The Pakistan Credit Rating Agency Limited

Rating Report

Multi Resin Industries

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Jan-2023	BBB-	A2	Stable	Maintain	-
03-Jan-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Multi Resin Industries (‘MRI’ or ‘the Firm’) is primarily engaged in the manufacturing & sale of industrial resins, characteristically used across a wide range of corporate sectors in Pakistan. The ratings reflect firm’s emerging presence in chemical industry underpinned by the supply of a diversified product portfolio to create value for its clients and support sustainable development. The growth of this industry relies on overall economic progress and infrastructural activities, major contribution coming from paints & coating and textile, expected to grow at a CAGR of 15% and 5%, respectively. Resin manufacturing industry is highly competitive owing to unorganized small producers, consequently impacting margins for large scale producers. The segment is mostly price taker, given high reliance on imported raw material and offtake of finished goods is in the local market. The industry is prone to global supply-chain disruptions owing to high reliance on imported raw materials. Barriers to entry for new competitors are quite low on account of minimal capital requirements and uncomplicated production process. Resins are mainly made of different oil derivates with strong linkage to international oil prices subject to high volatile sector. The key opportunities are generically available to the firm in textile domain for the supply of finishing, wetting & sizing agents, pigment & printing dying binders, and denim coating products. Resultantly, MRI captures market share of around ~15% in Pakistan's Water Base Emulsion Industry. MRI’s concentration risk stands moderate as it doesn't hold any customer that constitutes more than 10% of the total revenue. Ownership structure of the firm is majorly represented by family members. The management intends to materialize the envisaged strategies by enhancing the production capacity, followed by commencement of in-house production of packaging materials, and transforming the status of partnership concern into Private Limited Company in longer run. Financial profile of the firm is considered adequate with comfortable coverages, upright working capital management and healthy cash flows. MRI’s capital structure is moderately leveraged, merely encompassed of short-term borrowings. Implementation of good governance structure is required to ensure compliance at all levels and smooth running of operations.

The ratings are dependent on the firm’s ability to sustain its position amidst changing business environment and management’s ability for successful strategy execution pertaining to corporatization. With growth in firm’s volume; prudent financial performance and effective liquidity profile shall remain imperative.

Disclosure

Name of Rated Entity	Multi Resin Industries
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),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Chemical(Jul-22)
Rating Analysts	Iqra Toqeer | iqra.toqeer@pacra.com | +92-42-35869504

Profile

Legal Structure Multi Resin Industries (hereinafter referred to as 'the firm') is a Partnership Firm established in 1997 as a firm registered under Partnership Act, 1932.

Background Business was primarily established by Mr. Muhammad Sharif (late) sons. Initiated in Hyderabad (Sindh) with small-scale production having capacity of 30 tons per month. It was then further expanded to other cities of Pakistan including Karachi, Lahore, Faisalabad, Rawalpindi, Islamabad, Peshawar. Firm's office along with warehousing facility was set up in Lahore and Faisalabad in 2004 and 2013 respectively.

Operations Firm is involved in the production & sale of chemical emulsions, including adhesive emulsions, homo polymer, co-polymer, cross linking agent, acrylates based dispersion, pure acrylates emulsion and styrene modified acrylates emulsion. These products are sold under the brand name of Multiteck and are widely used in textile, paint, paper & packaging, construction, leather and wood sectors.

Ownership

Ownership Structure Multi Resin Industries is registered as a Partnership firm and owned by seven Partners. Mr. Farooq Ahmed owns 14.5% and other six partners hold 14.25% each.

Stability Multi Resin Industries is almost equally owned by all the seven partners; however, it needs to have a formal succession planning in order to ensure that future prospects are taken care of in the hour of need.

Business Acumen The key partner Mr. Farooq Ahmed along with two other partners which are Mr. Muhammad Anees and Mr. Muhammad Asif have extensive chemical industry experience of over 23 years.

Financial Strength Financial strength of the sponsors is considered adequate as they have been able to finance the business directly through capital injection.

Governance

Board Structure The overall control of the firm vests in seven-members (partners). Apart from the Chairman, two partners have executive roles in the firm. Governance structure has room for improvement as currently, Multi Resin is a partnership concern.

Members' Profile Three members involved in business are experienced individuals. They carry over twenty-three years' experience of the chemical industry. Mr. Farooq Ahmed, the chairman, is the chemical engineer and has over two decades of experience in related field. He is the core person behind the success of the firm leading with his visionary leadership.

Board Effectiveness There is as such no board committee. Three partners also have management positions in the company which inhabits the room for impartial oversight and strong governance.

Financial Transparency M/S Clarkson Hyde Saud Ansari - Chartered Accountants, a QCR rated firm, is the external auditor of the firm. The auditors have expressed an unqualified audit opinion on the financial statements of Multi Resin Industries for the year ended June 30, 2022.

Management

Organizational Structure A simplified organizational structure exists in Multi Resin. Operations are segregated into six broad departments, (i) Sales & Marketing, (ii) Information Technology, (iii) Procurement, (iv) Operations Management, (v) Quality Control, and (vi) Finance. Clear lines of responsibility are defined for each department.

Management Team Mr. Farooq Ahmed (Chairman) & Mr. Muhammad Anees (CEO) are involved in key decisions of the firm. Another partner, Mr. Muhammad Asif is textile engineer and is heading sales & marketing department. Mr. Amir parvaiz (CFO) is a chartered accountant holding ample experience. Mr. Ubaid Farooq, who is the son of Mr. Farooq Ahmed (Chairman), is actively involved in the business and currently heading overall operations of the firm.

Effectiveness With the support of a qualified and experienced team of professionals, Multi Resin Industries is building up the business strengths and increasing its foot print across different cities of Pakistan. Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives.

MIS Multi Resin Industries is using Oracle software with version 9i provided by Afroz. The software keeps track of receivable, payable, general ledger, accounts, etc.

Control Environment Firm follows a balanced and environment-friendly growth strategy in all their operations and has adopted sustainable growth principles that emphasize diminishing the environmental harm. In 2009, firm has been awarded ISO 9001-2008 by TUV Austria Hellas (former Moody Intertek).

Business Risk

Industry Dynamics Multiple sectors come under the umbrella of firm's exposure since it manufactures chemical emulsions & resins which cater to diversified needs. Resins primarily drive its demand from textile, paper & packaging, paint, construction and wood sectors. Thus, each sector exhibits a different demand and supply dynamics, resultantly impacting Multi Resins position in the market differently. Major factor driving the market is growing demand of textile and paints & coatings from architectural coating, expected to grow at a CAGR of 5% and 15% respectively. Raw material holds the biggest portion in cost of production. Resins are made of different grades, mainly oil derivatives with strong linkage to international oil prices. The production capacity of resin segment is ~61,000MT.

Relative Position The demand for Firm's products rely on the economic activities, growth of prime market and related sectors. The firm operates in a highly competitive environment, predominantly covered by MNCs & large-scale local producers. Hence, the management is continually taking necessary actions to mitigate the opposing effect of the threats through efficient utility systems, increased production capacity, improved buying power, enhanced focus on R&D and adaption of new technology by hiring foreign consultants. The Firm holds 15% market share and is tempering its position to grow & sustain as a major player for the supply of water-based emulsions in textile and paints & coating sectors.

Revenues During FY22, the firm registered revenue growth of ~20.8% (FY21: ~42.5%). Topline for FY22 clocked at PKR 2,658mln (FY21: 2,200mln). Sales to textile & paint sectors contribute majorly in net revenue figure. Meanwhile, firm is not prone to concentration risk as it doesn't hold any customer that constitutes more than 10% of the total revenue. In the near future, Multi Resin expects to witness persistent growth as the sectors in which firm currently operates are witnessing growth (Textile, Paint & Coatings, Construction).

Margins With rise in materials cost during period under review, the firm witnessed a decline in gross margin and stood at 12.1% (FY21: 17.7%). Resultantly, the operating margin was recorded at 10.3% (FY21: 15.8%) which further influenced the bottom line. The firm's net profit clocked at PKR 161mln during FY22 (FY21: PKR 209mln), hence registering net margin of 6.1% (FY21: 9.5%, FY20: 3.8%).

Sustainability Multi Resin's management envisage sustainable footing in the market by planning to move to a private limited company structure instead of partnership in near future and will continue to work for a sustainable future with more efficient and successful projects with technical competency, experience, quality, speed, high technology, creativity and corporate responsibility. New projects in pipeline stand to lift the topline as the firm's eyes geographical diversity in its business stream.

Financial Risk

Working Capital The Firm predominantly depends on equity-based funding. For working capital needs, which is a function of inventory and receivables, firm relies on internal cash flows. Firm's average gross working capital cycle increased to 98 days in FY22 from 88 days during preceding year mainly on back of increase in inventory days to 64 (FY21: 51 days). Net working capital cycle also increased to 93 days from 82 days in FY21.

Coverages In FY22, firm's operating cash flows (FCFO) marked at PKR 109mln (FY21: 235mln; FY20: PKR 89mln) on account of gross profit incurred PKR 320mln in FY22 (FY21: PKR 390mln). Core-debt coverage ratio of the firm stood at 2.2x (FY21: 6.4x). The firm has not majorly procured long-term debt so far and has been funding the business through its equity, so going forward if circumstances demand Multi Resin has enough room to procure debt to further fuel its already robust growth.

Capitalization During FY22, Multi Resin recorded its leverage ratio at ~32.3% (FY21: ~23.7%; FY19: ~31.7%). Debt burden of the firm solely comprises of short-term borrowings and increased to PKR 515mln from PKR 294mln during preceding year. The firm has not yet majorly availed long-term credit line facility from any banks/FI.

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Financial Summary
PKR mln

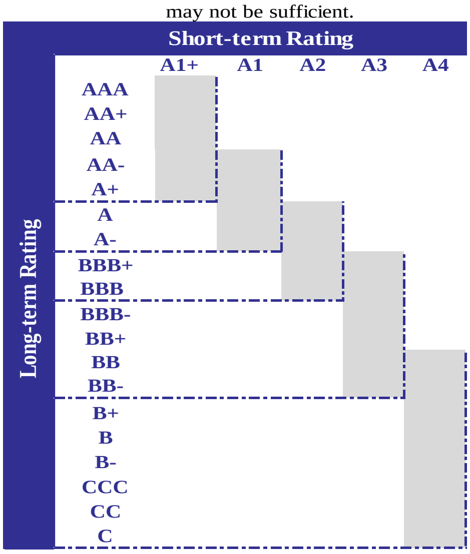
Multi Resin Industries (REGD.) Chemicals	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	328	337	311	314
2 Investments	-	-	-	-
3 Related Party Exposure	48	-	-	-
4 Current Assets	1,341	970	858	821
a Inventories	*598*	*328*	*292*	*117*
b Trade Receivables	*260*	*240*	*205*	*364*
5 Total Assets	1,717	1,307	1,169	1,135
6 Current Liabilities	111	68	76	27
a Trade Payables	*46*	*32*	*45*	*25*
7 Borrowings	518	294	346	411
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	1,088	945	747	698
11 Shareholders' Equity	1,088	945	747	698
B INCOME STATEMENT				
1 Sales	2,658	2,200	1,544	2,424
a Cost of Good Sold	*(2,338)*	*(1,810)*	*(1,354)*	*(2,159)*
2 Gross Profit	320	390	190	266
a Operating Expenses	(46)	(42)	(32)	(40)
3 Operating Profit	275	349	158	225
a Non Operating Income or (Expense)	*(1)*	-	-	-
4 Profit or (Loss) before Interest and Tax	274	349	158	225
a Total Finance Cost	*(60)*	*(45)*	*(70)*	*(74)*
b Taxation	*(53)*	*(95)*	*(30)*	*(45)*
6 Net Income Or (Loss)	161	209	59	107
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*109*	*235*	*89*	*138*
b Net Cash from Operating Activities before Working Capital Changes	*109*	*235*	*89*	*138*
c Changes in Working Capital	*(316)*	*(110)*	*30*	*(47)*
1 Net Cash provided by Operating Activities	(208)	125	119	91
2 Net Cash (Used in) or Available From Investing Activities	(17)	(52)	(27)	(68)
3 Net Cash (Used in) or Available From Financing Activities	206	(64)	(74)	(11)
4 Net Cash generated or (Used) during the period	(19)	10	19	12
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	20.8%	42.5%	-36.3%	45.6%
b Gross Profit Margin	12.1%	17.7%	12.3%	11.0%
c Net Profit Margin	6.1%	9.5%	3.8%	4.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-7.8%	5.7%	7.7%	3.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	15.8%	24.7%	8.1%	16.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	98	88	116	75
b Net Working Capital (Average Days)	93	82	107	72
c Current Ratio (Current Assets / Current Liabilities)	12.1	14.2	11.2	30.6
3 Coverages				
a EBITDA / Finance Cost	4.8	9.0	2.2	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	6.4	1.6	2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.3%	23.7%	31.7%	37.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	12.0%	12.8%	14.4%	16.6%

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.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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)
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