

MIMA Leather (Pvt.) Ltd.

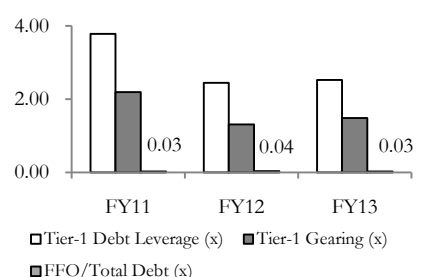
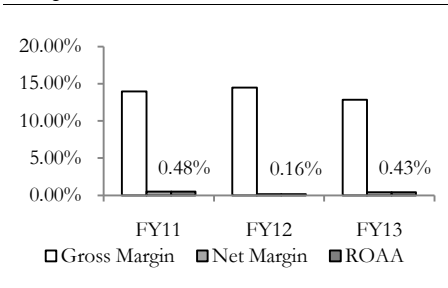
Chairman: Mr. S. M. Saleem; Chief Executive: Mr. S. M. Naseem

April 25, 2014

Analysts: Amir Shafique
Muniba Khan

Category	Latest	Previous
Entity	BBB/A-3 <i>April 09, '14</i>	BBB/A-3 <i>April 08, '13</i>
Outlook	Stable <i>April 09, '14</i>	Stable <i>April 08, '13</i>

Key Financial Trends



(Rs. in millions)	FY11	FY12	FY13
Net Sales	964.7	1,022.0	1,237.6
Net Profit	4.6	1.6	5.3
Equity	217.0	361.6	366.9
Total Debt	476.9	475.2	544.9
Debt Leverage (x)	3.8	2.4	2.5
FFO	14.9	18.3	14.9
FFO/Total Debt (%)	3.1%	3.9%	2.7%
ROAA(%)	0.5%	0.2%	0.4%

Rating Rationale

Leather is the fourth largest export sector of the country; contributing 4.9% to total exports. While Pakistan is endowed with a large animal population, the leather industry has not been able to realize its full potential. Almost half of the country's exports comprise tanned leather, with less focus on value added product segments. In recent years, the industry has been facing supply side shifts with respect to raw material as rising prices have impacted the animal purchasing pattern of consumers. The Economic Coordination Committee (ECC) has banned export of live animals with effect from October 1, 2013 onwards. It is likely that these developments may help in restricting the price increase in foreseeable future. However, illegal trade with neighboring countries remains an issue.

MIMA Leather (Pvt.) Limited (MLPL) primarily focuses on tanning 'soft' leather (goat/sheep skin) which is then further used for shoes, garments and gloves manufacturing. The company meets its raw material requirements from the local market only. As per management, less wastage is incurred in local purchases as material can be obtained in line with company's specifications. In FY13, gross margins witnessed a decline from 14.5% to 12.9%; this is despite continuing Rupee depreciation. To improve sales in the on-going year, the company is exploring new countries to market its products. Marketing strategy primarily involves participation in trade fairs as well as through dedicated agents in these countries.

Similar to its associate concerns, sales of the company are largely generated from China and the European markets. Inventory levels have remained on the higher side over the years, increasing further in FY13. On account of this, debt levels also increased.

In line with reduced margins, FFO declined to Rs. 14.9m in FY13 (FY12: Rs. 18.3m). While FFO to total debt remains nominal, borrowings are entirely short term in nature and matched by stock-in-trade. Going forward, inventory levels are expected to remain on the higher side which would increase working capital requirements. Longer inventory holding period and higher associated finance cost may have some negative impact on the company's bottom line unless it is off-set by higher product prices. Moreover, Rupee has lately experienced appreciation which may have a negative impact on margins of export oriented companies.

Shareholding is vested with family members who are represented on the company's Board of Directors while also holding key management positions. 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 FY13 have been audited by M. Yousuf Adil Saleem & Co. JCR-VIS

JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
09-Apr-14	BBB	Stable	A-3	Reaffirmed
08-Apr-13	BBB	Stable	A-3	Reaffirmed
13-Feb-12	BBB	Stable	A-3	Reaffirmed
23-Apr-10	BBB	Stable	A-3	Initial