

Credit Rating Report

Apparel-21 Limited

Ratings

Long Term : **A₃**

Date of Rating: 18 February 2010

Valid Till : 30 June 2011

Analysts:
Niaz Ahmed

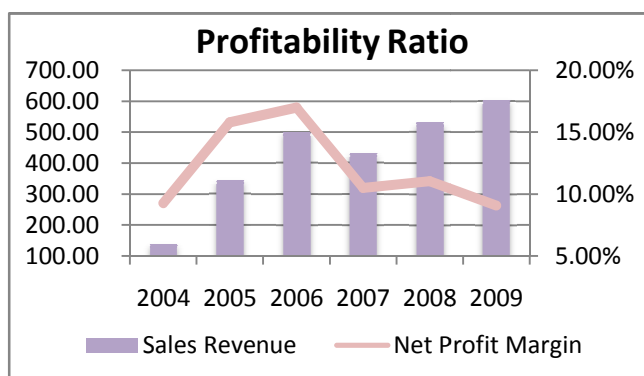
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Financial Highlights

Particulars	BDT in Million			
	2006	2007	2008	2009
Revenue	501.45	432.56	532.53	605.80
Total Assets	584.92	649.53	1004.89	1288.87
Net Worth	402.17	450.85	464.98	683.67
Long Term Liabilities	92.81	138.10	506.96	520.19
Debt Ratio	27.74%	31.73%	52.06%	44.70%
ROA	14.57%	6.53%	5.85%	4.26%
Net Profit Margin	17.00%	10.49%	11.03%	9.07%
EBITDA/Sales	22.55%	18.64%	25.82%	30.76%
Borrowed Fund to EBITDA (x)	1.43	2.73	3.81	3.09
Times Interest Earned (x)	5.22	3.48	3.91	1.93
Quick Ratio	2.55	2.52	4.06	2.24
Debtors Day	34	72	45	81
Inventory Days	87	185	148	198


01. RATIONALE

Credit Rating Agency of Bangladesh Ltd. (CRAB) has assigned **A₃ (Single A Three)** rating in the long term to Apparel-21 Ltd. based on audited financials of FY 2008-2009 and other relevant information.

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.

Apparel-21 Ltd., a sister concern of Lithe Group, is a 100% knit garments export oriented company commenced its operation in 2000. As of 30th June 2009, it had installed capacity of knitting 5 tons/day (actual utilization 80%), dyeing 17 tons/day (actual utilization 82%), printing 40,000 pcs./day (actual utilization 75%), embroidery 5,000 pcs./day (actual utilization 36%) and finished products i.e. knit garments 7,50,000 pcs./month (actual utilization 98%).

The Company exports mainly in EU countries and top five buyers include Kik Textilien, Wibra, Vutura, Alexandra & Agora Distribution with whom it has long term relationship.

As the Company is in export oriented industry, CRAB views that the global and country economic outlook affects the future earnings of the Company. 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 that period.

In the wake of global financial crisis started back in 2007, the company kept its mark to grow its revenue in FY09 and FY08 except in FY07. The revenue reached at BDT 605.80 million in 2009 registering a growth of 13.76% from previous year and in FY2008 the growth rate was 23.11%. But as an immediate impact, the revenue in FY07 showed a negative growth of 13.74% from FY06. However, the cumulative annual growth rate (CAGR) of revenue was around 15% during the period of FY 05 to FY09.

The capacity enhancement in 2008 and 2009 contributed to the revenue growth and in order to enhance capacity the company invested in CAPEX during the same period through long term borrowings. Despite huge depreciation charged in 2008 & 2009 due to additional CAPEX (Manufacturing Depreciation in FY09 & FY08 was BDT 58.90 million and BDT 48.94 million respectively which was only BDT 8.99 million in FY07), efficiency in raw material procurement led to decrease in the production cost which resulted in increase of Gross Profit Margin (FY09: 28.08%; FY08: 21.0% and FY07:21.0%); Operating Profit Margin also shows increasing trend (20.93% in 2009, 16.47% in 2008), in spite of increase in operational expenses relative to the previous years. The Net Profit Margin (FY09:9.07%; FY08:11.03%) and ROA (FY09:4.26%; FY08:5.85%) declined in FY09 from FY08 due to high leverage which resulted in high financial expenses.

The rating considers the leverage position (borrowed funds from bank) as of 16 February 2010 which stood at BDT 626.65 million, 48.0% of total asset. Borrowed funds include long term loan (HPSM) of BDT 523.59 million; short term fund of BDT 53.97 million against limit of BDT 450 million and lease finance of BDT 49.09 million. Borrowed Fund to EBITDA in FY09 was 3.09 times which was only 1.43 times in FY06. The leverage also affected the coverage ratios though the ratios are still more than 1.0x (TIER: 1.93x; DSCR: 1.01x; Cash flow coverage ratio: 1.74x. CRAB views that the present leverage position affected the cash flow; however, the borrowed fund was used for capacity expansion hence it would positively impact on future earnings. Points to note, further expansion (as reflected its present capacity utilization level) through additional borrowed fund may impact on the cash flow.

CRAB views that except inventory management (Inventory Processing Period 198 days), the working capital management is satisfactory, which is reflected in Current Ratio (5.02x) and Quick Ratio (2.24x) in 2009. The Current and Quick Ratio over the last four years never fell below 3.5 x and 2.24x respectively.

The rating is concerned regarding price sensitiveness in raw materials and uninterrupted power supply is also an obstacle to meet the customer demand on time.

The rating also reflects the management strength and repayment history of the Company. The Islami Bank Bangladesh Ltd. and Uttara Finance & Investment Ltd. certified that it has no default and rescheduling history which was positively factored at the time of rating.