

Credit Rating Report

N A Z Bangladesh Limited

Rating

 Long Term : **BB₂**

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Valid Till : 31 December 2010

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Financial Highlights

	BDT in Million	
	2007-08	2008-09
Revenue	1,005.92	1,066.80
Gross profit	149.94	145.38
EBITDA	87.23	98.17
Current assets	753.48	614.85
Total assets	1227.15	1055.77
Current liabilities	816.86	654.77
Long term liabilities	199.18	178.18
Shareholders' equity	211.54	222.51
Gross profit margin	14.91%	13.63%
Net profit margin	1.28%	1.01%
EBIT to interest (times)	1.37	1.21
Return on asset	1.05%	1.02%
Current ratio (times)	0.92	0.94
Debt ratio (all liabilities)	0.40	0.53

1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned '**BB₂**' (Pronounced double B two) rating in the long term to N A Z Bangladesh Ltd (hereafter referred to as N A Z or the firm) in view of the performance of the firm for the business year 2009 and other relevant information.

Corporate entities rated BB₂ in the long term belongs to substantial credit risk cohort. Corporate entities rated in this category have major ongoing uncertainties and exposure to adverse business, financial, or economic conditions. These companies have speculative elements.

CRAB has performed the present rating assignment based on audited financial statements of June 2009 and other relevant information. The rating also takes into accounts business profile, past record and trends of operating performance, balance sheet strength and loan payment history of the company.

N A Z Bangladesh Ltd was incorporated in year 2000 under the Joint Stock Companies act of 1994 and started its formal operations in year 2002 in their fully owned factory premises located in Rajendrapur, Gazipur. The total area of land is 43 bighas, of which near about 50% is employed in factory building and residual part has prospect for further expansion.

This firm has its own in house production capacity to support most of its backward linkage necessities except yarn for final output. They have total four production floors that are utilized for knitting, fabric dyeing, accessories production and RMG products. The main raw materials procured from external sources are yarn and dyeing chemicals. Yarn is supplied by domestic firms like Square Textile, Aman Cotton etc and 100% of Dying chemical is imported from Spain, Switzerland, Germany, India and Singapore.

Despite these backward linkages support from in house production facilities, sales revenue of this firm was increasing throughout historical years at only average rate of 11.73%.

Comparison with industry shows that it is below than industry revenue GR of 24.86%. Besides that NAZ share in total industry, revenue is declining over last 5 years.

All of the profitability parameters of this firm were sharply declining over year under analysis. Especially, operating margin and net profit margin was 10.89% and 4.44% respectively in year 2005 that was reduced to 5.87% and 1.01% respectively in year 2009. And the trend of difference between operating margin and net profit margin indicates that this firm was able to generate marginally higher operating profit to meet periodic bank installment and might face difficulty in paying periodic obligations if adverse macro factors come into play. Levels of all the profit margin ratios are relatively lower than these of the maximum industry comparables. This firm's working capital management was relatively aggressive that makes this firm risky in short term basis. Besides that, level of inventory rises to BDT 425.08 million in year 2009 against BDT 140.99 million in years 2005. In addition to that its liquidity also substantially deteriorated that made the firm more depended on short term bank loan to finance its operations. Periodic coverage ratios also experienced sluggish trend, EBIT to interest ratio was down warded to 1.21 in year 2009 from 1.61 in year 2005 and EBITDA to interest ratio was also declining that makes the firm much more vulnerable to macroeconomic downturn.

This firm experienced 'stock lot' in January-February, 2009 that may stem from the relatively inefficient nature of their operation. Especially manual color mixing in Dyeing unit that may make the final output vary from buyer specification, in addition to that relatively older knitting machines might contribute behind this stock lot. This unexpected event forces the firm to restructure their periodic installment payments to bank during September 2009.

The rating also considered industry competitive forces, management quality and experience, technology used in production process, operational efficiency, relationship and retention of major buyers, basic procurement procedures, quality control system, and certainty of utilities supplies etc to reach the final conclusion about both the short term and long term creditworthiness in terms of firm's capability and willingness to service in debt in timely manner.

