The Pakistan Credit Rating Agency Limited

Rating Report

NIMIR Industrial Chemicals Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 Nimir Industrial Chemicals Limited (hereinafter referred as ‘ NICL or ‘ the Company’) demonstrated consistent growth and strong position in domestic oleo chemicals and chlor alkali products manufacturing industry. Under Caustic soda market there exist competition to which it stand buoyant. The Company enjoys strong customer base (includes multinational FMCGs), stable margins, and generated persistent profitability. 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 health products (soaps etc.) amidst Covid-19 outbreak has benefited the Company as general hygiene and cleanliness becomes paramount, resulting in increased demand of oleo chemical-based products. However, profitability remained in check as finance cost increased considerably during FY20. Advanced production facilities alongside an experienced management team transpire into operational efficiencies. Capitalizing on a topline-driven approach, the Company has been investing in expanding its business volumes since take over by the current shareholders. The new investments will add diversity (Aerosol) to its current product mix. The Company’s decision to expand its capacity to cope with the demand is expected to boost revenues and contribute to the bottom line. 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 decrease in policy rate has will provided relief in debt servicing resulting in strong coverages. 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 initiates its next round of 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-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21)
Related Research	Sector Study | Chemical(Jul-21)
Rating Analysts	Raniya Tanawar | raniya.tanawar@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 Sheikhupura.

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 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 of the industry. Skills level of the sponsors is reflected 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 Nimir Industrial Chemicals Limited and Nimir Resins Limited which are involved in profit making business activities. The group in 9MFY20, has an overall asset base of PKR ~4,500mln and a collective sales revenue of PKR ~25bln.

Governance

Board Structure Governance structure is designed to keep the Company compliant with Code of Corporate Governance (CCG) for listed entities; the Board consisted of nine members, out which three members are executive, one non-executive, three independent director 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 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 Board, 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 2019 and June 2020.

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 ~29 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 ~25 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 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, procurement, 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 At present, the total installed capacity of the sector in Pakistan for oleochemical products is ~150,000MT 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 further enhanced by the global coronavirus pandemic as the need for general cleanliness has become even more important.

Relative Position Nimir Industrial Chemicals Limited – being the sole supplier for MNCs is capitalizing on this growth opportunity through BMR and expansion of its manufacturing plant. Recent advancement and upgradation of the plant was completed in 2018 and another expansion is expected by 2021.

Revenues During FY20, revenues increased by ~17%, standing at PKR 17,173mln (FY19: PKR 14,85mln) on the back of improved prices and higher demand. Moreover, Nimir Industrial faces concentration risk as nearly 27% 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, risk in real time may be low. Furthermore, the best selling product was Palm Bright - a vegetable or animal fat based fatty acid used in soap production. This was due to an inordinate amount of increase in demand of soaps around the country, on account of the coronavirus pandemic. the increase in sales continued in 3QFY21 with ~27% growth for the period. the Company's customer base is strong hence future revenues are secured.

Margins Margins have largely remained stables: gross margin (3QFY21: 15.6%, FY20: ~15%; FY19: ~14%) on account of consistent profits. This translated in to better operating margins as well thereby improving cash flow. However, higher finance cost (FY20: PKR 602mln; FY19: PKR 359mln) kept net margin restricted (FY20: 5.4%; FY19: 5.5%), In 3QFY21, growth picked up pace and net margin were at 7.6% as compared to same period last year (~5%).

Sustainability The Company has planned expansion of caustic soda plant that is tentatively expected to be completed by Sept, 2021. The expansion shall add anywhere from 34-120 tons/day to the existing production in order to meet the demand in quicker time period. the company has also undertaken initiatives to enhance its revenue base by adding new products and capacities. Furthermore, the recent coronavirus outbreak have had a rather positive impact for the Company as due to the significant increase in demand of soap, Nimir Industrial has benefited. Therefore, the Company has been fully operationally throughout, with minimal financial distress.

Financial Risk

Working Capital Net working capital during 3QFY21 was registered at 96 days (FY20: 93days) on account of increased inventory level and higher trade receivables. Consequently, net trade assets grew (FY20: PKR 4,609mln; FY19: PKR 3,625mln), which expanded room-to-borrow (FY20: PKR 1,221mln; FY19: PKR 775mln), thereby improving ST trade leverage adequacy.

Coverages During FY20, FCFO increased to PKR 2,2120mln; FY19: PKR 1,653mln) on account of higher revenue. However, the Company witnessed a reduction in interest coverage (FY20: 3.6x; FY19: 4.7x) which further improved significantly during 3QFY21 (~6.9x) as the pressure of high finance cost reduced

Capitalization Leverage of the Company increased (FY20: 56.4%; FY19: 55%) on account of higher borrowing (FY20: PKR 4,688mln; FY19: PKR 3,707mln). Out of the total debt ~72% was STB in FY20. During 3QFY21, borrowings have increased to PKR 6,946mln on account of ongoing expansions.

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Financial Summary
PKR mln

Nimir Industrial Chemicals	Mar-21	Jun-20	Jun-19	Jun-18
Chemicals	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	4,904	3,862	3,156	2,580
2 Investments	-	-	8	-
3 Related Party Exposure	217	217	282	282
4 Current Assets	9,008	6,769	5,068	4,726
a Inventories	*4,747*	*3,601*	*2,467*	*2,259*
b Trade Receivables	*3,170*	*2,127*	*1,758*	*1,622*
5 Total Assets	14,129	10,849	8,514	7,588
6 Current Liabilities	2,332	2,161	1,451	1,280
a Trade Payables	*1,390*	*854*	*377*	*506*
7 Borrowings	6,946	4,688	3,707	3,475
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	380	376	322	219
10 Net Assets	4,470	3,623	3,035	2,615
11 Shareholders' Equity	4,471	3,623	3,035	2,615
B INCOME STATEMENT				
1 Sales	16,315	17,173	14,850	12,154
a Cost of Good Sold	*(13,775)*	*(14,626)*	*(12,821)*	*(10,542)*
2 Gross Profit	2,540	2,546	2,030	1,613
a Operating Expenses	(379)	(369)	(296)	(317)
3 Operating Profit	2,161	2,177	1,733	1,295
a Non Operating Income or (Expense)	*(81)*	*(227)*	*(215)*	*(208)*
4 Profit or (Loss) before Interest and Tax	2,080	1,951	1,518	1,087
a Total Finance Cost	*(307)*	*(602)*	*(359)*	*(204)*
b Taxation	*(539)*	*(423)*	*(349)*	*(192)*
6 Net Income Or (Loss)	1,234	926	810	692
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,095*	*2,120*	*1,653*	*1,064*
b Net Cash from Operating Activities before Working Capital Chai	*1,809*	*1,540*	*1,354*	*881*
c Changes in Working Capital	*(2,394)*	*(1,068)*	*(317)*	*(1,129)*
1 Net Cash provided by Operating Activities	(585)	472	1,037	(248)
2 Net Cash (Used in) or Available From Investing Activities	(1,353)	(896)	(852)	(630)
3 Net Cash (Used in) or Available From Financing Activities	1,865	495	(161)	869
4 Net Cash generated or (Used) during the period	(73)	71	24	(9)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	26.7%	15.6%	22.2%	64.9%
b Gross Profit Margin	15.6%	14.8%	13.7%	13.3%
c Net Profit Margin	7.6%	5.4%	5.5%	5.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capita	-1.8%	6.1%	9.0%	-0.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total A*	41.7%	28.7%	28.2%	30.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	114	106	100	103
b Net Working Capital (Average Days)	96	93	89	93
c Current Ratio (Current Assets / Current Liabilities)	3.9	3.1	3.5	3.7
3 Coverages				
a EBITDA / Finance Cost	8.4	4.2	5.4	7.4
b FCFO / Finance Cost+CMLTB+Excess STB	3.3	2.4	2.7	2.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ	0.9	0.9	0.7	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	60.8%	56.4%	55.0%	57.1%
b Interest or Markup Payable (Days)	76.7	47.7	84.7	66.0
c Entity Average Borrowing Rate	7.8%	13.4%	10.1%	7.0%

Credit Rating

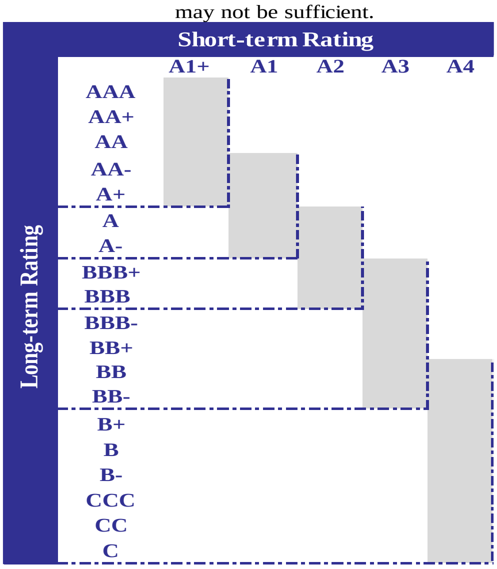
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.



**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

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