

## Credit Rating Report JANATA JUTE MILLS LTD. (JJML)

**Long Term Rating: A<sub>2</sub>**

**Date of Rating : 28 February 2010**

**Validity : 31 December 2010**

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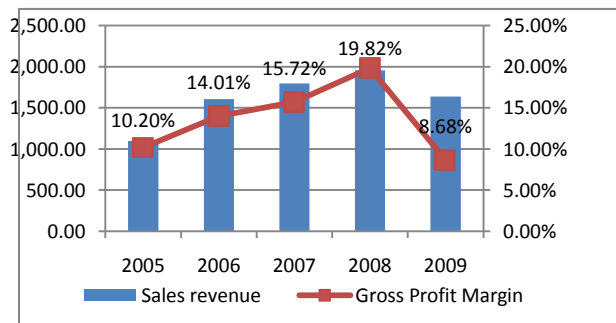
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**Financial Highlights**

(BDT in million)

Particulars	2008-09	2007-08
Paid-up Capital	43.27	43.27
Total Assets	1473.62	1,406.57
Total Liabilities	120.51	318.85
Total Turnover	1638.83	1955.98
Net Profit	310.95	305.17
Current Ratio	9.04x	3.00x
Total Liability/ Equity	1.09x	1.29x
Debt-Equity Ratio	0.20x	0.05x
DSCR	47.14x	68.07x
Borrowed Funds/ EBITDA	0.43x	0.19x
Interest Coverage Ratio	0.89x	40.34x
Gross Profit Margin	8.68%	19.82%
Net Profit Margin	18.97%	15.60%
Return on Assets	21.10%	21.70%
Return on Equity	22.98%	21.37%



**1.0 RATIONALE**

Credit Rating Agency of Bangladesh Ltd. (CRAB) has assigned **A<sub>2</sub> (Single A Two)** rating in the long term to **Janata Jute Mills Ltd** (hereinafter referred to as JJML or the Company) based on audited financials of FY 2008-2009 and other relevant information.

Corporate entities rated **A<sub>2</sub>** in the long term belong to 'Adequate Capacity' group. Such corporate entities rated in this category 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, subject to low credit risk.

The rating reflects the Company's strength with its moderate financials and moderate business risk. Financial Solvency, wide range of markets, reputation & goodwill for performing contractual obligation, captive power generation with gas, efficient system of procurement of raw jute through own agencies located in key jute growing areas, sufficient warehouse facility to procure & store jute for at least 6 months, experience & knowledge base of 40 years in jute products manufacturing. The rating also factors experience of the management and credit history. The rating also factors in concentrated revenue sources and larger scale of business.

Janata Jute Mills Ltd was established in 1966 as a 100% export oriented Jute Yarn producing unit. The factory is located at Polash, Ghorashal in the district of Narsingdi.

The Company has achieved national export trophy for last three year consecutively, Gold trophy in FY 2005-06, Gold trophy in FY 2006-07 and Silver trophy in FY 2007-08.

Janata Jute Mills Ltd is family oriented business with Mr. Najmul Huq as Managing Director, having 40 years of experience in Jute Goods Manufacturing & Exporting. The top management has highly qualified and experienced people.

At 100% capacity the Company is able to produce 30,617.126 MT of jute products including 18,058.745 MT yarn. In FY 2008-09, the Company produced 10,047.52 MT jute yarn at capacity utilisation of 82.58% in Yarn and 60% in other products. JJML produces diversified products namely hessian, sacking, yarn, linoleum cloth and felting.

As a 100% export oriented project, JJML is entitled to 10% cash incentives from the government, which would generate additional cash flow if the existing rule continues and will enhance the financial viability of the Company. The Company is benefited as the raw materials are produced locally and it produces value added diversified products.

The rating however, is constrained by higher Cost of Goods Sold (84.17% of sales revenue during the FY 2008-09), which reduced the gross profit margin of the Company. Raw jute represents 85% of the total Cost of Goods Sold. The market price of raw jute increased to BDT 2,000 per mound in the FY 2008-09, which ultimately increased the Cost of Goods Sold.

Working capital performance of the Company was satisfactory. Analysis of last four years performance shows that both current ratio and quick ratio was greater than one. Net working capital of the Company is also in increasing trend, which experienced positive figures, that is, current asset exceeded current liabilities for last four years.

The Leverage position of the Company states that, debt ratio of the Company has 0.02 at the end of FY 2008-09. The leverage position states that debt ratio of the company decrease from year 2008 to 2009 from 0.04 to 0.2. As debt ratio is less than 1, it signifies that the Company has more assets than debt, which is a positive for the Company. Again, debt-equity ratio decreased from 0.05 to 0.02. A low debt/equity ratio generally means that a Company has been aggressive in financing its growth with equity. Capitalization ratio also decreased from 2008 to 2009 from 0.04 to 0.02 times whereas interest coverage ratio 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 0.89, its ability to meet interest expenses is moderate. An interest coverage ratio below 1 indicates the Company is generating too modest revenues from its operation to satisfy interest expenses. However, apart from year 2007, the Company had more than 10 times interest coverage ratio.

Profitability measures of the Company for last five years shows that the operating profit margin of the Company was 0.40% in 2008-09, which was 12.41% last year. Even though the average net profit margin of the Company for the last four years had been 10.88%, in 2009 it was 18.97%, which is quite good compared to the industry. In FY 2009, return on assets was 21.10% and return on equity was 22.98% respectively.

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