VIS
Credit Rating Company Limited

RATING REPORT

MULTAN CHEMICALS LIMITED

Analyst:
Husnain Ali
(husnain.ali@vis.com.pk)

RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	**A-**	**A1**	A-	A1
RATING OUTLOOK/WATCH	**Stable**		Stable	
RATING ACTION	**Reaffirmed**		Initial	
RATING DATE	**August 17, 2026**		June 10, 2025	

Shareholding (5% or More)	Other Information
Tariq Mahmood Babar Khan – 53.86%	**Incorporated in 1985**
Ali Khan Babar – 44.27%	**Public Unlisted Company**
	CEO: Mahmood Nawaz Babar
	External Auditor: Mahboob Sheikh & Company

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

Multan Chemicals Limited ('MCL' or 'the Company') is the third largest player domestically in medical and industrial gases segments, operating three production facilities across Multan and Faisalabad since 2014.

The assigned ratings reflect MCL's sound capital structure and strong liquidity arising from historically low gearing and strong cashflow generation. This mitigates the business risk arising from being a price taker leading to fluctuations in gross margin from year to year.

MCL is now undertaking both expansion of facilities and diversification of operations to materialize over the next three years. The company plans to double its production capacity of industrial gases, enter into LPG supply business and expand into real estate business as well. The LPG business is being financed entirely from internal generation of funds while they will raise a prudent amount of capital for the expansion capital.

Going forward, key rating sensitivities include the Company executing ASU expansion and LPG diversification within targeted timelines to avoid weakening of its financial risk profile. From a governance perspective, the engagement a non-QCR auditor serves as a constraint; transitioning to a QCR-compliant auditor remains important for future ratings consideration.

Company Profile

Established in 1985, MCL is a family-owned business and is one of the leading manufacturers and suppliers of medical and industrial gases in Pakistan. MCL operates from its facilities in Faisalabad and Multan, with regional offices in Lahore and Karachi to support nationwide distribution. The Company operates its largest Air Separation Unit (ASU) in FIEDMC M-3 Industrial City, Sahianwala, 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 31 authorized distributors, ensuring efficient service delivery across 17 cities. The Company serves a diversified clientele across various industries such as healthcare, engineering, textiles, food processing, pharmaceuticals, and oil & gas. Its medical-grade gases are supplied to prominent hospitals and healthcare institutions, ensuring adherence to strict quality and safety standards.

Management and Governance

It is a family owned and managed business. Mahmood Nawaz Babar, holding 0.41% shareholding is the CEO of the Company. He also represents MCL as a registered corporate member of the Multan Chamber of Commerce & Industry. His sons, Tariq Babar and Ali Babar are also directors with 53.9% and 44.3% share respectively. Tariq Babar oversees the sales function while Ali Babar leads the operations of the Company. The CFO holds more than 38 years of experience across banking and other sectors. He has led several key initiatives at Magna Textile Industries (Pvt) Ltd and Ibrahim Fibres Limited, in his previous appointments before joining MCL.

The sponsors are working on plans to diversify in the next five years, along with expansion in the existing facilities.

They are undertaking investment in a real estate company. Anb Green Ventures (Private) Limited, a real estate company, was set up in 2023 with MCL holding 100%. MCL has invested PKR 0.48m m in it appearing as long-term investment and also supported this venture with an advance against land (Mar'26: Rs. 1,196.9m, June'25: Rs. 1,041.4m). The focus on real-estate is development of housing through green financing in Multan. The sponsors have been meeting concerned banking partners to purchase land and subsequently develop residential and commercial properties in line with energy-efficient directives from the SBP. Given that the initiative is in a nascent state, the initial funding is being done from the group's resources while unutilized credit lines of Rs. 2b are available to further support the project expansion.

In the long run, the sponsors also plan to initiate import and assembly of Chinese-based EV trucks.

The FY25 financial statements were audited by a non-QCR-rated firm Mahboob Sheikh & Company, representing a constrain from governance perspective.

Industry Profile & Business Risk

INDUSTRY

Pakistan's industrial gases sector is organized, concentrated, and largely self-sufficient, with domestic production meeting over 99% of total demand. The sector witnessed exceptional growth during FY21 amid elevated medical oxygen demand during COVID-19, followed by moderation in FY23 due to industrial slowdown, and a recovery in FY24 alongside improved manufacturing activity. Sector revenues reached approximately PKR 25.9 billion in FY25, reflecting a CAGR of ~15.8% during FY21–FY25. Industry growth has historically tracked Large-Scale Manufacturing (LSM) activity, as industrial gases are critical inputs for sectors such as steel, chemicals, cement, automobiles, and manufacturing. Despite a mild LSM contraction of ~0.7% in FY25, sector revenues expanded by ~14.6%, supported by sound demand from automobiles, food & beverages, pharmaceuticals, chemicals, and healthcare. Looking ahead, while the sector remains exposed to cyclical industrial demand, given its reliance on LSM activity and high energy sensitivity, the demand is expected to remain supported by pharmaceuticals, food processing, construction, infrastructure development, manufacturing automation and business diversification from leading players, translating into steady medium-term volume growth of around 5–6% annually. The industry is led by Pakistan Oxygen Limited ('POL') and Ghani Chemicals Limited ('GCL'), both are listed on PSX, accounting for roughly 70–75% of installed capacity and around 40% and 35% of market share respectively, with MCL and Sharif Gases being the third and fourth largest entities in the sector. Total installed capacity in industrial gases sector is estimated at 1,300–1,500 tons per day (TPD), with average capacity utilization around 65% in FY25. GCL, POL, and MCL are expanding to hedge against LSM volatility, offset soaring electricity tariffs via efficient modern machinery, and capture high-margin healthcare and domestic energy markets. The demand from the healthcare segment will be supported by extensive hospital expansions in all provinces, particularly the rollout of specialized tertiary complexes, upgraded emergency blocks, and new critical care units that require dedicated medical gas supply. GCL launched its 275 TPD Hattar plant, temporarily lowering utilization to 61%–67%, while securing a high-yield 2027 OGDCL energy processing venture. Simultaneously, market-leader POL is scaling up via a new 270 TPD plant and a Rs. 1.3b Port Qasim facility, while MCL is constructing a new 240 TPD expansion plant to boost total capacity to 400 TPD.

OPERATIONAL UPDATE

The Company's focus is toward retail healthcare segment. In view of this, MCL has strategically placed 31 authorized distributors in 17 cities from where gas cylinders and gas tanks cater to customer requirements. MCL is able handle deliveries of 150,000 cylinders daily. MCL holds an estimated 10% market share, trailing GCL at 35% and POL at 40%. The primary and sole input for the production process is atmospheric ambient air, which is processed directly from the environment. MCL operates three 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 3 plants are currently operating at approximately 90% utilization, reflecting strong and stable demand. The Company is currently advancing two major capital expenditure projects to expand its market footprint and processing capabilities:

- The first is the development of 1,800-ton LPG distribution plant, a facility that is slated to go operational in 3QFY27, pending marketing license approval from the Oil and Gas Regulatory Authority (OGRA). The project cost was Rs. 1b, financed through internal cash generation, and was built on already owned space at FIEDMC, Faisalabad.

- The second is a new Air Separation Unit (ASU) having installed capacity of 240 tons, with commercial operations expected to commence in 3QFY28. The plant construction is underway on a 12.6-acre piece of land, which was purchased from internal cash flows of Rs. 1.5b. The total project cost is Rs. 3.5b, the differential being financed from a six-year loan (2-year grace period) from UBL with profit rate benchmarked at 3M KIBOR + 1.25%. The enhancement in ASU capacity is planned to cut logistics costs and enhance existing market share through increased marketing efforts in its base area in Central Punjab while also expanding business in Northern and Southern regions of Pakistan.

- At present, power requirement stands at 4.2MW. To support a major portion of power requirement for new facilities, the Company is planning to add 7MW solar power within the next two years, funding approximately Rs. 1.5b through internal cash generation. Total power requirement is expected to double and reach 8MW by end of 2028. Net power savings from solar will be approximately 1MW, helping to cap utility costs at manageable levels.

Expansion plans	FY26E	FY27P	FY28P
Addition to operating fixed assets	952	3,393	2,274
Internal cash flows	952	1,384	2,274
LT Loan Schedule*			
• LT Loan (Opening Balance)	-	-	2,009.0
• LT Loan (Principal Repayments)	-	-	-
• LT Loan (Closing Balance)	-	-	**2,009.0**
Operational Indicators	**FY26**	**FY27**	**FY28**
Existing plant capacity utilization	90%	80%	75%
New plant capacity utilization	-	-	65%
Gross sales of gases - existing plant (Rs. in m)	4,998	5,192	5,040
Gross sales of gases - new unit (Rs. in m)	-	-	1,738

principal repayment will start from March 2029

The new ASU capacities, expected to come online in 1QFY28, are supported by a Rs. 2b loan from UBL that the Company plans to draw down from end of FY27. The project features a payback period of over 5 years, with debt servicing scheduled to commence in 3QFY29. This expansion is aimed to capture market share from POL and GCL, according to management. The managements projects that first full year of new plant will run at 65% capacity and generate roughly 25% of gross revenue. The attainment of such operating levels across all plants remains important for future ratings considerations. The presence of an experience management team, demand dynamics and competitive pressure remain key factors for driving growth, meeting expected timelines of project execution and prudent debt management in the next five years.

SALES & PROFITABILITY

Net sales grew at a CAGR of 16.5% over FY22–FY25, driven by price increases alongside moderate volumetric expansion. Sales volumes (in cubic meters m^3) rose by 6.6% in FY25, following a 6.3% increase in FY24. This strong momentum carried into 9MFY26 as net sales stood at Rs. 3.86b, slightly exceeding FY25 revenue of Rs. 3.85b (FY24: Rs. 3.19b).

The Company's sales mix is skewed toward processed oxygen, which accounts for approximately 77.7% of total output, while LPG, argon, Medical Gas Pipeline System (MPGLS) supply and nitrogen contribute 5.2%, 3.0%, 4.7% and 2.7% respectively. MCL primarily serves the healthcare and retail market. Customer concentration among the top 10 clients remains moderately elevated at over 30% with key accounts located in Sargodha and Bahawalpur. Out of this, corporate segment clients form less than 9% while the remaining 21% is held by hospitals The retail segment contributes 70% of total revenue. This concentration of individual consumers, small-scale industrial units, and commercial clients provides a diversified revenue stream, partly reducing counterparty concentration risk. From a broader geographic perspective, Punjab is the primary revenue driver, contributing 89% of total turnover, while the North region and Sindh collectively account for less than 11%.

Gross margins exhibit notable volatility (FY25: 34%, FY24: 30%, FY23: 45%) due to a lag between external cost shocks and retail price adjustments. In FY24, sharp currency devaluation escalated the landed cost of imported gas cylinders and local competition limited immediate price pass-through. Conversely, a partial pass-through of these costs and relative currency stabilization drove the margin recovery in FY25. Net margin expanded to 25% (FY24: 19%) in FY25, driven by a gross margin recovery, utility cost controls and real-time process optimization, alongside low operating expenses. Gross margin slid to 28% in 9MFY26 due to the impact of centralized production and buffer stock of cylinder consumables which pushed up cost of sales. Nonetheless, the substantial growth in topline pushed net profit to Rs. 755m, tracking close to Rs. 966m recorded in FY25 (FY24: Rs. 595m).

The launch of LPG segment in FY28 is projected to inject 25–30% into topline with steady expansion thereafter. Furthermore, additional ASU capacities coming online in FY28 could drive baseline 4–5% year-on-year revenue increase through higher volume capacities. Concurrently, management expects net margins to expand by 2–3% yearly from FY28 onwards, fueled by better pricing, strategic sales mix diversification, and utility cost-efficiencies. Achieving these targets withing expected timelines remains critical for the assigned ratings.

Financial Risk

CAPITAL STRUCTURE

The LPG segment development costing Rs. 1.0b was financed entirely through internal cash generation. Meanwhile, the Rs. 3.5b ASU expansion project is funded through a mix of Rs. 1.5b in internal funds and a six-years Rs. 2.01b long-term loan from United Bank Limited (UBL). Given that the UBL facility includes a two-year grace period, the project will be fully operational and cash-generative by the time debt servicing commences. Financial risk profile strengthened following debt retirement in FY24 and an increase in core equity (end-9MFY26: Rs. 4.72b, end-FY25: Rs. 3.84b, end-FY24: Rs. 2.98b). Consequently, leverage improved slightly to 0.65x in 9MFY26 (FY25: 0.76x; FY24: 0.73x), while the gearing ratio became negligible due to the absence of borrowings. The temporary rise in gearing over the next three years is expected to be nominal, with continuous equity growth anticipated to maintain a steady and resilient financial risk profile.

DEBT COVERAGE & LIQUIDITY

Supported by an increase in funds from operations (9MFY26: Rs. 916m, FY25: Rs. 1,109m, FY24: Rs. 813m) and absence of borrowings, debt coverage ratios materially strengthened through FY25 and into 9MFY26. Liquidity metrics compare favorably against peers, supported by higher liquid assets (cash and bank balances along with short-term equity investments) and customer advances for procuring cylinders. Unutilized short-term lines of Rs. 1.2b provide additional liquidity cushion. The current ratio strengthened to 14x (end-FY25: 13x; end-FY24: 10x) at end-9MFY26. The cash conversion cycle remained broadly stable at 84 days in FY25 (FY24: 85 days), reaching 49 days in 9MFY26. Coverage metrics and liquidity profile are projected to remain healthy.

FINANCIAL SUMMARY				
Balance Sheet (PKR Millions)	**FY23A**	**FY24A**	**FY25A**	**9MFY26M**
Property, plant and equipment	2,774	5,393	5,506	5,332
Long-term Investments	0.5	0.5	0.5	0.5
Stock-in-trade	311	275	260	206
Trade debts	482	1,048	620	713
Short-term Investments	0	0	276	560
Cash & Bank Balances	317	454	766	1,341
Other Assets	578	1,275	2,480	2,454
Total Assets	**4,465**	**8,456**	**9,916**	**10,613**
Creditors	404	211	249	174
Long-term Debt (incl. current portion)	374	0	0	0
Short-Term Borrowings	50	50	0	0
Total Debt	**424**	**50**	**0**	**0**
Other Liabilities	766	1,930	2,661	2,884
Total Liabilities	**1,594**	**2,191**	**2,910**	**3,058**
Paid up Capital	611	611	611	611
Revenue Reserve	1,777	2,372	3,232	4,110
Equity (excl. Revaluation Surplus)	**2,387**	**2,982**	**3,843**	**4,721**
Income Statement (PKR Millions)	**FY23A**	**FY24A**	**FY25A**	**9MFY26M**
Net Sales	2,133	3,195	3,851	3,861
Gross Profit	956	956	1,320	1,095
Operating Profit	610	653	973	775
Finance Costs	124	56	2	2
Profit Before Tax	486	596	971	773
Profit After Tax	**486**	**595**	**966**	**755**
Ratio Analysis	**FY23A**	**FY24A**	**FY25A**	**9MFY26M**
Gross Margin (%)	44.82%	29.92%	34.29%	28.37%
Operating Margin (%)	28.58%	20.43%	25.27%	20.08%
Net Margin (%)	22.77%	18.62%	25.08%	19.55%
Funds from Operation (FFO) (PKR Millions)	521	813	1,109	916
FFO to Total Debt* (%)	122.82%	1625.66%	-	-
FFO to Long Term Debt* (%)	139.23%	-	-	-
Gearing (x)	0.2	0.0	-	-
Leverage (x)	0.7	0.7	0.8	0.7
Debt Servicing Coverage Ratio* (x)	3	15	469	471
Current Ratio (x)	3	10	13	14
(Stock in trade + trade debts) / STD (x)	21.02	32.49	-	-
Return on Average Assets* (%)	11.50%	9.21%	10.51%	9.81%
Return on Average Equity* (%)	21.56%	22.16%	28.30%	23.51%
Cash Conversion Cycle (days)	50	85	84	49
**Annualized, if required*				
A - Actual Accounts				
P - Projected Accounts				
M - Management Accounts				

REGULATORY DISCLOSURES	Appendix I
Name of Rated Entity	Multan Chemicals Limited
Sector	Chemical (medical and industrial gases)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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.
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.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
17-Aug-26	**A-**	**A1**	**Stable**	**Reaffirmed**
10-Jun-25	A-	A1	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Muhammad Afzal	CFO	01-Jul-26