Credit Rating Report

Apex Spinning & Knitting Mills Limited

Rating	
Long Term	: **A_1**
Date of Rating	: 10 March 2010
Valid Till	: 30 September 2010

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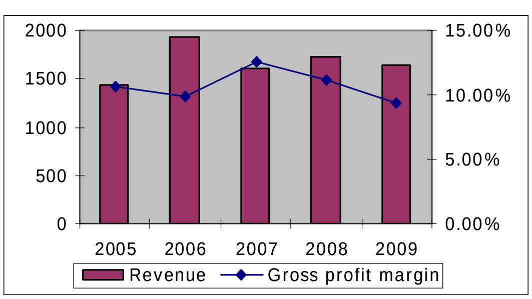
Financial Highlights

BDT in Million

	2008	2009
Sales	1,718.68	1,649.53
Gross profit	191.46	155.27
EBITDA	183.72	118.64
Current assets	588.82	542.69
Total assets	990.65	914.80
Current liabilities	556.81	511.49
Long term liabilities	50.30	19.25
Shareholders equity	383.54	384.06
Gross profit margin	11.14%	9.41%
Net profit margin	3.86%	0.80%
EBIT to interest (times)	4.54	2.00
Return on asset	7.16%	1.38%
Current ratio (times)	1.06	1.06
Debt ratio (all liabilities)	61.28%	58.02%



1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned **'A_1'** (Pronounced single A one) rating in the Long Term to Apex Spinning & Knitting Mills Limited (hereafter referred to as ASKML or the Company) in view of the performance of the Company for the business year 2009 and other relevant information.

Corporate entities rated **A_1** in the long term belong to 'Strong Capacity' cohort. Such companies have strong capacity to meet financial commitments, but are susceptible to the adverse effects of changes in circumstances and economic conditions. These companies are judged to be of high quality and subject to low credit risk.

CRAB has performed the present rating assignment based on audited financial statements of March 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 payment history.

Apex Spinning & Knitting Mills Ltd was incorporated as a public limited company in 1990. The Company produces knit garments of different categories and export to different European countries having the manufacturing facilities of knitting, dyeing, printing, sewing and finishing. The factory is located at Chandora, Kaliakoir in Gazipur District. There are three other companies including one knit garments company located at the same premises from which ASKML is getting synergy.

In 2009, the Company's production declined to 11.71 million pcs knit garments of different categories from 14.12 million pcs in 2008 registering capacity utilization of 78.08% which was 94.14% in the previous year. Although the Company imported yarn, fabric, chemical and accessories from France, Germany, Italy, China, Hong Kong, India, Indonesia, Japan, Korea, Singapore and Taiwan it has high dependency on domestic market for raw material procurement resulting in an average rate of 78% over the last five years revealing lead time facility and low risk regarding raw material management issue. Although the Company replaced some machineries of its knitting & dyeing unit, it's machineries in sewing unit are old where 34 machines are not functioning among 1,324 machines.

The revenue sources of ASKML are the export of different categories knit garments where the contribution of Polo shirt and T-shirt has declined over the years and stood at 31.85% in 2009 registering an average rate of 51.78% as the management has adopted the policy to produce value added diversified products which have more profit margin and less competition. However the sales revenue of the Company not only declined to BDT 1,649.53 million in 2009 from BDT 1,718.68 million in 2008 by 2.16% but also its monthly sales volatility increased resulting in a coefficient of variance of 42.37% in 2009 which was 28.16% in 2008. The Company had customer concentration on only two customers over the last five years registering an average rate of 80% where only one customer (having long relation with ASKML) contributed 75% of sales in 2009. The gross profit of the Company declined to BDT 155.27 million in 2009 from BDT 191.46 million in 2008 by 18.90%. The net profit of the Company declined to BDT 13.12 million in 2009 from BDT 66.39 million in 2008 due to decline in sales and margin resulting from world recession which is considered to be increased in the upcoming year while assigning rating. In 2009, the Company's earnings were 1.38% of its average assets and 3.42% of its average equity which was 7.16% and 18.51% respectively in the previous year.

The leverage position considering all liabilities reveals moderate leverage position of the Company. The debt to equity ratio of the company remained comparatively low over the years. The debt ratio considering only long tem debt (3.05%) was low over the period under analysis. Although declination in the debt coverage considering FFO and CFO reveals squeezing in financial flexibility, the stable debt ratio (all liabilities) over the last five years along with low long term debt will eventually keep the credit risk at low. From the banker's confidential report it is found that the Company has satisfactory relation regarding financial issues having no rescheduling and default history.

The Company maintained stable current ratio over the last two years which was marginally more than one time from 2008 which reveals stringent position of honoring short term obligation. However the quick cash conversion cycle resulting from long payable in days compared to receivable and inventory turnover eventually facilitates the Company to meet its short term obligation.

The rating also considers the listing of the Company in both the bourses of the country, shareholding concentration, composition of Board, trend of dividend declaration over the years, sponsor's involvement in operation. Total shareholders' equity of the Company stood at BDT 384.06 million in 2009 which was BDT 383.54 million in 2008 registering a growth of only 0.14%. Total equity comprises BDT 84.0 million (21.57%) share capital, BDT 15.0 million (3.91%) share premium, BDT 132.45 million (34.49%) reserve & surplus and BDT 152.60 million (39.73%) retained earnings.

The rating also considers structured factory setup, group support, raw material procurement strategy, the facilities provided to labor, achievement of several award and quality control system to maintain customer confidence. The management of the Company is not likely to pose any severance threat for ASKML as it is an old and established organization having good succession planning. There are easy access to data and quick flow of information regarding production, labor, stocks and sales related issues which eventually help the Head Office to effectively control and monitor the operation of the factory.