Credit Rating Report
Mahmud Denims Ltd.

Rating Award

Long Term : **A_3**
Date of Rating: 11 February, 2010
Valid Till : 28 February, 2011

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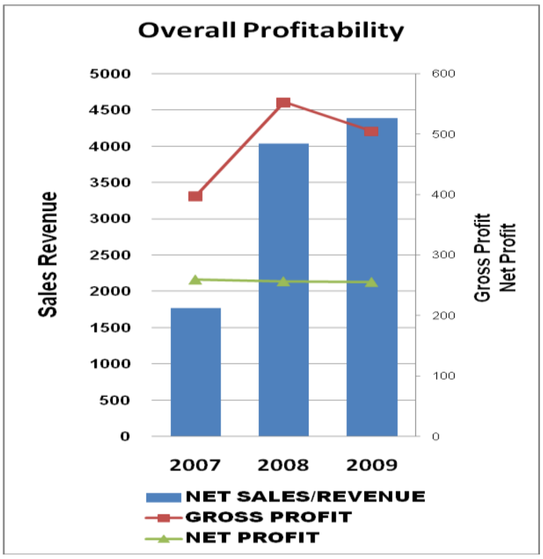
(BDT in Million)

	2009	2008
Revenue	4381.297	4034.055
Gross profit	504.572	552.601
Current assets	1639.069	1621.831
Total assets	3388.288	3413.931
Current liabilities	1286.794	1434.721
Long term liabilities	1121.282	1043.301
Shareholders equity	871.614	616.054
Gross profit margin	11.52%	13.70%
Net profit margin	5.83%	6.36%
EBIT to interest	3.32 x	3.04 x
Return on asset	7.54%	7.52%
Current ratio (times)	1.27	1.13
Debt ratio (all liabilities)	74.28%	81.95%



1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned **'A_3'** (Pronounced single A three) rating in the Long Term to Mahmud Denims Ltd. (hereafter referred to as MDL or the Company) in view of the performance of the Company for the business year 2009 and other relevant information.

Corporate entities rated **'A_3'** in the long term belong to 'Strong Capacity' group. Corporate entities rated **'A_3'** have strong capacity to meet financial commitments but are susceptible to adverse economic conditions due to changing circumstances and are also subject to low credit risk. These type of companies are judged to be of high quality.

CRAB has performed 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 of the Company.

The Company was incorporated and commenced as a public limited company in December 2004 having a factory located at Shafipur, Kaliakoir, Gazipur with 990 decimals of land. MDL is mainly 100% export oriented denim manufacturer and the main products of MDL is yarn and denim fabrics and now it can produce 28-30 tons of yarn and 26,785 yard of fabrics per day on average.

During 2007 to 2009 sales revenue increased by 68% on an average, while cost of goods sold increased almost by 11% (77.53% vs. 88.48%). At the same time, Gross Profit declined by 10.95% (22.47% vs. 11.52%) and Total Operating Expense declined by 10.94% (21.19% vs. 10.25%) and Net Profit declined by 8.86% (14.69% vs. 5.83%). Increasing CGS, price of raw materials, factory wages and salary, gas bill, repair and maintenance, goods loading and unloading charge were reasons behind this.

On the other hand, from 2006 to 2009 Current Asset increased by 40.15% (8.22% vs. 48.37%) because of increase in inventory and accounts receivable, while Fixed Asset declined by 39.08% (90.70% vs. 51.62%) as a percentage of Total Asset and Current Liabilities declined by 8.21% (46.19% vs. 37.98%).

MDL opted finance through Long Term Debt rather than Equity at this Total Debt increased by 11.83% (24.47% vs. 36.30%) because of high amount loan taken from IBBL for capital expenditure purpose and Total Equity declined by 3.62% (29.34% vs. 25.72%) as a percentage of Total Liabilities and Equity.

Return on Asset declined by 4.04% and Return on Equity declined by 31.10% during 2007 to 2009 which articulated that the earnings generation in terms of each equity investment was in vulnerable position. ROE is highly sensitive in terms of Net Profit Margin, so a small change in Net Profit Margin will create a major change in ROE. Then Total Asset Turnover and Leverage will affect the ROE respectively.

From 2007 to 2009 Debt to Asset ratio declined by 28.4% (64.70% vs. 36.30%) which stresses the fact that MDL became solvent by reducing it's use of debt, in order to maintain it's capital expenditure. The gearing ratio showed that use of long term debt to maintain the Asset and Equity was highest in 2008; since in that year MDL had to expend almost BDT 1,318.76 million in plant and machinary and BDT 225.45 million in pre-fabricated steel building and other costs to set up its preliminary base. In the next year (2009) this rate declined by 158.75% (328.10% vs. 169.35%) than previous year (2008) since the major expendable parts like- plant and machinary, pre-fabricated steel building cost, generator, pipe fitting and other costs declined slowly.

The liquidity position of MDL slowly increased. In 2006 the current ratio was 0.18 times where in 2009 it was 1.27 times. The quick ratio was 0.12 times in 2006 where in 2009 it was 0.77 times which depicts that the short term loan paying ability is moderate.

At the same time the cash conversion cycle increased from 65.10 times to 125.36 times during 2007 to 2009 which depicts that the liquidity position grew every year which was also helpful to meet the short term obligations.

The cash conversion cycle inceased which could cause liquidity problem for the Company in the near future. Operating efficiency of MDL was in good position since Total Asset Turnover and Fixed Asset Turnover in each financial year on the contrary Average Receivable Collection Period and Average Inventory Processing period increased in last few years.

Since the cost of goods sold, day to day operating activities and the administrative expenses incerased the overall debt paying ability of MDL decreased gradually in terms of cash flow cverage rartio, times interst earned ratio and debt service coverage ratio. During 2007 and 2009 Cash Flow Coverage ratio declined by 0.93 times (2.26x vs. 1.33x), Times Interst Earned Ratio declined by 0.94 times (4.26x vs. 3.32x) and Debt Ratio increased in a small portion.

CRAB considers the composition of Board, effectiveness of the Board and The board of directors of MDL and the management are found to be experienced in the line of business. The rating also considers the labor retention success, technology used, production procedure, raw material procurement strategy and quality control system to maintain customer confidence. MDL has good backward and forward linkage which is very helpful for their ongoing business to become successful.