VIS
Credit Rating Company Limited

ARCHROMA PAKISTAN LIMITED

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RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	AA	A1	AA	A1
RATING OUTLOOK/ WATCH	Stable		Negative	
RATING ACTION	Maintained		Maintained	
RATING DATE	January 01, 2026		September 03, 2024	

Shareholding (5% or More)	Other Information
Archroma Textiles GmbH – 75.0%	Incorporated in 2013
	Public Limited Company (listed)
	Chief Executive: Irfan Chawala
	External Auditor: KPMG Taseer Hadi & Co. 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/do cs/VISRatingScales.pdf

Rating Rationale

Archroma Pakistan Limited ('ARPL' or the 'Company') ratings reflect its strong business profile, improved financial performance, and sustained market position within the specialty chemicals industry, underpinned by robust sponsorship and effective governance practices. The Company benefits from the strategic, technical, and financial backing of Archroma Textiles GmbH, part of a globally diversified chemicals group with extensive expertise and access to advanced research and development.

Archroma's operational performance demonstrated meaningful recovery during the year under review, supported by higher production volumes, improved process efficiency, and cost optimization measures. Despite persistent pressures from energy costs and competitive pricing, profitability strengthened due to improved utilization and disciplined financial management. The Company successfully managed its working capital, ensuring timely collections and controlled inventory levels, which enhanced liquidity and reduced reliance on short-term borrowing. Prudent financial discipline, together with reduced finance costs and positive operating cash flows, contributed to a stronger balance sheet and improved debt-servicing capacity.

From a business risk perspective, exposure to the cyclical textile sector and imported raw materials remains a key challenge. Nonetheless, Archroma's diversified portfolio, steady demand from the domestic packaging industry, and ongoing initiatives in home-care, personal-care, and industrial chemical segments help mitigate concentration risk. The Company's continued investment in sustainable and compliant product lines also supports resilience in an evolving regulatory and environmental landscape.

Governance and internal controls remain sound, with oversight by a professional and experienced Board of Directors. The internal audit function operates independently, ensuring alignment with global compliance frameworks and risk management standards. Integration with the parent group's systems enhances transparency and reporting quality.

Company Profile

Archroma Pakistan Limited ('ARPL' or the 'Company') was incorporated in Pakistan 2013 under the repealed Companies Act, 1913 (now the Companies Act, 2017). The Company is a leading specialty chemical manufacturer in the country and forms part of the global Archroma group, headquartered in Switzerland. Archroma commenced its operations in Pakistan following the acquisition of Clariant's textile, paper, and emulsions businesses in 2013, marking a strategic shift in ownership and operational integration with the group's international platform.

Archroma operates through two main business areas: (i) Textile Effects – offering a complete range of products from fabric pretreatment to finishing; (ii) Packaging Technologies – providing dyes, optical brighteners, and functional chemicals for paper and packaging; and Coatings, Adhesives, Sealants Pigments and dispersions for Coatings, and Construction sectors.

The Company's strength comes from its global backing, access to advanced research and development, and strong focus on sustainable solutions. Archroma supports Pakistan's textile and packaging industries, which are vital for the country's exports, through its manufacturing facilities, service centers, and nationwide distribution network. With established customer relationships and recognized certifications, Archroma holds a strong position in the local specialty chemical market.

Sponsor Profile

Archroma Pakistan Limited is majority-owned (75%) by Archroma Textiles GmbH, headquartered in Pratteln, Switzerland. Archroma is a global specialty chemicals group that emerged in 2013 following the acquisition of Clariant's Textile, Paper and Emulsions businesses by SK Capital Partners, a US-based private investment firm with extensive expertise in the specialty chemicals sector. Since then, Archroma has grown its footprint across more than 35 countries, with 26 production sites and a diversified portfolio. The parent provides strong strategic, technical, and financial backing.

Management and Governance

CHAIRMAN/CEO PROFILE

On 30 June 2025, Dr. Lalarukh Ejaz resigned as Chairperson, with Mr. Mujtaba Rahim appointed as the new Chairman. Concurrently, Mr. Irfan Chawala succeeded Mr. Rahim as Chief Executive Officer. Mr. Chawala, who previously served as CFO, brings extensive experience in financial & business leadership roles.

BOD's & COMMITTEE:

Archroma Pakistan's Board of Directors consists of a mix of group representatives and independent professionals. The Board includes: Irfan Chawala (CEO), Lalarukh Ejaz, Patrick Verraes, Shahid Ghaffar, Victor Garcia, and Yasmin Peermohammad. This composition ensures oversight from both local leadership and the global sponsor, Archroma Textiles GmbH.

The Board has established key committees in line with regulatory and group governance standards. The Audit Committee, chaired by a non-executive director, supervises financial reporting integrity, risk management, and internal audit. The Remuneration Committee oversees management compensation and succession planning. Collectively, the Board and its committees ensure effective decision-making, compliance with SECP and PSX requirements, and alignment with Archroma's global governance practices.

ORGANOGRAM:

Archroma's organizational structure integrates local operations under global oversight. The CEO (since June 2025) leads functional divisions including production, commercial, supply chain, finance, compliance, and R&D. Support functions like HR, IT, Internal Audit, and Legal interface closely with global teams. Business units (Textile Effects and Packaging Technologies) are managed locally but adhere to global standards and reporting systems. This matrix structure balances local agility with the parent's strategic control.

I.A / IT INFRASTRUCTURE / CERTIFICATIONS:

The company maintains an independent Internal Audit function reporting to the Audit Committee, aligned with Archroma's global internal control and risk frameworks. Archroma Pakistan uses integrated ERP / IT systems tied to the global Archroma platform, supporting real-time management reporting, compliance, and data integrity. On the certification front, Archroma adheres to multiple international standards and sustainability certifications: it maintains ISO, environmental, and quality certifications, and many of its products comply with bluesign, ZDHC, and other eco-standards.

Business Risk

INDUSTRY

The specialty chemicals industry in Pakistan carries a medium-to-high risk profile, primarily because of its heavy dependence on the textile sector. The textile industry accounts for over 60% of the country's export earnings and roughly 8% of GDP, making it the single largest driver of chemical demand. This concentration creates vulnerability: when global textile demand slows or local cotton availability weakens, downstream chemical sales are immediately affected.

The industry also faces exposure to raw material imports, as most chemical inputs are sourced internationally. This makes players highly sensitive to exchange rate volatility, import restrictions, and rising global commodity prices. Recent years have seen sharp rupee depreciation and regulatory barriers that raised costs and delayed supplies, putting pressure on margins and production planning.

The industry operates in a highly working-capital intensive environment. Extended credit terms to large textile clients and delays in sales tax refunds from the government tie up cash flows. Companies often rely on short-term bank borrowing to bridge these gaps, raising finance costs and liquidity pressures.

Another layer of business risk comes from energy costs and regulatory compliance. The chemicals sector requires uninterrupted utilities, but rising gas and electricity tariffs, along with periodic supply disruptions, have raised operating costs. Compliance with environmental regulations, both locally and from international buyers, also requires continuous investment in sustainable technologies.

Despite these risks, there are long-term demand drivers: Pakistan's large textile base, gradual diversification into homecare, packaging and construction chemicals, and global shifts toward sustainable solutions. However, until structural challenges such as energy pricing, currency stability, and regulatory delays are resolved, the industry will continue to face above-average business risk.

PROFITABILITY:

Archroma Pakistan Limited showed a solid recovery in FY25 after a difficult FY24, which was affected by weak textile demand, high costs, and pricing pressure. Sales increased to PKR 27.41 billion in FY25 from PKR 24.77 billion in FY24, mainly due to higher volumes, better raw materials procurement, customer orders, and improved production efficiency. The Company also controlled costs and improved processes, which helped margins even though the market remained competitive and selective price reductions were given to customers.

The Textile Effects (TE) segment continued to generate highest revenue, contributing around 85–90% of total sales. Performance improved in FY25 as textile exports picked up, production increased, and long-term supply arrangements supported operations. Although pricing pressure continued, stronger demand and cost savings helped improve profitability. The Company is also working on reducing reliance on textile chemicals by entering home-care, personal-care, and leather chemical markets.

The Packaging Technologies segment, which contributes around 11–14% to revenue, also remained stable. FY25 sales were PKR 3 billion, supported by demand from FMCG and packaging companies. While growth was slower than TE in FY25, this business continues to add stability and diversification. Archroma is also focusing on sustainable and food-grade packaging chemicals going forward as the same offers growth potential.

Archroma's profitability recovery in FY25 was primarily driven by higher production volumes, improved operating efficiency, and lower finance costs. After margin erosion in FY24 due to energy inflation and price competition, process optimization at both Karachi and Jamshoro sites yielded cost savings and improved yield ratios. The renewal of key supply contracts, including hydrogen sourcing for indigo dye production, ensured stable input availability and reduced procurement volatility. Gross margin improved to 24.11% from 18.17% as utilization and throughput increased, allowing better absorption of fixed costs.

Operating margin rose to 8.72% as administrative and selling costs were tightly managed despite selective price concessions extended to maintain market share. Finance cost fell sharply to PKR 450 million reflecting reduced short-term borrowings and faster receivable turnover. This supported a turnaround in funds from operations to PKR 1.52 billion and a return on equity of 28.75% (FY24: –13.47%). The improvement was operationally driven, reflecting stronger cost discipline and volume recovery.

Financial Risk

CAPITAL STRUCTURE:

Archroma's capital structure improved in FY25 due to lower debt and higher equity. Total debt reduced to PKR 3.62 billion from PKR 4.14 billion, mainly because short-term borrowings were brought down. Equity increased to PKR 4.41 billion from PKR 3.78 billion, supported by profit retention. As a result, gearing improved to 0.82x from 1.10x and leverage reduced to 2.57x from 2.79x. The balance sheet is now stronger, reflecting better financial discipline and improved operational performance.

DEBT COVERAGE & LIQUIDITY:

Debt-servicing capacity strengthened materially in FY25, supported by improved operating performance and a return to positive cash flows. The Company's Debt servicing capacity (DSCR) ratio strengthened to 3.14x in FY25, indicating adequate coverage of both interest and principal obligations. The improvement was mainly attributed to higher cash generation from operations and a notable decline in finance costs to PKR 450 million, reflecting reduced short-term borrowing needs. Funds from operations increased to PKR 1.52 billion, which significantly improved FFO-to-total debt to 41.99%. Efficient management of working-capital debt and timely servicing of obligations further reinforced Archroma's debt-servicing profile during the year.

Liquidity position strengthened in FY25, supported by higher operating cash flows and improved working-capital efficiency. The cash conversion cycle reduced to 57.54 days in FY25 due timely recoveries from customers, controlled inventory levels, and disciplined supplier management. The company also maintained a healthy current ratio of 1.22x, reflecting a comfortable cushion between current assets and short-term liabilities. Stronger cash generation enabled a buildup of cash reserves to PKR 985 million and reduced dependence on short-term borrowing. Overall, Archroma's liquidity profile reflects prudent financial management to meet operational requirements.

Financial Summary — Appendix I

Balance Sheet (PKR Millions)	FY23A	FY24A	FY25A
Property, plant and equipment	1,901.91	2,338.15	2,524.10
Stock-in-trade	6,756.10	4,709.26	4,511.18
Trade debts	9,312.87	4,977.95	5,700.52
Short-term Investments	-	-	-
Cash & Bank Balances	315.38	159.53	985.21
Other Assets	2,160.14	2,118.36	2,006.75
Total Assets	20,446.40	14,303.25	15,727.76
Creditors	8,438.70	3,652.63	7,113.65
Long-term Debt (incl. current portion)	333.18	202.23	296.15
Short-Term Borrowings	4,370.65	3,938.59	3,325.94
Total Debt	4,703.83	4,140.82	3,622.09
Other Liabilities	2969.71	2,732.21	582.02
Total Liabilities	16,112.25	10,525.66	11,317.76
Paid up Capital	341.18	345.63	345.63
Revenue Reserve	1,245.95	3,338.39	3,970.80
Other Equity (excl. Revaluation Surplus)	2,747.00	93.55	93.55
Equity (excl. Revaluation Surplus)	4,334.13	3,777.57	4,409.98

Income Statement (PKR Millions)	FY23A	FY24A	FY25A
Net Sales	30,012.73	24,773.13	27,406.66
Gross Profit	7,467.77	4,501.51	6,607.43
Operating Profit	3,503.26	711.53	2,390.53
Finance Costs	1,262.28	1,224.31	450.05
Profit Before Tax	2,240.98	-512.78	1,940.48
Profit After Tax	1,244.38	-546.45	1,176.97

Ratio Analysis	FY23A	FY24A	FY25A
Gross Margin (%)	24.88%	18.17%	24.11%
Operating Margin (%)	11.67%	2.87%	8.72%
Net Margin (%)	4.15%	-2.21%	4.29%
Funds from Operation (FFO) (PKR Millions)	1,540.51	-715.66	1,521.07
FFO to Total Debt* (%)	32.75%	-17.28%	41.99%
FFO to Long Term Debt* (%)	462.37%	-353.88%	513.61%
Gearing (x)	1.09	1.10	0.82
Leverage (x)	3.72	2.79	2.57
Debt Servicing Coverage Ratio* (x)	1.46	0.34	3.14
Current Ratio (x)	1.17	1.16	1.22
(Stock in trade + trade debts) / STD (x)	3.69	2.48	3.10
Return on Average Assets* (%)	7.58%	-3.15%	7.84%
Return on Average Equity* (%)	30.70%	-13.47%	28.75%
Cash Conversion Cycle (days)	71.77	99.64	57.54

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

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Archroma Pakistan Limited
Sector	Chemical
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				
01/01/2026	AA	A1	Stable	Maintained
09/03/2024	AA	A1	Negative	Maintained
01/31/2023	AA	A1	Stable	Reaffirmed
01/07/2022	AA	A1	Stable	Initial

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 Meetings Conducted

Name	Designation	Date
Mr. Altaf Jamal Khan	Chief Financial Officer (CFO)	21st October 2025