

Credit Rating Report Nurul Islam Spinning Mills Ltd.

Rating Award

Long Term: **BBB₃**
 Date of Rating: 24 March, 2010
 Valid Till: 31 December, 2010

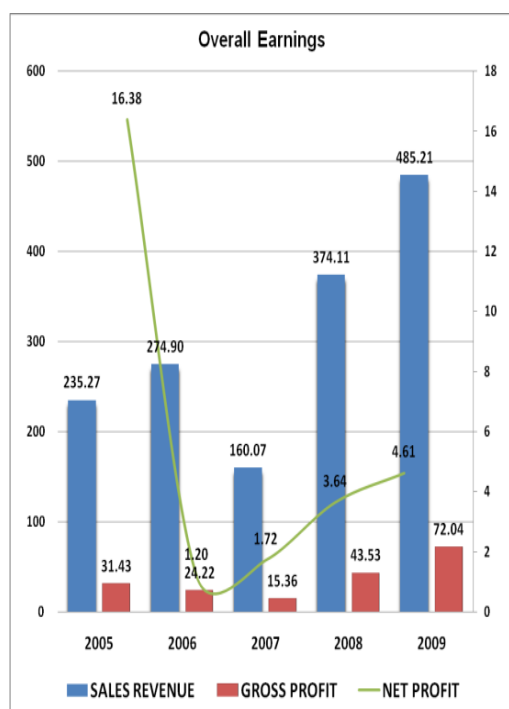
Analysts

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Financial Highlights (BDT in million)

	2009	2008
Revenue	485.21	374.11
Gross profit	72.04	43.53
Current assets	127.33	78.86
Total assets	359.69	268.01
Current liabilities	190.17	39.39
Long term liabilities	118.25	157.22
Shareholders' equity	78.50	71.39
Net profit margin	4.61%	3.64%
EBIT to interest	1.22x	1.31x
Return on asset	1.28%	1.36%
Current ratio	0.67x	2.00x
Debt ratio	85.75%	73.36%



1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned 'BBB₃' (Pronounced triple B three) rating in the Long Term to Nurul Islam Spinning Mills Ltd. (hereafter referred to as NI Spinning Mills Ltd. or the Company) in view of the performance of the Company for the business year 2009 and other relevant information.

Corporate entities rated 'BBB₃' in the long term belong to 'Adequate Capacity' group. Corporate entities rated 'BBB₃' have adequate capacity to meet financial commitments but these companies are more susceptible to adverse economic conditions due to changing circumstances and are also subject to moderate credit risk. Such companies are judged to possess certain speculative characteristics.

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 in 2000 and commenced as a public limited company in January 2002 having its factory located at Muradpurpur, Kaliakoir, Gazipur in 540 decimals of land. Nurul Islam Spinning Mills Ltd. sells all yarn to local market and now it can produce around 10,000-12,000 pound per day of yarn on an average.

In 2009 sales revenue increased to BDT 485.21 million from BDT 374.11 million in 2008. During the years 2005 to 2009 average growth rate of sales revenue was 34.62% while cost of goods sold (CGS) increased almost 33.53% on an average and total operating expense grew by 98.50% on average. Since the growth rate of sales revenue was higher than the growth rate of CGS, Gross Profit grew by 47.43% and Net Profit grew by 22.14% according to last five years on an average.

Earnings generation ability by using equity was much higher than the assets. Return on Equity and Return on Asset rose slowly for the last couple of years. ROE increased by 0.79% in 2009 from that of 2008. The growth rate of ROA showed positive trend by increasing 2.44% on an average for the last five years. ROE increased by 8.49% in last five years on an average.

Current Assets contributed more than the Fixed Assets, especially accounts receivable increased very rapidly. In last five years accounts receivable grew at the rate of 148.73% and total assets grew by 17.45% where the growth rate in current assets was 29.36% and fixed assets was 13.26% on an average. Import of huge amount of raw cotton, increase in bank balance and the increase in accounts receivable were the main components of increasing current asset.

The debt increased faster than the equity at the rate of 25.81% while the equity increased only by 6.75% on an average for the last five years. For last couple of years current liabilities' average growth rate was 220.50%, conversely the average growth rate of non-current liabilities was only 1.07%. Non-current liabilities contributed mostly by accounts payable (having average growth rate of 16.91%). At this the Company is highly levered by debt rather than equity.

In 2009 the Company added twenty new machines which needed more capital at this during last five years the growth rate of the debt was 25.81% while the growth rate of the equity was only 6.75% on an average. In 2009 total debt was BDT 308.42 million while in 2008 it was BDT 196.61 million. Since the plant and machinery had to increase every year and the building and factory had to be expanded the debt position was in upward trend which was a major reason for the increased debt. Last couple of years the capex increased about 283.57% on an average which was another reason to increase in debt.

Total current liabilities increased at a greater pace than that of the pace of total current assets. Last couple of years current liabilities increased at the rate of 220.50% on an average in the contrary the average growth rate of current assets was only 29.36% at this the liquidity condition of the Company diminished to a great extent. In 2005 the current ratio was almost 9 times where in 2009 it was only 0.67 times. The quick ratio was 1.91 times in 2005 while in 2009 it was 0.28 times which depicts that the short term loan paying ability was moderate to the Company.

Inventory to Net Working Capital decreased from the previous years. In 2005 it was 0.88 times where it decreased to -1.19 times in 2009 which depicted that the company could manage the inventory processing time very quickly. Current asset increased because of inventory and accounts receivable and current liabilities increased for high accounts payables and employees profit participation fund.

Fixed asset turnover ratio increased at a greater rate by 1.75 times than total asset turnover. The average growth rate of total asset turnover was 1.22 times over the last couple of years. It indicated that the fixed assets had more capability to generate sales than that of total assets and the operating efficiency of the Company was under control.

Average payable payment period declined by 3 days and average receivable collection period gradually declined from 18 days to 6 days as a result the cash conversion cycle increased in the last year from 46 days to 61 days. It indicates that the Company could manage its cash position efficiently. During 2006 to 2009 Cash Flow Coverage ratio increased by 0.23 times (0.08x vs. 0.31x) and Times Interest Earned Ratio increased by 0.02 times (1.02x vs. 1.22x). Increasing sales position helped to maintain the earnings at a satisfactory level which facilitated to strengthen the debt paying ability as well as the coverage position over the years.



The relationship with the bank was satisfactory. There was no record of any default by the Company. As per Bank's record during last one year, the financial relationship of NI Spinning Mills Ltd. with the bank was found to be satisfactory and the Company made all payments timely. All payments were adjusted timely and no payment became defaulted by the Company.

CRAB considers the composition of Board, effectiveness of the Board and The board of directors of Nurul Islam Spinning Mills Ltd. 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. Nurul Islam Spinning Mills Ltd. has good backward and forward linkage which is very helpful for their ongoing business to become successful.