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
20-Jul-2019	A-	A2	Stable	Maintain	-
18-Jan-2019	A-	A2	Stable	Maintain	-
19-Jul-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Nimir Resins Limited's revived position subsequent to its takeover by Nimir Group transpiring in improved business performance. Established as a listed entity, a well-devised governance framework is in place among with experienced management team and modern production facilities. However, as the Company imports its major raw materials, the rupee depreciation has increased the cost of sales putting pressure on margins. 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 reviving the Company's operations and considerable achievement has been attained in this regard. The financial profile of the Company is characterized by leveraged capital structure, mainly short-term borrowings and adequate coverages. Going forward, growth in business would necessitate prudent management of margins, debt mix and sufficient internal capital formation. The ratings incorporate expected support and corporate guarantee of ultimate parent company, Nimir Industrial Chemicals Limited.

The ratings are dependent upon improving margins and profitability 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. Continuity of corporate guarantee from parent company will remain critical for the ratings, going forward.

Disclosure	
Name of Rated Entity	Nimir Resins Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Chemical(Jun-19)
Rating Analysts	Muhammad Hassan | muhammad.hassan@pacra.com | +92-42-35869504

Profile

Legal Structure Nimir Resins Limited was initially incorporated in 1964 as a Private Limited Company and got listed on the Pakistan Stock Exchange (PSX) in 1991.

Background 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". In the Beginning of 2016, the Company was re-acquired by Nimir group and was renamed to Nimir Resins Limited.

Operations The Compay's product offerings are categorized under six Business Lines which cater to specific sectors of the industry (i) Textile Auxiliaries and Binders, (ii) Unsaturated Polyester Resins, (iii) Coatings and Emulsions, (iv) Pulp & Paper Chemicals, (v) Adhesives and Graphics and (vi) Trading and Exports.

Ownership

Ownership Structure Ultimate parent of the Company is Nimir Industrial Chemicals Limited, by way of having power to direct relevant activities of the Company. Nimir Industrial Chemicals Limited has ~37.64% shareholding in Nimir Resins which was made through two intermediary special purpose vehicles – Nimir Management (Pvt) Limited and Nimir Holding (Pvt) Limited, each possessed a shareholding of ~51% and ~11% respectively in the Company. Recently, the Sponsors have decided to dissolve Nimir Holding (Pvt) Limited, 11% shareholding will be transferred to the parent company i.e. Nimir Industrial Chemicals Limited. The process of transfer is expected to end by December 2019.

Stability Executive Directors, have strong knowledge of the industry and extensive experience in relevant field 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 In 2016, the Sponsors acquired this Company from Descon Group and changed the name to Nimir Resins Limited. At that time the Company was generating bottom-line losses. Business acumen and diverse experience of the Sponsors resulted in a complete turnaround for the business and now as per March-19 the Company has made a net profit of ~ PKR 85mln.

Financial Strength Nimir Resins is a subsidiary of Nimir Industrial Chemicals Limited. The group has an overall asset base of PKR ~7,000mln and a collective sales revenue of PKR ~15,632mln. In addition, Nimir Industrial Chemicals Limited has also provided corporate guarantee for Nimir Resins Limited. So in case of lean times Nimir Resins can get timely support from its parent company.

Governance

Board Structure Governance structure of the Company is designed to keep the company compliant with code of corporate governance (CCG) for listed entities; seven members on the board exist with one independent director. The board has two sub-committees; (i) Audit Committee & (ii) Human Resource and Remuneration Committee

Members' Profile Members on the Board majorly include sponsors/pioneers possessing sufficient knowledge and expertise of the related business. The Chairman of the Board, Mr. Sheikh Amar Hameed, has been a pioneer in establishing Nimir Group in Pakistan. Prior to association with Nimir group in 1989, Mr. Amar was a banking veteran and served in the banking industry for more than 10 years.

Board Effectiveness The Board has formed two sub-committees; Audit and Human Resource & Remuneration Committee. Mr. Pervaiz Ahmed Khan is the Chairman of both the committees. Attendance of board members remained satisfactory during the period.

Financial Transparency Horwath Hussain Chaudhry & Co. Chartered Accountants are the External Auditors of the Company. They expressed an unqualified opinion on the Company's financial statements for December 2018. The auditors are listed under Category 'A' of SBP's panel of auditors.

Management

Organizational Structure The structure of the Company is well-defined, the departments are in place 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 also the CEO of Nimir Industrial Chemicals Limited. He is a fellow of the Institute of Cost & Management Accountants of Pakistan since 1991. He has more than 25 years of experience and has been associated with Nimir group for over ~20 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 was installed in July 2016 as MIS for provision of reliable financial system and reporting. Prior to this application, Oracle EBS was installed for the six months till June-2016. Highly automated manufacturing and operational procedures transpire into operational efficiencies.

Control Environment The control environment is strengthened by the role of Internal Audit department that provides periodic detailed reports to the Audit Committee for review and assessment and to take necessary remedial actions, where needed.

Business Risk

Industry Dynamics Major sectors being served by the Company are paints, textile, paper, tyres and rubbers. Much of the demand emanates from the textile sector, particularly finishing sub-sector. The key opportunity available to the Company include steady growth in the demand of its products, emerging from the corporates, who utilize the Company's chemicals as raw material or components of their products.

Relative Position Nimir Resins is becoming one of the market leaders in the domain of coating and emulsions through substantiating unique technological strength, robust research and development, and compliance with International quality standards. In case of textile chemicals, Nimir Resins is currently in the phase of affirming its footprint and tempering its position to grow and sustain as a major player in this sector.

Revenues During 9MFY19, top-line of the Company clocked in at PKR 3,402mln (9MFY18: PKR 2,498mln). The Company registered a growth in sales of ~36%, Pak Rupee depriciation against US Dollar also helped the Company to increase its sales value. Coating, emulsions and polyester contributed ~43.5% to the total sales revenue of the Company, followed by blending 34% and textile and paper 22.5%.

Margins Cost of goods sold of the Company was recorded at PKR 3,103mln during 9MFY19 (9MFY18: PKR 2,279mln), the percentage increase in the cost was same as the percentage increase in sales. Consequently, the gross margins stagnated at 8.8%, same as 9MFY18. Similarly, no change was noticed in operating margins as they stood at 6.4%. Net margins slightly decreased to 2.5% during 9MFY19 (9MFY18: 2.8%), due to increase in finance cost.

Sustainability Going forward, the Company will continue to face competition from unorganized sector. Pak Rupee Depreciation and higher interest rate would remain major challenges for Nimir Resins Limited. The Company has planned a new project of liquid hand wash soap, target customer for this product will be MNCs, where the Company can easily pass on the effect of increased cost, if any.

Financial Risk

Working Capital Net working capital days of the Company increased to 110 in 9MFY19 (9MFY18: 100 days), as raw material held days increased to 60 (9MFY18: 50 days).Net trade assets of the Company increased to PKR 1,801mln (9MFY18: PKR 1,202mln) due to increase in receivables.

Coverages Relatively stable cash flows from operations were recorded at 9MFY19 of PKR~216mln (9MFY18: ~157mln).The interest and core coverages came under pressure as the Company's short-term borrowings increased to PKR 1,380mln (9MFY18: PKR 855mln). Higher interest rate lead to deterioration in coverages. Interest coverages deteriorated to 1.8x during the period (9MFY18: 4x), debt coverages presented a similar trend and dropped down to 1.8x (9MFY18: 3.8x).

Capitalization Nimir Resins has a leveraged capital structure, with its total debt making ~56% of the combined debt and equity of the Company during 9MFY19 (9MFY18: ~47). The leveraging increased on the back of increase in short-term borrowing, as they increased to PKR 1,380mln during 9MFY19 (9MFY18: PKR 855mln). Short-term borrowings increased, as the Company imported more raw material during this period and at a higher cost due to Pak Rupee depreciation.

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Financial Summary
PKR mln

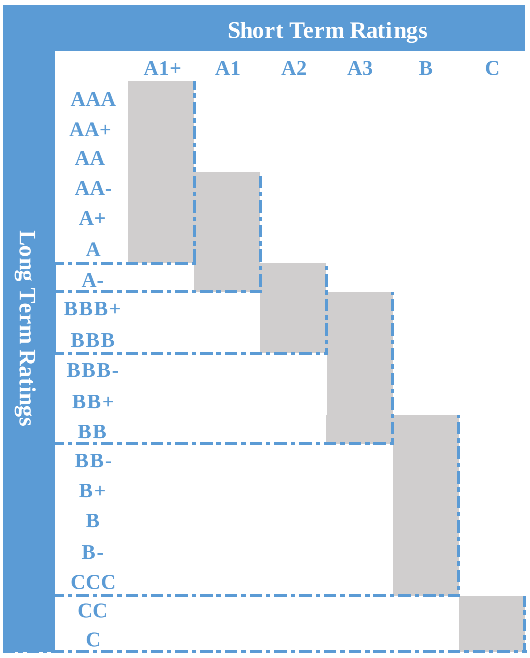
Nimir Resins Limited	Mar-19	Jun-18	Jun-17	Jun-16
##	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	527	518	526	485
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,326	2,259	1,579	1,207
a Inventories	*849*	*984*	*621*	*490*
b Trade Receivables	*841*	*770*	*602*	*405*
5 Total Assets	2,853	2,777	2,105	1,692
6 Current Liabilities	358	534	349	207
a Trade Payables	*285*	*428*	*266*	*108*
7 Borrowings	1,388	1,218	819	771
8 Related Party Exposure	-	-	-	99
9 Non-Current Liabilities	12	15	28	31
10 Net Assets	1,095	1,010	908	583
11 Shareholders' Equity	1,095	1,010	908	583
B INCOME STATEMENT				
1 Sales	3,402	3,580	2,669	1,778
a Cost of Good Sold	*(3,103)*	*(3,250)*	*(2,371)*	*(1,544)*
2 Gross Profit	299	330	297	234
a Operating Expenses	(81)	(94)	(77)	(98)
3 Operating Profit	218	236	220	136
a Non Operating Income or (Expense)	*(30)*	*(75)*	*(39)*	*(10)*
4 Profit or (Loss) before Interest and Tax	188	160	182	126
a Total Finance Cost	*(123)*	*(75)*	*(71)*	*(53)*
b Taxation	*20*	*18*	*(37)*	*(20)*
6 Net Income Or (Loss)	85	103	75	53
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*216*	*223*	*125*	*123*
b Net Cash from Operating Activities before Working Capital Changes	*110*	*153*	*65*	*69*
c Changes in Working Capital	*(282)*	*(508)*	*(241)*	*(460)*
1 Net Cash provided by Operating Activities	(171)	(355)	(176)	(391)
2 Net Cash (Used in) or Available From Investing Activities	(21)	(24)	(37)	(17)
3 Net Cash (Used in) or Available From Financing Activities	169	394	158	477
4 Net Cash generated or (Used) during the period	(24)	16	(55)	69
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	26.7%	34.1%	50.1%	-1.6%
b Gross Profit Margin	8.8%	9.2%	11.1%	13.2%
c Net Profit Margin	2.5%	2.9%	2.8%	3.0%
d Cash Conversion Efficiency (EBITDA/Sales)	7.6%	7.7%	9.9%	9.8%
e Return on Equity (ROE)	10.7%	10.8%	10.0%	9.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	139	152	145	160
b Net Working Capital (Average Days)	110	116	119	138
c Current Ratio (Total Current Assets/Total Current Liabilities)	6.5	4.2	4.5	5.8
3 Coverages				
a EBITDA / Finance Cost	2.4	4.2	4.8	3.7
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	3.3	2.3	2.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.0	0.0	1.3
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	55.9%	54.7%	47.4%	59.9%
b Interest or Markup Payable (Days)	78.8	78.2	70.5	76.4
c Average Borrowing Rate	11.1%	6.5%	6.4%	5.4%

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.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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.
(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)
Proprietary Information