

**CREDIT RATING REPORT  
ON  
RAK CERAMICS (BANGLADESH) LIMITED**

**REPORT: RR/281/09**

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*This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. The Long Term and Short Term Ratings of the company are valid for one year and six months respectively. After the above periods, these rating will not carry any validity unless the company goes for rating surveillance.*

	Long Term	Short Term
<b>Entity Rating</b>	<b>AA+</b>	<b>ST-1</b>
<b>Outlook</b>	<b>Stable</b>	
<b>Date of Rating</b>	<b>August 06, 2009</b>	

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**Entity Rating:**  
**Long Term: AA+**  
**Short Term: ST-1**  
**Outlook: Stable**

**Rating based on  
financials of  
1H 2009**

**RAK CERAMICS  
(BANGLADESH)  
LIMITED**

**PRINCIPAL  
ACTIVITY**

*Tiles and Sanitary  
Ware*

**INCORPORATED  
ON**

*November 26, 1998*

**BOARD  
CHAIRPERSON**

*Dr. Khater Massaad*

**MANAGING  
DIRECTOR**

*S.A.K.  
Ekramuzzaman*

**EQUITY**

*Tk. 2,342.26 million*

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**1.0 RATIONALE**

CRISL has assigned "AA+" (pronounced as double A plus) rating in the Long Term and "ST-1" rating in the Short Term to RAK Ceramics (Bangladesh) Limited (hereinafter referred "RAKCBL") based on financials and other relevant quantitative and qualitative information. The above ratings have been done on the basis of its good fundamentals such as sound equity based capital structure, strong operational and strategic support from parent, State-of-The-Art production facilities, good debt servicing coverage, outstanding business growth, strong brand image, global outlook etc. However, the ratings are constrained by limited delegation to local management, significant working capital requirement due to low inventory turnover, limited modern HR practice, recent fall in cost efficiency etc.

Entities rated in this category are 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 without significant problems. Risk factors are modest and may vary slightly from time to time because of economic conditions. The short term rating indicates highest certainly of timely repayment of obligation. Short-term liquidity including internal fund generation is strong and access to alternative sources of fund is outstanding. Safety is almost risk free like Government short-term obligations.

RAKCBL has been operating with good profitability and sustained stability in revenue. With substantial operational and technical support from the parent it has build a strong brand image and captured 25% of local tiles market and 60% of sanitary ware market. State-Of-The-Art production facilities, diversified product portfolio and market leadership are considered as competitive advantages for the company. Due to its rapid growth over last eight years, the revenue of the company reached to Tk. 3,247.99 million in FY2008 (Tk. 1,910.35 million in 1H of FY2009) from Tk. 2,335.39 million in FY2007 registering 39.08% growth. The after-tax profit reached to Tk. 286.40 million in FY2008 (Tk. 142.46 million in 1H of FY2009) from Tk. 302.57 million in FY2007. The sound equity base (87.92% contribution in capital employed) with low financial leverage made its capital structure stronger.

Local management operates with low business and financial delegation compared to large business size. 6% royalty payment on sales revenue annually imposed fixed financial burden on the company. Small scale HR development and limited growth potentiality of local employees at top tier management reflects moderate HR practice in the company.

CRISL also viewed the company with "Stable" outlook and believes that RAKCBL will be able to maintain its good fundamentals in the foreseeable future.

# CREDIT RATING REPORT ON RAK CERAMICS (BANGLADESH) LIMITED

## 2.0 CORPORATE PROFILE

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### 2.1 The Genesis

*90% Subsidiary of  
RAK Ceramics  
(UAE)*

RAK Ceramics (Bangladesh) Limited (hereinafter called 'RAKCBL'); a subsidiary of RAK Ceramics PSC, UAE was incorporated on 26 November, 1998. Initially RAKCBL was established as private limited company, later, the company was converted into public limited company on 10 June, 2008. RAKCBL is 90% owned subsidiary of RAK Ceramics PSC, UAE and the balance 10% is being owned by local sponsor Mr. S.A.K. Ekramuzzaman. In year 2000 it has begin with Tk.750 million authorized capital & Tk.330 million paid up capital, going forward due to expansion plans in 2005 paid up capital increased to Tk. 648.40 million. On completion of second expansion phase & pre-IPO requirement at YE2008 Company decided to issue bonus share to enhance paid up capital to Tk. 1,296.80 million. The company commenced commercial operation in late 2000 and by the end of 2008 it has established itself as the market leader in high quality ceramic wall tiles, floor tiles, gres porcellanato and sanitary wares. At present, the company produces around 22,000 square meters (236,720 square feet) of tiles and over 2500 pieces of sanitary wares per day. Most of the production is absorbed by local market and the rest is exported to UAE. Globally, RAK Ceramics with its wide variety tiles and sanitary wares product range, has reached to more than 135 countries across the five continents. The company demonstrates active presence in the most competitive European markets and sells high volumes in the GCC countries, Far East, Australia, USA and Canada.

In the year 2000, RAKCBL commenced production with first tiles manufacturing plant of capacity 8,000 square meters (86,080 square feet) per day. Later in 2004, it has approached 1<sup>st</sup> phase of sanitary wares plant with capacity of 1,000 pieces per day & second tiles plant of additional manufacturing capacity of 7,000 square meters (75,320 square feet) per day. In the year 2007 & 2008, it has approached 2<sup>nd</sup> expansion phase with extending sanitary wares capacity with additional 1,000 pieces per day and third tiles plant with additional capacity of 7,000 square meters (75,320 square feet) per day. Looking forward to market potential & demand in the beginning of 2009, sanitary wares capacity was increased by another 500 pieces per day. RAKCBL has demonstrated rapid growth since its inception. During last 8 years (2001-2008), turnover excelled to more than Tk. 3.00 billion, RAKCBL has achieved consistent growth in revenue & profits, It's revenue & profits grew at a Compounded Annual Growth Rate (CAGR) of 33.26% & 26.83% respectively as compared to 8.4% per annum industrial production growth rate of Bangladesh. The corporate office is located at RAK Tower, Uttara, Dhaka. The company has planned to go public through IPO during 2009. The proceeds from IPO will be utilized, partially, to payoff the term loan and the balance will be deployed for ongoing group working capital requirement.

### 2.2 Products and Market Position

*Market leader in tiles  
and sanitary ware  
industry*

RAKCBL, a product driven company rather than market driven, over the period Tiles has captured over 1/4<sup>th</sup> share of market and in short span of 4 years sanitary ware has gained more than 2/3<sup>rd</sup> of market through innovative product development initiatives and proactive quality control program. RAKCBL has over 1000 models active in ceramic & porcelain tiles, and it regularly adds new designs to its product portfolio as per market demand or taste trends. The Company manufactures tiles in wide range of sizes from 12 cm x 12 cm to 60 cm x 60 cm. Under "ceramic tiles" range, the company produces wall tiles, floor tiles, matching accessories listellos, pencils, cappings, border and décor tiles. In "gres porcellanato" tiles category, it produces thousands sub-categories of glazed and unglazed porcelain, salt and pepper (mirror polished and unpolished), soluble salt (mirror polished) and double charge (mirror polished) tiles.

The Company has over 40 exclusive sanitary ware models to offer with a wide choice in designer bathroom sets, wash basins, bathtubs and related items. Under sanitary ware division, RAKCBL produces wash basin (mounted and pedestal), water closets (WC), bidets, water tank, kitchen sinks and related accessories & decorated sets. Some of the popular sanitaryware models are- Amanda, Venice, Mistral, Shino, Jumeirah etc.

RAKCBL has mostly professional & brand conscious clientele base of over 500 developers,

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network of 98 distributors, reputed 250 consultants & housing related Government agencies who believe in branded product, which is better than international technical standards e.g. in terms of water absorption international standard is <0.5% ,RAKCBL standard in case of polish/unpolished is <0.05%, rectangularity international standard is +/-0.6%, RAKCBL standard in case of polished/ unpolished is +/-0.2%/ +/-0.4%.

## 3.0 RAK Group in Bangladesh

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*Diversified in  
Pharmaceuticals,  
power and security  
industry*

Gradually RAK Group has diversified its business portfolio to different strategic business segments to demonstrate its potential and explore the opportunities. At present, RAKCBL has two subsidiaries and one associated company. RAK Power Pvt. Ltd. (RAKPL), a 10 megawatt capacity Natural Gas fired captive power plant was incorporated with a view to provide uninterrupted electricity to RAKCBL. Ownership structure is 57% owned by RAKCBL and remaining 43% by local investors In May, 2009 it has started operation with 60% capacity utilization.

RAK Pharmaceuticals Pvt. Ltd. is another 55% owned subsidiary of RAKCBL. The company was established with a view to produce all kind of biological and non-biological medicine, vaccine and conduct research and development work in pharmaceutical products, biotechnology and biomedical sciences. Plant establishment and infrastructural development is completed and commercial operation started in July 2009.

RAK Security and Services Pvt. Ltd. is 35% owned associated company of RAKCBL. In In May, 2007 the company has started formal services of supplying and training of security guards to different commercial establishments. The company is also providing services in the area of cleaning, termite, pest control, fumigation and setting up manpower technical training establishments for creation of skilled workers.

Other than above ventures, RAKCBL has several investment proposals in hand namely, Food and Beverage manufacturing and Professional Porcelain table ware venture, a paint manufacturing facility, Insecticide & pesticide venture etc.

## 4.0 PARENT PROFILE: RAK CERAMICS PSC, UAE

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### 4.1 The Company

*A leading global tiles  
and sanitary ware  
producer*

Ras Al Khaimah (RAK) Ceramics Public Shareholding Company, (RAKC, PSC) is a UAE based leading tiles and sanitary ware manufacturing company in the world. Established in 1989 and started production in 1991, at its State-Of-The-Art facility at UAE location the company has manufacturing capacity of around 225,000 square meters (2.42 million square feet) of tiles per day and over 8,500 pieces of sanitary ware per day, which is known as largest manufacturing capacity at single location in the world. The company's total global production capacity reached to 115 million square meters (1,237 million square feet) per annum which is recognized them as leader in ceramics world.

The company was listed on Abu Dhabi stock market (ADX) in October'2003. The paid up share capital of the company was Dhs 52.50 million up to August 1998, current share capital (1H2009) is AED 614.2 million (US\$ 167 million).The founding shareholders includes H.H. Sheikh Saud Bin Saqr Al Qassimi, the Crown Prince and Deputy Ruler of Ras Al Khaimah, one of the emirates of United Arab Emirates, He also acts as the Chairman, Top ten shareholders hold over 75% of shares in RAK Ceramics PSC. Dr. Khater Massaad the Chief Executive Officer of the company has devised global market strategy & implemented the company's global expansion plans. The company is highly regarded for its consistence performance, in stock market it well noted as traditionally strong script for an average of over 20% dividend record. The company has started first plant in 1991 with production capacity of 5,000 square meters (53,800 square feet) tiles a day and over two decades it has reached capacity of 225,000 square meter (2.42 million square feet) tiles a day and 8,500 pieces of sanitary ware a day. RAK Ceramics PSC is having manufacturing facilities in in Bangladesh, China, Sudan, Iran and India. RAK-UAE's products are exported to more than 135 countries over five continents across the globe. The company has over 18 years operating history, established a diversified

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global customer base, over 90 showrooms & more than 1500 distributors globally, several subsidiaries and depots all over the world engaged in marketing & distribution of company's products. Some of the well known trend setter specialty series-Technoslate, Al Hamra (Inspired by Al Hamra Palace), Samarkanda, Luminos (tile which glow in dark), Anti-microbial (inhibits the growth of microbes and reduces micro bacterial contamination), Seine, Domus, click tile and very latest RAK Slim . In 2009 it has formally introduced "Elegance" brand for elite & luxury class clientele.

RAK Ceramics milestone summary as follows:

- In 1997, RAK Ceramics was awarded the ISO 9001 Certification evidencing its commitment to high quality standards and customer satisfaction.
- RAK Ceramics was adjudged as "Company of the Year" by Arabian Business Achievement Award for 2004.
- In 2005; RAK Ceramics was awarded the Mohammed Bin Rashid Al Maktoum Business Excellency Award for the Industry sector.
- In 2006, RAK Ceramics was rated '5A2', highest in the region of Middle East, by Dun & Bradstreet.
- In 2007, UK based Brand-Finance PLC rated the RAK Ceramics brand as one of the top four valuable brands in the UAE with a rating of 'AA-' with brand strength valuation of AED 0.5 billion.
- In 2008, a Washington DC, USA based Georgetown University has selected RAK Ceramics as subject of pedagogic case to form part of their course material for global manufacturing studies in MBA programme curriculum.
- RAK Ceramics has been awarded the "SUPER BRAND for 2009" by the council of SUPERBRANDS which is the world's largest independent Brand arbiter.

RAK Ceramics ensure safe and healthy working environment as well as to demonstrate continual compliance with the requirements of ISO 14001:2004, & also comply with all local environmental compliances as well as IFC –World Bank Industrial finance body's proactive international environmental compliance program.

As part of expansion and diversification drive, to address value chain opportunities and costs by partnering with established players in niche markets RAKC, PSC UAE engendered into several strategic business units. It has established a number of related integrated subsidiaries in the area of tile fixing technology, professional tableware range, ceramic and refractory mineral sourcing and processing activities, ceramic industrial chemicals manufacturing, construction materials, sanitary ware accessories, industrial infrastructure expertise related construction & contracting ventures, real estate development, ceramics tiles distribution marketing set up, logistics and freight forwarding chain.

In the GCC market, no other company has competing profile, product range or brand equity. RAK Ceramics' key competitive advantages include:

- Technology and product leadership
- Brand positioning
- Ability to deliver wide range of customer requirements at lower service costs
- Established infrastructure and delivery capabilities

#### **4.2 Infrastructure and Technology**

The factory compound of RAK Ceramics, PSC UAE is extending over an area of 2.5 million square meters consisting of 12 State Of Art plants, raw material warehouses, CNC workstations, showrooms, office building, R&D laboratories, silkscreen and photo-printing facility. The plants are equipped with one of the longest kilns & largest press in the world. Sophisticated water jet machines are used to create various designs and patterns, rot matrix color decoration machines that give tiles natural perfect prints and diamond cutting machines used in the production of special items like vanity and kitchen tops. The technology incorporated by the company has been very latest in its field. The company has over 6000 active models in the ceramic and porcelain tile segment & over 600 active sanitary ware models. It has dynamic manufacturing flexibility to produce smallest mosaics of size 2 cm x 2 cm and tiles of 10 cm x 10 cm to the largest slab in the industry 125 cm x 185 cm. Due to

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consumer taste driven approach, continuous product development and product innovation, value for money proposition the company adds several new designs almost every week to the product portfolio.

The strength of RAK Ceramics lies in the speed with which it has met market expectations. It has invested heavily and regularly, to produce products that stand out in the market, for developing some of the most luxury models.

RAK Ceramics has invested heavily in sophisticated technologies in the area of Twin Press, Techno Slate, Color Dry Press & Dry glaze machine, Roll Feed, Double Charge, Glazed Before Pressing, Full Mass Products and Roto printing machines.

Few technology achievements highlight:

- The largest press in the ceramic industry - the PH 7200 to produce slabs of 120 cm x 180 cm
- One of the longest kilns in the world for outstanding product quality, uniformity & consistency.
- TSC Microns dry granular application machinery for very unique surface effects.
- Rotocolor printing- Silicon engraved cylinders for high definition, synchronized, natural look printing.
- Robot controlled movable silos carried by TGV Machines.
- Sophisticated CNC cutting tools to make value added products like water jet designs and vanity tops.

#### 4.3 Financial Strength

In FY2008, RAK Ceramics -PSC UAE consolidated revenue reached to the level of AED 2,814.72 million (US\$ 766.22 million). During last eight years revenue & profits have shown consistent growth. Revenues & profits grew at a Compounded Annual Growth Rate (CAGR) of 21% & 10% respectively over period of 2001 thru 2008 as compared to about 6% per annum global industry growth rate. As of December'2008, asset base of the group reached to AED 4,531.88 million (US\$ 1.24 Billion) grew at a Compounded Annual Growth Rate (CAGR) of 20.2% since its inception. Production and marketing capacity have increased at a CAGR of 16% to reach a position of world's largest ceramic manufacturer. The company has a well diversified revenue base with 71% revenues from exports outside the UAE (of which 43% in GCC countries and other Asian region and 18% revenues from Europe) as part of company's strategy to diversify market risks. The Group continues to remain satisfactorily levered, with debt-equity ratio of 1.07 times. Though tiles industry is highly capital intensive, at YE 2008 RAK-Ceramics, PSC, UAE has generated 7.7% return on capital employed.

#### 5.0 PRODUCTION FACILITIES

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The technology driven tiles and sanitary ware manufacturing set-ups are prone to be highly capital intensive. RAKCBL has established its factory compound in Gazipur occupying 98.86 bigha (around 1.42 million square feet) of own land. The factory compound is comprised of separate sheds for tiles operation, sanitary ware operation, separate storage facilities for finished stock of tiles and sanitary wares, storage facilities for raw material, stores and consumable stores, design and printing lab, administrative building and residential quarters for factory officials. The production facilities are supported by 6 megawatt captive power plant of RAK Power (Pvt.) Ltd., a subsidiary of RAKCBL. The packing materials for both tiles and sanitary products are sourced locally. The company has also established in-house quality control and testing laboratory for both tiles and sanitary ware production.

##### Tiles Production Facilities:

RAKCBL's extensive new and modern tile plant is a candid example of modern technology. The tiles plant is having versatile five press, long range five kilns and multi purposes eight ball mills. The automated and integrated plant sourced from the Italian manufacturer 'Sacmi IMOLA'. This ceramic tile plant makes every RAK tile a top-notch quality, passionate looks, great finish and lasting endurance. The production facilities of tiles division are set up on 43

*Sound production facilities*

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*3 Lines of production  
with capacity of  
22,000 sq mt per  
day*

bigha (around 0.61 million square feet) of land consisting of three line of production. First line was set up in the year 2000 with capacity of 8,000 square meters (86,080 square feet) per day. Later on the production capacity was increased by setting up of second line in 2004 and third line in 2007 each with capacity of 7,000 square meters (75,320 square feet) per day. Plant with total 22,000 square meters (236,720 square feet) per day tiles production capacity operated at 86% and 88% utilization in 2008 and 2007 respectively. Out of RAKCBL's total tiles production capacity 60% is covered with Gress Porcellanato tiles portfolio and 40% tiles production capacity is covered with Ceramic tiles portfolio. Major raw material inputs used are imported materials namely soda feldspar, potash feldspar, Malaysian clay, Indonesian clay, frit etc which are sourced from India, Indonesia, Malaysia, Spain and Thailand. RAKCBL uses locally sourced materials like ball clay (red), red clay, sodium silicate, Sherpur clay, Sylhet sand etc.

*Production capacity  
of 2500 pieces per  
day*

### **Sanitary Ware Production Facilities:**

The State- Of- The- Art modern production plant of sanitary ware set up on 21 bigha (around 0.30 million square feet) of land with production capacity of 2500 pieces per day. The plant is equipped with latest European technology including computerized kilns, 12 medium pressure casting plants for wash basins, pedestals, cisterns, lids and accessories manufacturing, 4 high pressure plant to produce water closets. RAKCBL uses high quality ball clay and kaolin from UK, glazes from Spain and strain from Germany for sanitary ware production. This plant initially started with capacity of 1,000 pieces per day in 2004 and later the capacity enhanced by another 1,000 pieces per day in 2007 and in early 2009, capacity has further enhanced by 500 pieces. Throughout last three years Sanitary Ware plant has been running successfully with 100% capacity utilization.

### **Quality Control System:**

RAKCBL has devised its own quality norms for its operations which are better than generally accepted best quality norms followed by reputed players in the ceramics sector. The quality control system implemented from input sourcing stage to final packing & dispatch trail. The quality management systems that RAK Ceramics' operates is comply with the highest standards of leading institutions throughout the world. The Company has several leading certifications that not only stand testimony to meet and comply with stringent standards, but also represent a universal endorsement of the quality of the products manufactured. To name few-ISO 9001 : 2000 issued by the BVQI, -"WaterMark" license, -"Standardsmark License" for sanitarywares, -"SETSCO" certificate of recognition, -"Insitut Szkla I Ceramiki" -"CSTB".

## **6.0 DISTRIBUTION AND PROMOTION**

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*42 Dealers for tiles  
and  
56 Dealers for  
sanitary ware*

By considering tiles and sanitary ware products as luxury items, RAKCBL has established its strong presence in major cities and urban areas through neatly tied & widespread dealership network. At present it has 42 dealers for tiles product and 56 dealers for sanitary ware products. Other than dealers, throughout the country company has a set up of 4 information and display centers equipped with marketing tool kits to encourage & aware the customers, professional clients to acquaint them with the information regarding product features, new arrivals and product availability live database. As part of company's consumer sovereignty policy for local doorstep distribution logistic support, it has formed local transporters pool. Normal global tiles inventory holding period is 45 days, in case of RAKCBL on an average it use to be 15 days of production, Even though company does not actively engages itself in routine distribution channel due to tech-savy, consumer taste driven, modern features of products & value for money Proposition company has achieved unique position in the market. As a result of the 'let the product tell' strategy, promotional activities and costs are limited to sample distribution, dealers rebate and incentives.

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The marketing team follows the market requirement, campaign for awareness of new product particularly with developers, architects and consultants. Company introduced new models regularly with the consultation of developers, architects and consultants, which match with the customer's choice and satisfaction. The company appoints a PR company to assist in

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promotional activities. RAKCBL respect the customers and motto is to pay the value of money.

Company sales department maintains customer's complaint booklet at its showroom to know the feedback from customers for quality assurance towards customer satisfaction. Company arranges the dealers meeting at reasonable periodicals to understand the market updates and future plans of market demand & related developments.

## 7.0 BUSINESS RELATION WITH PARENT

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*Get technical know  
how from parent*

Though RAKCBL is an independent business entity in Bangladesh, it gets significant support from its parent company RAK Ceramics PSC, UAE under 'Technical Know-How and Assistance Agreement'. Under this agreement, the parent company provides entire technical know-how and assistance in production, testing, safety and quality control. For any further expansion the parent company provides assistance & advisory in terms of technology, capital machineries, civil works support and pre-operating testing. The agreement also covers the areas to provide assistance by way of making available patented process and ensuring the right to avail of technical information resulting from R&D, providing technical assistance in management, marketing and assistance in all other technical matters. As per the agreement, RAKCBL pays a recurring royalty fee and other expenses such as expenses for technical know-how for each year subject to 6% calculated on the basis of net sales of the preceding year. Other than the technical agreement, the parent company also provides assistance regarding raw materials sourcing, business development, governance and any other matter as and when needed. RAKCBL has adopted business policy, innovation, quality control, diversification, expansion with similar vision of parent company. On quarterly basis Corporate Management Governance team from UAE visits for performance review & assessment. Every six month at corporate office, Operational performance is reviewed by Corporate BODs & Governance Body.

## 8.0 INDUSTRY OUTLOOK

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*Growing sector with  
ample opportunity*

The history of tiles industry in Bangladesh is not very old. The first factory was set up by Bangladesh Chemical Industries Corporation, a state-owned enterprise, in 1982. Second one was Modhumoti Tiles, in 1988. RAKCBL was incorporated in year 1998 and in 2000 has started its commercial production, which has changed the face of tiles market in the country. RAKCBL has introduced modern technology and innovative tiles products which changed the customer's choice and preference. Over the period, due to technological revolution, hygiene, homogenous matters, age over pitfalls of traditional marbles & stones use of tiles became a necessity. It has become priority of literate as well as professional users segment in urban and semi-urban areas to use ceramics & homogenous tiles due to its better excelled tested & recognized norms. It has created trend in the market due to its better than international technical parameters as to water absorption, surface flatness, linear thermal expansion, modulus of rupture, and resistance to absorption & thermal shocks etc.

Present housing demand is rapidly rising and with increasing purchasing power, people have started taking interest in premium tiles products. In the last five years, the members of the Real Estate and Housing Association of Bangladesh (Rehab) constructed the following numbers of apartment units only in Dhaka city: 2003 – 4,465 units, 2004 – 5,075 units, 2005 – 5,785 units, 2006 – 6,433 units and 2007 – 5,800 units where premium tile was used. Certain motivating drives by ruling government has boosted infrastructure, housing and real state sector.

At present 11 tiles factories are operating in the country, growing at rate of 20%, posting annual sales turnover over Tk 10 billion. According to market study, existing factories produced nearly 29.92 million square meters (322 million square feet) of tiles in 2007, up from 25.74 million square meters (277 million square feet) a year ago. Total Production within the country reached 34.75 million square meters (374 million square feet) in 2008 and it is estimated to grow at 17% in 2009 and 2010. Of the total production in 2007, RAK alone made 5 million square meters (54 million square feet) equivalent to 17%, followed by China-Bangla,

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Fu-Wang and Mir each slightly over 2.78 million square meters (30 million square feet).

The growth of tiles manufacturing activity is attributed by high demand and low production cost. Gas and labor accounts for 23% and 16% respectively of the total production cost, this inputs is advantage to Bangladesh over other countries. In Bangladesh per capita ceramic tile consumption is still low i.e. 0.76 square meter (8 square feet) per annum compared to 1.2 square meter (12.91 square feet) in china and 5 to 6 square meter (53.8 to 64.56 square feet) in European countries. Expecting the growing demand, a few more ceramic tiles factories are in the pipeline to enter the market in the next couple of years.

However, the growth of industry is impeding by the missing of high level of technology in Bangladesh, absence of international standard laboratory with international standard equipment, absence of government support previously, lower interest rates, looming gas crisis and open shortage of gas hits production and import duty on some specific raw materials varies from 15% to 30%. Moreover, the tile industry faces high tariff on gas. Presently, average gas tariff is Tk 2/cubic metre for fertilisers, Tk 3.5/cubic metre for gas-fired power plants and Tk 5.13/cubic metre for ceramics. In current year Budget there were certain consideration given to industries relating to ceramics & Power sector.

## 9.0 CORPORATE GOVERNANCE

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### 9.1 Board

*4 members from  
UAE and 1 from local*

In RAKCBL, as a 90% owned subsidiary of RAK Ceramics PSC, UAE, like other MNCs formation of Board is vested on the parent. A five- member Board of RAKCBL is chaired by Dr. Khater Massaad. He also acts as the CEO of RAK Ceramics PSC, UAE, has devised global market strategy & implemented the company's global expansion plans, being the advisor of Crown prince & Deputy Ruler of Emirates of RAK, he plays instrumental role in the area of RAK emirates investments, hospitality and tourism sector development. Among the Board members, other Board members are Mr. Hamad Abdullah Al Mutawa a UAE national, Mr. S.A.K. Ekramuzzaman, who is local shareholder director and appointed Managing Director recently. Other two nominee Directors from UAE are Mr Abdallah Massaad & Mr Manoj Aheeray. Mr. Ekramuzzaman played crucial role in establishing the factory in Bangladesh. The Board meetings were conducted from time to time either at the Corporate Office in Bangladesh or at the head quarters of the parent company at Ras Al Khaimah, UAE. In order to comply with the corporate governance code issued by SEC, Bangladesh, the company needs at least 5-member board including one independent director which is under process. The Board is supposed to form its 3-member Audit Committee including independent director. Company is in process to comply with guidelines issued by SEC, Bangladesh.

### 9.2 Corporate Management

*Experienced  
management team*

The operations of RAKCBL are being looked after by a highly experienced management team having multi dimensional exposures. Recently the Board of Directors of the company appointed Mr. S.A.K. Ekramuzzaman as full time Managing Director. Mr. Ekramuzzaman is aided by key persons Mr. Md. Amir Hossain as General Manager; Mr. Sangam Lal, Chartered Accountant, Finance Controller; Mr. Mahbubur Rahman, as Manager – Personnel and Legal, Mr. Imtiaz Hussain, as Manager Sales; Mr. Jahirull Reza, as Manager purchase; Mr. Govindaraju Srinivasan, as Production Manager (Sanitary Division); Mr. Henry Fernandez, as Assistant Technical Manager (Tiles Division). From the point of view of corporate internal control local delegation is limited up to Tk. 500,000, beyond Tk.500,000 it requires Corporate office consent. For smooth functioning, the company has been conducting Managers' meeting in every month headed by General Manager. Management also formed two committees namely 'Asset Monitoring Committee', one for Tiles Division and other for 'Sanitary Ware Division'. Over and above, allied divisions Accounting, Personnel, Purchase, Sales & Marketing are looked after by experienced professional team members in respective divisions.



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## 9.3 Human Resource Policy

*Moderate HR  
practice*

RAKCBL is in process of introducing structured HR policies. Presently, the compensation structure has been framed with the objective to attract and retain talented people in the company. In addition to compensation package, a number of policies are formulated for welfare of employees in the form of Provident Fund, Gratuity Fund, Group Insurance and medical facilities. As on 30 June 2009, total human resource strength of the company was 898 full time employees and 325 was on contract basis. HR development plan and performance evaluation system is moderate compared to other MNCs in the country. On need based basis company used to conduct in house as well as outsourced Training programs related to technical up skill & career growth. Related to managerial skill & knowledge recreation activity at different level, on the basis of proposal from Functional Head & proper assessment by Personnel & HR department, seminars & training calendar is formulated. Transition objective is to create viable local ladder at operational level with local operations more independent & standalone, to have only exceptional dependence on foreign employees.

## 9.4 Related Party Transaction

*Small scale  
transaction with  
parent*

During FY2008, export sales amounting Tk. 90.77 million (FY2007; 39.72 million) included in total sales, which were actually sales to parent. Due to lower production cost, RAK Ceramics PSC, UAE outsourced certain product range from RAKCBL. Consolidated financial statements of RAK Ceramics PSC, UAE, eventually eliminate this export from total sales as inter-company sales.

## 9.5 Internal Control Systems

*Internal control yet  
to be structured*

RAKCBL has yet to form separate internal audit department to ensure compliance of its Standard Operating Procedure in order to keep the company on track. However, the finance department under the close supervision of Finance Controller ensures customized internal control. Stocks and stores work under control of Finance Division and daily status sent to Head Office and update accordingly. Sales orders are issued after the approval from the accounts dept according to credit limit of dealers and daily delivery notes are sent by Stock department. For every advance and purchase, requisitions are raised from respective department, which are proposed by respective department head, checked by Finance Controller and finally approved by the GM/Managing Director. Daily production status, sales, average sales realization, inventory position, fund position and borrowing position sent by the Finance Controller to CEO, RAK Ceramics PSC,UAE. Monthly financial statements are prepared within 7 days of following month and quarterly financial statements are audited by external auditors by 10 days of following month of quarter and immediately sent to parent company for consolidation purposes.

## 9.6 Management information system:

Daily production status, sales, average sales realization, inventory position, fund position and borrowing position are sent by the Finance Controller to the chairman in UAE & the Managing Director, locally. Monthly financial statements are prepared within 7 days of following month. Accordingly monthly functional review meeting is conducted by Review Committee headed by the General Manager. Target Vs Roll over plans and deviations are discussed & time line is defined for corrective/ remedial action. Quarterly financial statements are audited by external auditors and immediately sent to parent company for consolidation purposes. Before Corporate performance review presentation to UAE Board, on quarter to quarter basis, Corporate Management Governance team from UAE visits for performance review & assessment. Every six month at corporate office, operational performance is reviewed by Corporate BODs & local management.

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**10.0 RISK MANAGEMENT**

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**10.1 Gas Supply Risk**

Tiles and sanitary ware products need a certain standard level of temperature to get expected quality regarding color, size, surface and strength etc. Tiles products need average temperature of 1180<sup>o</sup> Celsius and sanitary ware products need on an average 1200<sup>o</sup> Celsius. RAKCBL has agreement with Titas Gas, a government enterprise for uninterrupted supply. At present, for tiles division, required standard pressure is 18-20 psi and for sanitary ware division, it is 22 psi. Presently the company is having constant supply from Titas Gas of 21.5 psi. Company has ability to tackle pressure movement scenarios in acceptable adequacy level so as not to suffer in significant manner on production or quality front. Moreover, the plant is set up with dual firing system inter-changeable with LPG in case of non-availability of natural gas.

**10.2 Competition Risk / Market Risk**

Bangladesh has high potential for ceramic tiles market. Already 11 players are in the industry and RAKCBL is lead player in the market. However, the entry barrier in the market is not acute and several tiles companies are in pipeline to commence production in upcoming years. New competitors will create healthy competition to the company to maintain/ grow its present market share. The company will withstand competition due to its recognition as innovative technology driven products. However, in sanitary wares market, RAKCBL holds 2/3<sup>rd</sup> share, has no major domestic competition except few importers. In finance budget 2009-10, supplementary duty on imported material of tiles and sanitary has been increased to 45% from 20%, which will widen the market share of local manufacturers. In current scenario in the market, the company is placed at advantageous position.

**10.3 Raw Material Risk**

RAKCBL sources its basic raw materials for ceramic as well as gres porcelain tiles & sanitary wares from all over the globe. Supply of these raw materials cannot be ensured locally. The company is benefited by the channels of sources raw materials through its parent company as well as it has its own sources from different countries like Italy, Indonesia, Malaysia, Spain and India. Moreover, the company recently started sourcing by own initiative from different foreign suppliers other than parent's selected suppliers. Import based supplies are likely to be affected by any uncontrollable event or country risk to transaction or political barrier. The company did not face any such uncontrollable event since its inception & is confident to have alternate arrangement at shorter notice.

**10.4 Price Escalation Risk**

Raw material prices also exposed to risk due to volatility of currencies in the international market. During 2008 major raw materials of gress porcellanato tiles increased by about 20% and sanitary ware material price increased by about 10%, which are significantly influenced by crude oil prices having bearing on prices of freight in international market. The rise in input prices may be compensated either by increasing the selling price or by substituting the costlier raw materials with economical alternatives or with various ceramics recipes mix combination without compromising the quality. The research & development activity at group level plays consistent role in such activities. Effective material substitution eliminates the need for increasing the selling price. For last two years, the company has not increased selling price of its products.

**10.5 Slow Moving of Inventory Risk**

RAKCBL is, to some extent, exposed to risk of piling up of inventory, itself being an inevitable feature of ceramic industry across the globe. Although entire production is backed up by customer order, there is a market factor that the specific lot supplied to given customer needs to be of same shade & caliber. Since the basic inputs are natural clay & kaolin, having impact

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of atmospheric conditions, the shade of the output varies from lot to lot. In order to attain the objective of same shade for given lot, slightly higher quantity of 'A' class tiles or sanitary wares is normally produced and only required quantity is delivered to the customer. Remaining quantity remains in the stock till the time it gets customer order. Such small quantities are either consumed in production of decors, designs, skirting or they are sold at discounted prices. While the industry norm is inventory of 30 days in hand, RAKCBL has inventory level of 15 days of production in both tiles and sanitary wares.

**10.6 Investment Risk**

RAKCBL has already investment in some other diversified projects and contemplating more investment in other new projects. The company has so far invested Tk.363.71 million and proposed to invest in some other projects. Among the investments only RAK Security and RAK Power are already in operation and RAK Pharma has just started commercial production in July'09. RAK Power is established to provide electricity to RAKCBL, and in future any residual capacity can be utilized to other nearby industries. Pharmaceutical industry has endless demands from retail market. Although, there is stiff competition with established market players in a matured industry, RAKCBL is set to build up strong distribution network in the whole country.

**10.7 Revenue Collection Risk**

RAKCBL has a policy to sale on 45 days credit against bank guarantee. Dealers are required to submit bank guarantees against respective credit limit. Under the above, CRISL does not foresee any kind of risk regarding receivable collection and in reality the company has no bad debt or provision for doubtful debt.

**10.8 Environmental Compliance Risk**

RAK Ceramics is committed in promoting sustainable developments while doing global businesses without compromising the protection and preservation of the environment for the future generation. The organization will carry out all its business activities towards the fulfillment of customer satisfaction on the quality of products and services and ensuring safe working conditions. RAKCBL has recently set up large scale Effluent Treatment Plant (ETP) to reduce environmental hazard, which started operation end of March, 2009. Company complies with Environment protection related norms of International Financial Corporation (IFC), Washington (World Bank industrial development & promotion arm). Department of Environment (DOE) has renewed environmental clearance certificate valid till year 2010. However, effective management is yet to be established by the company to dispose large volume of wastage clay and scrap of tiles.

**11.0 BUSINESS PERFORMANCE**

Indicators	*1H 09	2008	2007	2006	2005
Fixed Asset Growth (%)	9.31	3.56	54.92	2.65	6.24
Sales revenue growth (%)	17.63	39.08	19.45	19.69	58.92
COGS Growth (%)	18.45	51.29	11.38	9.99	66.39
PBT Growth (%)	20.59	-13.00	55.96	222.95	1.00
Profit growth (%)		-5.35	70.01	106.28	1.00
Tiles sales volume Growth (%)		35.52	9.63	4.54	
Sanitary Ware sales volume growth (%)		54.31	24.26	18.63	

\* First Half growth of FY2009 has been annualized

Despite of FY 2008 single digit profit growth slide, over the years business performance of RAKCBL has been reflecting growth story. The turnover of the company was Tk. 3,247.99

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*Good business performance*

million in FY2008 and Tk. 2,335.39 million in FY2007 resulting from the sales growth of 39.08% and 19.45% in the respective years. The growth in turnover was mainly boosted by volume growth (35.52% increase of tiles volume and 54.31% increase of sanitary ware volume). Half yearly growth of sales revenue stood at 17.63% (annualized) from 1 January to 30 June, 2009. Volume growth is reflection of 2007-08 expansion plans, in FY2007, RAKCBL has increased its annual tiles production capacity from 5.47 million square meter (58.91 million square feet) to 8 million square meter (86.40 million square feet) and respective annual sanitary ware production capacity from 365,000 pieces to 730,000 pieces. Revenue pie is mostly comprised tiles sales (75%; 2008 and 76%; 2007) followed by sanitary ware sales (25%; 2008 and 24%; 2007). In first half of FY2009, tiles sales remain the main contributor (76%) in total sales followed by 24% of sanitary wares.

**12.0 FINANCIAL PERFORMANCE**

**12.1 Profitability**

Indicators	1H 09	2008	2007	2006	2005
Return on Average Assets After Tax (ROAA)%	6.30	6.67	9.00	6.76	3.30
Return on Average Equity After Tax (ROAE)%	12.68	14.47	19.30	14.34	7.66
Return on Average Capital Employed(After Tax)%	10.87	10.93	13.49	9.75	4.64
Gross Profit Margin%	28.22	28.72	34.47	29.72	23.53
Operating Profit Margin%	15.92	15.93	21.97	18.39	11.00
Net Profit Margin%	7.46	8.82	12.96	9.10	5.28
Earning Per Share(Tk.100)	21.97	22.09	23.33	13.72	6.65

\* First Half growth of FY2009 has been annualized

*Highly profitable company*

RAKCBL is a highly profitable company although profitability indicators depicts single digit slide in last year. Profit after tax of the company stood at Tk. 286.40 million in FY2008 against Tk. 302.57 million in FY2007 indicating a decline in net profit by 5.35%. The reason for such decline is the increased cost of sales by over 5.75% to sales as compared to the previous years. The increased costs of the goods are attributed to high raw material prices, foreign currency volatility in 2008 (USD, Euro, GBP), In case of Euro, market has seen volatility of 28.4% (high-1.5991 & low-1.2453 against USD), GBP volatility recorded at 41.8% (high-2.0335 & low-1.4392 against USD), and as over 70% of raw materials & consumables are sourced from outside countries related impact on imported raw materials has contributed to increased cost of sales. Also volatility of crude oil prices in range of \$37.71/ barrel to \$145.29/barrel has impacted international freight cost matrix of import dependent company like RAKCBL. Besides the increased costs of goods sold; the administrative and marketing expenses are in tandem with increased turnover and the interest expense of the company increased due to lending rates volatility in international and local money market which has contributed to slide in net profit of the company. The net profit during first half of 2009 amounted to Tk. 142.46 million against Tk.136.32 million in first half of 2008. Though growth in turnover was appreciable (39.08%), the gross profit margin declined to 28.72% in FY2008 from 34.47% in FY2007 as a result of higher growth of COGS (51.29%) compared to sales. High currency & international oil price fluctuations have contributed to increase of raw material cost in international market (on an average 20%), increased freight charge has contributed to higher cost of goods sold. At the same time net profit margin also decreased to 8.82% resulting from logical increase in operating expenses and financial expenses. However, in the 1<sup>st</sup> half of 2009 the gross profit margin remained almost stable at 28.22% though net profit margin declined to 7.46% from 8.82% in FY2008. Tax holiday period for sanitary division expired in December, 2008, in upcoming period new tax provision will keep pressure on net profit margin.

While analyzing profitability, Return on Average Asset (ROAA) has decreased to 6.30% (annualized) at end of 1H of FY2009 and 6.67% at YE2008 from 9.00% at YE2007. RAK

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Ceramics tiles and sanitary ware facilities are technology driven capital intensive; moreover, significant investment in subsidiaries and increased inventory level induced to reduce return on asset. Similarly fall in net profit by 5.35% and 19.17% increase in equity (mainly retained earnings) reduced Return on Average Equity (ROAE) to 14.47% at YE2008 from 19.30% at YE2007. Though total amount of capital employed decreased, the Return on Average Capital Employed (ROACE) further declined to 10.93% at YE2008 from 13.49% at YE2007. At end of 1H of FY2009, annualized ROAE and ROCE declined marginally and stood at 12.68% and 10.87% respectively.

**12.2 Cost Efficiency**

Indicators	*1H 09	2008	2007	2006	2005
Cost to Revenue Ratio (%)	71.78	71.28	65.53	70.28	76.47
Administrative Exp to Revenue Ratio %	1.78	2.27	2.53	1.71	1.64
Selling & Distribution Cost to Revenue Ratio %	10.53	10.52	9.98	9.62	10.89
Finance Cost to Revenue Ratio %	4.03	4.35	3.65	4.17	5.72

\* First Half growth of FY2009 has been annualized

*Fall in cost efficiency*

The cost efficiency (cost of goods sold to sales revenue) of the company was slightly decreased in the last few years although operational volume increased significantly. It stood at 71.78% in 1H2009 against 71.28% in FY2008 and 65.53% in FY2007. As mentioned earlier, increase in raw materials, freight charge in international market. In addition, due to expansion of tiles and sanitary unit during FY 2007 and FY2004, cost efficiency was affected in the subsequent year as reflected in the above table. Usually, the company imports major raw materials through its parent, because RAK Ceramics PSC, UAE sources it in bulk quantity for economies of scale and supply to the subsidiaries. Contribution of raw materials cost to cost of goods sold increased to 59.47% in FY2008 from 54.10% in FY2007. It revealed that the price of major raw materials for gross porcellanto tiles (Soda Feldspar, Potash Feldspar, Indonesian Clay ) increased by 20% and for sanitary ware (China Clay, FC Ball Clay, Kaolin) on average by 10% in last year 2008.

Although selling and distribution cost to sales has remained same (i.e. 10.53%) during 1H of FY2009 and FY2008, however, slightly increased against FY2007 (i.e. 9.98%) resulted mainly for increased promotional expenses. Though, finance cost to revenue also increased to 4.35% during FY2008 from 3.65% in FY2007, in the 1H of FY2009 it decreased to 4.03%.

**13.0 CAPITAL STRUCTURE AND LEVERAGE**

Indicators	*1H 09	2008	2007	2006	2005
Leverage Ratio (X)	0.95	1.08	1.28	0.96	1.31
Internal Capital Generation (%)	12.16	13.31	16.67	13.38	7.49
Net Asset Value Per Share (Tk. 100)	180.62	165.93	139.24	102.55	88.83

\* First Half growth of FY2009 has been annualized

*Sound equity base*

RAKCBL is a sound equity-based company and contribution of long term loan in the capital structure decreased gradually. At end of 1H of FY2009, the capital structure revealed that 88.15% of the net capital employed (Tk. 2,657.26 million) was financed by equity i.e. Tk. 2,342.26 million. The equity pie is composed of 55.37% paid up capital, 23.86% share money deposit and 20.77% retained earnings. Paid up capital was raised by Tk. 648.40 million through 100% bonus issue during 1H of FY2009. The internal capital generation was good and stood at 12.16% at end of 1H of FY2009 against 13.31% in YE2008. Other than 6% yearly royalty payment for technical know how, in FY2007 the company only reimbursed its profit in the form of 50% cash dividend. The Board declared no dividend for the FY2008. Against the above capital structure, outside liabilities stood at Tk. 2,225.04 million representing the leverage ratio 0.95 times (consisting 0.14 as long term gearing and 0.81 as short term gearing) as on 30 June 2009 against 1.08 times at YE2008.

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**14.0 LIQUIDITY AND FUND FLOW ANALYSIS**

Indicators	* 1H 09	2008	2007	2006	2005
Current Ratio (X)	1.05	1.10	1.21	1.53	1.44
Quick Ratio (X)	0.60	0.55	0.60	0.84	0.66
Cash Conversion Cycle	92	116	150	163	180

\* First Half growth of FY2009 has been annualized

*Improved liquidity indicators*

RAKCBL is basically an import based (considering volume of raw materials) company requiring significant inventory with long cash conversion cycle. However, due to its short receivable collection period and timely repayment of payables, liquidity position of the company always remains at modest level. It is reflected by its current ratio which stood at 1.05 times, 1.10 times, 1.21 times and 1.53 times at end of 1H of FY2009, YE2008, YE2007 and YE 2006 respectively. However, it shortened its cash conversion cycle significantly in the previous years reflected 92 days at end of 1H of FY2009, 116 days at YE2008, 150 days at YE2007 and 163 days at YE2006. Principally RAKCBL maintained finished goods for 15 days, raw materials for 6 months and stores and spares for 1 year. Average number of days inventory (without considering stores and spares) in stock was 126 days in 1H of FY2009, 152 day in FY2008, 170 days in FY2007 and 158 days in FY2006. The credit sales policy backed by bank guarantee realizable within 45 days induced to reduce average receivable collection days in the range of 20 to 30 days.

Analysis of the fund flow reveals that the company generated sufficient fund internally to service its debt burden and other liabilities also. As on FY2008, the company generated fund from operation of Tk 599.98 million (1.04 times of debt coverage), cash flow from operation of Tk. 137.47 million (0.73 times of debt coverage) and free operating cash flow of Tk 279.11 million (0.40 times of debt coverage).

**15.0 FINANCIAL FLEXIBILITY AND SOLVENCY**

Indicators	* 1H 09	2008	2007	2006	2005
Debt Service Coverage Ratio (X)	1.95	1.42	2.35	1.79	1.28
Interest Coverage Ratio (X)	5.48	5.82	9.68	7.18	4.14

\* First Half growth of FY2009 has been annualized

*Good debt servicing capacity*

RAKCBL is a sound equity-base company and due to strong market image, it enjoys sound financial flexibility to raise fund from different sources. In addition to its sound credibility, it also enjoys a large credit limit from different banks. Presently, it enjoys funded limit of Tk. 1942 million and non funded limit of Tk. 640 million as on 30 June, 2009. However, out of the above limit, the outstanding bank loan liability was Tk. 1,220.45 million (i.e. 62.84% of the limit) as on 30 June 2009.

While analyzing the creditworthiness of the company, it revealed that with significant long term loan, the company has been utilizing the revolving credit limits duly. The cash generation of the company was good to serve the interest obligation against the revolving loan. Debt service coverage ratio of the company stood at 1.95 times in 1H of FY2009 against 1.42 times in FY2008. In terms of interest coverage ratio, the earnings of the company against the fixed cost burden was commendable although it declined to 5.48 times in 1H of FY2009 from 5.82 times in FY2008 due to reduced operating profit in 1H of FY2009.

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**16.0 OBSERVATION SUMMARY**

<p><b>Rating Comforts:</b></p> <ul style="list-style-type: none"> <li>• Sound equity base</li> <li>• Market leader</li> <li>• Sound debt servicing coverage</li> <li>• Outstanding business growth</li> <li>• Sound production facilities</li> <li>• Strong support from parent</li> <li>• Diversified product line</li> <li>• Good operational and financial performance</li> <li>• Sufficient financial flexibility</li> <li>• Strong Brand image</li> <li>• Global Outlook</li> </ul>	<p><b>Rating Concerns:</b></p> <ul style="list-style-type: none"> <li>• Internal control yet to get structured shape</li> <li>• Limited modern HR practice</li> <li>• Limited delegation to local management</li> <li>• Slow moving finished goods put pressure on inventory turnover</li> <li>• Absence of independent market research team</li> <li>• Deficiency in effective disposal management</li> </ul>
<p><b>Business Prospects:</b></p> <ul style="list-style-type: none"> <li>• Opportunity of market growth</li> <li>• Introduce new products</li> <li>• Diversification in the business</li> </ul>	<p><b>Business Challenges:</b></p> <ul style="list-style-type: none"> <li>• Limited local raw material sources</li> <li>• Increased competition from new entrants</li> <li>• Uninterrupted gas supply</li> <li>• Control over distribution network</li> <li>• Investment risk to upcoming projects</li> </ul>

**END OF THE REPORT**

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**17.0 CORPORATE INFORMATION**

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**Date of Incorporation** : 26 November 1998

**Commencement of Business:** 12 November 2000

<b>Board of Directors</b>	Dr. Khater Massaad	Chairman
	Mr. Hamad Abdullah Al Muttawa	Director
	Mr. S.A.K. Ekramuzzaman	Managing Director
	Mr Abdallah Massaad	Director
	Mr Manoj Aheeray	Director

<b>Auditor</b>	<b>K.M. Hasan &amp; Co</b>	<b>S. F. Ahmed &amp; Co</b>
	<i>Chartered Accountants</i>	<i>Chartered Accountants</i>

<b>Key Management</b>	Mr. S.A.K. Ekramuzzaman	Managing Director
	Mr. Mohd. Amir Hossain	General Manager
	Mr. Sangam Lal	Finance Controller
	Mr. Mahbubur Rahman	Manager-Personnel & Legal
	Mr. Imtiaz Hussain	Manager-Sales
	Mr. Jahirull Reza	Manager-Purchase
	Mr. Govndaraju Srinivasan	Production Manager- Sanitary Ware Division
	Mr. Henry Fernandez	Assistant Technical Manager-Tiles Division
	Mr. Mohammed Shamsuddin	Deputy Manager-Accounts
	Mr. Muhammad Shahidul Islam	Assistant Company Secretary

**Capital History:**

Year	Authorized Capital(M.Tk)	Issued, Subscribed and Paid-up Capital (M. Tk.)	Rate of Increase	Source of Paid-up Capital
2004	750.00	330.00	-	Cash
2005	750.00	648.40	96.5%	Cash and Kind
2006	750.00	648.40	-	Do
2007	750.00	648.40	-	Do
2008	3000.00	648.40		Do
2009	3000.00	1,296.80	100%	Bonus Issue



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**A. Balance Sheet (As on 31<sup>st</sup> December)**

(Amount in Million Taka)

	1H 09	2008	2007	2006	2005
<b>Non-Current Assets:</b>					
Property, Plant & Equipment	2,144.95	1,973.54	2,159.59	1,255.92	1439.15
Capital work in progress	18.99	58.23	27.13	125.00	
Intangible Assets(net)	12.21	-	-	-	
Investment	363.71	281.71	144.71	8.06	
Other Non-Current Assets	19.81	72.02	19.33	18.98	18.80
<b>Total Non-Current Assets</b>	<b>2,559.67</b>	<b>2,385.50</b>	<b>2,350.76</b>	<b>1,407.96</b>	<b>1457.95</b>
<b>Current Assets:</b>					
Inventories	857.98	1,040.88	889.63	541.05	648.27
Stores & Spares	534.89	474.93	322.56	276.42	262.34
Trade Debtors	112.81	163.73	209.04	210.95	213.90
Adv. Deposits & Prepayments	457.65	382.17	317.31	144.72	50.56
Short Term Investment	-	-	-	-	
Other Current Assets	3.94	2.07	1.31	0.14	
Cash & Bank Balances	40.36	24.03	24.67	23.71	26.07
<b>Total Current Assets</b>	<b>2,007.63</b>	<b>2,087.81</b>	<b>1,764.52</b>	<b>1,196.99</b>	<b>1201.13</b>
<b>Current Liabilities:</b>					
Short Term Loan	695.45	634.91	0.04	0.00	233.93
Long Term Loan-CP	210.00	293.34	435.36	227.04	223.56
Trade Creditors	303.70	407.17	313.61	126.77	129.23
Other ST Liabilities	694.04	558.25	705.42	426.54	245.58
<b>Total Current Liabilities</b>	<b>1,903.20</b>	<b>1,893.67</b>	<b>1,454.43</b>	<b>780.35</b>	<b>832.30</b>
<b>Net Current Assets</b>	<b>104.43</b>	<b>194.14</b>	<b>310.09</b>	<b>416.64</b>	<b>368.83</b>
<b>Net Assets</b>	<b>2,664.10</b>	<b>2,579.64</b>	<b>2,660.85</b>	<b>1,824.60</b>	<b>1826.78</b>
<b>Non-Current Liabilities:</b>					
Long Term Loan	315.00	420.00	806.41	438.80	622.63
Deferred Liabilities	-	-	-	-	
Other Non-Current Liabilities	6.84	7.81	48.82	55.94	52.26
<b>Total Non-Current Liabilities</b>	<b>321.84</b>	<b>427.81</b>	<b>855.23</b>	<b>494.74</b>	<b>674.89</b>
Minority Interest	-	-	-	-	
<b>Shareholders' Equity:</b>					
Share Capital	1,296.80	648.40	648.40	648.40	648.40
Share Premium	-	-	-	-	
Share Money Deposit	558.84	508.12	502.55	5.17	5.17
Other Reserve	-	-	-	-	
Retained Earnings	486.63	995.31	654.67	676.29	498.32
<b>Total Shareholder's Equity</b>	<b>2,342.26</b>	<b>2,151.83</b>	<b>1,805.62</b>	<b>1,329.86</b>	<b>1151.89</b>
<b>Total Equity and LT Liabilities</b>	<b>2,664.10</b>	<b>2,579.64</b>	<b>2,660.85</b>	<b>1,824.60</b>	<b>1826.78</b>
<b>Total Assets</b>	<b>4,567.30</b>	<b>4,473.31</b>	<b>4,115.28</b>	<b>2,604.95</b>	<b>2659.08</b>

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**B. Income Statement (for the year ended 31 December)**

(Amount in Million Taka)

	1H 09	2008	2007	2006	2005
<b>Sales Revenue</b>	1,910.35	3,247.99	2,335.39	1,955.08	1633.44
COGS Excluding Depreciation	1,246.18	2,031.07	1,331.47	1,191.41	1044.40
Depreciation-Mfg	125.00	284.10	198.82	182.58	204.76
<b>Cost of Good Sold</b>	<b>1,371.18</b>	<b>2,315.17</b>	<b>1,530.28</b>	<b>1,373.99</b>	<b>1249.15</b>
<b>Gross Profit</b>	<b>539.17</b>	<b>932.81</b>	<b>805.11</b>	<b>581.10</b>	<b>384.29</b>
Salary & Allowances	15.04	19.62	14.58	13.04	9.79
Depreciation-Administrative	6.98	15.17	14.54	2.30	2.38
Other Admin. Expenses	11.94	38.91	29.99	18.09	14.64
<b>Total Adm. Exp</b>	<b>33.95</b>	<b>73.71</b>	<b>59.11</b>	<b>33.43</b>	<b>26.81</b>
Selling & Distribution Exp.	201.08	341.82	233.01	188.13	177.83
<b>Profit from Operation</b>	<b>304.14</b>	<b>517.28</b>	<b>512.99</b>	<b>359.53</b>	<b>179.65</b>
Other Income	0.73	1.91	6.78	0.54	
Financial Cost	76.94	141.17	85.26	81.45	93.37
<b>Profit Before Tax</b>	<b>227.93</b>	<b>378.02</b>	<b>434.52</b>	<b>278.63</b>	<b>86.28</b>
Income Tax	85.47	91.62	131.94	100.66	-
<b>Profit After Tax</b>	<b>142.46</b>	<b>286.40</b>	<b>302.57</b>	<b>177.97</b>	<b>86.28</b>

**Note: Above Financial statements are rearranged for analysis purpose**

**CREDIT RATING REPORT  
ON  
RAK CERAMICS (BANGLADESH) LIMITED**

**CRISL RATING SCALES AND DEFINITIONS  
LONG-TERM RATINGS OF CORPORATE**

RATING	DEFINITION
<b>AAA</b> Triple A (Highest Safety)	<b>Investment Grade</b> Entities rated in this category are 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.
<b>AA+, AA, AA-</b> (Double A) (High Safety)	Entities rated in this category are 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.
<b>A+, A, A-</b> Single A (Adequate Safety)	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.
<b>BBB+, BBB, BBB-</b> Triple B (Moderate Safety)	Entities rated in this category are 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.
<b>BB+, BB, BB-</b> Double B (Inadequate Safety)	<b>Speculative Grade</b> Entities rated in this category are 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, B-</b> Single B (Risky)	Entities rated in this category are 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.
<b>CCC+, CCC, CCC-</b> Triple C (Vulnerable)	Entities rated in this category are 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.
<b>CC+, CC, CC-</b> Double C (High Vulnerable)	Entities rated in this category are adjudged to be very highly vulnerable. Entities might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support.
<b>C+, C, C-</b> (Extremely Speculative)	Entities rated in this category are 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.
<b>D</b> (Default)	<b>Default Grade</b> Entities rated in this category are 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.*

**CREDIT RATING REPORT  
ON  
RAK CERAMICS (BANGLADESH) LIMITED**

**SHORT-TERM RATINGS OF CORPORATE**

<b>ST-1</b>	<b>Highest Grade</b> 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.
<b>ST-2</b>	<b>High Grade</b> High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
<b>ST-3</b>	<b>Good Grade</b> 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.
<b>ST-4</b>	<b>Moderate Grade</b> Moderate liquidity and other protection factors qualify an entity to be in investment grade. Risk factors are larger and subject to more variation.
<b>ST-5</b>	<b>Speculative Grade</b> 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.
<b>ST-6</b>	<b>Default</b> Entity is in default or is likely to default in discharging its short-term obligations. Market access for liquidity and external support is uncertain.