

Rating Report FARIDPUR JUTE FIBRES LTD.

Rating Award

Long Term: **BBB₃**
Date of Rating: 11 February 2010
Valid Till: One Year

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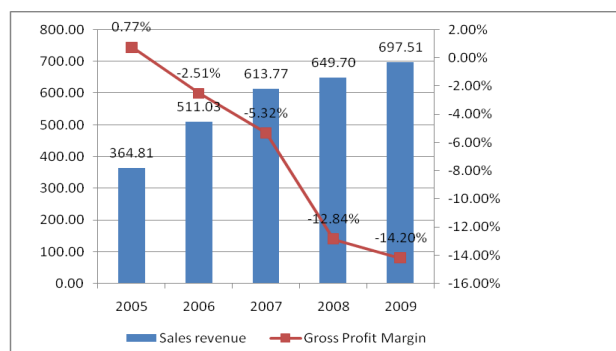
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BDT in million

Particulars	2008-09	2007-08
Paid-up Capital	4.70	4.70
Total Assets	804.85	582.168
Total Liabilities	463.07	493.54
Total Turnover	697.51	649.70
Net Profit	(50.91)	(40.42)

Particulars	2008-09	2007-08
Current Ratio	0.59	0.70
Total Liability/ Equity	2.35	6.57
Debt-Equity Ratio	1.06	4.31
DSCR	-0.93	-0.73
Borrowed Funds/ EBITDA	21.03	7.55
Interest Coverage Ratio	-1.24	-1.08
Gross Profit Margin	-14.20%	-12.84%
Net Profit Margin	-7.30%	-6.22%
Return on Sales	-7.30%	-6.22%
Return on Assets	-6.33%	-6.94%
Return on Equity	-14.89%	-45.61%



1.0 RATIONALE

Rationale

CRAB has assigned **BBB₃ (Triple B Three)** rating in the long term to **Faridpur Jute Fibres Ltd** based on audited financials of 2008-2009 and other relevant information. Corporate entities rated BBB in the long term belong to 'Adequate Capacity' cohort. Corporate entities rated BBB₃ have adequate capacity to meet financial commitments but more susceptible to adverse economic conditions or changing circumstances and also subject to moderate credit risk. The rating reflects the company's strength with its moderate financials; moderate business risk. The rating also factors experience of the management and satisfactory credit history¹. The rating however, is natural by on centralized revenue sources and larger scale of business.

Faridpur Jute Fibres Ltd was incorporated on 25 December 1980 as a Public Limited Company. Primary objective of the company is to manufactures 100% export quality jute yarn & twine of various counts.

Jute has lots of inherent qualities relative to its synthetic counterpart e.g. biodegradable and low priced, high tensile strength, eco-friendly, moisture retention capacity and fire retardancy. In 2007-08, Bangladesh produced about 24.80 % of world jute production. In terms of world export of jute fiber and jute product, Bangladesh's share is more than 65%, which makes Bangladesh the largest exporter of jute fiber and jute product in the world.

According to Bangladesh Jute Spinners Association (BJSA) statistics, In FY 2008-2009 total export of mills under BJSA was 3.04 lac MT. and export value of TK. 14799.30 million. The export in last year was 3.37 MT and export value of TK. 15816.2million, which reduced by 9.80% in quantity and export value reduce by 6.43. The average export price of jute yarn during the FY 2008-09 was BDT 48672.93 per MT (US \$ 711.59).

Rationale

Faridpur Jute Fibres Ltd ranks 7th position in terms of export quantity among the 54 mills under BJSa with export Quantity of 13330 MT in the FY 2008-2009, which represent 4.38% of the total export quantity of the BJSa.

Faridpur Jute Fibres Ltd ranks 10th position in terms of export value among the 54 mills under BJSa with export value of tk. 597.57 million in the FY 2008-2009. Which represent 0.089% of the total export earnings of the BJSa.

As a 100% export oriented project, **Faridpur Jute Fibres Ltd** entitled to 10 % cash incentives from the government which generate additional cash flow if the existing rule continues and will increase the financial viability of the company. **Faridpur Jute Fibres Ltd** benefited because of its locally produced raw materials and its more value added diversified products.

The rating however, is constrained by higher cost of goods sold (114% during the FY2008-09), which reduce the gross profit margin of the company. Raw jute represents 63% of the total cost of goods sold during last two year It is to be noted that, the best time to collect raw jute is July to October. In that period of the year the company has higher demand of jute and the average price of raw jute was BDT1200 per mound, during the period they not able to manage the sufficient fund to purchase raw materials. They purchase the raw material (jute) in December and January month of the year, at that time the market price of raw jute increase to BDT 2000 per mound, which increase the cost of goods sold. Average Cost of goods sold growth for the last four years has been around 23%, which was very high, which is more than that of the revenue growth 18% for last four year. Hence, the company was not able to reduce the cost of goods sold which eventually decreased the gross profit margin. All these indicate a high cost of operation. However, the company's financing cost in 2009 soared up by BDT.41.05 million, which was BDT.37.49 million in the previous year, which eventually reduced the overall profitability of the company.

Working capital performance of the company was not satisfactory. Both current ratio and quick ratio was less than 1 during the last four years period. However, both the ratios had decreases from 2008 to 2009. Net working capital of the company, in every year is decreasing, experienced negative figures (i.e.) current liabilities exceeded current asset, in all the four years. Moreover, high leverage also brings additional constrain for the company.

Leverage position of the company states that debt ratio of the company decrease from year 2008 to 2009 from 0.66 to 0.45 As debt ratio is less than 1, it signifies that the company has more assets then debt, which is a good sign. Again, debt-equity ratio decrease from 4.31 to 1.06 A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings because of the additional interest expense. Capitalization ratio also decreases from year 2008 to 2009 from 0.66 to 0.45 times whereas interest coverage ratio has declined from the previous year. The lower the ratio, the more the company is burdened with debt expense. When a company's interest coverage ratio is -1.24 or lower, its ability to meet interest expenses is questionable. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses.

The company also contains exchange rate risk for its foreign currency denominated income. Other potential risks of the project are upward trend of utility prices, high inflation and labor unrest of country which may eventually affect the company cash flow.

Faridpur Jute Fibres Ltd. has been incorporated on 25 December 1980 as a Public Limited Company under the Companies Act 1913 with an authorized capital of BDT 40 million only divided into 40, 00,000 ordinary shares of BDT 10 each. In its inception, the paid up capital of the Company was BDT 0.50 million. As on 30 June 2009, the paid-up capital of the company was BDT 4.7 million. The Company is comprised of 11 shareholders. Their factory is situated in Faridpur, where 969.75 decimals (586.69875 katha) of land is in the name of factory. The company manufactures 100% export quality jute yarn & twine of various counts. Detail financials of the Company is outlined below.

Financial Highlights of the Company

BDT million

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
Paid-up Capital	4.70	4.70	4.70	4.70	4.70
Total Assets	804.85	582.168	541.04	538.15	436.91
Total Liabilities	463.07	493.54	421.28	427.90	348.28
Total Turnover	697.51	649.70	613.77	511.03	364.81
Net Profit	(50.91)	(40.42)	8.75	22.89	30.25

Shareholding pattern as on 30 June 2009

SL No.	Name of Shareholders	Total Number of shares	Total Taka	% of Shareholding
1	Khaled Yusuf	58059	580590	12.35%
2	Shabbir Yusuf	104559	1045590	22.25%
3	Faisal Yusuf	58059	580590	12.35%
4	Kamal Yusuf	58059	580590	12.35%
5	Shahida Ali	5529	55290	1.180%
6	Akmal Yusuf	58059	580590	12.35%
7	Saud Yusuf	58059	580590	12.35%
8	Mahmuda Moshleuddin	5529	55290	1.180%
9	Farida Ameen	5529	55290	1.180%
10	Fuad Yusuf	58059	580590	12.35%
11	M.A.Farhad	500	5000	0.11%
	Total	470000	4700000	100%

Management

Mr. Khaled Yusuf is the Chairman of the company and Mr. Shabbir Yusuf is the Managing Director of the company. Mr. Khaled Yusuf is the Sponsor shareholder of this company. Since the inspection, he is involved with this company. It is basically a family owned concern having more than 90% holdings of their own.

Industry Analysis: