VIS
Credit Rating Company Limited

RATING REPORT

ITTEHAD CHEMICALS LIMITED

Chief Executive: Mr. Abdul Sattar Khatri

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

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

Rs. Million	FY23A	FY24A	1HFY25M
Net Sales	24,268.28	24,314.59	13,143.26
PBT	2,680.18	2,369.60	1,085.30
PAT	1,826.18	1,385.64	614.39
Paid up Capital	1,000.00	1,000.00	1,000.00
Equity (ex. Reval)	5,311.72	6,415.09	6,879.49
Total Debt	3,257.36	3,540.25	4,038.69
Leverage (x)	1.50	1.24	1.25
Gearing (x)	0.61	0.55	0.59
FFO	2,393.89	1,797.44	826.34
FFO/Total Debt (x)	73.49%	50.77%	40.92%*
Net Margin (%)	7.52%	5.70%	4.67%

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

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Positive		Stable	
RATING ACTION	Maintained		Reaffirmed	
RATING DATE	April 29, 2025		April 02, 2024	

RATING RATIONALE

Positive outlook takes into account Ittehad Chemical Limited's (ICL) stable financial risk profile even under difficult economic conditions. The Company has historically maintained a strong and stable financial risk profile. Although in the recent periods, financial ratios have continued to normalize after peaking in FY23, the financial profile continues to align with the assigned rating. Our rationale is further supported by ICL's ongoing projects that are expected to provide further support to its revenue generation capacity and provide improved operational efficiencies. Therefore, the Company's ratings are maintained at A-/A2 with a Positive outlook.

Moreover, the Company functions within a moderate industry risk environment, with its diverse portfolio, and strong customer base provides support to its business risk. Thereby further supporting the ICL's ratings.

Going forward, ratings will depend on the realization of benefits from the company's ongoing projects and improvements in its financial risk profile.

CORPORATE PROFILE

Ittehad Chemicals Limited ("ICL" or "the Company") is a prominent chemical manufacturer in Pakistan, established in 1991 after the merger of Ittehad Chemicals and Ittehad Pesticides. The Company's origins trace back to United Chemicals, founded in 1962, nationalized in 1971, and privatized in 1995. Majority ownership rests with the Chemi Group, which also holds interests in chemicals and real estate sectors. ICL operates manufacturing facilities in Kala Shah Kaku with its head office in Lahore, producing caustic soda, liquid chlorine, hydrochloric acid, sodium hypochlorite, calcium chloride, and sodium sulphate. The Company caters primarily to domestic demand, with selective exports to the GCC region. Ongoing technological upgrades support operational efficiency and environmental compliance. ICL also holds two subsidiaries: ICL Power (Pvt.) Ltd being set up. for biomass electricity generation from biomass and Ittehad Salt Processing (Pvt.) Ltd. for salt mining operations.

GOVERNANCE

Ittehad Chemicals Limited (ICL) is majority-owned by the Chemi Group, which has interests in the chemical and real estate sectors. The Company is owned by the Khatri family, led by Chairman Mr. Muhammad Siddique Khatri, with executive oversight by Mr. Abdul Sattar Khatri and Mr. Waqas Siddiq Khatri. The governance structure reflects significant family involvement, with the Khatri family holding key roles. The Board of Directors comprises seven members, including two independent directors and one female representative. In FY24, the Board remain unchanged.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's chemical manufacturing sector—focused on caustic soda, LABSA, SLES, and sodium hypochlorite—is assessed as Medium. This reflects moderate demand cyclicality, limited competition due to trade protection, and high entry barriers from capital and regulatory intensity. However, exposure to energy costs and exchange rate volatility continues to exert pressure on the industry risk profile.

The sector caters to upstream industries such as textiles, paper, detergents, and water treatment, offering some demand diversification. In FY24, 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 FY24 following a decline in textile sector activity, the largest domestic consumer. Major chlor-alkali producers reported lower sales volumes during this period.

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.

Anti-dumping duties and import tariffs, such as those imposed on LABSA (10.6%–21.6%), have reduced import competition. Additionally, rupee depreciation has raised import costs, favoring local supply. Procurement remains primarily domestic, with large buyers retaining 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 FY24, rising energy tariffs and financing costs, amid elevated interest rates, exerted pressure on profitability. Some producers have invested in captive or renewable energy solutions to manage cost volatility, although completion timelines extend into future periods. Gas tariff hikes—from PKR 3,000/MMBTU to PKR 3,100/MMBTU in FY24 with market expectations of around PKR 5,000/MMBTU by FY26–27—are expected to intensify margin pressure for gas-based plants.

The sector remains domestically oriented. Imports of caustic soda have fluctuated based on local supply dynamics, with some increase observed in 2024 due to partial demand recovery. However, Pakistan retains sufficient local production capacity. Conversely, reliance on imported raw materials—such as Linear Alkyl Benzene and specialty additives—exposes manufacturers to currency risk. The depreciation of the rupee in FY23–FY24 elevated input costs until price adjustments could be made. Export volumes remain limited, with caustic soda shipped primarily to GCC 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.

Diversified Product Portfolio

The Company has a diversified product base, providing products to various major sectors of the economy such as textiles and different segments of the FMCG industries, which contributes to stable revenue generation and profitability.

Client Concentration

Client concentration remains significant, with the top 10 customers contributing approximately 47% (FY23: 45%) of revenue in FY24, increasing to around 48% in 1QFY25. This situation is mitigated by the nature of these clients, who operate in the FMCG sector with well-recognized brands and consistent demand. The Company's long-standing relationships with these clients further reduce risk.

Moreover, Company's limited exposure of ~10% of total revenue to textile sector reduces vulnerability reflected from variations within that sector.

Product Profile & Capacity

Production Capacity and Utilization (MT)	FY23A	FY24A
Installed Capacity (Hydrochloric Acid)	250,000.00	250,000.00
Actual Production (Hydrochloric Acid)	207,393.00	178,714.00
Utilization (%)	82.96%	71.49%
Installed Capacity (Caustic Soda Liquid)	150,000.00	150,000.00
Actual Production (Caustic Soda Liquid)	92,145.00	81,757.00
Utilization (%)	61.43%	54.50%
Installed Capacity (LABSA/SLES)	70,000.00	70,000.00
Actual Production (LABSA/SLES)	26,227.00	31,087.00
Utilization (%)	37.47%	44.41%
Installed Capacity (Sodium Hypochlorite)	49,500.00	49,500.00
Actual Production (Sodium Hypochlorite)	36,134.00	33,032.00
Utilization (%)	73.00%	66.73%
Installed Capacity (Calcium Chloride Prills)	30,000.00	30,000.00
Actual Production (Calcium Chloride Prills)	25,412.00	20,395.00
Utilization (%)	84.71%	67.98%
Installed Capacity (Liquid Chlorine)	13,200.00	13,200.00
Actual Production (Liquid Chlorine)	5,782.00	5,619.00
Utilization (%)	43.80%	42.57%
Installed Capacity (Caustic Soda Flakes)	10,000.00	10,000.00
Actual Production (Caustic Soda Flakes)	8,409.00	5,054.00
Utilization (%)	84.09%	50.54%
Installed Capacity (Sodium Sulphate)	4,000.00	4,000.00
Actual Production (Sodium Sulphate)	596.00	1,674.00
Utilization (%)	14.90%	41.85%
Installed Capacity (Zinc Sulphate)	600.00	600.00
Actual Production (Zinc Sulphate)	0.00	12.00

ICL operates on a 125-acre site, housing two distinct production lines—one dedicated to the manufacturing of caustic soda and allied products, and the other LABSA-SLES production. The later was commissioned in 2019. Additionally, the Company operates a single HCl furnace at its premises.

The installed capacities of major products remained unchanged in FY24, with caustic soda (liquid) totaling 150000 tonnes and LABSA/SLES combined capacity at 70,000 tonnes per annum. However, product-wise utilization and actual production exhibited considerable variation during the period under review.

In FY24, the production was impacted by limited recovery in Pakistan's textile sector and lower exports compared to FY23. Exports were influenced by shifts in international supply chain dynamics favoring more competitive regional players.

FINANCIAL RISK

Positive outlook takes into account Ittehad Chemical Limited's (ICL) stable financial risk profile even under difficult economic conditions and the ongoing projects that are expected to provide further support to its revenue generation capacity and provide improved operational efficiencies. Assigned ratings also takes into account the Company's financial risk profile, reflecting stable revenues in FY24 despite lower sales volumes, with focused on local sales accounting for a larger share of total revenue. Gross margins were impacted by elevated input costs and currency depreciation, while limited pricing flexibility constrained the full pass-through of cost increases. Profitability during 1HFY25 showed signs of recovery, supported by easing of input costs, Company's energy efficiency initiatives and continued pricing adjustments. Moreover, declining interest rates have provided support to the Company's bottom line. Capital structure metrics improved supported by growth in equity through retained earnings. Liquidity remained adequate, with stable current ratio while and coverage ratios also remained healthy. Future profitability and cash flow generation are expected to benefit from the commissioning of the biomass power project and caustic soda flaker unit, aimed at improving cost efficiency and expanding revenue streams, respectively.

Profitability Profile

In FY24, revenue remained stable at PKR 24.32 billion (FY23: PKR 24.27 billion), despite an approximate 10% reduction in sales volumes due to shrinkage in textile exports. Local sales accounted for 93% (FY23: 86%) of the total revenue, while export sales decreased to 7% (FY23: 14%) following a one-off increase in FY23. The gross margin decreased to 19.79% (FY23: 20.58%) due to higher raw material costs and currency depreciation. Although selling prices were raised, the full cost increases could not be passed on to customers given competition within the industry. Net margin fell to 5.70% (FY23: 7.52%) as finance costs increased by 30% due to higher short-term borrowings amid a high interest rate environment. In 1HFY25, net margin improved to 4.67%, supported by an easing of interest rate environment during the period.

Going forward, the profitability profile is expected to remain stable, supported by planned projects aimed at enhancing revenue generation and operational efficiency. The Company is in the process of establishing a wholly-owned biomass power subsidiary, which is expected to serve as a cost-effective alternative to existing gas generators and grid electricity, thereby supporting margin sustainability. Additionally, ICL is setting up a new Caustic Soda Flaker unit with a focus on export markets, intended to augment revenues and reduce exposure to potential import-related disruptions, such as those experienced in FY23. The company imports ~65% of its raw materials & these exports are expected to provide them with adequate import coverage.

Capital Structure

The Company's capitalization profile has shown improvement over time due to timely long-term debt repayments and equity expansion from sustained profit retention. The gearing ratio improved to 0.55x (FY23: 0.61x), and the leverage ratio also improved to 1.24x (FY23: 1.50), after peaking at 0.98x and 2.03x in FY22. stable leverage was observed at 1.25x, despite a minor adjustment in gearing to 0.59x in 1HFY25. Going forward, the capital structure is expected to remain stable, with no additional debt drawdowns anticipated for capital expenditure requirements, as management has indicated that these will be met through internal cash generation.

Liquidity and Coverage

The Company after a difficult year in FY22, has managed to maintain a healthy coverage profile, with the Debt Service Coverage Ratio (DSCR) of 1.76x, albeit lower than 2.15x in FY23 affected by a higher interest rate environment in FY24. However, with easing interest rates, the DSCR has recovered to 1.90x in 1HFY25. Moreover, with continuous profit retention, liquidity has remained mostly stable as the Company has opted to utilize access internal cash generation for its capital expenditure needs. Liquidity remains adequate with assigned ratings reflected in a current ratio of 1.15x in 1HFY25 (FY24: 1.18x, FY23: 1.10x). On a timeline basis, liquidity has shown a gradual recovery from low of 0.99x in FY22.

Financial Summary			Appendix I
Balance Sheet (PKR Millions)	FY23A	FY24A	6MFY25M
Property, Plant, and equipment	7,231.17	8,747.01	8,808.19
Intangible Assets	0.88	0.33	0.16
Long-term Investments	2.50	3.50	499.38
Stock-in-trade	2,197.16	2,274.32	2,867.87
Trade debts	1,939.54	3,015.77	2,617.16
Short-term Investments	300.00	12.20	12.20
Cash & Bank Balances	923.73	287.56	511.82
Other Assets	2,096.01	2,925.96	3,016.90
Total Assets	14,690.99	17,266.65	18,333.68
Creditors	3,354.54	3,247.10	3,222.88
Long-term Debt (incl. current portion)	1,943.31	1,245.80	1,055.57
Short-Term Borrowings	1,314.05	2,294.45	2,983.12
Total Debt	3,257.36	3,540.25	4,038.69
Other Liabilities	1,375.33	1,191.69	1,320.09
Total Liabilities	7,987.23	7,979.04	8,581.66
Paid up Capital	1,000.00	1,000.00	1,000.00
Revenue Reserve	4,134.72	5,238.09	8,574.99
Other Equity (excl. Revaluation Surplus)	177.00	177.00	177.00
Equity (excl. Revaluation Surplus)	5,311.72	6,415.09	6,879.49

Income Statement (PKR Millions)	FY23A	FY24A	6MFY25M
Net Sales	24,268.28	24,314.59	13,143.26
Gross Profit	4,993.78	4,811.37	2,483.29
Operating Profit	3,088.64	2,987.94	1,437.48
Finance Costs	562.21	730.84	352.18
Profit Before Tax	2,680.18	2,369.60	1,085.30
Profit After Tax	1,826.18	1,385.64	614.39

Ratio Analysis	FY23A	FY24A	6MFY25M
Gross Margin (%)	20.58%	19.79%	18.89%
Operating Margin (%)	12.73%	12.29%	10.94%
Net Margin (%)	7.52%	5.70%	4.67%
Funds from Operation (FFO) (PKR Millions)	2,393.89	1,797.44	826.34
FFO to Total Debt* (%)	73.49%	50.77%	40.92%
FFO to Long Term Debt* (%)	123.19%	144.28%	156.57%
Gearing (x)	0.61	0.55	0.59
Leverage (x)	1.50	1.24	1.25
Debt Servicing Coverage Ratio* (x)	2.15	1.76	1.90
Current Ratio (x)	1.10	1.18	1.15
(Stock in trade + trade debts) / STD (x)	3.55	2.59	2.06
Return on Average Assets* (%)	13.25%	8.67%	6.90%
Return on Average Equity* (%)	40.13%	23.63%	18.49%
Cash Conversion Cycle (days)	7.00	17.26	27.74

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Ittehad Chemicals 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				
	4/29/2025	**A-**	**A2**	**Positive**	**Maintained**
	04/02/2024	A-	A2	Stable	Reaffirmed
	03/30/2023	A-	A2	Stable	Maintained
	02/25/2022	A-	A2	Positive	Reaffirmed
	11/19/2020	A-	A2	Positive	Reaffirmed
	26/08/2019	A-	A2	Positive	Maintained
	01/25/2018	A-	A2	Stable	Reaffirmed
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. Asif Khan	CFO	April 11, 2025		
	Mr. Shahbaz Ali	Head - Budgeting & Costing			