

Credit Rating Report

Reedisha Spinning Ltd (RSL)

Rating

Long Term : **BBB₃**
 Date of Rating : 16 June 2010
 Valid Till : 31 December 2010

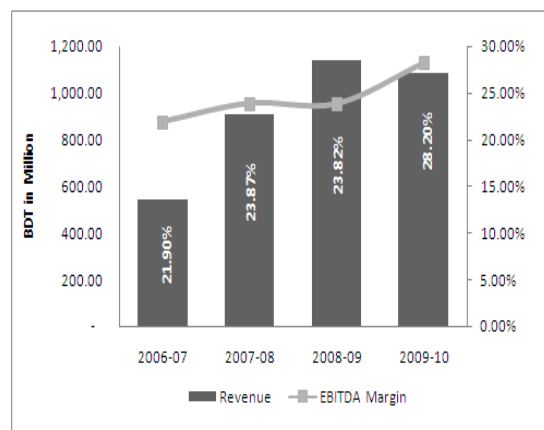
Analysts:

Razib Ahmed
 Senior Financial Analyst
 razib.ahmed@crab.com.bd

Mir Imdadul Haque
 Financial Analyst
 imdadul@crab.com.bd

Financial Highlights

	FY 09-10	FY08-09	FY07-08
(Months)	(10) Unaudited	(12)	(12)
Net Sales (BDT Million)	1,084.68	1,136.22	907.45
EBITDA (BDT Million)	305.90	270.69	216.63
EBITDA Margin (%)	28.20%	23.82%	23.87%
Net Profit Margin	6.55%	0.87%	-1.68%
Return on Average Asset	4.98%	0.72%	-1.14%
Quick Ratio (x)	0.93	0.60	0.50
Cash Conversion Cycle (Days)	65	42	63
Debt to Equity (x)	1.60	2.19	2.51
Borrowed Fund to EBITDA (x)	2.18	2.80	3.89
Cash Flow from Operation (CFO) BDT Million	-8.18	95.69	63.01
Free Cash Flow (FCF) BDT Million	-14.56	45.06	-128.41
EBIT/Interest (x)	1.81	1.11	0.83


■ RATIONALE

Credit Rating Agency of Bangladesh Ltd (CRAB) has assigned 'BBB₃' (Triple B Three) rating in the long term to Reedisha Spinning Ltd (RSL) based on audited financials of 30 June 2009 and other relevant information.

Corporate entities rated 'BBB₃' in the long term belong to 'Adequate Capacity' cohort. Such corporate entities have adequate capacity to meet their financial commitments but more susceptible to adverse economic conditions or changing circumstances and also subject to moderate credit risk.

The rating takes into account business profile, past record and trend of operating performance, balance sheet strength and loan repayment history of RSL.

Reedisha Spinning Ltd (RSL), a private limited Company, commenced its full operation back in 2006, after incorporation in 2004; with an installed capacity of 26,208 spindles, capable of producing 5,865 MTs of yarn per year. In 2008, the Company increased its capacity to 36,288 spindles and capable of producing 8,280 MTs of quality yarn per year (95.83% actual capacity utilization rate as of 30 June 2009). It manufactures auto coned electronically cleared 100% cotton carded, combed, and slub yarn for knitting between NE 16s to Ne 60s.

As produced yarn are deemed export, 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 that period.

From the very beginning, Company's sales growth is quite good (CAGR 27.44%). However, in the wake of global financial crisis started back in 2007, tagged with high financial expenses due to loan taken for BMRE purpose makes net profit after tax negative in FY07-08. Spinning sector in Bangladesh faced a rough patch in FY07-08 & FY08-09 due to global recession and dumping of yarn by India. However, in FY09-10, the revenue trend indicated a recovery pattern. RSL's net profit after tax reached to BDT 71.01 million in first 10 months operation in FY09-10 from net loss of BDT 14.18 million in FY07-08. Although price of cotton increased over the period, due to control in factory overhead (gas & fuel cost) through implementing Co-Generation system; RSL's gross profit margin increased to 11.85% in FY09-10 from 10.06% in FY07-08.

Up to FY08-09, working capital intensity of RSL is in stable trend because of stable debtor days with slightly increasing inventory days; on the other side day's payable also increased. However, in FY09-10 working capital intensity increased because of changing management policy. The management recently decided not to discount export bills. Previously, the Company discounted 80% of its total bills. The management also under processed to procuring raw cotton for next year since the market observers assume that raw cotton price may be increase in future. These two decisions negatively affected the cash flow and cash flow turned into negative in FY09-10. RSL enjoyed working capital limit of BDT 800.00 million as of 10 April 2010 against which outstanding amount at the same date was BDT 697.60 million, left only 12.8% unutilized reflecting its tight position as well. The Company has already requested its Banker to renew working capital limit.

The rating is supported by positive industry prospect and economic outlook, gradual recovery of export from global financial shock as well as consistent EBIT increasing trend and profitability level and firms 70% production consumed by its sister concern. It also considers the average MIS (not integrated), industry standard management quality, raw material supply position and potential demand. However, the rating is warranted by the fact that in FY08-09 the Company rescheduled its loan with Islami Bank Bangladesh Limited.

The rating is under surveillance and the following events provide triggers for rating actions:

Positive Triggers:

- Improvement in gearing and debt coverage indicators.
- Stability in earnings.
- Improving liquidity position.

Negative Triggers:

- Decrease in volume, price and margin.
- More tight liquidity.

■ COMPANY PROFILE

Reedisha Spinning Limited (RSL) was established as a private Company limited by share on June 22, 2004 with commitment for meeting the requirement of manufacturing and supplying high quality cotton yarn with the finance from Islami Bank Bangladesh Ltd. The Company is duly registered under the joint stock companies and firms, Dhaka and its Head office located at 36, Shaheed Tajuddin Ahmed Sharani, Tejgaon I/A, Dhaka-1208. The production was started from October 2006 with an installed capacity of 26,208 spindles, capable of producing 5,865 MT¹ of yarn per year. In 2008, the mill made BMRE and increased its capacity to 36,288 spindles and capable of producing 8,280 MTs of quality yarn per year. The factory is located in Zamirdia, Valuka of Mymensingh district. Total area of the factory is 48.5 Bigha, where almost 55% covered area for main factory building, quality control, utility, store, workshop, dormitory, office and others.

RSL has the confidence and commitment to all aspect of legal compliance to the Bangladesh Labor Law. Employees are fully covered with safety measure including standard in campus medical facilities. The Company managed to comply with the international standard of its quality product. This is reflected in the attainment of Oeko-Tex Certificate² conferred for fulfilling the norms of international standard in its every step of quality control.

■ Associated Companies

Kohinoor Chemical Company (BD) Ltd: Kohinoor Chemical Company Ltd was a fully govt. owned industry under the direct control of BCIC up to May 1988. It was transformed into Public limited Company under Companies Act 1913 and was named as Kohinoor Chemical Company (BD) Ltd from 05 May 1988. The Govt. vested the Company's 51% shares to BCIC and out of 49% balance shares, 34% shares were sold to the public and rest 16% shares sold among officers, staff and workers, which were handed over on 20 July 1991. Subsequently, the ownership of 51% shares was transferred from BCIC to sponsor Director on 03 August 1993. The Company was listed in both Dhaka and Chittagong Stock Exchange. The main activities of the Company are manufacturing and marketing of Soap, Cosmetics, Toiletries and different household product in the Brand name of Tibet, Sandalina, Ice-cool etc.

As on 31 June 2008, the authorized capital of the Company was BDT 500.00 million with paid-up capital of BDT 50.00 million. Annual turnover of the Company was BDT 1,348.55 million. Agrani Bank Ltd, Standard Bank Ltd, and National Bank are the Banker of KCCL.

¹ 345= 1 year ; NE 28/30s basis

² The Oeko-Tex® Standard 100 was introduced at the beginning of the 1990s as a response to the needs of the public for textiles, which posed no risk to health. "Poison in textiles" and other negative headlines were widespread at this time and indiscriminately branded all chemical across the board used in textile manufacturing as negative and dangerous to health.

Up until the introduction of the Oeko-Tex® Standard 100 there was neither a reliable product label for consumers to assess the human ecological quality of textiles nor a uniform safety standard for companies within the textile and clothing industry which enabled a practical assessment of potential harmful substances in textile products. The Austrian Textile Research Institute (ÖTI) and the German Research Institute Hohenstein therefore jointly developed the Oeko-Tex Standard 100 based on their existing test standards.

Reedisha Knitex Ltd: A 100% composite knitting, dyeing and garments unit with an annual capacity to produce 21 MTs/day of dyed fabric and almost 2.20 million dozen of finished garments per annum; started its production in the year 2004.

The authorized and paid up capital of this Company is BDT 200.00 million. The machineries of the Company are from Turkey, Germany, Taiwan, China and Japan origin. This Company consumes Reedisha Spinning Ltd's almost 60% productions. As on 30 June 2009, annual turnover of RKL was BDT 1,526.23 million. Agrani Bank Ltd, Shahjalal Islami Bank Ltd, and IFIC Bank Ltd are the Banker of RKL.

■ THE BOARD AND MANAGEMENT

Reedisha Spinning Ltd is a family oriented business organization. The Board of the Company comprises of three members. The authorized share capital of the Company is BDT 1,000.00 million divided into 1.00 million ordinary share of BDT 1,000 each and paid up capital of the Company was BDT 350.00 million. Shareholding pattern of the Company is given below:

Exhibit 03: RSL's Director List

SL. No.	Name	Designation	Holding %
1	Md. Rezaul Karim	Managing Director	50.00%
2	Mrs. Shirin Akhter	Director	25.00%
3	Md. Touseff Mashrurul Karim	Director	25.00%
Total			100.00%

Md. Rezaul Karim, is the Managing Director of RSL, is a graduate, have 30 years long experience on various industrial sector in Bangladesh. He is also the Managing Director of Kohinoor Chemical Company (BD) Ltd, and Reedisha Knitex Ltd. Mr. Rezaul holds 50% shares of the Company and look after the all activities of the Company with the help of senior management.

Mrs. Shirin Akter, is one of the director of RSL, is a graduate, have 14 years of experience on various industrial sector in Bangladesh. Mrs. Shirin is the wife of Md. Rezaul Karim, support to MD in overall operation of the Company. She is also one of the director of Kohinoor Chemical Company (BD) Ltd, and Reedisha Knitex Ltd.

Md. Touseff Mashrurul Karim, son of Md. Rezaul Karim is one of the director of RSL. Mr. Touseff is a student of BUET support to MD in overall operation of the Company. He is also director of Reedisha Knitex Ltd.

The management of the Company headed by the Managing Director, who is looking after all the departments of the Company. A group of senior executives aids the managing director to perform day-to-day business of the Company. Head of the plant is designated as General Manager, who is directly involved with all the activities of the factory. Mr. Nizam Ahmed, B.Sc in Textile Engineering has 20 years long experience in textile sector is designated as GM monitoring all units of the plant. Unit head of each unit directly report to the GM; and GM summarizes those reports and time-to-time inform to the Managing Director about the performance of the plant. Top executives of RSL are experienced in their own fields and most of them have served the Company from its inception.

At present total workforce of RSL is 690. In each shift, around 140 labors are working for production and 140 employees are working for non-productive section including HR,

Admin, Civil, F&A, Maintenance, electrical, utility, quality control, store etc. Human resources are recruited by both HR Department of corporate office and HR department in factory through internal recruitment process based on necessary knowledge, skills and other characteristics.

The Company has commitment to all aspect of legal compliance to the Bangladesh Labor Law as well as international standards. Employees are fully covered with various safety measures including standard in campus medical facilities. Dominating percentage of labors are locally recruited and provided with free residential facility near the factory campus.

■ BUSINESS OVERVIEW

■ Product:

Exhibit 04: Performance of the Business

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
Net Sales (BDT Million)	1,084.68	1,136.22	907.45	544.90
Domestic Sales (%)	0.00%	0.00%	0.00%	0.00%
Export Sales (%)	100.00%	100.00%	100.00%	100.00%
EBITDA (BDT Million)	305.90	270.69	216.63	119.31
EBITDA Margin (%)	28.20%	23.82%	23.87%	21.90%

RSL was started its commercial operation on October, 2006 with an installed capacity of 26,208 spindles capable of producing 5.87 million KGs of yarn per year (17 ton per day on NE 28/30s basis). To meet the excess demand of yarn by its associated company, the mill went for BMRE within one year of successful production and increased the number of spindles to 36,288; capable to produce 24 tons of quality yarn per day. At present, the mill is running with 95% of its installed capacity and producing around 23 MT/day yarn. The Company manufactures auto coned electronically cleared 100% cotton carded, combed, and slub yarn for knitting between NE 16s to Ne 60s. Product mix is flexible and is determined by the management of RSL based on the demand of the market and its associated company. Since major demand of yarn in the market was Ne 26s to Ne 30s, 55% of RSL production and sales revenue come from those categories yarn. Among total production, 60% is carded and 40% is combed process.

Company's 100% revenue was generated from deemed export of the yarn through back-to-back L/C, and among these revenue, around 70% came from Reedisha Knitex Ltd, an associated company of RSL. In this context, risk of selling product is relatively very low for RSL. RKL purchase the yarn from the Company at the market rate.

■ Raw material:

Most of the profitable textile mills have efficient cotton procurement strategies. Raw cotton, the primary input, constituted on an average 98% of the CoGS³ of RSL over the last three & half years of operations and has significant impact on the operational performance.

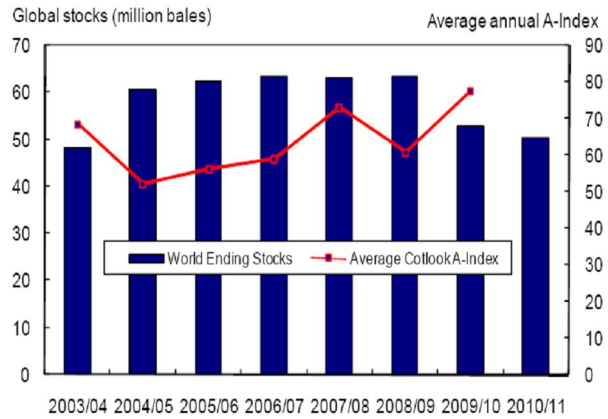
The ongoing global financial crisis continues to weigh on cotton production prospects in the new marketing year, which starts in August 2009. World cotton production in FY09-

³ Cost of Goods Sold excluding factory Depreciation.

10 is forecast at 106 million bales, reflecting a further 1-percent decline from the already low production estimate in the current year. World cotton exports—currently at a 7-year low because of the ongoing economic downturn—are expected to increase to 31.7 million bales in FY09-10, up 9 percent from the 2008/09 estimate.

Rising global mill use combined with a proportionately smaller increase in production will continue to put downward pressure on global ending stocks. World FY10-11 ending stocks are forecast at 50.1 million bales, down 5 percent from a year earlier and the fourth consecutive annual decline. Tighter stocks are supporting global cotton prices. The Cotlook A-index has averaged 77.5 cents per pound thus far for FY09-10, up 27 percent from a year ago, and is currently near 90 cents per pound. With world stocks projected to decline, the A-index is likely to remain high in FY10-11.

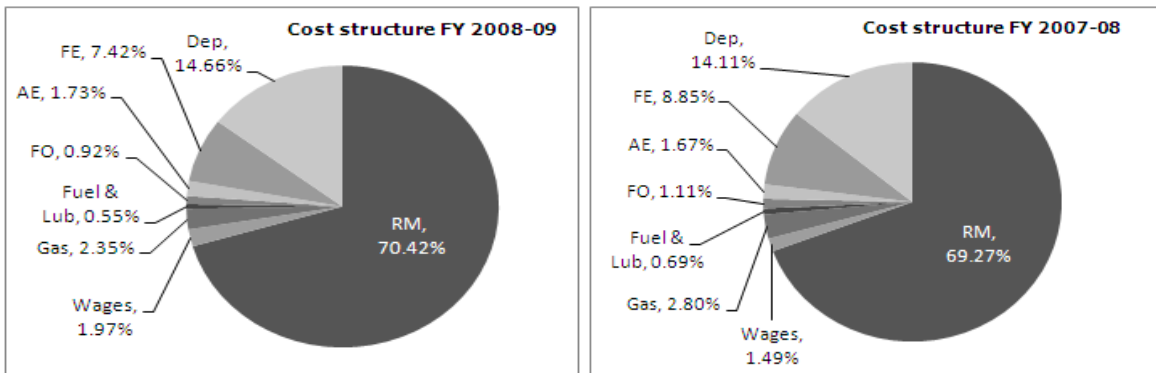
Declining global stocks augment cotton prices



Sources: Cotlook and USDA, ICEC.

RSL imported most of its raw cotton from CSR enlisted countries, and United States of America. It also imported from India depending on the price. Daewoo Int., Cargil Cotton Ltd, Olam Int. Ltd, etc are the major suppliers of raw cotton for the Company. Packing materials, on an average 0.65% of the CoGS are locally procured through cash purchase.

Exhibit 05: Cost Structure



Analyzing cost structure of RSL for last two years, all variables of the cost structure are almost same. Raw material constituted 70.42% of total expenses in FY08-09, which was 69.27% of total expenses in FY07-08, where recent increase in raw material prices (raw cotton) slightly affected the cost structure. RSL has sufficient expertise in procuring raw material at competitive prices and it is well positioned to buy raw cotton at the right time as well. Considering future price hike in raw cotton market, the management already procured the raw cotton up to January 2011. Depreciation charge of the Company also relatively higher than industry average.

▪ **Production Process & Process Loss:**

Technology remains an important factor in maintaining a competitive position in the business. During 2006, RSL started its operation with the state of art machineries imported from Switzerland, Italy, Germany, India, USA, Japan and other countries to spin the finest quality cotton yarn conforming to global standard.

Exhibit 06: RSL's List of Machinery

Sl. No	Name of the Machine	Quantity	Manufacturer/Brand	Country of Origin
1	BLOW ROOM	2	RIETER	SWITZERLAND
2	CARDING	16	RIETER	SWITZERLAND
3	DRAWING (BREAKER & FINISHER)	14	RIETER	SWITZERLAND
4	UNILAP	1	RIETER	SWITZERLAND
5	COMBER	5	RIETER	SWITZERLAND
6	SIMPLEX (120 SPINDLES)	9	TOYOTA & JIANGSU HONGYUAN	JAPAN & CHINA
7	RING FRAME (1008 SPINDLES)	36	LMW	INDIA
8	AUTO CONER/WINDER	12	SCHLAFHORST & SAVIO	GERMANY & ITALY
9	YARN CONDITIONING	1	XORELLA	SWITZERLAND
10	GENERATOR	5	CATERPILLER	USA
11	AC PLANT	1	LTG AIR ENGEERING GmbH	GERMANY & FRANCE
12	COOLING TOWER	1	SPACCO	THAILAND
13	CHILLER	1	LS CABLE LTD	KOREA
14	USTER HVI SPECTRUM	1	USTER	USA
15	USTER AFIS	1	USTER	USA
16	USTER AUTO SORTER	1	USTER	SWITZERLAND
17	USTER TESTER	1	USTER	SWITZERLAND
18	INDUSTRIAL LUMINARIES	1	SIEMENS	MALAYSIA
19	WATER TREATMENT PLANT	1	SIGMA PUMPS LTD	INDIA
20	FORK LIFT		KOMATSU	JAPAN
21	FIRE FIGHTING SYSTEM		LOWARA	BRAZIL, ITALY, SINGAPORE

The process loss of RSL's was within the industry norm. Following exhibit shows Company's production process and its process loss:

Exhibit 07: Production Process

Name of the Process	Input material name	Input material quantity	Output material	Output material quantity	Process loss
Card	Raw Cotton	27 MT/day	Yarn	24 MT/day	11%
Combed	Raw Cotton	N/A	Yarn	N/A	N/A

• **Quality Control System:**

In compliance with the quality commitment and quality policy, the mills are fully equipped with standard QC Laboratory and professionally skilled QC teams. A segment of this work force is devoted for continuous improvement in the production, quality and compliance of all norms to cope with international standard. Md. Enamul Haque, B.Sc in textile engineering is designated as Manager (quality) has 6 years experience in textile sector. The Company tests the quality of both raw cotton and produced yarn. RSL procured machine from USA and Switzerland to ensure the proper quality of imported cotton and produced yarn.

- **Utilities:**

The utility supply, especially electricity is the crucial for continuous production of the mill. RSL has own captive power facility. In this respect, the factory is facilitated with the gas supply from TGTDCCL. The Company has five (5) gas-based generators to ensure continuous power supply, where four (4) generators are currently used for producing electricity and one (1) standby generator for emergency purpose. All those generators are imported from CATERPILLER, USA, generating 1030 KW electricity each. The factory also has deep tube well, Water treatment plant for supplying necessary water for the factory.

For proper utilization of resources, Co-Generation system is being implemented in RSL. Here engine is producing exhaust gas then it is using in boiler. Boiler is producing steam, which is using in steam-fired chiller. Generator is also high jacket water temperature (190-200°F). Here only extra heat exchanger is using in this generator. As a result, higher hot water temperature (80°F) produce and using hot water chiller. Two chillers are producing chilled water. Chilled water is using in Air Conditioning plant which is controlling temperature and relative humidity. As a result, process machine is running smoothly.

- **IT Infrastructure & MIS:**

IT infrastructure and MIS of the Company found to be average and has no own website. The Company uses both IT Infrastructure as well as paper work to keep its accounts statement and management information.

- **Customer & Distribution profile:**

Exhibit 08: Selling Channel of the Company

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
Net Sales (BDT Million)	1,084.68	1,136.22	907.45	544.90
Direct Sales (% of Net Sales)	100.00%	100.00%	100.00%	100.00%
Sales through Agents/Distributor (% of Net Sales)	0.00%	0.00%	0.00%	0.00%

From the very beginning, RSL sells its yarn directly to the corporate and retail customers. Almost 70% of its production consumed by its associated company, naming Reedisha Knitex Ltd (RKL). RKL consumed 100% of RSL's combed process yarn and 50% of carded process yarn. Mitali Fashion, Union Apparels Ltd, Scandex Textile Industries Ltd, etc are the major buyers of the Company.

- **Marketing Strategy**

RSL exports 100% of its production to various export oriented knitting industries in Bangladesh through back-to-back L/C. Sound and qualified marketing people based at the corporate office are actively involved in marketing in close collaboration with production. Marketing wing in corporate office procures the order (invoice) directly from the importer. After getting the order, the marketing wing sends them to the factory Incharge for production of specific products. The factory Incharge then engages other wings in the factory for the production.

■ FINANCIAL STRENGTH ANALYSIS

The quantitative aspect of CRAB's rating focuses on the sponsors' policies in relation to operating strategies, financial leverage targets, dividend policies and financial goals. Vital part of the analysis is the owners' ability to generate cash, which is reflected in the ratios. The sustainability of these credit protection measures was evaluated over a period to determine the strength of an owners operations and funding ability.

■ Earnings & Stability
Exhibit 09: RSL's Financial Performance

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
Net Sales (BDT Million)	1,084.68	1,136.22	907.45	544.90
Sales Growth	-	25.21%	66.53%	N/A
CoGS as % of Net Sales	88.15%	89.56%	89.94%	89.87%
EBITDA (BDT Million)	305.90	270.69	216.63	119.31
EBITDA Growth	-	24.95%	81.56%	N/A
EBITDA Margin	28.20%	23.82%	23.87%	21.90%
Net Profit after tax (BDT Million)	71.01	9.87	(15.27)	1.09
Net profit after tax growth	-	164.64%	-1503.41%	N/A
CAGR of Sales (FY06-07 to FY08-09)	27.44%			
CAGR of EBITDA (FY06-07 to FY08-09)	31.04%			
CAGR of Net Profit (FY06-07 to FY08-09)	107.03%			

The revenue sources of RSL are the deemed export (through B2B L/C) of yarn of different count to its sister concern and other export oriented textile mills. The Company manufactures 100% auto coned cotton yarns for knitting applications between Ne 16s to Ne 60s. From the very beginning, Company's sales growth is quite good (CAGR 27.44%). However, due to sudden price hike of raw cotton in FY07-08 and declining yarn price in the same time tagged with high financial expenses due to taken loan for BMRE purpose makes net profit after tax negative. However, after that worse situation, the Company recovered quickly and retained earnings showed positive as on 30 April 2010 unaudited financial statements.

Relatively stable and moderate sales growth with high depreciation charges resulted in a high EBITDA growth (31.04%). The Company enjoying Tax Holiday facility from the very first day of its operation. However, RSL still not maintained tax holiday reserve.

Exhibit 10: Profitability Ratios

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
Gross Profit Margin	11.85%	10.44%	10.06%	10.13%
Operating Profit Margin	10.62%	8.44%	8.01%	7.85%
Net Profit Margin	6.55%	0.87%	-1.68%	0.20%
Return on Average Asset	4.98%	0.72%	-1.14%	0.09%
Return on Average Equity	18.63%	2.90%	-4.45%	0.31%

Overall profitability ratios of RSL for last few years are not very much satisfactory, although all those ratios shows upward trend. Gross profit margin of the Company is quite low due to high CoGS. Relatively high volumes of finished goods and high depreciation charge are liable for such high CoGS. Because of low gross profit margin, other profitability ratios felt pressure and in FY07-08, and those came negative. During that period, Company's financial expense was higher than its operating profit. However, increasing yarn price in world market in recent time, the Company expected that, revenue growth would be positive in FY09-10.

■ **Liquidity Position:**

Exhibit 11: Liquidity Position

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
Current Ratio	1.57	1.30	1.12	1.07
Quick Ratio	0.93	0.60	0.50	0.60
Cash Ratio	0.12	0.01	0.02	0.01
Net Working Capital to Total Assets	15.68%	11.95%	8.30%	15.26%
Accounts Receivable Turnover Ratio	4.97	11.17	10.81	10.98
Average Receivable Collection Period	69	31	32	31
Inventory Turnover Ratio	3.45	4.35	4.55	6.93
Average Inventory Processing Period	100	79	76	50
Accounts Payable Turnover Ratio	3.30	5.04	7.68	28.20
Average Payable Payment Period	105	68	45	12
Cash Conversation Cycle (Days)	65	42	63	69

Current ratio of the Company is in upward trend for last few years due to decreasing short-term bank loan of the Company. Trade debtor of the Company is around 12.55% of total sales, because of two-third portion of total production consumed by RSL's associated company. Trade debtor increased by 1.24 times in FY09-10; due to changing managerial policy not to discounting export bills. Previously, the Company discounted almost 80% of its total bills. RSL liability for deferred L/C payment also increased by 67.47% in FY09-10 due to management policy of immediately procuring raw cotton for next year since the market observer assume that raw cotton price may increase in future.

Quick ratio of the Company is very low because of high inventory. However, the Company was trying to reduce its inventory as a percent of current assets reaching 53.46% in FY08-09 from 55.54% in FY07-08. Raw cotton and finished goods represent average 90% of total inventory. Among total inventory, portion of finished goods is in declining trend (47.99% in FY07-08 to 12.25% in FY08-09).

Working capital intensity of RSL is in stable trend up to FY08-09 because of stable debtor days with slightly increasing inventory days; on the other side day's payable also increased in FY08-09. However, in FY09-10 working capital intensity was increased because of changing management policy. Analyzing last few years data, Company's average receivable collection period stayed to 31 days, and inventory days continued increasing to 79 days in FY08-09 from 50 days in FY06-07. Increasing liability for deferred L/C payment from BDT 187.72 million in FY07-08 to BDT 229.22 million in

FY08-09 indicate that the Company take some extra times to settles its payment to the creditor.

RSL enjoyed working capital limit (LC/Bills/MPI/Bia Murabaha/BG/MDB) of BDT 800.00 million as of 10 April 2010 against which outstanding amount at the same date was BDT 697.60 million, left only 12.8% unutilized reflected its tight position as well. The Company already requests their Banker to renew their working capital limit.

■ **Leverage & Capital Structure:**

Exhibit 12: RSL's Leverage Position

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
Equity (BDT Million)	416.70	345.69	335.82	351.09
Borrowed Fund (BDT Million)	1,051.88	985.81	1,031.41	894.21
EBITDA (BDT Million)	305.90	270.69	216.63	119.31
Fund Flow from Operation (FFO)	218.57	183.05	127.25	77.63
Cash Flow from Operation (CFO)	(8.18)	95.69	63.01	(145.21)
Retained Cash Flow (RCF)	(8.18)	95.69	63.01	(145.21)
Free Cash Flow (FCF)	(14.56)	45.06	(128.41)	(151.88)
Ratios				
Debt to Equity (x)	2.52	2.85	3.07	2.55
Borrowed Fund to EBITDA (x)	3.44	3.64	4.76	7.49
FFO/Debt	20.78%	18.57%	12.34%	8.68%
CFO/Debt	-0.78%	9.71%	6.11%	-16.24%
RCF/Debt	-0.78%	9.71%	6.11%	-16.24%
FCF/Debt	-1.38%	4.57%	-12.45%	-16.98%

Comparing with most other textile industries in Bangladesh, RSL's capital structure was found to be satisfactory. However, due to loss incurred during FY07-08, the equity base of the Company reached at BDT 335.82 million from BDT 351.09 million in FY06-07. Moderate growth in equity with increase of Bank loans (long & short term) resulted in slow improvement in Debt to equity (FY09-10: 2.52x; FY08-09: 2.85x) and Borrowed fund to EBITDA (FY09-10: 3.44x; FY078-09: 3.64x).

The firm generates enough funds from operation, which is enough to meet its working capital requirement. However, such gap (FFO to CFO) is decreasing in recent time, and turn into negative in FY09-10 because of increasing working capital requirement. For that reason, the Company was unable to do capital expenditure from own finances and heavily dependent on bank loan.

■ **Coverage:**

Exhibit 13: Coverage Ratios

	FY09-10	FY08-09	FY07-08	FY06-07
(Months)	(10) Unaudited	(12)	(12)	(12)
EBIT/Interest (x)	1.81	1.11	0.83	1.03
FCF/Interest (x)	-0.17	0.51	-1.44	-3.64
(EBITDA-CAPEX)/Interest (x)	3.43	2.51	0.28	2.70

RSL has very tight interest coverage ratio from the very beginning of operation. Due to relatively very high CoGS, which was ultimately squeezed Company's ability to meet its interest obligations. During FY08-09, the Company maintained EBIT just equal to its interest expense, which was below than interest expenses in FY07-08. As a result, the Company was unable to repay the loan in FY07-08, and rescheduled the loan account. Although the Company paid its long-term project loan taken from IBBL, working capital loan limit is in upward trend, (renewed three times from BDT 200 million to BDT 800 million) due to upward raw materials cost, payment realization delay due to recession and changing managerial policy in some sort.

■ **BANK FACILITIES AND CREDIT HISTORY**

RSL is banking with Islami Bank Bangladesh Ltd (IBBL) from its inception. As per Financial Statements of RSL dated 30 April 2010 and bankers report, loan particulars of RSL are:

Exhibit 14: RSL's Loan Particulars as on 30/4/2010

BDT in Million

RSL has been banking with IBBL, for last six years. Since the inception of business relationship with the subject, overall transaction behavior is reported to be satisfactory. However, due to world economic

Bank	Limit	Outstanding
Islami Bank Bangladesh Ltd		
HPSM (Project loan)	834.00	600.32
LC/Bills/MPI/Bia Murabaha/BG/MDB	800.00	697.60
Total	1,634.00	1,297.92

recession and problem of spinning industry (2007-2009) due to raw material price and Indian yarn, the Company was unable to repay the loan installment and the Company ask their bankers to reschedule their accounts. As per their request, IBBL rescheduled the loan account and regularized their accounts. From the information provided by Bank it is also found that, the Company has no history of dishonoring of cheques.

■ **CAPITAL EXPENDITURE PLAN**

The Company presently has 36,288 spindles Spinning Mills producing daily 24 MT of finished yarn. With the growing demand of the Company's yarn and the market requirements, proposed second BMRE plan has been derived as to install 440 Rotor spinning and achieve a daily production of 9,680 MT yarn per year. In this respect, the Company applied to IBBL dated 25.02.2008. In this respect, IBBL sanctioned HPSM Investment of BDT 79.70 million (80% of second BMRE machine cost) for second BMRE of RSL. However, due to dull textile market for world economic recession in that period; the management canceled their capital expenditure plan at that time.

Recently, textile product market booming up again and management is rethinking about their plan. In that context, the Management is already in process to install 4 comber, 1 lap former, and 2 slub yarn machine through own financing. In long term, the management also has plan to set up second unit of RSL with same capacity beside the unutilized area of the mill.

REEDISHA SPINNING LTD.
Income Statement

For the year ended 30 June 2007, 2008, 2009 & April 2010

	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Sales of Yarn	1,084.68	1,136.22	907.45	544.90
Less: Cost of Goods Sold	810.72	846.77	675.34	414.38
Less: Depreciation	145.44	170.87	140.80	75.32
Gross Profit	128.52	118.57	91.31	55.20
Less: Operating Expenses				
Administrative expenses	8.95	15.53	13.67	8.80
Depreciation	2.12	2.31	1.72	1.22
Marketing & Commercial Expenses	2.23	4.87	3.20	2.41
Total Operating Expenses	13.30	22.71	18.59	12.43
Operating Profit (EBIT)	115.22	95.86	72.72	42.77
Add non operating income	43.12	1.64	1.39	-
Net Profit before tax (PBT)	158.34	97.50	74.11	42.77
Less Financial Expenses	87.33	87.63	89.38	41.68
Net Profit after tax (PAT)	71.01	9.87	(15.27)	1.09
Profit & Loss Balance (opening)	(4.31)	(14.18)	1.09	-
Profit Transferred to Balance Sheet	66.70	(4.31)	(14.18)	1.09

REEDISHA SPINNING LTD.

Balance Sheet

For the year ended 30 June 2009, 2008, 2006

	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Sources Of Fund				<small>BDT in Million</small>
Shareholders Equity				
Authorized Capital				
1,000,000 Ordinary Shares of Tk. 1000 each	1,000.00	1,000.00	1,000.00	1,000.00
Issued Called & Paid Up Capital	350.00	350.00	350.00	350.00
350,000 Ordinary shares of tk. 1000 each				
Long Term Liabilities:				
HPSM Islami Bank Bangladesh Ltd	600.32	649.23	713.68	624.90
Profit & loss Appropriation Account	66.70	(4.31)	(14.18)	1.09
TOTAL	1,017.02	994.92	1,049.50	975.99
FIXED ASSETS	1,273.68	1,267.30	1,216.66	1,025.25
Less: Accumulated Depreciation	539.81	392.25	219.06	76.54
Fixed Asset WDV	733.91	875.05	997.60	948.70
Preliminary & Unallocated Revenue Expenditure	0.58	3.50	4.66	5.83
Investment/ Inter project loan	9.00	9.00	5.00	-
Current Assets	749.75	468.28	391.59	322.63
MTDR/FDR	63.30	63.30	63.30	63.30
INVENTORY	304.61	250.33	217.50	141.34
ACCOUNTS RECEIVABLE	301.76	134.81	68.60	99.24
ADVANCE, DEPOSIT & PREPAYMENT	22.94	17.06	35.84	15.66
CASH & BANK BALANCE	57.14	2.76	6.36	3.08
CURRENT LIABILITIES				
Short Term Bank Loan	67.67	107.35	130.02	224.56
Interest Payable MPI/TR/HPSM	6.10	6.95	7.17	10.30
Liab for Deferred LC Payment	383.89	229.22	187.72	44.75
Bills Payable	11.33	10.97	18.06	16.61
Audit Fees/Provision for Utility	2.33	2.43	2.38	2.43
Remuneration/Salary/wages/VAT payable	4.89	3.97	4.02	2.52
TOTAL current Liabilities	476.22	360.90	349.36	301.17
NET CURRENT ASSETS	273.54	107.38	42.24	21.46
Check	(0.00)	(0.00)	0.00	-

CRAB RATING SCALES AND DEFINITIONS –Long Term (Corporate)

Long Term Rating	Definition
AAA Triple A	Companies rated in this category have extremely strong capacity to meet financial commitments. These companies are judged to be of the highest quality, with minimal credit risk.
AA₁, AA₂, AA₃* Double A	Companies rated in this category have very strong capacity to meet financial commitments. These companies are judged to be of very high quality, subject to very low credit risk.
A₁, A₂, A₃ Single A	Companies rated in this category 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, subject to low credit risk.
BBB₁, BBB₂, BBB₃ Triple B	Companies rated in this category have adequate capacity to meet financial commitments but more susceptible to adverse economic conditions or changing circumstances. These companies are subject to moderate credit risk. Such companies possess certain speculative characteristics.
BB₁, BB₂, BB₃ Double B	Companies rated in this category have inadequate capacity to meet financial commitments. Have major ongoing uncertainties and exposure to adverse business, financial, or economic conditions. These companies have speculative elements, subject to substantial credit risk.
B₁, B₂, B₃ Single B	Companies rated in this category have weak capacity to meet financial commitments. These companies have speculative elements, subject to high credit risk.
CCC₁, CCC₂, CCC₃ Triple C	Companies rated in this category have very weak capacity to meet financial obligations. These companies have very weak standing and are subject to very high credit risk.
CC Double C	Companies rated in this category have extremely weak capacity to meet financial obligations. These companies are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C Single C	Companies rated in this category are highly vulnerable to non-payment, have payment arrearages allowed by the terms of the documents, or subject of bankruptcy petition, but have not experienced a payment default. Payments may have been suspended in accordance with the instrument's terms. These companies are typically in default, with little prospect for recovery of principal or interest.
D (Default)	D rating will also be used upon the filing of a bankruptcy petition or similar action if payments on an obligation are jeopardized.

***Note:** CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through CCC. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

© Copyright 2008, CREDIT RATING AGENCY OF BANGLADESH LIMITED ("CRAB"). All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT CRAB'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by CRAB from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and CRAB, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall CRAB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of CRAB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if CRAB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY CRAB IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.