RATING REPORT

Sitara Chemical Industries Limited (SCIL)

REPORT DATE:
November 22, 2021

RATING ANALYSTS:

Tayyaba Ijaz
tayyaba.ijaz@vis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Date	*Nov 22, 2021*		*Oct 27, 2020*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** M/s Deloitte Yousuf Adil & Co Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Abdul Awal
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mian Mohammad Adrees
Mian Mohammad Adrees – 63.64%	
General Public – 10.69%	
Bank, DFI & NBFCs – 9.02%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (August 2021) *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

Sitara Chemical Industries Limited (SCIL)

OVERVIEW OF THE INSTITUTION

SCIL was incorporated in 1981 as a public limited company under Companies Act, 1913 (now Companies Act, 2017). The principal activities include operation of Chlor-Alkali plant and textile unit. The chemical division is engaged in the production of caustic soda & other auxiliary products while textile division is involved in production of different types of yarn and high-quality men's fabric under the brand name 'Rajahs'. The company is listed on Pakistan Stock Exchange.

Profile of the Chairman

Mr. Abdul Awal is a business graduate from NUST Business School and has over 10 years of experience in relevant industry.

Profile of the CEO

Mian Muhammad Adrees is a renowned businessman. He graduated from University of Punjab. He is also the CEO of Sitara Developers and Managing trustee of Aziz Fatima Trust.

Financial Snapshot

Core Equity: end-FY21: Rs. 11.8b; end-FY20: Rs. 10.4b; end-FY19: Rs. 10.1b

Assets: end-FY21: Rs. 30.5b; end-FY20: Rs. 26.6b; end-FY19: Rs. 26.8b

Net Sales: FY21: Rs. 14.8b; FY20: Rs. 11.8b; FY19: Rs. 12.7b

Profit After Tax: FY21: Rs. 1.3b; FY20: Rs. 298.8m; FY19: Rs. 885.5m

RATING RATIONALE

The ratings assigned to Sitara Chemical Industries Limited (SCIL) take into account its leading position in the Chlor-alkali sector with the highest market share of around 46% and ample experience of sponsors. The ratings incorporate moderate business risk profile entailing sizable revenues in a highly competitive operating environment. The ratings factor in growth in topline emanating from both chemical and textile divisions mainly on back of increase in volumetric sales, driven by related industrial growth in the country, specifically the textile sector. Gross margins improved slightly in the outgoing year while net margins improved notably on account of rationalized operating costs, lower finance cost, higher other income and slightly lower effective tax rate. Cash flow coverages have remained adequate. However, liquidity indicators in terms of current ratio need improvement in line with the rating benchmarks. Leverage indicators, albeit increased slightly, have remained manageable. A newly established soap noodles plant started commercial operations in June 2021. The management is also in process of installing stearic acid line to further diversify the product mix that is expected to come online by end-Dec'21. Meanwhile, rising electricity and RLNG tariff along with recent supply constraints of coal would remain key challenges for the ongoing year. The ratings will remain sensitive to sustainability of margins along with keeping leverage indicators at comfortable level.

Key Rating Drivers:

Overall growth in Chlor-Alkali sector while SCIL maintained its market leadership: The chlor-alkali sector is oligopolistic in nature with three major players operating in the country. Overall capacity utilization has increased in the outgoing year; albeit remained moderate due to gap in demand and supply of the product. As per Pakistan Bureau of Statistics, the industry produced 394,120 MT of caustic soda in FY21 as compared to 342,422 MT in the preceding year. Volumetric sales of caustic soda (both liquid and flakes) have also increased by around same proportion i.e. 16%, to 302,000 MT (FY20: 260,157MT). SCIL sales of caustic soda increased largely in tandem with the overall industry growth with market share of 45.8% (FY20: 45.2%) in the outgoing year. While the sector is power intensive, the companies have setup captive power plants to support production process indigenously. The differential in the local and import prices of caustic soda due to import duty and freight charges has created a sustainable market for local players. Business prospects of the caustic soda sector in the long run exhibit a positive trend underpinned by growing demand and sound margins. Meanwhile, the recent growth trend in textile industry has provided impetus to the Chlor-Alkali sector.

Improvement in capacity utilization of both chemical and textile division: Pakistan economy witnessed a V-shaped recovery on the back of continuing accommodative fiscal and monetary policies. The provisional GDP growth rate for FY21 is estimated at 3.9% as compared to initially projected growth of 1.5% and a growth of 0.53% in the preceding year. On the industrial front, there was a significant rebound in economic activity as Large-Scale Manufacturing (LSM) registered a growth of 9.3% in FY21. Textile and chemical sector posted growth of 5.9% and 11.7%, respectively in the outgoing fiscal year. State Bank of Pakistan kept the policy rate unchanged at 7% throughout FY21. Meanwhile, notable increase in coal and RLNG prices was witnessed in last half of FY21. However, average energy cost remained stable in the outgoing year.

SCIL's production of caustic soda was reported higher at 139,287 MT (FY20: 115,770 MT) during FY21. Production of hydrochloric acid increased to 106,814 (FY20: 96,672 MT) and sodium hypochlorite to 44,475 MT (FY20: 38,964 MT). In addition, with boost in textile sector, SCIL's textile division operated at nearly full capacity in FY21; capacity utilization, after conversion into 20s count stood higher at 99.7% (FY20: 69%). Actual production and capacity utilization of different products of chemical division and textile division is tabulated as follows:

	Installed Capacity		Actual Production		Capacity Utilization	
	FY20	FY21	FY20	FY21	FY20	FY21
Chemical Division: (Metric Tons)						
Caustic Soda	207,900	207,900	115,770	139,287	56%	67%
Sodium Hypochlorite	66,000	66,000	38,964	44,475	59%	67%
Liquid Chlorine	11,550	11,550	7,152	8,183	62%	71%
Bleaching Powder	7,920	7,920	3,967	3,857	50%	49%
Hydrochloric Acid	363,000	363,000	96,672	106,814	27%	29%
Calcium Chloride Prill	13,200	13,200	10,606	2,712	80%	21%
Textile Division: (Kgs)						
After Conversion into 20s Count	11,063,814	11,063,814	7,607,659	11,029,453	69%	100%

Total power requirement of SCIL remained at around 65 MW. The company continued to remain primarily reliant on its indigenous sources to meet power requirements. Coal Fired Power Plant (CFPP) produced 62.2% (FY20: 73.1%) while contribution of Gas Fired Power Plant (GFPP) in the power mix increased to 28.4% (FY20: 7.1%) due to favorable gas prices. The proportion of Water and Power Development Authority (WAPDA) and Sitara Energy Limited (SEL) in power mix decreased to 6.7% and 2.7% (FY20: 7.2% and 12.7%), respectively. The management has contemplated to expand its CFPP capacity by 50 MW for an estimated capex of around 6b. The company signed an agreement with a Chinese design and engineering company in Jan' 2021. Letters of credit (LCs) of some major equipment have been opened while LCs of boiler is in progress after which LCs for rest of the equipment would be opened after deliberation with design and engineering company. While there have been recent supply side constraints of coal and resultant surge in prices, majorly due to container unavailability, the management expect these to get resolved by the time the project come online in Dec'22.

Soap noodles plant started operations in June 2021 while the company is in process of further diversifying the product mix: Soap noodle plant having a production capacity of 34,000 MT per annum commenced commercial operations on June 25, 2021. The plant would be operated at around 50% capacity in the ongoing year that is expected to increase once the company secures long-term contracts with multinational companies. The project was completed with a cost of Rs. 1.85b and financed with a long-term debt of Rs. 1.5b and the rest was through internal cash generation. Building on freehold land amounting Rs. 421.7m and electrical equipment of Rs. 236.7m in FY21 mainly pertained to soap noodles plant. Apart from this, the company also made a capex of Rs. 650m for stearic acid plant, considering its positive demand prospects. Stearic acid is an emulsifier, emollient and lubricant, which is used in various personal care products.

The main raw material required to produce soap noodle is RBD palm oil & RBD palm stearin, constituting around 83% of the total raw material mix; among other constituents, 5% caustic soda will also be utilized. Soap noodles market in Pakistan is approximately 200,000 MT. Since FY19, the government has imposed heavy duties on import of soap noodles to encourage domestic production. Out of the total demand, around 135,000 MT is being met by local players (Nimir Industrial Chemicals Limited: 90,000 MT; Gamalux Oleochemicals Limited: 10,000 MT; Others: ~35,000 MT). SCIL expects to partially meet the rest of the demand through an installed production capacity of 34,000 MT. Additionally, 3,135 MT of Grade A glycerin is being produced as a by-product. The supply chain for both soap noodles and stearic acid is the same, whereas only one of the two products can be produced at a time.

The company has secured long-term borrowings to the tune of Rs. 500m for stearic acid project with the rest being financed through equity. The project is currently under techno commercial evaluation and is estimated to be completed by end-Dec' 2021. Meanwhile, the management has shelved the previously planned Linear Alkyl Benzene Sulphonic Acid (LABSA) plant project, with production capacity of 30,000 MT, due to its non-viability as a result of prevailing demand and supply situation.

Property, plant and equipment stood higher at Rs. 16.9b (FY20: Rs. 14.9b) at end-FY21 on account of aforementioned additions. Factory area godown having book value of Rs. 65.5m was sold for Rs. 341m; the godown was sold on Rs. 20m advance payment and the remaining amount to be received in four installments over a period of 2.5 years. Investment property stood at Rs. 3.3b (FY20: Rs. 3.3b) and comprised freehold, residential plots, land and building for the purpose of capital appreciation and earning rental income. These properties are situated within the province of Punjab. Rental income from the same amounted to Rs. 29.9m (FY20: Rs. 33.6m) during FY21. The company has also long-term investments in Islamic Takaful funds amounting to Rs. 25.0m (FY20: Rs. 25.0m) recorded at Fair Value through Profit and Loss (FVTPL). Long-term loans and advances (including current portion) amounted to Rs. 1.5b (FY20: Rs. 1.1b) and largely constituted deferred consideration against sale of land. Long-term deposits of Rs. 124.4m (FY20: Rs. 123.5m) at end-FY21 are mainly related to deposits paid to utility companies.

Growth in topline with slight improvement in gross margins: Sales were recorded higher at Rs. 14.8b (FY20: Rs. 11.8b) in FY21 mainly on the back of volumetric increase in sales of both chemical and textile division. Net revenue from chemical division amounted to Rs. 11.5b (FY20: Rs. 9.9b), which contributed 77.5% (FY20: 84.2%) to the revenue mix. Caustic soda is the flagship product of SCIL and contributed around two-third to the revenue stream. Volumetric sales of caustic soda in liquid form and flakes was recorded higher at 99,295 MT (FY20: 83,138 MT) and 39,144 MT (FY20: 34,495 MT), respectively in FY21 while net average selling prices of the same were slightly lower at Rs. 64,015/MT (FY20: Rs. 65,042/ MT) and Rs. 78,047/MT (FY20: Rs. 79,383/MT), respectively. Given unfavorable rates and higher freight costs, export sales were recorded lower at Rs. 67.3m (FY20: Rs. 231.4m) in FY21 which includes mainly calcium chloride prills. Revenue from textile sales continued to supplement the topline and increased to Rs. 3.3b (FY20: Rs. 1.9b) in FY21 on account of increase in volume sold of yarn to 169,278 (FY20: 102,195) with higher net average selling prices of 17,446 per bag (FY20: Rs. 15,423 per bag). Waste sale from textile division amounted to Rs. 328.7m (FY20: Rs. 333.6m).

Gross profit increased to Rs. 2.9b (FY20: Rs. 2.3b) in FY21 with some improvement in gross margins to 19.8% (FY20: 19.3%). Increase in gross margin was mainly a function of improvement in gross margin of textile division to 15.6% in FY21 vis-à-vis 1.7% in the preceding year; primarily an outcome of higher yarn prices and cost efficiencies emanated from BMR in textile division in the previous years. Gross margin of chemical division decreased marginally to 21.1% (FY20: 22.6%). Cost of sales was recorded higher at Rs. 11.9b (FY20: Rs. 9.5b) in FY21. Raw material consumed increased to Rs. 4.2b (FY20: Rs. 2.6b) and also stood higher as a proportion of cost of goods manufactured (COGM) (FY21: 34%; FY20: 27%) owing to increase in average cost of production of caustic soda and yarn. Fuel and power cost amounted to Rs. 5.8b (FY20: Rs. 4.9b) and constituted around 47% (FY20: 51%) of COGM. Salaries, wages and benefits increased to Rs. 557.5m (FY20: Rs. 521.5m) in line with inflationary adjustments. Distribution cost was recorded lower at Rs. 288.3m (FY20: Rs. 317.8m) mainly due to decrease in freight, octroi and insurance charges in line with lower exports. Administrative expenses amounted to Rs. 646.1m (FY20: Rs. 626.2m) in FY21 and were largely rationalized. Finance cost decreased to Rs. 604.3m (FY20: Rs. 995.0m) as a result of lower average markup rates during the outgoing year; finance cost also included interest on unwinding of Gas Infrastructure Development Cess (GIDC) amounting to Rs. 25.8m (FY20: Nil). During FY21, other income increased to Rs. 442.2m (FY20: Rs. 183.4m) mainly due to gain on disposal of property, plant and equipment of Rs. 214.4m (FY20: Rs. 7.1m). Other income also included unwinding gain on GIDC provision of Rs. 37.6m (FY20: Nil). In addition, other income from financial assets was recorded at Rs. 133.5m (FY20: Rs. 131.3m). Accounting for taxation, bottom line was recorded higher at Rs. 1.3b (FY20: Rs. 298.8m) in FY21. Net margins increased notably to 9.1% (FY20: 2.5%) on account of higher gross profit, rationalized operating costs, lower finance cost, higher other income and some decrease in effective tax rate.

The company recorded net revenue of Rs. 3.9b (1QFY21: Rs. 3.3b) in 1QFY22. However, overall gross margins squeezed to 12.3% primarily due to significant increase in overall energy cost after surge in coal and RLNG prices while the company could not pass on the impact of higher cost of production to customers. As per management, the company would be able to recoup the margins in the ongoing year through higher prices.

Adequate liquidity in terms of cash flow coverages: Funds from operations (FFO) increased to Rs. 2.3b (FY20: Rs. 1.3b) in FY21 in line with higher profitability. Resultantly, FFO to total debt and FFO to long term debt improved to 0.25x (FY20: 0.19x) and 0.89x (FY20: 0.63x), respectively. Debt service coverage also increased to 1.79x (FY20: 1.33x) in FY21.

Stock in trade stood higher at Rs. 2.7b (FY20: Rs. 2.3b) mainly due to increase in finished goods inventory to Rs. 1.4b (FY20: Rs. 1.0b) while raw material inventory remained at Rs. 1.3b (FY20: Rs. 1.3b). According to the management, the increase in finished goods inventory was mainly the outcome of higher soap noodles inventory, produced during trial run when the plant was being operated on full capacity. Trade debts of Rs. 1.4b (FY20: Rs. 1.2b) were outstanding at end-FY21. Receivables amounting Rs. 510.7m were not past due at end-FY21. Out of overdue receivables, Rs. 833.6m fall in 180 days credit bracket, Rs. 38m fall in 181-360 days credit bracket while receivables amounting Rs. 225.3m were due above 360 days. Overdue receivables beyond one year largely constituted chemical division trade debts and were mainly due to settlement issues, against which adequate allowance for expected credit losses as per IFRS 9 has been recorded (FY21: Rs. 244.3m; FY20: Rs. 187.6m). Overall credit period allowed by the company varies from five days for dealers, and thirty days to institutional clients. Short-term loans and advances increased to Rs. 2.9b (FY20: Rs. 2.2b) mainly due to higher advances paid for letter of credit fee, margin and expenses, sales tax refundable, advances paid to suppliers and contractors and advance income tax. Trade deposits and prepayments and other receivables remained largely unchanged. Other financial assets, comprising investment in mutual funds, increased to Rs. 511.8m (FY20: Rs. 196.6m). Cash and bank balances were higher at Rs. 191.1m (FY20: Rs. 81.6m) at end-FY21. Current ratio has remained less than one mainly due to higher short-term borrowings. Coverage of short-term borrowings with inventory and trade receivables has also remained less than one. The management may focus to strengthen the above-mentioned liquidity indicators.

Slight increase in gearing despite expansion in equity base: Core equity stood higher at Rs. 11.8b (FY20: Rs. 10.4b) at end-FY21 in line profit retention. Total equity amounted to Rs. 15.9b (FY20: Rs. 14.7b) after including surplus on revaluation of property, plant and equipment amounting Rs. 4.0b (FY20: Rs. 4.2b) and reserve on re-measurement of equity investments of Rs. 97.2m (FY20: Rs. 40.1m). For the year ended-FY20, the company paid final dividend of Rs. 214.3m. In addition, the Board has recommended a cash dividend of 100% for FY21.

Total liabilities increased to Rs. 14.7b (FY20: Rs. 11.9b) mainly on account of increase in overall debt level. Trade and other payables increased to Rs. 2.2b (FY20: Rs. 2.0b) mainly due to increase in accrued liabilities, current portion of GIDC liability and creditors. Whereas provision for GIDC decreased to Rs. 406.1m (FY20: Rs. 873.3m); the reduced amount has been recorded as long-term deferred liability. On August 13, 2020, the Supreme Court of Pakistan (SCP) announced its decision pertaining to GIDC, directing recovery of Rs. 417b GIDC payables from the industries. According to the decision the amount is payable in twenty-four equal monthly installments starting from August 01, 2020 without the component of late payment surcharges. In accordance with the SCP's decision, the company reversed the late payment surcharge amounting to Rs. 72.4m in the prior year leaving a net provision of Rs. 873.3m. Furthermore, as per guidance of IFRS 9 "Financial Instrument", the liability of GIDC determined under SCP decision amounting Rs. 467.4m was remeasured at fair value and present value of future cash flows discounted at market rate of interest was recognized at an amount of Rs. 429.8m. The difference of Rs. 37.5m between the fair value of GIDC and the transaction amount of GIDC liability was thus recognized as gain on discounting of liability in profit and loss statement. Till the year end, the company has recorded finance cost of Rs. 25.8m on unwinding of the liability in profit and loss statement. The remaining provision of Rs. 406.1m will also be transferred depending on the decision of Lahore High Court.

Total borrowings increased to Rs. 9.3b (FY20: Rs. 7.1b) by end-FY21. Short-term financing increased to Rs. 6.7b (FY20: Rs. 5.0b) largely in line with working capital requirements. Long-term loan including current portion stood at Rs. 2.6b (FY20: Rs. 2.1b). The company mobilized long-term borrowings amounting Rs. 1.5b (FY20: Rs. 86.9m) and repaid Rs. 1b (FY20: Rs. 752.8m) in FY21. New borrowings comprised of Diminishing Musharaka facilities of Rs. 1.3b (sanctioned amount Rs. 1.5b) priced at SBP rate plus 1% per annum and Rs. 141.8m (sanctioned limit: Rs. 500m) priced at SBP rate plus 1.1% per annum. All of these facilities were obtained under SBP Islamic Temporary Economic Refinance Facility (ITERF). Leverage and gearing ratios increased slightly to 1.24x (FY20: 1.14x) and 0.79x (FY2: 0.68x), respectively, primarily as a result of higher debt levels by end-FY21. The management intends to mobilize additional long-term borrowings of Rs. 1b in the ongoing year to support capex and some working capital requirements. With increase in equity due to profit retention, gearing is expected to remain at around current level in the ongoing year.

BALANCE SHEET	Jun 30, 2019	Jun 30, 2020	June 30, 2021
Property, Plant and Equipment	15,516	14,935	16,923
Investment Property	3,297	3,316	3,313
Stock-in Trade	1,328	2,327	2,745
Trade Debts	1,176	1,201	1,363
Loans and Advances	3,959	3,496	4,417
Stores and Spares	950	860	897
Cash & Bank Balances	103	82	191
Other Financial Assets	336	197	512
Other Assets	162	182	179
Total Assets	**26,827**	**26,596**	**30,540**
Trade and Other Payables	2,416	1,991	2,230
Short Term Borrowings	4,333	4,984	6,749
Long-Term Borrowings (incl. current maturity)	2,776	2,100	2,584
Total Debt	7,110	7,084	9,333
Deferred Liabilities	2,436	2,418	2,564
Other Liabilities	246	411	532
Total Liabilities	**12,208**	**11,903**	**14,658**
Paid Up Capital	214	214	214
Tier-1 Equity	10,106	10,455	11,899
Surplus on revaluation on PPE	4,514	4,238	3,983
Total Equity	14,620	14,693	15,882

INCOME STATEMENT	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021
Net Sales	12,698	11,793	14,785
Gross Profit	2,760	2,279	2,933
Operating Profit	1,756	1,335	1,999
Finance Cost	642	995	604
Other Income	167	183	442
Profit Before Tax	1,065	410	1,670
Profit After Tax	885	299	1,348

RATIO ANALYSIS	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021
Gross Margin (%)	21.7	19.3	19.8
Net Margins	7.0	2.5	9.1
Current Ratio	0.88	0.88	0.90
Net Working Capital	(888)	(977)	(1,053)
Funds from Operations (FFO)	1,738	1,332	2,310
FFO to Total Debt (x)	0.24	0.19	0.25
FFO to Long Term Debt (x)	0.63	0.63	0.89
Debt Leverage	1.21	1.14	1.23
Gearing	0.70	0.68	0.78
Debt Servicing Coverage Ratio (x)	1.69	1.33	1.79
ROAA (%)	3.8	1.1	4.7
ROAE (%)	7.0	2.0	8.8
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	0.58	0.71	0.61

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Sitara Chemical Industries Limited
Sector	Chlor-alkali (Chemical Sector Sub-set)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)
Instrument Structure	N/A
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/22/2021	A+	A-1	Stable	Reaffirmed
10/27/2020	A+	A-1	Stable	Reaffirmed
11/08/2019	A+	A-1	Stable	Maintained
11/14/2018	A+	A-1	Positive	Reaffirmed
11/17/2017	A+	A-1	Positive	Maintained

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Zakir Hussain	CFO	07-Oct-2021
Mr. Mubin Ul Haq	Sr. Deputy Manager Finance	07-Oct-2021