The Pakistan Credit Rating Agency Limited

Rating Report

Nimir Resins Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Jul-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Nimir Resins Limited's ("the company") revived position and ensuing profitability subsequent to its takeover by Nimir Group. Established as a listed entity, a well-devised governance framework is in place in compliance with corporate governance requirements for listed companies. Shareholding pattern, however, displays a composite outlook. Experienced management team alongside effective production facilities transpire into operational efficiencies enabling the company to turn around its operations and now focus towards growth. The company operates in a competitive segment reflected by its relatively narrow margins and thin profitability. The management intends to diversify product line to serve other sectors including paint, textile and paper, which bodes well for the business prospects of the company . Acquired by Nimir Group in Jan-2016, the management's primary focus was pivoted towards consolidating the company's deteriorated position; considerable achievement has been attained in this regard. The company is now keen on increasing its business volume and margins. The financial profile of the company is characterized by strong coverages and adequate leveraging. External funding majorly constitutes short term loans. Going forward, growth in business would necessitate prudent management of margins, debt mix and sufficient internal capital formation.

The ratings are dependent upon sustenance of profits and improving margins while establishing strong foothold in the related segments. Rational management of liquidity profile to maintain strong coverages is important for the ratings. Deterioration in margins, leading to erosion of profitability, and/or coverages will have negative impact on the ratings.

Disclosure

Name of Rated Entity	Nimir Resins 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 | Polyester(Jan-18)
Rating Analysts	Jhangeer Hanif | jhangeer@pacra.com | +92-42-35869504

Nimir Resins Limited - Profile	
Incorporated	1964
Major business lines	Manufacture and sale of chemicals for paints, coatings & emulsions, polyester resins, textiles, papers and other adhesives
Legal status	Public Listed
Head office	Lahore
Plant Location	Sheikhupura

Industry Snapshot

- Highly competitive market.
- Industry dominated by 3 major top players.
- Price mechanism dependent on currency fluctuations.
- Strong demand mainly coming from the textile sector particularly from finishing sub-sector
- Prominent portion of industry belongs to unorganized segment which is a key challenge to the Large Scale Manufacturers in the organized segment.

Ownership

- Nimir Resins Limited (herein referred to as “the company” or “Nimir Resins”) was initially incorporated in 1964 as a Private Limited Company and got listed on the Pakistan Stock Exchange (PSX) in 1991. In 2010, the management entered into an amalgamation arrangement with Descon Chemicals (Pvt) Limited as a result of which the name of the company was changed to “Descon Chemicals Limited”. Beginning 2016, the company was re-acquired by Nimir group and was renamed to Nimir Resins Limited.
- Ownership structure displays a composite outlook. The company is a subsidiary of Nimir Industrial Chemicals Limited by way of having the power to direct relevant activities of the company. This shareholding (~37.64%) is made through two intermediary special purpose vehicles formed to make investments in the group, i.e., Nimir Management (Private) Limited and Nimir Holding (Private) Limited possessing shareholding of ~51% and ~11% respectively in the company. Ultimate parent company is Nimir Industrial Chemicals Limited.

Governance

- Complying with the Code of Corporate Governance, the company has a strong governance structure; seven members on the board including one nominee director. The board has two sub-committees (i) Audit & (ii) HR and Remuneration Committee.
- Mr. Amar Hameed is the Chairman of the Board who has vast experience in the relevant field.
- Horwath Hussain Chaudhry & Co. Chartered Accountants are the External Auditors of the Company. 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. He is also the CEO of Nimir Industrial Chemicals Limited.
- 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.
- Strong focus on Research & Development alongside technological up-gradation to establish footprints in the local industry.
- SAP installed to generate customized MIS reports for the Board and the management ensures strong controls.

Business Risk

- The company was acquired by Nimir group at the beginning of CY16 from Descon group when it was generating break-even margins. The management, being cognizant of the challenges, made stringent efforts to turnaround the operations and translate into better financial results.
- Operating in a competitive segment, the management’s core focus lies on developing strategies to progress despite the challenges encountered.
- Multi-product business segments; majorly serving the paints, textile, paper and retail industry, reduces risk of customer concentration.
- Currently in the phase of affirming its market position and establishing long-standing customer relations.
- Turnover recorded at PKR~2.5bln in 9MFY18 (FY17: PKR~2.7bln, FY16: PKR ~1.8bln) with a growth of ~25% for the period 9MFY18 (~50% in FY17). Bottom-line translated into ~2.8% of the topline in 9MFY18 i.e., PKR~71mln (FY17: ~2.8%, PKR~74mln). This thin ratio is backed on account of substantially high operating costs which constricted gross profit ratio to ~8.8% in 9MFY18 (FY17: ~11%).
- The company is striving on growing its product base and expanding business through technology upgradations and BMR, so as to establish a sturdy position in the market, despite the industry frictions.

Financial Risk

- Net working capital days were recorded at ~123 days in 9MFY18 and ~129 days in FY17. An imbalance in the credit period taken and granted was witnessed on account of high debtor period of ~70 days and low credit period from suppliers of ~18 days (FY17: debtors days:~69, creditors days:~16). Trade assets represented ~84% of the total current assets in 9MFY18 (~86% in FY17) and are financed through short term borrowings.
- Free cash flows from operations available were recorded at PKR~157mln in 9MFY18 and PKR~125mln in FY17. Coverages remained comfortable since debt burden was relatively moderate. During 9MFY18, Interest and core coverages recorded were ~3.0x and ~2.9x respectively (FY17: ~2.1x and ~2.0).
- Debt structure represented ~99% short term borrowings, i.e., PKR~848mln at End-March18 (PKR~816mln in FY17). With technological upgrades and additional CAPEX needs in the future, prudent management of funding mix is important to avoid any asset liability mismatch and pressures on coverages. Leveraging stood at ~52% at End-March’18 (FY17: ~50%).

PKR mln

Nimir Resins Limited

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16
	9M	FY17	FY16
Non-Current Assets	**524**	**526**	**485**
Investments (incl. Associates)	-	-	-
Equity	-	-	-
Debt Securities (incl. income funds)	-	-	-
Current Assets	**1,810**	**1,581**	**1,208**
Inventory	663	621	490
Trade Receivables	678	602	405
Others	469	358	313
Total Assets	**2,334**	**2,106**	**1,693**
Debt/Borrowings	**855**	**819**	**771**
Short-Term	848	816	771
Long-Term (incl. Current Maturity of Long-Term Debt)	7	2	-
Other Short-Term Liabilities	486	349	207
Other Long-Term Liabilities	13	28	130
Shareholder's Equity	**981**	**910**	**584**
Total Liabilities & Equity	**2,334**	**2,106**	**1,693**
INCOME STATEMENT			
Turnover	**2,498**	**2,669**	**1,778**
Gross Profit	219	297	234
Other Income	(64)	(39)	(10)
Financial Charges	(52)	(61)	(50)
Net Income	**71**	**74**	**53**
Cash Flow Statement			
Free Cash Flows from Operations (FCFO)	157	125	123
Net Cash changes in Working Capital	(89)	(241)	(460)
Net Cash from Operating Activities	14	(176)	(391)
Net Cash from InvestingActivities	(21)	(37)	(17)
Net Cash from Financing Activities	31	158	477
Net Cash generated during the period	24	(55)	69
Ratio Analysis			
Performance			
Turnover Growth (v.s same period last year)	24.8%	50.1%	-1.6%
Gross Margin	8.8%	11.1%	13.2%
Net Margin	2.8%	2.8%	3.0%
ROE	10.1%	10.0%	12.7%
Coverages			
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.9	2.0	2.5
Interest Coverage (times) (FCFO/Gross Interest)	3.0	2.1	2.5
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest	0.0	0.0	2.7
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	123	129	136
Leveraging (Total Debt/Total Debt+Equity)	52.4%	49.8%	64.4%

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

Rating Scale

Credit Rating Scale & Definitions

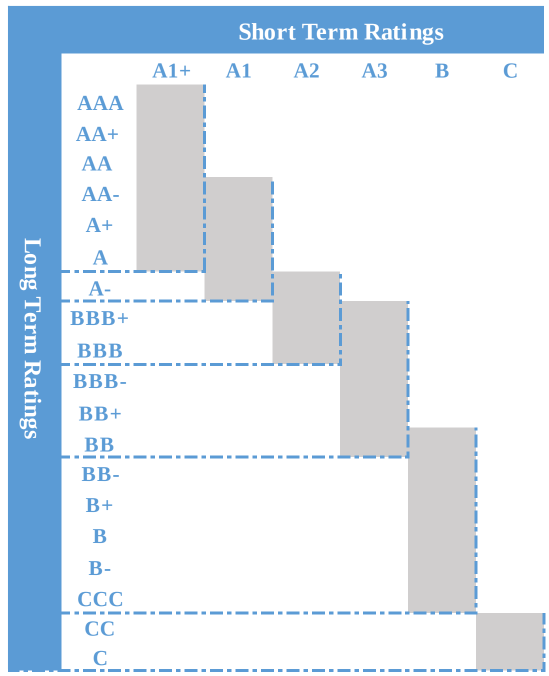
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short Term Ratings

A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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)

Conduct of Business
(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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(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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