Credit Rating Report

N.Z Textile Ltd.

Particulars	Ratings	Remarks
N.Z Textile Ltd.	BBB_2	Please see Appendix – 1 for details
BDT 1,021.50 million aggregate Long Term Outstanding (LTO)	BBB_2 (Lr)	
BDT 1,224.43 million aggregate fund based limits	ST-3	
BDT 200.0 million aggregate non fund based limits	ST-3	

Lr - Loan Rating; ST – Short Term

Date of Rating: 07 December 2010

Methodology: CRAB'S Corporate Rating Methodology (www.crab.com.bd)

Validity: *The Long Term ratings are valid up to 31 December 2011 and the Short Term ratings are valid up to limit expiry date of respective credit facilities or 31 December 2011 whichever is earlier.*

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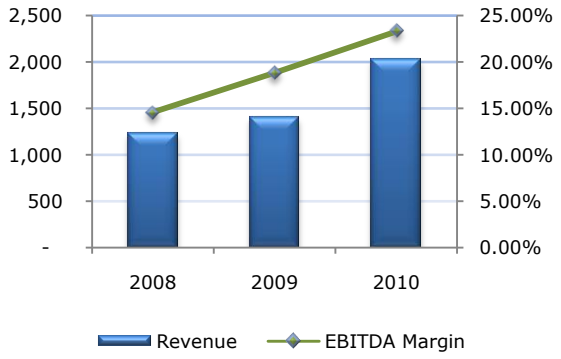
Financial Highlights

BDT in Million

	FY 10	FY 09	FY 08
Net Sales	2,028.56	1,400.86	1,225.67
EBITDA	471.90	263.32	178.59
EBITDA Margin	23.26%	18.80%	14.57%
Net Profit Margin	9.91%	5.10%	1.27%
Return on Average Assets	9.76%	5.43%	3.39%
Quick Ratio (×)	0.87	0.45	0.73
Cash Conversion Cycle (Days)	97	88	43
Debt to Equity (×)	6.51	13.48	19.07
Borrowed Fund to EBITDA (×)	4.36	5.87	4.63
Cash Flow from Operation	(502.24)	21.63	(227.60)
Free Cash Flow	(600.63)	(777.86)	(245.50)
EBIT/Interest	2.66	1.62	1.16



■ RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned **BBB_2** (Pronounced triple B two) rating in the Long Term to N.Z Textile Ltd. (hereafter referred to as NZTL or the Company). CRAB also assigned **ST-3** rating to BDT 1,224.43 million aggregate fund based limits and BDT 200.0 million aggregate non fund based limits in the Short Term.

CRAB has performed the present rating assignment based on audited financial statements of June 2010 and other relevant information. The rating also takes into account business profile, past record and trend of operating performance, balance sheet strength and loan payment history of the Firm. In assessing the Loan Ratings (Lr) CRAB also considers the security arrangements against each exposure along with the entity fundamentals.

N.Z Textile Ltd. (NZTL), established in 2003 is a concern of NZ Group. The Company earns its revenue mainly from sales of (100% deemed export) cotton and mélange yarn of different counts with the machineries imported mainly from European countries. The factory is located at Narayangonj on a land of 200

decimals. At present the Company has 100,000 spindles and 768 rotor units.

The assigned rating incorporates the steady improving business profile of the Company and the Group as a whole by growing presence in yarn and fabrics manufacturing sector which will eventually facilitate the Company in achieving economies of scales and synergy from fabrics manufacturing units regarding sales. The group is likely to remain in investment phase in the medium term to establish its sound presence in the textile sector which will eventually be resulted in better operating efficiency coupled with lower cost on account of economies of scales and improving financial strength in the upcoming years.

Total sales of the Company had an increasing trend over the years and stood at BDT 2,028.56 million in FY10 which will remain due to increase in capacity utilization along with introduction of mélange yarn in 2010 and increasing price trend. Moreover the installation of new modern machineries will support the increasing trend of production along with quality yarn. Overall profitability position of the Company was reasonably good having increasing trend over the years, and the net profit margin stood at 9.91% in FY10.

The Company's liquidity position considering current ratio was fluctuating over the last three years and stood at 1.21 times in FY10. However the receivable collection and inventory management risk was still comparatively low (98 days operating cycle) which is expected to increase due to increase in business operations and sales.

The rating is constrained by highly leveraged capital structure when borrowed fund to equity was 6.51 times in FY0 having a declining trend over the years from 19.07 times in FY08. The cash flow generating ability of the Company was also low compared to its debt. Total borrowed fund was 4.36 times of EBITDA in FY10, which was comparatively high. Although the Company did not undertake any debt restructuring program, there was over dues in repaying HPSM obligation during the last three years having maximum five months period which is considered as one of the key concerns while assigning ratings.

The rating also reflects the promoters' long record of accomplishment in the garments business having steady growth prospects, industry average management, technology used, raw material procurement strategy and quality control system to maintain customer confidents.