VIS
Credit Rating Company Limited

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

RS. MILLION	FY23	FY24	6MFY25
Net Sales	2,133	3,195	1,832
PBT	485	596	321
PAT	485	595	321
Paid up capital	610	610	610
Equity (excl. Revaluation Surplus)	2,387	2,982	3,468
Total Debt	424	50	100
Debt Leverage (x)	0.67	0.73	0.74
Gearing (x)	0.18	0.02	0.03
FFO	521	813	453
FFO/Total Debt (x)*	1.23	16.30	9.10
NP Margin (%)	22.77	18.62	17.53

MULTAN CHEMICALS LIMITED

Chief Executive & Managing Director: Mr. Mahmood Nawaz Khan Babar

RATING DETAILS

RATINGS CATEGORY	INITIAL RATING	
	Medium to Long-term	Short-term
ENTITY	A-	A1
RATING OUTLOOK/ WATCH	Stable	
RATING ACTION	Initial	
RATING DATE	June 10, 2025	

RATING RATIONALE

The assigned rating reflects Multan Chemicals Limited's established position in the industrial and medical gases sector, supported by consistent production performance and a stable customer base across healthcare and industrial segments. Business risk is considered moderate, given the essential nature of oxygen supply in particular; however, exposure to fluctuations in energy costs and industrial demand remains a sensitivity.

The Company maintains a conservative financial risk profile, marked by low leverage, healthy profitability, and sound liquidity. The absence of long-term debt and adequate internal cash generation demonstrate strong financial parameters. Additionally, the recent and projected buildup in long-term investments reflects a forward-looking investment strategy.

Going forward, the Company's ability to sustain operational performance and navigate sector-specific risks while preserving financial discipline.

AUDITOR'S REPORT

The FY24 financial statements were audited by Mahboob Sheikh & Co. While the auditor issued an unmodified and unqualified opinion, Mahboob Sheikh & Co.'s QCR rating expired in 2021, and the firm is not present on the State Bank of

Pakistan (SBP) Panel of Auditors. According to the management, the current external auditors are in the process of renewing QCR rating.

COMPANY PROFILE

Established in 1985, Multan Chemicals Limited ('MCL' or the 'Company') is a family-owned business and is one of the leading manufacturers and suppliers of medical and industrial gases in Pakistan. The Company operates its largest Air Separation Unit (ASU) in Faisalabad with a production capacity of 125 tons per day of liquid oxygen. MCL's diversified product portfolio includes medical-grade Oxygen, Nitrous Oxide, Carbon Dioxide, and Medical Air, along with industrial gases such as Nitrogen, Argon, Acetylene, and Ammonia. Additionally, the Company provides complete solutions for Medical Gas Pipeline Systems (MGPS), including design, supply, installation, and commissioning services for hospitals and healthcare facilities. MCL operates 20 company-owned filling stations and maintains a nationwide distribution network through 30 authorized distributors, ensuring efficient service delivery across Pakistan.

MCL operates from its state-of-the-art facility in Multan, with regional offices in Lahore and Karachi to support nationwide distribution. The Company serves a diversified clientele across various industries such as healthcare, engineering, textiles, food processing, pharmaceuticals, and oil & gas. Some of the major clients of MCL are: Engro Fertilizer, Bestway Cement, Pakistan Petroleum, MOL Pakistan, Shakarganj Mills, Allied Hospital Faisalabad etc. Its medical-grade gases are supplied to prominent hospitals and healthcare institutions, ensuring adherence to strict quality and safety standards.

With over four decades of operational experience, MCL has developed in-house expertise in plant operations, cylinder testing, gas analysis, and safety compliance. The Company has also made notable investments in advanced filling stations and cryogenic technology to improve efficiency and meet growing demand. MCL plans to strengthen its footprint in Pakistan's industrial gases market through quality assurance, and customer-centric solutions. The pattern of shareholding is as follows:

Shareholder	Position	Shares	%
Mr. Mahmood Nawaz Khan Babar	Director	2,064,271	33.81%
Mr. Irfan Adil Khan Babar	Director	54,937	0.90%
Mr. Tariq Mahmmod Khan Babar	Director	2,090,555	34.24%
Mr. Ali Khan Babar	Director	1,861,687	30.49%
Mst. Musrat Parveen	Other	28,519	0.47%
Mr. Muneeb Mustafa Khan Babar	Other	5,258	0.09%

INDUSTRY PROFILE

Pakistan's industrial gases sector plays a vital role in supporting key economic segments including healthcare, steel, cement, chemicals, glass, and food processing. The sector primarily revolves around the production of atmospheric gases such as oxygen, nitrogen, and argon—extracted through Air Separation Units (ASUs)—as well as a range of specialty gases used in industrial and medical applications. The structure of the sector is characterized by a mix of established players and some small players in unorganized sector. Overall demand for industrial gases in Pakistan remains largely dependent on macroeconomic indicators, industrial activity levels, and public sector healthcare spending.

As of FY24, the estimated installed ASU capacity in the country stood at approximately 1,300 tons per day (TPD), with the average capacity utilization rate of 74%. The sector remains moderately underutilized, primarily due to weak industrial demand from key client sectors such as steel and glass, which have experienced operational disruptions amid high energy costs, and depressed domestic demand. Cement and chemical sectors also registered sluggish demand for nitrogen-based gases owing to curtailed capacity utilization. However, the medical sector continued to provide stability in gas off-take, particularly for oxygen, driven by hospital demand and public health procurement.

Recent investment activity highlights renewed confidence in the sector's medium- to long-term prospects. Major players such as Ghani Chemical Industries have added significant capacity with a 275 TPD ASU plant at Hattar SEZ. The industry may encounter higher competition as the recent addition in capacity came online in Nov'24. However, as per the management of MCL, established customer relationship and plant positioning are important factors in this context. That said, the entry barriers—particularly high capital investment, technical expertise, and stringent quality standards for medical gases—continue to protect existing players with proven safety and compliance records.

From a pricing perspective, the sector faces cost-side pressure due to heavy electricity reliance for air separation, which accounts for a significant portion of operational costs. However, local producers benefit from minimal import exposure as the bulk of industrial and medical gases are generated domestically due to the high cost and infeasibility of import-based supply chains. Freight cost advantages and existing client relationships allow local firms to maintain steady revenues despite limited export potential.

Regulatory oversight remains relatively light but is evolving, especially in healthcare gases where standards around purity, traceability, and safety have become more stringent. The Pakistan Standards and Quality Control Authority (PSQCA) and Drug Regulatory Authority of Pakistan (DRAP) have been increasingly involved in ensuring compliance for medical oxygen and other critical gases. This trend is expected to continue, encouraging formalization and gradual phasing out of substandard suppliers.

In FY24, the sector benefited from a stable demand base in medical and food-grade gases, while industrial gases remained subdued. Nonetheless, the sector's performance is closely tied to Pakistan's broader industrial output and power cost trajectory. Going forward, sustainable growth will depend on recovery in industrial activity, supportive government policy (especially for healthcare), and technological upgrades to improve energy efficiency and reduce cost per ton of output.

BUSINESS RISK

The industrial and medical gases sector remains exposed to several challenges including input cost volatility, energy shortages, and regulatory compliance pressures. A significant portion of production cost is tied to electricity and imported machinery, making the industry sensitive to fluctuations in energy tariffs and exchange rate movements. Furthermore, supply chain disruptions—both domestic and international—can impact the timely availability of critical raw materials such as cylinders, valves, and specialty gas mixtures.

Additionally, competition in the local market has intensified due to capacity expansions by existing players and also due to unorganized sector, putting pressure on pricing and operating margins. In the medical gases segment, delayed payments from public healthcare institutions and increasing regulatory scrutiny on product quality and storage protocols represent operational risks.

Nonetheless, rising healthcare demand, industrial expansion, and the Company's well-diversified product portfolio support stable business prospects. The assigned ratings incorporate Multan Chemicals' established market position, with the Company serving a broad base of industrial and medical clients across Pakistan and maintaining long-standing relationships with key institutions such as public hospitals and multinational manufacturers.

Production Capacity

MCL operates a network of strategically located Air Separation Units (ASUs) with a combined installed capacity of 160 tons per day (TPD). The largest plant is based in Faisalabad, with a capacity of 125 TPD, followed by a 20 TPD facility and a 15 TPD unit located in Multan. All plants are currently operating at approximately 85% utilization, reflecting strong and stable demand. A snapshot of ASU market competition is below:

Major player in ASU market			
Company	**Share**	**Operational Capacity**	**Capacity Utilization**
Pakistan Oxygen Ltd	31%	403	68%
Ghani Chemical Gases Ltd	19%	250	64%
Multan Chemicals Ltd	13%	164	85%
Sharif Gases	8%	108	80%
Fine Gas Ltd	2%	32	80%
Denim Gases Ltd	5%	61	90%
Other	22%	282	68%
Total	**100%**	**1300**	**74%**

The Company's production mix is heavily skewed toward oxygen, which constitutes about 90% of total output and primarily serves the healthcare and industrial sectors. Nitrogen accounts for 7%, argon for around 0.5%, and the remainder for other specialty gases.

The high utilization across its plants, coupled with a focused product mix, underpins MCL's operational efficiency and reinforces its market position in the industrial and medical gases sector.

FINANCIAL RISK

Capital Structure

The capital structure of the Company has remained conservative over the review period. Long-term debt, which stood at PKR 712.09m in FY22, reduced to PKR

374.13m in FY23 and was fully repaid by end-FY24. Total debt stood at PKR 50.0m in FY24 and increased to PKR 100.0m by end-6MFY25, entirely comprising short-term borrowings. Resultantly, gearing declined to 0.02x in FY24 (FY23: 0.18x; FY22: 0.34x) and remained low at 0.03x as at end-6MFY25. Leverage also remained in check at 0.73x (FY23: 0.67x; FY22: 0.62x) and 0.74x in 6MFY25. Given notable cash and cash equivalents on the balance sheet, net debt is negative.

Equity base (excluding revaluation surplus) demonstrated steady growth, rising to PKR 2,982.16m by end-FY24 (FY23: PKR 2,387.18m; FY22: PKR 2,116.50m), and further to PKR 3,468.91m by end-6MFY25. Notably, long-term investments emerged on the books in FY24 at PKR 0.48m and increased to PKR 301.07m by end-6MFY25; these are mainly investments in the UBL's stock. Long-term investment is projected to reach PKR 1.0b by end-FY27. Going forward, capitalization indicators are expected to remain comfortable in light of continued profit retention and no planned increase in borrowings in the foreseeable future.

Profitability

During FY24, the Company reported net sales of Rs. 3.19b (FY23: Rs. 2.13b; FY22: Rs. 2.41b), while total volumetric dispatches stood at 24.6 million cubic meters (FY23: 24.4m; FY22: 28.8m). Despite a marginal uptick in volume from the preceding year, the growth in topline was primarily attributable to an increase in average selling prices of industrial gases, rather than expansion in quantity sold. However, gross margin declined to 29.92% in FY24 (FY23: 44.84%; FY22: 46.41%) due to inflationary pressures on input costs, especially electricity cost and depreciation arising from asset revaluation.

Operating profit for FY24 stood at PKR 652.65m (FY23: PKR 609.53m; FY22: PKR 705.85m), translating into an operating margin of 20.43% (FY23: 28.58%; FY22: 28.96%). Net margin, though remmained healthy, decreased to 18.62% (FY23: 22.77%; FY22: 25.27%), despite a drop in finance costs to PKR 56.47m (FY23: PKR 123.93m). Profit after tax stood higher at PKR 594.97m in FY24 (FY23: PKR 485.60m; FY22: PKR 615.85m). For 6MFY25, PAT stood at PKR 321.16m, with projections indicating an increase to PKR 610.01m during FY25. The Company expects steady earnings in the medium term with return on equity projected at 17.28% in FY25 (FY24: 22.16%).

Debt Coverage & Liquidity

MCL's liquidity profile has remained strong throughout the review period. Current ratio improved to 9.83x by end-FY24 (FY23: 2.53x; FY22: 2.30x) and remained healthy at 7.86x at end-6MFY25. The Company's funds from operations (FFO) increased to PKR 812.83m in FY24 (FY23: PKR 520.90m; FY22: PKR 896.12m), supported by enhanced profitability. The increase in other assets was mainly due to acquisition of cylinders and other equipment and loan and advances, while increase on other liabilities mainly included security from clients on cylinders and tanks.

Owing to the low debt levels, FFO to total debt increased to 16.3x in FY24 (FY23: 1.2x; FY22: 1.3x) and to 9.1 in 6MFY25, while DSCR improved significantly to 15.39x in FY24 (FY23: 2.51x; FY22: 3.39x), and to 297.05x in 6MFY25. The cash conversion cycle extended to 85 days in FY24 (FY23: 50 days; FY22: 40 days) and 100 days in 6MFY25, owing to higher receivables in line with the growth in net sales and an expanding institutional client base; 80.1% of the sales were made to institiuions. The increase is also partly on account of extended credit terms offered to some strategic clients to retain volumes amid competition. Only 0.65% of the Company's outstanding receivables have aged beyond one year, indicating an overall healthy receivables profile and suggesting that the bulk of dues are collected within acceptable timelines.

Projections for FY25 suggest continued liquidity strength, with FFO expected to cross PKR 1.22b and coverages projected to remain strong. The current ratio is projected at 11.74x by end-FY25. The company may arrest the increasing trend in receivables and thereby control the extended working capital cycle to remain insulated from any liquidity crunch, going forward.

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	6MFY25M	FY25P	FY26P	FY27P
Property, plant and equipment	2,794.42	2,773.61	5,393.30	5,729.44	4,948.41	4,621.67	4,413.90
Intangible Assets	4.45	4.81	9.49	9.02	8.97	8.08	7.27
Long-term Investments	0.00	0.00	0.48	301.07	500.00	1,000.00	1,000.00
Stock-in-trade	115.69	310.95	275.42	167.83	407.71	386.62	212.64
Trade debts	505.40	481.54	1,048.00	940.19	1,230.17	1,353.18	1,488.50
Cash & Bank Balances	197.68	316.52	454.00	680.80	619.66	953.56	1,826.30
Other Assets	364.55	577.92	1,274.97	1,310.46	1,350.73	1,420.56	1,497.38
Total Assets	3,982.19	4,465.35	8,455.66	9,138.81	9,065.65	9,743.67	10,446.00
Creditors	241.86	404.01	210.98	213.14	210.98	210.98	210.98
Long-term Debt (incl. current portion)	712.09	374.13	0.00	0.00	0.00	0.00	0.00
Short-Term Borrowings	0.00	50.00	50.00	100.00	50.00	50.00	50.00
Total Debt	712.09	424.13	50.00	100.00	50.00	50.00	50.00
Other Liabilities	360.86	766.34	1,930.33	2,240.17	1,930.33	1,930.33	1,930.33
Total Liabilities	1,314.81	1,594.48	2,191.31	2,553.31	2,191.31	2,191.31	2,191.31
Paid up Capital	610.53	610.53	610.53	610.53	610.53	610.53	610.53
Revenue Reserve	1,505.97	1,776.65	2,371.63	2,858.38	2,981.64	3,659.67	4,362.00
Equity (excl. Revaluation Surplus)	2,116.50	2,387.18	2,982.16	3,468.91	3,592.17	4,270.19	4,972.52
Income Statement (PKR Millions)	**FY22A**	**FY23A**	**FY24A**	**6MFY25M**	**FY25P**	**FY26P**	**FY27P**
Net Sales	2,437.15	2,133.03	3,195.24	1,832.33	3,514.76	3,866.24	4,252.86
Gross Profit	1,131.00	956.42	955.90	491.26	1,015.18	1,091.55	1,132.53
Operating Profit	705.85	609.53	652.65	322.69	610.01	678.03	702.33
Finance Costs	90.00	123.93	56.47	1.53	0.00	0.00	0.00
Profit Before Tax	615.85	485.60	596.18	321.16	610.01	678.03	702.33
Profit After Tax	615.85	485.60	594.97	321.16	610.01	678.03	702.33
Ratio Analysis	**FY22A**	**FY23A**	**FY24A**	**6MFY25M**	**FY25P**	**FY26P**	**FY27P**
Gross Margin (%)	46.41	44.84	29.92	26.81	28.88	28.23	26.63
Operating Margin (%)	28.96	28.58	20.43	17.61	17.36	17.54	16.51
Net Margin (%)	25.27	22.77	18.62	17.53	17.36	17.54	16.51
Funds from Operation (FFO) (PKR Millions)	896.12	520.90	812.83	452.95	1,225.90	1,225.67	1,260.90
FFO to Total Debt* (x)	1.26	1.23	16.25	9.06	24.5	24.5	25.2
FFO to Long Term Debt* (x)	1.26	1.39					
Gearing (x)	0.34	0.18	0.02	0.03	0.01	0.01	0.01
Leverage (x)	0.62	0.67	0.73	0.74	0.32	0.29	0.27
Debt Servicing Coverage Ratio* (x)	3.39	2.51	15.39	297.05	-	-	-
Current Ratio (x)	2.30	2.53	9.83	7.86	11.74	13.49	16.73
(Stock in trade + trade debts) / STD (x)		21.02	32.49	16.45	39.38	42.08	42.03
Return on Average Assets* (%)	15.47	11.50	9.21	7.30	6.96	7.21	6.96
Return on Average Equity* (%)	29.10	21.56	22.16	9.96	17.28	17.25	15.20
Cash Conversion Cycle (days)	40.43	50.44	85.03	100.31	152.76	146.44	132.31

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

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<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
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<tr><td rowspan="3">Due Diligence Meetings Conducted</td><td>S.No.</td><td>Name</td><td colspan="2">Designation</td><td>Date</td></tr>
<tr><td>1.</td><td>Mr. Mahmood Nawaz Khan Babar</td><td colspan="2">CEO/MD</td><td rowspan="2">28th April, 2025</td></tr>
<tr><td>2.</td><td>Mr. Afzal Muhammad</td><td colspan="2">CFO</td></tr>
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