

Rating Report Sadat Jute Industries Ltd. (SJIL)

1.0 RATIONALE

Long Term Rating: A₂

Date of Rating : 28 February 2010

Validity : 31 December 2010

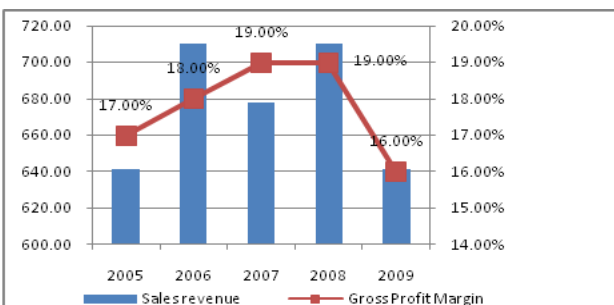
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Financial Highlights

Particulars	BDT in Million	
	2008-09	2007-08
Paid-up Capital	40	40
Total Assets	598.62	595.89
Total Liabilities	49.73	71.44
Total Turnover	641.21	710.38
Net Profit	49.14	85.33
Current Ratio	7.16x	6.65x
Total Liability/ Equity	1.09x	1.14x
Debt-Equity Ratio	0.00x	0.04x
DSCR	0.00x	0.00x
Borrowed Funds/ EBITDA	0.00x	0.25x
Interest Coverage Ratio	0.00x	0.00x
Gross Profit Margin	15.83%	19.47%
Net Profit Margin	7.66%	12.01%
Return on Sales	7.66%	12.01%
Return on Assets	8.21%	14.32%
Return on Equity	8.95%	16.27%



Credit Rating Agency of Bangladesh Ltd. (CRAB) has assigned **A₂ (Single A Two)** rating in the long term to Sadat Jutes Industries Limited (hereinafter referred to as SJIL or the Company) based on audited financials of FY 2008-2009 and other relevant information.

Corporate entities rated **A₂** in the long term belong to 'Adequate Capacity' group. Such corporate entities 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.

The rating reflects the Company's strength with its moderate financials and moderate business risk. Financial Solvency, wide range of markets, reputation & goodwill for performing contractual obligation, captive power generation with gas, efficient system of procurement of raw jute through own agencies located in key jute growing areas, sufficient warehouse facility to procure & store jute for at least 6 months, experience & knowledge base of 40 years in jute products manufacturing. The rating also factors experience of the management and credit history. The rating also factors in concentrated revenue sources and larger scale of business.

Sadat Jutes Industries Limited was established in 1984 as a 100% export oriented Jute Yarn producing unit. The factory is located at Jafarpur, Debidwar, in the district of Comilla.

The company has achieved national export trophy, Bronze trophy in FY 1991-92, Silver trophy in FY 2002-03 and Gold trophy in FY 2004-05.

Sadat Jute Industry Ltd is family oriented business Mr. Mahmudul Huq, as managing Director having 40 years of experience in Jute Goods Manufacturing & Exporting. The top management has highly qualified and experienced people.

At 100% capacity, the company is able to produce 15,233.80 MT yarn in FY 2008-09 the company produced 10047.52 MT jute yarn in FY2008-09. capacity utilisation of the company in FY 2008-09 was 65.95%.

SJIL ranks 12th in terms of export quantity and 11th in terms of export value among the 54 mills under BJSa with export Quantity of 10344.50 MT and value of BDT 552.60 million in FY 2008-2009, representing 3.40% of the total export quantity and 0.083% of total export earnings respectively of the BJSa.

As a 100% export oriented project, SJIL is entitled to 10% cash incentives from the government, which would generate additional cash flow if the existing rule continues and will increase the financial viability of the Company The Company is benefited as the raw materials are produced locally and it produces value added products.

The rating however, is constrained by higher Cost of Goods Sold (84.17% of sales revenue during the FY 2008-09), which reduced the gross profit margin of the Company. Raw jute represents 85 % of the total Cost of Goods Sold. The market price of raw jute increased to BDT 2,000 per mound in the FY 2008-09, which ultimately increased the Cost of Goods Sold.

Working capital performance of the Company was satisfactory. Analysis of last four years performance shows that both current ratio and quick ratio was greater than one. Net working capital of the Company is also in increasing trend, which experienced positive figures, that is, current asset exceeded current liabilities for last four years.

The Leverage position of the Company states that, debt ratio of the Company has no debt at the end of FY 2008-09. Profitability measures of the company for last five years showed that the average operating profit margin of the company has been 7.66%, which was 12.01% in last year. Even though the average net profit margin of the company for the last four years has been 9.78%, in year 2008-09 it was only 7.66%, which is moderate. Return on assets 8.21% return on equity has been volatile for the last several years.

The company also contains exchange rate risk for its foreign currency denominated income. Other potential risks of the project are upward trend of utility prices, high inflation and labor unrest of country, which may eventually affect the Company's cash flow.

2.0 Company Background

Sadat Jute Industries Ltd. is a private limited company, was established in 1984 as a 100% export oriented Jute Yarn producing unit. The factory is located at Jafarpur, Debidwar, in the district of Comilla. It is situated on the roadside of Dhaka-Chittagong Highway, which is about 85 k.m. north-east of Dhaka city and 12 k.m. South-West from Comilla town covering an area of 15 acres of land.

The factory's trial production commenced in 1986 and commercial production in 1987. The unit had an installed capacity of 18 spinning frame. Since then, a new yarn unit has been added in 1994, which had an installed capacity of 23 spinning frame and primarily both the unit produces and export yarn/twine having production capacity of 10,000 tons per annum.

In addition to that, the company had undertaken a new industrial project of 100% export oriented for manufacturing special type of Jute Fabrics (Lenoleum hessian) based on its backward linkage industry in the name of Weaving Plant of which production commenced in the year 2000. This plant produce and export Linoleum Hessian (special types of Jute Fabrics) having production capacity of 2.25 million linear meters per annum.

The first yarn unit started production in 1986 with 18 spinning frames and a production capacity of 12 M.T per day of specialized jute yarn for the carpet industries. The unit has the capacity to manufacture jute yarn from 4.00 lbs. (7.25 nm) to 30 lbs (0.96 nm) of 1 to 5 plies for specialized carpet industries.

In the backdrop of good demand of its yarn in the foreign market an expansion of the existing yarn unit was undertaken for manufacture of yarns of 8 lbs. (3.60 nm) to 72 Lbs. (0.40 nm). This expansion yarn unit of 23 spinning frames with second-hand machinery went into production in 1994. It has a capacity to produce 20 M.Tons per day of yarn. . A list of the units/mills is given below

Mill # 1	Went into production in 1986, It is presently producing approx 4,000mt/annum of yarns for export
Mill # 2	Went into production in 1995. It is presently producing approx. 6000mt/annum of yarns for export.
Mill # 3	Went into production in 2005.. It is presently producing aprpx. 1000 MT/annum of cut jute for export.