GBB Power Limited

(If there is any contrary information please communicate with DSE through email: listing@dsebd.org)

Disclaimer:

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Brief Overview of the Company:

1. Date of Incorporation : 17 October, 2006
2. Year of Commencement : 17th June, 2008
3. Authorized Capital : Tk. 1,000 million
4. Paid up Capital (Pre IPO) : Tk. 304.99 million
5. Financial year : Jan-Dec

Capital Structure:

The capital structure of GBB Power Limited before and after IPO will be as under:

Particulars	**No. of Shares***	**Amount (BDT)**
Authorized Capital:		
- Ordinary Share Capital	80,000,000	800,000,000
- Preference Share Capital	20,000,000	200,000,000
Paid-up Capital as on June 30, 2010 (as per audited accounts)	25,999,990	259,999,900
Capital Raising**	4,500,000	45,000,000
Paid-up Capital (Pre-IPO)	**30,499,990**	**304,999,900**
To be issued as IPO	20,500,000	205,000,000
Paid-up Capital (Post-IPO)	**50,999,990**	**509,999,900**

* After the close of accounts on June 30, 2010, the management of GBB Power Limited has split the par value of its shares to Tk. 10 from Tk. 100.
** SEC has given consent vide letter No. SEC/CPLC-151/2008/317 dated September 30, 2010 to raise paid-up capital by issuing 4,500,000 Ordinary shares of Tk. 10 each.
The company is issuing 20,500,000 ordinary shares of Tk. 10 each through Initial Public Offering (IPO) at an issue price of Tk. 70 each including a premium of Tk. 60 each.

Issue Manager : IDLC Finance Limited

Auditor : Saha Mazumder & Co.

Credit Rating Information and Services Limited (CRISL):

Entity Rating	Long Term A	Short Term ST-3
Date of Rating	September 23, 2010	

Use of Proceeds from IPO:

GBB Power Limited is planning to utilize the proceeds of the IPO in following manner:

Particulars	Amount in BDT
Expansion of Plant	50,000,000
Plant Improvement	30,000,000
Emergency Spare Parts	78,356,750
Plant Overhauling	75,000,000
Inventories	50,000,000
Working Capital	130,421,294
Long Term Loan refund	910,423,456
Payment to Sundry Creditors	50,000,000
IPO Expenses	60,798,500 79,150,255
Total	**1,435,000,000**

Implementation Schedule:

The net proceeds of the IPO shall be used is the above-mentioned manner within 6 month of receipt of the net proceeds.

Company at a glance

GBB Power Limited (GBBPL) is the first Bangladeshi Rental Power Producer (RPP) in private electricity generation who supplies power to the National Grid. GBBPL was incorporated in Bangladesh on October 17, 2006 as a Private Limited Company and started commercial operation on June 17, 2008. On April 8, 2008 the Company was converted into a Public Limited Company under the Companies Act 1994 with an authorised capital of BDT 1000 Million and paid-up capital of BDT 260 Million. The main objective of the company was to set up power plants on Built-Own-Operate basis for generation of electricity and to sell generated power to Bangladesh Power Development Board (BPDB) or Rural Electrification Board (REB) or any other entity with the permission of concerned authority.

The company has been awarded a contract on June 17, 2007 to set up a 20 MW ±10% Gas Power Plant at Bogra to produce electricity and to sell the generated power to Bangladesh Power Development Board (BPDB). The main machineries of the plant, i.e. Gen-sets, were imported from the renowned manufacturer MWM Asia Pacific Limited of Germany. The project is now operated by competent professionals and is serving the power sector, which is directly contributing to the national economy.

Main Features of PPA:

Considering the BPDB as the single buyer, the Power Purchase Agreement between BPDB and GBBPL plays a very important role. The PPA inter alia includes the following important provisions:

a) The term of the contract is for 15 years from the date of commercial operations;
b) Under the PPA (Power Purchase Agreement), GBBPL cannot sell power to any other party except BPDB without having any prior written consent from the authority;
c) Tariff structure includes: I) Reference Rental Price and II) Reference Energy Price; Reference Energy Price has two component – Variable O&M Price and Fuel Price
d) In the event of default occurs to GBBPL in failure to pay the liquidated damages amount within the 45 days of the due dates BPDB will realize the undisputed amount from the performance Security/ Operations Security after 7 days of the LD due date;
e) GBBPL shall obtain the supply of all electrical energy and required capacity either by generating from companies own facilities or purchasing from the relevant electricity utility.
f) GBBPL is required to pay liquidated damages of USD 200 per MW each day in failure to start at required commercial operation date;

g) Failure to meet Guaranteed capacity, GBBPL is liable to pay BPDB one time liquidated damages for each KW drop from the Guaranteed Capacity at the rate of US dollar 1000/KW;
h) All cost regarding fuel & electrical interconnection facilities should be borne by the GBBPL;
i) PGCL will be the fuel supplier and BPDB will act as facilitator.

Nature of business:
GBB Power Limited has successfully established a gas fired Power Plant on Built-Own-Operate (BOO) basis at Bogra consisting of 6 (six) number of 3.876 MW gas engines of 23.26 MW gross capacity. Since June 17, 2008 the company is supplying a minimum of 21.03 MW electricity to Bangladesh Power Development Board (BPDB)'s 33 KV regional grid for a period of 15 years. The Bogra plant is situated on a 1 acre land leased for 16.5 years from Bangladesh Power Development Board through a Land Lease Agreement (LLA). GBB power has a Gas Sales Agreement with Pashimanchal Gas Company Limited according to which Pashimanchal Gas Company will supply and sell gas to the Issuer for a period of 15 years.

Principal products and services:
The company is engaged in the business of generating electricity and supplying it to BPDB through Power Grid Company of Bangladesh's 33 KV regional transmission grid line at Bogra.

Relative contribution of Products contributing more than 10% of the total revenue:
The sole business of GBB Power is to generate electricity which contributes 100% of the company's total revenue. The following table illustrates the total revenue and respective percentage:

Particulars	As of June 30, 2010		As of December 31, 2009	
	Revenue (BDT)	Value Contribution (% of Total Sales)	Revenue (BDT)	Value Contribution (% of Total Sales)
From the Sale of Power to BPDB	206,979,386	100%	355,225,483	100%

Name of associates, subsidiary/related holding company and their core areas of business

Name of the Company	Relation	Nature of the business of the Company
GBB Limited	Holding Company	Engaged in Government and Commercial construction
GBB Properties Limited	Sister Concern	Engaged in Private and Residential Property Developments

Distribution of Products/Services:

The electricity generated by GBB Power Limited is supplied to Power Grid Company of Bangladesh Limited's regional grid at Bogra through a 33 KV power line constructed by GBB Power according to the terms and conditions mentioned in the Power Purchase Agreement with BPDB.

Sources and availability of raw materials and the names of the principal suppliers:

The major raw materials consumed in this business of GBB Power are natural gas. The other main consumables are lubricating oil, distilled water and various spare parts. Except natural gas all the other raw materials are widely available nationally and internationally. Natural gas is subject to availability by the Government of Bangladesh's Natural Resource Policy. Currently, natural gas is being sold on priority basis to Power Generation Companies countrywide even shutting down the fertilizer companies, where available, as the country is facing severe power crisis. It is foreseeable that this situation will not improve immediately, as demand of power is constantly increasing in the country.

- Power: The company mainly meets 99.9% of their power requirement from their own generation. However, a separate power line of Bangladesh Power Development Board (BPDB) exists for use in case of an emergency.
- Gas: GBB Power has a Gas Sales Agreement with Pashchimanchal Gas Company Limited (PGCL) for ensuring uninterrupted supply of gas to the project for a period of 15 years.
- Water: GBB Power has its own deep tube well which meets the requirement of water.

Credit Information Bureau (CIB) report:
Neither GBB Power Limited nor any of its directors or shareholders, who hold 5% or more shares in the paid-up capital of the issuer, is loan defaulter in terms of Credit Information Bureau (CIB) of the Bangladesh Bank.

Directors of the Company:

Name	Designation	Nominated by
Sk. Md. Rafiqul Islam	Chairman	GBB Limited
Engr. Fauzul Akbar	Managing Director	N/A
Mohammed Taifur Hossain	Additional Managing Director	N/A
Mohammed Shahabuddin	Director	N/A
Shamim Ara Islam	Director	N/A
Rezina Akbar	Director	N/A

Directors' involvement in other organization:

Name	Designation in the Company	Directorship/Sponsorship/Ownership with other Organization	Position
Sk. Md. Rafiqul Islam	Chairman	GBB Limited	MD
		Wonder Apparels Limited	Director
		GBB Properties Limited	MD
Engr. Fauzul Akbar	Managing Director	GBB Limited	Chairman
		Wonder Apparels Limited	Director
		GBB Properties Limited	Chairman
Mohammed Taifur Hossain	Additional MD	GBB Properties Limited	Additional MD

Ownership of Company's Securities:

Name	Shareholding Status	No. of Shares	Shareholdings (Tk.)
GBB Limited	Shareholder	14,581,590	145,815,900
Engr. Fauzul Akbar	MD	5,762,140	57,621,400
Mrs. Morziana Hasan	Shareholder	209,110	2,091,100
Sk. Md. Rafiqul Islam	Chairman	5,434,650	54,346,500
Mrs. Rafsana Rafique	Shareholder	2,500	25,000
Mrs. Rezina Akbar	Director	2,500	25,000
Mrs. Rintia Rafique	Shareholder	2,500	25,000
Mrs. Shamim Ara Islam	Director	2,500	25,000
Mohammed Taifur Hossain	Additional MD	2,500	25,000
Total		**25,999,990**	**259,999,900**

Note: SEC has given consent vide letter No. SEC/CPLC-151/2008/317 dated September 30, 2010 to raise paid-up capital by issuing 4,500,000 Ordinary shares of Tk. 10 each.

Shareholding structure for 5% or more:

Name	Shareholding Status	No. of Shares	Shareholdings (Tk.)	Percentage of Ownership
GBB Limited	Shareholder	14,581,590	145,815,900	56.08%
Engr. Fauzul Akbar	Managing Director	5,762,140	57,621,400	22.16%
Sk. Md. Rafiqul Islam	Chairman	5,434,650	54,346,500	20.90%

Performance at a Glance

Tk. in million

Particulars	31.12.08	31.12.09	30.06.10 (HY)	31.12.10 (Annualized)
Turn Over (Sales)	199.94	355.23	206.98	413.96
Cost of goods sold	98.89	159.86	93.4	186.80
Gross profit	101.05	195.37	113.58	227.16
Operating Expenses	86.04	157.55	73.06	146.12
Operating Profit	15.01	37.82	40.52	81.04
Net Profit	7.51	24.32	40.25	80.50
Total Assets	1404.78	1430.33	1438.8	
Growth		1.82%	0.59%	
Net Assets	371.87	396.18	416.44	
Growth		6.54%	5.11%	
NAV per share	14.30	15.24	16.02	
Growth		6.54%	5.11%	
EPS	0.29	0.94	1.55	2.64
EPS (restated)	0.15	0.48	0.79	1.58

Particulars	31.12.08	31.12.09	30.06.10 (HY)	31.12.10 (Annualized)
Shareholders Equity	371.87	396.18	416.44	
No. of Shares	25,999,990	25,999,990	25,999,990	30,499,990
Post IPO Shares				50,999,990

Description of property

1. The Bogra Plant of GBB Power is situated on one acre land which has been leased from the Bangladesh Power Development Board (BPDB) for 16.5 years. The plant is situated inside the Bogra BPDB's compound. The plant consists of a 1500 sqm plant house which houses six generator sets, a three storied building attached to the plant house. Ground floor of the plant is used for housing the power cables and as a store. The first floor is the control room which houses control panels, switchgears, metering station, etc. The second floor is used for the plant office.

   The six brand new generators are Deutz (Now MWM) TCG 2032 V16, 4 MW Gas Engine of 1000 rpm. With total capacity of 23.26 MW (3.876 x 6) @ 100% load factor, each of the 6 Deutz engines are also coupled with 6 AVK/Cummins Alternators which were brand new at the time of installation in 2008. In addition to the auxiliary and ancillaries equipment, the plant has a single 35MVA Power Transformer and another 1250KVA Transformer for auxiliary use; Gas Regulating and Metering Station (RMS); approximately 2 KM Gas Line from Paschimanchal Gas Company Limited (PGCL).
2. The company owns the following operating fixed assets and they are situated at Company's office and factory premises; and written down value are given below:

(Written Down Value in Taka as per Audited Accounts)

Particulars	**As at June 30, 2010 (BDT)**	**As at December 31, 2009 (BDT)**	**As at December 31, 2008 (BDT)**
Leasehold Land and Land Development	12,404,400	12,404,400	12,404,400
Building & Premises	76,436,336	78,396	80,187,915
Equipment and Machineries	923,669,322	947,353,151	985,969,178
Tools and	58,961,824	60,473,665	41,379,950
Furniture and Fixture	663,853	737,614	815,897
Office Equipment	1,181,160	1,312,400	1,469,574
Office Car	1,845,000	-	-
Local Equipment	136,145,529	139,636,440	122,716,603
Fabrication Work	15,709,371	16,112,176	16,335,684
Shuttering Materials	1,138,103	1,264,559	1,517,471
Total	**1,228,154,898**	**1,257,690,647**	**1,262,796,672**

3. All the assets of the company are owned by the company except the land on which the Bogra power plant is situated. The equipments of the plant are

owned by the participants of the syndicated bank loan under mortgage. There is no other mortgage or any type of lien on the property.

4. GBB power has taken one acre of land lease from BPDB for 16.5 years on November 26, 2006. The lease will expire on May 26, 2023. The issuer has taken the land lease for the purpose to design, finance, supply, construct, operate and maintain a 20±10% MW power plant to supply electricity to BPDB under the Agreement for Supply of Power at Bogra on rental basis.

5. The date of expiration and name of lessors are given in the “Operating lease during last five years” part of this prospectus.

Tangible Asset Per Share

Particulars	As on June 30, 2010 (BDT) Jan' 2008 to Dec' 2008
Non Current Assets	
Tangible Fixed Assets	1,228,154,899
Preliminary Expenses	1,900,000
Total Non-Current Assets (A)	1,230,054,899
Less: Intangible Assets (B)	1,900,000
Total Tangible Assets (C=A-B)	1,228,154,899
Current Assets (D)	
Inventory	7,595,277
Advance, Deposit and Repayments	72,619,693
Sundry Debtors	116,703,215
Cash and Cash Equivalent	11,820,963
	208,739,147
Total Assets Value (E=A+D)	1,438,794,046
Total Tangible Assets Value (F=E-B)	1,436,894,046
Long Term Liabilities (G)	
Long Term Loan (Secured)	925,961,380
Redeemable Preference Shares	80,000,000
	1,005,961,380
Current Liabilities (H)	
Sundry Creditors	48,170,909
Accrued Expenses	3,307,578
Bank Loan	44,915,314
	96,393,801
Total Liabilities (I=G+H)	1,102,355,181
Net Tangible Assets Value (J=F-I)	334,538,865
Shareholder Equity	
Ordinary Shareholder	259,999,900
Share Money Deposit	4,354,029
Retained Earnings	52,084,936
Capital Redemption Reserve	20,000,000
	336,438,865
Number of Shares (K)	25,990,990
Tangible Asset per Share(L=J/K)	**12.87**

Determination of Offer Price

The common postulation is that market, despite its regular price variations, provides better value judgment of a security over a reasonable time period. Additionally, market provides approximately a consensus value of securities in perspective of their respective risk and growth potentials. Another common postulation is that non-speculative investors may not be inclined to pay more for an asset than its underlying value. However, the perception of worth would vary among the investors, depending on present circumstances and also future expectations, as well as their objective for the particular acquisition, we have taken a general approach of valuation, from general investor's viewpoint in determining the acceptable price of the stock as delineated by SEC (Public Issue) Rules, 2006.

(i)Valuation based on P/E multiple of similar stocks in the Fuel and Power Sector:

As the stock price is determined by the future earning power of a company, general investors of our capital market widely use Earning per Share (EPS) and Price-Earning (P/E) multiple as one of the determinants of the price of a stock. Furthermore, P/E multiple remains relatively stable compared to absolute price movement of a stock in the market. Therefore, we have derived the price of GBB Power's stock through multiplying actual EPS of the company with an acceptable and representative P/E multiple of the comparable companies.

Assumptions:

1. We have analyzed the P/E multiples of the selected companies listed with Bangladesh's Stock Exchanges categorized under Fuel and Power sector.
2. In order to remove the impact of regular price variations, we have considered the last one year's average price of the comparables in determination of their P/E multiples covering a period of September 1, 2009 to August 31, 2010. The price of the comparables at Dhaka Stock Exchange is used for the purpose.
3. The last reported full-year EPS[1] of the companies are considered in measuring P/E multiples.

Average P/E Ratio of the Companies in the Fuel and Power Sector:

The following tables illustrate the average P/E multiples of various categories of comparable stocks:

Company Name	Last 1 Year Avg. Price (BDT)	EPS (BDT)	P/E Ratio

BOC Bangladesh Limited	557.19	40.08	13.90
Padma Oil Company Limited	921.23	15.36	59.98
Jamuna Oil Company Limited	406.60	9.32	43.63
Summit Power Limited	133.15	2.52	52.84
Khulna Power Company Limited	177.58	2.43	73.08
Meghna Petroleum Limited	270.97	8.25	32.84
Dhaka Electric Supply Company Limited	1,836.13	100.35	18.30
Power Grid Company Limited	832.39	42.39	19.64
Titas Gas Transmission & Dist. Co. Limited	792.00	63.67	12.44
Average			**36.29**

Determining the Fair Value of GBB Power's Stock

The following table shows the fair value of GBB Power stock applying the representative P/E multiple of 36.29:

Particulars	
Annualized EPS of GBB Power Limited as on December 31, 2010 (BDT)	3.10
Representative P/E Multiple (X)	36.29
Fair Value (BDT)	**112.36**

(ii) Valuation based on P/BV multiple of similar stocks in the Fuel and Power Sector:

Net asset value (NAV) per share is a powerful indicator of profitability and sustainability of a company. An acceptable value of the stock may be derived by multiplying NAV by a representative P/BV multiple. Therefore, we have derived the price of GBB Power's stock through multiplying actual NAV of the company with a representative P/BV multiple of the comparable companies.

Assumptions:

1. We have analyzed the P/BV multiples of the selected companies listed with Bangladesh stock Exchanges categorized under Fuel and Power sector.
2. In order to remove the impact of regular price variations we have considered the last one year's average price of the comparables in determination of their P/BV multiples covering a period of September 1, 2009 to August 31, 2010. The price of the comparables at Dhaka Stock Exchange is used for the purpose.
3. The last reported NAV[3] of the companies are considered in measuring P/BV multiples.

Average P/BV Ratio of the Companies in the Fuel and Power Sector:

The following tables illustrate the average P/BV multiples of various categories of comparable stocks:

Company Name	Last 1 Year Avg. Price (BDT)	NAV (BDT)	P/BV Ratio
BOC Bangladesh Limited	557.19	120.85	4.61
Padma Oil Company Limited	921.23	60.20	15.30
Jamuna Oil Company Limited	406.60	34.23	11.88
Summit Power Limited	133.15	15.66	8.50
Khulna Power Company Limited	177.58	11.48	15.47
Meghna Petroleum Limited	270.97	26.54	10.21
Dhaka Electric Supply Company Limited	1,836.13	457.04	4.02
Power Grid Company Limited	832.39	390.01	2.13
Titas Gas Transmission & Dist. Co. Limited	792.00	194.27	4.08
Average			**8.47**

Determining the Fair Value of GBB Power's Stock:

The following table shows the fair value of GBB Power stock applying the representative P/BV multiple of 8.47:

Particulars	
NAV of GBB Power Limited as on June 30, 2010 (BDT)	12.87
Representative P/BV Multiple (X)	8.47
Fair Value (BDT)	**108.94**

(iii) Valuation based on Dividend Discount Model:

As dividend is the most relevant cash flow for the minority shareholders of a company, we have adopted **Dividend Discount Model (DDM)** for valuing the share of GBB Power Limited. The valuation is based on the forecasted earnings and dividend payments of the company prepared by GBB Power Limited.

Assumptions:

1. Required Rate of Return (RRR) is assumed at 12.00% while the risk-free rate is around 10%.
2. The dividend payout ratio is assumed to be 80% for the year 2011 and 2012. The perpetual payout ratio is assumed to be 60%.
3. Perpetual growth rate is determined by multiplying the average Return on Equity (ROE) for the three years projected from 2010 to 2013 by the projected retention rate.

Determining Adjusted DPS and Present Value of Dividends:

		1st Stage		**Terminal Year**
	2010	**2011**	**2012**	**2013**
Projected Year	**0**	**1**	**2**	
EPS (BDT)	3.10	3.73	4.38	4.50
Payout Ratio	-	80%	80%	60%
Adjusted DPS (BDT)	-	2.98	3.50	2.70

PV Factors	1.0000	0.8929	0.7972
Present Value of Dividend (BDT)	**0**	**2.66**	**2.79**

Determining the Dividend Growth Rate (g):

	2011	2012	2013
Return on Equity (ROE)	**10.06%**	**11.55%**	**11.33%**

(a) Average ROE = 10.98%
(b) Retention Rate (g) = 40%
Dividend Growth Rate (a)X(b) = 4.39%

Determining the Value of GBB Power Share:

Terminal Value (TV) at year 2012[2]	35.47
Present Value of TV	28.27
Present Value of Dividends	5.45
Value Per share (BDT)	**33.72**

Therefore, applying the DDM, share value of GBB Power has been derived at **Tk. 33.72**.

(iv) Valuation based on Projected Earnings Per Share:

Projected Income Statement of GBB Power Limited[3]
For the year ended on December 2011, 2012, 2013

Particulars	31.12.2011 BDT	31.12.2012 BDT	31.12.2013 BDT
Rental & Energy Sale	453,683,840	457,829,895	462,221,046
Less: Cost of Energy Sale:			
Consumed Gas Bill	118,908,065	118,278,922	117,649,778
Direct Expenses	105,072,248	103,374,953	101,931,278
Total	**223,980,313**	**221,653,875**	**219,581,056**
Gross Profit	**229,703,527**	**236,176,021**	**242,639,990**
Less: Operating Expenses:			
Administrative Expenses	9,631,295	9,914,113	10,214,560
Financial Expenses	30,090,484	3,056,017	3,056,017
Total	**39,721,779**	**12,970,129**	**13,270,577**
Operating Profit/ EBT	**189,981,747**	**223,205,891**	**229,369,413**
Preference Share Dividend	-	-	-
Net Profit (Loss) Before Income Tax	**189,981,747**	**223,205,891**	**229,369,413**
Provision for Ordinary Share Dividend	151,985,398	178,564,713	137,621,648

Retained Earning	**37,996,349**	**44,641,178**	**91,747,765**
No of Outstanding Share	**50,999,990**	**50,999,990**	**50,999,990**
Earning Per Share (EPS)	**3.73**	**4.38**	**4.50**

Determining the Fair Value of GBB Power's Stock

Particulars	
Average projected EPS of GBB Power Limited	4.20
Market P/E Multiple as of August, 2010 (X)	25.81
Fair Value (BDT)	**108.39**

Determination of Fair Price of GBB Power Stock

The offer price of GBB Power is derived under different applicable valuation methods. Finally, the fair value of GBB Power share is derived by calculating the simple average price of the fair values derived under different valuation techniques.

Particulars	**Fair Value (BDT)**
Price Based on Average P/E Multiple of Similar Stocks	112.36
Price Based on Average P/BV Multiple of Similar Stocks	108.94
Price Based on DDM	33.72
Price Based on Projected EPS of GBB Power	108.39
Price (Fair Value)	**90.86**

The above table shows that the estimated fair price of GBB Power's stock is **BDT 90.86**. GBB Power Limited in association with IDLC Finance Limited, the Issue Manager derived an issue price of the stock at **BDT 70** with a discount of approximately 20% on the estimated fair value.

RISK FACTORS & MANAGEMENT'S PERCEPTION ABOUT THE RISKS

An investment in capital market involves a high degree of risk. The company is operating in an industry involving both external and internal risk factors having direct as well as indirect effects on the investments made by the investors. All investors should carefully consider all of the information in this Prospectus, including the risk factors, both external and internal, and management perception thereabout enumerated hereunder before making an investment decision. If any of the following risks actually occur, their business, results of operations and financial condition could suffer, the trading price of their shares could decline, and investors may lose all or part of their investment.

(a) Interest rate risks

Interest rate risk is the risk that a company faces due to unfavorable movement in interest rates on bank loans. Due to several macroeconomic and market driven factors, interest rates on short term and long term bank loans may fluctuate. Inflationary pressure, increased demand for bank loan, increased volatility in money market, restrictive monetary policy, etc. can increase market-wide interest rates on bank loans of different tenor. Rising interest rate adversely affects cash flow and profitability of any company with financial leverage. The risk is even greater when a company has floating rate liabilities which increase the variability of the company's cash flows and profitability.

Management perception

GBB Power Limited *has a long term syndicated loan and some short term loans. The company will fully pay-off its long term loan with the proceeds of the public issue. On the other hand, amount of their short term loans is relatively low. Therefore, increase in long term or short term interest rates will not have significant effect on the profitability of the company. In future, the company prefers equity based financing to reduce dependency on debt financing. Therefore, management perceives that the fluctuation of interest rate on borrowings would have little impact on the performance of the company.*

(b) Exchange rate risks

Exchange rate risks relate to the volatility in the value of Taka against any major international currency. The company purchases its major raw material natural gas from Pashimanchal Gas Company Limited and sells power to Bangladesh Power Development Board (BPDB). Both the transactions are made in local currency. However, they import some spare machinery parts from abroad against payment of foreign currency to continue their normal operations which exposes them to exchange rate risks.

Management perception

The value of the company's imported spare machinery parts is very low compared to their overall size of operation. Therefore, the net effect of currency volatility on *their overall performance is insignificant. Moreover, value of Taka against major currencies has remained very stable in recent times. It is expected that value of Taka will remain stable over near to medium term considering sufficient Bangladesh Bank reserve, manageable current account deficit, growing export & remittance and favorable sovereign credit rating.* On the other hand, the management of the company is confident to significantly cushion the foreign currency risk and price escalation risk through forward contracts if it is justifiable in terms of cost benefit analysis.

(c) Industry risks

Power sector of Bangladesh offers lucrative opportunities due to large demand-supply gap. Hence, there is ample scope of new players to enter into the industry. This might intensify competition among the existing players and elicit an aggressive price war.

Management perception

At present, country's productive sector is being badly affected due to acute power shortage. Country's total power generation capacity is much lower than total demand. In such a situation, inclusion of new players in the sector will not have any material effect on the performance of the existing players. Moreover, both gas and power tariffs are set solely by the Government of Bangladesh (GOB). The private power companies cannot fix their tariffs themselves. Therefore, the probability from an unfriendly price competition among the existing players is almost nonexistent.

(d) Market Risks

Market related risks refer to demand-supply situation of the product or service being rendered and pricing of the same. Over the course of time, demand for power in Bangladesh may slowdown that may lead to excess capacity. In addition, prices of gas may increase while prices of power may decrease. This will affect the profitability of the company.

Management perception

Due to many reasons, power generation in Bangladesh could not keep up with the growing demand. This has led to a chronic and acute power crisis in the country. Hence, power generation has become the topmost priority for the policymakers. Country needs massive and continuous investment in this sector in order to meet the current and future demand. Hence, demand for power is very unlikely to slowdown medium to long term. Moreover, GBBPL generates a minuscule portion of country's total demand. Through an off-take agreement, GBBPL is entitled to sell their entire output to BPDB. In addition, tariffs of gas and power usually change in similar direction. An increase in gas tariff is usually followed by an increase in power tariffs as well. The opposite is very unlikely to occur.

(e) Technology related Risks

Technological risk is related to generation, transmission and distribution of required electricity.

Management Perception

Technology of power generation definitely develops over time. Such development contributes in decreasing production cost, minimizing environmental effects and production from renewable or nuclear sources. These developments, however, do not render the necessity of power obsolete. There is no such substitute to power either.

(f) Potential or Existing Government Regulations

GBBPL operates in a highly regulated industry. Tariffs of both gas and power at each distribution level is fixed by relevant government bodies. Currently, the Independent Power Plants (IPPs) enjoy tax holiday for 15 years. In addition, import of capital machinery for power generation enjoys favorable tax treatment. Changes in government's policies regarding these tax and tariff structures will adversely affect the financial performance of GBBPL.

Management perception

At present, power crisis is the most restrictive infrastructural problem in the country. It requires massive investment, favorable policies and appropriate planning to resolve this crisis in near future. The GOB is well aware of the severity of the situation. As a result, it is highly unlikely that GOB will take any step that deters investment into this sector.

(g) Potential changes in Global or National Policies

Generation of power from fossil fuel has several environmental consequences including carbon dioxide and greenhouse gas emission. Due to global warming and climate change, there might be a worldwide move against use of fossil fuel for power generation. This might restrict further investment into this sector. As a result, existing power plants may have to discontinue operation or face adverse financial effects.

Management perception

Despite having adverse environmental effects, fossil fuel based power generation is most economical. Power generation from renewable and green sources is still very expensive and technologically not advanced enough. Therefore, majority of the world's power generation is expected to be fossil fuel based over medium to long term. Conversion to renewable and green sources can only take place gradually without having immediate impact on existing facilities.

(h) History of non operation

History of non operation indicates weak operational management of the company. Non operation leads to negative cash flow, incurring of losses and bankruptcy in worst case scenario.

Management perception

Since start of commercial operation in June 2008, GBBPL has been running their facility at full swing. The operation is fully automated, computer controlled and requires minimal manual input. The operation is looked after by professional and experienced personnel.

(i) Operational Risks

Operational risks refer to the possibility of plant shut down due to disruption in supply chain, technological failure, natural calamities, human error and other unforeseen events. Such incidences may lead to non operation, large overhauling costs and financial losses.

Management perception

Operation of the plant is fully automated and involves minimal manual input. The overall process adheres to high international standards. The plant is operated by experienced and professional personnel. Supply of gas is guaranteed by Pashchimanchal Gas Company Limited. Hence, the plant is expected to continue operation smoothly. Besides, the plant is installed in a well-constructed building strong enough to face natural calamities like heavy rainfall, flood and moderate earthquake.