

CREDIT RATING REPORT



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CREDIT RATING
AGENCY OF
BANGLADESH LTD.

CREDIT RATING REPORT (SURVEILLANCE)

Envoy Textiles Limited

Particular	Rating	Remark
Envoy Textiles Limited	AA ₁	
BDT 2,480.2 million Long Term Outstanding	AA ₁ (Lr)	
BDT 7,005.0 million Short Term Fund based Limit	ST-2	Vide Appendix-1
BDT 7,850.0 million Short Term Non-Fund based Limit	ST-2	
Outlook	Stable	

Lr - Loan Rating, ST - Short Term

(Refer to Appendix-3 for rating history)

Date of Rating: 30 September, 2021

Validity: This rating is valid up to 30 September, 2022.

Rating based on: Audited financial statements up to 30 June 2020, Un-Audited financial statements up to 31 March 2021, bank liability position as on 31 August 2021, and other relevant quantitative & qualitative information up to the date of rating declaration.

Auditor: Mahfel Huq & Co., Chartered Accountants

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

Analysts:

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Financial Highlights

(Mil. BDT)	--Year ended June 30--		
	2020	2019	Change
Revenue	8,176.8	9,118.5	▼
EBITDA	1,767.7	2,075.2	▼
EBITDA Margin (%)	21.6%	22.8%	▼
Net Profit Margin (%)	3.4%	6.1%	▼
Return on Avg. Asset (%)	1.5%	3.1%	▼
Quick Ratio (x)	0.50	0.58	▼
Operating Cycle (Days)	327	277	▼
Borrowed Fund to Equity (x)	1.55	1.60	▲
Borrowed Fund to EBITDA (x)	5.98	4.97	▼
Cash Flow from Operation	303.5	(415.8)	▲
Free Cash Flow	(443.3)	(2,730.5)	▲
EBIT/Financial Expenses (x)	1.40	1.90	▼

▲ = Positive, ▼ = Negative, ± = Stable

PROFILE

Envoy Textiles Limited (hereinafter referred to as "ETL" or "the Company"), a 100% export oriented cotton yarn and denim fabrics manufacturer, started its commercial operations in March 2008. The Company is engaged in manufacturing of denim fabrics having production capacity of 52.0 million yards per year. The Company has its own spinning facility as backward integration of denim production with production capacity of around 67 MT yarn per day. The factory of the Company is situated at Zamirdia, Bhaluka, Mymensingh with captive power generation facility. ETL was awarded Leed Platinum Certification by US Green Building Council, ensuring environment friendly production facilities.

RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has retained the rating of Envoy Textiles Limited at AA₁ (Pronounced as Double A One) and assigned AA₁ (Lr) rating to BDT 2,480.2 million long term outstanding of the Company. CRAB has also assigned ST-2 rating of BDT 7,005.0 million aggregate fund based limits and BDT 7,850.0 million aggregate non-fund based limits of the Company in the short term.

The retention of ratings takes into account ETL's scale of operation having variety of products (denim fabrics) with stable revenue generation, overall profitability position, increased equity resulted from internal capital generation through retained earnings, positive demand outlook textile industry and established buyer network which mitigates demand risk to some extent. The ratings also take into consideration the experience of the key promoters and top-level management in related business, established forward and backward integration through associate industrial units, contemporary manufacturing facilities with lab, and satisfactory loan repayment history as positive factors.

However, ratings are constrained to some extent by volatility in profitability, high leverage and moderate coverage position at present. The ratings also take into consideration the competitive nature of business resulting from leading denim manufacturer and risk come from price volatility of cotton which is the main raw material for yarn. Moreover, growth of the Company is mostly dependent on the economic stability of importing countries, a repeat global economic recession will surely put the industry as well as the Company at business risk.

Revenue of the Company mostly comes from deemed export and direct export fabrics. The Company also earns revenue from deemed export of cotton yarn and dyed yarn, weaving and finishing, B grade fabrics sales, sample sales, stock fabric sales, export incentives etc. Envoy Textiles Limited reported revenue of BDT 8,176.8 million in FY2020 which was BDT 9,118.5 million in FY2019 and BDT 7,558.4 million in FY2018. Revenue of the Company declined by 10.3% in FY2020 over previous financial year due to lower quantity of sales volume because of mainly orders dropped drastically in last quarter of FY2020. Revenue earnings of the Company were not in a steady flow in FY2020 as revenue increased by 13.9% in 2nd quarter but it decreased in 3rd quarter and drastically declined in last quarter. The business operation completely halted for around two months in last quarter of FY2020 due to impact of COVID-19 pandemics. As a result, revenue from fabrics declined by 9.8% and revenue from yarn also declined by 14.4% in FY2020. ETL experienced decline in EBITDA and gross profit margin resulting from higher CoGS as % of sales in FY2020 due to high overhead cost compared to previous year. Depreciation in absolute amount also increased by BDT 66.2 million in FY2020 from FY2019 because of assets accumulation. Financial expenses as % of sales also increased by 0.8% in FY2020 due to more dependence on bank borrowings. As a result, net profit margin of the Company decreased to 3.4% in FY2020 from 6.1% in FY2019.

Total shareholders' equity of the Company reached BDT 6,805.5 million (including revaluation reserve of BDT 1,692.2 million) at the end of 30 June 2020. The adjusted total equity of BDT 5,113.3 million comprises BDT 1,677.3 million share capital, BDT 360.0 million preference shares, BDT 1,120.0 share premium and BDT 1,955.3 million retained earnings revealing sound equity base of the Company. On the other hand borrowed fund outstanding also increased to BDT 10,564.6 million at the end of 30 June 2020. As a result, borrowed fund to adjusted equity almost remained same at 2.1x in FY2020 (FY2019: 2.2x). However, borrowed fund was reported 6.0x times to EBITDA revealing high leverage position of the Company in FY2020 (FY2019: 5.0x) due to decrease of EBITDA as well as increase of borrowed fund outstanding. Though financial expenses of ETL declined to BDT 718.1 million in FY2020 from BDT 725.0 million in FY2019 however EBIT/Financial Expenses ratios decreased to 1.4x in FY2020 from 1.9x in FY2019 revealing deteriorated coverage position of the Company. Such coverage position indicates moderate capacity to repay the financial obligation of the Company. However, further increase in the debt level may heighten its financial risk to some extent.

Going forward, the Company's ability to continue positive growth in revenue through increased value addition and capacity utilization, and retaining its biggest customers; its ability to improve the cash flows, working capital intensity, and leverage position through improving the operating profitability; satisfactorily pay its long term obligations and timely enhancement of the working capital limits will remain key rating sensitivities.

■ RECENT INFORMATION

Envoy Textiles Limited earned revenue of BDT 6,057.0 million during the first 9 month of operations in FY2021, which if annualized, the Company's revenue almost remain stable. However, revenue as well as performance of the Company may be deteriorated in FY2021 due to COVID-19 pandemic situation in the country and around the globe.

Table 1

Performance of ETL in Q3 of FY2021 (Mil. BDT)

Particulars	Q3 of FY2021		Q3 of FY2020		Growth (%)
	Amount	Percentage	Amount	Percentage	
Revenue	6,057.00	100.0%	6,948.28	100.0%	-12.8%
Gross Profit	913.53	15.1%	1,254.79	18.1%	-27.2%
Operating Expenses	217.84	3.6%	228.76	3.3%	-4.8%
Financial Expenses	530.48	8.8%	594.01	8.5%	-10.7%
Profit Before Tax	157.91	2.6%	411.64	5.9%	-61.6%
Net Profit	97.41	1.6%	344.99	5.0%	-71.8%

Source: ETL

CAPACITY EXPANSION PLAN

Envoy Textiles Limited is going to increase its production capacity of of spinning unit by 3,710 MT per annum. Total cost of the proposed project has been estimated at BDT 1,761.9 million with debt to equity ratio of 68:32. Out of total estimated cost of the project, an amount of BDT 561.9 million to be invested from the Company's retained earnings and remaining BDT 1,200 million to be finance by bank borrowings.

■ BACKGROUND

Envoy Textiles Limited, the flagship Company of Envoy Group, was incorporated as a Private Limited Company in June 1995 and went into commercial operations in March 2008. The Company amalgamated with Edge Denims Limited in September 2009 and converted to Public Limited Company in October 2009. ETL is a leading denim manufacturing company having production capacity of 52.0 million yards per year. The Company has its own Spinning Unit inside the factory compound with production capacity of around 60 MT yarn per day. The registered office of the Company is located at Envoy Tower, 18/E Lake Circus Kalabagan (West Panthpath), Dhaka and the factory of the Company is situated at Zamirdia, Bhaluka, Mymensingh on around 126 Bigha own land.

Table 2

Key Milestone of Envoy Textiles Limited

Year	Event
2008	Commencement of commercial operation
2009	Certification of GOTS and OE -100 for organic production
2010	Production capacity increased by 25% and Entered into new market through direct fabric export
2010	Awarded ISO 9001:2008 and ISO 14001:2008 Certificates
2011	Awarded First EPB National Export Trophy (Gold) for 2009-10
2014	Additional capacity of 24 million yards denim production
2015	Planned to set up a yarn manufacturing plant as backward integration of denim production
2016	Started production of Spinning Unit, awarded LEED Platinum Certification by US Green Building Council
2017	HSBC Excellence Award 2017 (Supply Chain & Backward Linkage - Apparel Category)
2017	ICSB National Award 2016 Gold for Corporate Governance Excellence
2017	ICMAB Best Corporate Award 2016: 1 st Position in Textile Manufacturing Category
2018	Presidential Award (Category- Large Industry) for Industrial Development
2018	Awarded National Export Trophy (Gold)
2019	Awarded National Environment Award 2019 and National Export Trophy Gold for the Year 2016-2017

Source: The Company

■ SHAREHOLDING AND BOARD COMPOSITION

Envoy Textiles Limited is a concern of Envoy Group. Envoy Group, a diversified conglomerate with primary focus on readymade garments and textile manufacturing, has experienced consecutive growth and expansion over the past three decades under the leadership of Engr. Kutubuddin Ahmed and Mr. Abdus Salam Murshedy, the promoters of the Group. Currently, Mr. Kutubuddin Ahmed is the Chairman and Mr. Abdus Salam Murshedy is the Managing Director of Envoy Group. The Group represents around 40 business enterprises and it has diversified its business in the field of readymade garments, textiles, local and international trading, freight forwarding, information technology, washing plant, real-estate, banking automation, financial institution, energy and power sector, hospitality service and consumer products etc.

Envoy Textiles Limited has been listed with the Dhaka Stock Exchange Limited (DSE) and Chittagong Stock Exchange Limited (CSE) since 2012. The authorized share capital of the Company is BDT 4,000.0 million divided into 2,750.0 million Ordinary Shares and 1,250.0 million Redeemable Preference Shares of BDT 10.0 each and paid up capital of the Company was BDT 1,677.3 million up to 31 March 2021 divided into 167,734,767 Ordinary Shares.

Table 3

Composition of the Shareholding

Particulars	31 March 2021			30 June 2020		
	No. of Shares	Value (Mil. BDT)	%	No. of Shares	Value (Mil. BDT)	%
Sponsors/Directors	76,453,883	764.54	45.58	76,453,883	764.54	45.58
Individual Shareholders	18,247,509	182.47	10.88	20,332,520	203.33	12.12
Institutional Shareholders	72,923,107	729.23	43.48	70,804,797	708.05	42.21
Foreign Shareholders	110,286	1.10	0.07	143,567	1.44	0.09
Total	167,734,767	1,677.35	100.00	167,734,767	1,677.35	100.00

Source: ETL

Currently around 45.6% of shares of the Company are held by its sponsors/directors and 54.4% of shares are held by individual/institutional shareholders and foreign shareholders.

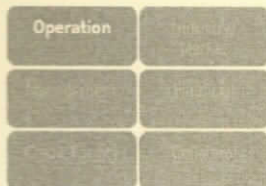
Table 4

Composition of Board

Name of Shareholders	Position held	No of Shares	% of holding
Mr. Kutubuddin Ahmed	Chairman	11,813,663	7.04%
Mr. Abdus Salam Murshedy	Managing Director	12,529,091	7.47%
Mrs. Rashida Ahmed	Sponsor Director	3,354,774	2.00%
Mrs. Sharmin Salam	Sponsor Director	3,657,867	2.18%
Mr. Tanvir Ahmed	Sponsor Director	4,193,367	2.50%
Barrister Shehrin Salam Oishee	Sponsor Director	3,657,867	2.18%
Ms. Sumayyah Ahmed	Director	3,354,907	2.00%
Mr. Ishmam Salam	Director	3,399,467	2.03%
Envoy Towers Limited	Sponsor	11,289,837	6.73%
Pastel Apparels Limited	Sponsor	8,003,526	4.77%
Fontina Fashions Limited	Sponsor	7,741,603	4.62%
Nadia Garments Limited	Sponsor	3,457,914	2.06%
Mr. Syed Shahed Reza	Independent Director	-	0.00%
Mr. Itrat Hussain FCMA, FCS	Independent Director	-	0.00%
Total	-	76,453,883	45.58%

Source: ETL

Currently, the Board of the Company comprises of ten (10) Directors including two Independent Directors, who possess a wide range of skills and experience over a range of professions and businesses. The Directors have a range of local and international experience and expertise, and specialized skills to assist in decision making and leading the Company. The Board of Directors are responsible for proper governance which including setting out the Company's strategic aims, providing the necessary leadership to implement such aims, supervising the management of the business and reporting to the shareholders on their stewardships.

■ OPERATION, BUSINESS & FINANCIAL RISK PROFILE


Envoy Textiles Limited is a manufacturer of 100% export oriented denim fabric which established with sophisticated machineries of USA, Europe, Japan etc. ETL is the first denim project in Bangladesh with Rope Dyed Technology. The Company started its operation in 2008 with an initial production capacity of 16.0 million yards per annum. During last 12 years of operations, ETL has expanded its capacity by more than three times. Current production capacity of the Company is manufacturing 52.0 million yards denim fabrics per year and capacity utilization was around 71.8% in FY2020.

The Company also gives emphasis on product development through research and innovation. ETL recruited experts from Turkey to innovate products in order to sustain with the changing market environment. The Company has also installed a dedicated dyeing plant for research and innovation purpose. The Company produces high quality denim products and waves in various shades of indigo and black. ETL specializes in 4.5 oz to 14.75 oz (ounce) ring and open-end denim, and uses stretch, mill wash, modern finishing processes, featuring ring-ring constructions in pure indigo and sanforized denim.

The Company has also yarn manufacturing facility which came into operation at the end of 2016. The Spinning Unit is established with European machineries and producing cotton yarn mostly for own consumption for the production of denim fabrics. The running production capacity of the Spinning Unit is around 22,000 MT yarn per annum and capacity utilization was 88.0% in FY2020. The Company is utilizing optimum capacity in producing of yarn which will help to reduce dependence on outsourced yarn and will support in improving operating margin.

Table 5
Details of Production and Sales of HKSL

Particulars	--Year ended June 30--			
	FY2020	FY2019	FY2018	FY2017
Production Capacity				
Fabrics (Million Yards)	52.00	52.00	50.00	50.00
Yarn (Million Kg)	22.00	22.00	21.00	17.50
Actual Production				
Fabrics (Million Yards)	37.35	44.71	39.41	37.78
Yarn (Million Kg)	19.37	19.59	17.56	11.36
Utilization				
Fabrics	71.82%	85.98%	78.82%	75.55%
Yarn	88.04%	89.02%	83.64%	64.91%
Sales Quantity				
Fabrics (Million Yards)	37.09	44.14	39.14	37.00
Yarn (Million Kg)	19.21	19.30	18.06	10.31
Total Revenue (Mil. BDT)	8,176.8	9,118.5	7,558.4	6,078.7

Source: The Company

Revenue of the Company mostly comes from deemed export through export oriented local readymade garment (RMG) against back to back LC. The Company also exports fabrics directly to more than 15 countries which is 15–20% of its total production. Part of revenue is cash incentive from Govt. on export. There are also some revenue from exporting dyed yarn through export oriented local knit garments. Foreign exchange fluctuation gain or loss is recognized in revenue. A volume of around 30% of total produced yarn is exported through local export oriented denim fabric manufacturer.

Table 6
Composition of Revenue

(Mil. BDT)	--Year ended June 30--			
	FY2020	FY2019	FY2018	FY2017
Revenue from Fabric Export	6,641.4	7,359.8	5,851.1	5,102.1
% of Total Revenue	81.22%	80.71%	77.41%	83.93%
Revenue from Yarn Export	1,178.6	1,377.0	1,003.9	437.5
% of Total Revenue	14.41%	15.10%	13.28%	7.20%
Revenue from Other Sales	110.7	154.7	500.0	360.6
% of Total Revenue	1.35%	1.70%	6.62%	5.93%
Export Cash Subsidy	232.4	220.8	203.4	178.6
% of Total Revenue	2.84%	2.42%	2.69%	2.94%
Exchange Fluctuation Gain	13.7	6.6	-	-
% of Total Revenue	0.17%	0.07%	0.00%	0.00%
Total Revenue	8,176.8	9,118.9	7,558.4	6,078.7

Source: Management of the Company

ETL experienced an increase of its sales revenue over the years. Revenue sources of the Company was dominated by export of fabrics (on an average 79.8% for the last three years) followed by export of yarn (on an average 14.3% for the last three years). As per un-audited financial statement, ETL earned revenue of BDT 6,057.0 million during the first 9 month of operations in FY2021, which if annualized, the Company's revenue may almost remain as FY2020. However, revenue as well as performance of the Company may be deteriorated in FY2021 due to COVID-19 pandemic situation in the country and around the globe.

Manufacturing of textile is based on the conversion of fibre into yarn, yarn into fabric. These are then dyed or printed, fabricated into clothes. Different types of fiber are used to produce yarn. Cotton remains the most important natural fibre. The country

needs 4 million bales of cotton per year for its consumption. Only 25,000 bales are produced locally and the rest is imported from USA, Africa and the Commonwealth of Independent States (CIS), India and Pakistan. Since cotton price is directly correlated with crops harvesting, price of cotton is volatile in the world market. Therefore, the Company is exposed to volatility of raw materials price. The sponsors and management of the Company have long experience in related business which may support to mitigate business risk derived from price volatility of raw materials.

For the manufacturing process, uninterrupted supply of electricity/fuel is required therefore the Company ensures uninterrupted power supply by setting captive power generation facilities. The Company gets gas supply from Titas Gas Transmission and Distribution Limited. The Company has installed ETP at its factory which minimises the risk associated with environmental pollution.

Envoy Textiles Limited was awarded LEED Platinum Certified company by U.S. Green Building Council (USGBC), the highest worldwide recognition for Leadership in Energy & Environmental Design. ETL is the First to score 'LEED Platinum' among all denim manufacturer in the world. The LEED Certification is a mark of quality and achievement in green building. ETL brought Laser Wash Technology in last year, by which any wash effect can be made in fabrics without using water and chemical and accumulated washing machines for sample testing.

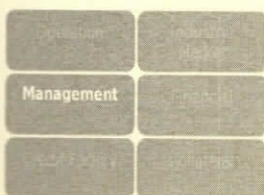
Bangladesh, the second largest exporters of apparel goods, has taken lead in the global denim export markets by grabbing more market, attracting an increasing number of international buyers. Presently, Bangladesh is the number one exporter of denim products to the European Union, while the third largest in the United States. According to market study, the global denim products market was around USD 66.02 billion in 2018 and it is expected to reach approximately USD 85.4 billion by 2025. According to the data from Bangladesh Textile Mills Association (BTMA), Bangladesh exports over USD 2.0 billion worth of denim products to the global market every year. There are 32 denim fabrics manufacturers which produce over 450 million yards of fabric in a year. Major international brands such as H&M, Uniqlo, Levi's, Nike, Tesco, Wranglar, Hugo Boss, Puma, Primark, and JC Penny are now importing denim products from Bangladesh.

Since the denim industry of Bangladesh is an export oriented sub-sector, its growth is mostly dependent on the economic stability of importing countries. A repeat economic recession, high volatility of cotton price in the international market, infrastructure bottlenecks, government stiff textile policy, and political unrest will surely put the industry as well as the Company at business risk. The industry is struggling to survive and to be competitive mainly because of ongoing gas crisis and the frequent hike in energy prices. Moreover, inefficiency in ports, inadequate rail and road networks and need for a deep sea port are some of the major challenges for the export oriented businesses.

Bangladesh has to compete with other established manufacturer in countries like China, India, Pakistan, Cambodia and Vietnam. India and Pakistan are two leading denim exporters that have cost advantages being they producing cotton. Besides, Pakistan is enjoying GSP facility in the EU market. Due to raising cost in China, buyers are already planning to move to other cost efficient destination like Bangladesh. Moreover, Bangladesh Denim Textile Industry has a competitive advantage as well have a very developed garments infrastructure and continuously upgrading skills of human resources enabling the Company to bring out high quality and cost competitive products.

ETL has insurance protection with Bangladesh General Insurance Company Limited for sum insured of BDT 4,004.8 million which is valid till 19 January 2022. Insurance cover the risk associated with industrial all risk only on building, machineries and

equipment, electrical installations, spare parts, IT Tower, stock of raw materials, work-in-progress, and finished goods.



In this surveillance period, there were no major changes in core management team of the Company. The Board is overall responsible for total functioning and operations of the Company. Under reporting to the Board, a team of dedicated and efficient management carries out day-to-day operations of the Company. Chief Executive Officer (CEO) of the Company, Mr. Tushar Tripathi, a highly experienced textile and apparel management executive is in charge of day to day operations—production, marketing, HRM, financial management, and overall business performance of ETL. A group of senior executives aids the CEO to perform day-to-day business of the Company. There are Unit Heads for each unit who report to the CEO; and CEO reports time-to-time to the Board/Chairman/Managing Director with summary reports on the performance of the Company. The factory operates three (3) shifts a day and 335 days in a year. As on 31 August 2021, the Company has 2,780 employees (430 officers & staff and 2,350 permanent workers) combined with head office and factory.



Revenue of the Company mostly comes from deemed export and direct export fabrics. The Company also earns revenue from deemed export of cotton yarn and dyed yarn, weaving and finishing, B grade fabrics sales, sample sales, stock fabric sales etc.

Table 7
Segment Wise Revenue Growth (Mil. BDT)

Particulars	FY2020		FY2019	
	Amount	Growth	Amount	Growth
Revenue from Deemed Export	4,473.4	-19.5%	5,554.1	6.1%
Revenue from Direct Export	2,168.0	20.1%	1,805.8	191.9%
Revenue from Total Fabric Export	6,641.4	-9.8%	7,359.8	25.8%
Revenue from Cotton Yarn Export	1,079.6	-10.9%	1,211.7	57.0%
Revenue from Dyed Yarn Export	99.0	-40.1%	165.3	-28.8%
Revenue from Total Yarn Export	1,178.6	-14.4%	1,377.0	37.2%
Revenue from Other Fabric Sales	110.7	-28.4%	154.7	-69.1%

Source: ETL

Envoy Textiles Limited reported revenue of BDT 8,176.8 million in FY2020 which was BDT 9,118.5 million in FY2019 and BDT 7,558.4 million in FY2018. Revenue of the Company declined by 10.3% in FY2020 over previous financial year due to lower quantity of sales volume because of mainly orders dropped drastically in last quarter of FY2020. Revenue earnings of the Company were not in a steady flow in FY2020 as revenue increased by 13.9% in 2nd quarter but it decreased in 3rd quarter and drastically declined in last quarter. The business operation completely halted for around two months in last quarter of FY2020 due to impact of COVID-19 pandemics. As a result, revenue from fabrics declined by 9.8% and revenue from yarn also declined by 14.4% in FY2020.

Table 8
Cost Component and Profitability as % of Revenue (Mil. BDT)

Particulars	FY2020		FY2019		FY2018	
	Amt.	%	Amt.	%	Amt.	%
Sales Revenue	8,176.8	100	9,118.5	100	7,558.4	100
Cost of Goods Sold	6,882.7	84.2	7,419.6	81.4	6,358.0	84.1
Admin. & General Expenses	216.5	2.6	223.8	2.5	225.6	3.0
Selling & Distributing Exp.	59.7	0.7	66.8	0.7	57.4	0.8
Financial Expenses	718.1	8.8	725.0	8.0	543.5	7.2
Net Profit	274.1	3.4	554.4	6.1	329.9	4.4

Source: ETL

ETL experienced decline in EBITDA and gross profit margin resulting from higher CoGS as % of sales in FY2020 due to high overhead cost compared to previous year. Depreciation in absolute amount also increased by BDT 66.2 million in FY2020 from FY2019 because of assets accumulation. Financial expenses as % of sales also increased by 0.8% in FY2020 due to more dependence on bank borrowings. As a result, net profit margin of the Company decreased to 3.4% in FY2020 from 6.1% in FY2019.

Total shareholders' equity of the Company reached BDT 6,805.5 million (including revaluation reserve of BDT 1,692.2 million) at the end of 30 June 2020. The adjusted total equity of BDT 5,113.3 million comprises BDT 1,677.3 million share capital, BDT 360.0 million preference shares, BDT 1,120.0 share premium and BDT 1,955.3 million retained earnings revealing sound equity base of the Company. On the other hand borrowed fund outstanding also increased to BDT 10,564.6 million at the end of 30 June 2020. As a result, borrowed fund to adjusted equity almost remained same at 2.1x in FY2020 (FY2019: 2.2x). However, borrowed fund was reported 6.0x times to EBITDA revealing high leverage position of the Company in FY2020 (FY2019: 5.0x) due to decrease of EBITDA as well as increase of borrowed fund outstanding.

Though financial expenses of ETL declined to BDT 718.1 million in FY2020 from BDT 725.0 million in FY2019 however EBIT/Financial Expenses ratios decreased to 1.4x in FY2020 from 1.9x in FY2019 revealing deteriorated coverage position of the Company. Such coverage position indicates moderate capacity to repay the financial obligation of the Company. However, further increase in the debt level may heighten its financial risk to some extent.



ETL has banking relation with 12 Commercial Banks and one Financial Institution having total short-term limit facilities of BDT 14,855.0 million and BDT 2,480.2 million long term outstanding as of 31 August 2021. Details bank liability position of the Company is given in appendix -1.

APPENDIX – 1: CREDIT FACILITIES OF ENVOY TEXTILES LIMITED (Figures in BDT Millions)

Loan Type	Bank/Financial Institution	Facility Name	Limit	Outstanding	Limit Expiry
Long Term Funded	HSBC Bangladesh	Offshore Term Loan	858.0	18.4	01/07/2022
	Mutual Trust Bank Ltd.	Offshore Term Loan	640.0	151.1	31/03/2022
	Pubali Bank Ltd.	Term Loan	1,720.0	535.4	07/05/2024
	Dutch-Bangla Bank Ltd.	Term Loan	500.0	361.2	24/08/2024
	Southeast Bank Ltd	Term Loan	1379.9	1,137.0	04/08/2024
	IDLC Finance Ltd.	Term Loan	230.0	141.2	31/12/2024
	Zero Coupon Bond	Series Zero Coupon Bond	450.0	135.9	11/06/2023
		Total Long Term	5,777.9	2,480.2	
Short Term Funded	HSBC Bangladesh	Cash Credit	100.0	13.4	01/07/2022
		RSTL	320.0	147.5	01/07/2022
	BASIC Bank Ltd.	STL	500.0	156.2	21/04/2022
	Commercial Bank of Ceylon	Revolving Loan	250.0	198.5	12/01/2022
	Dutch-Bangla Bank Ltd.	Cash Credit	200.0	177.0	03/08/2022
		RSTL	900.0	890.1	03/08/2022
	Mutual Trust Bank Ltd.	SOD (General)	30.0	14.8	30/09/2022
		RSTL	250.0	61.2	03/01/2022
	Pubali Bank Ltd.	Cash Credit	700.0	582.9	31/05/2022
		STL	930.0	267.7	13/06/2022
	SBAC Bank Ltd.	RSTL	700.0	700.0	09/08/2022
		Stimulus Loan	295.0	295.0	02/01/2022
	Southeast Bank Ltd.	Cash Credit	250.0	245.8	26/10/2021
		RSTL	600.0	266.4	31/07/2022
	Standard Chartered Bank	Cash Credit	50.0	48.1	31/01/2022
	The Premier Bank Ltd.	Cash Credit	130.0	90.9	01/01/2022
	Uttara Bank Ltd.	Cash Credit	300.0	296.3	10/06/2022
RSTL		500.0	500.0	31/10/2022	
		Total Short Term Funded	7,005.0	4,951.7	
Short Term Non-Funded	HSBC Bangladesh	LC/Bill/EDF	1,300.0	1,092.8	31/05/2022
	Commercial Bank of Ceylon	LC/EDF	450.0	166.3	31/05/2022
	Dutch-Bangla Bank Ltd.	LC/Bill/EDF	800.0	269.9	31/05/2022
	Jamuna Bank Ltd.	LC/Bill/EDF	600.0	16.7	31/05/2022
	Mutual Trust Bank Ltd.	LC/Bill/EDF	700.0	303.2	01/07/2022
	Pubali Bank Ltd.	LC/Bill/EDF	1,700.0	848.2	01/07/2022
	Southeast Bank Ltd.	LC/Bill/EDF	1,500.0	396.5	01/07/2022
Uttara Bank Ltd.	LC/Bill/EDF	800.0	335.4	01/07/2022	
		Total Short Term Non Funded	7,850.0	3,428.9	
Total Long Term Loan Outstanding				2,480.2	
Total Short Term Funded Limit				7,005.0	
Total Short Term Non Funded Limit				7,850.0	
Grand Total (Long Term Outstanding + ST Limit)				17,335.2	

Source: Management of the Company and Respective Banks

Note:

- Bank Liabilities are based on 31/08/2021

APPENDIX – 2: KEY FINANCIAL INDICATORS OF ENVOY TEXTILES LIMITED

		--Year ended June 30--			
		2020	2019	2018	2017
	(Mil. BDT)				
Earnings & Stability	Revenue	8,176.8	9,118.5	7,558.4	6,078.7
	Revenue Growth	-10.3%	20.6%	24.3%	27.9%
	CoGS as % of Sales	84.2%	81.4%	84.1%	82.2%
	EBITDA	1,767.7	2,075.2	1,506.5	1,309.8
	EBITDA Growth	-14.8%	37.8%	15.0%	30.9%
	EBITDA Margin	21.6%	22.8%	19.9%	21.5%
	Net Profit after Tax	274.1	554.4	329.9	321.2
	Net Profit after Tax growth	-50.6%	68.0%	2.7%	-9.1%
Profitability	Gross Profit Margin	15.8%	18.6%	15.9%	17.8%
	Operating Profit Margin	12.4%	15.4%	12.1%	13.4%
	Net Profit Margin	3.4%	6.1%	4.4%	5.3%
	Return on Average Asset	1.5%	3.1%	2.0%	2.1%
	Return on Average Equity	4.1%	8.7%	5.4%	5.4%
Liquidity	Current Ratio (x)	1.11	1.07	0.93	0.85
	Quick Ratio (x)	0.50	0.58	0.51	0.47
	Inventory +AR to Total Assets	38.0%	36.2%	34.4%	31.3%
	Net Working Capital to Total Assets	36.8%	33.1%	24.2%	27.9%
	Average Inventory Processing Period (Days)	185	145	151	141
	Average Receivable Collection Period (Days)	142	132	140	149
	Average Payable Payment Period (Days)	23	58	67	37
	Operating Cycle (Days)	327	277	291	290
Leverage & Capital Structure	Cash Conversion Cycle (Days)	304	219	224	253
	Total Assets	18,010.4	17,791.6	17,464.6	16,060.3
	Total Equity	6,805.5	6,433.3	6,251.2	6,030.9
	Adjusted Equity	5,113.3	4,730.8	4,538.1	4,306.8
	Total Borrowed Fund	10,564.6	10,322.0	9,267.2	9,295.9
	Total Long Term Debt	4,495.1	4,811.9	4,443.9	3,755.2
	Fund Flow from Operation (FFO)	1,036.7	1,251.9	935.5	834.9
	Cash Flow from Operation (CFO)	303.5	(415.8)	1,189.8	(336.9)
	Retained Cash Flow (RCF)	52.3	(579.7)	1,080.5	(519.3)
	Free Cash Flow (FCF)	(443.3)	(2,730.5)	(128.7)	(2,959.5)
	Total Debt to Equity (x)	1.65	1.77	1.79	1.66
	Debt to Adjusted Equity (x)	2.19	2.40	2.47	2.33
	Borrowed Fund to Equity (x)	1.55	1.60	1.48	1.54
	Borrowed Fund/EBITDA (x)	5.98	4.97	6.15	7.10
	FFO/Borrowed Fund	9.8%	12.1%	10.1%	9.0%
	CFO/Borrowed Fund	2.9%	-4.0%	12.8%	-3.6%
	RCF/Borrowed Fund	0.5%	-5.6%	11.7%	-5.6%
FCF/Borrowed Fund	-4.2%	-26.5%	-1.4%	-31.8%	
Coverage	Financial Expenses (x)	718.1	725.0	543.5	444.9
	EBIT to Financial Expenses (x)	1.40	1.90	1.66	1.79
	FCF to Financial Expenses (x)	-0.62	-3.77	-0.24	-6.65
	(EBITDA-CAPEX) to Financial Expenses (x)	1.77	-0.10	0.55	-2.54
	Debt Service Coverage (x)	1.45	1.51	1.13	1.15

Note: Figures are based on Financial Statements audited by Mahfel Huq & Co. Chartered Accountants (Unqualified)

Calculation Considerations:

- EBIT = Net Profit + Tax + Financial Expenses; Adjusted Equity is adjusted with Revaluation Reserve
- Borrowed Fund = Long Term Loan Outstanding + Current Portion of Long Term Loan + Short Term Loan Outstanding.
- Cash Flow from Operation is calculated as Net Profit after Tax plus Depreciation Expenses plus Net Changes in Working Capital (considering the net changes in all Current Assets and Current Liabilities excluding Cash & Cash Equivalents and Bank Loan Amounts).

APPENDIX – 3: RATING HISTORY OF ENVOY TEXTILES LIMITED

Date of Rating: 10 September 2020

Particulars	Ratings
Envoy Textiles Limited	AA ₁
BDT 3,496.6 million Long Term Outstanding	AA ₁ (Lr)
BDT 5,611.0 million Short Term Fund based Limit	ST-2
BDT 6,900 million Short Term Non-Fund based Limit	ST-2
Outlook	Stable

Lr - Loan Rating, ST - Short Term

Rating based on: Audited financial statements up to 30 June 2019, Un-Audited financial statements up to 31 March 2020, bank liability position as on 30 June 2020, and other relevant quantitative & qualitative information up to the date of rating declaration.

Date of Rating: 12 September 2019

Particulars	Ratings
Envoy Textiles Limited	AA ₁
BDT 3,937.5 million aggregate Long Term Outstanding (LTO)	AA ₁ (Lr)
BDT 368.1 million zero coupon bond	AA ₃ (So)
BDT 1,570.0 million aggregate Cash Credit (CC) Limits*	AA ₁ (Lr)
BDT 1,755.0 million aggregate fund-based Limits	ST-2
BDT 5,700.0 million aggregate non-fund-based Limits	ST-2
Rating Outlook	Stable

*Lr - Loan Rating, ST - Short Term; *Due to its revolving nature CRAB views Cash Credit/Overdraft as long-term facility.*

Rating based on: Audited financial statements up to 30 June 2018; un-audited financial statements up to 31 March 2019, bank liability position as on 30 June 2019 and other relevant quantitative as well as qualitative information up to the date of rating declaration.

Date of Rating: 13 September 2018

Particulars	Ratings
Envoy Textiles Limited	AA ₂
BDT 3,923.5 million aggregate Long Term Outstanding (LTO)	AA ₂ (Lr)
BDT 304.8 million zero coupon bond	AA ₃ (So)
BDT 1,070.0 million aggregate Cash Credit (CC) Limits*	AA ₂ (Lr)
BDT 3,950.0 million aggregate fund-based Limits	ST-2
BDT 7,300.0 million aggregate non-fund-based Limits	ST-2
Rating Outlook	Stable

*Lr - Loan Rating, ST - Short Term; *Due to its revolving nature CRAB views Cash Credit/Overdraft as long-term facility.*

Rating based on: Audited financial statements up to 30 June 2017, Un-Audited financial statements up to 31 March 2018, bank liability position as on 30 June 2020, and other relevant quantitative & qualitative information up to the date of rating declaration.

CRAB RATING SCALES AND DEFINITIONS –Long Term (Corporate)

Long Term Rating	Definition
AAA Triple A	Companies rated in this category have extremely strong capacity to meet financial commitments. These companies are judged to be of the highest quality, with minimal credit risk.
AA ₁ , AA ₂ , AA ₃ * Double A	Companies rated in this category have very strong capacity to meet financial commitments. These companies are judged to be of very high quality, subject to very low credit risk.
A ₁ , A ₂ , A ₃ Single A	Companies rated in this category have strong capacity to meet financial commitments, but are susceptible to the adverse effects of changes in circumstances and economic conditions. These companies are judged to be of high quality, subject to low credit risk.
BBB ₁ , BBB ₂ , BBB ₃ Triple B	Companies rated in this category have adequate capacity to meet financial commitments but more susceptible to adverse economic conditions or changing circumstances. These companies are subject to moderate credit risk. Such companies possess certain speculative characteristics.
BB ₁ , BB ₂ , BB ₃ Double B	Companies rated in this category have inadequate capacity to meet financial commitments. Have major ongoing uncertainties and exposure to adverse business, financial, or economic conditions. These companies have speculative elements, subject to substantial credit risk.
B ₁ , B ₂ , B ₃ Single B	Companies rated in this category have weak capacity to meet financial commitments. These companies have speculative elements, subject to high credit risk.
CCC ₁ , CCC ₂ , CCC ₃ Triple C	Companies rated in this category have very weak capacity to meet financial obligations. These companies have very weak standing and are subject to very high credit risk.
CC Double C	Companies rated in this category have extremely weak capacity to meet financial obligations. These companies are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C Single C	Companies rated in this category are highly vulnerable to non-payment, have payment arrearages allowed by the terms of the documents, or subject of bankruptcy petition, but have not experienced a payment default. Payments may have been suspended in accordance with the instrument's terms. These companies are typically in default, with little prospect for recovery of principal or interest.
D (Default)	D rating will also be used upon the filing of a bankruptcy petition or similar action if payments on an obligation are jeopardized.

**Note: CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through CCC. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

LONG-TERM RATING: LOANS/FACILITIES FROM BANKS/FIS
(All loans/facilities with original maturity exceeding one year)

RATINGS	DEFINITION
AAA (Lr) (Triple A) Highest Safety	Loans/facilities rated AAA (Lr) are judged to offer the highest degree of safety, with regard to timely payment of financial obligations. Any adverse changes in circumstances are unlikely to affect the payments on the loan facility.
AA (Lr)* (Double A) High Safety	Loans/facilities rated AA (Lr) are judged to offer a high degree of safety, with regard to timely payment of financial obligations. They differ only marginally in safety from AAA (Lr) rated facilities.
A (Lr) Adequate Safety	Loans/facilities rated A (Lr) are judged to offer an adequate degree of safety, with regard to timely payment of financial obligations. However, changes in circumstances can adversely affect such issues more than those in the higher rating categories.
BBB (Lr) (Triple B) Moderate Safety	Loans/facilities rated BBB (Lr) are judged to offer moderate safety, with regard to timely payment of financial obligations for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for issues in higher rating categories.
BB (Lr) (Double B) Inadequate Safety	Loans/facilities rated BB (Lr) are judged to carry inadequate safety, with regard to timely payment of financial obligations; they are less likely to default in the immediate future than instruments in lower rating categories, but an adverse change in circumstances could lead to inadequate capacity to make payment on financial obligations.
B (Lr) High Risk	Loans/facilities rated B (Lr) are judged to have high risk of default; while currently financial obligations are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
CCC (Lr) Very High Risk	Loans/facilities rated CCC (Lr) are judged to have factors present that make them very highly vulnerable to default; timely payment of financial obligations is possible only if favorable circumstances continue.
CC (Lr) Extremely High Risk	Loans/facilities rated CC (Lr) are judged to be extremely vulnerable to default; timely payment of financial obligations is possible only through external support.
C (Lr) Near to Default	Loans/facilities rated C (Lr) are currently highly vulnerable to non-payment, having obligations with payment arrearages allowed by the terms of the documents, or obligations that are subject of a bankruptcy petition or similar action but have not experienced a payment default. C is typically in default, with little prospect for recovery of principal or interest. C (Lr) are typically in default, with little prospect for recovery of principal or interest.
D (Lr) Default	Loans/facilities rated D (Lr) are in default or are expected to default on scheduled payment dates.

*Note: CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through CCC. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

SHORT-TERM CREDIT RATING: LOANS/FACILITIES OF BANKS/FIS
(All loans/facilities with original maturity within one year)

RATINGS	DEFINITION
ST-1 Highest Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is very strong.
ST-2 High Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is strong; however, the relative degree of safety is lower than that for issues rated higher.
ST-3 Adequate Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is adequate; however, the issues are more vulnerable to the adverse effects of changing circumstances than issues rated in the two higher categories.
ST-4 Marginal	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is marginal; and the issues are quite vulnerable to the adverse effects of changing circumstances.
ST-5 Inadequate Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is minimal, and it is likely to be adversely affected by short-term adversity or less favorable conditions.
ST-6 Lowest Grade	This rating indicates that the loans/facilities are expected to be in default on maturity or is in default.

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CREDIT RATING REPORT



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