RATING REPORT

MIMA Knit (Pvt) Limited (MKPL)

REPORT DATE:
26th September, 2018

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BB	B
Rating Outlook	Stable	
Rating Date	25th September 2018	

COMPANY INFORMATION	
Incorporated in 2004	**External auditors:** Deloitte Yousuf Adil Chartered Accountants
Private Listed Company	**Chairman:** S.M. Saleem
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Rehan Shahid
Universal Leather (Pvt) Ltd – 49.8%	
Hub Leather (Pvt) Ltd – 40.0%	
Directors/Sponsors – 10.2%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria ***Industrial Corporates (May 2016)***
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

MIMA Knit (Pvt) Limited

OVERVIEW OF THE INSTITUTION

MIMA Knit (Pvt) Limited (MKPL) is a MIMA GROUP company, which operates in the leather and textile industry of Pakistan. It comprises four companies involved in manufacturing of knitwear, cloth and leather.

RATING RATIONALE

MIMA Knit (Pvt) Limited (MKPL) is part of the MIMA Group of companies and comprises MIMA KNIT (socks), MIMA Cotton (cloth), MIMA Apparel (clothing), MIMA leather, Universal Leather, HUB leather and HUB stores (leather products and retail). The group's annual sales turnover is 4 billion rupees.

Rating Drivers

Corporate Governance: Overall corporate governance has room for improvement through inclusion of independent directors. Furthermore, a board audit committee may be formed.

Industry: The Pakistani sock manufacturing industry as a whole faced a downturn in FY17 as demand shifted out of the country. Previously, 70% to 80% of the socks manufactured in Pakistan were exported to the United States. The industry is expected to gain traction going forward as American sock import trends are reverting back to Pakistan from countries such as China

Profitability: In line with the industry trend, MKPL's has demonstrated a negative trend in its sales on a timeline basis. Sales for MKPL dipped to Rs. 486.1m in FY17 (FY16: Rs. 935.8m) primarily due to reduction in demand from Pakistan by major players in the United States and Europe. MKPL has witnessed low capacity utilization levels of around 25% in FY17 as a result of the aforementioned decrease in demand. The industry has been under pressure since FY15 and has had a significant effect on the export sales of the company. However, because of the adverse conditions of the market and sales being largely concentrated in the export market, fixed costs of MKPL are being allocated on lesser revenue. The company suffered a negative gross margin which was recouped partly on sale of an asset whereby a one-time gain of around Rs. 100 million was realized.

Liquidity and Capitalization: In line with profitability trend, the cash flow indicators of MKPL have trended downwards on a timeline basis. Funds from Operations (FFO) of the company have declined to Rs. -85.9m in FY17 (FY16: Rs. -30.0m). This has also led to indicators measuring FFO in relation to outstanding obligations to decline further along with an adverse effect on the debt servicing ability of MKPL. Furthermore, MKPL's inventory and trade debts on the balance sheet are also insufficient to cover the short term borrowings taken up by the company. Cash flow generation ability is expected to improve on the back of higher anticipated volumetric sales going forward.

Leverage: MKPL's leverage indicators are considered high, although they have remained on similar levels year on year. Total borrowings stood at Rs. 429.4m at end FY17 (FY16: Rs. 480.8m), majority of which constituted short term borrowings, whereas equity stood at a slightly reduced Rs. 331.0m at end FY17 (FY16: Rs. 339.8m). Resultantly, gearing dropped slightly to 1.3x (FY16: 1.4x) while leverage as at FY17 dropped to 1.7x (FY16: 2.0x). Given that the management does not plan to take any expansionary measures going forward, gearing and leverage indicators are expected to remain around the same levels.

Outlook

We have been given to understand that there are no further expansion plans for the company pending improvements in the financial profile of MKPL. Industry conditions for sock manufacturers are expected to improve owing to anticipated Rupee devaluation and a reversal of demand shift towards socks manufactured in Sri Lanka, Pakistan, Bangladesh and India instead of China.

FINANCIAL SUMMARY *(Rs. in Millions)*			Appendix I
BALANCE SHEET	**FY17**	**FY16**	**FY15**
Property, Plant and Equipment	425.8	498.2	489.5
Stock-in-Trade	281.8	309.3	432.6
Trade Debts	51.3	65.3	56.5
Cash & Bank Balances	24.0	23.7	19.5
Total Assets	899.6	1,008.1	1,142.9
Trade and Other Payables	104.8	140.6	112.1
Long Term Debt *(*incl. current maturity)*	38.1	61.9	85.8
Short Term Debt	391.3	418.8	482.3
Total Equity	331.0	339.8	404.1
INCOME STATEMENT			
Net Sales	486.1	935.8	960.9
Gross Profit	-43.2	26.2	124.9
Operating Profit	-5.2	-57.8	33.9
Profit After Tax	-8.8	-64.3	24.3
RATIO ANALYSIS			
Gross Margin (%)	-8.9%	2.8%	13.0%
FFO to Total Debt (%)	-20.0%	-6.3%	13.5%
FFO to LT Debt (%)	-225.7%	-48.5%	89.6%
Gearing (x)	1.3	1.4	1.4
Leverage (x)	1.7	2.0	1.8
DSCR (x)	-1.2	0.1	2.8
ROAA (%)	-0.9%	-6.0%	2.1%
ROAE (%)	-2.6%	-17.3%	6.0%

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.

<table>
<tr><th colspan="6">REGULATORY DISCLOSURES — Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Mima Knit (Pvt) Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Textile</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="3">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>25-Sep-2018</td><td>BB</td><td>B</td><td>Stable</td><td>Initial</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">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.</td></tr>
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