

Credit Rating Report
Navana Limited
Rating

Long Term : **A₁**
 Date of Rating : 24 June 2010
 Valid Till : 31 January 2011

Analysts:
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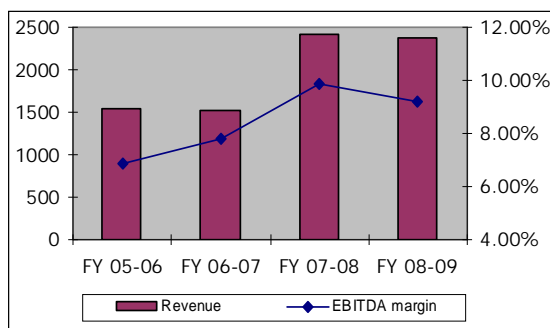
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Financial Highlights

	BDT in Million		
(Months)	FY08-09 (12)	FY07-08 (12)	FY06-07 (12)
Net Sales	2,371.39	2,406.50	1,520.79
EBITDA	217.75	237.04	118.42
EBITDA Margin (%)	9.18%	9.85%	7.79%
Net Profit Margin	3.57%	4.20%	2.83%
Return on average Asset	3.42%	5.26%	3.16%
Quick Ratio (x)	1.15	1.06	1.00
Cash Conversation Cycle (Days)	164	136	181
Debt to Equity (x)	1.52	1.65	0.75
Borrowed Fund to EBITDA (x)	6.43	5.83	4.09
Cash Flow from Operation	4.49	(178.46)	75.68
Free Cash Flow (FCF)	-19.32	-188.19	57.97
EBIT/Interest (x)	2.93	3.46	2.98


1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned 'A₁' (Pronounced single A one) rating in the Long Term to Navana Limited (hereafter referred to as Navana Ltd or the Company) in view of the performance of the Company for the business year 2009 and other relevant information.

Corporate entities rated **A₁** in the long term belong to 'Strong Capacity' cohort. Such companies have strong capacity to meet financial commitments, but are susceptible to the adverse effects of changes in circumstances and economic conditions. These companies are judged to be of high quality and are subject to low credit risk.

CRAB has performed the present rating assignment based on audited financial statements of July 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.

Navana Limited, the flagship Company of the Navana Group (previously Islam Group), was incorporated as a Private Limited Company in 1964. The company is involved in Toyota vehicles trading business since 1967 after getting dealership from Toyota Tsusho Corporation. Presently vehicles are sold directly to individuals, corporate buyers, national defense and NGOs. The Company is also involved in distribution of Hino highway passenger vehicles. Overall business of the Company is segregated into seven units located in Dhaka and Chittagong.

The Company's dealership from Toyota Tsusho Corporation to sell Toyota personal vehicles and Hino CKD vehicles is considered as the key drivers of the assigned rating. The Company has successfully established its strong position in the market with assistance of the brand name Toyota and by ensuring the easy availability of spare parts and proper services through its four service centers. Although the sales of Toyota CBU vehicles declined in FY08-09 and in 10 months of FY09-10, the leading position of Toyota personal vehicles market will eventually ensure the revenue flow of the Company in the upcoming years, which is considered while assigning the rating.

The assigned rating takes into account the established business and financial strength of Navana Group. Apart from Toyota, the Group is also involved in distribution of renowned high-way passenger vehicles, 'Hino', after assembling and fabricating body. The Group also has business exposure in real estate, construction, textiles, CNG etc. Thirteen companies of the Group have funding arrangement with twenty one financial institutions, where only one Company (Navana Limited) has long term facility. The equity base compared to borrowed fund eventually reveals equity strength of the Group having financial flexibility for additional funding if necessary. The leverage position of the Company considering borrowed fund, less than 60% over the last five years, reveals favourable debt based capital structure of the Company, which is reflected in the assigned rating.

The revenue of the Company declined to BDT 2,371.39 million in FY08-09 million from BDT 2,406.50 million by 1.46% resulted from 9.70% decline in sales of Toyota vehicles due to imposition of supplementary tax and increased market completion. Although the contribution of revenue from Toyota vehicles was the highest among other revenue sources its contribution reported a decreasing trend over the years. The annual sales of Toyota declined to 512 nos. (BDT 1,105.21 million) in FY08-09 from 578 nos. (BDT 1,223.87 million) which is expected to further decline in the current year. Therefore the overall profitability of the Company also squeezed in FY08-09 which is still better than its previous trend except FY07-08.

The rating is constrained by receivable collection inefficiency of the Company; average collection period was 135 days in FY08-09 when account receivable was 38% of revenue and 36% of total assets and the Company had to keep BDT 11.86 million as provision for bad & doubtful debts. The liquidity position in terms of current ratio of the Company was less than 1.50 time over the years having longer period cash cycle of 164 days. Therefore the Company suffered form timely flow of cash which is also reflected in delay of meeting its debt obligation. From the analysis of the Company's CC Hypo utilization it is found that in most of the cases the outstanding amount was more than the limit. Although the Company did not have any default or rescheduling history, it frequently had overdue bank liabilities during the last year.