Credit Rating Report

Gunjaan Metal Works Limited

Rating	
Long Term	: **BBB_2**
Date of Rating	: 06 April, 2010
Valid Till	: 31 December, 2010

Analysts:

Nafiz Iftekhar

Financial Analyst
nafiz@crab.com.bd

Nur Elahee Molla

Senior Financial Analyst
nur_elahee@crab.com.bd

Financial Highlights (year ended on 30 June)

(BDT in Million)

Particulars	2009
Turnover	241.80
Gross profit	34.04
EBITDA	32.21
Current assets	61.37
Total assets	149.86
Current liabilities	14.75
Long term liabilities	88.35
Shareholders equity	31.77
Gross profit margin	14.08%
Net profit margin	9.37%
EBIT to interest (times)	3.89
Current ratio (times)	4.16
Quick Ratio (times)	0.89
Inventory % of Total Assets	32.23%
Inventory % of Current Assets	78.70%
Inventory % of Sales	19.97%
Debt ratio (all liabilities)	78.80%
ROA= EBIT/Avg. Assets	32.30%
Liquidity (times)	5.85
FCF/Debt	15.52%
DSCR (times)	4.11

1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned **'BBB_2'** (Pronounced triple B Two) rating in the Long Term to Gunjaan Metal Works Limited (hereafter referred to as GMWL or the Company) in view of the performance of the Company for the business year 2009 and other relevant information.

Corporate entities rated **BBB_2** in the long term belong to 'Adequate Capacity' cohort. Corporate entities rated in this category have adequate capacity to meet financial commitments but are more susceptible to adverse economic conditions due to changing circumstances and are subject to moderate credit risk.

CRAB has performed the present rating assignment based on audited financial statements of June 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.

Gunjaan Metal Works Ltd was incorporated as a private limited company in 2008 with the aim to manufacture Liner, Pump, Tube well, various small items, base plate, ring fiance, Vee pull, Nipul, Tce, planger etc. In recent years the Company utilized its 50%-55% capacity, having a scope to utilize at a higher rate under the consideration of increasing demand. More than 70 % of the foundry industries of the Country are situated at Bogra. Foundry industry of Bogra supplies around 80 % agricultural equipment of the Country especially centrifugal pump which is used in irrigation.

As the Company commences the business as on March 28, 2008, there is no scope for analyzing the trend of income generating capability based on a year and a few months financial data, rather industry demand and prospect of the Company to meet future demand has been taken into extreme consideration while assigning the rating. The turnover for the year ended on June, 2009 was BDT 241.80. Cost of Goods sold is almost 86% of Sales revenue. Cost of production for the year ended 30 June, 2009 was BDT 226.38 million where raw material purchased was 87%, direct expenses 11% and manufacturing overhead was 2%. Total Gross Profit for the year 2009 was BDT 34.04 million, accounting 14.08% of total sales turnover. Net profit margin for last year was BDT 22.65 million, accounting 9.37%. EBIT to Average Assets was 30.59% which indicates moderate level of asset utilization while return on Average assets was 22.72%.

The leverage position considering all liabilities reflects high debt based capital structure of the Company. Total shareholders equity of the Company stood at BDT 31.77 million in 2009. The debt ratio considering borrowed fund is moderate. From the debt ratio considering borrowed fund, about two-third of the assets are financed by short term and long term debt. FCF to Debt is only 15.52% which is very low and poor considering free cash flow available to meet the payment of debt.

Liquidity position considering current ratio is satisfactory but if quick ratio is taken into consideration, the liquidity position turns into alarming indicator. About 79% inventory percentage of total current asset indicates high level of inventory were to be piled up during the year. The monthly stock data provided by the Company reveals that company had huge pile up of raw material and finished goods pile up. This pile up is sizeable during the peak season. So, the Company had to maintain a regular flow of working capital. Inventory to net working capital ratio is above one indicates CC overdraft utilized for (in most of the cases) maintaining inventory pile up. For purchasing raw materials and pile up the finished goods at stock the Company needs working capital loan and if the Company grows rapidly it will need extension of limit in future. During the observed period during June 2009 to February, 2010, utilization of funds exceeded limit three times I in the month of June, 2009; September, 2009; and December, 2009. However, as per information provided by the concerned Banks of Gunjaan Metal Works Limited, it is found that the Company has satisfactory financial relationships with its banks, Company's repayment record is regular and average past dues time does not exceed 10-15 days. There is no past record of rescheduling or default as per banker's confidential reports received from the concerned bank of the Company.

The rating also considers the composition of Board, the wide experience of the Board members, structured reporting system with experienced management. There is a access to data and quick flow of information regarding operation and financial issues which eventually help the Company to operate efficiently to maintain the customer confidence. The rating remains constrained by the uncertainty of earning flows, coverage position, industry nature and overall macro factors. As the company dependent on imported raw material so, it has exposure to exchange rate of currency.