NCR
National Credit Ratings Limited

Ratings (January 2011)
Saiham Textile Mills Limited (STML)

RATING	INITIAL
LONG TERM	A (Single A)
SHORT TERM	ST-3 (ST Three)

Financial Data
TK (mln)

	June-10	Jun-09
Total Assets	535.16	455.67
Equity	263.23	254.18
Net Turnover	384.69	299.74
Net Income	22.22	13.16
EBITDA	69.47	61.39
ROE %	8.59	5.08
Interest Coverage (X)	2.62	2.31
Net Debt/ (Net Debt + Equity) %	35.33	36.23

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***Strong** capacity for timely servicing of financial obligations offering **adequate safety**. Such institutions carry **low credit risk**.*

RATING RATIONALE

The above rating reflects STML's satisfactory track record, rich experience of the promoters, experienced management team, efficient production process, sound financial profile characterized by healthy operating cash flow, good PAT and low leverage. The ratings are however constrained by relatively moderate size of operations and long working capital cycle resulting in moderate short term coverage.

ASSESSMENT

- The business performance of Saiham Textile Mills Ltd has improved in FY2009-10, as the actual production has increased by 23.33%. In spite of a sales growth of 28.34% in FY2009-10 relative to FY2008-09, the gross margin remained steady at 19.17% just because of increase of the cost of production by 80.83%. The sales mix of STML is dominated by local sales of yarn (Cotton: 31.20% and Polyester Staple Fiber: 41.67%) which constitute 72.87% of the total sales and the rest 27.13% is exported (Polyester Staple Fiber). However, the company maintained healthy operating margins and bottom-line profitability in FY2009-10.

- Going forward, STML intends to persist with its current strategy of focusing deemed export rather than direct sells to the foreign market. The company envisages for expansion to set up 100% export oriented Mélange Spinning mills with most modern machineries and latest technologies. The budgeted capital expenditure of TK.1500 million is to be financed by issuing 1:1.5 right shares at 300% premium.

- The company primarily depends on short term borrowings to manage the working capital requirements and maintain the inventory level. For longer realization of local and export sales results in an ineffective CCE (Cash Conversion Efficiency). The Cash Cycle improves a little in FY2009-10 relative to the previous financial year though it's still longer.

- The gross revenue of the company improves over the periods where as EBITDA does not increase in accordance with the growth of revenue. Albeit the net cash flow from operation is positive but it has declined by 56.05% in the FY2009-10 relative to the FY2008-09. The impact of deterioration of cash position during 2009-10 induces the longer total debt payback period. The short term coverage of STML is not satisfactory due to indicative short term coverage ratio of 0.85 times during FY2009-10. The overall coverage position of the company however found healthy, even it shows increasing trend over the periods.

- STML is an equity based company. The company enjoys financial flexibility to meet financial requirements during stress situation by utilizing funds from reserve revenue. Any material increase in leveraging would impact the financial profile of the company, which would have negative rating implication.

Profile

- Saiham Textile Mills Limited (STML) commencing its commercial operations in March 27, 1981, is a part of the Saiham Group (SG) which includes other manufacturing units namely Saiham Cotton Mills Ltd, Faisal Spinning Mills Ltd. and Saiham Knit composite Ltd. The shareholding pattern of the company is found diversified. The majority (47.40%) of the shares is held by general public and second largest slice (35%) owned by the sponsors. All the directors (sponsors) and chairman are also directors and chairman of other sister concern of Saiham Group. STML is a modern composite Textile Mills located at Noyapara, Saiham Nagar, Hobigong having installed capacity of around 30000 spindles. The product line of the company are 30/1, 41/1, 74/1, 82/1 counts cotton, 45/1, 30/1 counts polyester staple fiber (PSF) and 45/1 counts mixed of Polyester (65% Polyester & Cotton 35%). STML offers its products to both domestic and export market.

- The company's BoD comprises of 7 members including one independent director. Each of them holds a position in other companies of the Saiham Group. The management is accountable to the BoD. The management team is headed by the Managing Director, Mr. S.M. Faisal who has 30 years of experience in textile sector. STML maintains good business practices through transparency in corporate financial reporting and take steps for improvement of standards, controls and accountabilities as suggested by the BoD.