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Joint Venture with JCR-VIS Credit Rating Company Ltd. Pakistan
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CREDIT RATING REPORT On TOSRIFA INDUSTRIES LIMITED

REPORT: RR/31686/19

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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.2,100.93 million

TOTAL ASSETS
Tk.4,332.30 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 26, 2019	**Valid up to: November 25, 2020**	
	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.885.00	*blr A+*
	**TLO-Tk.965.06	
Standard Chartered Bank	*WCL-420.00	*blr A+*
IDCOL	**TLO-Tk.53.87	*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, 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 is a 100% export oriented readymade composite 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 18^{th} August, 2011. TIL is a sister concern of Northern Tosrifa Group (NTG) which have nine (9) business units having exposure in readymade garments (Knit), 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. After that the company also issue stock dividend of Tk.31.58 million as on June 30, 2019 and currently the company operating with paid up capital Tk.663.27 million against authorized capital Tk.1,000.00 million. 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 FY2018-19). The company achieved LEED Certificate (Platinum category) for green factory building. Due to its endeavor to standardize management system the company was also awarded different certificates such as ISO 9001:2015 (QM); Oekotex Certificate, Certificate of Compliance

For President & CEO
Md. Asaduzzaman Khan
Executive Director
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(GOTS) 5.0. 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, Bangladesh.

2.2 Ownership and Control

TIL is a publicly listed company and is managed and controlled by the Board of Directors. On April 28, 2019 total 32,46,498 shares (30,91,903 original shares and 1,54,595 bonus shares) of honorable late sponsor of the company Mrs. Tosrifa Ahmed (who died on 07.04.2016) have been transmitted in the accounts of her legal successors though stock exchanges in the following manner as per succession certificate issued by the honorable Court. Number of 4,63,785 shares has been given to each her sons namely Feroz M. Hassan, Faruque Hassan, Mohim Hassan (Sponsor Director), Naim Hassan (Sponsor Director), Rafiq Hassan (Sponsor Director), Sayeed Hassan (Sponsor) and 2,31,893 shares each to her daughters namely Abeda Rahman and Shameem Ara Begum. The Board of TIL is comprised of 8 members including Managing Director and 2 Independent Directors. Out of total shares 49.72%% of shares are holding by Sponsors/Directors, 23.34% held by Institution and rest 26.94% by General public as on November 30, 2019. Mr. Rafiq Hassan is the Chairman of the Board holding 3.20% shares followed by Mr. Mohim Hassan, who is acting as the MD of the company holding 3.39% shares and remaining shares are held by three Directors, one Shareholder and one Institutional investor as on November 30, 2019. 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 10 meetings during 2018-19 against 14 meetings during 2017-18. 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	3.20	28
Mr. Mohim Hassan	Managing Director and CEO	MSS	3.39	33
Mr. Naim Hassan	Director	MSS	3.39	31
Mrs. Anjuman Ara Begum	Director	B.Com	8.07	19
Mrs. Lyra Rizwana Quader	Director	B.Com	10.52	17
Mr. Sayeed Hassan	Sponsor Shareholder	MBA	0.83	--
Northern Corporation Ltd.	Director	--	20.32	--
Institutional Investors	Shareholder	--	23.34	--
General Shareholders	Shareholder	--	26.94	--

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 3,053 out of which 2,921 are workers. The company provides technical training to the unskilled workers.

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2.4 MIS and Internal Control Mechanism

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.

Yet to be a integrated system

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.

3.0 BUSINESS ANALYSIS

3.1 Infrastructure and Facilities

The company has two manufacturing units respectively sewing unit and Knitting & dyeing unit. Sewing section is located at 135, Gopalpur, Munnu Nagar, Tongi, Gazipur on 396 decimals of owned land area with 7 storied building with a floor space of approximately 1,90,400 sift, one 4 storied administrative & compliance building with a floor space of 27,600 sft. and one bonded warehouse with a space of 24,000 sft.

The sewing section has been operating with 740 sewing machines and laid-out 32 lines (of which 16 line added from February 2019). The unit-1 has own power substation with capacity of 800 KW and 2 sets diesel generators with total capacity of 1,000 KW. The plant has sufficient safety instruments like fire fighting equipments, hose pipes, smoke detectors to protect against fire and also has canteen, child care and doctor facility within the factory premise.

Sound infrastructure

Knitting & dyeing section is located at Sreepur Gazipur on total land area of 1,255 decimals (out of which 437 decimal in the name TIL and rest 818 decimal lease agreements with its sister concern namely Northern Knit Ltd.). The unit has one 3 storied knitting building with floor space of 1,03,921 sft., one 3 storied warehouse with floor space of 76,000 sift, two 1 storied dyeing building with total floor space of 1,18,000 sft., water treatment plant and chemical warehouse with total area of 30,000 sift, ETP area of 15,000 sft and substation area of 6000 sft.

The knitting section has been operating with 35 circular knitting machines, 24 flat knitting machines which has been shifted from Gopalpur, Munnu Nagar, Tongi, Gazipur. The dyeing section is equipped with different types machineries namely 2 sets C.P.B, 9 sets dilmenlar, 1 set bleaching, 1 set washing, 1 set OBA, 2 sets stanter, compactor 2 sets, dyer 1 set, raising brush 1 set, sueting 1 set, senzing 1 set, sharing 1 set, garments 3 sets washing machine and 3 sets dyer. All machineries have been imported from Japan, China, Germany, Singapore and Taiwan for dyeing project. This unit has own power substation with capacity of 4000 KVA and 3 sets diesel generators with total capacity of 2850 KVA and has industrial gas line for boiler (4 sets boiler with capacity total 8 MT per hour), thermal boiler capacity of 30 lac KW. The unit also has sufficient safety instruments like fire fighting equipments, hose pipes, smoke detectors to protect against fire.

Currently the Tosrifa Industries Limited, Northern Corporation Limited and Fashion Asia Limited has jointly insurance coverage of Tk.1,767.80 million with Desh General Insurance Company Limited for all of its buildings, machineries, finished goods, work-in-process, raw material and office equipments etc. where insurance premium is Tk.7.96 million and valid up to December 24, 2019.

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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 3,744 ton knitting, 7,800 ton dyeing and 10.39 million pcs sewing against the same produced 2,340 ton knitting, 5304 ton dyeing (dyeing has started from December 2017) and 7.79 million pcs sewing in FY2018-19 resulting 62.50% utilization in knitting, 68.00% utilization in dyeing and 75.00% utilization in sewing respectively. 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 Original Marines, El Corte Ingles S.A, Hipercor S.A, M.Q. Retail, Torray, 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 declared Bangladesh as the second largest RMG exporter after China. Bangladesh is the second largest exporter after China. The industry accounts for 83.49% of the total export earnings of the country and is a source of livelihood for around 4.40 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. In the recent past, the sector's growth has been marginal, with exports growing by 8.70% and 0.20% for 2017-18 and 2016-17 respectively. Future growth would be contingent on the outcomes of multitude of internal and external factors, which could potentially determine the sector's competitiveness and performance vis-à-vis its closest competitors.

Particulars	FY2017-18	FY2016-17	FY2015-16
Export of RMG (million USD)	30,614.76	28,149.84	28,094.16
Export of Oven (million USD)	15,426.25	14,392.59	14,738.74
Export of Knit (million USD)	15,188.51	13,757.25	13,355.42

Source: Export Promotion Bureau Compiled by BGMEA

In the FY2017-18, Bangladesh's export earnings from the RMG sector stood at $30614.76 million, posting 8.76% growth. Of the total amount, Knitwear products earned $15188.51 million which is 10.40% higher than the $13757.25 million in the same period a year ago and Woven products earned $15426.25 million up by 7.18%, compared to $14392.59 million a year ago.

With a 6.78% growth projection, Bangladesh government has set exports target of $32690.00 million for the apparel sector of which $16150.00 million and $16530.00 million will come from Knitwear and Woven products respectively. According to Export Promotion Bureau (EPB), from July 2018 to December 2018, Bangladesh's export earnings from the RMG sector stood at $14772.79 million, posting 15.65% growth from the same period of the previous year of which $8652.60 million from Knitwear product and $8432.31 million from Woven product.

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, around 4,560 garment factories are in operation in Bangladesh *(Source: BGMEA dated January 10, 2019).*

The sector got back on its growth trajectory in 2018, mainly due to a depreciating currency and growing export trend to the US market, which is the single largest importer of Bangladeshi apparels. The US government's cancellation of Trans-Pacific Partnership (TPP)

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Executive Director
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agreement with 11 partner countries- Australia, Japan, New Zealand, Canada, Mexico, Singapore, Malaysia, Vietnam, Brunei, Chile and Peru- have resulted in fresh imposition of tariff on Vietnamese apparel, which is directly benefiting its closest competitor, Bangladesh. Recovering US economy will also increase overall consumer spending and import, apparel included.

With challenges on one side and huge opportunities for further growth on the other, RMG sectors 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. Platforms such as Alliance, Accord and National Plan of Action have been formed to ensure RMG factories safer and compliant. However, the near completion of remediation work by Accord and Alliance post the Rana Plaza industrial incident have improved perception of Bangladesh's RMG sector among foreign buyers. However, RMG owners point to squeezing profit margins, which is forcing them to shelve plans on making further investments to make workplaces safer. The government and development/donor agencies would have to collaborate extensively for supporting efficiency enhancement within the sector. The government also needs to offer market development support for emerging apparel markets, utilizing the commercial wings of Bangladesh embassies worldwide. The main objective would be to facilitate the sector's shift towards higher margin apparel segment, which can absorb incremental overhead costs.

On the other hand, based on the recent tripartite negotiations between the Government, BGMEA and RMG worker trade unions, the minimum wage rate has been revised upward to Tk. 8,300 effective from Dec 2018. The expected 50% jump in salary costs would negatively impact the sector's cost competitiveness. To tackle rising costs, some RMG owners have been automating operations by adopting technology to partially reduce human resource dependency. The RMG factories would have to ensure financial viability, either by increasing worker efficiency or by securing higher pricing from apparel buyers. Due to intense local and international competition, apparel prices are proving to be sticky upwards.

5.0 FINANCIAL PERFORMANCE ANALYSIS

The audit of the company has been conducted by the "Shiraz Khan Basak & Co. Chartered Accountants." and it has been found that the books of accounts are in line with the International Financial Reporting Standards (IFRSs) and financial statements have been prepared with sufficient disclosures. CRISL reviewed the audited accounts and developed an analytical framework accordingly.

Particulars		FY2018-19	FY2017-18	FY2016-17
Capacity	Knitting(ton/year)	3,744	2,550	2,550
	Dyeing (ton/year)	7,800	1,050	---
	Garments(million pcs/year)	10.39	6.90	6.90
Production	Knitting(ton/year)	2,340	2,238	2,261
	Dyeing (ton/year)	5,304	810	---
	Garments(million pcs/year)	7.79	5.62	5.57
Capacity Utilization (%)	Knitting	62.50	87.76	88.67
	Dyeing	68.00	77.14	----
	Garments	75.00	81.44	80.74
Sales (Tk. in million)		1,958.49	1,251.31	1,206.90
COGS (Tk. in million)		1,658.74	1,010.06	979.94
Gross Profit (In million Tk.)		299.75	241.25	226.96
Net Profit after tax (In million Tk.)		7.79	79.92	83.34
Return on Average Assets after tax (ROAA)%		0.20	2.43	3.08
Return on Average Equity after tax (ROAE)%		0.37	3.78	3.96
Gross profit margin (%)		15.31	19.28	18.81
Operating profit margin (%)		5.91	7.43	7.78
Net profit margin (%)		0.40	6.39	6.91
Cost to Revenue Ratio (%)		84.69	80.72	81.19
Administrative to Revenue ratio (%)		5.14	7.94	7.49
Finance Cost to Revenue ratio (%)		3.88	1.88	1.63

For President & CEO
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Decreasing trend in profitability indicators

The overall financial performance of the company has been found to be moderate with decreasing trend in profitability indicators. Though the sales revenue of the company has increased by 56.52% due to production capacity and actual production increased, net profit after tax significantly decreased due to increase marketing selling and distribution expenses to Tk.83.30 million against Tk.48.92 million, finance cost to Tk.76.07 million against Tk.23.49 million and also increased deferred tax expenses of Tk.48.00 from previous year. Due to above reason all profitability indicators significantly decreased from previous year. It is noted that overall worker efficiency has been found moderate (on an average around 45% against planned efficiency of 60%) due to frequent changes in style (small quantity order), raw materials supply problem, worker turnover etc.

Moreover, CRISL also reviewed the unaudited accounts of 1st quarter of FY2019-20 which revealed that the company generated gross profit of Tk.51.72 million and negative net profit of Tk.47.75 million against the sales revenue of Tk.550.50 million.

6.0 FINANCIAL STRENGTH AND SOLVENCY

(Amount in million)

Particulars:	FY2018-19	FY2017-18	FY2016-17
Current Assets	1,114.77	770.77	699.37
Less: Current Liabilities	1,393.04	792.96	568.92
Net Current Assets	**(278.27)**	**(22.19)**	**130.45**
Non Current Assets:	3,217.53	2,839.62	2,256.05
Net Capital Employed	**2,939.26**	**2,817.43**	**2,386.50**
Finance By:			
Non-Current Liability-Bank Loan	838.33	692.70	278.53
Shareholders' Equity			
Share Capital	663.27	631.69	631.69
Share Premium	433.06	433.06	433.06
Revaluation Reserve and Surplus	536.27	537.43	539.08
Retained Earnings	468.33	522.55	504.14
Total Equity and Long Term Liabilities	**2,939.26**	**2,817.43**	**2,386.50**
Leverage Ratio (X)	1.06	0.70	0.40

Equity based capital structure

TIL has been operating with an equity based capital structure which composed of 48.49% equity and 51.51% debt. Total debt comprised of 37.57% long-term liability and 62.43% short-term liability. Currently, the equity pie is composed of 31.57% paid up capital, 25.53% revaluation reserved & surplus, 22.29% retained earnings and 20.61% share premium. During the year under surveillance, the company increased long term loan by Tk.145.63 million due capital expenditure and short term loan by Tk.240.51 million) which ultimately increase leverage ratio to 1.06 times in the FY2018-19 from 0.70 times in FY2017-18. Without considering revaluation reserve the company's leverage ratio stood at 1.43 times in FY2018-19.

7.0 LIQUIDITY AND FUND FLOW ANALYSIS

LIQUIDITY INDICATORS	FY2018-19	FY2017-18	FY2016-17
Current Ratio (X)	0.80	0.97	1.23
Quick Ratio (X)	0.47	0.55	0.86
Operating cash flow (Tk. in million)	(58.62)	118.94	116.91
Net working capital (Tk. in million)	(278.27)	(22.19)	130.45

Average liquidity

The overall liquidity position of the company has been found to be moderate in consideration of negative operative cash flow and net working capital as well as below average both current and quick ratio. Working capital requirement is financed by back to back L/C, over draft facility, packing credit facility and trade payables. The growth of current asset (45%) was lower than the growth of current liabilities (76%) due to increase of short term facilities ultimately downturn the current and quick ratio. The net working capital has been found to be

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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.

8.0 FINANCIAL INSTITUTIONS LIABILITIES

8.1 Liability Position

TIL has been enjoying working capital both funded and non-funded loan as well as term loan facilities from two banks and one FI under different modes. During the period under surveillance, both working capital funded and non-funded limit has been decreased to Tk.1,305.00 million from Tk.2,575.00 million but outstanding balance increased to Tk.1,050.08 million from Tk.964.33 million along with significant term loan outstanding increased to Tk.1,018.93 million from Tk.722.89 million due expansion of project. A summarized position of the bank loan liabilities of TIL is stated below:

Regular loan repayment history

(Tk. in million)

Bank/FI	Mode	Sanction Amount	Outstanding Amount	Status
City Bank Limited (31.10.2019)	Term Loan	1,100.00	965.06	Regular
	L/C	650.00	261.70	
	EDF Loan	(650.00)	255.00	
	OD	35.00	31.56	
	PC	100.00	43.82	
	LG	20.00	10.02	
	STL	(155.00)	49.23	
	FDBP	50.00	21.00	
	ULC/SLC	30.00	---	
	Sub-Total (I)	**1,985.00**	**1,637.39**	
SCB (30.10.2019)	LC	420.00	17.74	
	Pre-shipment Invoice	(80.00)	26.54	
	Acceptance	(420.00)	35.91	
	Import loan	USD-4.00*84 (336.00)	297.56	
	Sub-Total (II)	**420.00**	**377.75**	
IDCOL (30.10.2019)	Term Loan	109.03	53.87	
	Sub-Total (III)	**109.03**	**53.87**	
Grand Total (I+II+III)		**2,514.03**	**2,069.01**	

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 prefabricated building at Gopalpur, Munnu Nagar, Tongi, Gazipur. • Registered mortgage of 258 & 179 decimal land of Tosrifa Industries Limited located at Sreepur,Gazipur. Mortgage of the above are completed covering limit Tk.1,935.00 million • Registered mortgage over at least 470 decimal project land with prefabricated building for fabrics dyeing and finishing project at kewa, Shreepur, Gazipur. The property is owned by Northern Knit Limited (group concern) • 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 with SCB & IDCOL • Corporate Guarantee of Northern Corporation Ltd. UDC with letter of authority to insert date thereon covering WC limit and term laon

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Standard Chartered Bank	• Demand Promissory Note and Letter of Continuation for TK.420.00 million • Registered hypothecation of stocks and book debts of Tosrifa Industries Limited on pari passu basis with others lenders where Standard Chartered Bank's share would not be less than TK.420.00 million • Personal guarantees from the directors of Tosrifa Industries limited for TK.442.50 million • Corporate Guarantee by Northern Corporation Limited for Tk.442.50 million with supporting Board Resolution
IDCOL	• First ranking pair-passu charge, registered with RJSC on current and future plant, machinery, equipment of the borrower with Irrevocable General power of Attorney in favour of IDCOL to sell the hypothecated asset • Personal guarantee by Mr. Rofiq Hasan, Mr. Mohim Hassan and Mr. Naim Hassan • Corporate Guarantee by Northern Corporation Limited and Northern Yarn Limited

8.3 Payment Efficiency

Indicators	FY2018-19	FY2017-18	FY2016-17
Debt Service Coverage Ratio (DSCR)(X)	2.68	3.48	3.91
Interest Coverage Ratio (ICR) (X)	1.86	4.84	6.44

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.965.06 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, 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.

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Credit Rating Information and Services Ltd.

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 • Sound infrastructure • Regular loan payment history • Experienced management team	• Decreasing trend in profitability indicators • Slow down in work order • Significant loan exposure • Moderate liquidity • Moderate worker efficiency
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

(Information used herein is obtained from sources believed to be accurate and reliable. However, CRISL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. All rights of this report are reserved by CRISL. Contents may be used by news media and researchers with due acknowledgement)

[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
Md. Asaduzzaman Khan
Executive Director
Credit Rating Information and Services Ltd.

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
Mr. Hasibuddin Ahmed	: Nominated Director of northern Corporation Ltd.
Prof. Dr. Khondakar Mohammod Shariful Huda	: Independent Director
Mr. Md. Nasirul Islam	: Independent Director

Auditor:
Shiraz Khan Basak & Co.
Chartered Accountants

Management:

Mr. Mohim Hassan	: Managing Director
Mr. Hayder Ali	: Company Secretary
Mr. Mohammad Armanul Azim	: Chief Operating Officer
Mr. Habibur Rahman	: Senior DGM (Knitting Division)
Mr. Md. Khurshaed Alam	: Senior AGM (Production)
A. B. M. Farhad Uddin Chowdhury, FCMA	: Head of Accounts
Md. Monir Hossain Bhuiyan, FCCA, ACA	: Head of Internal Audit

For President & CEO
Md. Asaduzzaman Khan
Executive Director
Credit Rating Information and Services Ltd.

12.0 FINANCIAL STATEMENT

A. Balance Sheet (As on June 30)

Tk. in million

Balance Sheet (as on June 30)	FY2018-19	FY2017-18	FY2016-17
Non-Current Assets:			
Property, Plant and Equipment	3215.02	1,800.35	1,265.13
Capital work in progress	---	1,036.46	989.32
Intangible Assets(net)	2.51	2.80	1.60
Total Non-Current Assets	**3,217.53**	**2,839.62**	**2,256.05**
Current Assets:			
Inventories (Product)	117.67	335.14	208.75
Trade Debtors	392.93	71.54	153.89
Advanced, Deposits and Prepayments	117.67	142.68	132.31
Other Current Assets	9.87	13.09	10.97
Cash and Bank Balances	130.79	208.33	193.45
Total Current Assets	**1,114.77**	**770.77**	**699.37**
Current Liabilities:			
Short Term Loan	794.30	553.80	281.34
Long Term Loan-Current Portion	135.11	9.94	26.24
Trade Creditors	45.70	221.47	145.23
Liability for expenses	1.38	0.49	99.77
Other Short Term Liabilities	10.55	7.27	16.33
Total Current Liabilities	**1,393.04**	**792.96**	**568.92**
Net Current Assets	**-278.27**	**-22.19**	**130.45**
Net Assets/Capital Employed	**2,939.26**	**2,817.43**	**2,386.50**
Non-Current Liabilities:			
Long Term Loan	**774.07**	**676.76**	**262.59**
Deferred Liabilities	64.26	15.94	15.94
Total Non-Current Liabilities	**838.33**	**692.70**	**278.53**
Shareholders' Equity:			
Share Capital	663.27	631.69	631.69
Share Premium	433.06	433.06	433.06
Revaluation Reserved & Surplus	536.27	537.43	539.08
Retained Earnings	468.33	522.55	504.14
Total Shareholder's Equity	**2,100.93**	**2,124.72**	**2,107.97**
Total Equity and Long Term Liabilities	**2,939.26**	**2,817.43**	**2,386.50**
Total Assets	**4,332.30**	**3,610.38**	**2,955.42**

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

Tk. in million

Income Statement	FY2018-19	FY2017-18	FY2016-17
Sales Revenue	**1,958.49**	**1,251.31**	**1,206.90**
Cost of Goods Sold Excluding Depreciation	1,588.45	962.88	943.72
Depreciation-Manufacturing	70.28	47.18	36.22
Cost of Goods Sold	**1,658.74**	**1,010.06**	**979.94**
Gross Profit	**299.75**	**241.25**	**226.96**
Salary and Allowances	47.63	48.85	47.44
Depreciation-Administrative	18.17	11.79	9.06
Other Administrative Expenses	34.90	38.77	33.93
Total Administrative Expenses	**100.70**	**99.41**	**90.43**
Selling and Distribution Expenses	**83.30**	**48.92**	**42.62**
Profit from Operation	**115.75**	**92.92**	**93.91**
Other Income	29.17	25.38	38.17
Financial Cost	76.07	23.50	19.68
Other Non-Operating Expenses	3.28	4.51	5.35
Profit Before Tax	**65.57**	**90.28**	**107.05**
Income Tax	57.78	10.36	23.72
Net Profit after Tax	**7.79**	**79.92**	**83.34**

For President & CEO
Md. Asaduzzaman Khan
Executive Director
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
Md. Asaduzzaman Khan
Executive Director
Credit Rating Information and Services Ltd.

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
www.crislbd.com

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
Md. Asaduzzaman Khan
Executive Director
Credit Rating Information and Services Ltd.