



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
18-Jan-2019	A	A1	Stable	Maintain	-
19-Jul-2018	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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

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

Disclosure

Name of Rated Entity	NIMIR Industrial Chemicals Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Industrial Gases(Dec-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Nimir Industrial Chemicals Limited 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 and a variety of industrial chemicals. Operating with one manufacturing plant located at Faisalabad Road – 14.8 km from Sheikhpura, the total installed capacity of the production unit in terms of oleo chemical products is ~67,000MT per annum and for chlor-alkali products is ~49,000MT per annum.

Ownership

Ownership Structure Major shareholding of the company vests with Nimir Resources Private Limited (~57%) – the group’s holding company founded by five individuals who took over the company in 2011 as part of management. All these five people are Executive Directors. Other shareholders include Mr. Yahya Khan (~9%), Mr. Muhammad Nadeem (~8%), Mrs. Shaheen Nadeem (~8%) and general public (~18%).

Stability Ownership structure displays a composite outlook. 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 Acumen Since most of the Sponsors are pioneers of the Nimir Group and have been associated with it since its inception. They possess extensive knowledge and exposure of the industry that enables the company to prosper congenially in the industrial chemicals sector. Sponsor cognizance of the business reflects into healthy financial performance indicators which is evident from the steady growth of the business since takeover by the current stakeholders.

Financial Strength Nimir Group constitutes five entities of which Nimir Industrial Chemicals Limited and Nimir Resins Limited are involved in profit making business activities. Nimir Resources (Pvt) Limited is the holding company whereas two intermediary special purpose vehicles – Nimir Management (Pvt) Limited and Nimir Holding (Pvt) Limited are specifically formed to make investments in the group. The financial strength of the group is considered strong.

Governance

Board Structure The board structure is designed to keep the company compliant with code of corporate governance (CCG) for listed entities. After the latest board elections in December 2018 in EOGM, the Board consists of eight members with one causal vacancy after resignation of a director in January 2019.

Members’ Profile Members on the Board majorly include sponsors/pioneers possessing sufficient knowledge and expertise of the related business.

Board Effectiveness The Board has two sub committees namely Audit Committee and Human Resource and Remuneration Committee. During FY18, 4 Board, 4 Audit Committee and 2 HR & Remuneration Committee meetings were held. Attendance recorded in Board meetings was satisfactory.

Financial Transparency EY.Fort 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 FY18.

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 A qualified and experienced Management team to run the business operations exists. The CEO, Mr. Zafar Mehmood, is a fellow of the Institute of Cost & Management Accountants of Pakistan since 1991. He has over ~25 years of experience and has been associated with Nimir group for over ~20 years. Mr. Khalid Qazi, the Director Finance, is an MBA and has been associated with the group for ~23 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 is installed as MIS for provision of reliable financial system and reporting. 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 Internal Audit department that 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, procurements, accounts receivables and accounts payable along with risk rating matrix for each process are prepared and shared with the Audit Committee.

Business Risk

Industry Dynamics Various dimensions to the industry are conceived because of the diversity in the product range that Nimir offers and the number of markets it caters. In oleo chemicals, Nimir primarily produces stearic acid and distilled fatty acids (DFAs), which are further refined to be used in soap noodles and eventually formed into toilet soaps. Stearic acid is supplied to a variety of industries for use as raw material such as pharmaceutical, textile, polishing, tiles, etc. Glycerin is also produced as a by-product of the process.

Relative Position Nimir enjoys the stature of monopolizing the supply of quality fatty acids and toilet soaps to all leading multinational FMCG companies operating in Pakistan. This position is achieved on the backdrop of advanced soap manufacturing technology installed by Nimir. Other local producers of toilet soaps are not directly in competition because their target market is anchored differently from Nimir which serves to the top niche segment of the society.

Revenues During FY18, the company’s top-line clocked in at PKR 12,154mln (FY17: PKR 7,369mln) up by ~65% YoY. Whereas, in 3MFY19 the company has booked revenue of PKR 4,122mln. The increase in turnover was both due to higher sales volumes as well as improved prices.

Margins Cost of sales for the year increased massively by ~67% led mainly by higher raw material costs, as raw materials contribute ~90% to the cost of sales. As a result the gross margin fell to 13.3% (FY17: 14.5%) and operating margin came down to 10.7% (FY17: 11.3%). Operating expenses of the company also increased by ~38%. Net profit of the Company clocked in at ~PKR 696mln (FY17: ~PKR 471mln) up by ~48%.

Sustainability Going forward, the Company plans to expand the capacity of its chlor alkali plant. Since the Company is self-reliant in energy, additional power required for the expanded chlor alkali plant will be arranged through increasing the power generation capacity. In addition, the Company will continue to invest in innovation and sustainable technologies.

Financial Risk

Working Capital In FY18 inventory increased by ~75% as company purchased significant amount of inventory. Whereas, net working capital days reduced to ~82 days in FY18 (FY17: 85 days) as the average trade debtors days reduced to 39 days (FY17: 45 days).

Coverages During FY18 operating cash flows amount increased massively to PKR 1,064mln (FY17: 738mln) up by ~44%. Whereas, finance cost was recorded at PKR 204mln (FY17: PKR 135mln) up by PKR 69mln, despite increased finance cost and interest rates, the Company was able to sustain its coverages at 5.2x in FY18 (FY17: 5.5x).

Capitalization The Company’s capital structure is fairly leveraged at 57% in FY18 (FY17: 53%), the leveraging also remained unchanged in the first three months of FY19 to 57%. Whereas, short-term debt of the Company stays standstill at 86.2%.

Nimir Industrial Chemicals Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3MFY19	FY18	FY17	FY16
Non-Current Assets	2,684	2,554	2,232	1,776
Investments (incl. Associates)	314	308	316	287
Equity	282	282	282	20
Debt Securities (incl. income funds)	32	26	34	267
Current Assets	4,765	4,726	2,926	1,966
Inventory	1,805	2,259	1,275	638
Trade Receivables	2,056	1,622	983	821
Others	903	846	668	508
Total Assets	7,763	7,588	5,474	4,029
Debt/Borrowings	3,443	3,475	2,380	1,609
Short-Term	2,742	2,774	1,862	1,133
Long-Term (incl. Current Maturity of Long-Term Debt)	701	701	518	477
Other Short-Term Liabilities	1,498	1,280	737	522
Other Long-Term Liabilities	222	219	213	110
Shareholder's Equity	2,600	2,615	2,144	1,788
Total Liabilities & Equity	7,763	7,588	5,474	4,029

INCOME STATEMENT

Turnover	4,122	12,154	7,369	5,011
Gross Profit	496	1,613	1,065	972
Other Income	(27)	(141)	50	(24)
Financial Charges	(73)	(204)	(135)	(91)
Net Income	206	696	471	441

Cash Flow Statement

Free Cash Flows from Operations (FCFO)	417	1,064	738	835
Net Cash changes in Working Capital	(120)	(1,129)	(694)	(322)
Net Cash from Operating Activities	238	(248)	(71)	442
Net Cash from Investing Activities	(190)	(630)	(616)	(540)
Net Cash from Financing Activities	(32)	869	640	145
Net Cash generated during the period	16	(9)	(46)	48

Ratio Analysis

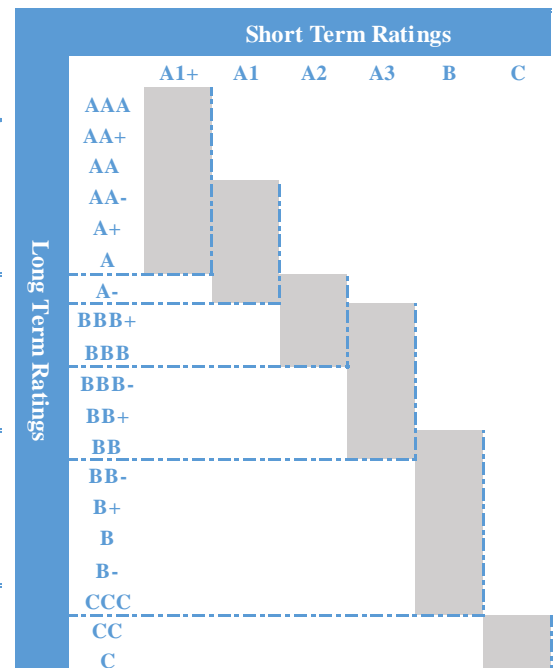
Performance				
Turnover Growth	47.4%	64.9%	47.1%	36.8%
Gross Margin	12.0%	13.3%	14.5%	19.4%
Net Margin	5.0%	5.7%	6.4%	8.8%
ROE	32.1%	53.2%	24.0%	25.4%
Coverages				
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	3.2	2.5	2.5	3.8
Interest Coverage (times) (FCFO/Gross Interest)	5.7	5.2	5.5	9.2
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest)	0.5	0.8	0.9	0.6
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	71	82	85	90
Leveraging (Total Debt/Total Debt+Equity)	57.0%	57.1%	52.6%	47.4%

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

Credit Rating Scale & Definitions

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

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



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

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

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

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

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

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Rating Team Statements

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

2) Conflict of Interest

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

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)

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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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