The Pakistan Credit Rating Agency Limited

Rating Report

Nimir Chemicals Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Sep-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Nimir Chemicals Pakistan Limited ('NCPL' or 'the Company') is primarily engaged in the manufacturing and marketing of Phthalic Anhydride (PA), Di-Octyle Phthalate (DOP), followed by Alkyd Resins (AR), & other trading products to feed the demand of downstream sectors. The ratings reflect NCPL's long-established history and leading position in the domestic petrochemical products industry. NCPL is the major PA producer in Pakistan retaining strong market share of ~80%. It captures around ~40% share in DOP segment, ~21% in AR and ~14% in MA. Pakistan's reliance on imported intermediate chemicals is reducing with time as local companies are injecting more investments to increase their production capacities. The sector is considered as a backbone in the development of forward linked industries (including leather, paint, textile, footwear, sports goods, plastic & PVC). As Pakistan is a net importer of oil, gas, coal and allied products; the sector faces considerable production cost pressures amidst high international energy prices and currency devaluation. Specifically, the fluctuating prices of crude oil in the international markets can challenge industry's growth, partially set-off by the producers' ability to pass on price hike. Besides, expected growth in the construction & coating/paint industry and demand for PVC products will have positive sales impact on Plasticizers (DOP), PA, and AR in long-run. National Tariff Commission of Pakistan has imposed definitive anti-dumping duties on imports of PA to support the local market players. The Company's revenue streams are driven by PA sales channeled to its associated concern together with sales of DOP, AR, and MA to diverse customer base. Despite inflationary pressure, the Company registered ~40.7% CAGR in CY21, with DOP, PA and alkyd resins contributing around ~97% in revenues. The mentioned growth is a function of better prices and slightly higher volume. Margins of the Company are aligned with topline improvement. Moving forward, the Company has to put together realistic projections to monitor financial results. The Company's sophisticated plant technology has led to achieve operational efficiency and reduce overheads. Financial risk profile of the Company is demonstrated by efficient working capital management, adequate coverages, and comfortable cash flows. NCPL's capital structure is marginally leveraged, mainly encompassed STBs. Ownership base of the Company is solely represented by sponsoring family. Going forward, the implementation of good governance and internal control system are required to ensure compliance at all levels and smooth running of operations.

The ratings are dependent on rationalization of the management's strategies to sustain position in domestic market amid changing business environment. With topline growth; profitability margins and prudent financial profile shall remain imperative.

Disclosure

Name of Rated Entity	Nimir Chemicals Pakistan 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),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Chemical(Jul-22)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Nimir Chemicals Pakistan Limited ('NCPL' or 'the Company') is a public limited company incorporated on November 30th, 1989 by Ravi Group as 'Ravi Chemicals Limited.'

Background The Company was established in 1989 in the name of Ravi Chemicals Limited. During 1994, Hoechst AG, Germany joined the Ravi Chemicals Pakistan in a joint venture and the company revised its name to Hoechst Ravi Chemicals Limited. During 1997, as a process of continuous intensification in the region, the Hoechst AG, Germany transferred its shareholding to one of its group companies and also revised its title to Celanese Pakistan Limited. In 1999, Celanese Pakistan Limited squeezed their chemicals operations and disposed their controlling shares to Knightsbridge Chemicals Limited (KCL). and reworked on Company's name as "Nimir Chemicals Pakistan Limited." During 2011, KCL disposed of their entire shareholding to present management.

Operations NCPL is a leading petrochemicals company in Pakistan. The core business of the Company is manufacturing and marketing of Phthalic Anhydride (PA), Di Octyle Phthalate (DOP), Maleic Anhydride (MA), and Alkyd Resins (AR).

Ownership

Ownership Structure The ownership of the Company resides with two brothers, Mr. Anjum Nisar (~57.50%) and Mr. Tariq Nisar (~42.50%).

Stability The structure seems stable as no major change in the shareholding is expected in near future. ~100% stake rests with sponsoring family. However, defined shareholding pattern among family members along with formal line of succession can add strength.

Business Acumen The Nisar Family (sponsors of the Company) is considered to have strong business acumen. The group has been operating in Pakistan for a number of decades by expanding its presence into different ventures, including NCPL.

Financial Strength The Nisar Family, being the prominent player in Pakistan, maintain strong financial profile with substantial access to diversified markets. This indicates Sponsors' ability to provide support, if need arises.

Governance

Board Structure The board comprises four members, including Mr. Anjum Nisar – Chairman, Mr. Tariq Nisar – CEO, and two executive directors – Mr. Saqib Anjum & Mr. Mohsin Tariq. No independent directors on the board exist. All the directors have been associated with the board for several years.

Members' Profile Members involved in the business are experienced individuals. They carry related industry experience. Mr. Tariq Nisar, the CEO of the Company, is the key person behind the success of NCPL leading with his visionary leadership.

Board Effectiveness There is as such no board committee. All the members also hold director positions in group companies which inhabit the room for impartial oversight. Further, BoD meetings are conducted regularly, attendance seems adequate, and minutes are recorded properly, thus boding well for good governance.

Financial Transparency M/s. EY Ford Rhodes, the 'Big 4' accounting firm, is the external auditor of the Company. The auditors expressed an unqualified audit opinion on the financial statements for the year ended December 31st, 2021.

Management

Organizational Structure A well-defined organizational structure exists in the Company. The functions reporting to CEO are as follows: 1) Finance, 2) Human Resource & Administration, 3) Marketing, and 4) Technical & Operations.

Management Team Mr. Tariq Nisar, the CEO, is associated with the company since its inception. He has the honour of winning "Businessman of the Year Gold Medal" for the year 2005, 2006 & 2011. He is actively and substantially contributing towards the stability of Pakistan in the areas of textile spinning, chemicals and petrochemical business segments. In NCPL, he is supported by a team of skilled individuals equipped with relevant industry exposure. The other key member in the Company is Mr. Saqib Raza (CFO), who is associated with NCPL since 2011.

Effectiveness NCPL is building up the business strengths & increasing its foot print across different cities of Pakistan. Functions of the management are clear to effectively achieve its underlying goals and objectives.

MIS The Company is presently using SAP Business One ERP system with version 9.2 PL 08.

Control Environment To ensure operational efficiency and appraisal of internal controls, the Company has formed management committee which implements and monitors the policies and procedures of the Company. It has an effective mechanism for identification, assessment and reporting of all types of risk arising out of the business operations

Business Risk

Industry Dynamics Pakistan's reliance on imported chemicals is reducing with time as local companies are injecting more investments to increase their production capacities and expand their market base. Raw material prices are largely sensitive to international crude oil trends. Since Pakistan is a net importer of oil, gas, coal and allied products, the sector faces considerable production cost pressures amidst high international energy prices and PKR devaluation. In FY23, the demand and price of petrochemicals are expected to correct with reopen of exports avenues to Afghanistan.

Relative Position NCPL is the major producer of PA in the country and captures ~79% share. The current market share of NCPL in DOP market is over 40%. There are other manufacturers of DOP, but most of them produce for their captive use and normally small volume is being sold by them. Further, in Alkyd Resins and MA segments, NCPL owns ~21% and ~14% shares, respectively.

Revenues Primarily, the Company derives its revenues from the manufacturing and sale of Di-Octyl Phthalate (~44%) and Phtalic Anhydride (~38%), followed by Alkyd Resins (~16.5%), and Maleic Anhydride (~1.5%). During CY21, the Company's topline clocked at ~PKR 8,998mln (CY20: ~PKR 6,392mln, CY19: ~PKR 6,195mln) registering CAGR of 40.8%. In 3MCY22, the Company recorded a revenue of ~PKR 2,540mln registering growth rate at ~12.9%.

Margins During CY21, the Company's gross margin increased to ~20.9% (CY20: ~16.8%, CY19: ~9.7%) on back of proportionate increase in the prices of goods produced. Operating profit margin also improved to ~16.6% in CY21 (CY20: ~10.2%, CY19: ~3.9%). Resultantly, net profit margin of the Company increased in CY21 and stood at ~9.9% (CY20: ~5.2%, CY19: ~0.8%). During 3MCY22, the Company's gross margin and net margin recorded at ~13.1% and ~6.0%, respectively.

Sustainability Going forward, market conditions are expected to improve with growth in forward-linked industries like textile, paint, etc. In domestic market, activity in the construction industry will remain strong which is good for Petrochemicals industry, resultantly more demand of PA and Alkyd Resins in coating / paint sectors. PVC products are also expected to grow @ 5% p.a which will positively impact on Plasticizers (DOP) demand.

Financial Risk

Working Capital The Company's capital needs emanate from financing inventories and trade receivables for which the Company relies on internal cash flow generations and STBs. During CY21, the NCPL's gross working capital days reduced to ~96 (CY20: ~123 days, CY19: ~139 days). Resultantly, net working capital cycle declined to ~24 days (CY20: ~66 days, CY19: ~101 days). As at end Mar-22, gross working capital cycle of the Company stood at ~95 days, however net working capital cycle stood at ~39 days.

Coverages During CY21, the Company's free cash flows from operations (FCFO) significantly improved and marked at PKR 1,395mln (CY20: PKR 593mln, CY19: PKR 135mln) on account of improved PBIT. As at end Mar-22, the Company's FCFO clocked at PKR 193mln. Interest coverage ratio of the Company remarkably improved to 44.0x in CY21 (CY20: 6.2x, CY19: 0.7) whereas core-debt coverage ratio stood at 11.2x (CY20: 3.3x, CY19: 0.7x).

Capitalization As at end Dec-21, the Company had a low leveraged capital structure with a ratio of ~12.7% (CY20: ~13.1%, CY19: ~48.3%). Leveraging ratio improved year-on-year basis as the Company's borrowings declined to PKR 177mln in CY20 and PKR 213mln in CY21 (CY19: PKR 1,290mln). Majority portion of the Company's debt is comprised of short-term borrowings from various commercial banks to meet working capital requirements. Leveraging ratio recorded at ~20.6% in 1QCY22 with STBs at PKR 590mln.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Nimir Chemicals Pakistan Limited	Mar-22	Dec-21	Dec-20	Dec-19
Chemicals	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,233	2,221	2,350	1,918
2 Investments	-	2	2	2
3 Related Party Exposure	-	3	1	2
4 Current Assets	3,251	4,282	3,025	2,992
a Inventories	*911*	*1,678*	*970*	*1,363*
b Trade Receivables	*1,627*	*1,099*	*967*	*997*
5 Total Assets	5,484	6,508	5,378	4,914
6 Current Liabilities	955	2,534	1,738	792
a Trade Payables	*938*	*2,184*	*1,326*	*655*
7 Borrowings	599	213	177	1,290
8 Related Party Exposure	235	235	235	535
9 Non-Current Liabilities	474	458	494	347
10 Net Assets	3,221	3,069	2,735	1,950
11 Shareholders' Equity	3,221	3,069	2,735	1,950
B INCOME STATEMENT				
1 Sales	2,540	8,998	6,392	6,195
a Cost of Good Sold	*(2,208)*	*(7,113)*	*(5,316)*	*(5,596)*
2 Gross Profit	332	1,885	1,076	600
a Operating Expenses	(84)	(394)	(424)	(361)
3 Operating Profit	248	1,490	652	239
a Non Operating Income or (Expense)	*(5)*	*(186)*	*(112)*	*(26)*
4 Profit or (Loss) before Interest and Tax	243	1,304	540	213
a Total Finance Cost	*(30)*	*(39)*	*(100)*	*(186)*
b Taxation	*(61)*	*(378)*	*(108)*	*21*
6 Net Income Or (Loss)	152	888	332	47
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*193*	*1,395*	*593*	*135*
b Net Cash from Operating Activities before Working Capital Changes	*184*	*1,379*	*478*	*(67)*
c Changes in Working Capital	*(1,120)*	*(303)*	*1,461*	*126*
1 Net Cash provided by Operating Activities	(936)	1,075	1,939	59
2 Net Cash (Used in) or Available From Investing Activities	(58)	(89)	(9)	(24)
3 Net Cash (Used in) or Available From Financing Activities	-	(515)	(1,405)	510
4 Net Cash generated or (Used) during the period	(995)	471	524	545
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	12.9%	40.8%	3.2%	--
b Gross Profit Margin	13.1%	20.9%	16.8%	9.7%
c Net Profit Margin	6.0%	9.9%	5.2%	0.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-36.5%	12.1%	32.1%	4.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	19.4%	30.6%	14.2%	2.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	95	96	123	139
b Net Working Capital (Average Days)	39	24	66	101
c Current Ratio (Current Assets / Current Liabilities)	3.4	1.7	1.7	3.8
3 Coverages				
a EBITDA / Finance Cost	10.9	51.8	7.8	2.4
b FCFO / Finance Cost+CMLTB+Excess STB	7.1	11.2	3.3	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.2	0.8	-12.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	20.6%	12.7%	13.1%	48.3%
b Interest or Markup Payable (Days)	58.4	98.7	0.0	37.0
c Entity Average Borrowing Rate	16.6%	7.4%	8.5%	10.0%

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.

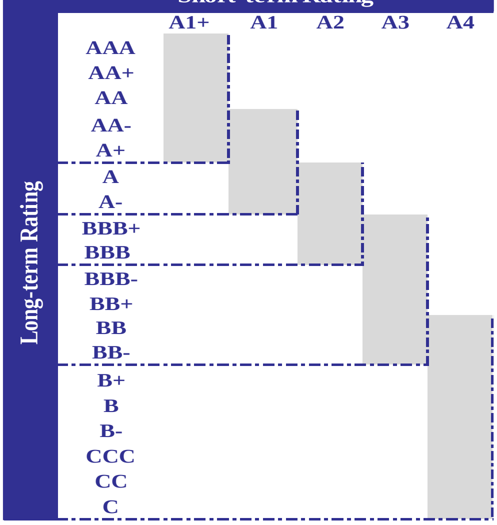
Long-term Rating

Scale	Definition
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 Rating

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

Short-term Rating



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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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)

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