

MIMA Leather (Pvt.) Ltd.

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

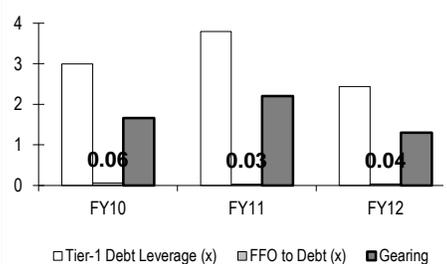
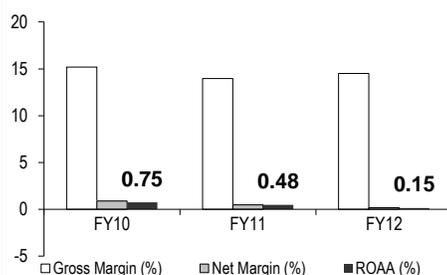
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Analysts: Zia Usmani
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Rating Rationale

Category	Latest	Previous
Entity	BBB/A-3 <i>April 08, '13</i>	BBB/A-3 <i>Feb 13, '12</i>
Outlook	Stable <i>April 08, '13</i>	Stable <i>Feb 13, '12</i>

Key Financial Trends



(Rs. in millions)	FY10	FY11	FY12
Net Sales	748.6	964.7	1022.0
Net Profit	6.7	4.6	1.6
Equity	227.2	217.0	361.6
Total Debt	377.5	476.9	475.2
Debt Leverage (x)	3.0	3.8	2.4
FFO	21.5	14.9	18.3
FFO/Total Debt (%)	5.7%	3.1%	3.9%
ROAA(%)	0.8%	0.5%	0.2%

Leather industry is one of the most important export-oriented industries in Pakistan, having the fourth largest export volumes in the manufacturing sector after textiles, rice and chemical. The share of leather industry in Pakistan's total exports has remained at 4.4% in fiscal year FY12.

MIMA Leather (Pvt.) Ltd. (MLPL) is mainly focused on processing leather used in women shoes and bags sourced from goat skin. MLPL is an export-oriented company. Lower demand from major export partners has put pressure on export volumes; however, increase in selling price and Rupee depreciation in FY12 translated into slightly higher sales during the period. Some variation was also witnessed in the sales mix due to higher sales of leather crust. Key destinations for exports were China, Hong Kong, Italy, Spain and Austria. The pace of global economic recovery, particularly in the European region is expected to be slow. MLPL may need to further diversify its geographical profile for growth in sales and profits.

The increase in average price of raw skin purchased in FY12 was higher compared to increase in average sales price; however, gross profit margin still improved marginally due to lower increase in weighted average cost of goods sold vis-à-vis cost of goods manufactured on account of beginning stock of finished goods being carried at lower cost. Net profit margin of MLPL decreased due to higher financial charges incurred on account of increase in both average borrowings and average SBP export refinance rate. There was notable fresh investment by associates in MLPL during FY11, which also provided liquidity support.

MLPL's inventory holding period has increased, leading to a longer cash conversion cycle. MLPL maintained higher finished goods inventory as the management expected increase in export demand with global economic recovery that has yet to materialize. Despite increased working capital requirement, current ratio and debt was maintained around prior year-end level due to capital injection in the form of share deposit money amounting to Rs. 143m by associated companies. Thus, total equity increased to Rs. 361.6m (FY11: Rs. 217.0m) while improvement was also observed in debt leverage and gearing ratio of the company. With any further capital injection unlikely in the short-term, future working capital requirement may need to be funded by additional borrowings. Global demand dynamics will continue to impact the local leather industry.

Overview of the Institution

MIMA Leather (Pvt) Limited is an ISO certified, private limited company. The principal activities of the company remain manufacturing and marketing/export of finished leather. The factory is situated at Korangi Industrial Area, Karachi. It has a finished leather manufacturing capacity of 12m sq.ft per annum. The financial statements for FY12 have been audited by M. Yousuf Adil Saleem & Co. [JCR-VIS](#)