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

Rating Rationale and Key Rating Drivers

The ratings reflect Nimir Resins Limited's revived position subsequent to its takeover by Nimir Group. Established as a listed entity, a well-devised governance framework is in place in compliance with corporate governance requirements for listed companies. Shareholding pattern, however, displays a composite outlook. Experienced management team alongside effective production facilities transpire into operational efficiencies. However, as the Company imports its major raw materials, the rupee depreciation has increased the cost of sales putting pressure on margins as the Company was not able to pass on the higher cost to its customers. The management intends to diversify product line to serve other sectors including paint, textile and paper, which bodes well for the business prospects of the company. Acquired by Nimir Group in Jan-2016, the management's primary focus was pivoted towards consolidating the Company's deteriorated position; considerable achievement has been attained in this regard. The Company is now keen on increasing its business volume and margins. The financial profile of the company is characterized by strong coverages and adequate leveraging. External funding majorly constitutes short term loans. Going forward, growth in business would necessitate prudent management of margins, debt mix and sufficient internal capital formation. The ratings incorporate corporate guarantee of ultimate parent company Nimir Industrial Chemicals Limited.

The ratings are dependent upon improving margins and profitability while establishing strong foothold in the related segments. Rational management of liquidity profile to maintain strong coverages is important for the ratings. Deterioration in margins, leading to erosion of profitability, and/or coverages will have negative impact on the ratings. Continuity of corporate guarantee from parent company will remain critical for the ratings going forward.

Disclosure	
Name of Rated Entity	Nimir Resins Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	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 | Textile(Oct-18)
Rating Analysts	Muhammad Hassan | muhammad.hassan@pacra.com | +92-42-35869504

Profile

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

Background In 2010, the management entered into an amalgamation arrangement with Descon Chemicals (Pvt) Limited as a result of which the name of the company was changed to "Descon Chemicals Limited". In Beginning 2016, the company was re-acquired by Nimir group and was renamed to Nimir Resins Limited.

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

Ownership

Ownership Structure This shareholding (~37.64%) is made through two intermediary special purpose vehicles formed to make investments in the group, i.e., Nimir Management (Pvt) Limited and Nimir Holding (Pvt) Limited possessing shareholding of ~51% and ~11% respectively in the company. Ultimate parent is Nimir Industrial Chemicals Limited. Other shareholders of the company include Mr. Yahya Khan (~19%), Terranova Limited – an associated company (~5%) and sundry owners including general public (~14%).

Stability Ownership structure displays a composite outlook. The company is a subsidiary of Nimir Industrial Chemicals Limited by way of having the power to direct relevant activities of the company. In addition, Nimir Industrial Chemicals have also provided corporate guarantee to Nimir Resins by which it takes the responsibility if it's subsidiary defaults.

Business Acumen The company was reacquired by Nimir sponsors in early 2016 from Descon Group's company – Descon Chemicals Limited. The company was generating bottom-line losses at that time. Nimir' Sponsors' cognizance and assimilation completely change the situation of the Company and placed it on the growth path. Sponsor's Business acumen is reflected in the way the company has subdued its external competition/challenges and survived to establish its footprint in the market.

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 sponsors can provide timely support in time of need and they have also demonstrated this in past.

Governance

Board Structure Currently the Board is consists of 7 directors. There are three non-executive, 2 executive and 2 independent directors on the board.

Members' Profile The Chairman of the Board, Mr. Sheikh Amar Hameed, has been a pioneer in establishing Nimir Group in Pakistan. Prior to association with Nimir group in 1989, Mr. Amar was a banking veteran and served in the banking industry for more than 10 years. Other members also display sound profiles and experiences. Members' profile is, therefore, considered good.

Board Effectiveness The board has two sub committees namely Audit committee and Human Resource and Remuneration Committee. Board committees and adherence to corporate governance rules bodes well with the effectiveness of the company.

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 FY18.

Management

Organizational Structure Coordination and integration amongst the departments exists, with clear lines of responsibilities defined for each department and cadre within the departments. The departments are (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 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. The company has an able professional management team.

Effectiveness Senior management meetings are conducted regularly for discussion and decision making purposes. In addition, weekly management meetings are also held in which performance and targets of all the concerned departments are discussed in detail.

MIS SAP Business One was installed in July 2016 as MIS for provision of reliable financial system and reporting. The company maintains a comprehensive MIS reporting system for the management to keep track of activities including a range of reports on cash position, receivable position, payable position, production, inventory status reports, and segment wise profit & loss statement.

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

Business Risk

Industry Dynamics The demand for Nimir Resins products is on an upsurge with the developments in the overall economy and growth in different sectors. Various industries and sectors converge into the company's exposure since it manufactures a wide range of industrial chemicals which cater different sectors of the economy. Each sector exhibits a different demand and supply dynamics, thereby impacting Nimir Resins position in the market differently. Major sectors being served by the company include paints, textile, paper, tyres and rubbers. Much of the demand is coming from the textile sector, particularly finishing sub-sector.

Relative Position The company, operates in a highly competitive environment in which the unorganized segment poses threat to the large scale manufacturers. The management, is continually taking necessary actions to mitigate the opposing effect of the threats through enhanced focus on research and development and up-gradation of technology.

Revenues During FY18, the company's top-line clocked in at PKR 3,580mln (FY17: PKR 2,669mln) up by ~34% YoY. Whereas, in 3MFY19 the company has booked revenue of PKR 987mln. However, pricing indexed with dollar rates passes impact of rupee depreciation to the end consumers. In highly competitive segments, however, the company is yielding thin margins to stabilize and expand its business volumes.

Margins Cost of sales for the year increased by ~37% led mainly by higher raw material costs, as raw materials contribute ~92% to the cost of sales as a result the gross margin decreased to 9.2% (FY17: 11%) and operating margin down to 6.6% (FY17: 8.3%). Operating expenses of the company also increased by ~7%. Net profit of the company clocked in at ~PKR 103mln (FY17: ~PKR 74mln) up by ~40%.

Sustainability Going forward, the Company will continue to face competition from unorganized sector. Secondly, Pak Rupee Depreciation and higher interest rate would remain major challanges for Nimir Resins in the next year.

Financial Risk

Working Capital In FY18 inventory increased by ~58% as company purchased significant amount of inventory. Whereas, net working capital days were recorded at ~120 days in FY18 and ~129 days in FY17 as the average finished goods held days also reduced.

Coverages During FY18 operating cash flows amount increased to PKR 230mln (FY17: 157mln) up by ~46%. Whereas, finance cost was recorded at PKR 75mln (FY17: PKR 61mln) up by PKR 14mln, despite increased finance cost, the Company was able to improve its coverages to 3x in FY18 (FY17: 2x).

Capitalization The Company's capital structure is fairly leveraged at 56.8% in FY18 (FY17: 49.8%), the leveraging has further increased in the first three months of FY19 to 61.8%. Whereas, short-term debt of the Company stays standstill at 99.8% out of total debt from last three years.

PKR mln

Nimir Resins Limited

BALANCE SHEET	30-Sep-19	30-Jun-18	31-Mar-18	30-Jun-17	30-Jun-16
	3M	FY18	9M	FY17	FY16
Non-Current Assets	**511**	**518**	**524**	**526**	**485**
Investments (incl. Associates)	-	-	-	-	-
Equity	-	-	-	-	-
Debt Securities (incl. income funds)	-	-	-	-	-
Current Assets	**2,434**	**2,260**	**1,810**	**1,581**	**1,208**
Inventory	1,125	984	663	621	490
Trade Receivables	736	770	678	602	405
Others	573	507	469	358	313
Total Assets	**2,945**	**2,778**	**2,334**	**2,106**	**1,693**
Debt/Borrowings	**1,517**	**1,218**	**855**	**819**	**771**
Short-Term	1,512	1,212	848	816	771
Long-Term (incl. Current Maturity of Long-Term Debt)	5	6	7	2	-
Other Short-Term Liabilities	392	534	486	349	207
Other Long-Term Liabilities	15	15	13	28	130
Shareholder's Equity	**1,021**	**1,011**	**981**	**910**	**584**
Total Liabilities & Equity	**2,945**	**2,778**	**2,334**	**2,106**	**1,693**
INCOME STATEMENT					
Turnover	**987**	**3,580**	**2,498**	**2,669**	**1,778**
Gross Profit	76	330	219	297	234
Other Income	(1)	(68)	(64)	(39)	(10)
Financial Charges	(35)	(75)	(52)	(61)	(50)
Net Income	**10**	**103**	**71**	**74**	**53**
Cash Flow Statement					
Free Cash Flows from Operations (FCFO)	46	230	157	125	123
Net Cash changes in Working Capital	(345)	(508)	(89)	(241)	(460)
Net Cash from Operating Activities	(323)	(348)	14	(176)	(391)
Net Cash from InvestingActivities	(3)	(24)	(21)	(37)	(17)
Net Cash from Financing Activities	303	394	31	158	477
Net Cash generated during the period	(22)	23	24	(55)	69
Ratio Analysis					
Performance					
Turnover Growth (v.s same period last year)	37.8%	34.1%	24.8%	50.1%	-1.6%
Gross Margin	7.7%	9.2%	8.8%	11.1%	13.2%
Net Margin	1.1%	2.9%	2.8%	2.8%	3.0%
ROE	4.2%	20.4%	10.1%	10.0%	12.7%
Coverages					
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	3.0	2.9	2.0	2.5
Interest Coverage (times) (FCFO/Gross Interest)	1.3	3.1	3.0	2.1	2.5
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest)	0.1	0.0	0.0	0.0	2.7
Liquidity					
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	125	120	123	129	136
Leveraging (Total Debt/Total Debt+Equity)	61.8%	56.8%	52.4%	49.8%	64.4%

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

Rating Scale

Credit Rating Scale & Definitions

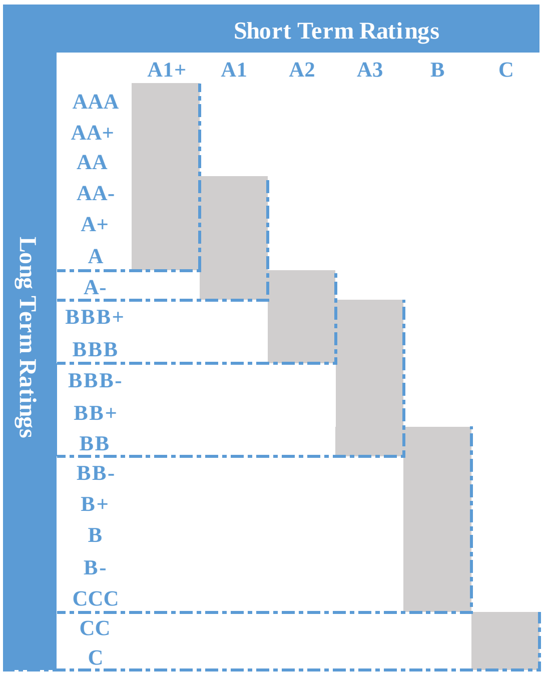
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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

Short Term Ratings

A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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

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

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

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

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

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

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

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information