

SITARA CHEMICAL INDUSTRIES LIMITED

Analyst(s):

Husnain Ali

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RATING DETAILS		
RATINGS CATEGORY	LATEST RATING	PREVIOUS RATING
		Medium to Long-term
SUKUK-1	AA-	AA-
RATING OUTLOOK/ WATCH	Stable	Stable
RATING ACTION	Reaffirmed	Reaffirmed
RATING DATE	16-Jun-26	24-Apr-25

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>

Instrument Rating

(<https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf>)

Rating Scale

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

Rating Rationale

SCIL was incorporated in Pakistan in 1981 as a public limited company. The principal activities of the Company include operating a Chlor Alkali plant, an Oleo Chemical plant and a yarn spinning unit. The registered office of the Company is in Karachi, while the manufacturing facilities are in Faisalabad. SCIL's entity ratings were reaffirmed at A+/A2 ('Single A Plus/A Two').

Reaffirmation of rating incorporates the medium to low business risk profile of SCIL, supported by its moderate cyclicality, high barrier to entry owing to capital-intensive nature of the industry. While operating performance reflected a mixed trend, topline continued to increase steadily. While capitalization ratios were elevated at end-9MFY26, due to higher borrowings, debt coverage metrics recovered on account of higher cash flows. Liquidity ratios remain weak due to reliance on extended payables and high short-term borrowings.

SCIL has issued a medium to long term, rated, secured, and privately placed Sukuk amounting to Rs. 2,300m to finance a new 50-megawatt coal-fired power plant (CFPP). The instrument has a tenor of seven years, including an 18-month grace period and quarterly rental payments at the rate of 3M KIBOR+175 basis points (bps). The rentals shall be paid quarterly. The principal repayment shall commence from November 2026 onwards.

The security structure, features an exclusive hypothecation charge over specified fixed assets, a ranking hypothecation charge over company's receivables from Collected Customer via a Letter of Hypothecation (LoH). Additionally, lien and right of set off over the finance payment account (FPA) and collection account (CA) is also part of the security. After 36 months from the Issue Date, the Issuer holds the option to buy back all or a portion of the Sukuk Certificates from the Investors at the applicable Buy out Price. The Issuer must provide written notice at least 60 days in advance to exercise this Call Option, which is irrevocable once issued. The buyback can occur in multiples of Rs 1,000,000/- or for the entire Sukuk Certificates. The buyback will take place on a Rental Payment Date, and upon exercising the Call Option, the Issuer will pay the Investors the Buy Out Price as per the Sale Undertaking. If the Call Option is exercised for only certain Sukuk Certificates, the Rental Payments under the Payment Agreement will be adjusted accordingly by the Investment Agent, based on the outstanding Sukuk Certificates. Any amounts received from the Call Option will be applied in reverse order to which they were due and notified to all parties involved. The assigned rating of the Sukuk is underpinned by a strong security structure alongside the establishment of a FPA and CA, with a waterfall mechanism for repayment prioritization. Additionally, the call option further supports the assigned rating.

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.

Sukuk Structure

SCIL has issued a medium to long term, rated, secured, and privately placed Sukuk of Rs. 2,300m 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 November 2026 onwards while profit payments will also be made in quarterly installments at a rate of 3M KIBOR + a spread of 175 basis points (bps). The rating was notched up to AA- due to the secured nature of the Sukuk.

The security structure of the Sukuk 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.
- SCIL shall establish a 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.

After 36 months from the Issue Date, the Issuer holds the option to buy back all or a portion of the Sukuk Certificates from the Investors at the applicable Buy out Price. The Issuer must provide written notice at least 60 days in advance to exercise this Call Option, which is irrevocable once issued. The buyback can occur in multiples of PKR 1,000,000/- or for the entire Sukuk Certificates. The buyback will take place on a Rental Payment Date, and upon exercising the Call Option, the Issuer will pay the Investors the Buy Out Price as per the Sale Undertaking. If the Call Option is exercised for only certain Sukuk Certificates, the Rental Payments under the Payment Agreement will be adjusted accordingly by the Investment Agent, based on the outstanding Sukuk Certificates. Any amounts received from the Call Option will be applied in reverse order to which they were due and notified to all parties involved.

Additionally, profit repayment is being made regularly as per the schedule:

Date of profit repayment	Amount (Rs. in m)
13-May-25	76.55
13-Aug-25	76.35
13-Nov-25	74.26
13-Feb-26	74.84

Governance

SCIL is a public limited company. The company is 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, soaps, 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. On the textile side, 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 4, 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, reducing the average utility cost from Rs. 32 per unit to Rs. 26 per unit.

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 and 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, 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																																								
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Sector	Chemicals																																									
Type of Relationship	Solicited																																									
Purpose of Rating	Instrument Ratings																																									
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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.		
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2026 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.		
Due Diligence Meetings Conducted	Name	Designation	Date
	Zakir Hussain	CFO	04-Jun-2026
	Imran Arshad	Deputy Manager Finance	