

**Credit Rating Report**
**Vibgyor Knit Composite Limited**

<b>Previous Rating</b>	<b>: BB<sub>3</sub></b>
<b>Date of Rating</b>	<b>: 11 February 2010</b>
<b>Valid till</b>	<b>: 11 August 2010</b>

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**1.0 RATING RATIONALE**

Credit Rating Agency of Bangladesh (CRAB) Limited has assigned **BB<sub>3</sub>** (*Pronounced as **Double B Three***) rating to Vibgyor Knit Composite Ltd. which has sought a Debenture Loan of BDT 150.00 million from ICB for its BMRE.

A project rated **BB<sub>3</sub>** in the long term has speculative elements and hence subject to relatively high credit risk. This level of rating indicates considerable variability in the risk factors. The protective factors are average. Adverse changes in operation/business/economic circumstances may affect the timely payment of principal and interest as per terms.

Vibgyor Knit Composite Ltd. is a 100% export oriented knit garments company which wants to expand its knit unit through BMRE. The Company already has a dyeing capacity of 7 metric ton per day but its knitting and finishing section had unutilized capacity due to global recession.

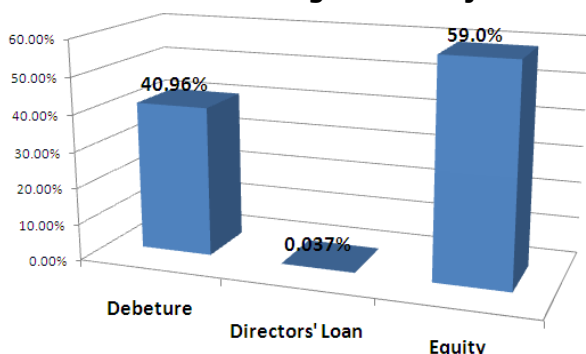
The estimated cost of the BMRE project is BDT 366.23 million excluding the net working capital and the total annual production capacity of the project will be about 939 thousand dozen of finished knitwear after the initiation of the project. Currently the annual capacity is 597 thousand dozen of T/Polo shirts and another annual capacity of 342 thousand dozen capacity will be added through the expansion of the project. The project will be financed from the issuance of Debenture instrument of BDT 150.00 million from ICB, Directors' loan of BDT

**Financial Highlights**

Particulars	2007	2008	2009
Turnover	227.52	229.46	219.79
Gross Profit Ratio	37%	38%	32%
Net Profit Ratio	24%	24%	18%
Total Assets	191.43	200.20	235.35
Net Worth	104.21	159.94	201.43
Current Liabilities	87.21	40.26	33.92
Quick Ratio	0.08	0.35	1.80

**Project Costs**

Particulars	Million Taka
Land - 35 Decimal	44.500
Factory Shed - 15,800 Sft	68.798
Plant & Machinery	169.358
Furniture & Fixtures	7.046
Office Equipment	1.659
Local Plant and Machinerics	53.758
Others	21.12
<b>Total</b>	<b>366.23</b>

**Means of Financing of the Project**


37 thousand and rest of the portion will be financed from equity. The project is located at Uttarpara, Jalkuri, Siddirganj, Narayanganj, Bangladesh.

In 2009, VKCL had very few orders from its foreign buyers and utilization of its garment capacity was very poor. Moreover it had unaccepted export bills in its BTB Liabilities which is also a sign of its inefficiency. Vibgyor's finishing unit and dyeing and knitting units were located at different locations. The management of VKCL has felt that the gap between these two units hampered its efficiency and also motivates VKCL to put all of its units under an integrated roof. VKCL's historical performance and capacity utilization also suggest that it will face tough challenges to reach its desired capacity and the projection indicates that the expansion project is only viable if 65% or more sales capacity is utilized. So, obtaining desired sales capacity and cost effective sourcing raw materials will be the prime concerns which are the major business risks.

Cost distribution of the project shows that major cost will be for land (12%), factory shed and building (19%), machinery and equipment purchase (61%; Imported 46% and local 15%) and furniture and fixtures of 2%.

Primary source of the repayment is the cash flow of the project. Using optimum capacity utilization (Min 65%-Max 85%) projected cash flow shows that both annual debt service coverage ratios (ADSCR) has values greater than 1. Sensitivity analysis with reduced sales and increased Cost of Goods Sold (Min 5%-Max 10%) shows relatively weaker DSCR and negative NPV. It is to be noted that all the financial projections are based on underlying assumptions which may vary in the changed circumstances.

Debt to Equity ratio of Vibgyor is 41:59. Although the current debt to equity ratio (17:83) has improved the viability of the project, the gearing of the project still remains high. The cost of land appears moderate compared to the market price. The project is envisaged to be completed within 18 months time from the commencement of execution of work which might be difficult to attain. Delay in completion may increase the overall project cost which will affect the profitability and loan repayment schedule. Other potential risks of the project are upward trend of utility prices, high inflation, and higher CoGS which may eventually affect the project cash flow.