpose and serve as the road maps for angle investors, venture capitalists and corporate acquires in order to know the true value of a company's assets.

There are various methods used in different valuation approaches like income approach, market approach etc. Broadly used methods for valuation of company which are used in this report are given below:

#### **1. The Method of Comparable:**

The method of comparable is a business analysis technique or process used for measuring the value of the company using the matrices of other companies. The companies that have similarity in size in the same sector.

#### **2. Price Earning Multiple Valuation:**

With this approach, the current value of the company is measured by using the price multiple of other companies that are probably comparable.

#### **3. Discounted Cash Flow (DCF) Model:**

Discounted Cash Flow model uses the free cash flows of a company and discount them using the cost of capital to get the present value of the cash flows. These cash flows are used to assess the value of the company or an investment potential through the summation of these discounted cash flows and compared it to the investment.



### 4.3.1 The Method of Comparable:

The method of Comparable or Multiple Comparison is the method that is used as a market approach of valuation of a firm. It is also known as ‘trading multiples’ or ‘peer group analysis’ or ‘equity comps’ or ‘public market multiples’. The method of comparable is a qualified valuation method in which the current value of business is compared to the other businesses by considering trading multiples such as P/E, P/R, EV/EBITDA, or other ratios.

The Comps valuation method provide an observable value for the business, based on what companies are currently worth. The method of comparable is the most widely used approach, as it is easy to calculate and always current.

For the valuation of SQUARE Pharmaceuticals Limited using the Method of Comparable need to follow several steps. The steps of the comparable method works as follows:

- First, find the comparable firms which are similar or competitive to the target firm (SQUARE Pharmaceuticals Ltd) whose value is going to be estimated.
- From the financial statements of the comparable firms, identify the measures such as earnings or net income, book value, sales or revenue, cash flow etc. and calculate the multiple of these measures to calculate the value of the target firm.
- After that, measure the median or average of the multiples to the corresponding measures for the target firm to get the firms value.

#### 4.3.1.1 Assumptions:

- It is assumed that, the comparable companies are similar to the target firm. The comparable companies are similar in size and resources as well as competitiveness to the target firm of similar industry.
- The analysis of the comparable companies runs on the assumption that similar companies will have similar valuation multiples.



### 4.3.1.2 Implementation of the Model:

#### Step 1: Identification of the comparable firms:

The target firm is Square Pharmaceuticals Ltd and as comparable firms I choose Beximco Pharma Limited and ACI Pharmaceuticals Limited. These firms have been chosen because of its competitiveness and similarity to the target firm.

#### Step 2: Identify measures of the comparable firm:

In this step, the measures such as Sales or Revenue, earnings or net income, book value, and market value are identified from the financial statements of Beximco Pharma Ltd and ACI Pharmaceuticals Ltd. These measures are used to calculate multipliers such as price to sales ratio, price to earnings ratio, price to book value ratios etc. These multiples of the comparable firms are used to estimate the value of Square Pharmaceuticals Limited.

**Table 1: Pricing Multiples for the comparable firms:**

**[Taka in Thousand]**

Company	Sales (Revenue)	Earnings (Comprehensive Income)	Book Value	Market Value, p	P/R	P/E	Price/ Book Value
Beximco	17,716,717	2,533,136	27,351,836.79	19,279,015	1.08818	7.61073	0.70485
ACI	56,123,321.1	575,017.25	11,020,393.74	15,440,809	0.27512	26.8527	1.40111
Square	45,886,959.3	11,201,901.74	57,816,566.83	203,271,986	-	-	-
Average of comparable					0.68165	17.2317	1.05298



### Step 3: Apply the average of the multiples to get the value of SPL:

After calculating the multiples from the measures of the comparable firms, have to apply the average or median of the multiples to the corresponding measures of the Square Pharmaceuticals Limited to get the value of the firm.

**Table 2: Applying comparable firms multiples:**

Multiples	Average of the multiples	Square Numbers	Square Value
P/R	0.6816525	45,886,959.3 (Revenue)	31,278,960.52
P/E	17.231753	11,201,901.74 (Earning or CI)	193,028,403.9
P/B	1.0529824	57,816,566.83 (Book Value)	60,879,831.46

Average value of Square Pharmaceuticals Ltd is = 95,062,398.63 [Taka in Thousand]

#### 4.3.1.3 Estimations:

- All the financial value or amount of Square Pharmaceuticals, ACI Limited, and Beximco Pharma are taken from the financial statements of 2017-2018.

- **Estimating Book Value, B:**

A firm's book value is the amount that the company worth after all the liabilities are paid back. It is calculated by subtracting the amount of total asset of the firm from the total amount of liabilities.



- **Estimating Market Value, P:**

Market value is the value according to the current market position. Market value of the firm is calculated by multiplying the current market price of the company by the total number of share outstanding.

- **Estimating P/E Multiples:**

Price Earnings multiples or P/E ratio is calculated by dividing the market price of the company by the earning (comprehensive income).

- **Estimating P/R Multiples:**

Price to Sales ratio or price to revenue ratio is calculated by dividing the company's market capitalization by the most recent sales revenue.

- **Estimating P/B Multiples:**

Price to Book Value ratio is calculated by dividing the market value of the company by the book value of the company.

#### **4.3.1.4 Benefits and Flaws of the Model:**

Method of Comparable method have some benefit and flaws that are identified in the process of valuation of the company.

##### **Benefit of the Method of Comparable:**

- Easy to calculate
- Less input is needed

##### **Flaws of the Method of Comparable:**

- As all the companies are not same, the identification of comparable is quite difficult.
- Provide different valuation.
- In case of negative denomination, a particular ratio cannot give proper value.



### 4.3.2 Discounted Cash Flow Model (DCF):

Discounted cash flow model is one of the most popular financial model that evaluates the value of a company by forecasting the expected cash flows of the company and discounting the future cash flows to arrive at a present value. This estimate of the present value of the future cash flows are used to justify a potential investment. The sum of the present value of the future cash flows is the value of the company.

Discounted cash flow (DCF) model is one of the broadly used method of Income-based valuation approach. The DCF model estimate the intrinsic value of the company where the value is based on the company's ability to generate cash is used and it is often presented with respect to the market value of the company.

In DCF assessments, to calculate the net present value of the series of expected cash flows the discount rate is used which is often an estimate of the cost of capital of the company. The discount rate can also be considered as the required rate of return that investors expect to receive from the company.

The Discounted Cash Flow (DCF) model is equation form is given below:

$$V_t = \sum_{t=1}^{\infty} \frac{FCF_{t+1}}{(1+k)^{t+1}}$$

Where,

$V_t$  = Value of the firm at time, t

$FCF_t$  = Free cash flow of the firm at time, t

k = the discount rate



We can use certain assumption to make the model simple. For example, we assume that the future free cash flows of the company will remain same or in other words can assume a zero growth in future cash flow, then the value of the firm at time, t, will be:

$$V_t = \frac{FCF}{k}$$

In case of mature companies, this model will not be appropriate. Because the free cash flow of the mature companies will grow at a constant rate. For this situation, the constant growth model of Gordon growth model is appropriate to estimate the value of the firm. The Gordon growth model is:

$$V_t = \frac{FCF_t(1+k)}{k-g}$$

This is simple and most popular used model for valuation of a firm. Where, we just need to identify the constant growth rate. One important thing in this model is it can only be used if the constant growth rate of the firm is less than the discount rate. Which means the g cannot be greater than k.

For some firms, the constant growth model is not appropriate. Because some firms have faster growth in the beginning of their business and can maintainable for certain period of time. After certain period of time, the growth rate of the firm may reach to a constant rate. In this situation, the variable growth model or non-constant growth model can be used. The model in equation form is:

$$V_t = \sum_{t=1}^n \frac{FCF_{t+1}}{(1+k)^{t+1}} + \frac{FCF_n}{(1+k)^n} \frac{k-g}{k-g}$$

Where, n is the time period after which the company's free cash flow grows at a constant rate.



#### 4.3.2.1 Assumptions of the Model:

- It is assumed that the free cash flow of the company will grow at a constant rate as Square Pharmaceuticals Ltd. can be considered as a mature company.
- Cost of equity is considered as the appropriate discount rate.
- The cost of equity or the discount rate of the company will remain constant.
- The discount rate or the cost of equity is greater than the growth rate of the company.

#### 4.3.2.2 Implementation of the Model:

According to the assumptions, Constant Growth Model or Gordon Growth Model can be used for the purpose of valuing the company. The formula of Constant Growth model is:

$$V_t = \frac{FCF_t(1 + g)}{k - g}$$
$$= \frac{FCF_{t+1}}{k - g}$$

Where,

$V_t$  = Value of the firm at time, t

$FCF_{t+1}$  = Expected free cash flow

$k$  = Discount rate or cost of equity

$g$  = Constant expected growth in perpetuity

#### Calculation:

To calculate the value of the firm, need to know the free cash flow (FCF) of the firm at time, t, the discount rate or the cost of equity, and the constant growth rate. These can be measured by following several steps.



### **Step 1- Calculate the Free Cash Flow (FCF):**

Free cash flow is the amount that is generated by a company's business after accounting all the capital expenditure. The formula of the free cash flow can be written as:

$FCF = EBIT - Taxes + Depreciation \text{ and Amortization} - \text{change in fixed asset} - \text{change in net working capital (NWC)}$ .

Particulars	Amount [In taka]
EBIT	13,848,032,359
Less: Taxes	3,480,574,440
Add: Depreciation	16,088,734,266
Less: Change in Fixed Asset	3,476,243,067
Less: Change in net working capital	5,426,749,779
Free Cash Flow (FCF)	17,553,199,339

### **Step 2 - Estimate the growth rate:**

According the assumption, the free cash flow of the company will grow at a constant rate. Thus, the expected growth rate of the company will be constant. The growth rate of a company can be measured by estimating the growth rate from the net income of previous periods. On the other hand, the growth rate can also be calculated using the return on owner's equity and the retention rate. Thus, the formula of growth rate can be written as:

$$\text{Growth rate} = \text{ROE} * b$$

ROE is the return on owner's equity and b is the retention rate. Return on owner's equity is simply the return on the firm's entire equity. Retained rate is the proportion of the company's net income that kept back in the business to grow rater then paid it as dividend.



Now,

Return on Owner's Equity (ROE) = 0.1937 OR 19.37%

Retention Rate, b = 0.57

**Growth rate, g = b\* ROE**

$$= 0.57 * 0.1937$$

$$= 0.1104 \text{ or } 11.04\%$$

### **Step 3 - Estimate the discount rate, k:**

The discount rate or the cost of equity is the most significant attribute based on which the expected free cash flow is discounted. The discount rate can be measured using the risk free rate (RF) and the market risk premium (RP). The formula of the discount rate can be written as:

Cost of equity,  $k = RF + RP$

Now,

Risk free rate = 0.0774

Market risk premium = 0.1096

Cost of equity,  $k = 0.0774 + 0.1096$

$$= 0.1870$$

### **Step 4 – Value of the firm:**

Free cash flow (FCF) = 17,553,199,339 or 17,553.19934 million

Growth rate, g = 0.1104 or 11.04%

Cost of equity or discount rate,  $k = 0.1870$  or 18.70%



The model:

$$\begin{aligned}V_t &= \frac{FCF_t(1+g)}{k-g} \\ &= \frac{17,553.19934 (1+0.1104)}{0.1870-0.1104} \\ &= 254,452.6442 \text{ million or } 254,452,644,200 \text{ taka}\end{aligned}$$

Share Price,  $P_0 = 254,452,644,200 / 789,008,466$

= 322.49 taka

#### 4.3.2.3 Estimations:

- **Estimating the expected free cash flow :**

To estimate the expected free cash flow, at first, we need to calculate the free cash flow at time, t. How we can calculate the free cash flow at time, t, is already described. So, by multiplying the free cash flow by the 1 plus growth rate, we can estimate the expected free cash flow.

- **Estimating the changes in fixed asset:**

Changes in fixed asset is needed to identify the free cash flow of the company. Changes in fixed asset of Square Pharmaceuticals is the difference of the amount of fixed asset in 2018 from the amount of fixed asset in 2017.

- **Estimating the changes in net working capital (NWC):**

The changes in net working capital is used to measure the free cash flow of the company. The difference of the amount of net working capital in 2018 from the amount of net working capital in 2017 is the changes in net working capital at time, t. Where, the net working capital is calculated by subtracting the current assets from current liabilities.



- **Estimating Return on Owner's Equity (ROE):**

ROE measures the ability of the firm to generate profits by using the shareholders' investment in the company. For valuation purpose, returns on owner's equity is need to identify as it is used to measure the growth rate of the Square Pharmaceuticals Limited. ROE is calculated by dividing the company's comprehensive income by total equity.

- **Estimating Retention Rate, b:**

Retention ratio is the percentage of the net income that is keep back as retained earnings to grow the business, rather than being paid out as dividend. In other words, it is the amount remain after paying the dividends. The dividends paid in 2018 is 36% of cash dividend and 7% of stock dividend which is in total 43 taka. So, the retained amount will be 57 taka or 0.57 in percentage.

- **Estimating Growth Rate, g:**

The growth rate of the company is calculated by multiplying the retention ratio by the return on owner's equity. This estimate for the growth rate in earnings, g, is also the estimate for the growth rate in dividends under the common assumption that the ratio of dividends to earnings is held constant.

- **Cost of Equity, k:**

The cost of equity or the discount rate is measured using the risk free rate and the market risk premium. Treasury bond rate of Bangladesh is considered as the risk free rate. From the website of Census and Economic Information Center (CEIC), got the information of Bangladesh's 10 years Treasury bond rate where the Treasury bond rate in April 2019 was 7.74%. From the website of the Aswath Damodaran's equity risk premium by industry, got the market risk premium of Bangladesh which is 10.96%. Thus, the cost of equity will be 18.70 %.



### 4.3.3 Price Earning Multiple Valuation:

Price-Earnings ratio (P/E) is the price of the company's price of the shares in the public market divided by its earnings per share. This multiple is used by the investors to observe how expensive the share of the company's stock is.

Using the price-earnings multiple valuation, the value of a company can be measured by multiplying the average price-earnings ratio or P/E multiple of the comparable firms of the same industry by net income of the company whose value is in question. Another way to value the stock is multiplying the average P/E multiple of the industry by the earnings per share of the target company.

#### 4.3.3.1 Assumptions:

- Average of the price-earnings multiple of the comparable companies will be considered as the price-earnings multiple of the industry.
- 'Basic EPS of audited financial statements as per IFRS/IAS or BFRS/BAS of 2018' is the best measure for the price earnings multiple valuation purpose.
- Earnings of the comparable companies are stable over the period of time.

#### 4.3.3.2 Implementations of the Model:

Several steps need to follow for the valuation of the company using price-earnings multiple method. The steps are:

- Selection of a measure of performance or value as a basis for multiple calculations. Here, I take earnings per share (EPS) of Square Pharmaceuticals Limited.
- Use the measure of performance and estimate the price multiple for comparable companies of same industry. Here, I take some EPS from the companies that belongs to the pharmaceuticals and chemicals industry.
- Apply the average of the P/E multiple or P/E of the industry the measure the value of the company.

**Calculation:**

Price-Earnings Multiple of the Industry = 18.92

Earnings per share of Square Pharmaceuticals Ltd. = 15.72

Now,

Share Price,  $P_0 = 18.92 * 15.72$

= 297.42 [Taka]

**4.3.3.3 Estimation:**

- **P/E Multiple of the Industry:**

Price earnings multiple of the industry is measured using price earnings ratio of the comparable firms in the same industry. For the valuation of Square Pharmaceuticals Limited, I take the P/E ratio of several comparable firms such as Beximco Pharmaceuticals, ACI Limited, IBN SINA Pharmaceuticals Limited etc. from the pharmaceuticals & chemicals industry. After that, measure the average of the P/E multiples which is 18.92.



**Chapter 5: Findings and Conclusion**



## 5.1 Findings:

- ✦ From the very beginning, Square Pharmaceuticals Limited (SPL) capture the leading position in the pharmaceuticals in Bangladesh. Beside this, the pharmaceuticals industry in Bangladesh is estimated to grow at GEGR 15% over the next five years.
- ✦ As a market leader, SPL controls approximately 20% of the market share which is considered as a strong positive side in pharmaceutical industry.
- ✦ Square Pharmaceuticals established a 100% owned subsidiary in Kenya named Square Pharmaceuticals EPZ Kenya.
- ✦ SPL is now considered as the fastest growing pharmaceuticals company among the pharmaceuticals industry in Bangladesh. The growth rate of the net cash flow of the company is almost 12%.
- ✦ Square pharmaceuticals maintained an attractive price earning ration and it always focus on maximizing the shareholders' value. The earnings per share is 8.94% increase from the previous years.
- ✦ It is found from the valuation part that share price of Square Pharmaceutical's is undervalued.



## Conclusion

Square Pharmaceuticals Limited is the most renowned and fast growing company in Bangladesh. Their position in the international market is speeding and getting stronger day by day. The company has achieved a state of mind among consumers. Square Pharmaceuticals Limited always focus on to maximize the shareholder's wealth by maintaining an effective growth rate and maximizing equity value. They have the high growth rate against the market rate which is very much attractive for an investor. In the valuation portion of the report, it is found that the securities of Square Pharmaceuticals Limited is undervalued which means there is possibility of increasing the share price of Square Pharmaceuticals Limited. Thus, investors will considered Square Pharmaceutical Limited as an appropriate option for investment.



## *References:*

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[http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/ctryprem.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html)



## Appendix:

- SQUARE Pharmaceuticals:

### SQUARE PHARMACEUTICALS LTD.

and its subsidiaries

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended June 30, 2018

	Note	Amount in Taka	
		2017-2018	2016-2017
<b>GROSS REVENUE</b>	19.0	45,886,959,303	42,284,675,530
Less: Value Added Tax		6,233,127,665	5,741,535,424
<b>NET REVENUE</b>		<b>39,653,831,638</b>	<b>36,543,140,106</b>
Cost of Goods Sold	20.0	(20,089,819,913)	(18,274,858,914)
<b>GROSS PROFIT</b>		<b>19,564,011,725</b>	<b>18,268,281,192</b>
<b>OPERATING EXPENSES:</b>		<b>(6,783,069,126)</b>	<b>(5,972,216,599)</b>
Selling & Distribution Expenses	21.0	(5,751,408,276)	(5,056,851,926)
Administrative Expenses	22.0	(1,031,567,251)	(915,210,284)
Finance Cost	23.0	(93,599)	(154,389)
<b>PROFIT FROM OPERATIONS</b>		<b>12,780,942,599</b>	<b>12,296,064,593</b>
Other Income	24.0	1,768,094,011	1,093,575,634
<b>PROFIT BEFORE WPPF</b>		<b>14,549,036,610</b>	<b>13,389,640,227</b>
Allocation for WPPF	25.0	(701,097,850)	(646,577,651)
<b>PROFIT BEFORE TAX</b>		<b>13,847,938,760</b>	<b>12,743,062,576</b>
Income Tax Expenses-Current	26.0	(3,255,148,172)	(2,949,150,787)
Income Tax Expenses-Deferred		(101,899,306)	(74,735,584)
<b>PROFIT AFTER TAX</b>		<b>10,490,891,282</b>	<b>9,719,176,205</b>
Profit/(Loss) from Associate Undertakings	27.0	1,115,299,919	928,615,539
<b>PROFIT AFTER TAX</b>		<b>11,606,191,201</b>	<b>10,647,791,744</b>
Other Comprehensive Income:			
Gain/(Loss) on Marketable Securities (Unrealized)	28.0	(404,289,461)	329,775,134
<b>Total Comprehensive Income for the Year</b>		<b>11,201,901,740</b>	<b>10,977,566,878</b>
Profit Attributable to:			
Owners of the Company		11,593,964,282	10,637,215,898
Non Controlling Interest		12,226,919	10,575,846
		<b>11,606,191,201</b>	<b>10,647,791,744</b>
Total Comprehensive Income Attributable to:			
Owners of the Company		11,189,674,821	10,966,991,032
Non Controlling Interest		12,226,919	10,575,846
		<b>11,201,901,740</b>	<b>10,977,566,878</b>
<b>Earnings Per Share (EPS)</b>	29.0	<b>15.72</b>	<b>14.43</b>
Number of Shares used to compute EPS		737,391,090	737,391,090



## SQUARE PHARMACEUTICALS LTD.

and its subsidiaries

Consolidated Statement of Financial Position

As at June 30, 2018

	Note	Amount in Taka	
		June 30, 2018	June 30, 2017
<b>ASSETS:</b>			
<b>Non-Current Assets:</b>		<b>32,831,465,294</b>	<b>29,355,222,227</b>
Property, Plant and Equipment-Carrying Value	2.0	20,545,437,633	19,323,568,164
Investment - Long Term (at Cost)	3.0	940,754,391	588,808,565
Investment - Associates Undertaking	4.0	8,454,064,733	7,504,636,420
Investment in Marketable Securities (Fair Value)	5.0	2,891,208,537	1,938,209,078
<b>Current Assets:</b>		<b>28,441,536,241</b>	<b>23,175,830,022</b>
Inventories	6.0	4,432,935,118	3,730,808,243
Trade Debtors	7.0	1,615,544,248	2,204,014,900
Advances, Deposits and Prepayments	8.0	2,280,668,747	1,450,936,735
Short Term Loan	9.0	3,131,975,363	21,386,290
Cash and Cash Equivalents	10.0	16,980,412,765	15,768,683,854
<b>TOTAL ASSETS</b>		<b>61,273,001,535</b>	<b>52,531,052,249</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES:</b>			
<b>Shareholders' Equity:</b>		<b>57,816,566,831</b>	<b>49,027,700,210</b>
Share Capital	11.0	7,373,910,900	6,859,452,000
Share Premium	12.0	2,035,465,000	2,035,465,000
General Reserve		105,878,200	105,878,200
Tax Exemption Reserve	13.0	1,949,557,722	852,508,043
Gain on Marketable Securities (Unrealized)		192,272,252	596,561,713
Retained Earnings		46,159,482,757	38,577,835,254
Non Controlling Interest	14.0	24,901,060	12,674,141
<b>Non-Current Liabilities:</b>		<b>1,231,133,152</b>	<b>1,129,233,846</b>
Deferred Tax Liability	15.0	1,231,133,152	1,129,233,846
<b>Current Liabilities:</b>		<b>2,200,400,492</b>	<b>2,361,444,052</b>
Trade Creditors	16.0	524,676,136	843,937,277
Liabilities for Expenses	17.0	89,665,092	27,576,542
Liabilities for Other Finance	18.0	1,586,059,264	1,489,930,233
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>61,273,001,535</b>	<b>52,531,052,249</b>
Net Assets Value per Share (NAV)		78.41	66.49
Number of Shares used to compute NAV		737,391,090	737,391,090



- ACI & BEXIMCO Pharma (for the method of comparable):

ACI:

## Advanced Chemical Industries Limited Consolidated Statement of Profit or Loss

<i>In Taka</i>	Note	For the year ended 30 June 2018	For the year ended 30 June 2017
Revenue	28(a)	56,123,321,109	47,668,027,608
Cost of sales	29(a)	(40,257,620,969)	(33,563,743,344)
<b>Gross profit</b>		15,865,700,140	14,104,284,264
Administrative, selling and distribution expenses	30(a)	(12,782,328,798)	(10,901,743,654)
Other income	31(a)	161,703,349	82,477,299
<b>Operating profit</b>		3,245,074,690	3,285,017,909
Gain from sale of Brands		540,300,000	403,900,000
Share of profit of equity accounted investees		35,426,012	143,913,167
Net Finance costs	32(a)	(2,231,054,208)	(1,457,820,520)
<b>Profit before contribution to WPPF</b>		1,589,746,494	2,375,010,556
Contribution to WPPF		(168,083,901)	(186,023,965)
<b>Profit before tax</b>		1,421,662,593	2,188,986,591
<b>Income tax expense</b>	33(a)		
Current tax		(1,374,709,885)	(1,166,431,472)
Deferred tax income/(expense)		363,597,434	13,393,333
		(1,011,112,451)	(1,153,038,139)
<b>Profit after tax</b>		410,550,142	1,035,948,452
<b>Profit attributable to</b>			
Equity holders of the company		517,014,325	1,065,163,424
Non-controlling interests		(106,464,183)	(29,214,972)
		410,550,142	1,035,948,452
<b>Earnings per share</b>	34(a)		
Basic earnings per share		10.73	22.10

**Firm Valuation**

SQUARE Pharmaceutical Ltd.



Profit after tax	410,550,142	1,035,948,452
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Change in fair value of available-for-sale financial assets	182,741,226	109,272,217
Related tax on available-for-sale of financial assets	(18,274,123)	(10,927,222)
<b>Other comprehensive income, net of tax</b>	164,467,103	98,344,995
<b>Total comprehensive income</b>	575,017,245	1,134,293,447
<b>Total comprehensive income attributable to Equity holders of the Company</b>		
Profit after tax	517,014,325	1,065,163,424
Other comprehensive income	164,519,341	98,350,141
	681,533,666	1,163,513,565
<b>Non-controlling interests</b>		
Profit after tax	(106,464,183)	(29,214,972)
Other comprehensive income	(52,238)	(5,146)
	(106,516,421)	(29,220,118)
<b>Total comprehensive income</b>	575,017,245	1,134,293,448

**BEXIMCO:**

**Beximco Pharmaceuticals Limited and its Subsidiary**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year ended June 30, 2018**

	Notes	Amount in Taka
<b>Net Revenue</b>	23	<b>17,716,716,855</b>
Cost of Goods Sold	24	(9,430,737,431)
<b>Gross Profit</b>		<b>8,285,979,424</b>
<b>Operating Expenses</b>		<b>(4,259,811,440)</b>
Administrative Expenses	27	(618,675,127)
Selling, Marketing and Distribution Expenses	28	(3,641,136,313)
<b>Profit from Operations</b>		<b>4,026,167,984</b>
Other Income	29	43,757,880
Finance Cost	30	(540,283,443)
<b>Profit Before Contribution to WPPF &amp; Welfare Funds</b>		<b>3,529,642,421</b>
Contribution to WPPF & Welfare Funds		(168,308,290)
<b>Profit Before Tax</b>		<b>3,361,334,131</b>
<b>Income Tax Expenses</b>	31	<b>(828,679,830)</b>
Current Tax		(792,620,241)
Deferred Tax		(36,059,589)
<b>Profit after Tax</b>		<b>2,532,654,301</b>
<b>Profit/(Loss) Attributable to:</b>		
Owners of the Company		2,536,543,948
Non-controlling interest		(3,889,647)
		<b>2,532,654,301</b>
<b>Other Comprehensive Income - Unrealized Gain/(Loss)</b>		<b>481,697</b>
<b>Total Comprehensive Income for the Year</b>		<b>2,533,135,998</b>
<b>Total Comprehensive Income Attributable to:</b>		
Owners of the Company		2,537,025,645
Non-controlling interest		(3,889,647)
		<b>2,533,135,998</b>
<b>Earnings Per Share (EPS)</b>	32	<b>6.25</b>