

## MIMA Leather (Pvt.) Ltd.

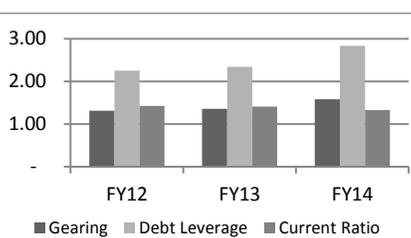
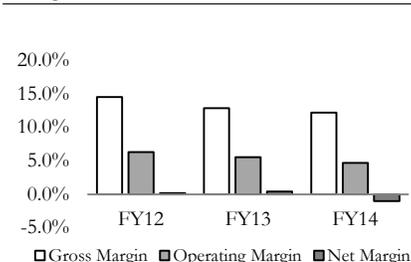
Chairman: Mr. S. M. Saleem; Chief Executive: Mr. S. M. Naseem

May 5, 2015

**Analysts:** Talha Iqbal  
Mohammad Arsal Ayub

Category	Latest	Previous
<b>Entity</b>	<b>BBB/A-3</b>	<b>BBB/A-3</b>
	May 4, '15	April 9, '14
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>
	May 4, '15	April 9, '14

### Key Financial Trends



(Rs. in millions)	FY12	FY13	FY14
<b>Net Sales</b>	1,022.0	1,237.6	1,106.7
<b>Net Profit</b>	1.6	5.3	(11.3)
<b>Equity*</b>	361.6	386.5	382.7
<b>Total Debt*</b>	475.2	525.4	606.0
<b>Debt Leverage (x)*</b>	2.26	2.35	2.84
<b>Gearing (x)*</b>	1.31	1.36	1.58
<b>FFO</b>	18.3	14.9	7.0
<b>ROAA(%)</b>	0.2%	0.4%	-

\*Considering interest-free loan from directors, and Share Deposit money from Associates as part of equity.

### Rating Rationale

Leather industry in Pakistan is an export-oriented industry contributing ~5.4% of the total export earnings and ~5% of the GDP. During FY14, leather exports grew by 11% to US\$ 1,275m vis-à-vis US\$ 1,145m in the preceding year. However, the industry is presently facing a number of challenges including slowdown in the Eurozone, which is a major export destination for Pakistan's leather industry. In addition to this, steep decline in Euro/PKR parity subsequent to year-end 2014 (15.6% from end-June 2014 to end-Feb 2015) has impacted margins of industry players. The impact of these developments is evident in the export figures of 1HFY15 that feature both a quantitative and value decrease in leather exports. Some relief may be expected in terms of the cost of doing business, in view of the recent decline in interest rates and oil prices.

Mima Leather (Private) Limited (MLPL) is involved in the process of leather tanning and deals primarily in goat skin leather. MLPL is a Mima Group company that has six other companies under the umbrella and has presence in leather and textile industry. The company's gross turnover, comprising almost entirely of export sales, declined by 9% during FY14 on account of changing demand patterns and slowdown in the Eurozone. Sales mix of MLPL primarily features sale of finished leather which represented around 86.4% (FY13: 78.3%) of total sales. Top 5 export destinations generate about three quarters of the gross sales with Spain, China and Germany being the leading contributors to export sales. The management has increased sales to clients in the local market while sales to Far East destinations and China have also showcased an uptick on a timeline basis.

Even though average selling price for each unit increased by more than the increase in price for goat hide, gross margins of the company still declined slightly to 12.2% (FY13: 12.9%); the same may be attributed to the lower turnover and increase in employee & power related manufacturing expense. Decline in gross margins was despite Rupee depreciation of 4.4% in FY14. Accounting for sizeable finance cost and operating expenses, the company incurred loss in FY14. Margins have witnessed pressure in 1HFY15 due to Euro depreciation; however, management expects pressure on margins to be mitigated in view of recent dip in the cost of hides.

With losses incurred in FY14, funds flow from operations (FFO) declined to Rs. 7m (FY13: Rs. 15m). Given the lower turnover, the company's inventory levels have risen and accordingly cash conversion cycle has lengthened. Resultantly, debt levels have increased and leverage indicators have trended upwards. Borrowings are entirely short term in nature and matched by stock-in-trade. With limited profitability and hence internal liquidity generation, borrowing requirements may vary with raw material prices. No long term funding is planned to be mobilized over the foreseeable horizon.

Shareholding is vested with family members who are represented on the company's Board of Directors while also holding key management positions. Support from sponsors is evident from provision of interest free loans, from directors, and Share Deposit Money from associate companies. MLPL has implemented an Oracle based ERP system which encapsulates the financial and operating activities of the business.

### Overview of the Institution

Incorporated in 1972 as a private limited company, MIMA Leather (Pvt.) Limited is ISO certified with its primary activity being leather tanning of goat and sheep skins. The factory is situated at Korangi Industrial Area, Karachi with an annual production capacity of 12m sq. feet for finished leather. The financial statements for FY14 have been audited by M. Yousuf Adil Saleem & Co. JCR-VIS