VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Corporate Rating:
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	9MFY25M
Net Sales	27,492.64	31,111.88	24,247.83
PBT	1,475.92	1,141.89	1,123.73
PAT	993.35	585.52	712.05
Paid up Capital	214.29	214.29	214.29
Equity (ex. Reval)	13,489.16	14,170.54	14,836.10
Total Debt	10,183.45	13,695.49	18,272.23
Leverage (x)	1.36	1.58	1.84
Gearing (x)	0.75	0.97	1.23
FFO	2,491.99	2,262.29	2,102.48
FFO/Total Debt (x)	0.24	0.16	0.15
Net Margin (%)	3.61%	1.88%	2.94%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

SITARA CHEMICAL INDUSTRIES LIMITED

Board Chairman: Ahmad Hassan

Chief Executive: Muhammad Adrees

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A+	A2	A+	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	June 02, 2025		June 14, 2024	

RATING RATIONALE

The reaffirmation of SCIL at A+/A2 with a Stable Outlook is on account of the Company's ability to sustain its financial profile amidst ongoing balancing, modernization, and expansion initiatives. While these activities have led to higher leverage and constrained liquidity, there has been no material weakening in capitalization or performance indicators. Profitability was impacted by elevated input costs and high interest rates; however, early signs of margin recovery are visible with the easing of monetary conditions.

The ratings continue to draw strength from SCIL's established position in the domestic chlor-alkali industry and its operational diversification across chemicals, oleo chemicals, and textiles. Operating in a moderate industry risk environment, SCIL benefits from a broad product portfolio and an established customer base, providing support to its business risk profile.

Going forward, the ratings will remain dependent on the timely execution of ongoing projects, realization of associated efficiency gains, and restoration of profitability margins. Sustained performance across all segments and improvement in financial indicators will be critical to maintaining rating stability.

CORPORATE PROFILE

Sitara Chemical Industries Limited (''SCIL'' or "the Company") was incorporated in Pakistan in 1981, as a public limited Company. The Company is listed on the Pakistan Stock Exchange Limited ('PSX'). The Company is a Shariah Compliant Company certified by Securities & Exchange Commission of Pakistan (SECP). The principal activities of SCIL include operating a Chlor Alkali plant, an Oleo Chemical plant, and a yarn spinning unit. The registered office of the Company is in Karachi and the manufacturing facilities are in Faisalabad.

Group Profile

SCIL is the flagship company of Mian Muhammad Adrees Group, which came into existence following division of the Sitara Group into four independent groups. The group's portfolio encompasses SCIL, a key player in the chemical sector, alongside Sitara Developers, a real estate enterprise. Additionally, the group's diversification extends to include Aziz Fatimah Medical and Dental College and Aziz Fatimah Hospital, along with Sitara Technopark and Alief TV.

GOVERNANCE

SCIL is a public limited company principally owned and controlled by the Sitara Group. The Group is engaged in diverse business sectors, including chemicals, textiles, and power generation. The Company's leadership remains with the founding family, notably Mr. Ahmad Hassan, who serves as Chairman, and Mr. Muhammad Adrees, who holds the position of Chief Executive Officer. The governance structure exhibits strong family involvement, supported by a formalized corporate framework. The Board of Directors comprises seven members, including two independent directors and one female director, maintaining the same composition as the previous year.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's chemical manufacturing sector, primarily concentrated in the chlor-alkali segment comprising caustic soda, liquid chlorine, and related derivatives—is assessed as medium to low. This assessment reflects moderate demand cyclicality, limited competitive pressure supported by trade protection measures, and significant entry barriers owing to the capital-intensive nature of operations and regulatory compliance requirements associated with hazardous material handling.

The sector's demand fundamentals are anchored in its downstream linkages with key domestic industries, including textiles, paper, detergents, leather processing, and food and beverage production. These sectors contribute to a broad demand base, partially insulating the industry from sector-specific volatility and some economic cyclicality. SCIL, as the largest local chlor-alkali manufacturer, maintains a diversified product mix comprising caustic soda, liquid chlorine, hydrochloric acid, calcium chloride, magnesium sulfate, and food-grade carbon dioxide.

Industry-wide output contraction was recorded in FY24, in line with a broader decline of 3.5% in large-scale manufacturing output (excluding fertilizers). Caustic soda production declined during the period, largely attributable to lower offtake from the textile sector, the largest end-user of chlor-alkali products. SCIL's caustic soda capacity utilization decreased to 60.0% in FY24 (FY23: 66.0%; FY22: 72.2%), reflecting the moderation in demand mainly from its downstream textile sector.

Competitive intensity remains moderate, with a few large integrated players—such as Sitara Chemical Industries, Ittehad Chemicals, Engro Polymer & Chemicals & Nimir Industrial Chemical Limited—operating in the chlor-alkali segment, while the surfactants segment is served by entities including Tufail Group. Entry barriers remain high due to capital investment requirements, technical expertise, and regulatory compliance for hazardous materials. Market fragmentation is limited, supporting local producers' pricing power.

Trade protection mechanisms, including anti-dumping duties and import tariffs on caustic soda—ranging from 9% to over 70% on imports originating from China, Iran, South Korea, and Taiwan—have limited import penetration. The depreciation of the Pakistani rupee during FY24 further elevated the landed cost of imported chemical inputs, enhancing the cost competitiveness of domestic producers. Procurement remains largely domestic, with downstream buyers exhibiting limited pricing leverage due to existing tariff frameworks and supply reliability offered by local manufacturers.

Sector profitability remains exposed to fluctuations in energy and financing costs, given the energy-intensive nature of chemical production. In FY24, gas tariffs increased from PKR 3,000/MMBTU to PKR 3,500/MMBTU, with further upward revisions anticipated in the medium term. These developments have added pressure on gross margins across the sector. In response, SCIL and other producers have initiated investment in renewable and captive energy sources to hedge against energy cost volatility. However, the benefits of such diversification are expected to materialize over an extended horizon.

Competitive Profile:

The Company faces competition from three major players: Ittehad Chemicals Ltd., Engro Polymers & Chemicals Ltd., and Nimir Industrial Chemicals Ltd. While SCIL holds a ~50% market in the chemicals and allied market.

Operating Profile

SCIL operates two distinct production divisions – one dedicated to the manufacturing of chemicals, gases, and allied products and the other Is for textile yarn production. Additionally, the company also operates a HCL furnace at its premises.

In FY24, SCIL recorded lower capacity utilization in its major chemical sub-segments which includes caustic soda, hydrochloric acid & sodium hypochlorite, reflecting reduced demand from its cyclical customer base mainly from the textile weaving sector. This resulted in the utilization levels declining to 60% (FY23: 66%), 71% (FY23: 75%), and 41% (FY23: 46%) for caustic soda, sodium hypochlorite & Hydrochloric acid, respectively. Internal consumption of caustic soda for oleo chemical manufacturing continued, but overall chemical remains supported by either internal consumption by other sub segments or from non-cyclical downstream sectors of these chemicals as per the management.

While the overall textile sector in the country showed a depressed demand, the textile division of the company reported capacity utilization of 91% (FY23: 69%), supported by ongoing orders from export-oriented clients. Management attributed this to established customer relationships and operational adjustments during the period. The textile segment's performance contributed to overall production stability, partially offsetting the lower volumes observed in the chemical segment.

Production Capacity and Utilization	FY23A	FY24A
Chemical Segment		
Installed Capacity - Caustic Soda (MT)	207,900.00	207,900.00
Actual Production - Caustic Soda (MT)	137,235.00	124,513.00
Utilization (%)	**66.01%**	**59.89%**
Installed Capacity - Sodium Hypochlorite (MT)	66,000.00	66,000.00
Actual Production - Sodium Hypochlorite (MT)	49,229.00	46,960.00
Utilization (%)	**74.59%**	**71.15%**
Installed Capacity - Liquid Chlorine (MT)	14,850.00	14,850.00
Actual Production - Liquid Chlorine (MT)	10,966.00	7,300.00
Utilization (%)	**73.85%**	**49.16%**
Installed Capacity - Bleaching Powder (MT)	7,920.00	7,920.00
Actual Production - Bleaching Powder (MT)	6,028.00	6,255.00
Utilization (%)	**76.11%**	**78.98%**
Installed Capacity - Hydrochloric Acid (MT)	363,000.00	363,000.00
Actual Production - Hydrochloric Acid (MT)	167,828.00	148,332.00
Utilization (%)	**46.23%**	**40.86%**
Installed Capacity - Calcium Chloride Prill (MT)	13,200.00	13,200.00
Actual Production - Calcium Chloride Prill (MT)	9,544.00	6,322.00
Utilization (%)	**72.30%**	**47.89%**
Installed Capacity - Oleo Chemicals (MT)	34,000.00	34,000.00
Actual Production - Oleo Chemicals (MT)	6,479.00	8,788.00
Utilization (%)	**19.06%**	**25.85%**
Textile Spinning Segment		
Number of spindles installed	28,512.00	28,512.00
Number of spindles worked	28,512.00	28,512.00
Installed Capacity - Textile Spinning (MT)	11,063.81	11,063.81
Actual Production - Textile Spinning (MT)	7,639.54	10,022.60
Utilization (%)	**69.05%**	**90.59%**

Energy Generation Mix:

Total power requirement of SCIL remained at 60 MW. The company has continued to rely on its indigenous sources to meet its power requirements. Coal Fired Power Plant (CFPP) produced 50%, while the remaining energy requirement is fulfilled through WAPDA grids. The portion of Gas Fired Power Plant & Sitara Energy Ltd (SEL) in energy mix remained negligible as these are being high cost RLNG & RFO based plants. The company is in the process of expanding its CFPP with installation of 30MW coal based powerplant extending the generational capacity to 60MW catering the overall energy requirement through CFPP.

FINANCIAL RISK

Assigned ratings also reflect the Company's financial risk profile. Profitability remained under pressure due to higher input costs and limited pricing flexibility, though topline growth was sustained by the chemical segment. Margin compression was on account of by elevated raw material costs and higher finance expenses amidst a high-interest rate environment. Some improvement was observed in the ongoing period as borrowing costs eased. Capitalization indicators moderated due to increased long-term funding for expansion and maintenance projects, though internal capital generation provided partial support. Liquidity remained tight, influenced by elevated short-term borrowings, despite consistent profit retention. Debt servicing capacity stayed aligned with operational cash flows and showed recovery in the ongoing period. Future financial performance is expected to benefit from ongoing capacity enhancement and efficiency measures.

Profitability Profile

In FY24, the company recorded higher revenues compared to the preceding year (FY23: Rs. 27.4 Bn), despite a decline in sales volume. The increase was primarily attributed to elevated average selling prices. revenue remained primarily concentrated in the chemical division, contributing 80% of total sales (FY23: 86%), with the remainder derived from the textile segment. Despite this concentration, demand for chemical products generally remains stable, supported by non-cyclical downstream sectors such as soap manufacturing, water treatment, paper, and detergents. This demand profile provides some support to the company's overall financial risk profile by reducing exposure to sector-specific volatility.

Gross margins contracted relative to the previous year 15.81% (FY23: 16.29%), impacted by mainly by higher raw material costs, and increasing pressure from utilities. While pricing was adjusted upward, cost increases were not fully transferred to customers due to competitive dynamics, especially in the textile segment. Net margins also declined 1.88% (FY23: 3.61%) as finance costs rose, reflecting increased borrowings in a high-interest rate environment. During the nine months of FY25, a recovery in gross margins was observed, attributed to continued price adjustments across key product lines. Improvement in net margins during the same period was supported by a decline in benchmark interest rates, which moderated finance costs.

The company is undertaking capacity enhancement initiatives, including the expansion of its coal-fired power plant. This project is aimed at meeting the company's energy requirements through internal sources and reducing reliance on external power supply, particularly from WAPDA, thereby contributing to greater operational continuity.

Capital Structure

In FY24, SCIL's capitalization metrics exhibited a slight increase to 0.97x & 1.58x (FY23; 0.75x; 1.36x). This change in capitalization profile was primarily attributed to a 34% increase in the company's financial obligations on account of ongoing capital expenditure during the year.

During 9MFY25, capitalization metrics further weakened, primarily due to an increase in long-term borrowings undertaken for ongoing capital projects.

Liquidity and Coverage

The company has managed to maintain a adequate coverage profile in FY24, with Debt Service Coverage Ratio (DSCR) of 1.29x, albeit lower than 1.58x in FY23 mostly affected by a higher interest rate environment in FY24. However, with easing interest rates and improved profit retention, the DSCR has recovered to healthy levels at 1.47x in 9MFY25.

The liquidity position of the company continues to remain strained at 0.88x in FY24 (FY23: 0.93x) which further weakened to 0.87x in 9MFY25 based financing of the Company's ongoing projects. However, as per the management, it is expected to normalize as cashflow benefits materialize post completion of the CFPP project in FY25-26.

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	9MFY25M
Property, plant and equipment	18,458.82	22,972.73	28,391.12
Intangible Assets	7.54	6.79	6.55
Long-term Investments	25.04	20.04	20.04
Stock-in-trade	3,581.65	3,674.74	3,298.02
Trade debts	2,233.14	3,158.90	3,184.56
Cash & Bank Balances	334.32	360.48	532.00
Other Assets	10,299.25	10,317.19	10,378.55
Total Assets	34,939.76	40,510.87	45,810.84
Creditors	989.38	1,314.64	922.95
Long-term Debt (incl. current portion)	3,148.32	3,714.84	8,842.34
Short-Term Borrowings	7,035.13	9,980.65	9,429.89
Total Debt	10,183.45	13,695.49	18,272.23
Other Liabilities	7,162.70	7,436.65	8,047.23
Total Liabilities	18,335.53	22,446.78	27,242.43
Paid up Capital	214.29	214.29	214.29
Revenue Reserve	11,927.30	12,464.38	13,132.94
Other Equity (excl. Revaluation Surplus)	1,347.57	1,491.87	1,488.85
Equity (excl. Revaluation Surplus)	13,489.16	14,170.54	14,836.10

Income Statement (PKR Millions)	FY23A	FY24A	9MFY25M
Net Sales	27,492.64	31,111.88	24,247.83
Gross Profit	4,479.58	4,919.26	3,928.41
Operating Profit	3,087.60	3,490.59	2,672.28
Finance Costs	1,611.68	2,348.70	1,548.55
Profit Before Tax	1,475.92	1,141.89	1,123.73
Profit After Tax	993.35	585.52	712.05

Ratio Analysis	FY23A	FY24A	9MFY25M
Gross Margin (%)	16.29%	15.81%	16.20%
Operating Margin (%)	11.23%	11.22%	11.02%
Net Margin (%)	3.61%	1.88%	2.94%
Funds from Operation (FFO) (PKR Millions)	2,491.99	2,262.29	2,102.48
FFO to Total Debt* (%)	24.47%	16.52%	15.34%
FFO to Long Term Debt* (%)	79.15%	60.90%	31.70%
Gearing (x)	0.75	0.97	1.23
Leverage (x)	1.36	1.58	1.84
Debt Servicing Coverage Ratio* (x)	1.58	1.29	1.56
Current Ratio (x)	0.93	0.88	0.87
(Stock in trade + trade debts) / STD (x)	1.06	0.84	0.89
Return on Average Assets* (%)	2.94%	1.55%	2.20%
Return on Average Equity* (%)	7.64%	4.23%	6.55%
Cash Conversion Cycle (days)	71.10	66.14	66.86

**Annualized, if required*
A - Actual Accounts
P - Projected Accounts
M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Sitara Chemical Industries Limited
Sector	Chemicals
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
6/2/2025	A+	A2	Stable	Reaffirmed
6/14/2024	A+	A2	Stable	Reaffirmed
01/27/2023	A+	A2	Stable	Downgrade
11/22/2021	A+	A1	Stable	Reaffirmed
10/27/2020	A+	A1	Stable	Reaffirmed
11/08/2019	A+	A1	Stable	Maintained
11/14/2018	A+	A1	Positive	Reaffirmed
11/17/2017	A+	A1	Positive	Maintained

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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Zakir Hussain	Chief Financial Officer (CFO)	May 30, 2025
Mr. Hassan Farooq	Senior Manager – Finance & Accounts	