

Credit Rating Report
Prime Melange Yarn Mills Limited

Rating	
Long Term	: BBB₃
Date of Rating	: 22 April 2010
Valid Till	: 31 October 2010

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Financial Highlights
Exhibit: Project Cost

Particulars	BDT in Million	
	Amount	%
Land & land development	257.43	13.65%
Building & civil works	331.31	17.56%
Imported machineries	1,037.40	54.99%
Local machineries	57.73	3.06%
Erection & installation	17.40	0.92%
Security deposit	7.79	0.41%
Office equipment and others	4.00	0.21%
Vehicle	6.50	0.34%
Pre operating expense	3.72	0.20%
Others	3.00	0.16%
Fixed cost	1,726.28	91.51%
IDCP	160.09	8.49%
Total cost of the project	1,886.37	100.00%

Exhibit: Means of Finance (including IDCP)

	BDT in Million	
	Amount	%
Debt financing	1,486.37	78.80%
Equity financing	400.00	21.20%
Total	1,886.37	100%

1.0 RATIONALE

Credit Rating Agency of Bangladesh has assigned '**BBB₃**' (Pronounced triple B three) rating to the proposed project of Prime Melange Yarn Mills Limited (hereafter referred to as PMYML or the Company).

Projects rated **BBB₃** in the long term belong to 'Adequate Capacity' Cohort. Such projects have adequate capacity to meet financial commitments but more susceptible to adverse economic conditions or changing circumstances. They are subject to moderate credit risk. Such rated projects possess certain speculative characteristics.

Prime Melange Yarn Mills Ltd, an associated company of Prime Group of Industries, has undertaken a capital expenditure program amounting to BDT 1,726.28 million (excluding IDCP) to set up a 100% export oriented mélangé yarn and polyester/cotton blended yarn manufacturing unit having an installed capacity of 20,822 kgs (per day) of different count with 37,200 spindles at Nandalalpur, Fatullah Thana of Narayanganj. The proposed project has planned to produce gray mélangé, charcoal mélangé and cotton/mélangé of different counts.

The new generation machineries which will be imported from China, Germany, Japan, USA, France, Italy, and India will eventually ensure higher productivity, lower manufacturing cost, increased energy efficiency, and quality of the products. This will help the Company to secure orders from garments exporters.

The rating is concerned about high leverage of the proposed project which will be financed at a debt-equity ratio of 76.83:23.17 excluding IDCP and 78.80:21.20 including IDCP. Moreover working capital requirement for inventory and accounts receivable tied up period will increase the financial leverage which is also considered while assigning the rating. This very high gearing ratio adds risk to the future viability of the project. CRAB notes that the founding shareholders' vast experience in the textile business and that no debt restructuring has been undertaken despite recent downturn partially offset the very high gearing risk. Moreover it is expected that the group's financial strength achieved from the sponsors' presence in diversified business line will help to mitigate the potential credit risk of the proposed project arising in distress situation.

Primary sources of debt repayment is the profitability and cash flow of the project, which has been estimated, based on expectation on the economy, industry, business variables, group support as well as management's strategic plans. It is expected that the proposed project will be able to attain quite satisfactory level of gross profit under favourable economic condition. However the EBT to sales is quite low compared to gross profit margin due to high financial expenses arising from long term loan and working capital loan. The value creation ability of the project and moderate repayment ability of the project's debt obligation (DSCR 1.29 times in year 1 and 1.11 times in year 2) reveal that the project size and leverage is high compared to its revenue stream.

The rating is constrained by the volatility in cotton prices in the international market, which is the major raw material of producing yarn. Cotton prices in any given year depend largely on the harvest against likely demand. Considering the long presence the group in the textile industry and its size of operations, it is in quite good position to buy cotton with efficiency regarding price and time. CRAB notes that at the time of commercial operation of the project the adverse impact in the US and European markets would be eased further. Improvement in export order could positively affect the Company in the medium term.

The rating is concerned to sufficient utility supply. Delay in implementation would result in cost and time over run. A time overrun may lead to increase in interest expenses. Any adverse changes in interest rate, grace period and leverage would lead to decline in the financial strength of the proposed project. However the strength of the group and experience in running some industrial undertakings including two textile companies, proven track record of entrepreneurship will help successful implementation of the project keeping the pre-completion risk and post implementation operating expense low.