



The Pakistan Credit Rating Agency Limited

Rating Report

NIMIR Industrial Chemicals Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Jul-2018	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Nimir Industrial Chemicals Limited ("the company") demonstrate its strong position in domestic manufacturing of oleo chemicals and chlor alkali products, solid customer base of multinational FMCGs, strong margins, generation of persistent profitability, and former association with American's owned Knightsbridge Group. Established as a listed entity, a well-devised governance framework is in place. The company has established a distinguished position in its operating segment through provision of high quality products to large-scale multi-national companies. Additionally, growing demand for consumer products and company's abilities to expand its capacities to cope with the demand bodes well for business prospects of the company. Advanced production facilities alongside experienced management team transpire into operational efficiencies. Capitalizing on a topline-driven approach, the company has been expanding its business volumes since take over by the current shareholders. The recent advancement and upgradation of the plant has been completed in FY18. Well-devised pricing strategy indexed with dollar rates hedges against exchange risk, since the company imports various palm oil products as its major raw materials. Sustenance of healthy margins with adequate leveraging and strong coverages are important for ratings, going forward.

The ratings are dependent on sustaining strong margins and profitability in line with business expansion; prudent management of liquidity profile and maintenance of strong coverages amidst expansion are important for the ratings.

Disclosure

Name of Rated Entity	NIMIR Industrial Chemicals Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18)
Related Research	Sector Study Food and Allied Edible Oil(Mar-18)
Rating Analysts	Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

NIMIR INDUSTRIAL CHEMICALS LIMITED - PROFILE	
Incorporated	1994
Major business lines	Manufacture and sale of oleo chemical products & chlor-alkali products
Legal status	Public Listed
Head office	Lahore
Plant Location	Sheikhupura
Capacity	~85,000MT (oleo chemicals) ~55,000MT (chlor alkali products)

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> • Demand-driven Industry • Oleo chemical products demand of approx.~150,000MT per annum • Palm oil, main raw material, price mechanism dependent on international commodity prices and currency fluctuations. • Most players in the Industry focus on sale of laundry soaps to local customers

OWNERSHIP

- Nimir Industrial Chemicals Limited (herein referred to as “the company”) was initially known as “Ravi Alkalis” – a Public Limited company. The company was acquired by Nimir Group in 1998 after which its name was changed to Nimir Industrial Chemicals Limited. Nimir was a Saudi Group with its headquarter based in U.A.E. In 2004, the Group was taken over by Knightsbridge Chemicals – an American group – headquartered in U.A.E. A management buy-out took place in 2011 in which the local management of Knightsbridge Chemicals purchased Nimir Industrial Chemicals Limited.
- Major shareholding of the company vests with Nimir Resources Private Limited (~57%) – the group’s holding company founded by five individuals who took over the company in 2011 as part of management. All these five people are Executive Directors.
- Shareholders, especially Executive Directors, have strong knowledge of the industry and extensive experience in relevant fields.

GOVERNANCE

- Complying with the Code of Corporate Governance for listed companies, the company has ten members on the board including one nominee director. High number of board members, with majority being executive directors.
- The board has two sub-committees (i) Audit & (ii) HR & Remuneration Committee.
- Mr. Abdul Jalil Jamil is the Chairman of the Board and has over ~40 years of experience in the relevant field.
- The External Auditors of the company are EY Fort Rhodes Chartered Accountants. They gave a clean opinion of the company’s financials.

MANAGEMENT

- Well-defined organization structure with clear lines of responsibilities exists.
- The CEO, Mr. Zafar Mehmood, is one of the pioneers of the group. He has over ~25 years of experience in the relevant industry and is well-versed about the industry dynamics.
- The HR base of the group is strong with top management possessing ample knowledge and expertise of the related business and their areas of responsibilities.
- The company’s operations are segregated into various support departments, including: (i) Marketing & sales, (ii) Production, (iii) Accounts and Finance, (iv) Human Resource and Admin, (v) Supply chain – Packaging, Stores & Spares, and Machine related equipment, (vi) Information Technology, (vii) Research and Development (viii) Quality Control and (ix) Quality Assurance.
- SAP installed to generate customized MIS reports for the Board and the management ensures strong controls.

BUSINESS RISK

- Core business products include manufacturing and sale of oleo chemicals and chlor alkali products including distilled fatty acid (DFA), soap noodles, stearic acid, glycerin, caustic soda and a variety of industrial chemicals, including fatty acids, stearic acids, glycerin and caustic soda. The company enjoys competitive advantage in terms of strong manufacturing capabilities and efficiencies. Major cliental of the company includes multinational FMCGs. Customer concentration lies in the top niche segment of the market, particularly MNCs with very low credit risk. However, favorable payment terms with local customers further reduces the risk of non-recoveries. Threat of imports persists but industry is safeguarded by import duties.
- Well-devised pricing strategy indexed with dollar rates hedges against exchange risk on import of raw materials.
- Strong growth in topline over the years on the back of increasing demand. During 9MFY18, the top-line of the company clocked in at PKR~8.6bln (FY17: PKR~7.4bln), over 50% YoY growth. Largely stable gross margins (~14%) as pricing is indexed with set cushion.
- Bottom-line of the company clocked in at PKR~478mln in 9MFY18 (FY17: PKR~471mln) depicting sustained profitability.

FINANCIAL RISK

- Working capital of the company is a factor of raw material days, which majorly includes purchase of palm oil and palm kernel oil from Malaysia which is imported with letter of credit at sight. Maximum credit period of up to 20 -25 days is availed for payments. Net working capital days stood at 70 days in 9MFY18 (FY17: 85 days). Trade assets represented ~86% of the total current assets as on 31st March 2018 (2017: ~79%) and are financed through short term borrowings. Adequate cushion available in the form of self-liquidating trade assets.
- Borrowing mix inclined towards short term running finance facilities from various commercial banks. At End 9MFY18, total debt stood at PKR~2.6bln of which PKR~1.9bln pertained to short term borrowings (total debt FY17: PKR~2.4bln, short term: PKR~1.86bln and long-term: PKR~0.52bln). Short term room to borrow against trade assets stood at ~17% End-March’18, which draws management attention to strategize on shifting its funding mix, going forward, to avoid any asset liability mismatch.
- Healthy pre-tax profits resulted in availability of sufficient free cash flows which kept coverages comfortable. During 9MFY18, Interest and core coverages recorded at 4.2x and 1.9x respectively (FY17: 5.5x and 2.1x)
- Moderately leveraged capital structure (9MFY18: ~52%, FY17:~53%) as capex is funded through internal cash generation and external financing. Leveraging may increase, going forward as the company intends to embark on expansion and BMR.

**Nimir Industrial Chemicals Limited**

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16
	9M	FY17	FY16
Non-Current Assets	2,549	2,232	1,776
Investments (incl. Associates)	318	316	287
Equity	282	282	20
Debt Securities (incl. income funds)	36	34	267
Current Assets	4,308	2,926	1,966
Inventory	2,060	1,275	638
Trade Receivables	1,523	983	821
Others	725	668	508
Total Assets	7,175	5,474	4,029
Debt/Borrowings	2,640	2,380	1,609
Short-Term	1,944	1,862	1,133
Long-Term (incl. Current Maturity of Long-Term Debt)	696	518	477
Other Short-Term Liabilities	1,855	737	522
Other Long-Term Liabilities	278	213	110
Shareholder's Equity	2,401	2,144	1,788
Total Liabilities & Equity	7,175	5,474	4,029

INCOME STATEMENT

Turnover	8,613	7,369	5,011
Gross Profit	1,164	1,065	972
Other Income	(89)	50	(24)
Financial Charges	(147)	(135)	(91)
Net Income	478	471	441

Cash Flow Statement

Free Cash Flows from Operations (FCFO)	626	738	835
Net Cash changes in Working Capital	(296)	(694)	(322)
Net Cash from Operating Activities	205	(71)	442
Net Cash from Investing Activities	(467)	(616)	(540)
Net Cash from Financing Activities	260	640	145
Net Cash generated during the period	(2)	(46)	48

Ratio Analysis

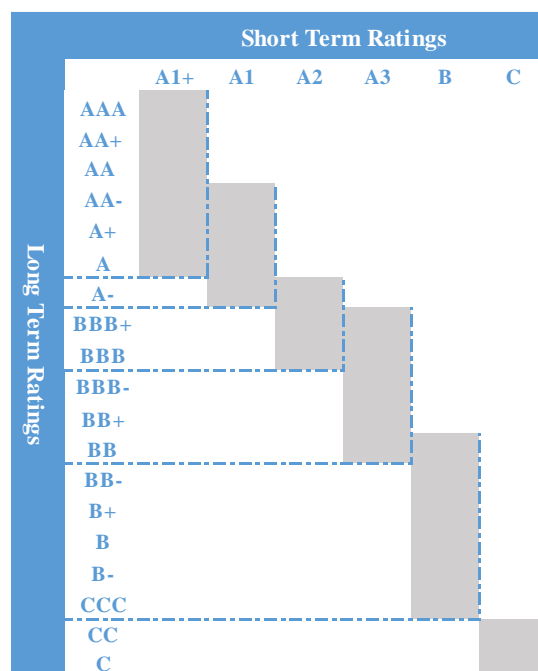
Performance			
Turnover Growth	55.8%	47.1%	36.8%
Gross Margin	13.5%	14.5%	19.4%
Net Margin	5.5%	6.4%	8.8%
ROE	30.1%	24.0%	25.4%
Coverages			
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.1	2.5	3.8
Interest Coverage (times) (FCFO/Gross Interest)	4.2	5.5	9.2
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest)	1.1	0.9	0.6
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	70	85	90
Leveraging (Total Debt/Total Debt+Equity)	52.4%	52.6%	47.4%

*Total Debt = Long-Term Debt + Short-Term Debt

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

- (22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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