



The Pakistan Credit Rating Agency Limited

Rating Report

Nimir Resins Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 reputable business profile subsequent to its takeover by Nimir Group. Established as a listed entity, a well-devised governance framework is in place along with the experienced management team and modern production facilities. The Company manufactures essential raw materials/ resins for various industries such as coating and emulsion, paper, textile etc. Demand drivers of these industries are closely linked up with economic growth and construction/infrastructure developments. Government has announced various construction packages which is a positive sign, eventually benefiting the Company. Overall industry comprehended recovery during 1HFY21 which is also evident from financial performance of the Company. Both revenues and margins of the Company posted growth during 9MFY21. Company was able to pass the impact of currency devaluation to its customers. The Company has generated sufficient cashflows to meet the working capital requirements. To meet the elevated product demand capacity expansions are underway. The financial profile of the Company is characterized by leveraged capital structure, mainly short-term borrowings, and adequate coverages. Going forward, growth in business would necessitate prudent management of margins, debt mix and sufficient internal capital formation. The ratings incorporate the expected support and the corporate guarantee of ultimate parent company, Nimir Industrial Chemicals Limited.

The ratings are dependent upon improving margins and profitability through product diversification and establishing a strong foothold in the related segments. Prudent management of liquidity profile in tough prevailing conditions is important ratings. Adverse impact on revenues and/or margins will have a negative impact on the ratings. Going forward, continuity of corporate guarantee from the parent company will remain critical.

Disclosure

Name of Rated Entity	Nimir Resins 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 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 the Beginning of 2016, the Company was re-acquired by Nimir group and was renamed to 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. Recently, 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 field 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. 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 corporate guarantee for Nimir Resins Limited. So in case of lean times Nimir Resins can get timely support from its parent company.

Governance

Board Structure Governance structure of the Company is designed to keep the company compliant with code of corporate governance (CCG) for listed entities; seven members on the board exist with one independent director. 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 association with 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 the 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 2020. The auditors are listed under Category 'A' of SBP's panel of auditors.

Management

Organizational Structure The structure of the Company is well-defined, 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 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 provision of reliable financial system and reporting. Prior to this application, Oracle EBS was installed for the six months till June-2016. Highly automated manufacturing and operational procedures transpire into operational efficiencies.

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.

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 finishing sub-sector. The key opportunity available to the Company includes steady growth in the demand of 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 2021, the revival of business and construction based activities have lifted the demand for the 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 case of textile chemicals, Nimir Resins is currently in the phase of affirming its footprint and tempering its position to grow and sustain as a major player in this sector

Revenues In 3QFY20, the Company recorded a significant ~37.1% growth in sales as against negative growth in FY20. This is due to account of recovery in demand post COVID-19 driven lockdown. Sale for FY20 were PKR 4,499mln (FY19: 4,883mln). 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 company deals directly is witnessing growth (Textile and construction)

Margins Nimir Resins gross margin largely remained stable (3QFY21: ~12%; FY20: 11%) on the back of improved prices and cheaper raw material for textile, paper & other segment. This translated into improved operating margins 9.9% (FY20: 8.8%; FY19: 8%). The impact on net margin was improved (3QFY21: 5.3%; FY20: 2.8%). This reduced impact was on account of higher finance cost (FY20: PKR 185mln; FY19: PKR 168mln). Pressure on finance cost released during 1QFY21 as it stood at PKR 85mln.

Sustainability Going forward, the Company projects a steady growth in top line over the course of next 3 financial years; with coating & emulsion segment being the one to be at the forefront as Nimir Resins look towards becoming a market leader in that area. The Company's projected gross sale for FY20 was PKR 4,500mln which it has comfortably achieved its targets. The company is currently expanding its existing capacity with a total cost ~ PKR 250mln

Financial Risk

Working Capital In FY20, net working capital cycle of Nimir Resins increased to 130 days (FY19: 111 days), as inventory days increased. Furthermore, due to a decrease in STB (FY20: PKR 1,057mln; FY19: PKR 1,485mln), the Company's room-to-borrow widened (FY20: PKR 783mln; FY19: PKR 647mln), resulting in an improved ST trade leverage adequacy (FY20: 30%; FY19: 19%). As the COVID-19 related pressures subsidized working capital also improved, came down to 104 days in 3QFY21.

Coverages Nimir Resins, during FY20, generated FCFO worth PKR 430mln (FY19: PKE 394mln) owing to improved profitability. During 3QFY21, FCFO was at PKR 495mln, more than what the company achieved in FY20. This resulted in better coverages during the period as interest coverages, increased to 6x (FY20: 2.4x),

Capitalization During 3QFY21, Nimir Resins reduced its leverage slightly to ~41% (FY20: ~43%; FY19: ~60%) yet remain in comfortable zone owing to uptick in total borrowing (3QFY21: PKR 1,161mln; FY20: PKR 1,088mln, FY19: PKR 1,492).



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Financial Summary
PKR mln

Nimir Resins Limited Chemical	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	1,057	997	537	518
2 Investments	-	-	47	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,694	2,532	2,468	2,260
a Inventories	1,068	1,272	857	984
b Trade Receivables	1,280	819	1,020	770
5 Total Assets	3,750	3,529	3,052	2,778
6 Current Liabilities	602	693	383	534
a Trade Payables	406	523	236	428
7 Borrowings	1,161	1,088	1,492	1,218
8 Related Party Exposure	107	107	107	107
9 Non-Current Liabilities	33	36	11	15
10 Net Assets	1,848	1,605	1,059	904
11 Shareholders' Equity	1,848	1,605	1,059	904

B INCOME STATEMENT

1 Sales	4,625	4,499	4,883	3,580
a Cost of Good Sold	(4,064)	(3,993)	(4,383)	(3,250)
2 Gross Profit	560	506	500	330
a Operating Expenses	(102)	(112)	(111)	(94)
3 Operating Profit	458	394	389	236
a Non Operating Income or (Expense)	(25)	(22)	(58)	(75)
4 Profit or (Loss) before Interest and Tax	433	372	331	160
a Total Finance Cost	(85)	(185)	(168)	(75)
b Taxation	(105)	(60)	(9)	18
6 Net Income Or (Loss)	243	127	154	103

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	491	430	394	229
b Net Cash from Operating Activities before Working Capital Cha	405	235	248	159
c Changes in Working Capital	(357)	162	(483)	(507)
1 Net Cash provided by Operating Activities	48	397	(235)	(348)
2 Net Cash (Used in) or Available From Investing Activities	(100)	(3)	(58)	(24)
3 Net Cash (Used in) or Available From Financing Activities	72	(404)	274	394
4 Net Cash generated or (Used) during the period	20	(9)	(19)	23

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	37.1%	-7.9%	36.4%	34.1%
b Gross Profit Margin	12.1%	11.2%	10.2%	9.2%
c Net Profit Margin	5.3%	2.8%	3.2%	2.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capit	2.9%	13.2%	-1.8%	-7.8%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total	18.1%	8.5%	15.2%	13.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	131	161	136	169
b Net Working Capital (Average Days)	104	130	111	140
c Current Ratio (Current Assets / Current Liabilities)	4.5	3.7	6.4	4.2
3 Coverages				
a EBITDA / Finance Cost	6.2	2.5	2.8	4.3
b FCFO / Finance Cost+CMLTB+Excess STB	3.7	2.3	2.4	3.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ	0.5	0.6	0.5	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.7%	42.7%	60.2%	59.5%
b Interest or Markup Payable (Days)	72.6	47.7	79.7	78.2
c Entity Average Borrowing Rate	8.3%	13.3%	10.4%	6.6%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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