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Credit Rating Report

Credit Rating Information and Services Limited
Founder Member. Association of Credit Rating Agencies in Asia (ACRAA), Manila, Philippines
Joint Venture with JCR-VIS Credit Rating Company Ltd. Pakistan
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CREDIT RATING REPORT
On
TOSRIFA INDUSTRIES LIMITED

REPORT: RR/23602/18

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Entity Rating
Long Term: A+
Short Term: ST-3

Outlook: Stable

TOSRIFA INDUSTRIES LIMITED

ACTIVITY
Knit garments manufacturer

DATE OF INCORPORATION
August 27, 2002

CHAIRMAN
Rafiq Hassan

MANAGING DIRECTOR
Mohim Hassan

EQUITY
Tk.2,124.72 million

TOTAL ASSETS
Tk.3,610.38 million

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL's entity rating is valid one year for long-term rating and 6 months for short term rating. CRISL's Bank loan rating (blr) is valid one year for long term facilities and up-to 365 days (according to tenure of short term facilities) for short term facilities. After the above periods, these ratings will not carry any validity unless the entity goes for surveillance.
CRISL followed Corporate Rating Methodology published in CRISL website www.crislbd.com

Date of Rating: November 27, 2018		Valid up to: November 26, 2019
	Long Term	**Short Term**
Entity Rating	A+	ST-3
Outlook	Stable	
Bank Facilities Rating		
Bank/FI	Mode of Exposures (Figures in million)	Bank Loan Rating
The City Bank Limited	*WCL-Tk.1,430.00 **TLO-Tk.626.00	blr A+
Mutual Trust Bank Limited	*WCL-1,325.00 **TLO-Tk.96.89	blr A+
Standard Chartered Bank	*WCL-540.00	blr A+
IDCOL	**TLO-Tk.53.86	blr A+

**WCL-Working Capital Limit **TLO-Term Loan Outstanding*

1.0 RATIONALE

CRISL has reaffirmed the Long term rating to 'A+' (pronounced as single A plus) and the Short Term rating to 'ST-3' of Tosrifa Industries Limited (TIL) based on both relevant qualitative and quantitative information up-to the date of rating. The above ratings have been assigned in consideration of its fundamentals like such as equity based capital structure, average liquidity, sound infrastructure, regular loan payment history, experienced management team etc. However, the above factors are, constrained to some extent by decreasing trend in profitability indicators, slow down in work order, significant loan exposure, moderate worker efficiency, yet to be established integrated MIS system etc.

The Long Term rating implies that entities rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories. The Short Term rating indicates good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good.

CRISL also placed the company with "Stable Outlook" in consideration of its consistent business growth and demand for the products.

2.0 CORPORATE PROFILE

2.1 Background

Tosrifa Industries Limited, a 100% export oriented readymade knit garments manufacturing company, was incorporated on August 27, 2002 as a private limited company. Subsequently, the company converted into a Public Limited Company on 18th August, 2011. TIL is a sister concern of Northern Tosrifa Group (NTG) which have nine (9) business units having exposure in readymade garments (Knit & Oven), printing and packaging sectors. The company went into commercial operation in 2005 and since then it has been engaged in knitting and manufacturing knit wears for various buyers in Europe and USA. TIL started the business with paid-up capital of Tk.0.50 million against the authorized capital of Tk.20.00 million. The Company has subsequently enhanced its paid-up capital to Tk.631.69 million against the authorized capital of Tk.1,000.00 million as on June 30, 2018 through issue of shares. The company floated its shares to the public through IPO and raised total Tk.638.72 million and the shares were listed in both Dhaka and Chittagong Stock Exchanges as on June 08, 2015 and May 21, 2015 respectively. The share is currently traded as 'A' category share after continuous disbursements of dividend (10% in 2017). The management is being led by Mr. Mohim Hassan as its Managing Director (MD). The company's registered office is located at 28-30, Kemal Ataturk Avenue, 16th Floor, Banani, Dhaka-1213 and the industrial unit & the principal place of the business is located at Level-1st to 6th floor, 135 Gopalpur, Munna Nagar, Tongi, Gazipur.

For President & CEO
Sarwat Amina
Executive Vice President
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2.2 Ownership and Control

TIL is a public listed company and is managed and controlled by the Board of Directors. It is noted that the share of Ms. Tosrifa Ahmed (4.89% of total share), who died on 7 April 2016, shall be under her name till February 25, 2018. The Board of TIL is comprised of 8 (eight) members including Managing Director and two Independent Directors. Out of total shares 55.05% of shares are holding by Sponsors/Directors, 24.56% held by Institution and rest 20.39% by General public as on October 31, 2018. Mr. Rafiq Hassan is the Chairman of the Board holding 2.50% shares followed by Mr. Mohim Hassan, who is acting as the MD of the company holding 2.69% shares and remaining shares are held by three Directors, four Shareholders and one Institutional investor as on October 31, 2018. The Board is involved in both operational level and policy matters of the company. The Board formulates strategic objectives and policies for the company, provides leadership and supervises management actions in implementing objectives of the company. The Board held 14 meetings during 2017-18 against 14 meetings during 2016-17. The details of the Directors, Shareholders' qualification, age and experience are stated below:

Name	Designation	Educational Qualification	Share (%)	Experience (years)
Mr. Rafiq Hassan	Chairman	MBA	2.50	27
Mr. Mohim Hassan	Managing Director and CEO	MSS	2.69	32
Mr. Naim Hassan	Director	MSS	2.69	30
Mrs. Anjuman Ara Begum	Director	B.Com	10.67	18
Mrs. Lyra Rizwana Quader	Director	B.Com	10.67	16
Mr. Sayeed Hassan	Share Holder	MBA	0.13	--
Mr. Abeda Rahman	Share Holder	MSS	0.08	--
Mrs. Shameen Ara Begum	Share Holder	MSS	0.41	--
Northern Corporation Ltd.	Sponsor Shareholder	--	20.33	--
Other than Sponsors	Shareholder	--	44.95	--

Long attachment with the business enables the Chairman, Managing Director and other Directors to take strategic decisions whenever necessary for business growth.

2.3 Corporate Management

Experienced management team

TIL has been operating with a good corporate management team which is being supported by a group of experienced and qualified professionals. The management team is headed by the Managing Director Mr. Mohim Hassan who supervises all the major activities with the support of concerned professionals. The operational activities are divided into Six (6) departments such as Marketing, Production, Accounts & Finance, HRD, Cost and Budget, Supply Chain Management which are being headed by experienced professional team members.

The Group has central-based Board approved structured HR manuals for both corporate office and factory. In addition to compensation package, a number of policies have been formulated for the welfare of the employees in the form of accommodation, medical allowance etc. Total Human Resources base at the factory stood at 2,600 out of which 2,350 are workers. The company provides technical training to the unskilled workers. The average wages of the workers at factory level stood at around TK.6,500 per month.

2.4 MIS and Internal Control Mechanism

Yet to be a integrated system

The Management Information System (MIS) of TIL is at developing stage which is yet to be an integrated system. At present, the company uses software for accounting purpose but the company is working for implementing a customized ERP system. TIL has an IT team with 12 members headed by Manager (MIS). TIL produces MIS report on revenues and expenditures trend of the company to facilitate management decision. The company has backup server to backup their valuable data in the factory to keep the data secured.

The company has Internal Audit Department comprise of eight members. TIL's internal control system has yet to be reached at satisfactory level due to lack of proper formal reporting system from factory level to top management. In addition, stock record keeping system of the company does not integrate with the ERP software but responsible person keep it separately in MS Excel. Consequently, it is difficult to take inventory management's decision by one click.

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

3.0 BUSINESS ANALYSIS

3.1 Infrastructure and Facilities

Sound infrastructure

The plant is built on a seven-storied building with a floor space of approximately 190,400 sft. which is fully owned by TIL. The facility is located on 12 bighas of owned land area at 135, Gopalpur, Munnu Nagar, Tongi, Gazipur. TIL has been operating with 34 circular knitting machines, 24 flat bed knitting machines, 620 sewing machines and laid-out in 16 lines having a production capacity of 2,550 tons knitting and 6.90 million pcs of garments per year. The company has established a dyeing unit. The land area of the dyeing project is 1,255 decimal (out of which 437 decimal in the name TIL and rest 818 decimal lease agreements with its sister concern namely Northern Knit Ltd.) with 273,000 sft. building area. The company can meet dyeing requirement of the company as well as its sister concerns and take order from outsides (around 30% of its capacity). The dyeing unit is equipped with 65 sets of different machineries which has been in operation for seven months during the period with a capacity of dyeing 6 ton per day. The company installed new machineries which have been imported from Japan, China, Germany, Singapore and Taiwan for dyeing project. The company also has sufficient safety instruments like fire fighting equipments, hose pipes, smoke detectors to protect against fire.

The company has insurance coverage of Tk.1,303.40 million with Desh General Insurance Company Ltd. The insurance has the coverage to protect raw material, building and machinery with a premium of Tk.5.86 million which is valid up to December 24, 2018.

3.2 Business Operation

The major product of the company consists of T-Shirt, Polo-shirt, Sportswear, Tank Tops and others. TIL has the capacity of 2,550 ton knitting, 1,800 ton dyeing and 6.90 million pcs sewing against which it produced 2,238 ton knitting, 810 ton dyeing (dyeing has started from December 2017) and 5.62 million pcs sewing in FY2017-18 resulting 87.76% utilization in knitting, 77.14% utilization in dyeing and 81.44% utilization in sewing. TIL is trying to develop its product quality continuously so that it can maintain a good relationship with the buyers. Normally buyers provide the product designs and specifications. In addition, the company also develops new design according to market fashion and trend. The major buyers of the company are El Corte Ingles S.A, Hipercor S.A, M.Q. Retail, Torry, Dk, Norwest Industries Ltd., Sports Master, Mango, C & A etc.

4.0 MARKET REVIEW

The Readymade Garment (RMG) industry of Bangladesh has emerged as a competent garment producer in the world. The World Trade Organization (WTO) declared Bangladesh as the second largest RMG exporter after China. The industry accounts for 81.23 percent of the total export earnings of the country and is a source of livelihood for around 4 million workers, mostly poor rural women. Over the last three decades, the apparel industry has achieved a phenomenal growth due to policy support from the Government, dynamism of the private sector entrepreneurs and extremely hardworking workers. The export earnings through RMG stood at over US$ 28,000 million in FY2016-17 and people of around 130 countries of the world are the consumers of 'made-in-Bangladesh' knit garments and woven products.

The journey started in 1978, with a shipment of 10,000 pieces of men's shirts worth 13 million Francs to a French company by Reaz Garments Ltd. Desh Garment Ltd, the first fully export-oriented garment factory of the country, entered the global market the following year. In 1980, South Korean Youngone Corporation formed the first joint-venture garment factory with a Bangladeshi firm, Trexim Ltd. The number of garment factories in the country rose to 587 in 1984-85. With the arrival of many international buyers, the figure jumped to around 2,900 in 1999. In 2005, Bangladesh with an increased number of production units became one of the 12 largest apparel exporters in the world. Now, the country has more than 4,536 woven garment factories, 1,700 knitwear factories and 1,300 spinning, finishing and dyeing factories.

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

Particulars	FY2016-17	FY2015-16	FY2014-15
Number of RMG factories	4,482	4,328	4,296
Export of RMG (million USD)	28,149.84	28,094.16	25,491.40
Export of Woven (million USD)	14,392.59	14,738.74	13,064.61
Export of Knit (million USD)	13,757.25	13,355.42	12,426.79

Source: Export Promotion Bureau Compiled by BGMEA

Moreover, a more glittering future is waiting for the ready-made garment industry of Bangladesh as perceived from at least facts and figures. A McKinsey report forecast export-value growth of 7 to 9% annually within the next ten years, so the market will be double by 2017 and nearly triple by 2020. But at present, the mightiest pillar of our economy is under threat and facing unprecedented challenges posed by some unfortunate incidents in the sector. With challenges on one side and huge opportunities for further growth on the other, we are now at a crossroads. One of the biggest challenges for the sector is to make the factories safer and ensure better working conditions for millions of garment workers. However, following some unfortunate incidents, a number of initiatives have been taken to improve building and fire safety of Bangladesh's garment industry. Platforms such as Alliance, Accord and National Plan of Action have been formed to ensure RMG factories safer and compliant. They have already started inspecting the garment factories and have shut down a number of them due to safety concerns. However, the country does not have the capacity to provide jobs to this huge number of workers in any other sector, leading further instability. The way to resolve the issue is improving building and fire safety at the garment factories to prevent further catastrophic collapse or fire. As stated earlier, at present there are 4,482 garment factories in Bangladesh (increased by 3.56% within last one year), around 40% are housed in shared and converted buildings employing around 1.5 million people; the rest operate in purpose-made buildings. The firms need to retrofit and, if not possible, relocate all the factories that are housed in shared and faulty buildings with poor safety standards.

Apart from building safety, it is needed to ensure fire safety in all garment factories. There is no alternative but to install fire safety equipment at the garment factories to reduce the risk of fire accidents. However, the firm owner's have inertia to install the same because of acquiring and installing fire equipment requires substantial money reducing the profit margin. High import duty on installation equipments like fire hydrant, extinguishers, fire doors, sprinklers and smoke detectors also uplifts the cost in this regard. Considering the need for ensuring a safer garment industry, any comprehensive policy is yet to be formulated or implemented by the Government although industry people have been urging an integrated solution to protect the sector. The inspection of RMG factories by Alliance, Accord and National Plan of Action will be complete at the end of this year. It is apprehended that a number of garment factories may be closed down following their inspection due to safety concerns while many will not be able to run their factories paying off bank loans, house rents etc. Moreover, they are facing problems like back-to-back liability, project loan, stock lot, term loan, customs liability etc.

Minimum wage of garment workers already has been increased by 77%. The consolidated increase in minimum wages for RMG workers in the last five years is around 219 percent. But workers have not been able to enjoy the real benefit of the wage increase due to price spiral of daily essentials and exorbitant house rent. Therefore, Government should come forward with more articulated and thoughtful policy to strengthen such an industry that has kept turning the wheels of our economy, brought glory for the country through its 'Made-in-Bangladesh' tags, created employment for millions of people, lifted them from the abyss of poverty, and ensured a safer and brighter future for their children.

It is also mentionable that the primary textile sector, which includes spinning, weaving, printing, dyeing and finishing, plays a vital role as backward-linkage industry of woven and knitwear garments by supplying fabrics and yarns. Currently, the backward-linkage industry supplies around 90 percent raw materials to the knitwear sub-sector and 40% to the woven sub-sector. The rest of the demand is met with imports, mainly from China and India.

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

At present, there are 424 spinning mills, 794 fabrics and 241 dyeing, printing and finishing units under Bangladesh Textile Mills Association (BTMA) with total investment of over 4.5 billion US dollars. Despite huge potential, the primary textile industries could not utilize their full production capacity because of errant power and gas supply, adoption of new technology, underdeveloped infrastructures etc.

5. 0 FINANCIAL PERFORMANCE ANALYSIS

Audited accounts have been prepared for the period from July-June in the year of FY2016-17 and FY2015-16 in compliance, among other regulations, of the provision of the Finance Act 2015 (Section 9) for establishing uniform accounting year ending on June 30 every year.

Particulars		FY2017-18	FY2016-17	FY2015-16
Capacity	Knitting(ton/year)	2,550	2,550	2,280
	Dyeing (ton/seven months)	1,050	---	---
	Garments(million pcs/year)	6.90	6.90	6.90
Production	Knitting(ton/year)	2,238	2,261	2,074
	Dyeing (ton/seven months)	810	---	---
	Garments(million pcs/year)	5.62	5.57	6.09
Capacity Utilization (%)	Knitting	87.76	88.67	90.96
	Dyeing	77.14	----	---
	Garments	81.44	80.74	88.20
Sales (Tk. in million)		1,251.31	1,206.90	1,424.01
COGS (Tk. in million)		1,010.06	979.94	1,187.68
Gross Profit (In million Tk.)		241.25	226.96	236.32
Net Profit after tax (In million Tk.)		79.92	83.34	110.89
Return on Average Assets after tax (ROAA)%		2.43	3.08	4.60
Return on Average Equity after tax (ROAE)%		3.78	3.96	5.35
Gross profit margin (%)		19.28	18.81	16.60
Operating profit margin (%)		7.43	7.78	7.44
Net profit margin (%)		6.39	6.91	7.79
Cost to Revenue Ratio (%)		80.72	81.19	83.40
Administrative to Revenue ratio (%)		7.94	7.49	5.21
Finance Cost to Revenue ratio (%)		1.88	1.63	1.36

Decreasing trend in profitability indicators

The overall financial performance of the company has been found to be stable though direct export reduced due to slow down in work order. The work order has been reduced in all categories of product (Polo shirt, T-Shirt, Tank Top and others) due to few renowned buyer are switching. It is noted that overall worker efficiency has been found moderate (on an average around 40% against planned efficiency of 60%) due to frequent changes in style (small quantity order), timely feeding of raw materials, worker turnover etc. The sales revenue has increased due to increase in sales volume (in deem export) which resulted increase in gross profit by 6.30%. However, the operating profit and net profit margin have been found in declining trend mainly due to increase in operating expense and decrease in other income which mainly generated from interest received from IPO SND accounts (Tk.0.86 million in FY2017-18 against Tk.9.81 million in FY2016-17).

Moreover, CRISL also reviewed the unaudited accounts of 1st quarter of 2018 which revealed that the company generated net profit of Tk.7.18 million against the sales revenue of Tk.384.20 million.

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

6.0 FINANCIAL STRENGTH AND SOLVENCY

(Amount in million)

Particulars:	FY2017-18	FY2016-17	FY2015-16
Current Assets	770.77	699.37	1074.64
Less: Current Liabilities	792.96	568.92	304.87
Net Current Assets	(22.19)	130.45	769.78
Non Current Assets:	2,839.62	2,256.05	1,374.27
Net Capital Employed	**2,817.41**	**2,386.50**	**2,144.05**
Finance By:			
Non-Current Liability-Bank Loan	692.70	278.53	43.62
Shareholders' Equity			
Share Capital	631.69	631.69	631.69
Share Premium	433.06	433.06	433.06
Revaluation Reserve and Surplus	537.43	539.08	541.19
Retained Earnings	522.55	504.14	494.49
Total	**2817.43**	**2,386.50**	**2,144.05**
Leverage Ratio (X)	0.70	0.40	0.17

Equity based capital structure

TIL has been operating with an equity based capital structure which is composed of 58.85% equity and 41.15% debt (of which 53.37% in short term and 46.63% by long term loan). Currently, the equity pie is composed of 29.73% paid up capital, 25.29% revaluation reserved & surplus, 24.59% retained earnings and 20.39% share premium. During the year under surveillance, the company increased significant long term loan by Tk.414.17 million due capital expenditure and short term loan by Tk.272.46 million) which ultimately increase leverage ratio to 0.70 times in the FY2017-18 from 0.40 times in FY2016-17. Without considering revaluation reserve the company's leverage ratio stood at 0.94 times in FY2017-18.

7.0 LIQUIDITY AND FUND FLOW ANALYSIS

LIQUIDITY INDICATORS	FY2017-18	FY2016-17	FY2015-16
Current Ratio (X)	0.97	1.23	3.52
Quick Ratio (X)	0.55	0.86	3.02
Operating cash flow (Tk. in million)	118.94	116.91	64.67
Net working capital (Tk. in million)	(22.19)	130.45	769.78

Average liquidity

The overall liquidity position of the company has been found to be average. Working capital requirement is financed by Back to Back L/C, F/C account, Over Draft facility and Packing Credit facility. The requirement of working capital has increased due to increase of lead time (around 45 days from 30 days) and significant stock pile. The growth of current asset (10.21%) was lower than the growth of current liabilities (39.38%) due to increase of short term facilities ultimately downturn the current and quick ratio. The net working capital has been found to be in decreasing trend and become negative in current period. After reviewing the working capital limit it appears that TIL has enhanced its working capital limit for the requirement of dyeing project. While analyzing the cash flow from operations it appears that the company has generated sufficient fund from its operation to discharge the fixed financial burden.

8.0 FINANCIAL INSTITUTIONS LIABILITIES

8.1 Liability Position

TIL has been enjoying both funded and non-funded facilities from three banks under different modes. During the period under surveillance, both working capital funded and non-funded limit has been enhanced by Tk.320.00 million from Tk.2,575.00 million to Tk.2,895.00 million as well as outstanding balance increased by Tk.351.69 million from Tk.594.64 million to Tk.946.33 million along with significant term loan outstanding of Tk.722.89 million. A summarized position of the bank loan liabilities of TIL is stated below:

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

Regular loan repayment history

(Tk. in million)

Bank/FI	Mode	Sanction Amount	Outstanding Amount	Status
City Bank Limited (31.10.2018)	Term Loan	380.00	626.00*	Regular
	L/C	550.00	224.23	
	EDF Loan	(550.00)	159.48	
	OD	35.00	30.04	
	PC	45.00	43.28	
	LG	20.00	10.02	
	STL/FDBP	30.00	-	
	ULC/SLC	(50.00)	0.01	
	Short Term Loan (Machinery)	(45.00)	0.46	
	STL(Salary)	(36.00)	32.61	
	SLC/ULC (mach)	750.00	248.29	
Sub-Total (I)		**1,810.00**	**1,374.42**	
Mutual Trust Bank Limited (31.10.2018)	Tem Loan	(325.00)	96.89	
	BTB L/C	500.00	Nil	Regular
	EDF	(500.00)	Nil	
	Term Loan	400.00	Nil	
	Bank Guarantee	(10.00)	Nil	
	SOD	30.00	Nil	
	Packing Credit	20.00	Nil	
	FDBP	50.00	Nil	
	L/C	325.00	Nil	
Sub-Total (II)		**1,325.00**	**96.89**	
SCB (30.10.18)	STL	(70.00)	11.00	Regular
	OD	10.00	1.86	
	LC	530.00	71.82	
	Shipping guarantee	(150.00)	2.64	
	Acceptance	(530.00)	79.27	
	Credit bill negotiated	(80.00)	20.27	
	Import loan	(USD 6.00)	11.05	
Sub-Total (III)		**540.00**	**197.91**	
IDCOL (27.11.18)	Term Loan	109.03	53.86	
Sub-Total (IV)		**109.03**	**53.86**	
Grand Total		**3,784.03**	**1,723.08**	

**Including the outstanding of inner limit of term loan*

8.2 Security Arrangements against Exposure

TIL has offered different securities to avail the credit facilities. The mode of the security offered under each mode is summarized below:

Name of the Bank/FIs	Security Packages
The City Bank Limited	• Registered mortgage of 200 decimal land along with a 7 storied Factory building of Tosrifa Industries Ltd. located & a 6 storied under construction prefabricated building at Gopalpur, Munnu Nagar, Tongi, Gazipur. Current market value is BDT.786.10 million • Registered mortgage of 258 & 179 decimal land of Tosrifa Industries Limited located at Sreepur,Gazipur. Current market value is Tk.180.80 million • Personal Guarantee of all the Directors of the company • 1st charge with RJSC by way of hypothecation over all the fixed and floating assets of Tosrifa Industries Ltd. in favor of CBL • Corporate Guarantee of Northern Corporation Ltd.

For President & CEO
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Executive Vice President
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Mutual Trust Bank Limited	• Registered mortgage of 998.55 decimal land along with construction owned by Tosrifa Industries Ltd and Northern Knit Ltd. • Registered irrevocable general power of attorney authorizing the bank to sell the mortgage property • 1st charge on Pari-Passu basis with the Cit Bank Limited on all fixed and floating assets of the company • Personal Guarantee of all the Directors of the company
Standard Chartered Bank	• Demand Promissory Note and Letter of Continuation for TK. 54.00 million • Registered hypothecation of stocks and book debts of Tosrifa Industries Limited on pari passu basis with City Bank Limited and AB Bank Limited where Standard Chartered Bank's share would not be less than TK. 540.00 million • Personal guarantees from the directors of Tosrifa Industries limited for TK.561.25.00 million • Registered specific charge on Plant and machinery of Tosrifa Industries Limited for TK.150.00 million

8.3 Payment Efficiency

Indicators	FY2017-18	FY2016-17	FY2015-16
Debt Service Coverage Ratio (DSCR)(X)	3.47	3.91	5.01
Interest Coverage Ratio (ICR) (X)	4.84	6.44	8.66

While reviewing the payment history, it has been revealed that TIL has paid all outstanding dues in the stipulated time as set by the bank. Further analysis revealed that the profit generation of the company has been sufficient to serve the debt/interest obligation against the loan amount. The company has Tk.626.00 million as long term loan outstanding from The City Bank Ltd. (CBL) with installment of Tk. 8.50 million. The company has been utilizing loan limits duly and has been found to be regular in paying bank loan when it was due. DSCR and ICR indicate that company has to repay the debt burden.

9.0 RISK ANALYSIS

9.1 Price Fluctuation Risk

The major raw materials of the company are yarn, fabrics and accessories. Price fluctuation of the above directly affects the costing as well as profitability. In recent times the price of yarn and fabrics has been considerably unstable in the local and global market. The company however has flexibility to adjust sales price with cost. So considering the volatility of raw material price as well as finished goods price in the international market, CRISL foresees that the company is exposed to price fluctuation risk to some extent.

9.2 Market risk

RMG sectors are already facing severe competition with Vietnam, Cambodia and Indonesia. However, China is gradually losing the international market of textile export as labor cost in that country is increasing which could be an ample opportunity for Bangladesh in grabbing larger stake in the international market. However, due to manufacturing basic items, demand appears to be inelastic in USA and Euro Zone. Considering the all above, CRISL foresees that TIL might not face any major problem in near future.

9.3 Compliance Risk

Compliance in textile and garments manufacturing is a key requirement for most of the reputed global garments buyers. Both social and environmental compliances are key as social compliance is a legal requirement that takes into account minimum labor standards, occupational safety measures and environmental concern. Environmental compliance standard has been formulated to ensure environmental laws in industries and in broad sense to control pollution of water, land, air and optimum use of water, energy and resources. Now a day,

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

compliance to standard is more important a factor to achieve a garments export order than the product quality. While conducting factory visit, it has been found that the company is less exposed to compliance risk.

9.4 Regulatory risk

The Government is timely monitoring the work environment and often fixing the minimum wage rate. Non compliance of this can give rise to worker unrest. In spite of the promulgation of laws by the Government, the majority of garment workers remain deprived of their legal rights. Some of the issues which still remain neglected include minimum basic salary, working hours, overtime calculation, off day in a week and yearly increment. In addition to that the company operates under export/import policy, taxation policy adopted by NBR and rules adopted by other regulatory organizations. Any unexpected changes in the policies formed by those bodies will impact the business of the company adversely. So considering the above CRISL views that, the company is exposed to regulatory risk to some extent.

9.5 Fire risk

Fire is a great threat for readymade garments. TIL has a large warehouse for raw materials (yarn, fabrics and accessories) and finished goods. For proper protection, the warehouses are to be equipped with the firefighting equipment and other related arrangement. TIL has fire hydrant and fire control panel for controlling the fire. TIL has insurance coverage with Desh General Insurance Company Ltd. to mitigate this risk. Considering all the above, the company is moderately exposed to fire risk.

10.0 OBSERVATION SUMMARY

Rating Comforts:	**Rating Concerns:**
• Equity based capital structure • Average liquidity • Sound infrastructure • Regular loan payment history • Experienced management team	• Decreasing trend in profitability indicators • Slow down in work order • Significant loan exposure • Moderate worker efficiency • Yet to be established integrated MIS system
Business Prospects:	**Business Challenges:**
• Competitive wages rate • Government supportive policy • Improve worker efficiency • Tax incentive for certain period • Entrance of high-tech machineries • Wide export market	• Price fluctuation in the international market • Increased global competition • Global economic meltdown

END OF THE REPORT

[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the BSEC rules as prescribed by the Bangladesh Securities and Exchange Commission.]

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
TOSRIFA INDUSTRIES LIMITED

11.0 CORPORATE INFORMATION:

Date of Incorporation	: August 27, 2002
Board of Directors:	
Mr. Rafiq Hassan	: Chairman
Mr. Mohim Hassan	: Managing Director
Mr. Naim Hassan	: Director
Mrs. Anjuman Ara Begum	: Director
Mrs. Lyra Rizwana Quader	: Director
Prof. Dr. Khondakar Mohammod Shariful Huda	: Independent Director
Mr. Md. Nasirul Islam	: Independent Director

Auditor:
Ahmad & Akhtar
Chartered Accountants

Management:

Mr. Mohim Hassan	: Managing Director
Mr. Hasibuddin Ahmed	: Executive Director
Mr. Md. Zillur Rahman, FCMA	: Chief Financial Officer (CFO)
Mr. Mohammad Armanul Azim	: Chief Operating Officer
Mr. Md. Khurshaed Alam	: AGM (Production)
Mr. Hayder Ali	: Company Secretary
Mr. Habibur Rahman	: Senior AGM (Knitting Division)

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
TOSRIFA INDUSTRIES LIMITED

12.0 FINANCIAL STATEMENT

A. Balance Sheet (As on June 30)

Tk. in million

Balance Sheet (as on June 30)	FY2017-18	FY2016-17	FY2015-16
Non-Current Assets:			
Property, Plant and Equipment	1,800.35	1,265.13	1,211.66
Capital work in progress	1,036.46	989.32	160.81
Intangible Assets(net)	2.80	1.60	1.80
Total Non-Current Assets	**2,839.62**	**2,256.05**	**1,374.27**
Current Assets:			
Inventories (Product)	335.14	208.75	154.39
Trade Debtors	71.54	153.89	250.77
Advanced, Deposits and Prepayments	142.68	132.31	82.10
Other Current Assets	13.09	10.97	1.11
Cash and Bank Balances	208.33	193.45	586.27
Total Current Assets	**770.77**	**699.37**	**1,074.64**
Current Liabilities:			
Short Term Loan	553.80	281.34	114.85
Long Term Loan-Current Portion	9.94	26.24	24.33
Trade Creditors	221.47	145.23	125.25
Liability for expenses	0.49	99.77	4.14
Other Short Term Liabilities	7.27	16.33	36.29
Total Current Liabilities	**792.96**	**568.92**	**304.87**
Net Current Assets	**-22.19**	**130.45**	**769.78**
Net Assets/Capital Employed	**2,817.43**	**2,386.50**	**2,144.05**
Non-Current Liabilities:			
Long Term Loan	**676.76**	**262.59**	**36.32**
Deferred Liabilities	15.94	15.94	7.30
Total Non-Current Liabilities	**692.70**	**278.53**	**43.62**
Shareholders' Equity:			
Share Capital	631.69	631.69	631.69
Share Premium	433.06	433.06	433.06
Revaluation Reserved & Surplus	537.43	539.08	541.19
Retained Earnings	522.55	504.14	494.49
Total Shareholder's Equity	**2,124.72**	**2,107.97**	**2,100.43**
Total Equity and Long Term Liabilities	**2,817.43**	**2,386.50**	**2,144.05**
Total Assets	**3,610.38**	**2,955.42**	**2,448.92**

B. Income Statement (For the year ended June 30)

Tk. in million

Income Statement	FY2017-18	FY2016-17	FY2015-16
Sales Revenue	**1,251.31**	**1,206.90**	**1,424.01**
Cost of Goods Sold Excluding Depreciation	962.88	943.72	1,153.23
Depreciation-Manufacturing	47.18	36.22	34.46
Cost of Goods Sold	**1,010.06**	**979.94**	**1187.68**
Gross Profit	**241.25**	**226.96**	**236.32**
Salary and Allowances	48.85	47.44	18.76
Depreciation-Administrative	11.79	9.06	8.61
Other Administrative Expenses	38.77	33.93	46.81
Total Administrative Expenses	**99.41**	**90.43**	**74.18**
Selling and Distribution Expenses	**48.92**	**42.62**	**56.15**
Profit from Operation	**92.92**	**93.91**	**105.99**
Other Income	25.38	38.17	68.48
Financial Cost	23.50	19.68	19.30
Other Non-Operating Expenses	4.51	5.35	7.39
Profit Before Tax	**90.28**	**107.05**	**147.78**
Income Tax	10.36	23.72	36.89
Net Profit after Tax	**79.92**	**83.34**	**110.89**

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
TOSRIFA INDUSTRIES LIMITED

CRISL RATING SCALES AND DEFINITIONS
LONG-TERM RATINGS OF CORPORATE

RATING	DEFINITION
AAA Triple A (Highest Safety)	**Investment Grade** Entity rated in this category is adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of companies.
AA+, AA, AA- (Double A) (High Safety)	Entity rated in this category is adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Entity rated in this category is adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Entity rated in this category is adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a company is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.
BB+, BB, BB- Double B (Inadequate Safety)	**Speculative Grade** Entity rated in this category is adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates a company as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (Risky)	Entity rated in this category is adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time through creating external liabilities.
CCC+,CCC, CCC- Triple C (Vulnerable)	Entity rated in this category is adjudged to be vulnerable and might fail to meet its repayments frequently or it may currently meeting obligations in time through creating external liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support.
CC+,CC, CC- Double C (High Vulnerable)	Entity rated in this category is adjudged to be very highly vulnerable. Entity might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support.
C+,C,C- Single C (Extremely Speculative)	Entity rated in this category is adjudged to be with extremely speculative in timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
D (Default)	**Default Grade** Entity rated in this category is adjudged to be either already in default or expected to be in default.

Note: For long-term ratings, CRISL assigns + (Positive) sign to indicate that the issue is ranked at the upper-end of its generic rating category and - (Minus) sign to indicate that the issue is ranked at the bottom end of its generic rating category. Long-term ratings without any sign denote mid-levels of each group.

SHORT-TERM RATINGS OF CORPORATE

ST-1	**Highest Grade** Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding. Safety is almost like risk free Government short-term obligations.
ST-2	**High Grade** High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	**Good Grade** Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	**Moderate Grade** Moderate liquidity and other protection factors qualify an entity to be in investment grade. Risk factors are larger and subject to more variation.
ST-5	**Non-Investment/Speculative Grade** Speculative investment characteristics. Liquidity is not sufficient to ensure discharging debt obligations. Operating factors and market access may be subject to a high degree of variation.
ST-6	**Default** Entity is in default or is likely to default in discharging its short-term obligations. Market access for liquidity and external support is uncertain.

For President & CEO
Sarwat Amina
Executive Vice President
Credit Rating Information and Services Ltd.

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CREDIT RATING REPORT
On
TOSRIFA INDUSTRIES LIMITED

CRISL RATING SCALES AND DEFINITIONS
BANK LOAN/ FACILITY RATING SCALES AND DEFINITIONS- LONG-TERM

RATING	DEFINITION
blr **AAA** (*blr* Triple A) (Highest Safety)	**Investment Grade** Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have highest credit quality, offer highest safety and carry almost no risk. Risk factors are negligible and almost nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of loans/ facilities.
blr **AA+**, *blr* **AA**, *blr* **AA-** (Double A) (High Safety)	Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have high credit quality, offer higher safety and have high credit quality. This level of rating indicates that the loan / facilities enjoyed by an entity has sound credit profile and without any significant problem. Risks are modest and may vary slightly from time to time because of economic conditions.
blr **A+**, *blr* **A**, *blr* **A-** Single A (Adequate Safety)	Bank Loan/ Facilities rated in this category are adjudged to carry adequate safety for timely repayment/ settlement. This level of rating indicates that the loan / facilities enjoyed by an entity have adequate and reliable credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
blr **BBB+**, *blr* **BBB**, *blr* **BBB-** Triple B (Moderate Safety)	Bank Loan/ Facilities rated in this category are adjudged to offer moderate degree of safety for timely repayment /fulfilling commitments. This level of rating indicates that the client enjoying loans/ facilities under-performing in some areas. However, these clients are considered to have the capability to overcome the above-mentioned limitations. Cash flows are irregular but the same is sufficient to service the loan/ fulfill commitments. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
blr **BB+**, *blr* **BB**, *blr* **BB-** Duble B (Inadequate Safety)	**Speculative/ Non investment Grade** Bank Loan/ Facilities rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates loans/ facilities enjoyed by a client are below investment grade. However, clients may discharge the obligation irregularly within reasonable time although they are in financial/ cash problem. These loans / facilities need strong monitoring from bankers side. There is possibility of overcoming the business situation with the support from group concerns/ owners. Overall quality may move up or down frequently within this category.
blr **B+**, *blr* **B**, *blr* **B-** Single B (Somewhat Risk)	Bank Loan/ Facilities rated in this category are adjudged to have weak protection factors. Timely repayment of financial obligations may be impaired by problems. Whilst a Bank loan rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support. Special monitoring is needed from the financial institutions to recover the installments.
blr **CCC+**, *blr* **CCC**, *blr* **CCC-** Triple C (Risky)	**Risky Grade** Bank Loan/ Facilities rated in this category are adjudged to be in vulnerable status and the clients enjoying these loans/ facilities might fail to meet its repayments frequently or it may currently meeting obligations through creating external support/liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support. These loans / facilities need strong monitoring from bankers side for recovery.
blr **CC+**, *blr* **CC**, *blr* **CC-** Double C (High Risky)	Bank Loan/ Facilities rated in this category are adjudged to carry high risk. Client enjoying the loan/ facility might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support. These loans / facilities need strong monitoring from bankers side for recovery.
blr **C+**, *blr* **C**, *blr* **C-** (Extremely Speculative)	Bank Loan/ Facilities rated in this category are adjudged to be extremely risky in timely repayment/ fulfilling commitments. This level of rating indicates that the clients enjoying these loan/ facilities are with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
blr **D** (Default)	**Default Grade** Entities rated in this category are adjudged to be either already in default or expected to be in default.

SHORT-TERM RATINGS

blr ST-1	**Highest Grade** Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.
blr ST-2	**High Grade** High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
blr ST-3	**Good Grade** Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
blr ST-4	**Satisfactory Grade** Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
blr ST-5	**Non-Investment Grade** Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
blr ST-6	**Default** Institution failed to meet financial obligations

For President & CEO
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CREDIT RATING REPORT
On
TOSRIFA INDUSTRIES LIMITED

CRISL RATING SCALES AND DEFINITIONS

BANK LOAN/ FACILITY RATING SCALES AND DEFINITIONS- LONG-TERM

RATING	DEFINITION
blr **AAA** (*blr* Triple A) (Highest Safety)	**Investment Grade** Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have highest credit quality, offer highest safety and carry almost no risk. Risk factors are negligible and almost nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of loans/ facilities.
blr **AA+**, *blr* **AA**, *blr* **AA-** (Double A) (High Safety)	Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have high credit quality, offer higher safety and have high credit quality. This level of rating indicates that the loan / facilities enjoyed by an entity has sound credit profile and without any significant problem. Risks are modest and may vary slightly from time to time because of economic conditions.
blr **A+**, *blr* **A**, *blr* **A-** Single A (Adequate Safety)	Bank Loan/ Facilities rated in this category are adjudged to carry adequate safety for timely repayment/ settlement. This level of rating indicates that the loan / facilities enjoyed by an entity have adequate and reliable credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
blr **BBB+**, *blr* **BBB**, *blr* **BBB-** Triple B (Moderate Safety)	Bank Loan/ Facilities rated in this category are adjudged to offer moderate degree of safety for timely repayment /fulfilling commitments. This level of rating indicates that the client enjoying loans/ facilities under-performing in some areas. However, these clients are considered to have the capability to overcome the above-mentioned limitations. Cash flows are irregular but the same is sufficient to service the loan/ fulfill commitments. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
blr **BB+**, *blr* **BB**, *blr* **BB-** Duble B (Inadequate Safety)	**Speculative/ Non investment Grade** Bank Loan/ Facilities rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates loans/ facilities enjoyed by a client are below investment grade. However, clients may discharge the obligation irregularly within reasonable time although they are in financial/ cash problem. These loans / facilities need strong monitoring from bankers side. There is possibility of overcoming the business situation with the support from group concerns/ owners. Overall quality may move up or down frequently within this category.
blr **B+**, *blr* **B**, *blr* **B-** Single B (Somewhat Risk)	Bank Loan/ Facilities rated in this category are adjudged to have weak protection factors. Timely repayment of financial obligations may be impaired by problems. Whilst a Bank loan rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support. Special monitoring is needed from the financial institutions to recover the installments.
blr **CCC+**, *blr* **CCC**, *blr* **CCC-** Triple C (Risky)	**Risky Grade** Bank Loan/ Facilities rated in this category are adjudged to be in vulnerable status and the clients enjoying these loans/ facilities might fail to meet its repayments frequently or it may currently meeting obligations through creating external support/liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support. These loans / facilities need strong monitoring from bankers side for recovery.
blr **CC+**, *blr* **CC**, *blr* **CC-** Double C (High Risky)	Bank Loan/ Facilities rated in this category are adjudged to carry high risk. Client enjoying the loan/ facility might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support. These loans / facilities need strong monitoring from bankers side for recovery.
blr **C+**, *blr* **C**, *blr* **C-** (Extremely Speculative)	Bank Loan/ Facilities rated in this category are adjudged to be extremely risky in timely repayment/ fulfilling commitments. This level of rating indicates that the clients enjoying these loan/ facilities are with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
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blr ST-5	**Non-Investment Grade** Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
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For President & CEO
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