



## Credit Rating Information and Services Limited

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Founder Member, Association of Credit Rating Agencies in Asia (ACRAA), Manila, Philippines  
Joint Venture with JCR-VIS Credit Rating Company Ltd. Pakistan

*Setting global standard at national level*

December 10, 2020

CRISL/OP/RR/...../20

**Managing Director**  
RAK Ceramics (Bangladesh) Limited  
RAK Tower, 1/A Jasimuddin Avenue,  
Sector# 3, Uttara,  
Dhaka-1230

**Sub: Submission of Final Credit Rating Report and Final Bill.**

Dear Sir,

In terms of your letter of appointment to rate your esteemed enterprise, we are pleased to submit herewith our final report on 'RAK Ceramics (Bangladesh) Limited' We offer our sincere thanks to you and the members of your enterprise for the heartiest cooperation extended to us while carrying out our responsibilities.

Thanking you.

Sincerely yours,

Md. Asaduzzaman Khan  
Executive Director

Encl: as mentioned above.

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

**REPORT: RR/39499/20**

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

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

**Outlook:** Stable

**RAK CERAMICS  
(BANGLADESH)  
LIMITED**

**ACTIVITY**  
Ceramic tiles and  
sanitary ware  
manufacturer

**DATE OF  
INCORPORATION**  
November 26, 1998

**CHAIRMAN**  
Abdallah Massaad

**MANAGING DIRECTOR**  
SAK Ekramuzzaman

**EQUITY**  
Tk. 7354.61 million

**TOTAL ASSETS**  
TK. 12,759.86 million

Date of Rating: December 02, 2020	Valid up to: December 01, 2021	
	Long Term	Short Term
Entity Rating	AA+	ST-1
Outlook	Stable	
Bank Facilities Rating		
Bank/FI	Mode of Exposures (Figures in million)	Bank Loan Ratings
HSBC	Term Loan Outstanding of Tk. 8.08 Working Capital Loan Limit of Tk.750.00	blr AA+
Standard Chartered Bank	Working Capital Loan Limit of Tk. 570.00	
Dutch Bangla Bank Limited	Working Capital Loan Limit of Tk. 128.00	
Commercial Bank of Ceylon	Working Capital Loan Limit of Tk. 685.00	

**1.0 RATIONALE**

CRISL has assigned the Long Term rating to "AA+" (pronounced as double A plus) and the Short Term rating to "ST-1" of RAK Ceramics (Bangladesh) Limited (RAKCBL). The above has been done on the basis of its financials and other relevant quantitative and qualitative information up to the date of rating with due consideration to its fundamentals such as equity based capital structure, good operational and financial performance, good infrastructural facilities, diversified product mix, good distribution network, strong brand image etc. However the above are constrained to some extent by factors such as significant competition in the market, loss in subsidiary operation, quality control risk, product handling risk etc.

The Long Term rating indicates that entities rated in this category entity rated in this category is adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions. The Short Term rating indicates 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.

CRISL also views the company with "Stable" outlook in consideration of its stable business growth and consistent fundamentals.

**2.0 CORPORATE PROFILE**

**2.1 The Genesis**

RAK Ceramics (Bangladesh) Limited, a public limited company is operated as a front footed tiles and sanitary ware manufacturing company in Bangladesh. It was incorporated as a private limited company on November 26, 1998 under the Companies Act 1994 with the vision to be world's leading ceramics lifestyle solution provider. RAKCBL started its commercial operation November 12, 2000. The company was later converted into a public limited company on June 10, 2008. The authorized and paid up capital of RAKCBL stood at Tk.6000.00 million and Tk. 4,279.69 million respectively as on December 31, 2019. RAKCBL went into Initial Public Offerings (IPO) in 2010. The shares of the company are listed with both the bourses of the country under 'A' category issue. The market capitalization of the company stood at Tk. 11,854.73 million as on September 27, 2020. The yearly installed production capacity of RAKCBL stood at 111.04 million sft. for ceramic tiles, 1.45 million pieces for sanitary-wares. RAKCBL ensured 74.00% capacity utilization in ceramic tiles production and 98.00% capacity utilization in sanitary-wares of total production capacity during 2019. Mr. Abdallah Massaad is the Chairman of the Board while Management team consists of a group of experienced professionals and is headed by Mr. SAK Ekramuzzaman as the Managing Director.

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

## CREDIT RATING REPORT On RAK CERAMICS (BANGLADESH) LIMITED

According to the audited financial statement, the company reported net turnover of Tk. 6,463.86 million during 2019 against which it made net profit of Tk. 754.03 million at consolidation level. At present, RAKCBL has two subsidiaries namely RAK Power Pvt. Limited and RAK Security and Service (Pvt.) Limited. RAKCBL has obtained "SILVER AWARD" in 6<sup>th</sup> ICSB National Award - 2016 in manufacturing Category and "BEST PRESENTED ANNUAL REPORTS 2016" in 19<sup>th</sup> ICAB National Award in manufacturing category. The Head Office of the company is located at RAK Tower, 1/A Jasimuddin Avenue, Sector# 3, Uttara, Dhaka-1230 and the factory is located at Dhanua, Sreepur, Gazipur.

### 2.2 Ownership Pattern

Ownership pattern of RAKCBL is diversified among sponsors, institutional investors and general public. RAKCBL had total of 427.97 million ordinary shares of Tk.10.00 each as on December 31, 2019 owned by 30,628 shareholders. However, 15 shareholders are holding 82.64% of total shares. The composition of updated shareholding position of the company is delineated below as on 31 December 2019:

Name of Shareholder's	No. of shares	% of share
RAK Ceramics PJSC, UAE	291,586,431	68.13
S.A.K Ekramuzzaman	16,895,824	3.95
HH Sheikh Soud bin Saqr Al Qassimi	34	0.00
Sheikh Omer bin Saqr Al Qassimi	34	0.00
Sheikh Ahmad bin Humaid Al Qassimi	34	0.00
Hamad Abdullah Al Muttawa	16	0.00
Dr. Khater Masud	16	0.00
Abdallah Massaad	16	0.00
Manoj Uttamrao Ahire	16	0.00
General Public	119,486,280	27.92
<b>Total</b>	<b>427,968,701</b>	<b>100.00</b>

### 2.3 Product & Market Position

As mentioned earlier, the company established with the objective of manufacturing and marketing of ceramic tiles, wash room sets and all types of sanitary-ware. RAKCBL has over 2700 model of ceramics and porcelain tiles with different sizes and categories including ceramics, combination or geometric design and wall tiles matching with decors & borders. RAKCBL also continues its production with different series of brand like Stone Art, Wood art, Wall Hung, Rainse, Combo, Single piece etc. The company has 43 models of sanitary ware like different type of wash basin, water closet, asian pan and different accessories notable competitors in the market are Star Ceramics Ltd, Great Wall Ceramics Industry Ltd, Mir Ceramics Ltd, Fu-Wang Ceramics Ind. Ltd, China Bangla Ceramics Ltd, Madhumoti Ceramics Ltd, ATI Ceramics Ltd, Akij Ceramics Ltd etc.

Diversified product mix

## 3.0 BUSINESS ANALYSIS

### 3.1 Infrastructural Facilities:

The technology driven tiles and sanitary ware manufacturing setups are prone to be highly capital intensive. RAKCBL has established its factory compound in Gazipur occupying 4012 decimals of own land. The factory compound is comprised separate sheds for tiles operation, sanitary ware operation, separate storage facilities for finish stock of tiles and sanitary wares, storage facilities for raw material, stores and consumable stores, design and printing lab, administrative building residential quarter for factory officials. The production facilities are supported by 13 MW 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.

Good infrastructural facilities

#### 3.1.1 Tiles Production Facilities

RAKCBL'S extensive new and modern tiles plant is a candid example of modern technology. The production facilities of tiles division are set up on approximately 80% of total land consisting of four production plant. These tiles plants are having versatile multipurpose ball mill, press machine, long range kilns. The automated and integrated plant sourced from the

## CREDIT RATING REPORT

On

### RAK CERAMICS (BANGLADESH) LIMITED

Italian manufacturer. These ceramic tiles plant makes every RAK tiles a top-notch quality, passionate looks, great finish and lasting endurance. Total installed capacity of RAKCBL stood 111.04 million sft. as on December 31, 2029. The company utilized 74% of its installed capacity and produced 82.66 million sft. tiles in 2019. 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.

#### **3.1.2 Sanitary Ware Production Facilities**

The State-Of-The Art modern production plant of sanitary ware set upon approximately 20% of total land with production capacity of 1.45 million pieces per year. The plant is equipped with latest European technology including computerized kilns. RAKCBL follows pressure casting, manual casting and BCL casting to produce wash basins, water closet pedestals, cisterns, lids and accessories manufacturing. The company has separate unit for mold production. RAKCBL has injection molding machine to produce plastic accessories of sanitary ware. RAKCBL uses high quality ball clay and kaolin from UK, glazes from Spain and strain from Germany for sanitary ware Production. The company utilized 98% of its installed capacity and produced 1.42 million pieces sanitary ware in 2019.

#### **3.2 Sales and Distribution**

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 173 dealers for tiles and 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 arrival and product availability live database. RAKCBL distributes its products to dealer points and formed local transporters pool. The marketing team follows the market requirement, campaign for awareness of new product particularly with developer, architects and consultants. Company introduced new models regularly with the consultation of developers, architects and consultants, which match with customer choice and satisfaction. 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 and relative development.

*Good distribution network*

#### **3.3 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. The company awarded the prestigious ISO:2008 by BVQI. To maintained environmental responsibility and to protect and preserve environment, the company awarded with ISO 14001:2004 cification. RAKCBL also complies with ISO 13006:2012, the latest international standard for ceramic tiles. The sanitary ware of RAKCBL complies with the quality criteria detailed under BDS 1162:2012. Both tiles and sanitary-ware products are approved by Bangladesh Standard Testing Institute (BSTI).

### **4.0 SUBSIDIARY OPERATION**

#### **4.1 RAK Power Pvt. Limited**

RAK Power Pvt. Limited is a subsidiary company of RAK Ceramics (Bangladesh) Limited. The company incorporated on June 30, 2005 and total authorized capital and paid up capital stood at Tk. 1000.00 million and Tk.205.00 million respectively as on December 31, 2019. Total installed capacity is 13 MW. The capacity was available in excess of 90% of installed capacity during the year 2019. Significant portion of generated power has primarily transmitted to meet the requirements of the parent company. Net profit of the company stood at Tk.50.67 million in 2019 and Tk.86.45 million in 2018.

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

**4.2 RAK Security and Service (Pvt.) Limited**


RAK Security and Service (Pvt.) Limited is a subsidiary company of RAK Ceramics (Bangladesh) Limited. The company incorporated on December 21, 2006 and total authorized capital and paid up capital stood at Tk. 100.00 million and Tk.1.00 million respectively as on December 31, 2019. The company is in the business of providing security services and other services to group companies as well as non group customers. Net profit of the company stood at negative of Tk.1.22 million in 2019 and Tk.2.56 million in 2018.

**5.0 INDUSTRY OVERVIEW**

Ceramic industry of Bangladesh is a booming sector and the growth potential of both domestic and foreign market indicates that it may become one of the big foreign currency earners for the country. The country's ceramic industry has experienced 200% growth over the last 10 years. Spiraling growth rate is encouraging entrepreneurs to invest more in this sector. Bangladesh is perfectly positioned to expand rapidly in this sector with its high quality, cost ratio and creative human resource base. Traditionally, ceramic industry is a labor-intensive sector and companies in developed countries experience difficulties in remaining competitive due to rising labor cost and recent global financial crisis. Bangladesh, being a gas rich, low-labor cost economy and having advanced with 'bone china' technology, is perfectly positioned to be a strategic partner in production and supply of ceramic goods. The ceramics industry of Bangladesh consists of different products namely tableware, tiles and sanitary ware. Of the products, ceramic table wares are being exported to about 50 countries including, the US and Canada, tiles to India, Nepal and Bhutan, and sanitary wares to the Middle East, specially the UAE. According to industry insiders, At least 75 percent of the total exports of the products go to Europe, about 15 percent to the US market and remaining 10 percent to other markets.

According to Bangladesh Ceramic Manufacturers & Exporters Association (BCMEA), there are around 62 ceramic manufacturers operating in this industry producing tableware, sanitary ware and tiles. At present, total investment (Local & Foreign) in this sector is more than 1 Billion US\$ and this sector employs around 0.5 million workers. Shinepukur, Monno, Bengal Fine, Standard, Peoples and National Ceramic are considered as major players in ceramic tableware market. RAK, Akij, DBL, Star, Fu Wang, China-Bangla, Madhumoti, ATI, Sunflower, Great Wall, Dhaka-Sanghai and Mir Ceramic are considered as major manufacturers of tiles and sanitary wares. The tableware ceramic industry annually produces 250 million pieces of items, while tiles industry produces 70 million square meters, and sanitary-ware industry produces around 7 million pieces.

Despite prospective export opportunities, some industry insiders think that Bangladesh ceramic products are likely to face some stiff competition in the international market, especially, in the USA following withdrawal of GSP (Generalized System of Preferences) facilities. Ceramic manufacturers also lamented that they had to lose a portion of the export market as its output witnessed a sharp decline, which resulted from low voltage of electricity, and low gas pressure. The ceramic industry faces stiff challenges from the hike of import duty on raw materials, hike of gas price and electricity price and land of skilled manpower. Besides, the Government put an embargo on cutting hills in 2007 through a public notification, which stopped the ceramic manufacturers from procuring the raw materials from Mymensingh hills since. As a result, Bangladesh has to import superior quality clay from India and China, putting higher pressure on cost of production. In order to address those problems local manufacturers, urge that the government should ensure uninterrupted power and gas supply and reduce taxes on import of raw materials. Upon the assurance of resolving of those issues, industry experts are expecting a steady growth from exports as the global market favors more shipment from Bangladesh.

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

## CREDIT RATING REPORT On RAK CERAMICS (BANGLADESH) LIMITED

### 6.0 CORPORATE GOVERNANCE

Corporate governance is a term that refers broadly to the rules, procedure and laws by which businesses are operated, regulated, and controlled in order to ensure the interest of the stakeholders of a corporate body. This is central to the continued strong performance of the business in a manner which is sustainable in the long term and gains the continued confidence of investors. Furthermore for the company, good governance is about managing the business effectively and responsibly and in a way which is honest, transparent and shows accountability.

#### 6.1 Board of Directors

The Board of RAKCBL consists of five members including the Chairman and the Managing Director. The Board is led by Mr. Abdallah Massaad as the Chairman of the Board with his prudence in the business arena. The company's other Board members include Mr. SAK Ekramuzzaman, who acts as the Managing Director, Mr. Promod Kumar Chad as Director, Mr. Wassim Moukahhal as Independent Director and Mr. Faheemul Huq, Barrister-at-law as Independent Director. The Board mainly reviews the overall activities of the business and gives necessary strategic guidelines for onward policy implementation. The Board conducted 07 meetings during 2019.

#### 6.2 Audit Committee (AC)

As per requirement of BSEC corporate governance guideline, the Board of RAKCBL has formed a three member's Audit Committee (AC) including the Independent Directors. The AC is chaired by Mr. Faheemul Huq, Independent Director and the other members are Mr. Wassim Moukahhal and Mr. Promod Kumar Chad. The committee reviews quarterly, half-yearly and yearly financial statements of the company and recommended to the board for adoption and approval. The committee also reviews internal audit process, internal control system, laws and regulations relating to business and internal policies, appropriate management information system, state of compliance with corporate governance code etc. The committee conducted 04 meetings during 2019.

#### 6.3 Nomination and Remuneration Committee (NRC)

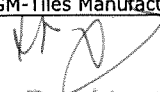
As per requirement of BSEC corporate governance guideline, the Board of RAKCBL has formed a three member's Nomination and Remuneration Committee. The NRC is chaired by Mr. Wassim Moukahhal and others members are Barrister Faheemul Huq and Mr. Promod Kumar Chad. The committee formulates the criteria for determining qualification, positive attributes and independence of a director and recommending a policy to the board relating to the remuneration of directors and top level executives.

#### 6.4 Corporate Management

The management of the company is led by very competent and dynamic set of employees under the leadership of Mr. SAK Ekramuzzaman. A brief description of the top level management is given below:

SL No.	Name	Designation
1.	SAK Ekramuzzaman	Managing Director
2.	Mohammad Jahirul Reza	Vice President
3.	Sadhan Kumar Dey	Chief Financial Officer
4.	Mohammad Shahidul Islam	Company Secretary
5.	Mohammad Samsul Arefin	Head of Internal Audit
6.	Md. Mizanur Rahman	GM-Sales
7.	Srinivas S.V.K.P.	DGM-Tiles Manufacturing

Experienced  
management team

  
 For President & CEO  
 Md. Asaduzzaman Khan  
 Executive Director  
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## CREDIT RATING REPORT On RAK CERAMICS (BANGLADESH) LIMITED

### 6.5 Human Resource Management

RAKCBL believe that employees are integral part to its success. The company committed to ensure a safe and healthy working environment to its employee. The company currently has 1544 fulltime employee on its rolls and offers well design compensation packages for ensure professionalism, develop talents, ensure leadership capabilities and maximize the potential of human resources with high ethical standards. The employees of the company enjoy benefits of contributory provident fund, gratuity scheme and group life insurance etc. RAKCBL also established "Workers Profit Participation Fund and Welfare fund" in 2010 and the company contributed 5% of profit before tax towards the fund amounting to Tk.52.96 million for the year 2019.

### 6.6 Management Information System (MIS)

Daily production status, sales, average sales realization, inventory position, fund position and borrowing position are sent by the Chief Financial Officer (CFO) to the chairman & the Managing Director. Monthly financial statements are prepared within 10 days of following month. Monthly functional review meeting is conducted regularly and Target Vs Roll over plans and deviations are discussed & time line is defined for corrective/ remedial action.

### 6.7 Internal Control System

RAKCBL formed a three-member Audit Committee (AC) in order to keep the company on track. The AC is headed by Mr. Faheemul Huq, Independent Director. RAKCBL also appointed Head of Internal Audit as a part of Internal Control and Compliance. The details roles and responsibilities of AC have been set forth by the Board of Directors. However, the finance department is under the close supervision of CFO to ensure customized internal control. Stocks and stores work under the control of Supply Chain Management and daily status is sent to Head Office and updated 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 CFO and finally approved by the Managing Director. Daily production status, sales, average sales realization, inventory position, fund position and borrowing position are sent by the respective department head to Managing Director.

## 7.0 FINANCIAL PERFORMANCE ANALYSIS


### 7.1 Quality of Accounts

The quality of accounts seems to have adequate level of disclosure. While analyzing the financial performance of RAKCBL, CRISL has considered the audited accounts along with other relevant quantitative and qualitative information of the company. Besides, CRISL also applied its own analytical framework and judgment while carrying out the rating task.

### 7.2 Business Performance

The analytical framework has mainly been based on consolidated financials of the company. However, stand alone position has also been considered wherever required. RAKCBL reported consolidated financial statements as well as standalone financial statements.

Key Indicators	Consolidated		Stand Alone	
	2019	2018	2019	2018
	Jan' to Dec'	Jan' to Dec'	Jan' to Dec'	Jan' to Dec'
Net Turnover (Tk. in million)	6,463.86	6,331.08	6,408.00	6,269.20
COGS (Tk. in million)	4,556.11	4,317.69	4,608.07	4,419.43
Gross Profit (Tk. in million)	1,907.74	2,013.39	1,799.93	1,849.77
Operating Profit (Tk. in million)	1,091.82	1,285.82	1,108.73	1,242.22
Post tax profit (Tk. in million)	754.03	890.63	793.65	883.18
Earnings Per Share (EPS)	1.76	2.08	1.85	2.06

  
 For President & CEO  
 Md. Asaduzzaman Khan  
 Executive Director  
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## CREDIT RATING REPORT On RAK CERAMICS (BANGLADESH) LIMITED

Overall consolidated business performance of RAKCBL has been found to be good. The reported consolidated turnover of the company increased to Tk.6,463.86 million in 2019 from Tk.6,331.08 million in 2018 indicating a growth of 2.10% due to increase in selling price and volume of the products. While analyzing, it has been revealed that the maximum contribution in the total revenue comes from RAK Ceramics (Bangladesh) Limited. In stand-alone basis the turnover of RL stood at Tk.6,408.00 million in 2019 against Tk.6,269.20 million in 2018 indicating a growth of 2.21%. However, RL's stand-alone turnover is 99.14% of consolidated turnover. During 2019 the company sold 86.55 million sft. tiles, 0.37 million pieces décor and border and 1.42 million pieces sanitary ware. The net profit after tax of the company decreased to Tk.754.03 million in 2019 from Tk. 890.63 million in 2018 registering 15.34% negative growth as on consolidated basis.

### 7.3 Financial Performance

Good operational and financial performance

Key Indicators	Consolidated		Stand Alone	
	2019	2018	2019	2018
	Jan' to Dec'	Jan' to Dec'	Jan' to Dec'	Jan' to Dec'
Return on Assets After Tax (ROA)%	5.91	7.31	6.37	7.41
Return on Equity After Tax (ROE)%	10.25	12.74	10.74	12.64
Return on Capital Employed After Tax (ROCE)%	9.95	12.24	10.47	12.19
Gross Profit Margin (%)	29.51	31.80	28.09	29.51
Operating Profit Margin (%)	16.89	20.31	17.30	19.81
Net Profit Margin (%)	11.67	14.07	12.39	14.09
Admin. Expense to Revenue Ratio (%)	6.28	6.03	5.89	5.64
Selling & Distribution Exp. to Revenue Ratio (%)	7.05	6.50	7.06	6.51
Finance Cost to Revenue Ratio (%)	0.42	0.62	0.42	0.59
Cost to Revenue Ratio (%)	70.49	68.20	71.91	70.49

Both the consolidated and stand-alone financial performance of RAKCBL has been found to be good. While analyzing the consolidated performance of RAKCBL, it has been revealed that the company fetched a gross profit of Tk. 1,907.74 million in 2019 from Tk.2,013.39 million in 2018; therefore, its gross profit margin stood at 29.51% in 2019 and 31.80% in 2018 respectively. After deducting all expenditure, the net profit margin stood at 11.67% in 2019 against 14.07% in 2018. While analyzing the individual and consolidated performance of RAKCBL, it has been reflected that the stand alone (i.e. individual) performance of RAKCBL is better than the consolidated performance, because of its subsidiaries are yet to reach satisfactory level and that minimized the consolidate profit of the RAKCBL. In stand-alone basis the net profit margin stood at 12.39% in 2019 against 14.09% in 2018. Overall cost efficiency as on stand-alone basis of the Company declined in 2019. As a ceramic company, major raw materials are mainly imported from various countries; therefore, the cost efficiency of the Company is highly dependent on raw material prices. The efficiency ratio (cost in comparison to revenue) stood at 71.91% in 2019 against 70.49% in 2018. However, the finance cost to revenue ratio decreased slightly and stood at 0.42% in 2019 compared to 0.59% in 2018. The profitability of a company can also be measured in terms of Return on Average Assets (ROAA), Return on Average Equity (ROAE) and Return on Average Capital Employed (ROACE). The above indicators of the company were also found to be good.

### 8.0 CAPITAL STRUCTURE AND SOLVENCY

Equity based capital structure

Key Indicators	Consolidated		Stand Alone	
	2019	2018	2019	2018
	As of Dec'31	As of Dec'31	as of Dec'31	as of Dec'31
Leverage Ratio (X)	0.73	0.74	0.69	0.71
Bank Borrowing to Equity(X)	0.01	0.06	0.01	0.06
Long Term Gearing/Leverage Ratio (X)	0.03	0.04	0.03	0.04
Short Term Gearing/Leverage Ratio (X)	0.70	0.70	0.66	0.67
Debt Service Coverage Ratio (X)	54.75	42.83	55.23	43.65
Interest Coverage Ratio (X)	39.22	32.12	40.15	32.77



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**RAK CERAMICS (BANGLADESH) LIMITED**

RAKCBL is equity based company, has been operating with leverage ratio of 0.73 times as on December 31, 2019 against 0.74 times in December 31, 2018 (consolidation basis). The consolidated capital employed stood at Tk. 7575.88 million as on December 31, 2019 consisting of non-current assets of Tk. 3913.70 million and net current asset of Tk.3662.18 million. The above capital employed was financed by shareholders' equity of Tk.7354.61 million & non-current liabilities of Tk.221.27 million. In the leverage of RAKCBL, the contribution of short term loan had significant influence over the long term loan. As on December 31, 2019 the consolidated short term leverage stood at 0.70 times against long term leverage of 0.03 times.

The loan payment history of the company has been found to be good. The creditworthiness of the company is also supported by its debt servicing capacity as well as interest coverage capability. Both the stand alone and consolidated debt servicing capacity and interest coverage ratio of RAKCBL have been found to be good. The stand alone statement of financial position showed, the company has only short term liability of Tk. 4871.41 million. Therefore, the financial strength of the company showed good. In addition to the above, CRISL also considers some qualitative factors such as loan repayment history, capital base, market value of the plant, properties and other assets to measure financial strength of the company.

(Figures in Million. Tk)

Key Indicators	Consolidated		Stand Alone	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Current assets	8846.16	8155.35	8324.85	7682.14
Less Current liabilities	5183.98	4907.75	4871.41	4673.80
<b>Net Current Asset</b>	<b>3662.18</b>	<b>3247.61</b>	<b>3453.43</b>	<b>3008.33</b>
Add Non-current assets	3913.70	4031.50	4128.08	4234.70
<b>CAPITAL EMPLOYED</b>	<b>7575.88</b>	<b>7279.10</b>	<b>7581.51</b>	<b>7243.04</b>
<b>FINANCED BY</b>				
<b>Equity:</b>				
Paid up capital	4279.69	3890.62	4279.69	3890.62
Share premium	1473.65	1473.65	1473.65	1473.65
Retained Earnings	1601.28	1628.69	1636.93	1624.54
<b>Total Equity</b>	<b>7354.61</b>	<b>6992.96</b>	<b>7390.26</b>	<b>6988.81</b>
Long Term Liabilities	221.27	286.14	191.25	254.23
<b>Total Equity &amp; Non-Current Liabilities</b>	<b>7575.88</b>	<b>7279.10</b>	<b>7581.51</b>	<b>7243.04</b>

The components of consolidated shareholders equity as on December 31, 2019 included paid-up capital of Tk. 4,279.69 million, share premium of Tk. 1,473.65 million and retained earnings of Tk. 1,601.28 million. However, while analyzing the leverage of the Company, against the equity of Tk. 7,354.61 million, total outside liabilities reached to Tk. 5,405.25 million. Its bank borrowing to equity stood at 0.01 times as on December 31, 2019 against 0.06 times in previous year.

**9.0 LIQUIDITY AND FUND FLOW ANALYSIS**

Key Indicators	Consolidated		Stand Alone	
	2019	2018	2019	2018
	As of Dec'31	As of Dec'31	as of Dec'31	as of Dec'31
Current Ratio (X)	1.71	1.66	1.71	1.64
Quick Ratio (X)	1.17	1.05	1.15	1.02
Cash Conversion Cycle (days)	242	236	227	217
Net working capital (Tk. In million)	3,662.18	3,247.61	3,453.43	3,008.33
Cash Flow From Operation (Tk. in million)	1,585.22	567.62	1,478.29	475.08

Good liquidity

## CREDIT RATING REPORT On RAK CERAMICS (BANGLADESH) LIMITED

The company has been operating with good liquidity. As per audited account, the liquidity ratios increased in 2019 as on stand-alone basis due to the growth of current assets (8.37%) is higher than growth of current liabilities (4.23%). As the company depends on the import based raw materials, it requires significant inventory with long cash conversion cycle. However, the company manages its working capital requirement through both bank finance and own finance. And presently the company has been enjoying only short term loan facilities from different commercial bank. The current ratio of the company (standalone basis) stood at 1.71 times in 2019 against 1.64 times in 2018. The quick ratio of the company stood at 1.15 times in 2019 against 1.02 times in 2018. While analyzing the cash flow of the company, it has been revealed that the company can generate sufficient fund internally to serve its liabilities. The company generated operating cash flow of Tk. 475.08 million (Stand alone) in 2018.

### 10.0 CREDIBILITY AND BANKING RELATIONSHIP

#### 10.1 Liability Position

RAKCBL has financial flexibility to avail fund from different local and foreign banks in the country and has been maintaining successful banking relationship with all these banks. A summary picture of outstanding bank loan liabilities of the company is shown in the following table:

(Tk. in million)

Bank/FIs	Mode	Limit Sanctioned	Outstanding as on 30/06/2020		Classification status
			Funded & Non-funded	Funded	
HSBC	Term Loan	609.68	8.08		UC
	IMP, IMC, OD, LNL	750.00	NIL	39.70	
Standard Chartered Bank	LC, Acceptance, OD, BG	570.00	162.24	55.91	UC
Dutch Bangla Bank Limited	LC, LTR, RSTL, LG	128.00	NIL	NIL	UC
Commercial Bank of Ceylon	OD, LC, LTR, LG	685.00	120.50	89.73	
<b>Total</b>		<b>2742.68</b>	<b>290.82</b>	<b>185.34</b>	

#### 10.2 Security Arrangement against Bank Exposure

The mode of the security offered under each facility is summarized below:

Bank/FIs	Security arrangements
HSBC	<ul style="list-style-type: none"> <li>• Demand promissory note for BDT 2736.00 million with Letter of Continuity &amp; Revival</li> <li>• Power of Attorney for Hypothecation Goods</li> <li>• Letter of Awareness from RAK Ceramics LLC, UAE for BDT 750.00 million to support the concern facilities extended to RAK Ceramics (Bangladesh) Ltd.</li> <li>• Blanket counter indemnity for Guarantee facility</li> <li>• Trade Financing General Agreement for Trade facility</li> </ul>
Standard Chartered Bank	<ul style="list-style-type: none"> <li>• Demand promissory note &amp; letter of continuation for BDT 550.00 million each</li> <li>• Registered hypothecation (1<sup>st</sup> charge) for floating charge over stocks &amp; book debts</li> <li>• Cash margin to be kept in the form of cash/FDR held with the bank for BDT 10.00 million</li> <li>• Corporate guarantee from RAK Ceramics (Bangladesh) Ltd. o/a of RAK Power Pvt. Ltd. For BDT 70.00 million along with supporting Board Resolution</li> <li>• Registered hypothecation for specific charge over plant &amp; machinery of RAK Ceramics (Bangladesh) Ltd. That are to be import through SCB for BDT 500.00 million</li> </ul>

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Dutch Bangla Bank Limited	<ul style="list-style-type: none"> <li>• Documents of titles to goods when received</li> <li>• Acceptance of documents and TR from duly executed</li> <li>• Trust receipt from duly executed</li> <li>• Letter of hypothecation on pari passu basis with different lenders on different import items duly insured with bank mortgage clause. Charge created with RJSC.</li> </ul>
Commercial Bank of Ceylon	<ul style="list-style-type: none"> <li>• Registered hypothecation 1<sup>st</sup> charge over stocks and book debts on pari passu basis with other lenders. CBC shares to be enhance from existing BDT 325 million with the RJSC, duly insured with Bank clause.</li> </ul>

**11.0 RISK ANALYSIS**

RAKCBL is exposed to some risks by virtue of its business nature and the industry dynamics. CRISL reviewed the risk aspects of the organization which are given below:

**11.1 Risk of Changes in Government Policy**

Any changes in regulations or decisions taken by the Government may severely affect a company's business performance. New VAT and SD law may further reduce the standard duty on imported ceramic tiles from the current rate of 50% which will surely deplete the competitiveness of the local ceramic tiles producers. Besides, Govt. may raise gas and power tariff anytime in the foreseeable future. All of which make it challenging for the local manufacturers to compete with the imported items. Thus, CRISL views that RAKCBL is susceptible to the risk of changes in Government policy.

**11.2 Market Competition Risk**

There are a large number of players already operating in this line of business. The total number of tiles & sanitary-ware manufacturing companies is around 63. Besides, increasing investments in this sector is making it more competitive than ever. Now, professional marketing strategies are the keys to selling the products which will be quite challenging for the time being. Considering this, the company is exposed to market competition risk.

**11.3 Product Handling Risk**

The traded items that RAKCBL deals-with require great care. While delivering the product, the traded items are greatly susceptible to the risk of breakage. Based on the financial statement for the period of 31 December 2019, RAKCBL already paid Tk. 140.03 million as a breakage commission which constituted around 30.95 percent of RAKCBL's total marketing & selling expenses. Proper control has to be established while delivering the products in order to avoid such incidents.

**11.4 Quality Control Risk**

RAKCBL manufactures ceramic tiles and sanitary wares using automated production facilities. As a result, 90% of its products are of 'A' grade and system loss is negligible. Substandard product may lead to customer dissatisfaction which in turn may result in loss of customer. Stringent control over the manufacturing process including the usage of quality raw materials is required to be maintained in order to lower the quality claim.

**11.5 Price Escalation Risk**

Prices of raw materials of ceramic items often fluctuate in international market. RAKCBL imports most of its required raw materials from foreign countries and vastly depends on raw material price in global market. Any adverse price escalation of raw materials (including the effect of exchange rate fluctuation) in global market may expose the company to price escalation risk as the company has little scope to adjust the selling price due to competitive market scenario.

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**11.6 Global Instability Risk**

The business of the company is highly dependent on timely movement of shipment for smooth import of raw materials. At this moment the world is facing the global calamity of Corona virus, which has affected over 90% countries of the world. In addition to the death and calamity caused by this pandemic, a deep economic impact will be felt all over the world in all types of businesses in the coming year. The world economy is anticipating a drastic recession in the coming days. Currently most of the borders are closed for business trades and travel. Given this situation, the business is highly vulnerable to global instability risk, where import orders might get cancelled.


**12.0 OBSERVATION SUMMARY**

<p><b>Rating Comforts:</b></p> <ul style="list-style-type: none"> <li>• Equity based capital structure</li> <li>• Good operational and financial performance</li> <li>• Good Infrastructural facilities</li> <li>• Diversified product mix</li> <li>• Good capacity utilization</li> <li>• Good distribution network</li> <li>• Strong brand Image</li> </ul>	<p><b>Rating Concerns:</b></p> <ul style="list-style-type: none"> <li>• Loss in subsidiary operation</li> <li>• Significant competition In the market</li> <li>• Quality control risk</li> <li>• Product handling risk</li> </ul>
<p><b>Business Prospects:</b></p> <ul style="list-style-type: none"> <li>• Product diversification</li> <li>• Market growth</li> <li>• Full Capacity Utilization</li> <li>• Favorable Govt. standings</li> </ul>	<p><b>Business Challenges:</b></p> <ul style="list-style-type: none"> <li>• Global Instability</li> <li>• Adverse changes in Govt. regulations</li> <li>• Coping with international market rates for raw materials</li> </ul>

**END OF THE REPORT**

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

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

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

## 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> Single C (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.

### 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>Non-Investment/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.

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

## CREDIT RATING REPORT On RAK CERAMICS (BANGLADESH) LIMITED

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

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

### SHORT-TERM RATINGS

<i>blr ST-1</i>	<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.
<i>blr ST-2</i>	<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.
<i>blr ST-3</i>	<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.
<i>blr ST-4</i>	<b>Satisfactory Grade</b> Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
<i>blr ST-5</i>	<b>Non-Investment Grade</b> Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
<i>blr ST-6</i>	<b>Default</b> Institution failed to meet financial obligations