VIS
Credit Rating Company Limited

RATING REPORT

SITARA CHEMICAL INDUSTRIES LIMITED

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RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	A+	A2	A+	A2
RATING OUTLOOK/WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	June 16, 2026		June 2, 2025	

Shareholding (5% or More)	Other Information
Muhammad Adrees – 63.64%	Incorporated in 1981
Banks, DFIs and NBFIs – 10.25%	Public Listed Company
General Public (Local) – 10.76%	Chairman: Ahmad Hassan
	CEO: Muhammad Adrees
	External Auditor: Yousuf Adil Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale

https://docs.vis.com.pk/docs/VISRatingScales.pdf

Rating Rationale

The ratings reaffirmation is anchored by the Company's well-established position in the chemicals industry, alongside its experienced management team and sound corporate governance. The assigned ratings also reflect strategic initiatives, including the initiation of a 50MW coal-fired power plant and ongoing plans to diversify the product mix. While revenue grew steadily in FY25 and held firm through 9MFY26 mainly on the back of higher average prices, capitalization ratios and liquidity ratios weakened due to the increase in borrowings for procuring raw material and machinery for the power plant. Nonetheless, debt coverage metrics improved, buoyed by stronger operational cash flows. To address the pressure on liquidity position, the Company is in advanced stages with commercial banks for reprofiling its debt mix, by converting short-term loans into long-term facilities. Moving forward, the assigned ratings will remain highly sensitive to improvements in both liquidity and capitalization metrics, along with maintenance of its healthy revenue generation and cash flow coverages.

Company 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.

Governance

SCIL is a public limited company. The Companyis engaged in diverse business sectors, including chemicals, textiles, and power generation. The Company is led by CEO, Muhammad Adrees, who is part of the founding family and has been associated with several international trade bodies. The governance structure exhibits strong family involvement, supported by a formalized corporate framework. The Board comprises seven members, including two independent directors, three non-executive directors, and two executive directors, thereby ensuring compliance with the applicable Regulations. There were no major changes in senior management during FY25 and the ongoing year.

Business Risk

INDUSTRY

The business risk profile of Pakistan's chemical manufacturing sector is assessed as Medium. This reflects moderate demand cyclicality, limited competition due to trade protection, and high entry barriers given capital and regulatory requirements. However, energy costs continue to exert pressure on the industry risk profile. The sector caters to downstream industries such as textile, paper, soap, detergents, and water treatment. In FY25, large-scale chemical output (excluding fertilizers) declined by 3.5% due to broader industrial slowdown, though demand for core products remained stable given their application in essential sectors. Caustic soda demand showed moderate cyclicality, with volume contraction during FY25 following a decline in textile sector activity, the largest domestic consumer.

Competition in chemicals sector is dominated by few, large players such as Sitara Chemical Industries, Ittehad Chemicals, Engro Polymer & Chemicals, and Nimir Chemical Industries Limited. Entry barriers remain high due to capital intensity, technical expertise required, and stringent regulatory compliance requirements for hazardous materials. Market fragmentation is limited, supporting local producers' pricing power.

Procurement remains primarily domestic, with large buyers having limited pricing leverage due to tariff structures and supply reliability. Production processes are energy and capital-intensive, requiring high utilization rates for cost efficiency. In FY25, rising energy tariffs and financing costs exerted pressure on profitability. Some producers have invested in renewable energy solutions to manage cost volatility, although completion timelines extend into future periods. Gas tariff hikes, reaching PKR 4,200/MMBTU in FY25 alongside a 50% increase in fixed charges, are expected to intensify pressure on margins, with market expectations targeting PKR 5,000/MMBTU by FY26–27 as cross-subsidies are phased out. The sector remains domestically oriented. Imports of caustic soda have fluctuated based on local supply dynamics, with some increase observed in 2025 due to partial demand recovery. However, Pakistan retains sufficient local production capacity. The relative currency stability in FY25 eased the impact of higher input costs in the surfactant category.

Export volumes remain limited, with caustic soda shipped to selected regional markets. Environmental regulations continue to evolve, requiring investment in waste management, emission controls, and sustainability initiatives. Entities investing in renewable captive power, such as biomass, are expected to maintain more stable energy costs and benefit from alignment with emerging ESG standards, especially in export markets.

OPERATIONAL UPDATE

Production Capacity and Utilization Chemical Segment	FY24	FY25
Installed Capacity - Caustic Soda (MT)	207,900	207,900
Actual Production - Caustic Soda (MT)	124,513	118,085
Utilization (%)	***60%***	***57%***
Installed Capacity - Sodium Hypochlorite (MT)	66,000	66,000
Actual Production - Sodium Hypochlorite (MT)	46,960	55,967
Utilization (%)	***71%***	***85%***
Installed Capacity - Liquid Chlorine (MT)	14,850	14,850
Actual Production - Liquid Chlorine (MT)	7,300	9,595
Utilization (%)	***49%***	***65%***
Installed Capacity - Bleaching Powder (MT)	7,920	7,920
Actual Production - Bleaching Powder (MT)	6,255	6,569
Utilization (%)	***79%***	***83%***
Installed Capacity - Hydrochloric Acid (MT)	363,000	363,000
Actual Production - Hydrochloric Acid (MT)	148,332	108,214
Utilization (%)	***41%***	***30%***
Installed Capacity - Calcium Chloride Prill (MT)	13,200	13,200
Actual Production - Calcium Chloride Prill (MT)	6,322	5,684
Utilization (%)	***48%***	***43%***
Installed Capacity - Oleo Chemicals (MT)	34,000	34,000
Actual Production - Oleo Chemicals (MT)	8,788	9,157
Utilization (%)	***26%***	***27%***
Textile Spinning Segment	**FY24**	**FY25**
Number of spindles installed	28,512	28,512
Number of spindles worked	28,512	28,512
Installed Capacity after conversion into 20/s count (Kgs)	11,064	11,064
Actual Production after conversion into 20/s count (Kgs)	10,023	8,038
Utilization (%)	***91%***	***73%***

Production levels across the portfolio presented a mixed trend. On the chemical side, output of calcium chloride prill, bleaching powder, and oleo chemicals remained broadly stable. However, hydrochloric acid production declined in FY25, primarily due to subdued demand from the textile and large-scale manufacturing (LSM) sectors. In contrast, production of liquid chlorine and sodium hypochlorite increased during the year. Yarn production contracted by approximately 20% in FY25, reflecting weak demand conditions.

Energy Generation Mix:

Total power requirement stands at 60 MW. To meet this, the Company continues to prioritize internal sources which includes its 38MW Coal Fired Power Plant (CFPP) and a newly developed 50 MW CFPP, which achieved Commercial Operations Date (COD) on May 7, 2026, leaving any remaining balance supplied via the WAPDA grid. The Company raised a privately placed, long-term Sukuk amounting to Rs. 2.3b, to finance procurement of plant machinery and raw materials. The Company procured imported coal from South Africa as the key raw material. Moreover, 2.6 MW solar power is already deployed for the spinning segment production. Moving forward, management expects this recent transition to yield 18–19% in fuel cost savings.

SALES & PROFITABILITY

Net sales increased at a CAGR of 14% during FY22-FY25, mainly on account of higher average prices. During FY25, revenue from the chemicals segment increased by 8% while textiles revenue experienced an 9% uptick. Within chemicals portfolio, caustic soda remained the primary revenue driver at 71%, followed by oleochemicals (12%) and sodium hypochlorite (7%). On the textiles side, local yarn sales dominated the mix with an 83% share. The increase in gross margin to 17.3% (FY24: 15.8%) mainly due to higher prices combined with lower finance costs, on account of lower interest rates, resulted in modest improvement in net margin 2.89% (FY24: 1.88%) in FY25.

The Company recorded net sales of Rs. 24.32b (9MFY25: Rs. 24.25b) in 9MFY26. Gross margin rose to 19.4% (9MFY25: 16.2%) driven by robust pricing and lower utility costs, leading to an uptick in net margin (9MFY26: 4.82%, 9MFY25: 2.94%).

Additionally, the Company has held inventory of magnesium chloride, Calcium Chloride 94%, which is earmarked for export to the US, Gulf Countries and European markets during 1HFY27. Supported by these initiatives, management forecasts a 6–7% year-on-year increase in net revenue. On the margins front, integration of 50MW CFPP is expected to drive gradual margin expansion. However, finance costs while currently contained, may increase with higher borrowings and likely increase in interest rates, going forward.

Financial Risk

CAPITAL STRUCTURE

Gearing and leverage increased to 1.20x (end-FY24: 0.97x) and 1.89x (end-FY24: 1.58x), respectively, at end-FY25. This was driven by higher long-term borrowings from a consortium of banks, which includes Meezan Bank, the Bank of Punjab, the Bank of Khyber, Askari Bank, Bank Alfalah, and Soneri Bank, for expenditures on the 50MW CFPP. Tier-1 equity increased (end-FY25: Rs. 15.2b, end-FY24: Rs. 14.2b) due to partial profit retention, with a 25.1% (FY24: 36.6%) dividend payout ratio in FY25. Gearing and leverage were intact at end-9MFY26. Keeping capitalization ratios within manageable benchmarks is important from ratings perspective.

DEBT COVERAGE & LIQUIDITY

FFO (funds from operations) stabilized in FY25 and witnessed a notable uptick in 9MFY26, driven by improved profitability. FFO to long-term debt improved slightly to 32.5% (FY25: 27.5%, FY24: 64.1%) and DSCR (debt servicing coverage ratio) strengthened to 1.77x (FY24: 1.33x), remaining largely stable at 1.70x in 9MFY26, reflecting ongoing debt repayment. The increase in cash flows in the ongoing year, supported by uptick in profitability, could cushion the impact of higher borrowings and potential increase in interest rates.

The Company's liquidity position has come under mounting pressure. The current ratio, already trailing industry peers, deteriorated further to 0.77x by end-9MFY26 (end-FY25: 0.81x, end-FY24: 0.88x), due to an increase in short-term borrowings alongside a buildup in trade and other payables. Similarly, short-term debt coverage remained below 1.0x. Trade receivables past due for more than a year rose to 10% (FY24: 7%) in FY25, prompting an increase in impairment provisions. To improve liquidity position, management is in advanced stages with commercial banks to reprofile its debt mix, to convert short-term borrowings into long-term facilities. Strengthening of liquidity ratios is a critical factor for the ratings.

FINANCIAL SUMMARY

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	FY25A	9MFY26M
Property, plant and equipment	17,345	18,459	22,973	29,902	31,855
Long-term Investments	25	25	20	20	20
Stock-in-trade	4,325	3,582	3,675	4,190	4,237
Trade debts	1,387	2,233	3,159	2,920	2,721
Cash & Bank Balances	323	334	361	335	434
Other Assets	9,142	10,299	10,317	10,135	10,154
Total Assets	**32,554**	**34,940**	**40,511**	**47,508**	**49,421**
Creditors	981	989	1,315	1,782	4,831
Long-term Debt (incl. current portion)	2,655	3,148	3,715	8,827	9,060
Short-Term Borrowings	6,840	7,035	9,981	9,340	10,108
Total Debt	**9,495**	**10,184**	**13,696**	**18,168**	**19,168**
Other Liabilities	6,040	7,163	7,437	8,692	6,271
Total Liabilities	**16,516**	**18,336**	**22,447**	**28,642**	**30,270**
Paid up Capital	214	214	214	214	214
Revenue Reserve	10,926	11,927	12,464	14,875	14,517
Other Equity (excl. Revaluation Surplus)	1,372	1,348	1,492	98	0
Equity (excl. Revaluation Surplus)	**12,512**	**13,489**	**14,171**	**15,187**	**16,399**
Income Statement (PKR Millions)	**FY22A**	**FY23A**	**FY24A**	**FY25A**	**9MFY26M**
Net Sales	21,626	27,493	31,112	32,530	24,325
Gross Profit	2,873	4,480	4,919	5,619	4,720
Operating Profit	1,796	3,088	3,491	3,765	2,794
Finance Costs	897	1,612	2,349	1,904	1,037
Profit Before Tax	898	1,476	1,142	1,861	1,938
Profit After Tax	**656**	**993**	**586**	**939**	**1,173**
Ratio Analysis	**FY22A**	**FY23A**	**FY24A**	**FY25A**	**9MFY26M**
Gross Margin	13.28%	16.29%	15.81%	17.27%	19.40%
Operating Margin	8.30%	11.23%	11.22%	11.57%	11.49%
Net Margin	3.03%	3.61%	1.88%	2.89%	4.68%
Funds from Operation (FFO) (PKR Millions)	1,992.4	2,599.5	2,379.9	2,424.0	2,213.0
FFO to Total Debt*	20.98%	25.53%	17.38%	13.34%	15.36%
FFO to Long Term Debt*	75.04%	82.57%	64.06%	27.46%	32.49%
Gearing (x)	0.76	0.75	0.97	1.20	1.17
Leverage (x)	1.32	1.36	1.58	1.89	1.85
Debt Servicing Coverage Ratio* (x)	1.62	1.63	1.33	1.77	1.70
Current Ratio (x)	0.95	0.93	0.88	0.81	0.77
(Stock in trade + trade debts) / STD (x)	1.00	1.06	0.84	0.94	0.69
Return on Average Assets*	2.08%	2.94%	1.55%	2.13%	3.12%
Return on Average Equity*	5.39%	7.64%	4.23%	6.40%	9.61%
Cash Conversion Cycle (days)*	75	71	66	66	71

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

REGULATORY DISCLOSURES	Appendix I
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/Watch	Rating Action
RATING TYPE: ENTITY				
16-Jun-2026	A+	A2	Stable	Reaffirmed
02-Jun-2025	A+	A2	Stable	Reaffirmed
14-Jun-2024	A+	A2	Stable	Reaffirmed
27-Jan-2023	A+	A2	Stable	Downgrade
22-Nov-2021	A+	A1	Stable	Reaffirmed
27-Oct-2020	A+	A1	Stable	Reaffirmed
08-Nov-2019	A+	A1	Stable	Maintained

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: Sukuk				
16-Jun-2026	**AA-**		**Stable**	**Reaffirmed**
24-Apr-2025	AA-		Stable	Reaffirmed
04-Mar-2025	AA-		Stable	Final
14-Jun-2024	AA-		Stable	Preliminary

Instrument Structure

Instrument Name:	Details
Nature of Instrument	Sukuk (Sukuk-1)
Tenure of Instrument	7 years
Size of the Issue	Rs. 2,300m
Principle Redemption Schedule	Quarterly installments beginning from the end of the 21st month after issuance
Interest Redemption Schedule	Profit will be paid on Quarterly basis
Issue Date	13-Feb-2025
Grace Period	18 months
Redemption Date	13-Feb-2032
Nature of Security (in case of secured instrument)	The Sukuk is secured by an exclusive hypothecation charge over specified fixed assets of the Company as well as a ranking hypothecation charge over company receivables from Collected Customer via a Letter of Hypothecation (LoH). Additionally, lien and right of set off over the FPA and CA. Moreover, any shortfall in the same will necessitate cash injections by the Company. The Company is required to deposit one third of the upcoming payment each month in the CA, which will be transferred to the FPA ten working days preceding the due date.
Rating	AA-
Name of Trustee	BankIslami Pakistan Limited

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

Name	Designation	Date
Zakir Hussain	CFO	04-Jun-2026
Imran Arshad	Deputy Manager Finance	