

Credit Rating Report

Maksons Spinning Mills Ltd.

Rating

Long Term : **BBB₂**
Date of Rating : **24 March 2010**
Valid Till : **31 March 2011**

Analysts:
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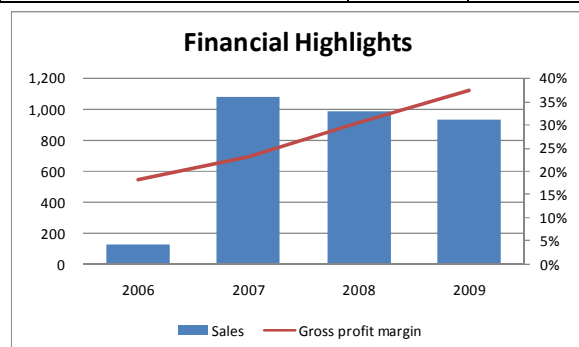
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Financial Highlights
Exhibit 1: Financial Highlights (BDT in million)

Particulars	2008	2009
Sales	982.50	934.30
Operating Profit	269.84	308.95
Net Profit Before Tax Holiday Reserve	72.68	112.41
Net Profit After Tax Holiday Reserve	45.67	74.88
EBITDA	351.66	406.94
Total Asset	2182.18	2647.81
Current Assets	1342.03	1401.38
Current Liabilities	1522.17	1218.63
Non-current Liabilities	215.24	325.32
Shareholder's Equity	444.77	1103.86
Net Profit Margin	4.65%	8.01%
Return on Equity (ROE)	17.78%	10.49%
Return on Asset (ROA)	3.33%	4.25%
Current Ratio (x)	0.88	1.15
Debt Ratio (x)	0.65	0.56


1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned '**BBB₂**' (Pronounced Triple B Two) rating in the Long Term to Maksons Spinning Mills Limited (hereinafter referred to as MSML or the Company) in view of the performance of the Company for the business year 2009 and other relevant information.

Corporate entities rated **BBB₂** 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.

The rating takes into account business profile, past record and trend of operating performance, balance sheet strength and loan repayment history of MSML.

Maksons Spinning Mills Ltd., a public limited company, commenced its full operation back in 2006, after incorporation in 2003. It produces carded and combed cotton yarn and organic yarn with an installed capacity of 9160 metric ton/year (54.41% actual capacity utilization rate as of 31 December 2009).

As produced yarn are deemed export, the global financial crisis and economic slowdown impacted Bangladesh mainly through the export channel, causing demand decline and price decline. However, export of textile merchandise

has been relatively sheltered due to low cost nature of Bangladeshi products. Though intra-year output growth estimates are unavailable for the Bangladesh economy, the growth prospect of real sector output in FY10 is expected to remain healthy based on the assumption that the initial process of recovery of world economy from the impact of the financial crisis will speed up during that period.

In the wake of global financial crisis started back in 2007, the revenue growth of MSML dropped and became negative during last two consecutive years and reached at BDT 934.30 million in FY09 from BDT 1077.10 million in FY07. However, in Q1 2010, the revenue trend indicated a recovery pattern. In spite of negative growth of revenue, Net Profit before Tax increased to BDT 121.46 million in FY09 from BDT 60.94 million in FY07, due to control in factory overhead and direct expenses though price of cotton (raw material) increased over the period.

The rating is concerned regarding the inefficiency in working capital management and price sensitiveness in raw materials and uninterrupted power supply is also an obstacle to meet the customer demand on time. Continuous high receivable and inventory position during the period FY06-FY09 (Average Collection Period in FY09 was 237 Days where as it took around 379 days to convert inventory to sales during the same period) negatively impacted on the cash flow and cash flow turned to negative. In order to support the operation it depended heavily on bank loans (high leverage) resulted in low coverage (below 1.0) and tight liquidity.

The rating is supported by positive industry prospect and economic outlook, gradual recovery of export from global financial shock as well as consistent EBIT increasing trend and profitability level. It also considers the average MIS (not integrated), industry standard management quality, raw material supply position and potential demand and some other competitive advantage.

However the rating is warranted by the fact that in FY09 the company rescheduled its loan with Southeast Bank Limited and The City Bank Limited; however, after rescheduling, part of the loan with Southeast Bank Limited was under SMA.

The rating is under surveillance and any material event could lead to downgrade of the rating.