RATING REPORT

Sitara Chemical Industries Limited (SCIL)

REPORT DATE:
April 24, 2025

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Final Rating**	
	Medium to Long-Term	
Instrument	AA-	
Rating Date	*April 24, 2025*	*04 March, 2025*
Rating Outlook/Rating Watch	Stable	
Rating Action	Reffirmed	Final

COMPANY INFORMATION

Incorporated in 1981	**External Auditors:** M/s Yousuf Adil Chartered Accountants
Public Listed Company	**Chairman of the Board:** Mr. Ahmad Hassan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer (CEO):** Mr. Muhammad Adrees
Mr. Muhammad Adrees, Chief Executive – 63.6%	
Jahangir Siddiqui & Company Limited – 10.2%	

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf
VIS Instrument Rating Methodology – Rating the Issue
https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf

APPLICABLE METHODOLOGY

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

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Sitara Chemical Industries Limited *was incorporated in 1981 as a public limited. The principal activities include operating a Chlor-Alkali plant, an Oleo Chemical plant, and a 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 the Pakistan Stock Exchange.*

Corporate Profile

Sitara Chemical Industries Limited ("SCIL" or "the Company" or "the Issuer") 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.

Business Segments:

Chemicals Division: SCIL operates in the chemicals segment, manufacturing caustic soda, soap noodles, and allied products. The Company began caustic soda production in 1985 with an initial capacity of 30 metric tons per day (MT/day), which has since expanded to 630 MT/day. As the largest producer of chlor-alkali products in Pakistan, SCIL's portfolio includes caustic soda, liquid chlorine, specialty chemicals, gases, and oleo chemicals. The gases division produces food-grade carbon dioxide ($CO2$) with a capacity of 80 MT/day, supported by an in-house logistics fleet for corporate deliveries. The specialty chemicals segment caters to diverse industrial applications, producing calcium chloride, magnesium chloride, magnesium sulfate, nickel sulfate hexahydrate, and ferric chloride. The chemical segment remains the primary revenue contributor, accounting for 83.9% of total gross sales in 1HFY25 (FY24: 84.3%, FY23: 87.7%), with sales spanning both domestic and international markets.

Textile Division: SCIL operates in the textile segment through yarn manufacturing and fabric trading. As of FY24, the Company's spinning unit consists of approximately 28,512 spindles, producing various blends, including 100% polyester, viscose, acrylic, PV, AV, PC, CVC, recycled polyester fiber, and MVS yarn. Within the textile division, SCIL also operates Rajah's, a men's clothing brand primarily serving the Punjab region, with its revenue contribution recorded under this segment. The textile division accounted for 16.1% of the Company's total gross sales in 1HFY25 (FY24: 15.7%, FY23: 12.3%).

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.

Clientele:

Major clients of the Company include S.M. Ismail & Co., Rafhan Maize Products Company Ltd, Coca Cola Beverages Pakistan Ltd., Nestle Pakistan Ltd. etc. while SCIL also exports to countries like United Arab Emirates (UAE) and Africa.

Operational Performance:

Production Capacity and Utilization	FY22A	FY23A	FY24A
Chemical Division			
Installed Capacity (Tons)			
Caustic Soda	207,900	207,900	207,900

Sodium Hypochlorite	66,000	66,000	66,000
Liquid Chlorine	12,375	14,850	14,850
Bleaching Powder	7,920	7,920	7,920
Hydrochloric Acid	363,000	363,000	363,000
Calcium Chloride Prills	13,200	13,200	13,200
Oleo Chemicals	34,000	34,000	34,000
Actual Production (Tons)			
Caustic Soda	150,038	137,235	124,513
Sodium Hypochlorite	51,618	49,229	46,960
Liquid Chlorine	9,634	10,966	7,300
Bleaching Powder	5,582	6,028	6,255
Hydrochloric Acid	191,581	167,828	148,332
Calcium Chloride Prills	2,222	9,544	6,322
Oleo Chemicals	8,192	6,479	8,788
Capacity Utilization			
Caustic Soda	72.2%	66.0%	60.0%
Sodium Hypochlorite	78.2%	75.0%	71.2%
Liquid Chlorine	78.0%	74.0%	49.2%
Bleaching Powder	70.5%	76.1%	79.0%
Hydrochloric Acid	53.0%	46.2%	41.0%
Calcium Chloride Prills	16.8%	72.3%	48.0%
Oleo Chemicals	24.1%	19.1%	26.0%
Textile Division			
Number of spindles installed	28,512	28,512	28,512
Number of spindles worked	28,512	28,512	28,512
Number of shifts per day	3	3	3
Installed capacity after conversion into 20/s count (Kgs)	11,063,814	11,063,814	11,063,814
Actual production of yarn after conversion into 20/s count (Kgs)	10,424,887	7,639,537	10,022,597
Capacity Utilization	94.2%	69.1%	91.0%

The installed capacity of both the chemical and textile divisions remained unchanged. In the chemical segment, actual production varied, with an increase observed in bleaching powder and oleo chemicals, while output for other products declined. According to the Company's management, this fluctuation was driven by shifts in market demand. In contrast, the textile division experienced an improvement, with higher capacity utilization attributed to the consistent availability of RLNG/gas for electricity generation throughout the year under review.

Sukuk Structure

SCIL has issued a medium to long term, rated, secured, and privately placed Sukuk of PKR 2.3 bln on February 13, 2025. The proceeds from the Sukuk will be utilized to install a new CFPP of 50 MW capacity. The tenor of the instrument is seven (7) years inclusive of a grace period of eighteen (18) months. The principal will be paid in quarterly installments beginning from the end of the 21st month after issuance while profit payments will also be made in quarterly installments at a rate of 3M KIBOR + 175 basis points (bps).

The security structure includes:

- An exclusive hypothecation charge over specified fixed assets of the Company
- A ranking hypothecation charge over receivables from Collected Customers via a Letter of Hypothecation (LoH).
- Additionally, lien and right of set off over the finance payment account (FPA) and collection account (CA) are provided.
    - FPA under an exclusive lien of the Investment Agent. The FPA shall be funded on a monthly basis.
    - To provide further surety of timely payments to investors, a CA will be maintained which will direct all proceeds from the designated customers (Collected Customers). The Investment

Agent shall have joint authorization on any outward remittance originating from the CA. Should the receivables prove insufficient to cover quarterly debt obligations, it is incumbent upon the Investment Agent to ensure that the Issuer addresses any shortfall using internal cash reserves.

- The FPA/CA shall be subject to a Waterfall Mechanism by virtue of which any remaining proceeds after meeting the required obligations for forthcoming principal and profit payments will be released to the Issuer.

The Issuer may at any time upon expiry of 36 (thirty-six) months from the Issue Date, purchase all or any of the Sukuk Certificates from the Investors at their applicable Buy Out Price (Early Purchase) ("Call Option") to be calculated in terms of the Sale Undertaking and other Transaction Documents. The Issuer shall serve upon the Investors a prior written notice of at least [60 (sixty)] days to exercise the Call Option, which once issued shall be irrevocable and such purchase of Sukuk Certificates shall be in multiples of PKR 1,000,000/- (Pak Rupees One Mln) or all the Sukuk Certificates. Such purchase shall be on a Rental Payment Date ("Call Option Date"). Upon exercise of Call Option, the Issuer will pay the Investors the Buy Out Price (Early Purchase) as per the Sale Undertaking. In case of exercise of Call Option in respect of certain Sukuk Certificates (not 100%), Rental Payments under the Payment Agreement will be revised by the Investment Agent (based on the outstanding Sukuk Certificates) in terms of the Payment Agreement, and any amounts received under the Call Option shall be applied in inverse order to which they were due and notified to the Issuer and the Investors, which in the absence of manifest error will be binding on all the parties.

Key Rating Drivers:

Business Risk Profile:

Industry Risk: Chemicals; Medium to low:

VIS classifies the business risk of the chemical sector as medium to low, supported by moderate cyclicality, low competition, and high capital-intensive nature. Demand in the chemical sector of Pakistan originates from industries such as plastics, paints, paper, leather, soaps, detergents, shampoos, textiles wherein the respective chemicals form an integral part of input materials. Additionally, as a large proportion of chemical demand is met through imports, making the industry susceptible to dumping, albeit the Government of Pakistan has put in place protectionist duties for local industry, which are regularly reviewed. However, a significant part of the raw material is imported; the industry does depict sensitivity to exchange risk.

Financial Risk Profile:

The Company derives its revenue mainly from chemical and some from textile operations. During 1HFY25, total revenue amounted to PKR 15.9 billion (FY24: PKR 31.1 billion; FY23: PKR 27.5 billion). Gross margin remained largely stable at 15.9% in 1HFY25 (FY24: 15.8%; FY23: 16.3%), as the Company adjusted finished goods prices to partially offset rising input costs. Energy cost optimization measures, including the use of alternative captive power generation and commissioning of a 1 MW solar system within the textile division, contributed to the containment of energy costs amidst higher tariffs imposed by Faisalabad Electric Supply Company (FESCO).

The textile segment reported a margin improvement, primarily supported by increased volumetric sales of finished fabric. Given that finished fabrics generally yield higher margins than yarn, the shift in product mix contributed to margin stability over the period.

Capitalization indicators reflected a slight weakening, with the gearing ratio increasing to 1.2x in 1HFY25 (FY24: 1.0x; FY23: 0.8x) and leverage also increasing to 1.8x (FY24: 1.6x; FY23: 1.4x). The weakening was mainly driven by higher debt utilization to fund expenditures related to the coal-fired power plant (CFPP). The coverage profile improved to 1.5x in 1HFY25 (FY24: 1.3x), supported by recovery in funds from operations (FFO) following receipt of tax refunds. In the prior year, FFO had been constrained by elevated financial charges and tax payments. Liquidity remains stable albeit a constraint on assigned ratings, with the current ratio reported at 0.8x in 1HFY25 (FY24: 0.9x; FY23: 0.9x).

Credit Enhancement

The security structure of the Sukuk provides adequate collateral, underpinning the assigned ratings. The establishment of an FPA and CA along with the lien on receivables from the specified customers, and a waterfall mechanism for repayment prioritization, builds confidence in timely payments, further bolstering the ratings.

Financial Summary

Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A	6MFY25M
Property, plant and equipment	16,923.5	17,344.8	18,458.8	22,972.7	26,630.9
Right-of-use Assets	0.0	0.0	0.0	0.0	0.0
Intangible Assets	9.0	8.4	7.5	6.8	6.5
Long-term Investments	25.1	25.0	25.0	20.0	20.0
Stock-in-trade	2,745.2	4,324.5	3,581.7	3,674.7	4,214.7
Trade debts	1,362.8	1,387.4	2,233.1	3,158.9	3,054.5
Short-term Investments	511.8	0.0	0.0	0.0	0.0
Cash & Bank Balances	191.1	322.7	334.3	360.5	326.8
Other Assets	8,771.7	9,141.6	10,299.3	10,317.2	10,080.3
Total Assets	30,540.0	32,554.4	34,939.8	40,510.9	44,333.7
Creditors	747.6	981.2	989.4	1,314.6	1,707.6
Long-term Debt (incl. current portion)	2,583.6	2,655.1	3,148.3	3,714.8	6,057.9
Short-Term Borrowings	6,749.0	6,839.8	7,035.1	9,980.7	10,764.8
Total Debt	9,332.6	9,494.9	10,183.5	13,695.5	16,822.7
Other Liabilities	4,578.0	6,040.0	7,162.7	7,436.7	7,583.3
Total Liabilities	14,658.2	16,516.0	18,335.5	22,446.8	26,113.6
Paid up Capital	214.3	214.3	214.3	214.3	214.3
Revenue Reserve	11,495.6	10,925.7	11,927.3	12,464.4	14,219.7
Other Equity (excl. Revaluation Surplus)	97.5	1,372.4	1,347.6	1,491.9	0.0
Sponsor Loan	0.0	0.0	0.0	0.0	0.0
Equity (excl. Revaluation Surplus)	11,807.4	12,512.4	13,489.2	14,170.5	14,434.0
Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A	6MFY25M
Net Sales	14,784.5	21,625.6	27,492.6	31,111.9	15,888.8
Gross Profit	2,932.9	2,872.9	4,479.6	4,919.3	2,528.8
Operating Profit	2,274.1	1,795.7	3,087.6	3,490.6	1,728.6
Finance Costs	604.3	897.3	1,611.7	2,348.7	1,142.6
Profit Before Tax	1,669.8	898.4	1,475.9	1,141.9	585.2
Profit After Tax	1,347.7	655.6	993.4	585.5	364.9
Ratio Analysis	FY21A	FY22A	FY23A	FY24A	6MFY25M
Gross Margin (%)	19.8%	13.3%	16.3%	15.8%	15.9%
Operating Margin (%)	15.4%	8.3%	11.2%	11.2%	10.9%
Net Margin (%)	9.1%	3.0%	3.6%	1.9%	2.3%
Funds from Operation (FFO) (PKR Millions)	2,310.2	1,992.4	2,492.0	2,262.3	1,365.6
FFO to Total Debt* (%)	24.8%	21.0%	24.5%	16.5%	16.2%
FFO to Long Term Debt* (%)	89.4%	75.0%	79.2%	60.9%	45.1%
Gearing (x)	0.8	0.8	0.8	1.0	1.2
Leverage (x)	1.2	1.3	1.4	1.6	1.8
Debt Servicing Coverage Ratio* (x)	2.2	1.6	1.6	1.3	1.5
Current Ratio (x)	0.9	0.9	0.9	0.9	0.8
(Stock in trade + trade debts) / STD (x)	0.7	1.0	1.1	0.8	0.8
Return on Average Assets* (%)	4.7%	2.1%	2.9%	1.6%	1.7%
Return on Average Equity* (%)	12.1%	5.4%	7.6%	4.2%	5.1%
Cash Conversion Cycle (days)	90	75	71	66	69
*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	Chlor-alkali (Chemical Sector Sub-set)
Type of Relationship	Solicited
Purpose of Rating	Sukuk Ratings
Rating History	(see table below)
Instrument Structure	SCIL has issued a Rated, Secured, Privately Placed, Medium to Long Term Sukuk of size PKR 2.3 bln. The proceeds from the issue will be utilized to finance the installation of CFPP. The tenor of the instrument shall be seven (7) years inclusive of a grace period of eighteen (18) months. The principal will be paid in quarterly installments beginning from the end of the 21st month after issuance while profit payments will also be made in quarterly installments at a rate of 3M KIBOR + a spread of 175 bps. The rentals shall be paid quarterly. The Sukuk will be 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.
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 Watch	Rating Action
RATING TYPE: SUKUK				
24-Apr-25	**AA-**	**-**	**Stable**	**Reaffirmed**
04-Mar-25	AA-	-	Stable	Final
14-Jun-24	AA-	-	Stable	Preliminary

Due Diligence Meetings Conducted

Name	Designation	Date
N/A		