

## Rating Report USHA JUTE SPINNERS LTD.

Long Term Rating: **BBB<sub>3</sub>**

Date of Rating : 30 May 2010

Valid Till : 31 December 2010

**Analysts:**

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**Financial Highlights**

(Amount in BDT Million)

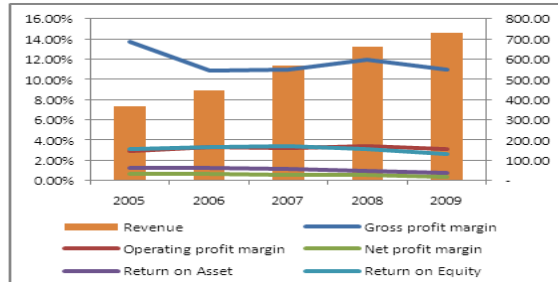
Particulars	FY 08*	FY 09
Paid-up Capital	61.55	61.55
Total Assets	370.61	376.32
Shareholders' Equity	114.56	117.56
Total Liabilities	256.05	258.76
Total Turnover	660.43	731.02
Net Profit	3.38	3.00
Net Profit without cash Subsidy	-31.23	-88.54
Current Ratio	0.99 x	0.96 x
Quick Ratio	0.06 x	0.12 x
Debt-Equity Ratio	2.24x	2.20x
DSCR	0.89 x	0.75 x
Borrowed Funds/ EBITDA	6.93x	6.29x
Interest Coverage Ratio	1.18 x	1.15 x
Gross Profit Margin	11.95%	10.92%
Net Profit Margin	0.51%	0.41%
Return on Assets	0.97%	0.80%
Return on Equity	3.13%	2.59%

**Financial Summary**

**All of the profitability parameters suffer adversely in FY 08.**

**Borrowed fund to EBITDA decreased to 6.29X in FY 09 from 6.93X in FY 07-08, because of improvement in Debt to Equity to 2.20X from 2.24 X over same period**

**Declining coverage ratio with EBIT coverage 1.15X and DSCR of 0.75X in FY 09.**


**1.0 RATIONALE**

Credit Rating Agency of Bangladesh Ltd. (CRAB) has assigned **BBB<sub>3</sub> (Triple B Three)** rating in the long term to Usha Jute Spinners Ltd (hereinafter referred to as UJSL or the Company) based on audited financials for the business year ended 30 June FY 09 and other relevant information.

Corporate entities rated **BBB<sub>3</sub>** in the long term belong to 'Adequate Capacity' group. Such corporate entities have adequate capacity to meet their financial commitments but are more susceptible to adverse economic conditions or changing circumstances and are also subject to moderate credit risk.

The rating reflects the Company's strength with its moderate financials and moderate business risk. The factors influencing the rating positively were 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 28 years in jute products manufacturing. The rating also factors experience of the management and credit history. The rating reflects concern over concentrated revenue sources.

\* Note:

The business year of the Company is July to June. The FY 09 refers to July 2008-June 2009 and other business years are expressed in the same way.

Usha Jute Spinners Ltd was established in 1979 as a 100% export oriented Jute Yarn producing unit. The factory is located at Sananagar, Devidwar, Comilla on 6.0 acres land owned by the Company.

Usha Jute Spinners Ltd is a family oriented business. Mr. Iqbal Haider, Chairman & Managing Director, has 28 years of experience in Jute Goods Manufacturing & Exporting. The top management consists of qualified and experienced people.

Utilizing its full capacity the Company is capable to produce 16,000 MT yarn based on 3 shifts, of 8 hours each, per day in 320 workdays yearly. In FY 09, Usha Jute increased its yarn production capacity from 14,000 MT to 16,000 MT per year. In the same year the Company utilized 82.53% of its installed capacity which was lower than that of previous year due to decreased demand followed by global financial recession.

UJSL ranks 8<sup>th</sup> in terms of export quantity and 7<sup>th</sup> in terms of export value among the 54 mills under BJSa with export quantity of 13,186.5 MT and value of BDT 638.39 million in FY 09, representing 4.34% of the total export quantity and 0.095% of total export earnings respectively of the BJSa.

As a 100% export oriented project, UJSL 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 (102% of sales revenue during FY 09), which reduced the gross profit margin of the Company. Raw jute represents 74% of the total Cost of Goods Sold. The market price of raw jute increased to BDT 2,000 per mound in FY 09, which ultimately increased the Cost of Goods Sold.

Analysis of last four years performance shows that both current ratio and quick ratio was less than one. Net working capital of the Company is also in reducing trend, which experienced negative figures, that is, current liabilities exceeded current asset for last three years.

Without cash subsidy, the Company would suffer operating loss for last three years.

Leverage position of the Company states that debt ratio of the Company was 68% in FY 09. The debt-equity ratio decreased from 2.24 to 2.20 in FY 09. Borrowed fund to EBITDA decreased to 6.29X in FY 09 from 6.93X in FY 07-08, because of improvement in Debt to Equity ratio 2.20X from 2.24 X over last year. The Company has declining coverage ratio in FY 09 with EBIT coverage 1.15X and DSCR of 0.75X.

Profitability measures of the company shows that the Company has gross profit margin of 10.92% and net profit margin of 0.41% in FY 09. Return on assets 0.80% return on equity has been 2.59% in FY 09.

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