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
16-Jul-2022	A-	A2	Stable	Maintain	-
17-Jul-2021	A-	A2	Stable	Maintain	-
18-Jul-2020	A-	A2	Stable	Maintain	-
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 ("NRL" or "The Company") solid business profile. Established as a listed entity, a well-devised governance framework is in place along with a skilled and experienced management team and modern production facilities. The Company has primarily three production lines, catering to different industries of the economy. These are essential ingredients for textile, paper & packaging and paint industries. The client base reflects good names. Nimir Resin also furnish synergistic benefits and also other efficiency due to being owned and operated by the Nimir group. Demand drivers of these industries are closely linked with economic growth and construction/infrastructure developments. Overall construction industry registered ~14% growth during FY22 mainly on account of urbanization trends followed by growth in the agriculture sector, which is also evident from the recent financial performance of the Company. Despite significant inflationary pressure, supply chain disruption and rupee devaluation NRL's margins remain intact, demonstrating their ability to pass on the effect of cost escalation. In the recent budget, the government has announced sales tax exemption on the import of construction machinery, equipment, and specialized vehicles this will eventually beef up the economic activity in the Country. The financial risk profile of the Company is characterized by moderate coverages, cashflows, and stretched working capital cycle which depicts the industry norm. Capital structure is moderately leveraged where borrowings are mainly comprised of short-term to meet the working capital requirements. The KIBOR has increased up to 15%, further elevating the debt service cost in the future. The Company has generated sufficient cash flows to meet the BMR requirement for capacity expansion. Going forward, growth in business would necessitate prudent management of margins, debt mix, and sufficient internal capital formation. The ratings take comfort from the NRL's association with Nimir group of Companies.

The ratings are dependent on sustainable growth in the top-line and bottom-line with upheld margins, and market share while retaining sufficient cash flows and coverages. However, prudent financial management and maintaining sufficient liquidity under stressed economic conditions will remain important for ratings.

Disclosure

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

Profile

Legal Structure Nimir 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". At the beginning of 2016, the Company was re-acquired by the Nimir group and was renamed Nimir Resins Limited.

Operations The Company'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 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. 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.

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 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. The business acumen and diverse experience of the Sponsors resulted in a complete turnaround for the business.

Financial Strength Nimir Resins is a subsidiary of Nimir Industrial Chemicals Limited and has provided a corporate guarantee for Nimir Resins Limited. So in the case of lean times, Nimir Resins can get timely support from its parent company.

Governance

Board Structure The governance structure of the Company is designed to keep the company compliant with the code of corporate governance (CCG) for listed entities; seven members on the board exist with two independent directors. 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 their association with the 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 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 June 2021. The auditors are listed under Category 'A' of SBP's panel of auditors.

Management

Organizational Structure The structure of the Company is well-defined, and 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 29 years of experience and has been associated with the 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 the provision of a reliable financial system and reporting. Highly automated manufacturing and operational procedures transpire into operational efficiencies.

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

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 the finishing sub-sector. The key opportunity available to the Company includes steady growth in the demand for its products, emerging from the corporates, who utilize the Company's chemicals as raw material or components of their products. However, the recent coronavirus pandemic has hampered this demand as the textile supply chain suffered the most. Beginning in 2022, the revival of business and construction-based activities has lifted the demand for allied 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 the case of textile chemicals, Nimir Resins is currently in the phase of affirming its footprint and tempering its position to grow and sustain itself as a major player in this sector.

Revenues In 6MFY22, the Company recorded a significant ~29.1% growth in sales QoQ basis. This is on account of the recovery in demand after construction activity regain its lost momentum. Sale for 6MFY22 were PKR 6,080mln (6MFY21: 4,625mln). Furthermore, the Company doesn't have any customer that constitutes more than 10% of the total revenue; hence the concentration risk is low. Revenues will observe persistent growth in the near future as the industry in which the company deals directly is witnessing growth (Textile and construction).

Margins Nimir Resins' gross margin largely remained stable (9MFY22: ~12.5%; 9MFY21: 12.1%) on the back of improved prices and cheaper raw materials for textile, paper & other segments. This translated into improved operating margins (9MFY22: 10.4%; 9MFY21: 9.9%). The net margin remained stagnant (9MFY22: 5.0%; 9MFY21: 5.0%) on account of increased finance costs (9MFY22: PKR 128mln; 9MFY21: PKR 82mln).

Sustainability Going forward, the Company projects steady growth in the top line over the course of the next 3 financial years; with the coating & emulsion segment being the one to be at the forefront as Nimir Resins look toward becoming a market leader in that area. The Company has easily surpassed its sales projections by achieving PKR 5,990.841mln in 9MFY22.

Financial Risk

Working Capital In 9MFY22, the net working capital cycle of Nimir Resins increased to 128 days (9MFY21: 104 days), due to a surge in receiveable days and a decline in payable days. The current ratio of the Company improved from 4.5x to 7.2x mainly on the back of an increase in current assets. Short-Term Trade Leverage 40.1% reflects enough room for borrowing.

Coverages Nimir Resins, during 9MFY22, generated FCFO worth PKR 543mln (9MFY21: PKE 491mln) owing to improved profitability. The Company has an interest cost of PKR 74mln (9MFY21: 37mln). This resulted in a slight dip in coverages during the period as interest coverages, decreased to 5.5x (9MFY21: 6.2x).

Capitalization Nimir Resins has leveraged a capital structure of ~49.4% (9MFY21: ~40.7%). The Company has total borrowings of PKR 1,161mln (9MFY21: PKR 2,321mln), which includes (STB) of PKR 2,035mln. The surge in STB is mainly to meet the working capital requirements to supplement their growing business.

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Financial Summary
PKR mln

Nimir Resins	Mar-22	Jun-21	Jun-20	Jun-19
##	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,194	1,128	997	537
2 Investments	-	-	-	47
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,149	3,175	2,532	2,468
a Inventories	*1,681*	*1,468*	*1,272*	*857*
b Trade Receivables	*2,143*	*1,364*	*819*	*1,020*
5 Total Assets	5,343	4,303	3,529	3,052
6 Current Liabilities	575	893	693	383
a Trade Payables	*327*	*650*	*523*	*236*
7 Borrowings	2,321	1,259	1,088	1,492
8 Related Party Exposure	-	-	107	107
9 Non-Current Liabilities	73	82	36	11
10 Net Assets	2,374	2,070	1,605	1,059
11 Shareholders' Equity	2,374	2,070	1,605	1,059
B INCOME STATEMENT				
1 Sales	6,080	6,278	4,499	4,883
a Cost of Good Sold	*(5,323)*	*(5,484)*	*(3,993)*	*(4,383)*
2 Gross Profit	758	794	506	500
a Operating Expenses	(123)	(142)	(112)	(111)
3 Operating Profit	635	652	394	389
a Non Operating Income or (Expense)	*(74)*	*(37)*	*(22)*	*(58)*
4 Profit or (Loss) before Interest and Tax	561	615	372	331
a Total Finance Cost	*(135)*	*(113)*	*(185)*	*(168)*
b Taxation	*(122)*	*(143)*	*(60)*	*(9)*
6 Net Income Or (Loss)	304	359	127	154
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*543*	*687*	*430*	*394*
b Net Cash from Operating Activities before Working Capital Changes	*450*	*569*	*235*	*248*
c Changes in Working Capital	*(1,394)*	*(541)*	*162*	*(483)*
1 Net Cash provided by Operating Activities	(944)	28	397	(235)
2 Net Cash (Used in) or Available From Investing Activities	(117)	(152)	(3)	(58)
3 Net Cash (Used in) or Available From Financing Activities	1,061	137	(404)	274
4 Net Cash generated or (Used) during the period	(0)	13	(9)	(19)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	29.1%	39.5%	-7.9%	36.4%
b Gross Profit Margin	12.5%	12.6%	11.2%	10.2%
c Net Profit Margin	5.0%	5.7%	2.8%	3.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-14.0%	2.3%	13.2%	-1.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sha*	18.2%	19.5%	9.6%	15.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	150	143	161	136
b Net Working Capital (Average Days)	128	109	130	111
c Current Ratio (Current Assets / Current Liabilities)	7.2	3.6	3.7	6.4
3 Coverages				
a EBITDA / Finance Cost	5.5	6.8	2.5	2.8
b FCFO / Finance Cost+CMLTB+Excess STB	2.7	3.7	2.3	2.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.5	0.3	0.6	0.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.4%	37.8%	42.7%	60.2%
b Interest or Markup Payable (Days)	116.0	56.0	47.7	79.7
c Entity Average Borrowing Rate	11.1%	7.9%	13.3%	10.4%

Credit Rating

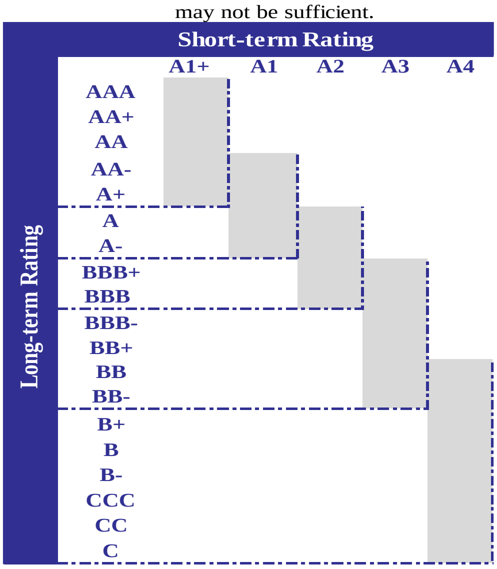
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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