

ITTEHAD CHEMICALS LIMITED

Analysts:

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RATING DETAILS

RATINGS CATEGORY	PRELIMINARY SUKUK RATINGS
INSTRUMENT (STS)	A1 (plim)
RATING ACTION	Preliminary
RATING DATE	June 9, 2026

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

Applicable Rating Criteria: Corporates:

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Instrument Rating:

<https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

Ittehad Chemicals Limited ('ICL' or 'the Company') plans to issue a privately placed, unsecured Short-term Sukuk (STS) of Rs. 1,500 million (inclusive of a Green Shoe Option of Rs. 500 million) to fund working capital requirements. The instrument will have a tenure of up to 6 months from date of drawdown, with profit paid quarterly and redemption in bullet at maturity, while the expected profit rate will be 3 Month KIBOR minus 0.25% per annum.

The assigned rating reflects ICL's established presence in the chemical sector and adequate financial risk profile. Key credit support stems from the Company's diversified chlor-alkali and downstream product portfolio, sustained local demand, and ongoing initiatives to improve value addition and operating efficiency, including the flaker plant and biomass-based power project. While profitability margins remained under pressure due to elevated raw material, utility, and salary costs, net profit was largely sustained on the back of higher sales and lower finance costs. Cash flows and debt servicing coverage remained sound. Liquidity indicators improved by end-9MFY26, supported by higher cash balances, reduction in short-term borrowings, and adequate coverage of short-term debt through stock-in-trade and trade debts. Going forward, profitability is expected to benefit from new product additions, export growth, and anticipated energy cost savings following commissioning of the biomass-based power plant. The rating

remains dependent on ICL's ability to sustain liquidity buffers and ensure timely repayment of profit and principal at maturity.

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.

Proposed Short Term Sukuk

Ittehad Chemicals Limited plans to issue a rated, unsecured, privately placed Short-Term Sukuk amounting up to PKR 1,500mn, inclusive of a Green Shoe Option of PKR 500mn. The proceeds of the instrument will be utilized to finance the Company's working capital requirements. The Sukuk will have a tenor of up to six months from the date of drawdown, with bullet redemption at the expiry of tenor. The profit rate is benchmarked to 3-month KIBOR minus 25bps, with the base rate to be set one business day prior to drawdown and subsequently reset one business day prior to each quarterly reset period. Profit payments will be made quarterly. Allied Bank Limited has been mandated as the Lead Arranger for the issue.

Management and Governance

Ittehad Chemicals Limited (ICL) is majority-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

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.

SALES & PROFITABILITY

Net sales increased by 15% to PKR 27.9b in FY25 (FY24: PKR 24.3b), supported by volumetric growth and favorable pricing across key product segments, particularly Caustic Soda Liquid, SLES, and Caustic Soda Flakes. In 9MFY26, sales further increased to PKR 24.12b (9MFY25: PKR 20.34b), mainly due to sustained local demand. However, gross margin declined to 17.9% in FY25 (FY24: 19.8%) owing to higher raw material, utility, and salary costs, while net margin also reduced to 4.7% (FY24: 5.7%). In 9MFY26, gross margin further declined to 15.0% (9MFY25: 18.4%); however, net margin remained largely stable at 4.4% (9MFY25: 4.5%). Going forward, profitability is expected to improve on account of new product additions, export growth, and projected reduction in energy costs following 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 II

Name of Rated Entity	Ittehad Chemicals Limited				
Sector	Chemical				
Type of Relationship	Solicited				
Purpose of Rating	Instrument 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
	02/04/2024	A-	A2	Stable	Reaffirmed
	30/03/2023	A-	A2	Stable	Maintained
	25/02/2022	A-	A2	Positive	Reaffirmed
	19/11/2020	A-	A2	Positive	Reaffirmed
	26/08/2019	A-	A2	Positive	Maintained
		Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch
	RATING TYPE: Short Term Sukuk				
	09/06/2026	N/A	A1 (Plim)	N/A	Preliminary
Instrument Structure	Instrument Name:		Details		
	Nature of Instrument		Short Term Sukuk		
	Tenure of Instrument		Up to 6 months from date of drawdown		
	Size of the Issue		Up to PKR 1,500 million, inclusive of Green Shoe Option of PKR 500 million		
	Principal Redemption Schedule		Bullet repayment at expiry of tenor		
	Interest Redemption Schedule		Quarterly		
	Issue Date		TBD		
	Grace Period		N/A		
	Redemption Date		TBD		
	Nature of security (in case of secured instrument)		Unsecured		
Name of Trustee		-			
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	
	Shahbaz Ali	Head of Budgeting and Costing		1-June-2026	