

Credit Rating Report The ACME Laboratories Limited

Long Term Rating: AA₂

Date of Rating : 22 April 2010

Validity : 30 June 2011

Analysts:

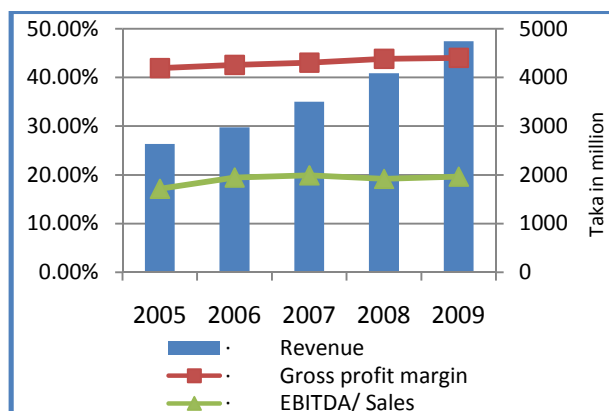
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Financial Highlights

(BDT in million)

| | 2008 | 2009 |
|----------------------|---------|---------|
| Turnover | 4089.36 | 4741.92 |
| Gross Profit | 1792.76 | 2088.23 |
| EBITDA | 784.14 | 932.07 |
| Net Profit After Tax | 275.99 | 353.27 |
| Current Assets | 2215.59 | 3009.30 |
| Fixed Assets | 1740.39 | 1757.54 |
| Total Assets | 3955.98 | 4766.84 |
| Total Liabilities | 2145.02 | 2585.73 |
| Shareholders Equity | 1810.96 | 2181.11 |
| Quick Ratio | 0.69x | 0.95x |
| Gross Profit Margin | 43.84% | 44.04% |
| Net Profit Margin | 6.75% | 7.45% |
| EBITDA Margin | 19.18% | 19.66% |
| Debt to Equity | 0.86x | 0.89x |
| Debt Ratio | 39.56% | 40.90% |



1.0 RATIONALE

Credit Rating Agency of Bangladesh (CRAB) Limited has assigned **AA₂** (Pronounced as **Double A Two**) rating in the Long Term to The ACME Laboratories Limited (hereinafter referred to as ALL or the Company).

Corporate entities rated **AA₂** in the long term belong to 'Very Strong Capacity' cohort. These Companies are judged to be of very high quality to meet financial commitments and are subject to very low credit risk.

CRAB has performed the present rating assignment based on the last audited financial statements of December 2009 and other relevant information. The rating also takes into account business profile, past record and trend of operating performance, balance sheet strength and loan repayment history of the Company.

Established in 1954, ACME Laboratories Limited is one of the oldest and largest pharmaceutical companies in Bangladesh. Mr. Nasir-ur Rahman Sinha is the Chairman and Mr. Mizanur Rahman Sinha is the Managing Director of the Company. Promoters belong to the same family held 100% stake of the Company on December 2009.

The assigned rating incorporates ALL's steadily improving business profile supported by long track record, strong brands, growing presence in the domestic market, expanding product basket, stable market position and leadership position in certain segments.



The rating also takes into consideration of ALL's strong financial risk profile characterized by comfortable capital structure, adequate debt servicing indicators and healthy cash accruals.

The Company is likely to remain in investment phase in the medium term to establish its presence in certain new products and strengthen its presence in existing markets. CRAB expects the Company to sustain its financial risk profile. The impact of such investments on the Company's business and credit profile would be monitored.

Among the fastest growing pharmaceutical companies in Bangladesh, ALL's position was 4th (as of 30 June, 2009) in terms of domestic sales revenue. The Company derives revenue mainly from dividing the business mix into three segments- Human health products accounting for 82.23%, Animal health products 16.31% and Herbal products 1.46% of its total revenue. ALL's business model is focused on generic business with major player in Blood +B. forming organs, Respiratory system, Cardiovascular system and Anti-Infective therapeutic group.

ALL's operating profit has been growing consistently at a strong Compound Annual Growth Rate (CAGR) of 19.76% over the past five years from BDT 368.68 million in FY05 to BDT 758.47 million in FY09 driven by strong performance in business expansion and penetration in export market with a limited scale. Going forward, growth is likely to be supported by new capital expenditure program to enhance manufacturing capabilities and launching of new products.

Over the years, ALL's EBITDA margin and subsequently net profit margin have improved substantially. Notwithstanding a marginal decline in FY08, EBITDA margin expanded to 19.66% in FY09 from 17.15% in FY05 and compares favorably with its peers.

The Company has been in an investment phase in terms of expanding capacities. Despite considerable capital expenditure of BDT 1485.33 million over the past five years, ALL maintained its capital structure with gearing (debt/equity) below 1.0x on back of healthy accretion to reserves, supported by strong profitability. Gearing and Debt/EBITDA stood at 0.89x and 2.09x respectively in FY09. Its coverage indicators as evidenced by Net Cash Accruals to Total Debt (NCA/TD) of 26% and TIER of 3.22x remain comfortable and also compared favorably with its peers.

Positive Rating Factors

- Stable earnings from diversified product basket and mix
- Strong market presence reflected by healthy turnover and margins
- Managing profitable growth in the face of continuous capacity expansion
- Debt reduction may improve credit ratios
- Improvement in debt coverage indicators

Negative Rating Factors

- Negative free cash flows
- Working capital intensive nature of business
- Any large capital expenditure plan, particularly if funded with debt in addition to that already budgeted.
- Managing regulatory risks related to patent challenges, product launches and manufacturing facilities in developed markets.