# BDT 4,250.00 MILLION UNSECURED, NON-CONVERTIBLE, COUPON BEARING BONDS OF GRAMEENPHONE LTD.

*** Provisional Rating**
BDT 4,250.00 MILLION
UNSECURED, NON-CONVERTIBLE, COUPON BEARING BONDS **AAA**

** The provisional rating is based on information provided by GP as of March 2008. The final rating is contingent on final documents conforming to information already received as well as satisfactory legal opinions.*

Date of Rating: 11 June 2008

**Analyst:**
**Mohammed Tajul Islam**
Senior Financial Analyst

Financial Highlights of GP

Amount in Million BDT

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Total Asset | 88,461.04 | 66,755.56 | 40,536.66 |
| Revenue | 54,303.15 | [illegible] | [illegible] |
| Gross Profit | 29,945.05 | 26,961.99 | 17,202.02 |
| Operating Profit/EBIT | [illegible] | [illegible] | 12,001.72 |
| Net Profit after Tax | [illegible] | 9,564.02 | 5,922.00 |
| Capex | 30,552.86 | 22,625.28 | 16,202.25 |
| EBITDA | 28,682.86 | 25,663.53 | 15,966.64 |
| Total Debt | 16,383.54 | 7,883.97 | 9,037.66 |
| Retained Cash Flow (RCF) | 23,677.38 | 24,040.72 | 13,431.70 |
| Fund Flow From Operation (FFO) | [illegible] | [illegible] | 15,198.34 |
| Free Cash Flow (FCF) | (7,792.06) | 2,342.40 | (2,706.04) |
| Interest Exp | 903.50 | 913.02 | 740.02 |
| Total Liabilities | 62,349.93 | 46,257.12 | 31,295.97 |

**RATIONALE:**

CRAB has assigned Provisional Rating **AAA (Pronounced Triple A)** to the proposed issuance of BDT 4,250.00 million Unsecured, Non Convertible, Coupon Bonds by Grameenphone Ltd. In CRAB's opinion, the structure as well as credit worthiness of GP allows for timely payment of bondholders obligation at par on or before the maturity date.

The rating indicates highest credit quality (lowest credit risk). **Highest safety i**ndicates fundamentally strong position. Risk factors are negligible. There may be circumstances adversely affecting the degree of safety but such circumstances, as may be visualized, are not likely to affect the timely payment of principal and interest as per terms.

The rating is based on the very high franchise value, market leadership in the telecommunication segment, technology and geographical footprint, diversified business model which ensures sustained operating cash flows and their stability, effective and efficient management with articulated strategy, integrated and highly sophisticated MIS system, strong financial position, and good corporate governance practices.

CRAB feels comfort to understand its liquidity sources and its maturities in addition to the credit facilities from different banks i.e deposits from agents and subscribers, bill collection speed, lease finance opportunities, market sensitivities as well as its contingency plans. GP's cash collections have shown significant improvements in the previous years will further strengthen its financial position.

Going forward, GP's turnover and operating profits is expected to show growth in the long term on the back of capacity additions and improvements, diversification in products line. Although the company's gearing would increase following debt funded capacity expansion, efficient operations, a competitive cost structure and cost plus nature of the existing tariffs would result in sustenance of its strong debt servicing indicators.

Rating also considers the future growth potential of GP; effective and efficient allocation and utilization of resources; shareholding structure, composition of Board as well as willingness and ability of the shareholders to bail out the company in case of need; high profitability level and leadership process. The rating also draws comfort from the fact the organizational structure and practices of the company avoids dependence of management team on one or a few persons as well as coherence of the team, the independence of the management from the Board of Directors, and good track record of the management till date in terms of building up solid business mix, and maintaining operating efficiency.

CRAB also views Corporate Social Responsibility of GP as a positive factor to its rating. The notion of corporate social responsibility is a part of the core business operations of GP, rather than a separate 'add on', in addition to its focus on corporate philanthropy. GP adopted a framework approach in CSR whereby it aims to play a role in the development process of Bangladesh by, on the other hand, introducing services, which will ensure higher access to information and public services, and on the other, launching development projects to provide assistance in meeting the basic needs of the poor people. In the process, to bring about sustainable change, GP identified 4 focus areas for possible intervention, i.e. Poverty alleviation, Healthcare, Empowerment, and Education.

GP makes effort to mitigate environmental risk through compliance with Environmental Laws and Regulations and Other Compliance Requirements of the country. Besides, the senior lenders i.e. IFC, ADB, NORFUND, Eksportfinas, and

NORAD of GP stipulated few binding clauses regarding environmental and safety issues, which should be adhered by GP. There is no instances of invoke of such clause as of today. It indicates the GP's capacity to address environmental risk.

Being an integral component of the information, communications and technology (ICT) industry has been earmarked as the key driver of the economy's growth momentum; the telecommunications industry is of strategic importance to the nation. The number and type of licenses awarded by the Government is a proxy for the development of the industry. The Regulator already took appropriate measures to eliminate various regulatory hurdles such as interconnection fees between operators, call tariffs and the degree of foreign participation etc. Within the industry, liberalization policies have been introduced in varying degrees, thereby shaping the level of competition faced by the operators. The Government policy with respect to new technology is also an important element in shaping the future operating landscape. The objectivity of the regulator supports future growth potential of telecommunication industry.