

Rating Report M. I. Cement Factory Ltd.

Rating Award

Long Term: **AA₃**
Date of Rating: **11 April 2010**
Valid Till: **30 June 2011**

Analysts:

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1.0 RATIONALE

CRAB has assigned **AA₃ (Double A Three)** rating in the long term to M. I. Cement Factory Ltd.

Companies rated in this category have very strong capacity to meet financial commitments. These companies are judged to be of very high quality, subject to very low credit risk.

CRAB has performed the present rating assignment based on latest audited financial statement of the second half of 2009 (July - December 2009) and other relevant information provided by the Company. The rating also takes into account business profile, past record and trend of operating performance, balance sheet strength and loan re-payment history of the Company.

Commenced its operation in 2000, MI Cement derives its revenue mainly from manufacturing and selling of Ordinary Portland Cement and Portland Composite Cement in local and foreign (export in India) markets with an installed capacity of 2800MT/day.

The rating reflects the Company's improving leverage and comfortable liquidity. With the completion of its ongoing capacity expansion, likely by the third quarter of 2011, MI will have a significant presence in cement. MI has benefitted from a cyclical upturn in the cement industry over the last two years. CRAB expects that the performance of the cement business to remain strong in FY09-10. MI has chalked out a capital expenditure program of around BDT 2791.00 million for FY09-10 and FY10-11, which is likely to be funded through a combination of debt (around 46%) and equity (around 54%) from internal accruals and additional infusion, if required.

The rating is constrained by MI Cement's presence in cyclical industry. The commodity nature of its business makes its performance susceptible to product price and raw material price volatility.

Financial Highlights of M. I. Cement Factory Ltd.

(Months)	FY09 (6)	FY08-09 (12)	FY07-08 (12)
Net Sales (BDT Million)	1360.6	2290.4	1927.2
EBITDA (BDT Million)	243.4	476.3	240.6
EBITDA Margin (%)	17.9%	20.8%	12.5%
Net Profit Margin	8.2%	8.2%	4.9%
Return on Asset	6.3%	12.3%	5.9%
Quick Ratio (x)	0.80	0.63	0.64
Cash Conversion Cycle (Days)	95.17	65.38	50.62
Debt to Equity (x)	0.31	0.67	1.64
Borrowed Fund to EBITDA (x)	1.39	1.05	3.76
Cash Flow from Operation (CFO) BDT Million	148.7	402.8	-256.3
Free Cash Flow (FCF) BDT Million	144.5	295.7	-591.5
EBIT/Interest (x)	6.49	3.91	3.80

Financial Summary

- Revenue, EBITDA and Net Profit have grown at a CAGR of 25.3%, 54.7% and 72.4% , respectively, in the period FY05-06 to FY08-09.
- EBITDA Margin expanded to 20.8% in FY08-09 from 12.5% in FY07-08. Healthy net margin of 8.2%.
- Low gearing- FY08-09 debt/equity improved from 1.64x to 0.67x and further improved to 0.31x in last six month of FY 09, debt/EBITDA improved from 3.76x to 1.05x in FY08-09 due to EBITDA growth and debt repayment.
- Strong Liquidity- Cash and bank balance as % of current liability was 7.9% and utilised only around 25% of bank limit , left around 75% unutilised.
- Coverage Ratio improved and adequate- EBIT/Interest was 3.91x and DSCR was 1.23x in FY08-09

However, considering the long presence and size of operations (with proposed expansion it would be one of the largest cement manufacturer in Bangladesh) it has financial capability to buy and stock raw material, if required. MI has sufficient expertise in procuring raw material at competitive prices and it is well positioned to buy clinker and other raw material at the right time. The past performance has led to reduce volatility in earnings in the past.

Positive Rating Factors

- Sustained debt reduction
- Clinker price declining
- Improvement in debt coverage indicator particularly gearing
- Stability in earnings directly relating to the expansion
- Further equity injection to improve gearing

Negative Rating Factors

- Capital expenditure plan, particularly funding with debt in addition to that already budgeted
- Sustained slowdown in cement sales that weakened profitability
- Production hampered due to power shortage