

Credit Rating Report Index Agro Industries Limited

Particular	Rating	Remark
Index Agro Industries Limited	A ₃	
BDT 45.2 million long term outstanding	A ₃ (Lr)	
BDT 750.0 million short term funded limit	ST-3	Vide Appendix-1
BDT 1,920.0 million short term non funded limit	ST-3	
Outlook	Stable	

Lr--Loan Rating, ST--Short Term

(Refer to Appendix-3 for rating history)

Date of Rating: 26 December, 2021

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

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

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

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Financial Highlights

(Mil. BDT)	--Year ended June 30--		
	2021	2020	2019
Revenue	3,672.7	4,047.1	4,326.2
EBITDA	430.7	494.4	529.4
EBITDA Margin	11.7%	12.2%	12.2%
Net Profit Margin	6.3%	6.5%	6.4%
Return on Avg. Assets	5.6%	8.2%	9.6%
Quick Ratio (x)	0.79	0.94	0.77
Cash Conversion Cycle (Days)	205	144	108
Borrowed Fund to Equity (x)	0.71	0.46	0.65
Borrowed Fund to EBITDA (x)	4.53	1.87	2.14
Cash Flow from Operation	(952.7)	283.1	(271.0)
Free Cash Flow	(970.9)	280.4	(380.9)
EBIT/Financial Expenses (x)	3.4	3.2	3.1

Source: The Company and CRAB Analysis

BRIEF PROFILE

Index Agro Industries Limited (hereinafter also referred to as "IAIL" or "the Company") was incorporated as a Private Limited Company in September 2000 and started its commercial operation in July 2004. The Company was converted into Public Limited Company in March 2015. IAIL is engaged in manufacturing & marketing of poultry feed & fish feed and producing Day Old Chicks (DOC). Presently, the Company has capacity of producing 25 MT feed per hour. Besides, IAIL has production capacity of approximately 30.0 million DOC per annum. The Authorized Capital of IAIL is divided into 1,000.0 million ordinary shares of BDT 10.0 each. The Company's paid up capital was BDT 472.5 million up to 30 June 2021.

RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has retained A₃ (Pronounced single A three) entity rating of Index Agro Industries Limited and assigned A₃ (Lr) loan rating to BDT 45.2 million long-term outstanding of the Company. CRAB has also assigned ST-3 rating to BDT 750.0 million funded limit and BDT 1,920.0 million non-funded limit of the Company in the short term.

The retention of ratings takes into account IAIL's similar business model, scale of operation, revenue generation capacity, geographical diversification of production facility with moderate profit margin and adequate coverage position at present. Moreover, the Company's capacity expansion, moderately established selling and distribution network, experience of the promoters and group strength positively support the rating.

However, ratings are constrained to some extent by stiff competition, seasonal nature of the industry, working capital intensity and volatility in the raw material price in the local market as well as international market. The rating is also constrained by the probabilities of several diseases including *Avian influenza* (Bird Flu) which causes major business risk for the poultry & fisheries industry.

Index Agro Industries Limited produces poultry feed (segregated in boiler and layer), fish feed (segregated in sinking and floating) and Day Old Chicks (DOC). IAIL has set up 01 Feed Mill at Valuka of Mymensingh, 01 Hatchery & Breeder Farm at Rajendrapur of Gazipur, 01 Hatchery at Rangpur and another Breeder Farm at Bogura.

In FY2021, revenue of the Company declined by 9.3% due to lower volume of feed sales and lower average sales price of DOC compared to that of previous year. IAIL also experienced decrease in EBITDA and operating profit margin due to increase of CoGS as % of sales in FY2021. As a result, operating profit and net profit margin of the Company decreased in FY2021 compared to last year. With lower financial expenses, EBIT to Financial expenses ratio increased to 3.4x in 2021 from 3.2x in 2020 indicating adequate capacity to repay the existing financial obligation of the Company.

IAIL experienced working capital pressure in FY2021 as operating cycle increased by 60 days resulting from increased average inventory period and average collection period. On the other hand, average payment period squeezed by 1 day in FY2021. The combined effect of the parameters deteriorated working capital management position as reflected in higher cash conversion cycle of 205 days in FY2020 (FY2020: 144 days). As a result, the Company generated negative cash flows in FY2021 following the adjustment of net changes in working capital and capital expenditure.

Total equity of the Company stood at BDT 2,753.3 million at the end of 30 June 2021; comprising BDT 472.5 million as paid up capital, BDT 417.5 million as share premium, BDT 34.2 million as revaluation reserve and BDT 1,829.1 million as retained earnings. IAIL reported 0.7x borrowed fund to equity in FY2021. Moreover, borrowed fund was reported 4.5x times to EBITDA revealing moderate leverage position of the Company in FY2021. The overall cash flow position compared to debt exposure exerts moderate position in FY2021.

Considering a normal business scenario CRAB opines that, revenue growth of IAIL may experience a positive growth in the upcoming year if the Company could utilize its capacity further by exploring new markets. However, stiff competition and seasonal nature of the industry could lead to volatility in revenues. Moreover, price fluctuation of day old chicks, poultry and fish feed could result lower margin.

Going forward, favorable changes in financial matrix along with consistency in operation and business profile may have positive impact on future rating consideration, and vice versa.

■ KEY RATING DRIVERS

Rating Strengths

- + Geographical diversification of production facility would reduce production hinder risk in case of disease outbreak in one area.
- + Group support, moderate profit margin and adequate coverage position.
- + Effective accounts receivable collection strategy
- + Experience of management and moderately established selling and distribution network

Rating Challenges

- Stiff competition and seasonal nature of the industry could lead to volatility in revenue
- Vulnerability to input prices and foreign exchange risk
- Price fluctuation of day old chicks, poultry and fish feed could result lower margin
- High inventory reserve requirement & credit sales created working capital pressure
- Probability of several diseases including *Avian influenza* (Bird Flu) causes the major business risk for the poultry & fisheries industry

■ BACKGROUND OF THE COMPANY

Index Agro Industries Limited was incorporated in September 2000 and started its operation in July 2004 with poultry farming and hatching facility at Rajendrapur, Gazipur. Later in 2009, the Company started its feed manufacturing facility at Valuka, Mymensingh with initial capacity of 90,000 MT (15 MT per hour) per annum. Presently the Company has the facility of producing poultry feed and fish feed with installed capacity of 25 MT per hour i.e., annual installed production capacity of 150,000 MT. But the planned production capacity is 19 MT per hour i.e., annual planned production capacity of 114,000 MT (considering the feed processing plant runs 2 shifts per day at 10 hours per shift and normally operates for 300 days in a year). In 2014, the Company established another hatchery unit at Mithapukur, Rangpur. IAIL established its second breeder farm at Sherpur, Borga to support the production of DOC at Rangpur Hatchery. The aggregate production capacity of hatcheries is approximately 30.0 million DOC per annum. IAIL was awarded ISO 9001:2008 certification for its feed manufacturing plant.

Table 1

Company at a Glance	
Particulars	Details
Name of the Company	: Index Agro Industries Limited (IAL)
Date of Incorporation	: 13 September 2000 as a Private Limited Company
Commercial Operation	: 01 July 2004
Converted into Public Limited	: 31 March 2015
Authorized Capital	: BDT 1,000.0 million
Paid-up Capital	: BDT 390.0 million as on 30 June 2020
Chairman	: Mr. Md. Mazherul Quader
Managing Director	: Mr. Mahin Bin Mazher
Corporate Office	: MF Tower, Plot: GA-95/C, Pragati Sarani, Gulshan-1 Link Road, Dhaka-1212 : Valuka, Mymensingh (Feed Mill)
Factory Location	: Rajendrapur, Gazipur (Hatchery & Breeder Farm)
	: Durgapur, Mithapukur, Rangpur (Hatchery Unit)
	: Bhabanipur, Sherpur, Bogura (Breeder Farm)
Products	: Poultry Feed, Fish Feed and Day Old Chicks (DOC)
Net Sales in FY2021	: BDT 3,672.7 million (FY2020: 4,047.1 million)
Net Profit in FY2021	: BDT 232.6 million (FY2020: BDT 264.4 million)
Auditor	: FAMES & R, Chartered Accountants
Web	: www.index-agro.com

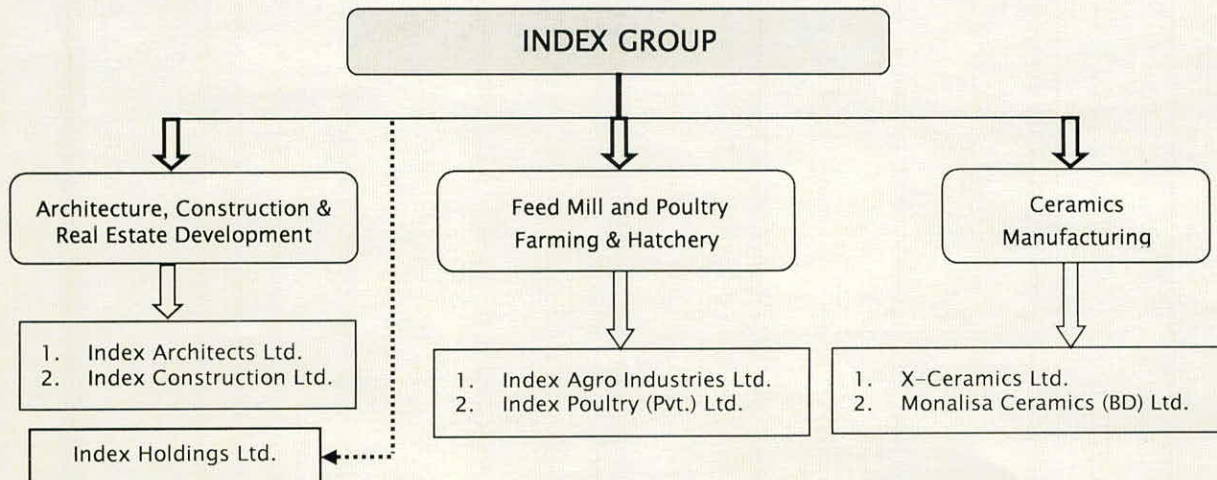
Source: IAL

■ GROUP STRENGTH

Index Group started its journey with Index Architects Limited in 1977 which is the flagship entity of the group and involved in architectural and physical planning as well as engineering. Architect Md. Mazherul Quader is the founder of the Group. He has designed and constructed notable structures i.e. IDB Bhaban, BRAC Centre, Janata Tower etc. in Bangladesh as well as in UAE, Liberia, Sri Lanka, Uganda and few other countries. The group diversified its business in the fields of real estate development, building construction, manufacturing of ceramics, feed manufacturing, poultry farming and hatchery etc. At present, the Group has been managing 07 active large and small companies including Index Holdings Limited.

Figure 1

Operational Exposure of Index Group



Index Construction Limited (ICL) one of the building and construction firms of the country, a concern of Index Group, was incorporated in 1999 and has undertaken and completed several commercial and residential property development projects. ICL also provides consultation and other related services to its clients. In FY2020, ICL reported revenue of BDT 42.8 million with net profit of BDT 43.9 million (including other income of BDT 73.6 million). Total asset of the company was BDT 1,268.2 million while Shareholders' equity was negative at the end of June 2020.

Index Poultry (Pvt.) Limited (IPPL) is a breeder farm incorporated in March 2006 and started its commercial operation in 2008. The present flock size of the breeder farm is 45,500 birds with production capacity of around 10.0 million hatching eggs per year. The production facility of IPPL is located at Shatibari, Mithapukur of Rangpur on 12 acres land. IPPL reported BDT 1,250.3 million of revenue from its sales and 14.5% net profit margin in FY2021. Its Shareholders' equity was BDT 1,356.3 million while total borrowed fund outstanding was BDT 290.0 million as of 30 June 2021.

Table 2

Synopsis of the Concern of Index Group				
Name of the Company	Nature of Business	Products/Services	Capacity	Operation Year
Index Construction Ltd.	Construction	Construction, Real Estate Development	n.a.	1999
Index Agro Industries Ltd.	Poultry and Feed Manufacturing	Poultry & Fish Feed and Day Old Chicks	150,000 MT Feed 30.0 million DOC	2004
Index Poultry (Pvt.) Ltd.	Poultry Hatchery	Hatching Eggs	10.0 million Hatching Eggs	2008
Index Holdings Ltd.	Investment	Associate Investor	n.a.	2009
X-Ceramics Ltd.	Tiles Manufacturing	Floor & Wall Tiles	24,000 sqm/day	2010
Monalisa Ceramics (BD) Ltd.	Tiles Manufacturing	Floor & Wall Tiles	20,000 sqm/day	2016

Source: Management of the Company

X-Ceramics Limited (XCL), one of the concerns of Index Group of Companies, was incorporated in January 2008 and started its operation in February 2010. XCL is engaged in manufacturing & marketing of wall and floor tiles. Its factory is situated on 10.35 acres of land at Sreepur, Gazipur with manufacturing capacity of 172,160 square feet ceramic tiles per day (16,000 m²/day). The Company markets its products under the brand names "X Monica". XCL has technical collaboration with Italian ceramic tiles manufacturer Majorca S.P.A. and achieved ISO 9001 Quality Certificate. X-Ceramics Limited reported net revenue of BDT 1,895.6 million with net profit of BDT 77.4 million in FY2021.

Monalisa Ceramics (BD) Limited (MCL), the new venture of the Group was incorporated in January 2014 as a Private Limited Company and started its production of ceramic tiles in January 2016. The production capacity of MCL is 20,000 sqm wall tiles per day. Its factory is situated on 11.08 acres of land at Sreepur, Gazipur. Monalisa Ceramics (BD) Limited reported BDT 1,261.7 million of revenue from its sales and 5.7% net profit margin in FY2021. Its Shareholders' equity was BDT 180.5 million while total borrowed fund outstanding was BDT 248.6 million as of 30 June 2021.

Table 3

Financial Highlights of Index Group (Mil. BDT)							
Name of the Concern	Reporting Year	Revenue	Net Profit	Total Assets	Equity (E)	Borrowed Fund (BF)	BF to E (x)
Index Construction Ltd.	30-Jun-20	42.8	43.9	1,268.2	(4.4)	-	n.a.
Index Agro Industries Ltd.	30-Jun-20	4,047.1	264.4	3,245.4	2,020.7	923.1	0.46
Index Poultry Pvt. Ltd.	30-Jun-20	1,407.6	269.6	2,485.6	1,175.0	290.0	0.25
X-Ceramics Ltd.	30-Jun-20	1,774.7	93.7	4,445.8	1,203.7	1,599.1	1.33
Monalisa Ceramics (BD) Ltd.	30-Jun-20	1,094.9	62.3	2,106.0	121.6	434.3	3.57
Total	-	8,367.2	733.9	12,350.7	4,516.6	3,246.5	0.72

Source: Management of the Company

The Group as a whole collectively earned substantial amount of revenue in previous year having increasing trend and sound profitability position.

Table 4

Name of the Concern	Bank Name	Short Term				Long Term Outstanding
		Funded		Non Funded		
		Limit	O/S	Limit	O/S	
Index Agro Industries Ltd.	Islami Bank Bangladesh Ltd.	(950.0)	898.3	1,200.0	285.2	-
	Prime Bank Ltd.	250.0	261.0	420.0	207.0	45.2
	Bank Asia Ltd.	500.0	250.0	-	-	-
	Standard Chartered Bank	-	-	300.0	-	-
X-Ceramics Ltd.	Prime Bank Ltd.	(350.0)	152.1	970.0	297.6	639.4
	Bank Asia Ltd.	80.0	-	1,125.0	-	-
	Eastern Ban Ltd.	300.0	83.4	530.0	162.7	-
Monalisa Ceramics (BD) Ltd.	Islami Bank Bangladesh Ltd.	(400.0)	33.0	460.0	288.5	64.2
Total		1130.0	1677.8	5005.0	1541.1	748.9

Source: The Company

■ OPERATION, BUSINESS & FINANCIAL RISK PROFILE

Operation	
Business	
Financial	

Business model remained same but revenue of the Company slightly decreased in FY2021. Index Agro Industries Limited produces poultry feed (segregated in boiler and layer), fish feed (segregated in sinking and floating) and Day Old Chicks (DOC). IAIL has set up 01 Feed Mill at Valuka, 01 Hatchery & Breeder Farm at Rajendrapur, Gazipur, 01 Hatchery at Rangpur and another Breeder Farm at Bogura.

Table 5

Existing Facilities of IAIL			
Particulars	Location	Operation	Annual Capacity
Rajendrapur Hatchery	Rajendrapur, Gazipur	2004	14.0 million DOC
Rangpur Hatchery	Mithapukur, Rangpur	2014	16.0 million DOC
Total DOC Production Capacity			30.0 million DOC
Feed Mill (Installed Capacity)	Valuka, Mymensingh	2009	150,000 MT Feed
Actual Production Capacity of Feed Mill			114,000 MT Feed

Source: The Company

In FY2021, IAIL produced 28.65 million DOC against annual production capacity of 30.0 million (capacity utilization: 95.5%) which was 29.36 million against same annual production capacity (capacity utilization: 97.9%) in FY2020.

Table 6

Details of Feed Production			
(Metric Ton)	--Year ended June 30--		
	2021	2020	2019
Installed Capacity	150,000	150,000	150,000
Actual (Attainable) Capacity	114,000	114,000	114,000
Production			
Broiler Feed	34,802	41,570	42,873
Layer Feed	40,437	48,301	47,510
Sinking Feed	1,992	2,379	3,734
Floating Feed	7,499	8,957	9,392
Total Feed Production During the Period	84,728	101,207	103,508
Capacity Utilization (%)*	56.48%	88.78%	90.80%

Source: The Company

*Based on attainable capacity

IAIL produced 84,728 MT of feed registering capacity utilization of 56.5% in FY2021 which was 88.8% in FY2020 and 90.8% in FY2019. Capacity utilization as well as volume of sales

has been decreasing in last two financial years which slightly impacted the revenue of the Company.

Revenue of IAIL comes from the sale of feed and day old chicks (DOC) where feed sale is the dominant source of revenue of the Company. In FY2021, poultry feed contributed 61.0% and fish feed contributed 10.3% of total revenue. Though average feed price increased however revenue from the feed segment decreased in FY2021 due to lower volume of sales compared to previous year.

Table 7

Product-Wise Contribution in Revenue						
(Mil. BDT)	FY2021		FY2020		FY2019	
	Sales	% of Total	Sales	% of Total	Sales	% of Total
Layer Feed	1,097.2	29.9	1,222.4	30.2	1,183.8	27.4
Broiler Feed	1,141.3	31.1	1,271.6	31.4	1,170.5	27.1
Sinking Feed	72.5	2.0	80.7	2.0	123.9	2.9
Floating Feed	305.6	8.3	340.5	8.4	365.6	8.5
Total Feed	2,616.6	71.2	2,915.3	72.0	2,843.8	65.7
DOC	1,056.0	28.8	1,131.8	28.0	1,482.4	34.3
Total	3,672.7	100.0	4,047.1	100.0	4,326.2	100.0

Source: The Company

Moreover, revenue from DOC sales was fluctuating over the years resulting from volatile nature of DOC price over the years. Revenue from DOC decreased in FY2021 due to lower volume of sales and lower average sales price compared to that of previous year.

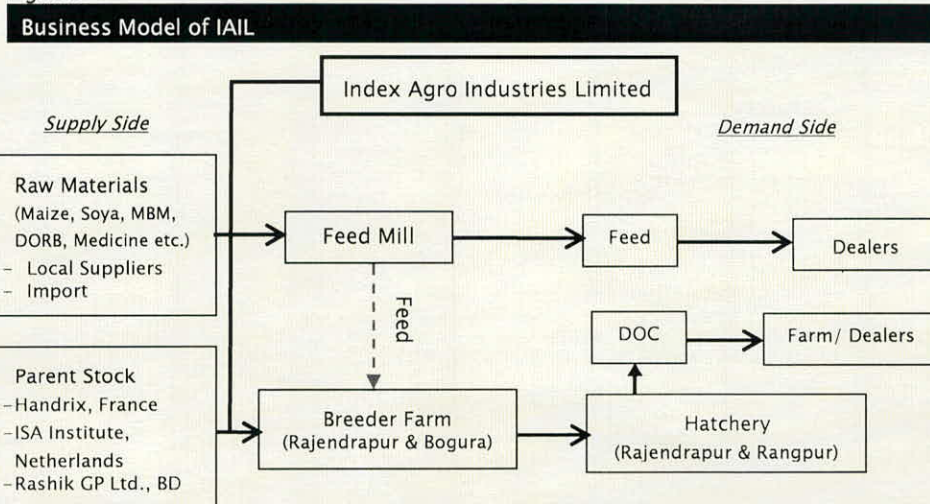
Table 8

Details of DOC Sales			
Particulars	FY2021	FY2020	FY2019
Revenue from DOC Sales (Mil. BDT)	1,056.0	1,131.8	1,482.4
Sales Quantity of DOC (Mil. Pieces)	28.7	29.36	29.75
Average Sales Price (BDT/Pcs)	36.86	38.55	49.82

Source: IAIL

The Company procures parent stock (PS) from Handrix of France, ISA Institute de Selection of Netherland and Rashik GP Limited of Bangladesh for its breeder farms. The Company directly sells DOC to different poultry farmers as well as selected dealers all over the country, which poses low customer concentration risk.

Figure 2



Moreover, IAIL produces different types of feed from available set of choices composing of 7 types breeder, 11 types broiler, 4 types layer, and 48 types fish feed (considering both floating and sinking feed types combined). The Company procures its required raw materials for feed mostly from local market. Maize, Wheat, Soyabean, DORB, Meat & Bone Meal, Fish Oil, Feed Medicines, Vitamins, Mineral Premix etc. are procured from the selected local manufacturers or traders as well as import from international suppliers. Available alternative sources for raw material & medicine mitigates the supplier concentration risk to some extent. Among the raw materials for feed, maize occupies approximately 40%–50% of the requirement which is procured from locally as well as import from India, Argentina, Brazil and other countries. Sourcing of maize basically depends on the seasonality and price. In India peak season for maize production is from October–December and May to July. In this time frame IAIL imports maize from India. About 40% of local procurement is done in cash and 60% in short term credit.

However, the produced feed is sold directly from Head Office and also from the factory, through more than 300 dealers apart from few individual customers having on average 25 to 30 days credit facility. IAIL sells its products to dealers net off basis. Marketing Executives are frequently visiting prospective dealer, farms and describing about product quality and supplying products to the farmers. The marketing personnel's collect purchase order from the dealer and confirm it to the Marketing Department. After confirmation dealers transmit sales proceeds through banking channel. After receiving sales proceeds, Accounts Department confirms delivery order and factory personnel's deliver required feed to the customer. Sometimes dealer deposit cash direct to Cash Depot at the factory and factory deliver feeds to the dealer. In addition to that, the Company has several regional depots at Jessore, Kushtia, Comilla, Narsingdi, Mymensingh, Bogura, Rangpur, Barisal, Faridpur etc.

The Company is exposed to volatility of both product price derived from demand and raw materials price. The sponsors and management of the Company have long experience in related business which may support to mitigate business risk derived from price volatility of raw materials. IAIL has been able to ensure the continuous supply and production of poultry and fish feed for commercial consumption at poultry hatcheries & farms, fish hatcheries & farms etc. The Company having breeder farms support as a backward linkage facility for the poultry feed consumption.

IAIL has insurance protection with Green Delta Insurance Company Limited for sum insured of BDT 935.6 million which is valid till 19 January 2022. Insurance covered the industrial all risk only on building & machinery, poultry & fish feed & stock.

Pandemics, such as Avian Influenza may have a severe effect on the revenue of the Company; however, geographical diversification of production facility would reduce production hinder risk in case of disease outbreak in one area such impact to some extent. As an industry, threat of epidemic of Livestock is one of the major risks. The probabilities of several diseases including *Avian influenza* (Bird Flu), *Pasteurella multocida* (Fowl Cholera) causes the major business risk for any poultry farm which eventually forced to shut down thousands of poultry farms of Bangladesh in the recent past. The Company has set up a good hygiene system in all facilities to prevent disease outbreaks, and increased use of technology in poultry farming to reduce poultry exposure to carry various diseases. Moreover, geographical diversification of production facility would reduce production hinder risk in case of disease outbreak in one area such impact to some extent.

	Industry/ Market

Population growth, upward shift in the income level, gap between demand and supply of food nutrition, price competitiveness of poultry items compared to cattle, change in the food habit and augmentation of private investment in sectors like the feed producing, poultry industry in Bangladesh observed phenomenal growth during last decade. The growth still continues; however, outbreak of avian influenza throttles the growth in the demand side of the feed (poultry) mill sector to some extent; and international agro climate

scenario and price hike of major raw materials (soya bean, maize etc) continuously create pressure on the supply side of the sector. Apart from this, animal and fish feed market is quite stable compared to poultry feed.

Poultry sector includes farms producing (growing) birds for meat and eggs, supporting firms of the commercial poultry farms (feed, medicine, raw material producer). Specialized hatcheries deliver chicks from the incubator to commercial growers, who are mostly marginal farmers producing broilers Large-scale DOC producers are now virtually monopolized the poultry industry. Out of ~150 Feed mills; 9-10 farms (i.e. CP, Kazi Farms, Paragon, Nourish, Provita, Aftab, ACI, New Hope and Advance) are producing a major portion of total feed requirement of the country. The industry trend is shifting towards relatively higher-priced balanced feed manufactured by mechanized feed millers due to high feed conversion ratio leading to greater commercial benefit. Increased demand from the ready mix feed segment is expected to come at the cost of declining home-mix feed market and exit of smaller, low quality producers having lower economies of scale. About 90% of the ready feed is consumed by the broiler and layer birds. Attaining economies of scale in the production process is the key dynamic in this business. Smaller commercial ready feed makers are hence facing survival risks in the face of competition from larger, more efficient top producers.

Over the years modern techniques have been implemented for poultry rearing which led to gradual development of farms and hatcheries with high technology and environment-controlled systems. The growing demand also helped in establishment of Grand Parent Stock and Parent Stock farms and feed production. There has been constant development and growth in the industry and as of now, it plays one of the most important roles in the contribution to the agricultural economy. Considering this major role, the government has given top priority to this sector, and is still encouraging private sector to come up with more investment in the field of Poultry, Dairy, Fisheries, Agriculture etc. The industry has posted an annual growth of around 20% during last one and a half decades. The total investment for the poultry sector of the country is more than Fifty Thousand million and more than 130,000 Poultry Farms have been established in the rural areas throughout the country and ~6 million people are directly and indirectly involved in the poultry sector for their livelihood.

Bangladesh's long-term outlook as a leading producer of poultry products is quite bright despite the recent bird flu outbreaks. As per the standard of World Health Organization (WHO), a matured person should intake 22 Kg of protein per year; whereas average intake of protein per person per year is 4.5 Kg in Bangladesh. Since there is a huge gap between standard intake and actual intake of protein, it is expected that the industry will grow fast in future.



Index Agro Industries Limited was established by business personalities who were not initially directly related to Agro industry but strong top tier management with sufficient experience and delegation has ensured quality of management

The Board is overall responsible for total functioning and operations of the Company. Under reporting to the Board, a team of dedicated employees carries out day-to-day operations of the Company.

Management risk for Index Agro Industries Limited is low as a team professional management exists with more than four decades of experience in related industries. The management team is headed by *Architect Md. Mazherul Quader*, Chairman; who had initiated the business by establishing Index Architects Limited in 1977. Apart from IAIL, he is also associated with Index Architects Limited, Index Construction Limited, Index Holdings Limited and X-Ceramics Limited as Chairman/Director.

Mr. Mahin Bin Mazher, Managing Director of the Company has been involved in the business for more than 23 years. The Company also appointed professional General

Manager who is a veterinary professional with 30 years of cross functional experience in well-known companies related to poultry & livestock industries. Managing Director of IAIL monitors day to day activities with the support of other directors and departmental heads.

The Authorized Capital of IAIL is divided into 1,000.0 million ordinary shares of BDT 10.0 each. The Company's paid up capital as on 30 June 2020 was BDT 472.5 million.

Table 10

Composition of Share Holding Position of IAL

Particular	30-Jun-2021		30-Jun-2020	
	No of Shares	% of Shares	No of Shares	% of Shares
Sponsors & Directors	27,300,000	57.8%	27,300,000	70.0%
Individual	11,700,000	24.8%	11,700,000	30.0%
Pre-IPO Total	39,000,000	82.5%	39,000,000	100.0%
Eligible Investors	2,368,565	5.0%	-	-
Mutual Funds and CIS	1,524,700	3.2%	-	-
Individual	3,488,352	7.4%	-	-
Non Resident Bangladeshis	872,032	1.8%	-	-
IPO	8,253,649	17.5%	-	-
Post IPO Total	47,253,649	100.0%	39,000,000	100.0%

Source: IAL

Most of the senior officers have been serving the company for long time revealing employee satisfaction. Employees in the head office are recruited by the Board through HRD and workers of the factory are recruited by the factory management through the approval of head office. The job responsibility of the management and technical personnel is clearly defined by the Managing Director and Board of Directors of IAL. Among different fringe benefits, IAIL provides provident fund, festival bonus, performance bonus etc.



With slightly decreased revenue, EBITDA and profit margin decreased in FY2021 due to increase of CoGS as % of revenue however decreased financial expenses helped the Company to improve the coverage position to some extent

Revenue of the Company comes from the sale of feeds and day old chicks (DOC). IAIL experienced decline of revenue by 9.3% in FY2021 due to lower volume of sales and lower average sales price of DOC compared to that of previous year. The Company also experienced decrease in EBITDA and operating profit margin due to increase of CoGS as % of sales in FY2021. As a result, operating profit and net profit margin of the Company decreased to 9.9% and 6.3% in FY2021 from 10.5% and in 6.5% in FY2020 respectively. With lower financial expenses, EBIT to Financial expenses ratio increased to 3.4x in 2021 from 3.2x in 2020 indicating adequate capacity to repay the existing financial obligation of the Company.

Table 11

Cost Component and Profitability as % of Net Sales (Mil. BDT)

Particulars	FY2021		FY2020		FY2019	
	Amt.	%	Amt.	%	Amt.	%
Revenue	3,672.7	100.0	4,047.1	100.0	4,326.2	100.0
Cost of Goods Sold	3,131.6	85.3	3,439.5	85.0	3,652.8	84.4
Administrative Expenses	49.6	1.3	54.6	1.3	56.0	1.3
Selling & Distributing Exp.	128.5	3.5	129.7	3.2	146.4	3.4
Operating Profit	363.0	9.9	423.2	10.5	471.0	10.9
Financial Expenses	111.2	3.0	135.0	3.3	157.9	3.6
Income Tax	35.1	1.0	39.4	1.0	52.4	1.2
Net Profit	232.6	6.3	264.4	6.5	275.7	6.4

Source: The Company

High inventory reserve requirement & credit sales created working capital pressure which resulted negative cash flow from operation in FY2021

The Company has working capital intensive nature as it has to hold huge inventory which should be maintained to buffer production and stock. IAIL experienced working capital pressure in FY2021 as operating cycle increased to 211 days which was 151 days in FY2020 resulting from increased average inventory period of 148 days and average collection period of 63 days in FY2021. On the other hand, average payment period squeezed to 6 days in FY2021 from 7 days in FY2020. The combined effect of the parameters deteriorated working capital management position as reflected in higher cash conversion cycle of 205 days in FY2021 (FY2020: 144 days). As a result, the Company generated negative cash flows in FY2021 following the adjustment of net changes in working capital and capital expenditure.

Moderate leverage position at present; however increase in leverage position further may heighten its leverage risk as well as may stress its coverage position

The Company's equity position is decorated by sound portion of retained earnings which provides cushion to its debt level and future expansion and regular capital expenditure. Total equity of the Company stood at BDT 2,753.3 million in FY2021 comprising BDT 472.5 million as paid up capital, BDT 417.5 million as share premium, BDT 34.2 million as revaluation reserve and BDT 1,829.1 million as retained earnings. IAIL reported 0.7x borrowed fund to equity in FY2021 (FY2020: 0.5x). Moreover, borrowed fund was reported 4.5x times to EBITDA revealing moderate leverage position of the Company in FY2020 (FY2020: 1.9x) resulting from increased borrowed fund outstanding at the end of June 2021. The overall cash flow position compared to debt exposure exerts moderate position in FY2021.

Considering a normal business scenario CRAB opines that, revenue growth of IAIL may experience a positive growth in the upcoming year if the Company could utilize its capacity further by exploring new markets. However stiff competition and seasonal nature of the industry could lead to volatility in revenues. Moreover, price fluctuation of day old chicks, poultry and fish feed could result decreasing profitability. Decreasing profitability may lead the Company to vulnerable position for debt servicing.



Index Agro Industries Limited has financial dealings with four (04) banks having total short term limit facilities of BDT 2,670.0 million and BDT 45.2 million long term outstanding as of 30 November 2021. The Company has banking relationship with Islami Bank Bangladesh Limited, Prime Bank Limited, Ban Asia Limited and Standard Chartered Bank. As per information received from the bank as on 30 November 2020, it is found that the dealings of the Company are at satisfactory level considering no reschedule & default history with these banks. Details of loan liability position is given in Appendix-1.



In favor of the investment of Islami Bank Bangladesh Limited registered mortgage of total 795 decimal land along with factory building plant and machinery has kept as collateral security. On the other hand, 1st ranking Pari-Passu charge by way of hypothecation on fixed & floating assets of Index Agro Industries Limited has been kept as collateral against credit facilities of Prime Bank Limited. Furthermore, existing registered mortgage of 1040.0 decimal project land and building owned by X-Ceramics Limited with market value of BDT 7,199.2 million (FSV: BDT 5,759.4 million) valued by City Engineering Inspection Company dated 14 April 2017 will be tagged with Prime Bank Limited until final adjustment of working capital limit of Index Agro Industries Limited. Besides these, corporate guarantee of X-Ceramics Limited and personal guarantee of all the directors of the Company were also taken to further secure the investments.

APPENDIX – 1: CREDIT FACILITIES OF INDEX AGRO INDUSTRIES LTD.

Details of Credit Facilities of Index Agro Industries Limited as of 30 November 2021 (Mil. BDT)						
Loan Type	Nature	Bank	Facility	Limit	Outstanding	Expiry Date
Long Term	Funded	Prime Bank Ltd.	Term Loan	55.7	45.2	05/05/24
		Total Long Term		55.7	45.2	
Short Term	Funded	Islami Bank BD Ltd.	Murabaha TR (Inner LC)	(950.0)	898.3	27/12/21
		Prime Bank Ltd.	Bai-Muajjal (Com)	250.0	250.0	30/04/22
			MPI (TR)/Murabaha TR	(40.0)	11.0	30/04/22
		Bank Asia Ltd.	Time Loan	500.0	250.0	15/04/22
		Total Short Term Funded			750.0	1,049.3
Short Term	Non-Funded	Islami Bank BD Ltd.	LC/Bills	1,200.0	285.2	27/12/21
		Prime Bank Ltd.	LC/ABP	400.0	189.1	30/04/22
			Bank Guarantee	20.0	17.9	30/04/22
		Standard Chartered Bank	Letter of Credit	300.0	-	04/10/22
		Total Short Term Non Funded			1,920.0	492.2
Grand Total			2,725.7	1,946.7		

Source: The Company & Banks

APPENDIX – 2: KEY FINANCIAL INDICATORS OF INDEX AGRO INDUSTRIES LTD.

Financial Indicators & Ratio		--Year ended June 30--				
(Mil. BDT)		2021	2020	2019	2018	2017
Earnings, Growth & Stability	Sales Revenue	3,672.7	4,047.1	4,326.2	4,324.6	3,579.9
	Sales Growth	-9.3%	-6.5%	0.04%	20.8%	11.2%
	CoGS as % of Sales	85.3%	85.0%	84.4%	86.2%	85.7%
	EBITDA	430.7	494.4	540.7	460.2	408.5
	EBITDA Growth	-12.9%	-6.6%	17.5%	12.7%	9.13%
	EBITDA Margin	11.7%	12.2%	12.5%	10.6%	11.4%
	Net Profit after Tax	232.6	264.4	275.7	265.2	214.46
	Gross Profit Margin	14.7%	15.0%	15.6%	13.8%	14.3%
	Operating Profit Margin	9.9%	10.5%	10.9%	9.1%	9.7%
	Net Profit Margin	6.3%	6.5%	6.4%	6.1%	6.0%
	Return on Average Asset	5.6%	8.2%	9.6%	11.1%	9.6%
	Return on Average Equity	9.7%	14.0%	17.0%	19.7%	19.4%
Liquidity	Current Ratio (x)	1.5	1.7	1.5	1.4	1.1
	Quick Ratio (x)	0.79	0.94	0.77	0.90	0.75
	Inventory +AR to TA	45.7%	46.0%	47.2%	38.5%	36.3%
	Average Inventory Processing Period (Days)	148	95	68	41	52
	Average Receivable Collection Period (Days)	63	56	48	41	41
	Average Payable Payment Period (Days)	6	7	8	9	15
	Operating Cycle (Days)	211	151	116	82	93
Cash Conversion Cycle (Days)	205	144	108	73	78	
Leverage & Capital Structure	Total Asset	5,030.8	3,245.4	3,181.2	2,537.6	2,256.6
	Equity Capital	2,753.3	2,020.7	1,756.3	1,480.5	1,215.3
	Adjusted Equity Capital	2,719.1	1,984.8	1,718.4	1,440.7	1,173.4
	Total Borrowed Fund	1,950.4	923.1	1,133.1	798.2	802.3
	Financial Expenses	111.2	135.0	157.9	98.0	110.4
	Fund Flow from Operation (FFO)	284.4	320.0	330.4	320.6	268.4
	Cash Flow from Operation (CFO)	(952.7)	283.1	(271.0)	101.0	267.2
	Retained Cash Flow (RCF)	(952.7)	283.1	(271.0)	101.0	267.2
	Free Cash Flow (FCF)	(970.9)	280.4	(380.9)	85.8	154.0
	Borrowed Fund to Equity (x)	0.71	0.46	0.65	0.54	0.66
	Borrowed Fund to Adj. Equity (x)	0.72	0.47	0.66	0.55	0.68
	Borrowed Fund/EBITDA (x)	4.53	1.87	2.10	1.73	1.96
	FFO/Borrowed Fund	14.6%	34.7%	29.2%	40.2%	33.5%
CFO/Borrowed Fund	-48.8%	30.7%	-23.9%	12.6%	33.3%	
RCF/Borrowed Fund	-48.8%	30.7%	-23.9%	12.6%	33.3%	
FCF/Borrowed Fund	-49.8%	30.4%	-33.6%	10.7%	19.2%	
Coverage	EBIT to Financial Expenses, TIER (x)	3.4	3.2	3.1	4.1	3.2
	FCF to Financial Expenses (x)	-8.7	2.1	-2.4	0.9	1.4
	(EBITDA-CAPEX) to Financial Expenses (x)	3.7	3.6	2.7	4.5	2.7
	Debt Service Coverage, DSCR (x)	3.4	2.7	2.8	4.0	3.0

Note: Figures are based on Audited Financial Statements, Audited by FAMES & R, Chartered accountants (Unqualified)

Note: Calculation Considerations-

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

APPENDIX – 3: RATING HISTORY OF INDEX AGRO INDUSTRIES LIMITED

Date of Rating: 28 December 2020

Particular	Rating
Index Agro Industries Limited	A ₃
BDT 72.6 million long term outstanding	A ₃ (Lr)
BDT 250.0 million short term funded limit	ST-3
BDT 1,900.0 million short term non funded limit	ST-3
Outlook	Stable

Lr-Loan Rating, ST-Short Term

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

Date of Rating: 31 December 2019

Particular	Rating
Index Agro Industries Limited	A ₃
BDT 104.8 million long term outstanding	A ₃ (Lr)
BDT 250.0 million Bai-Muajjal (Com) limit*	A ₃ (Lr)
BDT 200.0 million short term funded limit	ST-3
BDT 1,870.0 million short term non funded limit	ST-3
Outlook	Stable

*Lr-Loan Rating, ST-Short Term; * Due to revolving nature, CRAB views Bai-Muajjal/Cash Credit (CC) as long term facilities.*

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

Date of Rating: 01 November 2018

Particular	Rating
Index Agro Industries Limited	A ₃
BDT 66.6 million long term outstanding	A ₃ (Lr)
BDT 250.0 million Bai-Muajjal (Com) limit*	A ₃ (Lr)
BDT 200.0 million short term funded limit	ST-3
BDT 1,850.0 million short term non funded limit	ST-3
Outlook	Stable

*Lr-Loan Rating, ST-Short Term; * Due to revolving nature, CRAB views Bai-Muajjal/Cash Credit (CC) as long term facilities.*

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

CRAB RATING SCALES AND DEFINITIONS –Long Term (Corporate)

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

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

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

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

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

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

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

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