

**Credit Rating Report**
**Orion Knit Textiles Limited**

**Rating Assigned** : **BBB<sub>1</sub>**  
**Date of Rating** : **18 February 2010**  
**Valid till** : **18 August 2010**

**Analysts:**

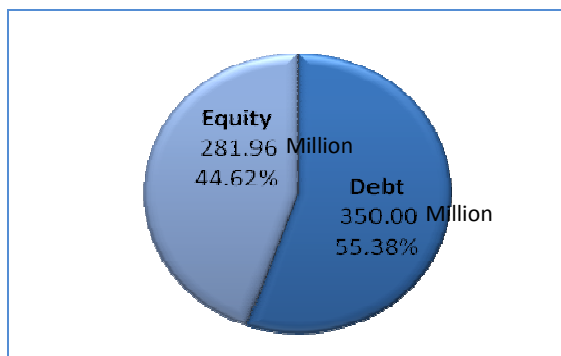
**Md. Abdullah Omar**  
 Financial Analyst  
 omar@crab.com.bd

**Sajjad-Bin-Siraj**  
 Financial Analyst  
 sbsiraj@crab.com.bd

**Project Costs**

(BDT in million)

Particulars	Amount
<b>Land</b>	60.60
Land development	1.00
Building ( Factory + Utility+ Store)	158.78
Other Civil Work	32.33
Imported machinery	298.15
Local Machinery & Gas Line	44.70
Duty/Tax/Insurance & others	14.91
Furniture & fixture	1.00
Vehicle	3.00
<b>Machinery erection &amp; installation</b>	5.90
Preliminary & Start up expenses	0.50
Contingencies for imported machineries	11.10
<b>Total Project Cost</b>	<b>631.96</b>

**Means of Finance**

**1.0 RATING RATIONALE**

Credit Rating Agency of Bangladesh (CRAB) Limited has assigned **BBB<sub>1</sub>** (Pronounced as **Triple B one**) rating to the proposed project of Orion Knit Textiles Limited which has sought a Long Term Bank Loan of BDT 350.00 million for setting up of a 100% export oriented composite knit garments unit consisting of knitting, dyeing and finishing unit at Jamirdia of Valuka, Mymensingh.

The cost of the project has been estimated by sponsors at BDT 631.96 million, of which BDT 281.96 million will be financed from equity and the remaining amount of BDT 350.00 million will be financed by long term bank loan registering a debt equity ratio of 55:45. The total daily production capacity of the project for knitting section will be 5800 kg, dyeing & finishing section will be 6240 kg and garments section will be 1800 Dz of basic T-Shirt & polo T-Shirt after the initiation of the project.

The proposed project is 100% export oriented therefore global and country economic outlook affects the viability of the project. With pickup in economic activities including new investments in Q2 FY10 supported by robust domestic demand, the economy remains on track for FY10 real GDP growth of around six percent projected earlier. The pace of export recovery has remained slower than expected, but strong growth rebound in two major advanced economies (USA, Japan) in the Oct-Dec quarter of 2009, if



sustained, will help export growth of Bangladesh.

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 the period. CRAB views that the project would go into commercial operation from 12 months of financial closure, therefore it is expected that the project would anticipate the world economic dynamism.

CRAB is concerned to the optimistic implementation schedule of 12 months; any slippage would result in cost and time over run. However, the strength of the group and experience in running some industrial undertakings by the sponsor group is likely to mitigate the risk to some extent.

CRAB views that proposed project would face global competition and Bangladeshi knit sector possesses competitive advantages over other economy and the group strength of the sponsors indicates the ability to produce quality products with competitive prices. However, price sensitiveness in raw material could affect the profitability of the project. The uninterrupted power supply is also an obstacle to meet the customer demand on time.

CRAB conducts stress test on the financial viability of the project considering different combination of scenario and looked into the output i.e. Net Present Value (NPV), IRR, Discounted Payback period, Debt Service Coverage Ratio (DSCR), Time Interest Earned Ratio (TIER), Borrowing Capacity of the Project, Loan Life coverage Ratio (LLCR). The output ranges are in the BBB rating band. The rating also reflects the proposed leverage position and future additional working capital requirement for inventory and accounts receivable tied up period.

A project rated BBB1 in the long term has certain speculative elements and hence subject to moderate credit risk. This level of rating indicates considerable variability in the risk factors. The protective factors are average. Adverse changes in business/economic circumstances may affect the timely payment of principal and interest as per terms.