

## RATING REPORT

### MIMA Leather (Private) Limited

**REPORT DATE:**

October 11, 2017

**RATING ANALYSTS:**

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**RATING DETAILS**

| Rating Category     | Latest Rating         | Previous Rating    |
|---------------------|-----------------------|--------------------|
| Entity              | BBB-/A-3              | BBB/A-3            |
| <i>Rating Date</i>  | <i>October 9, '17</i> | <i>June 3, '16</i> |
| Rating Outlook      | Negative              | Stable             |
| <i>Outlook Date</i> | <i>October 9, '17</i> | <i>June 3, '16</i> |

**COMPANY INFORMATION**

|   |   |
|---|---|
| Incorporated in 1972                              | <b>External auditors:</b> Deloitte Yousuf Adil, Chartered Accountants |
| Private Limited Company                           | <b>Chairman of the Board:</b> Mr. S. M. Saleem                        |
| <b>Key Shareholders (with stake 10% or more):</b> | <b>Chief Executive Officer:</b> Mr. S.M. Naseem                       |
| Mr. Shahid Hussain - 11.99%                       |   |
| Mr. Farrukh Hussain Sheikh - 11.08%               |   |
| Mr. S.M. Saleem - 10.32%                          |   |
| Mr. S.M. Naseem - 10.32%                          |   |

**APPLICABLE METHODOLOGY(IES)**

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/images/methodology.pdf>

## MIMA Leather Private Limited

### 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 FY17 have been audited by Deloitte Yousuf Adil, Chartered Accountants.*

### RATING RATIONALE

MIMA Leather (Private) Limited (MLPL) is a private limited company involved in the business of converting goat hides to finished leather. MLPL belongs to MIMA Group comprising five other companies under its ambit with presence in leather and textile sectors. Shareholding of the company remains unchanged and is vested solely by various family members. Current ratings of MLPL account for profile of sponsors who have extensive experience in the leather industry.

#### Key Rating Drivers:

**Sales Mix:** Given fall in trade volumes of leather products globally, financial profile of MLPL has weakened on a timeline basis. Majority of sales comprise exports to the European region; a decline of 32% was witnessed on account of volumes during FY17. However, given the rise in demand locally, management plans to increase focus on the same with a 10% target of the total sales for the ongoing year. Europe continues to remain an important market for MLPL; expansions in the untapped countries are planned, going forward. Sales to Eurozone represent almost 50% (FY15: 60%) of total sales. Both client and country wise concentration in sales is on the higher side with top three countries generating 65% of total revenue.

**Profitability:** Despite a significant fall in prices of raw material vis-à-vis relatively stable average selling prices, gross margins were reported lower on account of both high cost inventory carried from the preceding year as well as a significant fall in volumetric sales. However, the management perceives raw material prices to have now bottomed out with no further reduction anticipated. Decline in gross profits translated into a sizeable loss before tax of Rs. 70.4m (FY15: loss of Rs. 63.5) during FY16. During FY17, MLPL booked a net profit of Rs. 13.0m, a result of income earned through sale of investment property. However, effect of this gain was largely offset by an operating loss incurred during the same period. Going forward, profitability is expected to remain under pressure given lower selling prices and subdued demand of leather products. Hence, achieving projected sales volumes is considered important in terms of profitability.

**Inventory & Funding:** Inventory carried on the balance sheet is on the higher side and represented more than one year of sales at end-FY17. The management has enhanced focus on reducing inventory levels on account of which purchases have been curtailed in the ongoing year. Going forward, the management aims to aggressively sell its stock-in-trade coupled with no major purchases. Borrowings (FY17: Rs. 601.1m; FY16: Rs. 591.8m; FY15: Rs. 633.9m) are utilized to fund inventory carried on the balance sheet and are entirely short term in nature. Stock-in-trade represented 155% (FY16: 167%; FY15: 164%) of borrowings at end-FY17.

**Liquidity:** Liquidity profile of the company has weakened on a timeline basis with negative cash flows & an increase in cash conversion cycle. With the company incurring loss during FY16, funds from operation was negative which were majorly funded through decline in trade debts & stock-in-trade.

**Capitalization:** Consistent losses have resulted in equity attrition on timeline basis. Total equity (including loan from directors) of MLPL fell significantly to Rs. 269.1m (FY15: Rs. 332.5m; FY14:Rs. 382.6m) due to the loss incurred in the outgoing year. However, capitalization levels were marginally supported by gain on sale investment property during FY17. At these capitalization levels, leverage indicators remain on the higher side with gearing and debt leverage reported at 2.0x (FY16: 2.0x; FY15: 1.7x; FY14: 1.5x) and 3.2x (FY16: 3.6x; FY15: 3.1x; FY14: 2.8x), respectively at end-FY17. In order to keep the equity base sustainable, equity injection is considered necessary. This will improve the risk profile of the institution and will facilitate in improving liquidity profile, reducing leverage indicators and expanding borrowing capacity.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| REGULATORY DISCLOSURES              |   | Appendix II           |                       |                      |
|-------------------------------------|---|-----------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | MIMA Leather Private Limited  |                       |                       |                      |
| <b>Sector</b>                       | Tanneries and Leather Products  |                       |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |                       |                       |                      |
| <b>Purpose of Rating</b>            | Entity Rating   |                       |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Current Rating</b> | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b>RATING TYPE: ENTITY</b>  |                       |                       |                      |
|                                     | 10/09/2017  | BBB-/A-3              | Negative              | Downgrade            |
|                                     | 06/03/2016  | BBB/A-3               | Stable                | Reaffirmed           |
|                                     | 05/04/2015  | BBB/A-3               | Stable                | Reaffirmed           |
|                                     | 04/09/2014  | BBB/A-3               | Stable                | Reaffirmed           |
|                                     | 04/08/2013  | BBB/A-3               | Stable                | Reaffirmed           |
|                                     | 02/13/2012  | BBB/A-3               | Stable                | Reaffirmed           |
| <b>Instrument Structure</b>         | N/A   |                       |                       |                      |
| <b>Statement by the Rating Team</b> | JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.  |                       |                       |                      |
| <b>Probability of Default</b>       | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.  |                       |                       |                      |
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