RATING REPORT

MIMA Leather (Private) Limited

REPORT DATE:
June 03, 2016

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Entity	**BBB**	**BBB**
Rating Date	*June 3,'16*	*May 4,'15*
Rating Outlook	Stable	Stable
Outlook Date	*June 3, '16*	*May 4, '15*

COMPANY INFORMATION	
Incorporated in 1972	**External auditors:** M/s M. Yousuf Adil Saleem & Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. S. M. Saleem
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** 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 involved in leather tanning of goat and sheep skins. The factory is situated at Korangi Industrial Area, Karachiwith an annual production capacity of 10m sq. feet for finished leather.

MLPL is a Mima Group company that has six other companies under the umbrella and has presence in leather and textile industry.

The financial statements for FY15 have been audited by M. Yousuf Adil Saleem & Co.

An Oracle-based Enterprise Resource Planning (ERP) system is installed by the company which encapsulates the financial and operating activities of the business.

RATING RATIONALE

Mima Leather (Private) Limited (MLPL) is a private limited company involved in the business of converting goat hides to finished leather. The company is amongst the large tanneries in the country and has over 4 decades of experience in the leather sector. Shareholding of the company is held by various family members.The rating of MLPL derives strength from track record of sponsors who have extensive experience in the leather industry.

The global trade of leather products is subject to cyclical demand patterns while the gross margins in the business have also seen notable volatility. Leather industry in Pakistan is largely export-oriented with third largest contribution (4.5%) to the country's total exports, after textile (54%) and rice (9%). However, Pakistan's share in global leather exports is limited to around 1%.According to the Pakistan Tanner Association (PTA), leather contributes 6.15% to GDP and 6.56% to the country's foreign exchange earnings. Leather industry is currently facing a challenging operating environment with significant pressure on sales and margins. Given the slowdown in Eurozone & China and significant depreciation of Euro against PKR, leather exports have witnessed a significant decline. Given the current sector dynamics, financial profile of MLPL has weakened on a timeline basis.

Major portion (around 95%) of net sales of the company comprise export sales. However, proportion of local sales has witnessed an increase in the outgoing year with management expecting gradual increase in the same, going forward. Sales to Eurozone represent almost 60% of total sales. Both client and country wise concentration in sales is on the higher side. Around two-third of total sales are generated through top 5 clients.Moreover, top three countries generate over half of the total sales. Concentration in sales is partly mitigated given the long-term association with most large clients. While prices of raw material have declined at a faster pace vis-à-vis dip in average selling prices, gross margins were reported lower on account of high cost inventory carried from the preceding year. Decline in gross profits alongwith very limited reduction in operating expenses and finance cost translated into a sizeable loss before tax of Rs. 53.6m during FY15. During 1H16, revenues have witnessed a decline by 31% vis-à-vis corresponding period last year. Going forward, decline in raw material prices, reduction in operating expenses and lower finance cost is projected to allow the company to achieve profitability for FY16. Achieving projected sales volumes is considered important for the same.

Inventory carried on the balance sheet is sizeable and represented around one year of sales at end-FY15. The management has enhanced focus on reducing inventory levels on account of which purchases have been curtailed in the ongoing year. Borrowings (1H16: Rs. 565.7m; FY15: Rs. 633.9m; FY14: Rs. 633m)are utilized to fund inventory carried on the balance sheet and are entirely short term in nature. Stock-in-trade represented 139% (FY15: 164%; FY14: 176%) of borrowings at end-Dec'2015.

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 FY15, funds from operation was negative. Negative cash flows were majorly funded through interest free loan from directors and better working capital management with decline in stock-in-trade, trade debts &stores and spares.

Total equity (including loan from directors) of MLPL fell significantly to 332.5m (FY14:Rs. 382.6m) due to the loss incurred in the outgoing year. Leverage indicators have trended upwards with gearing and leverage reported at 1.7x (FY14: 1.5x) and 3.1x (FY14: 2.8x), respectively at end-FY15. MLPL's management plans to inject equity of Rs. 100m during CY16.

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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

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

(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

'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.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	MIMA Leather Private Limited
Sector	Tanneries and Leather Products
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	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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Rating History

Rating Date	Medium toLong Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY			
06/03/2016	BBB	Stable	Reaffirmed
05/04/2015	BBB	Stable	Reaffirmed
04/09/2014	BBB	Stable	Reaffirmed
04/08/2013	BBB	Stable	Reaffirmed
02/13/2012	BBB	Stable	Reaffirmed