

ITTEHAD CHEMICALS LIMITED

Analyst(s):

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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	A1	A-	A2
RATING OUTLOOK/ WATCH	Stable		Positive	
RATING ACTION	Upgrade		Maintained	
RATING DATE	05-May-26		29-Apr-25	

Shareholding (5% or More)

Muhammad Siddiq Khatri - 13.45%

General Public - 74.60%

Other Information

Incorporated in 1991

Public Listed Company

Chairman: Muhammad Siddique Khatri

CEO: Abdul Sattar Khatri

External Auditor: BDO Ebrahim & 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/docs/VISRatingScales.pdf>

Rating Rationale

The upgrade in the entity ratings from 'A-/A2' to 'A/A1' reflects the Company's strategic initiatives to diversify its product portfolio and transition towards greener chemical capabilities through investment in a biomass power plant. The ratings also incorporate the Company's ability to maintain a largely stable financial risk profile amid external pressures, alongside its relatively strengthened competitive positioning vis-à-vis peers. The ratings also incorporate the Company's established domestic presence, experienced management, and sound governance framework.

While the domestic market continues to contribute the majority of revenues, exports have shown modest growth. Profit margins remain under pressure; however, cash flows and debt coverage indicators have improved. The Company has historically maintained a conservative capital structure, though the increase in debt going forward, primarily linked to biomass project financing and expansion, is expected to put pressure on capitalization indicators. However, the Company remains confident in achieving projected financial results, supported by expected cost efficiencies and improved margins post commissioning. Additionally, capacity expansion through the flaker plant is likely to improve value addition and strengthen the product mix. Ratings remain sensitive to the Company's ability to achieve projected performance and maintain capitalization and liquidity ratios within acceptable thresholds.

Company Profile

Ittehad Chemicals Limited (“ICL” or “the Company”) is a prominent chemical manufacturer in Pakistan, established in 1991 following the merger of Ittehad Chemicals and Ittehad Pesticides. The Company’s origins trace back to United Chemicals, founded in 1962, nationalized in 1971, and subsequently privatized in 1995. ICL operates its manufacturing facility in Kala Shah Kaku, with its head office located in Lahore. The Company produces a range of chlor-alkali and downstream chemical products, including caustic soda, liquid chlorine, hydrochloric acid, sodium hypochlorite, calcium chloride, sodium sulphate, and surfactants. The Company primarily caters to domestic demand; it has been trying to expand its footprint to markets including Africa and the USA.

The Company continues to undertake technological and operational enhancements to improve efficiency and environmental performance. ICL has deployed integrated ERP systems and digital platforms to support operational and supply chain efficiency. ICL operates through its subsidiaries, including ICL Power (Private) Limited, which is in the process of setting up a biomass-based power plant, and Ittehad Salt Processing (Private) Limited, established for salt mining operations, with progress subject to regulatory approvals.

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 ownership structure reflects significant family involvement, with the Khatri family holding key roles.

The Board of Directors comprises seven members, including independent directors and female representation, in line with regulatory requirements. During the period under review, Board composition underwent changes following the election of directors held in March 2026, including updates in independent director representation. Overall governance structure remains intact. There were no major changes in senior management.

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, 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 remains moderate, with a few large players such as Sitara Chemical Industries, Ittehad Chemicals, Engro Polymer & Chemicals, and Tufail Group; dominating this sector. 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. While anti-dumping duties historically restricted imports, the National Tariff Commission (NTC) formally lifted these duties in January 2026, shifting the focus to standard import tariffs and increasing competitive pressure from regional suppliers in the LABSA market. 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. Conversely, reliance on imported raw materials for surfactants segment, such as Linear Alkyl Benzene and specialty additives, exposes manufacturers to foreign currency risk. 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.

DIVERSIFIED PRODUCT PORTFOLIO

The Company maintains a diversified product portfolio comprising core chlor-alkali products such as caustic soda, chlorine, and hydrochloric acid, along with downstream and specialty chemicals such as sodium hypochlorite, LABSA, SLES, calcium chloride, and sodium sulphate. This diversification enables the Company to cater to a broad customer base across multiple industries, including textiles, FMCG, water treatment, pharmaceuticals, and oil & gas, thereby supporting revenue stability and reducing concentration risk.

OPERATIONAL UPDATE

The Company operates an integrated chemical manufacturing facility with a diversified product portfolio across chlor-alkali and downstream segments. The capacity remains unchanged. However, operational performance improved in core segments, with higher production and utilization in Caustic Soda Liquid, Caustic Soda Flakes, Hydrochloric Acid, and Sodium Hypochlorite, while downstream products including LABSA/SLES, Liquid Chlorine, and Calcium Chloride Prills experienced slight moderation.

The chlor-alkali segment remains the primary driver, supported by locally procured raw material, while exports have expanded to markets including Africa and the USA. In the surfactants segment, import-based sourcing from the Middle East and China continued despite recent Iran-US conflict, supported by adequate inventory buffers of 2 months. The Company is in the process of installing a new caustic soda flaker plant with a capacity of 15,000 MT, which is expected to enhance value addition, improve product mix, and provide cost efficiencies through conversion of liquid caustic into higher-margin flake form.

A key strategic initiative is the development of a 37.5 MW biomass-based power plant through its subsidiary, ICL Power (Private) Limited. The Company's current power requirement is approximately 35 MW, with surplus capacity expected to support incremental production in chlor-alkali segment and flaker plant, through green chemical positioning. Upon commissioning, targeted for May 2026, the project is expected to improve cost efficiencies and strengthen competitiveness.

SALES & PROFITABILITY

Sales remain predominantly concentrated in the local market, contributing 92% to total revenues (FY24: 93%), with key customers including leading consumer goods and textile players such as Unilever Pakistan, Colgate-Palmolive, Procter & Gamble, Nishat Mills, and Sarena Textile. Export sales, however, recorded strong growth

of 34% YoY, increasing their contribution to 7.9% (FY24: 6.7%). Export expansion was primarily driven by new markets, particularly Africa, along with contributions from Azerbaijan, Belgium, and Oman, partially offset by decline in UAE and Afghanistan.

The Company reported 15% increase in net sales to PKR 27.9bn (FY24: PKR 24.3bn). Caustic Soda Liquid remained the largest contributor to revenues, followed by LABSA, though the latter's share declined during FY25 due to lower volumes. Growth in sales was also driven by strong performance in SLES and Caustic Soda Flakes, while hydrochloric acid and sodium hypochlorite also showed improvement. Conversely, calcium chloride, experienced a decline in sales. Overall, revenue growth was supported by both volumetric expansion and favorable pricing dynamics across key product segments. In 9MFY26, net sales increased modestly to PKR 24.12b (9MFY25: PKR 20.34b) mainly on account of sustained local demand.

Gross margin declined to 17.9% (FY24: 19.8%) in FY25, due to elevated raw material costs, utility expenses and salaries, leading to slight dip in operating margin (FY25: 10.3%, FY24: 12.8%) with net margin also reducing to 4.7% (FY24: 5.7%). In 9MFY26, gross margin continued to decrease and reached 15.0% compared to 18.4% during SPLY. Despite this, net margins remained largely intact at 4.4% (9MFY25: 4.5%) in 9MFY26.

Going forward, profitability is expected to benefit from addition of new products, export growth, combined with a projected 20-21% reduction in energy costs, following the commissioning of the biomass-based power plant.

Financial Risk

CAPITAL STRUCTURE

Short-term borrowings were higher at end-FY25 on account of higher working capital requirements, before moderating by end-9MFY26. The Company's debt profile remains skewed towards short-term debt. Equity increased to PKR 8.2b by end-9MFY26 (end-FY25: PKR 7.4b, end-FY24: PKR 6.4b), driven by the retention of profits.

Given the sustained equity growth, gearing remains below 0.6x while leverage has been maintained around 1.3x during FY23-FY25. Gearing and leverage improved slightly to 0.59x (end-FY25: 0.74x) and 1.31x (end-FY25: 1.34x) On a net debt basis, gearing improved to 0.46x by end-9MFY26, from 0.68x at end-FY25 (end-FY24: 0.51x).

Going forward, borrowings are projected to rise significantly due to ongoing investments, particularly the biomass-based power project, which is financed through a mix of debt and internal equity. This may pressure leverage metrics in the near term, though higher profitability is expected to partially offset the impact once the plant comes online.

DEBT COVERAGE & LIQUIDITY

Assigned rating takes into account healthy coverage ratios. FFO (funds from operations) increased to PKR 1,902.5m in FY25 (FY24: PKR 1,797.4m), mainly due higher non-cash adjustments combined with lower finance costs and tax payments. Consequently, the FFO-to-long-term debt ratio improved to 2.04x in FY25 (FY24: 1.44x) owing to long-term debt repayment and increase in FFO. Debt service coverage ratio (DSCR) also improved to 2.34x (FY24: 1.76x). Despite an increase FFO during 9MFY26, debt coverage ratios weakened mainly due to higher borrowings.

Though liquidity leaves room for improvement with current ratio of ~1x maintained over the period FY21-FY25, current ratio increased to 1.34x at end-9MFY26. Stock-in-trade and trade debts provide sufficient coverage against short-term borrowings (end-9MFY26: 3.52x, end-FY25: 1.47x, end-FY24: 2.59x). The cash conversion cycle increased to 29 days (FY24: 17 days) due to a lower payable, and shortened to 23 days in 9MFY26.

As ICL enters a transition phase with the planned strategic investment, coverage metrics and liquidity are expected to face pressure due to higher borrowings, though projected to remain adequate, given the assigned ratings. The Company's ability to sustain cash flows and manage working capital efficiently will remain important for the ratings.

FINANCIAL SUMMARY				
Balance Sheet (PKR Millions)	FY23A	FY24A	FY25A	9MFY26M
Property, plant and equipment	7,231	8,747	8,639	9,160
Long-term Investments	3	4	1,698	1,863
Stock-in-trade	2,197	2,274	2,680	2,919
Trade debts	1,940	3,016	3,280	3,554
Cash & Bank Balances	924	288	447	1,080
Other Assets	2,096	2,926	3,335	3,228
Total Assets	14,691	17,267	20,093	21,804
Creditors	3,355	3,247	3,252	4,772
Long-term Debt (incl. current portion)	1,943	1,246	933	2,706
Short-Term Borrowings	1,314	2,294	4,534	2,141
Total Debt	3,257	3,540	5,467	4,847
Other Liabilities	1,375	1,192	1,140	1,116
Total Liabilities	7,987	7,979	9,859	10,735
Paid up Capital	1,000	1,000	1,000	1,000
Revenue Reserve	4,135	5,238	6,185	6,953
Other Equity (excl. Revaluation Surplus)	177	177	177	257
Equity (excl. Revaluation Surplus)	5,312	6,415	7,361	8,197
Income Statement (PKR Millions)	FY23A	FY24A	FY25A	9MFY26M
Net Sales	24,268	24,315	27,857	24,124
Gross Profit	4,994	4,811	4,991	3,622
Operating Profit	3,242	3,100	2,858	2,153
Finance Costs	562	731	634	426
Profit Before Tax	2,680	2,370	2,224	1,727
Profit After Tax	1,826	1,386	1,298	1,055
Ratio Analysis	FY23A	FY24A	FY25A	9MFY26M
Gross Margin (%)	20.58%	19.79%	17.92%	15.01%
Operating Margin (%)	13.36%	12.75%	10.26%	8.92%
Net Margin (%)	7.52%	5.70%	4.66%	4.37%
Funds from Operation (FFO) (PKR Millions)	2,394	1,797	1,903	1,592
FFO to Total Debt* (%)	73.49%	50.77%	34.80%	43.78%
FFO to Long Term Debt* (%)	123.19%	144.28%	203.96%	78.44%
Gearing (x)	0.61	0.55	0.74	0.59
Leverage (x)	1.50	1.24	1.34	1.31
Debt Servicing Coverage Ratio* (x)	2.15	1.76	2.34	2.13
Current Ratio (x)	1.10	1.18	1.05	1.34
(Stock in trade + trade debts) / STD (x)	3.55	2.59	1.47	3.52
Return on Average Assets* (%)	13.25%	8.67%	6.95%	6.72%
Return on Average Equity* (%)	40.13%	23.63%	18.84%	18.09%
Cash Conversion Cycle (days)*	29	17	29	23

*Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix I
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/Watch	Rating Action
	RATING TYPE: ENTITY				
	05/05/2026	A	A1	Upgrade	Stable
	29/04/2025	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
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.				
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	Name	Designation		Date	
	Muhammad Asif Khan	CFO		1-Apr-26	
	Shahbaz Ali	Head of Budgeting & Costing			