

## Credit Rating Report

### Kazi Farms Limited

**Rating**

Long Term : **AA<sub>2</sub>**  
 Date of Rating : 13 May 2010  
 Valid Till : 30 June 2011

**Analysts:**
**Nur Elahee Molla**

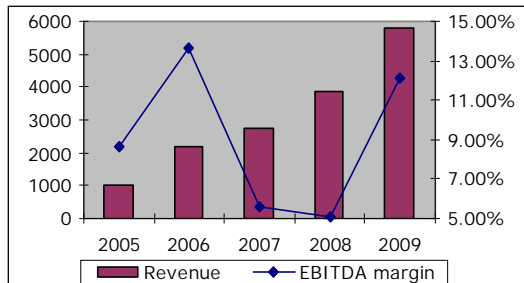
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**Financial Highlights**

	BDT in Million	
	2008	2009
Turnover	3,849.35	5,801.69
Gross profit	256.88	750.44
Current assets	1245.24	1636.38
Total assets	1771.30	2196.33
Current liabilities	1069.62	874.90
Long term liabilities	0.00	85.53
Shareholders equity	701.68	1235.92
Gross profit margin	6.67%	12.93%
EBITDA margin	5.13%	12.14%
EBIT to interest (times)	1.85	7.55
Return on average asset	4.86%	29.44%
Current ratio (times)	1.16	1.87
FFO to debt	9.92%	64.53%
Debt ratio	60.07%	43.40%


**1.0 RATIONALE**

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned 'AA<sub>2</sub>' (Pronounced double A two) rating in the Long Term to Kazi Farms Limited (hereafter referred to as KFL or the Company) in view of the performance of 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.

Corporate entities rated AA<sub>2</sub> in the long term belong to 'Very Strong Capacity' cohort. Such companies have very strong capacity to meet financial commitments. These companies are judged to be of very high quality and are subject to very low credit risk.

Kazi Farms Limited, a Private Limited Company incorporated in 1995, produces and sells day old broiler and & layer chicks, eggs, grown-up broiler and poultry feed. The DOC produced by all other Hatcheries of Kazi Farms Group (hereafter referred to as KFG or the Group) are also sold by KFL which eventually resulted in the sound financial strength of the Company. Total production capacity of the Company is 40.50 million DOC, 180,000 grown-up broiler, 66,000 MT of poultry feed (all are internally consumed by the Group) per annum. In 2009 the Company sold 100.95 million pcs DOC, major product of KFL, comprises 32.51 million pcs (32%) KFL's DOC and 68.44 million pcs (68%) associated company's DOC.

The assigned rating incorporates Kazi Farms Group's steady improving business profile supported by growing presence in the Country's commercial poultry industry with integrated business facilities. The Group is operating 21 breeder farms, 12 hatcheries and 2 feed mills on own land of 927.97 acres in different locations of the country for bio-security and market proximity. The Group is likely to remain in the investment phase in the medium term to establish its strong presence in existing market. As KFL is the front-end company and the entire DOC produced by all the hatcheries of the Group (production capacity of the Group is 3.49 million pcs per week) are sold through the Company. The Group's growing business operation which is expected to be accelerated with the positive industry outlook will eventually be reflected in the sound financial performance of the Company in the coming years. The rating also considered sound financial strength of the Group having low leverage; debt ratio considering borrowed fund was only 28.77% in 2009. The Group has sound EBITDA margin and cash flow from operation to meet its debt obligation. Apart from this the exposure of the Group with 13 financial institutions having large amount of sanctioned limit of BDT 6,023.28 million and outstanding amount of BDT 1,988.07 million (as of 31 December 2009) revealed financial flexibility and goodwill of the Group in the financial market.

Revenue from diversified sources will ensure the future flow of cash that are expected to be accelerated in future due to positive outlook of the industry as well as the front end position in a Group which has been in an investment phase in terms of expanding capacities. Total sales of the Company largely increased to BDT 5,801.59 million in 2009 by 51% (2006-09: 58%) due to increase in both production and average price of the products, dominated by the later. Therefore KFL's gross profit margin and subsequently net margin improved substantially in 2009. Going forward, growth is likely to be supported by market demand and Group's plan to strengthen its presence in the market.

The rating also takes into consideration KFL's very low credit risk profile characterized by comfortable capital structure with gearing below 1 time, strong debt servicing indicators and healthy fund from operation. The debt ratio considering borrowed fund was 43.40% in 2009 (2008: 60.07%) which was only 3.89% considering long term debt of BDT 85.53 million (KFL had long term liability only in 2009 during the last five years). Moreover the Company's loan to sister concern and cash & bank balance amounting BDT 956.22 million apart from BDT 219.51 million investment in BB bond and associated company against BDT 953.22 million borrowed fund - reveal sound financial strength of the Company to honor debt obligations- which is also considered while assigning the rating.

The rating is also supported by its well managed working capital; quick ratio was 1.24x, low level of inventory pile up record (days in inventory: 39 days) and above all the selling system of taking advance from the agents which eventually not only ensure the amount & timing of cash flow but also help the Company to achieve production efficiency through setting their production plan considering order in hand.

The rating also reflects the Competitive advantage of the Company regarding intra Group business integration & sales, brand strength of Kazi Farms Group, Group's transportation facility, sound quality control system, industry standard quality management, sponsor's background, easy access of data & quick flow of information and good track record of on time honoring of debt obligation (as certified by the banks of the Company through Banker's Confidential Report).