



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
16-Jul-2022	A+	A1	Stable	Maintain	-
17-Jul-2021	A+	A1	Stable	Maintain	-
18-Jul-2020	A+	A1	Stable	Maintain	-
20-Jul-2019	A+	A1	Stable	Upgrade	-
18-Jan-2019	A	A1	Stable	Maintain	-
19-Jul-2018	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect that Nimir Industrial Chemicals Limited (hereinafter referred to as ‘NICL or ‘the Company’) demonstrated consistent growth and a strong position in the domestic oleo chemicals and chlor alkali products manufacturing industry. Under the Caustic soda market there exist competition to which it stands buoyant. The Company enjoys a strong customer base (includes multinational FMCGs), stable margins, and generated persistent profitability. NICL product portfolio is well-diversified and mainly concentrated in Oleochemicals followed by Chlor-Alkali and Aerosols. The Company has followed a vertical integrated down-the-chain strategy and for that purpose, they have 3rd party manufacturing to provide a one-window solution to their customers. The Company has observed significant growth in their revenues mainly on account of change in consumption patterns of items like soaps, Sanitizers etc after COVID-19. The execution and completion of expansionary projects have further beefed up their top line. The Company’s future profitability growth needs to keep in check on account of the increase in energy prices (one of the main components of COS) as oil prices continue to increase, the application of the super tax on LSM and upward sloping interest rates yield curve. However, the first issue can be addressed as Company has planned to produce energy through a coal plant in future and Company has some cushion against a hike in interest rates as long-term borrowings mainly consist of TERF (Subsidized borrowing from SBP). Advanced production facilities alongside an experienced management team transpire into operational efficiencies. The Company has a considerable amount of trade receivables which according to management representation are due to MNC and inflationary pressures mainly elevating the receivables level. The Company has expanded its capacity to cope with the demand is expected to boost revenues and contribute to the bottom line. The Company’s envisioned strategic interface will bear fruits in years to come. 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. The Company has a leveraged capital structure with strong coverages and cash flows. However, the recent increase in the policy rate will affect the finance cost in the short term. The leveraging increased as the Company utilized short-term borrowings to meet its working capital needs, which is expected to remain high as the Company is underway toward capacity expansion/optimization.

The ratings are dependent on sustaining margins and profitability in line with business expansion. Prudent management of working capital and retaining strong coverages during the expansion are critical. Successful expansion and translation of the same in revenues is important.

Disclosure

Name of Rated Entity	NIMIR Industrial Chemicals Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Mehtodology Rating Modifiers(Jun-22)
Related Research	Sector Study Chemical(Jul-22)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Legal Structure Nimir Industrial Chemicals Limited(NICL) was incorporated in Pakistan in February 1994 as a public limited company and got listed in the Pakistan Stock Exchange (PSX) in 1996.

Background Nimir Industrial Chemicals Limited was initially known as “Ravi Alkalis” – a Private Limited company. The company was acquired by Nimir Group in 1994 after which its name was changed to Nimir Industrial Chemicals Limited.

Operations The Company is involved in the manufacturing and sale of oleo chemicals and chlor alkali products including distilled fatty acid (DFA), soap noodles, stearic acid, glycerin, caustic soda, Aerosol cans and a variety of industrial chemicals, operating with one manufacturing plant located at Faisalabad Road – 14.8 km from Sheikhpura.

Ownership

Ownership Structure Major shareholding of the Company used to vest with Nimir Resources Private Limited – the group’s holding company founded by five individuals who took over the Company in 2011 as part of management. However, now the ownership vests with the sponsors individually i.e. Zafar Mehmood (~22%), Khalid Qazi (~13%), Umer Iqbal (~7%) and Executives Aamir Jamil & Imran Afzal (~26%).

Stability Executive Directors, have strong knowledge of the industry and extensive experience in relevant fields and have the power to direct relevant activities of the Company. Business roles are equally divided among the Sponsors and the agreements are legally documented.

Business Acumen The business acumen of the Sponsors in relation to the related business is considered strong since most of the Sponsors are pioneers of the Nimir Group and have been associated with it since its inception i.e. 1994. They possess extensive knowledge and exposure to the industry. The skills level of the sponsors is reflected in healthy financial performance indicators which is evident from the steady growth of the business since its takeover by the current stakeholders.

Financial Strength Nimir Group constitutes Nimir Industrial Chemicals Limited, Nimir Resins Limited, Nimir Chemcoats (Pvt) Ltd & Nimir Energy Limited (acquired recently from sunsation Energy (Pvt) Ltd) which are involved in profit making business activities.

Governance

Board Structure The governance structure is designed to keep the Company compliant with the Code of Corporate Governance (CCG) for listed entities; the Board consisted of nine members, out of which three members are executive, one non-executive, three independent directors and one nominee Director from PBICL.

Members’ Profile Members of the board have a good mix of skills and experience. The Chairman, Mr. Saeed-uz-Zaman holds a degree in Electrical Engineering from University of Engineering and Technology Lahore. He has extensive experience in senior management positions both in the public and private sectors.

Board Effectiveness The Board has two sub-committees namely Audit Committee and Human Resource and Remuneration Committee. During the period, several boards, Audit Committee and HR & Remuneration Committee meetings were held. Attendance recorded in all the meetings was satisfactory

Financial Transparency EY Ford Rhodes Chartered Accountants – one of the big four firms, are the External Auditors of the Company. They expressed an unqualified opinion on the Company’s financial statements for the periods ending June 2021 and interim review of six months.

Management

Organizational Structure The Company operates through nine departments, each headed by an experienced manager. These departments include (i) Production (ii) Marketing & sales (iii) Accounts and Finance (iv) Human Resource and Admin (v) Supply Chain (vi) Information Technology (vii) Research & Development (viii) Quality Control & (ix) Quality Assurance.

Management Team The CEO, Mr. Zafar Mehmood, is a fellow of the Institute of Cost & Management Accountants of Pakistan since 1991. He has over ~30 years of experience and has been associated with Nimir group for over ~21 years. Mr. Khalid Qazi, the Director Finance, is an MBA and has been associated with the group for ~26 years.

Effectiveness Senior management meetings are conducted regularly for discussion and decision-making purposes. In addition, weekly management meetings are also held in which performance and targets of all the concerned departments are discussed in detail.

MIS SAP Business One installed as MIS for provision of reliable financial system and reporting is assessed. Highly automated manufacturing and operational procedures transpire into operational efficiencies. This management application was installed in July-2012 by External Vendor – Abacus Consulting and is annually updated based on Annual Maintenance Contract with them.

Control Environment The control environment is strengthened by the role of the Internal Audit department provides periodic detailed reports to the Audit Committee for review and assessment and to take necessary remedial actions, where needed. Separate Internal Audit reports for each financial process, including inventory management, payroll, procurement, accounts receivables and accounts payable along with the risk rating matrix for each process are prepared and shared with the Audit Committee.

Business Risk

Industry Dynamics At present, the total installed capacity of the sector in Pakistan for oleochemical products is ~167,000MT per annum. Per capita consumption of toilet soaps is increasing with the increase in population and improvement in living styles of the general public and it is recorded at approximately ~700grams per annum. Moreover, this demand has been further enhanced by the global coronavirus pandemic as the need for general cleanliness has become even more important.

Relative Position NICL has captured the majority market share in the chemical industry. The company is considered a pioneer in new technologies in Pakistan and introduced oleo-chemicals, soap noodles, international-scale soap finishing and aerosols.

Revenues The company is engaged in a wide range of well-diversified range of products and services. During 9MFY22, revenues increased by ~31%, standing at PKR 22,757mln (9MFY21: PKR 16,315mln) on the back of improved prices and volumetric growth. However, NICL may have business concentration risk as nearly 20% of the revenues were generated from one customer i.e. Unilever Pakistan Ltd. However, Unilever is a globally renowned brand with operations in 190 countries around the world; therefore, it supplements the risk of revenue sustainability. Furthermore, the best-selling product was Palm Bright - a vegetable oil fat-based fatty acid used in soap production. This was due to an inordinate amount of increase in demand for soaps around the country, the development of handwashing habits after COVID-19.

Margins Company margins has remained stable over the years: gross margin (FY21: ~15.4%; FY20: ~14.8%) on account of consistent profits, however, there was a slip dip in GP margin during 9MFY22 (13.2%) as Company is expanding its production lines. This further translated into lower NP margins (9MFY22: 5.6%, 9MFY21: 7.6%).

Sustainability The Company has completed expansion of the caustic soda plant. NICL– being the sole supplier for MNCs is capitalizing on this growth opportunity through BMR and expansion of its manufacturing plant. Recent advancements and up-gradation of the Aerosol cans plant were completed and commenced its commercial production on 30th March 2022. With this expansion of the Aerosol plant, the Company has two lines with combined capacity of 90 million units (aerosol cans) per year based on three shifts operation.

Financial Risk

Working Capital Net working capital during 9MFY22 was registered at 124 days (9MFY21: 114 days) on account of an increase in receivables levels. Consequently, net trade assets grew (9MFY22: PKR 12,436mln; 9MFY21: PKR 7,148mln). Room to borrow has declined mainly on account of a surge in short-term borrowings which ultimately results in low Short-term trade leverage(9MFY22: 14.5%, 9MFY21: 26.2%).

Coverages During 9MFY22, FCFO was PKR 1,757mln (9MFY21: PKR 2,095mln) on account of increase in taxes paid . The Company has witnessed dip in interest coverage (9MFY22: 4.7x; 9MFY21: 8.4x) on back of hike in finance cost.

Capitalization NICL has leveraged capital structure 74.4%. The Company has total borrowings of PKR 17,062mln (9MFY21: PKR 6,946mln) mainly on account of an increase in short-term borrowings(STB) (9MFY22: PKR 10,550mln, 9MFY21: PKR 4,892mln) to manage ongoing expansion working capital requirements. STB constitute 61.8% of the total borrowings.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Nimir Industrial Chemicals Limited	Mar-22	Jun-21	Jun-20	Jun-19
##	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	11,990	5,584	3,862	3,156
2 Investments	-	-	-	8
3 Related Party Exposure	217	217	217	282
4 Current Assets	13,469	10,468	6,769	5,068
a Inventories	6,036	5,951	3,601	2,467
b Trade Receivables	5,462	3,227	2,127	1,758
5 Total Assets	25,676	16,269	10,849	8,514
6 Current Liabilities	2,427	2,811	2,161	1,451
a Trade Payables	508	611	854	377
7 Borrowings	17,062	8,205	4,688	3,707
8 Related Party Exposure	15	15	-	-
9 Non-Current Liabilities	305	315	376	322
10 Net Assets	5,867	4,924	3,623	3,035
11 Shareholders' Equity	5,867	4,924	3,623	3,035
B INCOME STATEMENT				
1 Sales	22,757	23,094	17,173	14,850
a Cost of Good Sold	(19,748)	(19,543)	(14,626)	(12,821)
2 Gross Profit	3,009	3,551	2,546	2,030
a Operating Expenses	(448)	(498)	(369)	(296)
3 Operating Profit	2,561	3,053	2,177	1,733
a Non Operating Income or (Expense)	(106)	(192)	(227)	(215)
4 Profit or (Loss) before Interest and Tax	2,455	2,861	1,951	1,518
a Total Finance Cost	(652)	(464)	(602)	(359)
b Taxation	(529)	(702)	(423)	(349)
6 Net Income Or (Loss)	1,275	1,694	926	810
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	1,757	2,944	2,120	1,653
b Net Cash from Operating Activities before Working Capital Changes	1,288	2,544	1,540	1,354
c Changes in Working Capital	(3,387)	(3,438)	(1,068)	(317)
1 Net Cash provided by Operating Activities	(2,100)	(894)	472	1,037
2 Net Cash (Used in) or Available From Investing Activities	(6,770)	(2,259)	(896)	(852)
3 Net Cash (Used in) or Available From Financing Activities	8,855	3,110	495	(161)
4 Net Cash generated or (Used) during the period	(14)	(43)	71	24
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	31.4%	34.5%	15.6%	22.2%
b Gross Profit Margin	13.2%	15.4%	14.8%	13.7%
c Net Profit Margin	5.6%	7.3%	5.4%	5.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-7.2%	-2.1%	6.1%	9.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sha	31.5%	39.6%	27.8%	28.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	124	118	106	100
b Net Working Capital (Average Days)	118	106	93	89
c Current Ratio (Current Assets / Current Liabilities)	5.5	3.7	3.1	3.5
3 Coverages				
a EBITDA / Finance Cost	4.7	8.2	4.2	5.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.8	3.3	2.4	2.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.3	0.9	0.9	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.4%	62.5%	56.4%	55.0%
b Interest or Markup Payable (Days)	112.0	81.2	47.7	84.7
c Entity Average Borrowing Rate	7.9%	7.8%	13.4%	10.1%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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 | Clause 11-(A)(p).
- (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)

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- (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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