

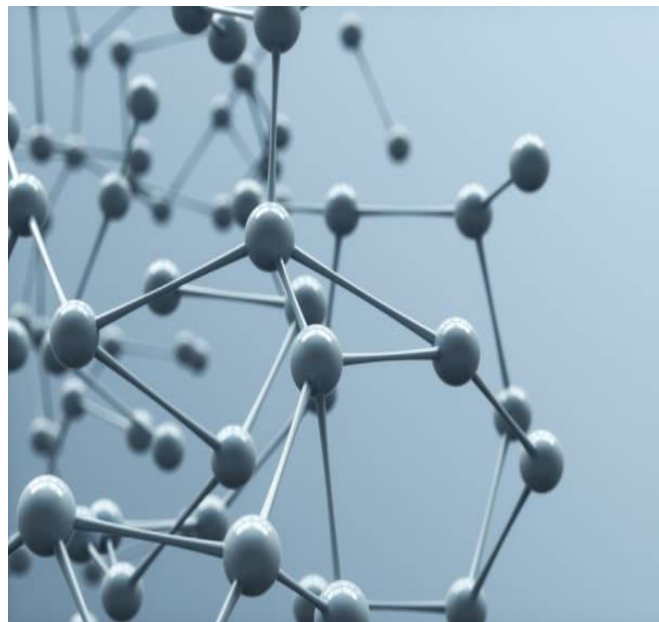


Chemicals

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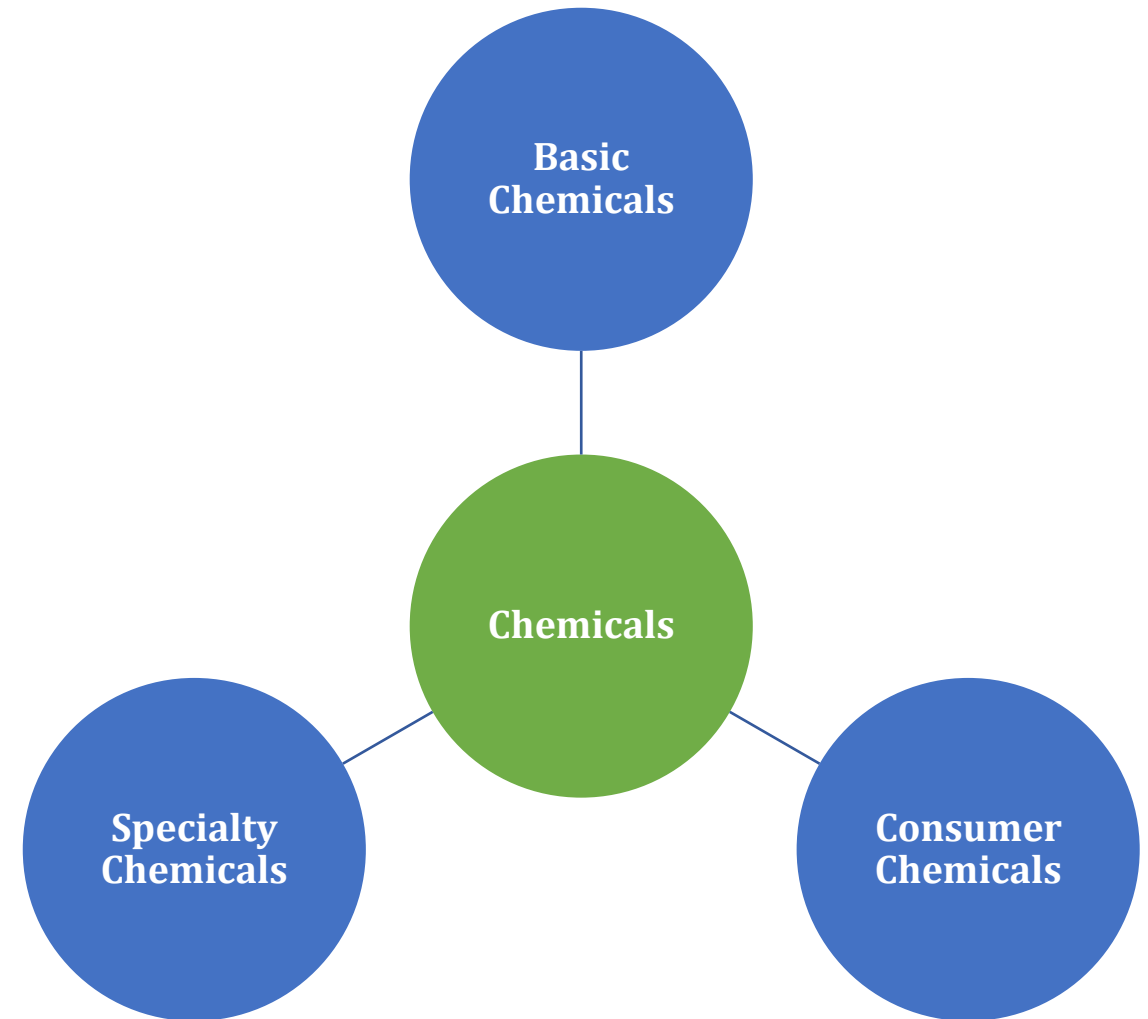
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Chemicals

Introduction

- The Chemicals Sector plays a critical role in the global economy, producing a vast range of products that impact nearly every aspect of daily life
- The Sector includes products such as detergents, soaps, and perfumes that are sold directly to consumers, while others serve as essential inputs in industrial manufacturing.
- The Chemicals' Sector product portfolio can be divided into three broad categories, which are as follows:
 - **Basic Chemicals** include petrochemicals, polymers and basic inorganics.
 - **Specialty Chemicals** comprise a wide variety of chemicals for crop protection, paints and inks, colorants (dyes and pigments, pesticides, etc.).
 - **Consumer Chemicals** are sold directly to the public. These include detergents, soaps, other toiletries etc.



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Global | Overview

- The world's ten largest chemical companies generated combined chemical sales of USD~399bn in CY25, led by BASF (USD~67.4bn), followed by Sinopec (USD~52.6bn) and PetroChina (USD~41.0bn).
- During CY25, the industry faced a broad downturn, with total sales across the top 50 declining ~5.8% YoY to USD~965.8bn and chemical operating profits falling ~19.5%, as 39 of the 50 companies reported lower sales.
- The weakness was primarily driven by persistent petrochemical overcapacity, particularly in China, which pressured prices and margins.
- In response, major producers have begun rationalizing capacity, including ethylene cracker closures in Europe, while industry forecasts suggest the petrochemical market may bottom out in 2026-27, with a more meaningful recovery expected toward the end of the decade.

Sr.	Company	Country	Sector	Revenue (USD bn) CY25
1	BASF	Germany	Diversified	67.4
2	Sinopec	China	Petrochemicals	52.6
3	PetroChina	China	Diversified	41.0
4	ExxonMobil	USA	Petrochemicals	40.0
5	Dow	USA	Diversified	40.0
6	Linde	England	Industrial gases	34.0
7	LG Chem	South Korea	Petrochemicals	32.3
8	Sabir	Saudi Arabia	Diversified	31.1
9	Air Liquide	France	Industrial gases	30.5
10	LyondellBasell Industries	USA	Petrochemicals	30.2
Total Sales Revenue				399.1

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Global | Key Takeaways

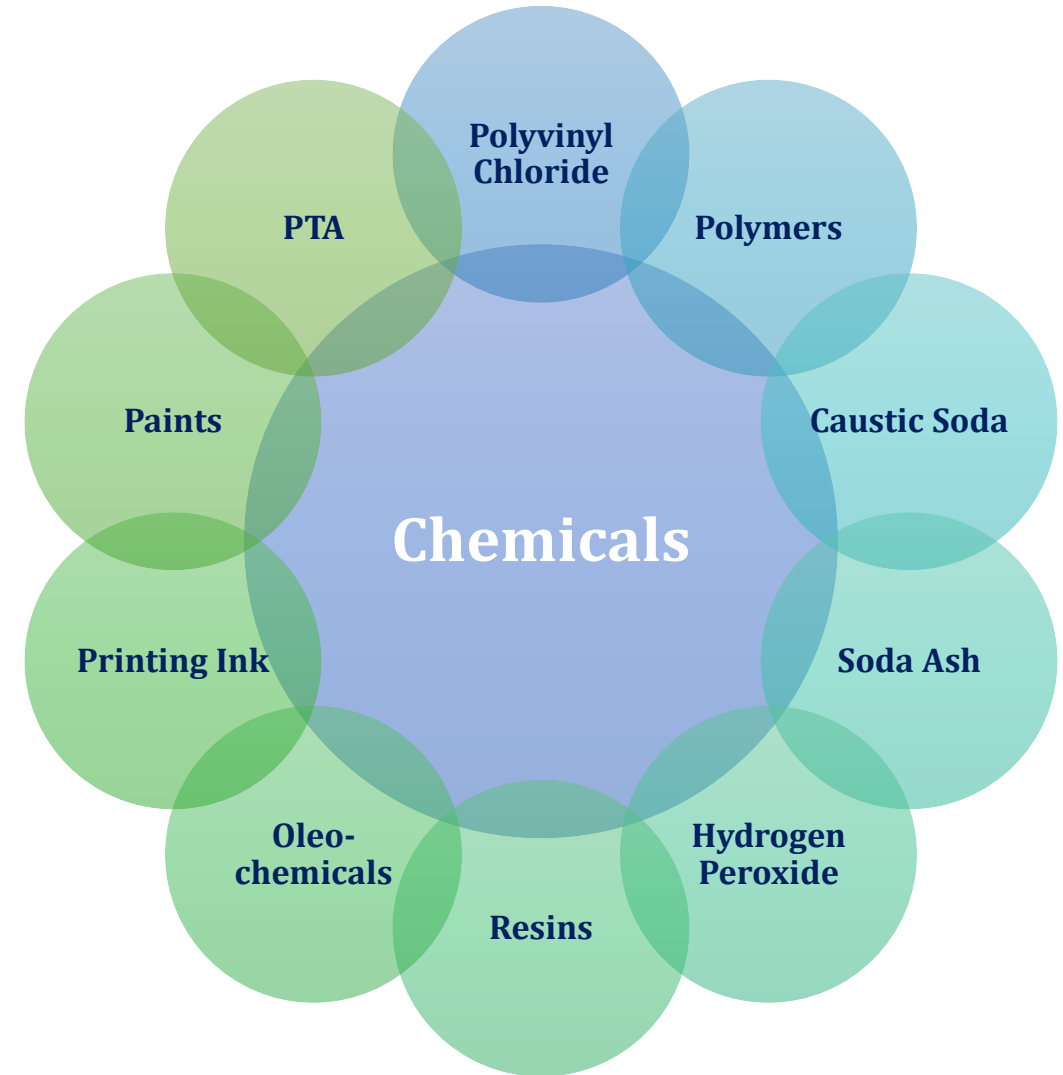
- **Global chemical markets remain oversupplied**, with new capacity additions in China, the Middle East, and the US outpacing demand growth, keeping prices and industry margins under pressure.
- **PVC prices remain near multi-decade lows**, with several producers reportedly operating at a loss, prompting initial capacity rationalization while further production cuts may be needed for a sustained recovery.
- **India has become the key determinant of global PVC pricing**, as relaxed import restrictions have increased inflows of low-cost Chinese PVC, intensifying price competition and reshaping global trade flows.
- **Trade protectionism is increasing**, with anti-dumping measures expanding across major markets (EU, Brazil, and Mexico), leading to the redirection of chemical trade and export volumes.
- **Upstream olefins (ethylene and propylene) remain weak**, as significant new capacity additions continue to depress cracker utilization rates and margins, particularly in Europe and the US.
- **Global trade volumes are expected to remain resilient despite weak pricing**, as producers increasingly rely on export markets and pricing concessions to absorb excess capacity, limiting prospects for a meaningful recovery in margins.

Global PVC prices are likely to bottom out and begin recovering in 2026, but only if producers follow through on capacity rationalization

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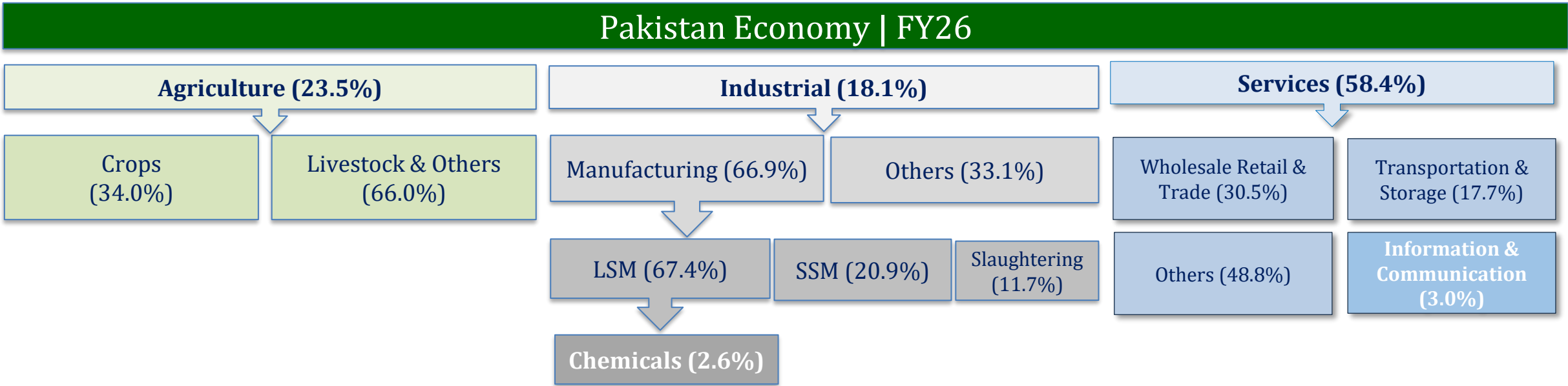
Local | Introduction

- Pakistan's chemicals sector holds immense potential, serving as a foundational pillar for various industries, including textiles, construction, agriculture, pharmaceuticals, and packaging. The use of chemicals is an essential part of our daily lives.
- Despite its strategic importance, the sector's development has faced constraints due to several factors, such as limited diversification, low investment, and a significant reliance on imports for basic inputs.
- In terms of segments, the chemicals sector has made considerable progress over the years in producing basic inorganic chemicals like polyvinyl chloride, caustic soda, soda ash, and hydrogen peroxide. Since chemicals are integral to most industrial processes, the growth of the chemicals sector is closely tied to overall industrial and economic development.
- The sector has diversified into different segments based on types and usage. Although a wide variety of chemicals are employed across multiple industries, this sector study will categorize the chemicals into ten main categories for ease of understanding and clarity.



Local | Economic Overview

- In FY26, Pakistan's nominal GDP reached ~PKR 126.9 trillion, marking a year-on-year increase of ~11.3%, compared to a growth of ~8.3% in FY25. Real GDP grew by ~3.7% in FY26, up from a growth of ~3.2% in FY25. The Government has set a GDP growth target of ~4% for FY27. The industrial sector contributed ~18.1% to the GDP, while the services sector accounted for ~58.4%.The Large-Scale Manufacturing (LSM) sector in Pakistan experienced a strong recovery in FY26, with growth of ~6.5% following several years of subdued performance.
- This rebound was primarily driven by lower interest rates for most of the year, which reduced financing costs and improved liquidity. Additionally, there was increased credit availability for key manufacturing industries, facilitating both working capital needs and capacity expansion. The recovery was further supported by tariff rationalization, which lowered the costs of imported raw materials and machinery, as well as easing inflation, a relatively stable exchange rate, improved foreign exchange availability, and a resurgence in domestic demand.



Note: Shares are based on nominal GDP excluding taxes and subsidies.

Local | Snapshot

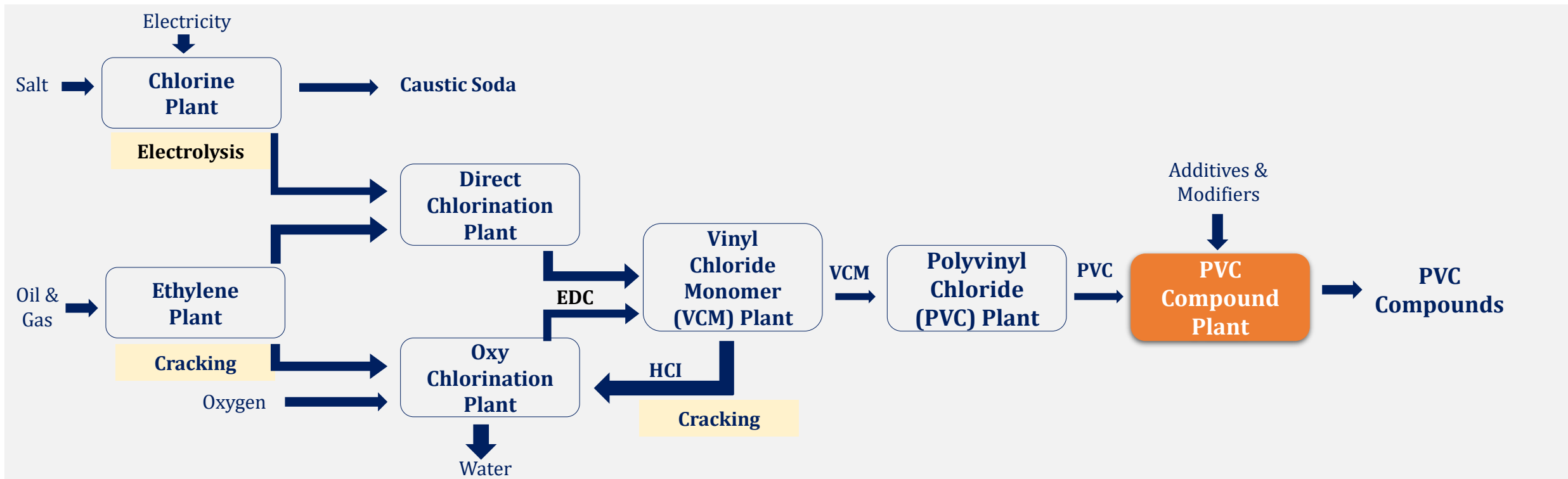
- Pakistan's Chemical Sector remained under pressure in FY26, with domestic production declining to ~3.4mn MT from ~3.8mn MT (~9.6% decline YoY), extending the decline from FY24. The slowdown was primarily driven by higher energy costs and gas supply constraints, as falling domestic gas production and lower LNG imports reduced feedstock availability. Geopolitical tensions in the Middle East further increased imported feedstock and freight costs by disrupting regional energy and petrochemical supply chains.
- Despite lower domestic production, chemical imports increased to PKR~8.2bn in FY26 from PKR~7.6bn in FY26, reflecting Pakistan's continued reliance on imported petrochemical feedstocks, specialty chemicals, and industrial intermediates that are not produced locally in sufficient quantities. Higher international oil prices and freight costs likely inflated import values during the year.
- Meanwhile, Chemical exports declined to PKR~1.0bn from PKR~1.2bn in FY26, as higher production costs, elevated energy prices, and softer global industrial demand reduced the competitiveness of Pakistani Chemical manufacturers.

Particulars	FY24	FY25	FY26
Production ('000' MT)	4,124	3,814	3,447*
Production Growth (YoY)	-2.1%	-7.5%	-9.6%
Imports (PKR mn)	7,452	7,609	8,191
Exports (PKR mn)	1,210	1,188	1,015
Association	Pakistan Chemicals Manufacturer Association		
Members	71		
Structure	Oligopolistic		
No. of Listed Companies	25		

Chemicals

Polyvinyl Chloride (PVC) | Production Process

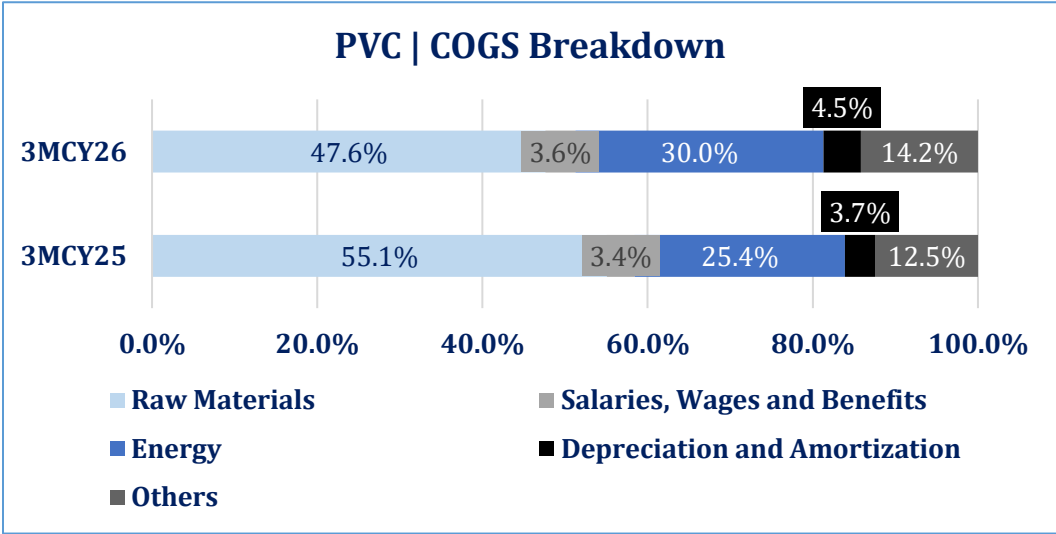
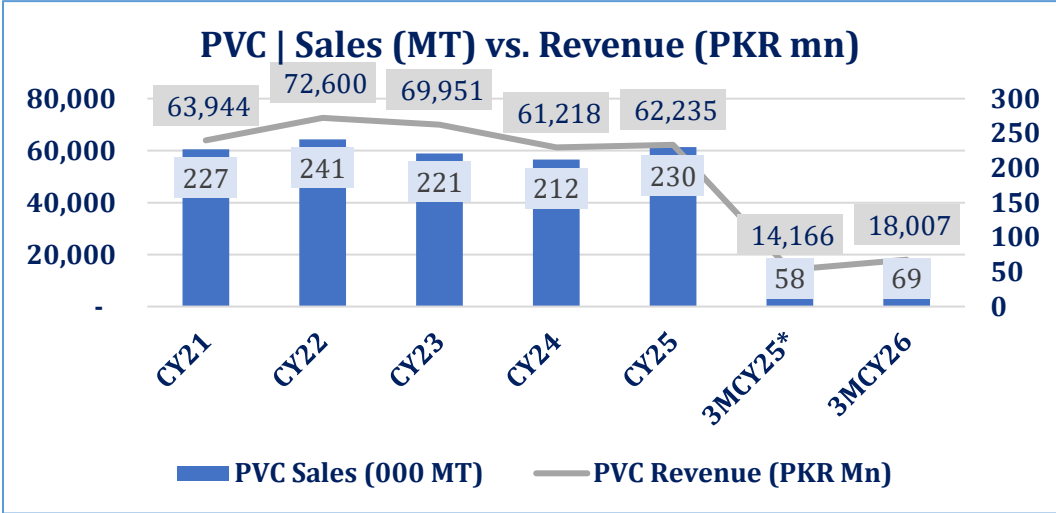
- Chlorine is extracted from sea salt via electrolysis while ethylene is derived from hydrocarbon raw materials. These are then reacted to produce ethylene dichloride. The ethylene dichloride is then decomposed by heating in a high temperature furnace or reactor.
- PVC is made using a process called Addition Polymerization. The reaction opens the double bonds in the vinyl chloride monomer (VCM) allowing neighboring molecules to join together creating long chain molecules.



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Polyvinyl Chloride (PVC) | Demand and Supply

- Engro Polymer & Chemicals Limited (EPCL), a subsidiary of Engro Corporation, is Pakistan's sole PVC producer with an annual capacity of ~295,000 MT in CY25, same as CY24. PVC capacity utilization increased to ~78.0% in CY25 from ~71.9% in CY24.
- The PVC segment's cost structure shifted in 3MCY26, with energy costs becoming a larger share of COGS, rising from ~25.4% to ~30.0%. This was mainly due to higher gas levies on captive power producers and an increase in RLNG prices. SNGPL's RLNG price rose ~20% from ~\$11.27/MMBtu in January to ~\$13.55/MMBtu by March 2026, compounded by the off-grid CPP levy being increased to the 15% slab (Rs1,406/mmBtu) from February 2026.
- Ethylene is the main feedstock for PVC, and its prices have come down during 3MCY26 due to global oversupply. Raw Materials' share in COGS declined from ~55.1% to ~47.6%.
- In CY25, PVC sales volume increased ~8.5% YoY to ~230,000 MT, while revenue rose only ~1.7% to PKR ~62.2bn as average selling prices declined ~6.3% amid weak global prices and import competition, despite a recovery in construction demand. In 3MCY26, sales volume grew ~19% YoY to 69,000 MT, with revenue rising faster by ~27% to PKR ~18.0bn, indicating an improvement in average PVC selling prices

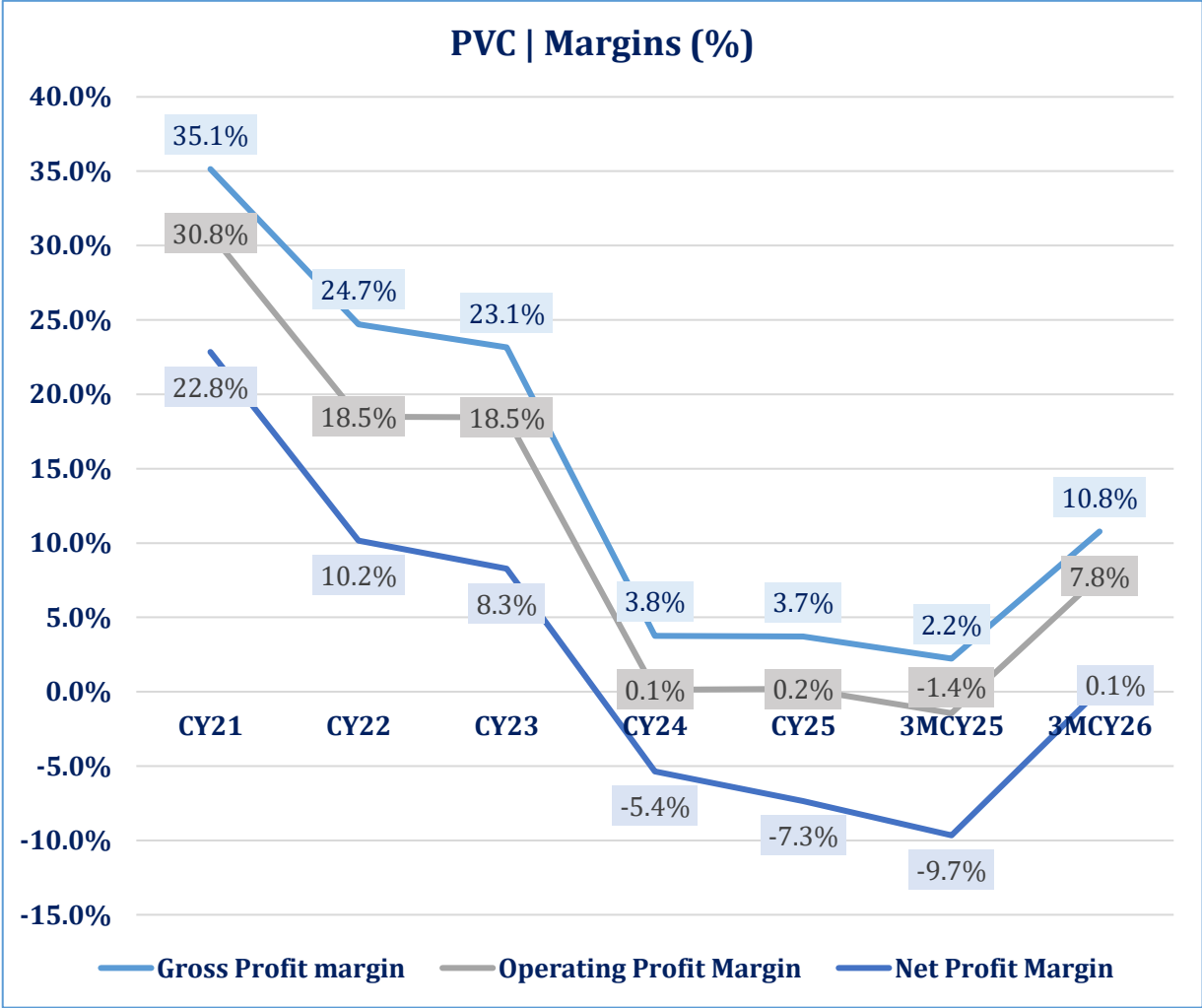


Note: Data is based on 1 PACRA-rated/ listed Sector players.
 * Sales volume for 3MCY25 has been estimated based on the full-year sales for CY25

Chemicals

Polyvinyl Chloride (PVC) | Margins

- Gross profit margin improved sharply to ~10.8% in 3MCY26 from ~2.2% in 3MCY25. The recovery was primarily driven by higher PVC selling prices following the rebound in global PVC prices, supported by China's export tax changes and supply disruptions arising from US-Iran conflict. Although energy costs remained elevated due to higher gas levies and RLNG prices, the improvement in product pricing and operating efficiency offset these cost pressures, resulting in a significant expansion in gross margins.
- Operating profit margin increased to ~7.8% from an operating loss margin of ~1.4%. The improvement reflects the expansion in gross margins, which compensated for higher operating expenses and depreciation associated with the company's expanded asset base.
- Net profit margin turned positive at ~0.1%, compared with a net loss margin of ~9.7% in the corresponding period last year. The recovery was supported by stronger operating performance and improved pricing, allowing the company to absorb finance costs.

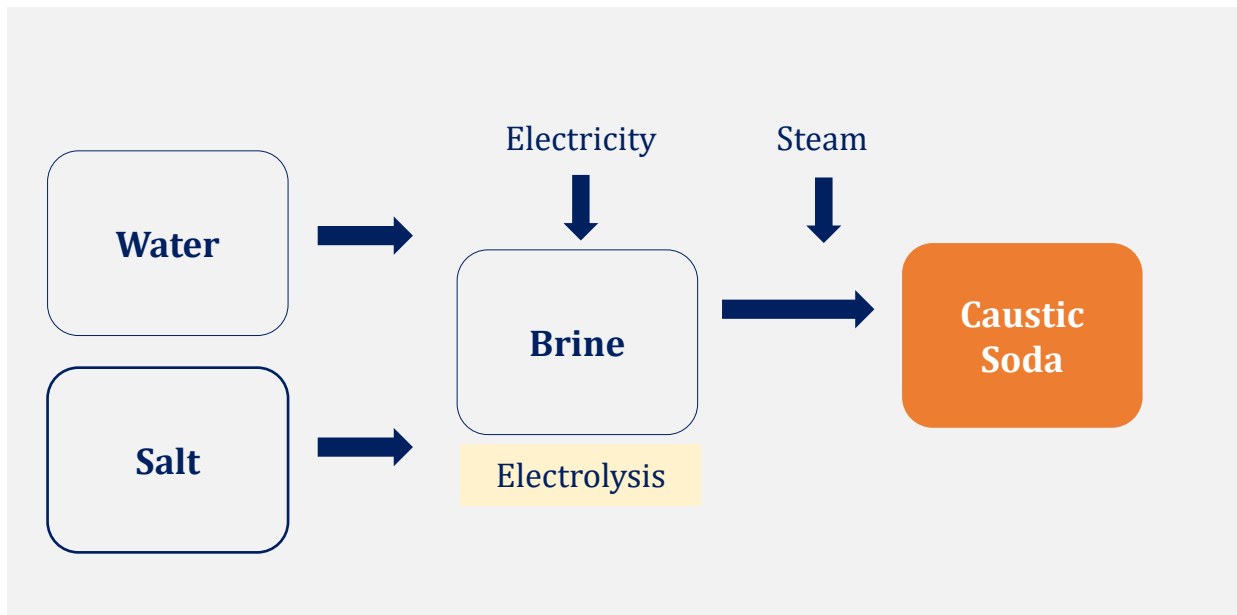


Note: Data is based on 1 PACRA-rated/listed Sector player.

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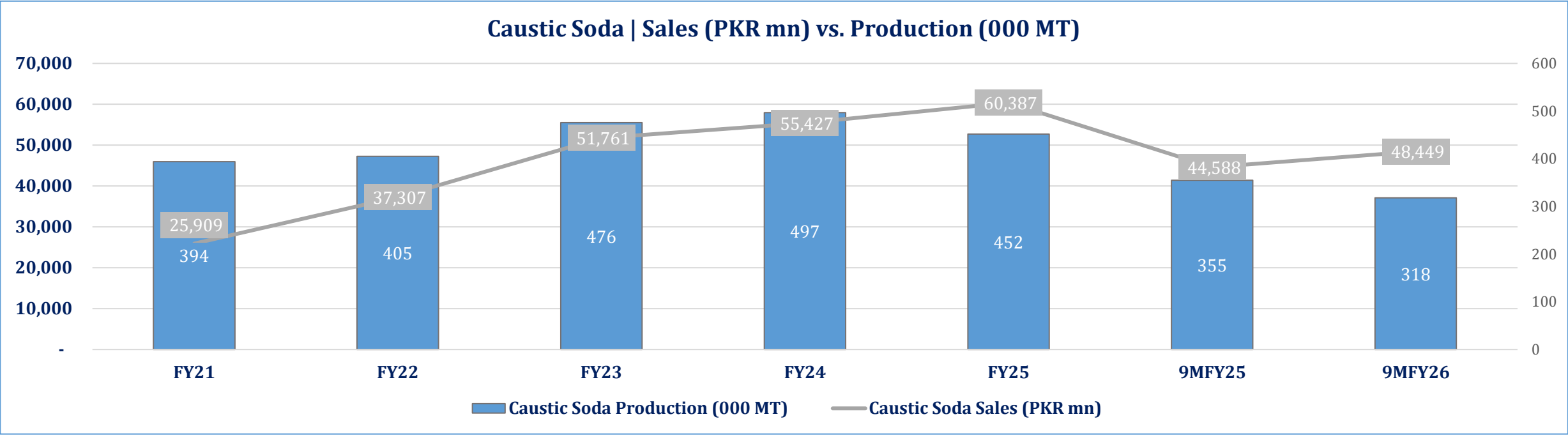
Caustic Soda | Production Process

- Nearly all caustic soda (Sodium Hydroxide, or NaOH) is produced through electrolysis of sodium chloride solution using one of the three cell types: mercury, diaphragm and membrane cells. The electrolysis process produces ~1.128MT of ~100.0% caustic soda with each MT of chlorine. The primary raw material is common salt, usually in the form of underground deposits which are brought to the surface as a solution in a pumped high pressure water supply. The sodium chloride solution is often called Brine.
- Electrolysis is carried out by the mercury amalgam, diaphragm cell processes or membrane cell. Diaphragm cells need plenty of thermal energy to concentrate the caustic solutions but can be cheaper than mercury cells when steam costs are low and have relatively cheap construction costs. Use of membrane cells is growing due to lower capital and energy costs and an absence of environmental problems.



Caustic Soda | Demand and Supply

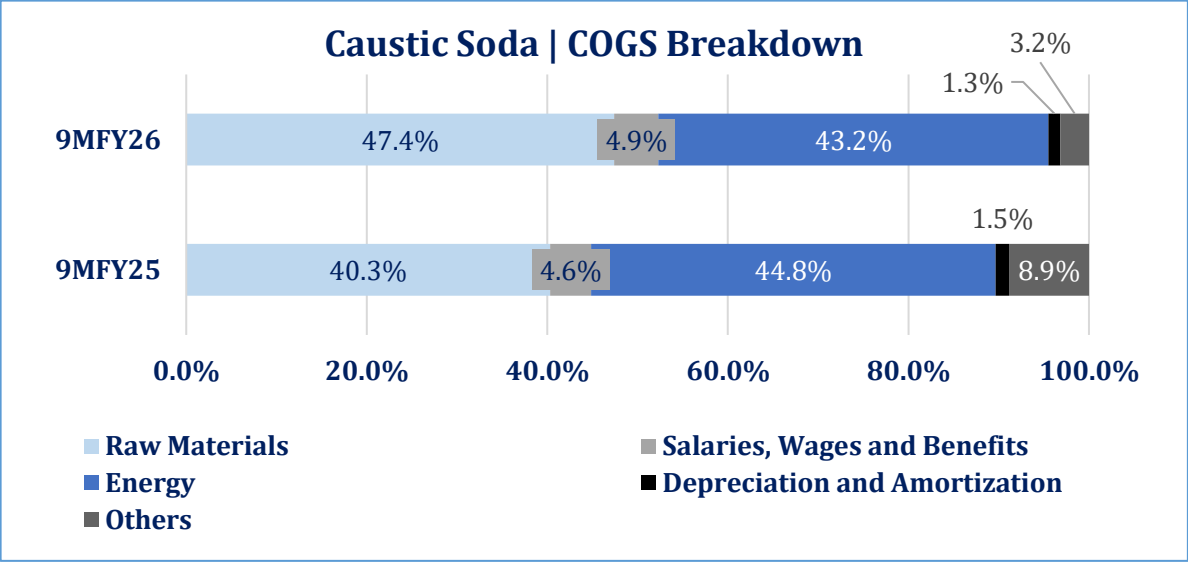
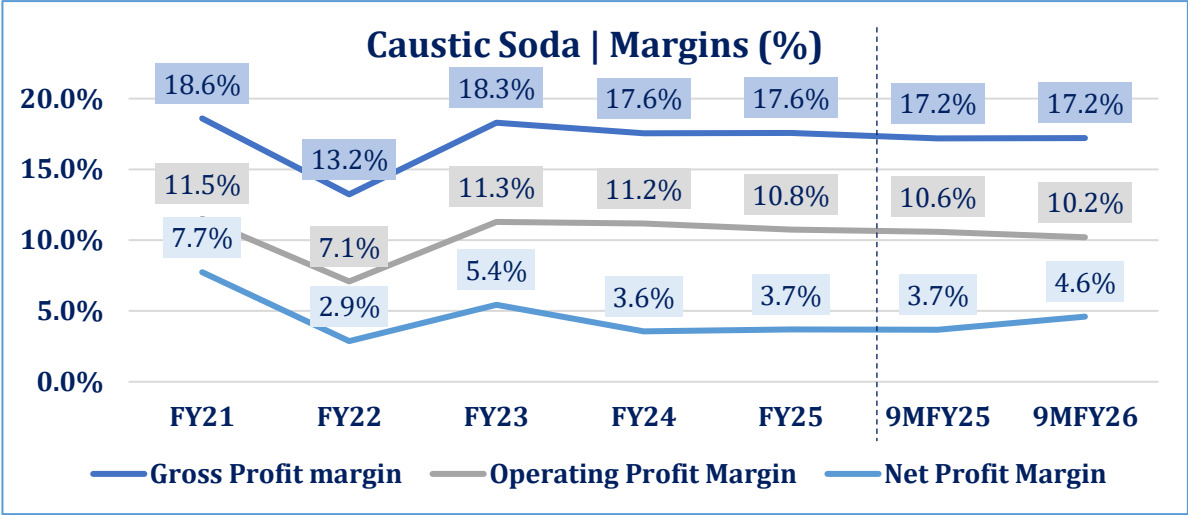
- During 9MFY26, caustic soda sales increased by 8.7% YoY to PKR~48.4bn despite production declining by 10.4% YoY to ~318,000 MT. The increase in sales value was primarily driven by higher average selling prices rather than volumes.
- Regional caustic soda prices increased amid tighter supply following chlor-vinyl plant shutdowns linked to Middle East disruptions, while higher gas tariffs, electricity costs and freight expenses pushed producers to pass on increased costs to customers. Demand remained relatively stable, particularly from the textile sector, supporting price realization despite lower production. Consequently, stronger pricing offset the decline in volumes, resulting in higher sales during the period.



Chemicals

Caustic Soda | Margins

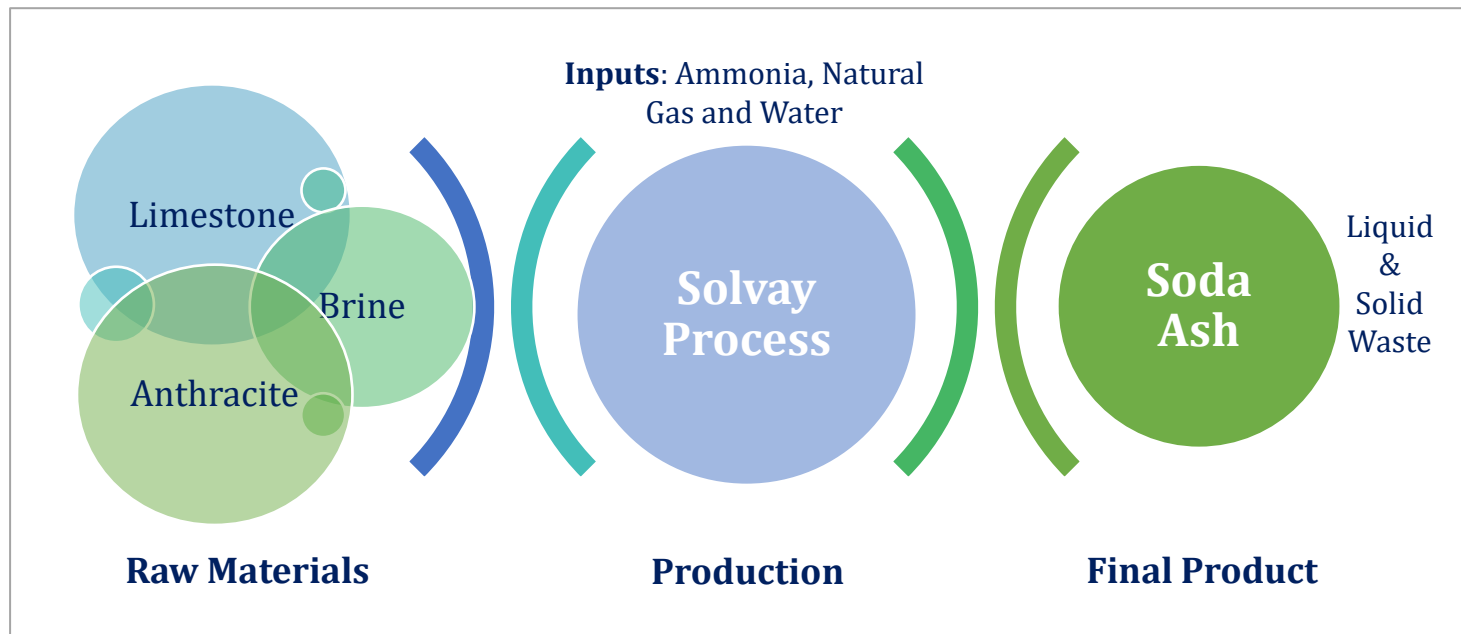
- Gross profit margin remained stable at ~17.2% in 9MFY26, indicating that higher selling prices largely offset the increase in production costs. However, operating profit margin declined slightly from ~10.6% to ~10.2%, reflecting a modest increase in operating expenses. Meanwhile, net profit margin improved from ~3.7% to ~4.6%, primarily supported by lower finance costs. Overall, producers were able to preserve gross profitability through cost pass-through, while lower finance costs helped strengthen bottom-line earnings.
- Compared to other Chemical segments, caustic soda margins tend to remain relatively stable. This is because demand is diversified across essential industries such as textiles, soaps & detergents, paper, water treatment, and chemicals, resulting in relatively steady consumption. In addition, producers are often able to pass higher input costs on to customers over time, limiting margin volatility. As a result, profitability is driven more by changes in energy and financing costs than by sharp fluctuations in demand or sales volumes.
- The largest cost component for caustic soda was comprised of Raw Materials in 9MFY26, which accounted for ~47.4% in total costs (9MFY25: ~40.3%). However, during 9MFY25, Energy was the largest component as caustic soda production is a highly energy intensive process (especially during the electrolysis of brine). Energy made up ~43.2% of the segment’s total cost in 9MFY26 (9MFY25:~44.8%).



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Soda Ash | Production Process

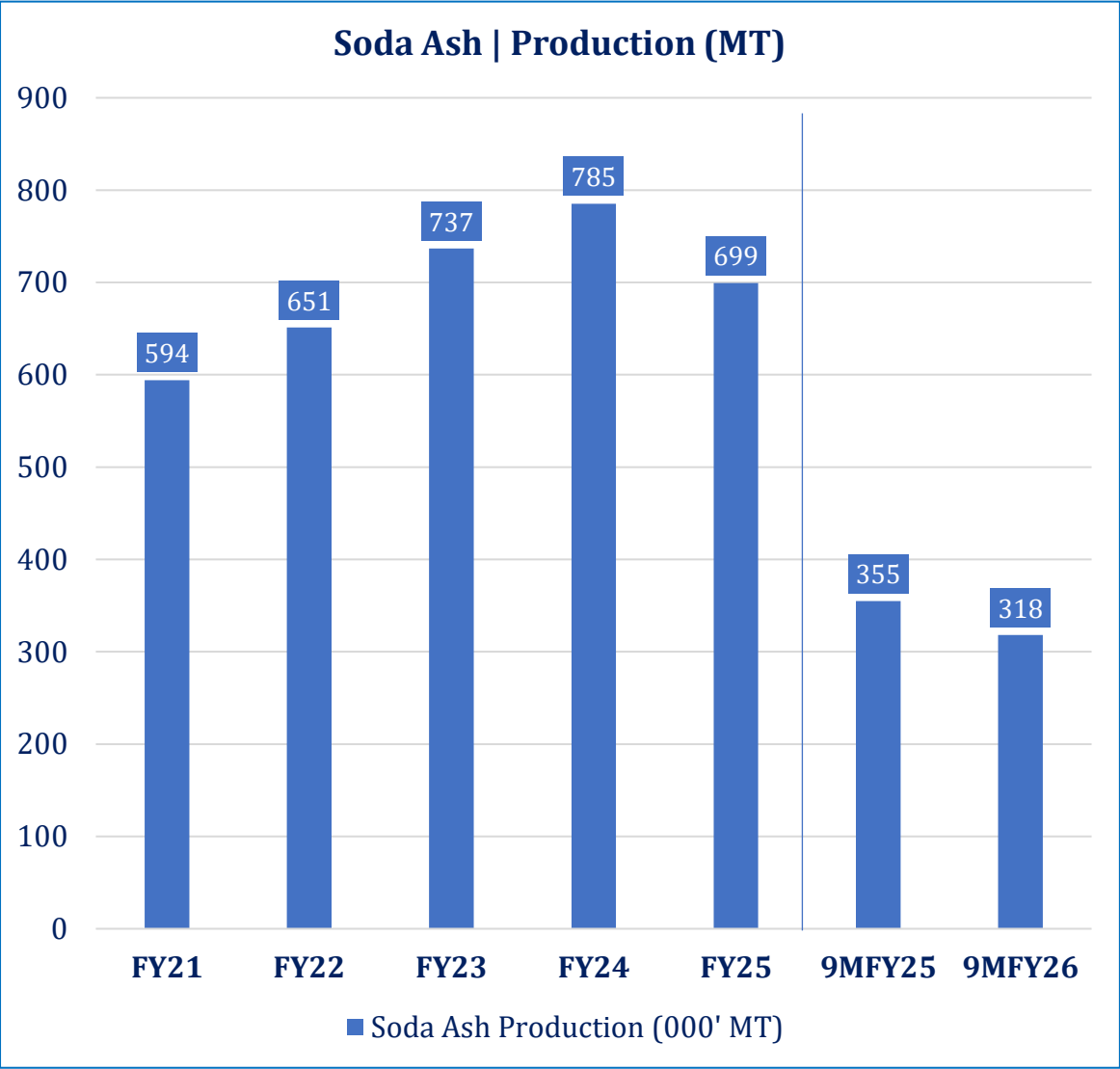
- Soda Ash (Na_2CO_3) is an anhydrous white powder or granular material that is available in two grades, light and dense. Dense soda ash is an anhydrous substance mostly used in the manufacturing of industrial chemicals. Light soda ash is used as a pH regulator in various industrial processes.
- In the ammonia-soda process, common salt, sodium chloride, is treated with ammonia and then carbon dioxide, under carefully controlled conditions, to form sodium bicarbonate and ammonium chloride. When heated, the bicarbonate yields sodium carbonate (soda ash), the desired product; the ammonium chloride is treated with lime to produce ammonia for reuse and calcium chloride.
- The ammonia-soda process encountered stiff competition from the older Leblanc process, but it ultimately prevailed because it produced soda ash more cheaply.



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Soda Ash | Demand and Supply

- Soda ash production declined to ~318,074 MT in 9MFY26 from ~354,857 MT in 9MFY25, a 10.4% YoY decrease.
- Production remained under pressure due to weak demand in both export and domestic markets. Export volumes fell sharply as low-priced Chinese soda ash continued to capture regional market share, while cheaper imports into Pakistan increased following tariff changes in the Federal Budget FY26.
- At the same time, the float glass industry, the largest consumer of soda ash, continued to operate at around 50% capacity, limiting domestic demand. Higher freight and insurance costs following the Middle East conflict further reduced export competitiveness, while raw material shortages at some downstream industries also weighed on soda ash offtake. As a result, manufacturers reduced production in line with lower demand.
- Rising global freight, insurance, and crude oil prices will further increase the cost of imported raw materials, particularly following the Middle East conflict, adding cost pressure even as production volumes decline.

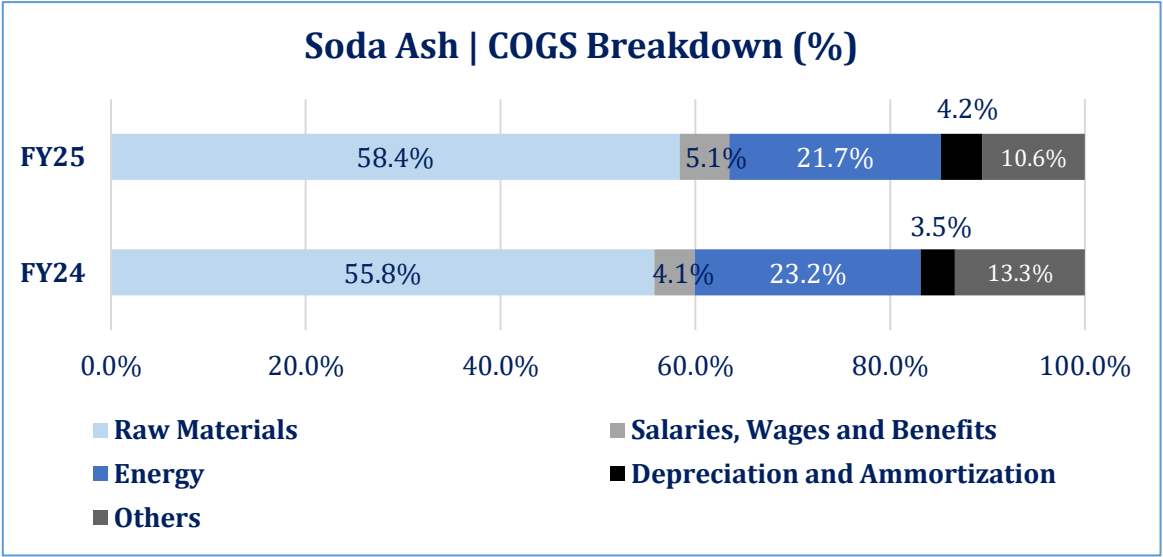
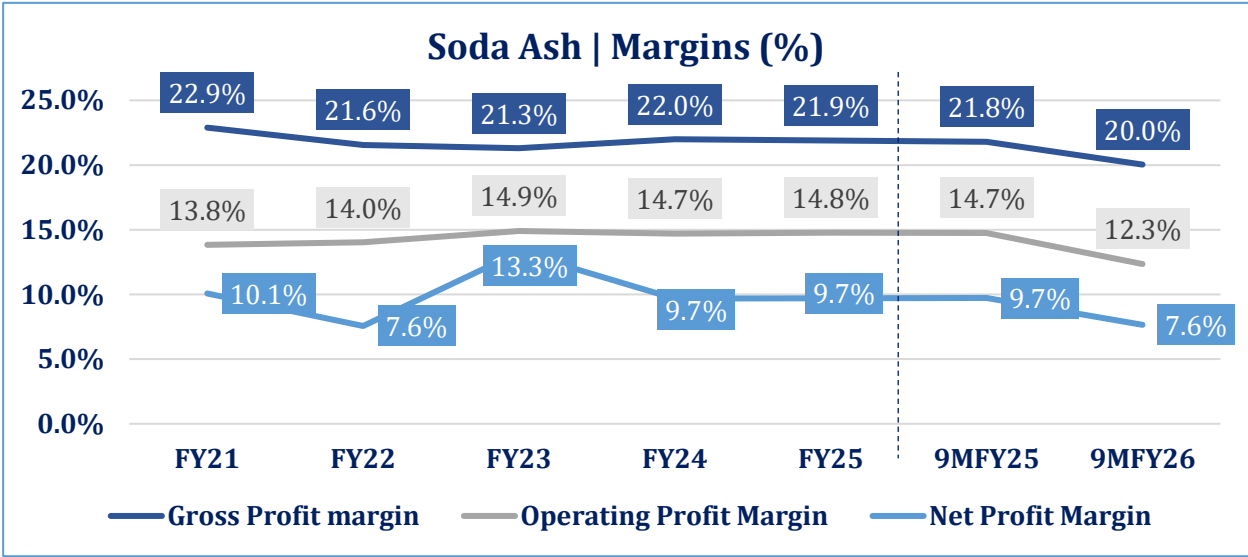


***Note:** Data is based on 2 PACRA-rated/ listed Sector players. Production figures pertain to PBS QIM data classified under “Manufacturing of Chemicals, Chemical Products”*

Chemicals

Soda Ash | Margins

- Soda Ash margins weakened across the board in 9MFY26. Gross margin declined to ~20.0% from ~21.8%, operating margin fell to ~12.3% from ~14.7%, and net margin dropped to ~7.6% from ~9.7%. The larger decline in operating and net margins indicates that profitability came under pressure beyond higher production costs. Margin compression was driven by weaker pricing power and lower demand amid intense import competition. At the same time, the float glass industry continued to operate at low capacity, limiting domestic demand.
- The sharper decline in operating margin suggests that lower sales volumes reduced the industry's ability to absorb fixed costs, while higher finance costs and taxes likely weighed further on net profitability. Overall, the decline in margins reflects a challenging operating environment characterized by weak demand, rising costs, and continued import pressure. Unless downstream demand improves or competitive pressures ease, profitability is likely to remain under strain.
- Major raw materials required for soda ash production include sodium chloride (salt), limestone, coal and ammonia. The cost mix of soda ash production changed in FY25 as Raw materials became a larger part of the cost base, rising from ~55.8% to ~58.4% of COGS, while energy costs declined from ~23.2% to ~21.7%. Salaries, wages and benefits increased slightly from ~4.1% to ~5.1%, depreciation rose from ~3.5% to ~4.2%, and other costs fell from ~13.3% to ~10.6%.

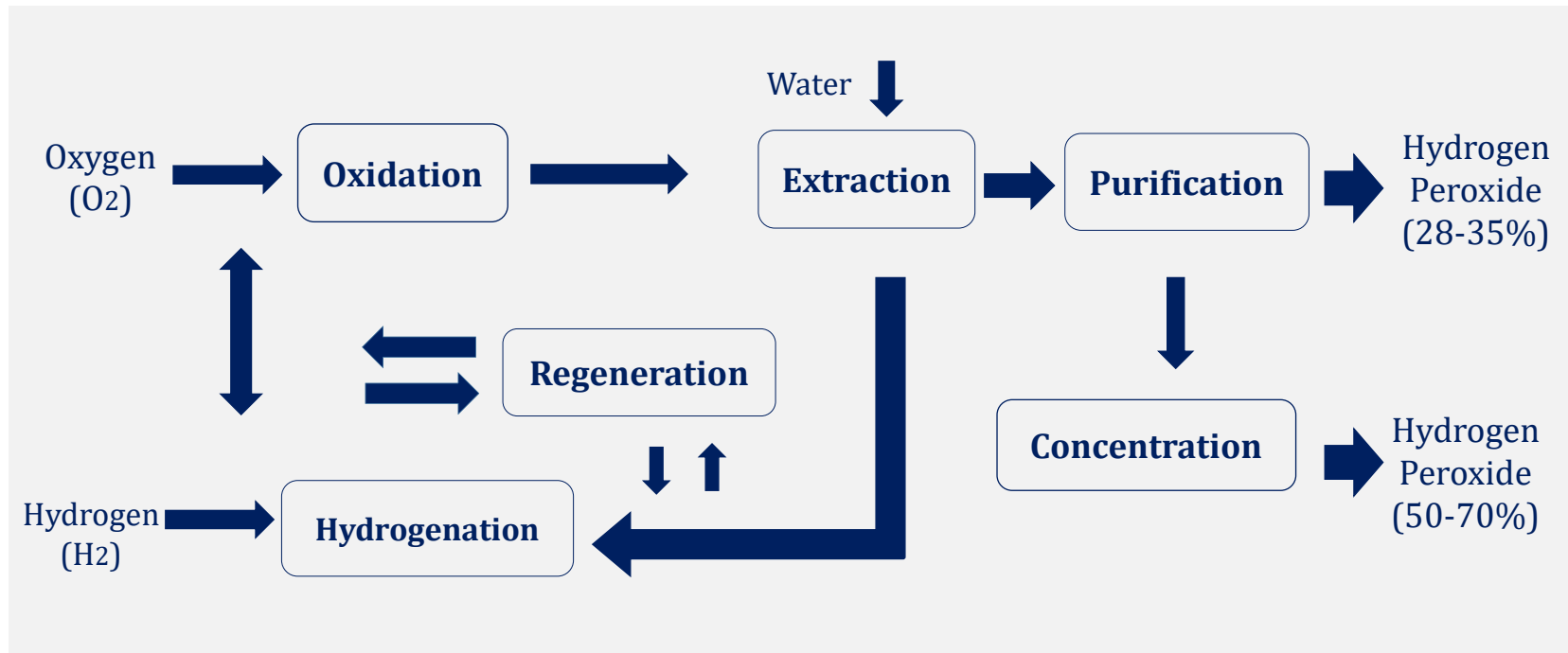


Note: Data is based on 2 PACRA-rated/ listed Sector players.

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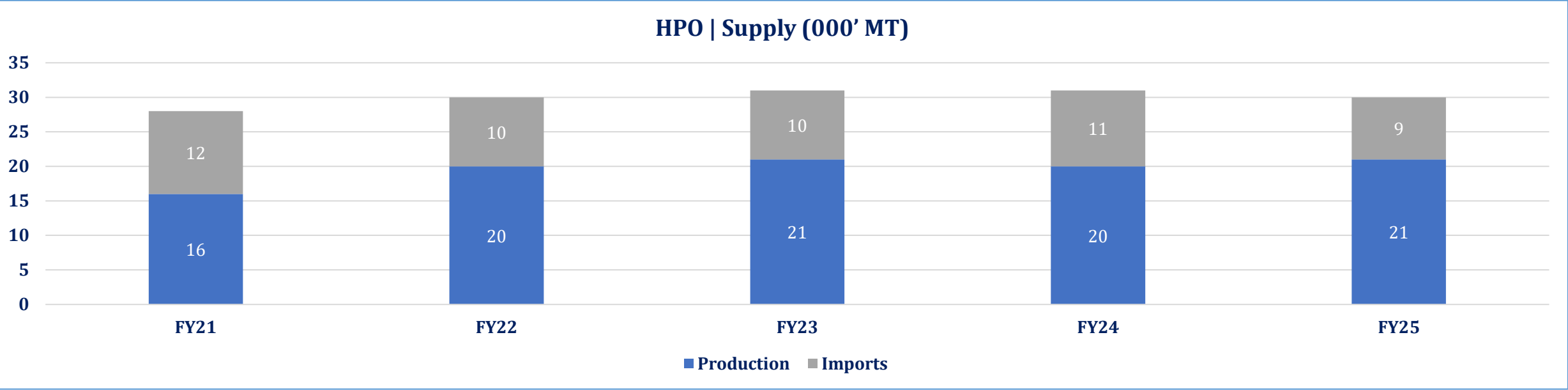
Hydrogen Peroxide | Production Process

- Hydrogen Peroxide (H_2O_2) is a colorless viscous unstable liquid with strong oxidizing properties. It can, however, act as a reducing agent for strong oxidants. Upon decomposition, it forms water and releases oxygen which makes it an environment-friendly product.
- It is an important chemical with demand driven from the industrial sectors, where it is used as an oxidizing, bleaching and sterilizing agent. It is used in a variety of industries including textile, paper/pulp, food packaging and healthcare.
- Palladium catalyzes the reaction between Hydrogen and Anthraquinone to create Anthrahydroquinone. The palladium catalyst is filtered out of the solution. The solution is then oxidized by blowing air through the solution, forming the H_2O_2 (Hydrogen Peroxide). The hydrogen peroxide is removed in a liquid-liquid extraction column and concentrated by vacuum distillation.



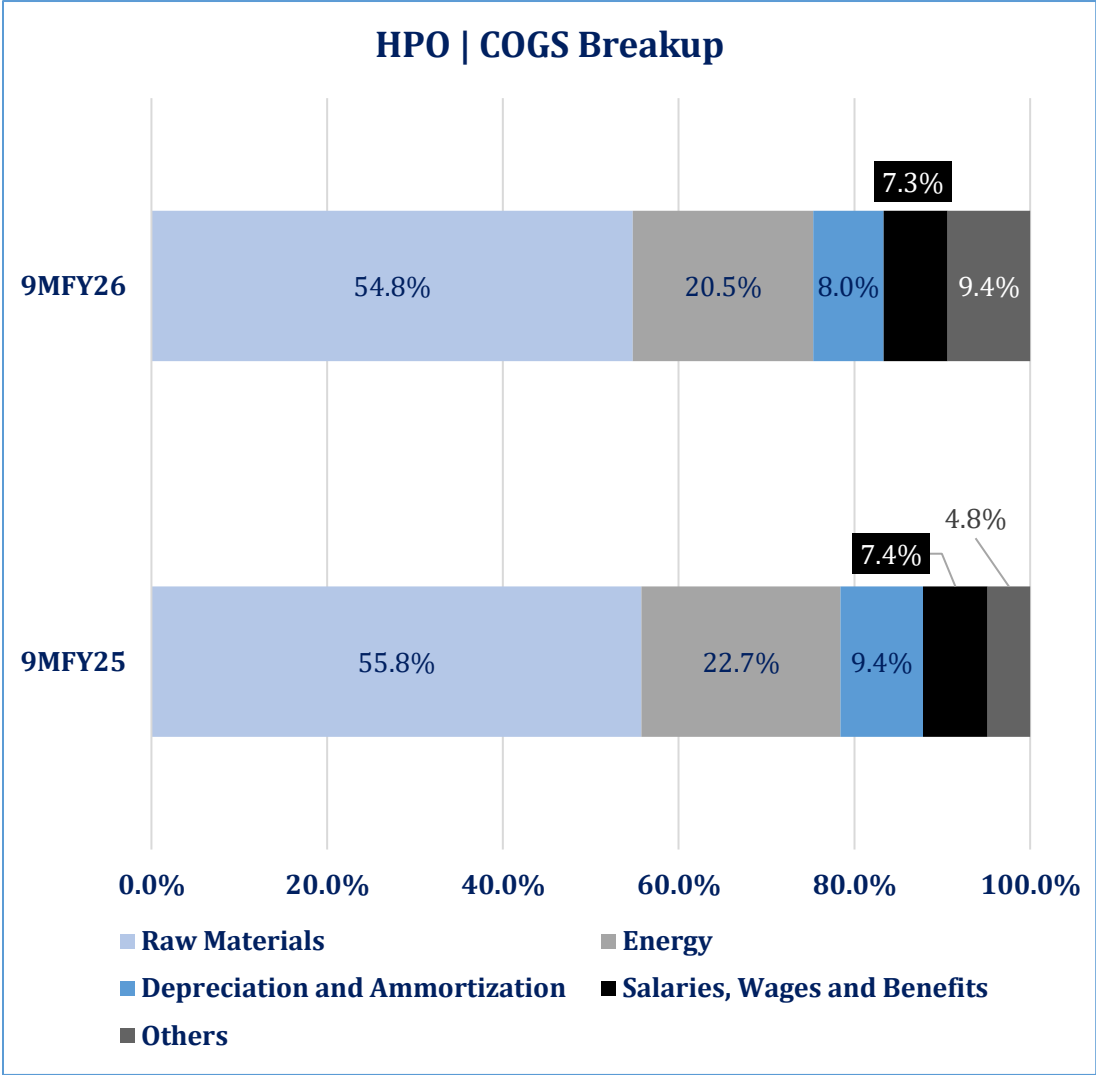
Hydrogen Peroxide | Demand and Supply

- Total hydrogen peroxide supply remained stable at ~30,274 MT in FY25 compared to ~31,481 MT in FY24, but the supply mix shifted in favor of domestic production. Local production increased to ~21,000 MT (FY24: 20,000 MT), while imports declined to ~9,274 MT (FY24: ~11,481 MT), increasing domestic production's share of total supply from ~65% to ~70%.
- This improvement came despite continued pricing pressure from low-cost imports. International producers continued selling excess supply into Pakistan, keeping domestic prices subdued for most of the year. However, imports were limited by the continuation of anti-dumping duties on hydrogen peroxide from several countries which were extended for another five years in Sep’25. At the same time, new local production capacity was added through the commencement of Engro Polymer & Chemicals Limited’s HPO plant in Feb’25, which had an installed annual production capacity of ~28,000 MT.



Hydrogen Peroxide | COGS Breakup

- The hydrogen peroxide sector relies heavily on imported raw materials, particularly anthraquinone and hydrogen feedstock, making production costs highly sensitive to external factors. Currency depreciation increases the cost of imports, while higher international freight and logistics costs further raise these input expenses. Supply chain disruptions can significantly pressure margins, even when global raw material prices remain stable.
- Raw material costs declined slightly as a share of COGS, from ~55.8% to ~54.8%, while energy costs fell from ~22.7% to ~20.5%, supported by better plant efficiency and the commissioning of a ~2 MW solar power project. Depreciation also decreased from ~9.4% to ~8.0%, while salary costs remained broadly unchanged at around ~7% of COGS. The biggest change was in other costs, which nearly doubled from ~4.8% to ~9.4% due to higher contractor expenses, increased rent, and annual plant shutdown costs.

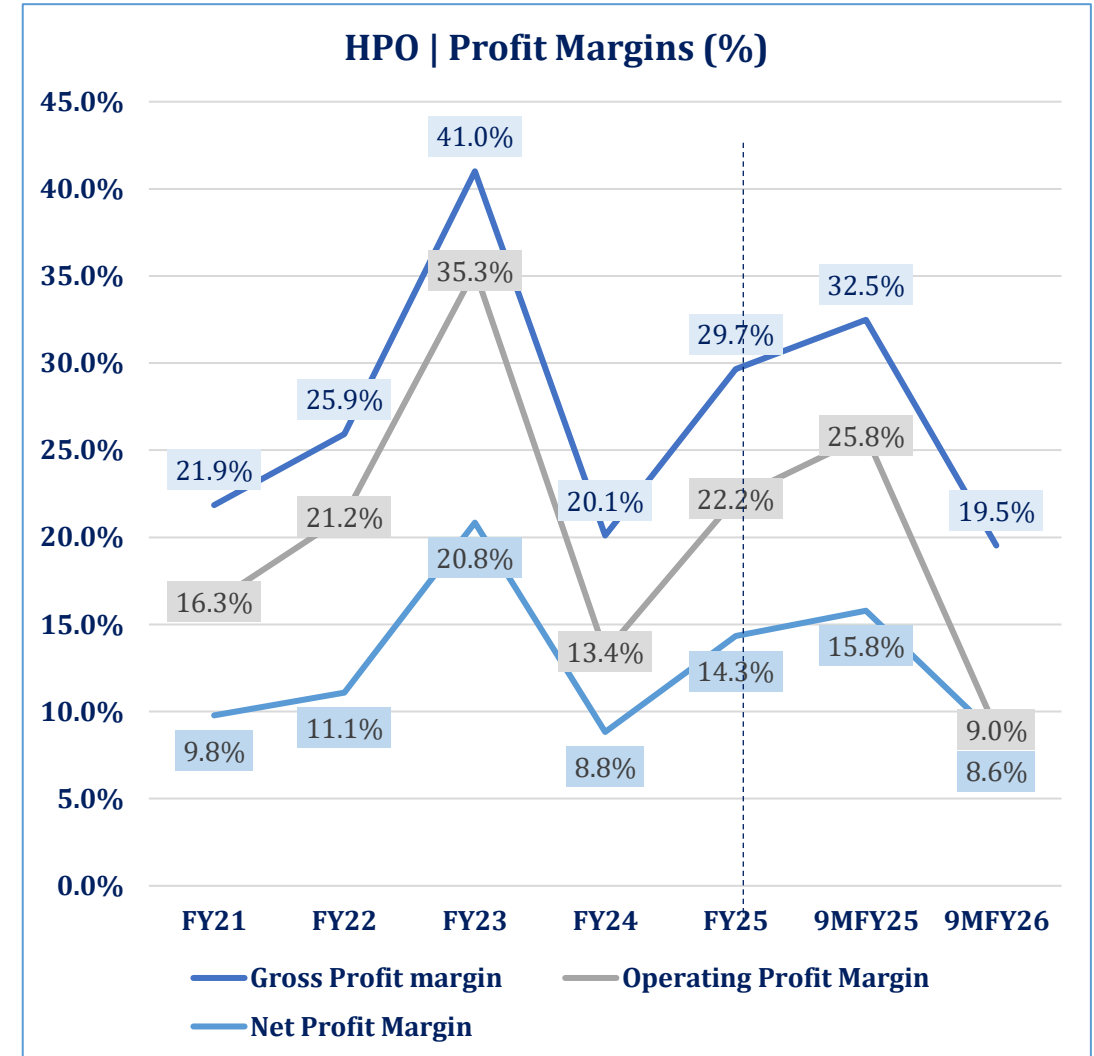


Note: Data is based on 1 PACRA-rated/listed Sector player. Imports are reflective of HS code 2847.000.

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Hydrogen Peroxide | Margins

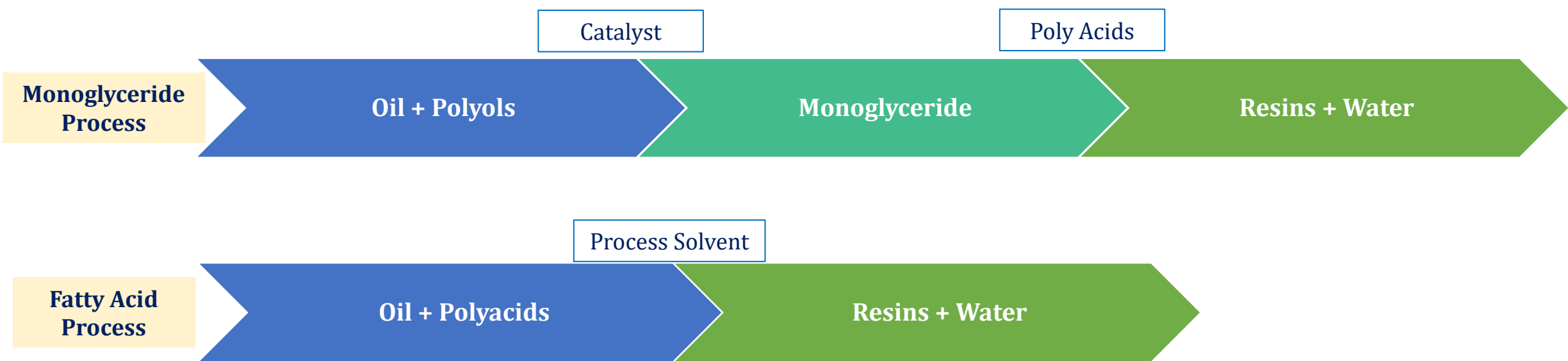
- Gross profit margin declined sharply to ~19.5% from ~32.5% in 9MFY26. The decline was driven by lower average selling prices as cheap imports kept domestic HPO prices under pressure for most of the period.
- Pakistan's textile sector, HPO's biggest domestic customer, saw mixed performance through 9MFY26. Textile exports fell ~0.5% to USD~13.5 bn in the 9MFY26 period, with Mar'26 alone down ~7.1% year-on-year to USD~1.3 bn. Cotton cloth exports fell ~10.9%, and knitwear was down ~1.14% during 9MFY26, both bleaching-intensive segments that are direct HPO consumers.
- Operating margins contracted sharply to ~9.0% in 9MFY26 from ~25.8% in 9MFY25, due to a significant increase in distribution and selling expenses. During March 2026, Middle East geopolitical disruptions affected key maritime trade routes, leading to shipment delays, rerouting, higher freight costs, and additional shipping surcharges. The resulting increase in export logistics costs likely contributed to the decline in operating profitability.
- Net profit margin declined to ~8.6% from ~15.8%, although higher other income and lower other expenses partly cushioned the impact.



Chemicals

Resins | Production Process

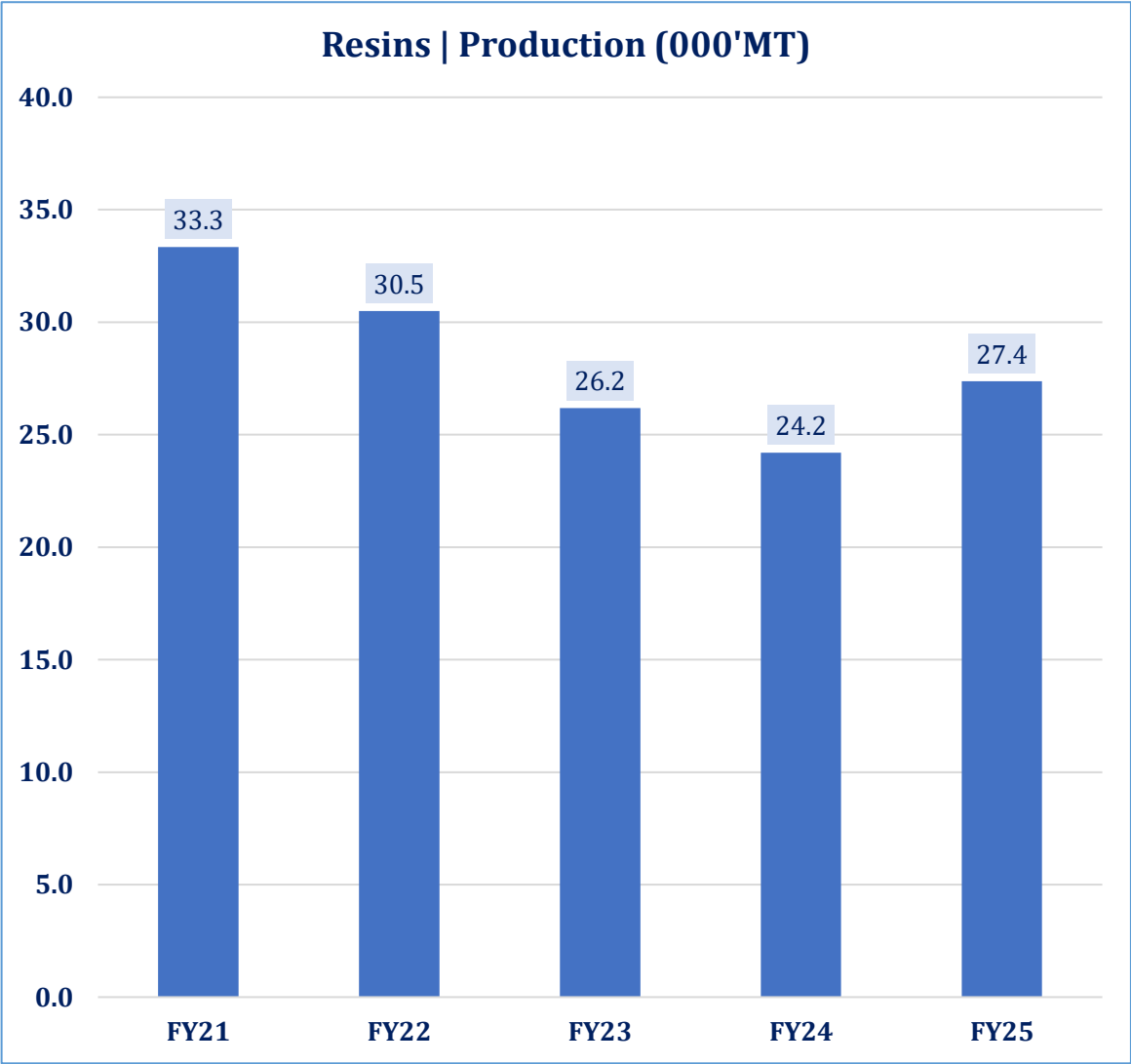
- **Product Portfolio:** Resins include Alkyd Resins & Modified Alkyds Resins for Decorative, Refinish & OEM Paints, Amino Resins, Rosin Modified Resins, Acrylic, Styrene Acrylic & PVA Emulsion binders, Wetting Agent, Antifoam and drier (classified broadly as coatings and emulsions), Specialty chemicals for pre-treatment and finishing for textile as well as paper & pulp chemicals.
- **Production Process:** There are predominantly two processes used to produce resins: the monoglyceride process and the fatty acid process. The monoglyceride process first heats oil with polyols and catalysts, this makes the oil polar. In the second step, the monoglyceride formed is reacted with poly acids to form resin and water (a by-product).
- The fatty acid process completes the production in one step, which reduces the production cycle time. Oil is directly heated with poly acids and a process solvent which results in production of resins.



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Resins | Demand and Supply

- Pakistan's resin industry forms an important upstream segment of the broader Chemicals Sector, supplying essential inputs to downstream industries including paints and coatings, textiles, construction, paper and packaging, furniture, and leather. As a result, resin demand is closely linked to industrial production, construction activity, and overall economic growth.
- Resin production recovered in FY25, increasing by ~13.2% YoY to ~27,400 MT from ~24,200 MT in FY24. This marks the first improvement after three consecutive years of declining output, indicating a gradual recovery in domestic demand from key end-use industries such as paints & coatings, textiles, and construction.
- The recovery was supported by an improving macroeconomic environment during FY25. Lower inflation and easing interest rates helped revive industrial activity, while the paints and coatings market showed signs of stabilization following a weak FY24. In addition, infrastructure spending and CPEC Phase II projects are expected to gradually increase demand for resins used in decorative and industrial coatings.

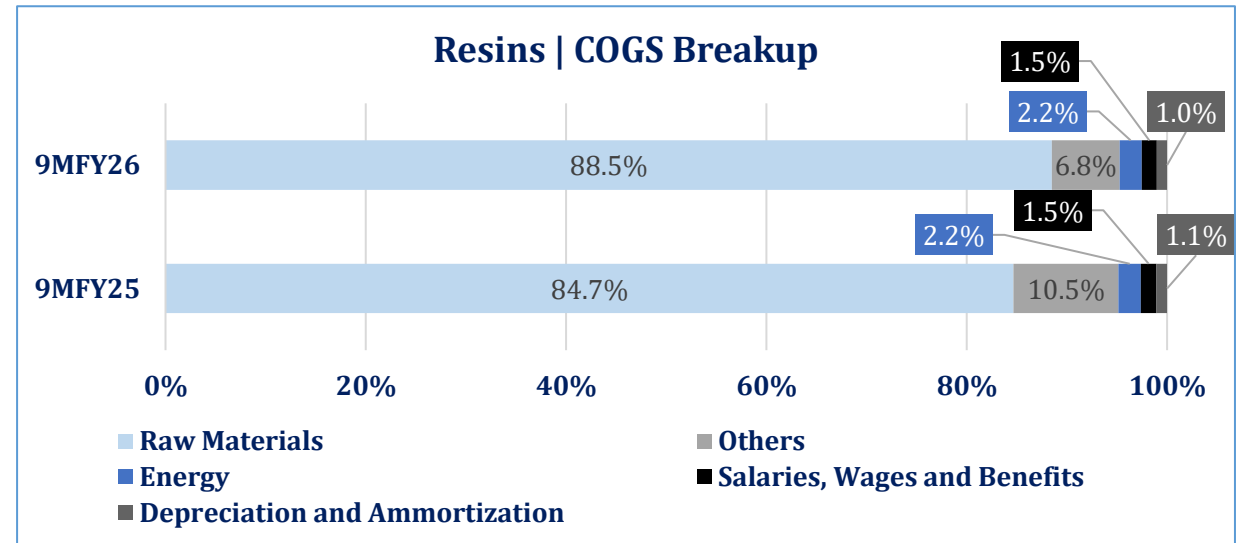
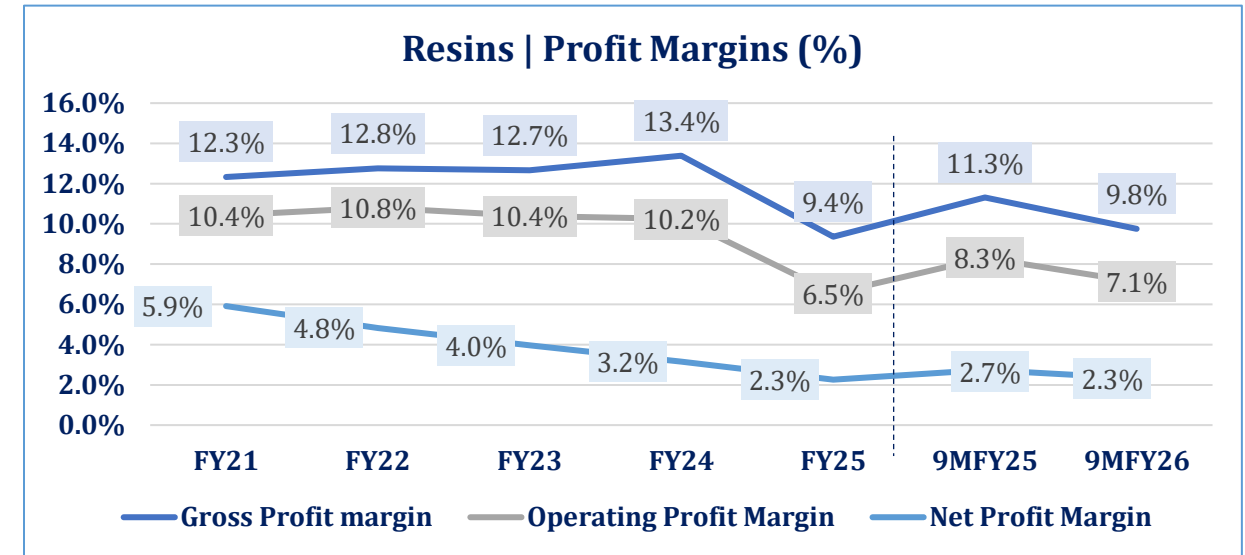


Note: Data is based on 2 PACRA-rated/ listed Sector players.

Chemicals

Resins | Margins

- The resins manufacturing segment operates in a highly competitive market owing to un-segmented and unorganized small producers who pose threat to large-scale manufacturers. Because of simplicity in the production process, the segment remains competitive while margins reported are relatively on the lower side.
- Sales increased by ~46% to PKR~12,108mn in 9MFY26 from PKR~8,280mn in 9MFY25. However, gross margin declined to ~9.8% from ~11.3%, while operating margin fell to ~7.1% from ~8.3%, as production costs increased faster than revenue.
- Net margin remained broadly stable at ~2.3% compared with ~2.7% in 9MFY25. Lower finance costs partly offset the pressure from weaker operating margins, although a higher tax expense weighed on profitability. As a result, net income still increased by ~24% YoY.
- Raw material holds the biggest portion in the cost of production, accounting for ~88.5% of the cost breakup in 9MFY26 (9MFY25: ~84.7%). Resins are made up of different grades and quality depending on the specific use for the relevant sector. Raw materials for resins production include lignin, polyol, solvent, catalyst, acid anhydride, and multi-epoxy compounds. These are mainly oil derivatives with strong linkage to international oil prices.



Chemicals

Paints | Production Process

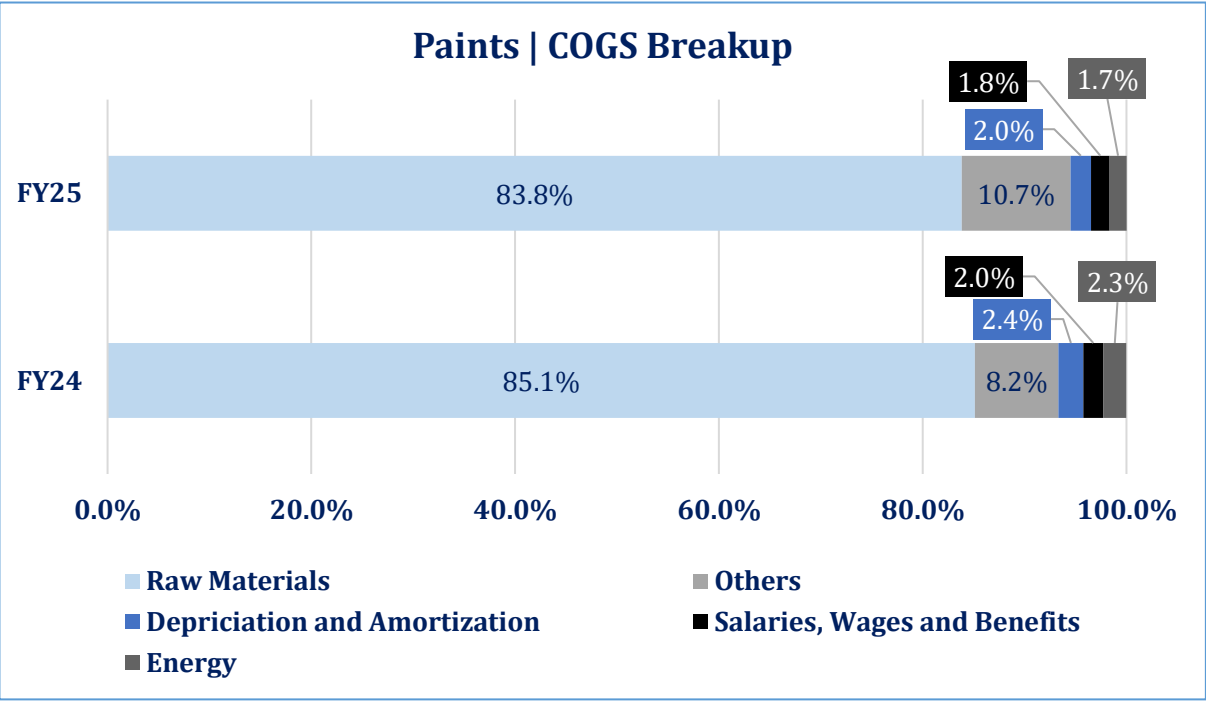
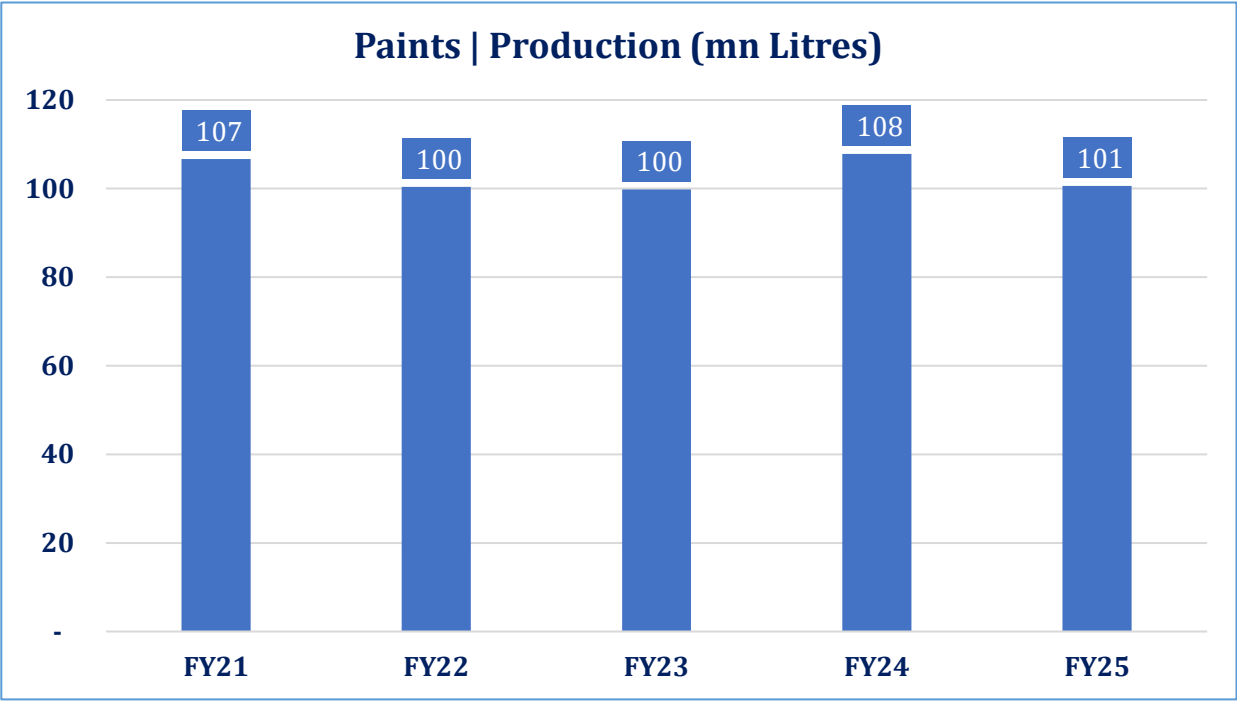
- **Segment Size:** The global paint segment was estimated at USD~193.9bn in CY25 and is projected to reach USD 293.54 billion by 2035, expanding at a CAGR of 4.23% from 2026 to 2035.
- **Segment Structure:** The segment comprises ~60.0% unorganized and ~40% organized players. The latter includes both multinational brands, such as AkzoNobel, Berger, Nippon and Kansai, as well as local players like Master Paints, Brighto Paints and Diamond Paints. The segment is represented by Pakistan Coating Association (PCA).
- **Product Portfolio:** The segment includes a variety of products falling under broad categories of Decorative (Primer, First Coat, Flat Paint, Gloss & Satin Finishing and Varnishes etc.) and Industrial (Solvent-based, Aquatic, Powder Coats and Anti-Fouling etc.) paints. Therefore, the segment is linked with industries such as construction, electronics, automobiles and various others.
- **Raw Materials:** These include pigments, solvent and binders, which are mixed together in the first step, with quantities determining the type of paint being produced. Once these have been mixed, a homogenous mixture is produced. After the homogenous mixture is ready, it is grinded using a mill to bring it to the desired consistency which also varies by the type of paint being produced. This completes the production process for paints.



Chemicals

Paints | Demand and Supply

- The paints industry of Pakistan primarily serves the decorative and industrial sectors. It mainly produces coatings for buildings, infrastructure and machinery. Its demand is closely tied to construction activity, urban development and manufacturing growth. The total production of paints clocked in at ~101mn liters in FY25, down ~6.7% (FY24: ~108mn liters).
- Raw materials held the largest share of the cost breakdown at ~83.8% in FY25 (FY24: ~85.1%). These comprise mainly ethylene glycol, epoxide resin and emulsion grade, among others.

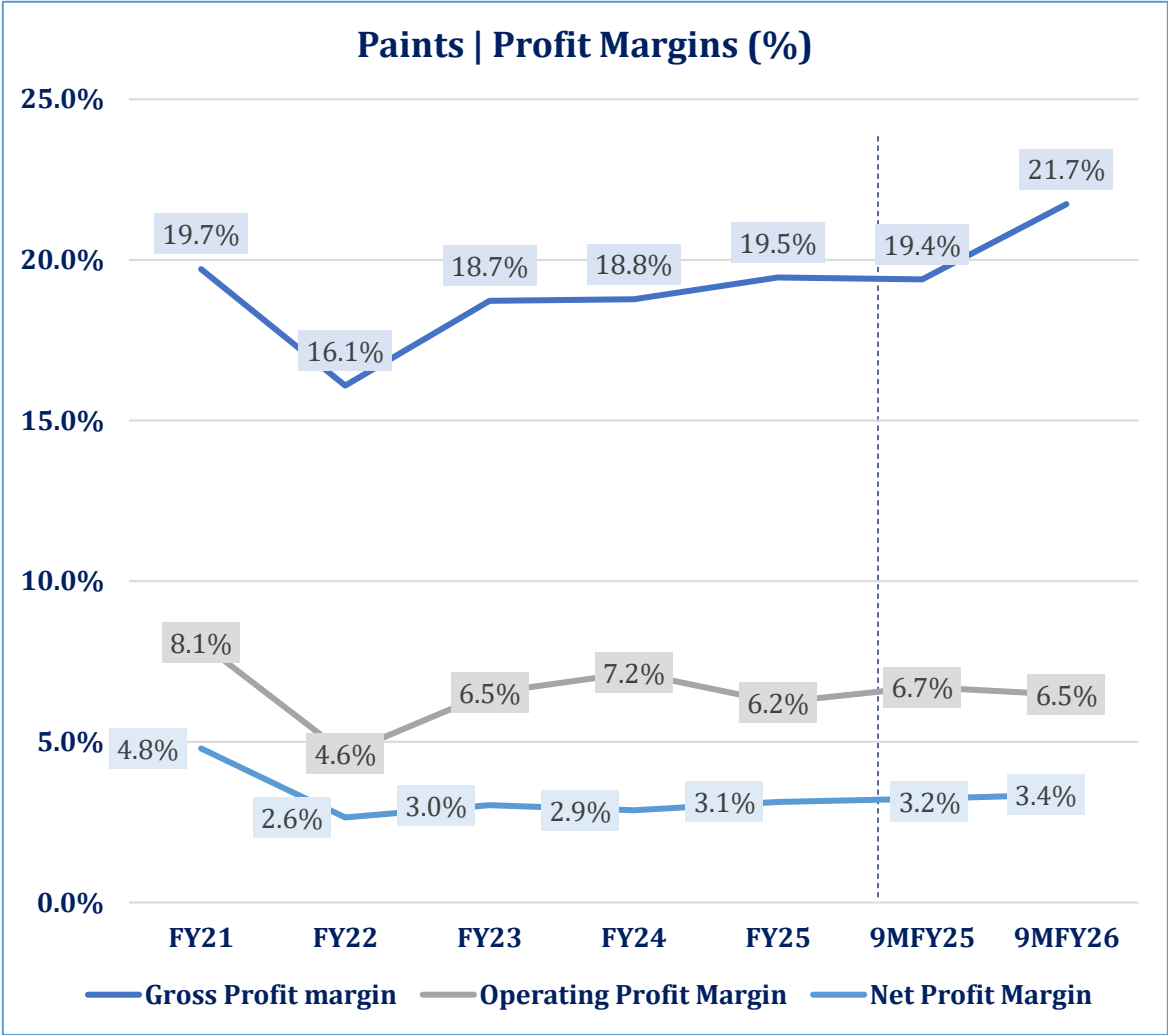


Note: COGS is based on 1 PACRA-rated/ listed Sector players. HS code pertaining to RM Imports include 3904.101, 3907.3, 2905.3.

Chemicals

Paints | Margins

- Profitability was largely stable in 9MFY26, with gross margin improving to ~21.7% from ~19.4%, operating margin easing slightly to ~6.5% from ~6.7%, and net margin rising to ~3.4% from ~3.2%. Net profit increased by ~5.2% YoY despite a slight decline in operating profit, reflecting lower financing costs as the interest rates eased.
- Sales remained broadly flat (rising ~1.1% YoY), while cost of sales declined by ~1.6%, driving gross profit growth of ~13.4% and supporting the expansion in gross margin. However, operating expenses increased by ~22.1%, offsetting much of the gross profit gain and slightly compressing operating margin. Meanwhile, finance costs fell by ~28.0%, supporting bottom-line profitability despite higher taxation. With rising international oil prices, margins could come under pressure if higher costs are not passed on. This will be a challenge for the sector as construction activities remained muted.
- The gap between gross and operating margins in the paints sector is mainly due to high selling, distribution, and marketing expenses. Paint manufacturers rely on extensive dealer networks, tinting machines, and nationwide distribution, resulting in significant dealer commissions, freight, and retail support costs that remain relatively fixed even when raw material costs rise. The sector also requires continuous spending on advertising, promotions, and brand building to maintain market share.

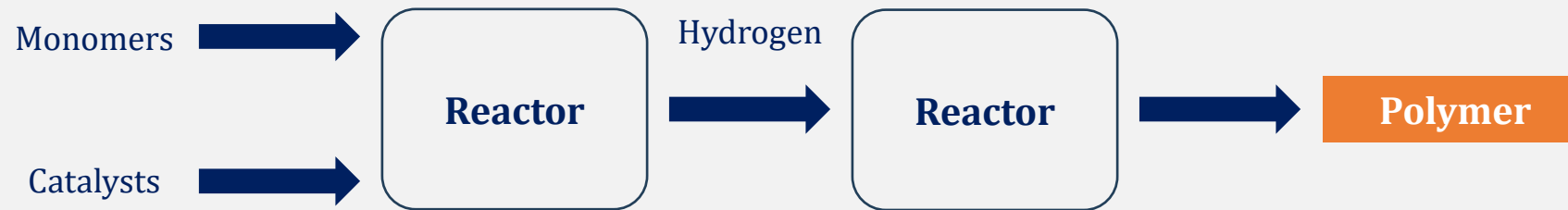


Note: Data is based on 3 PACRA-rated/ listed Sector players.

Chemicals

Polymers | Production Process

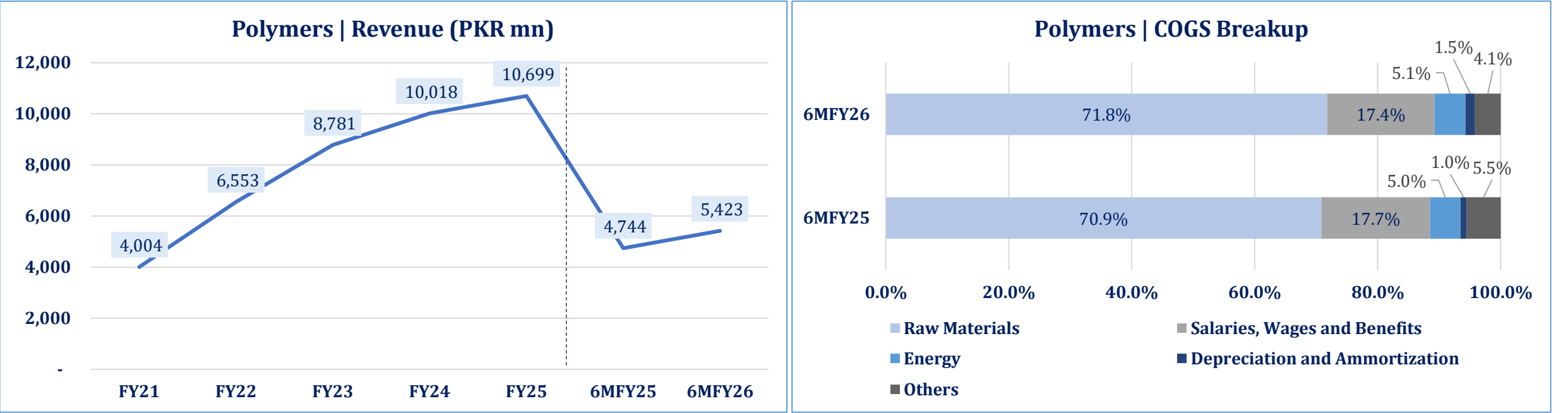
- Outlined below is the production process of polymers. Its primary inputs are monomers and catalysts. Production of polymers is a two-step process, where the materials go through two different reactors.
- The first step is to put the monomers and catalyst through a reactor, their reaction produces comonomer hydrogen which is then once again put through a reactor and its reaction produces polymers.



Chemicals

Polymers | Demand and Supply

- Pakistan's polymers segment includes manufacturers of polymer-based products such as foams and adhesives. These products are used across industries including footwear, sporting goods, packaging, automotive, orthopedics, and construction. The football manufacturing industry is one of the largest users of foam products, supported by Pakistan's strong position as a global football manufacturing. During 6MFY26, Pakistan's football production increased by ~19.9% from the corresponding period last year.
- Polymer sales revenue showed an upward trend, recording a ~14.3% YoY increase in 6MFY26 to PKR~5,423mn (SPLY: PKR~4,744mn). This increase was largely driven by higher offtake in the foam segment, on the back of increased demand from the football industry.
- Raw materials accounted for the majority of the segment's total costs, amounting for ~71.8% in 6MFY26 (6MFY25: ~70.9%). The second largest contributor to cost were salaries which made up ~17.4% of total costs in 6MFY26 (6MFY25: ~17.7%).

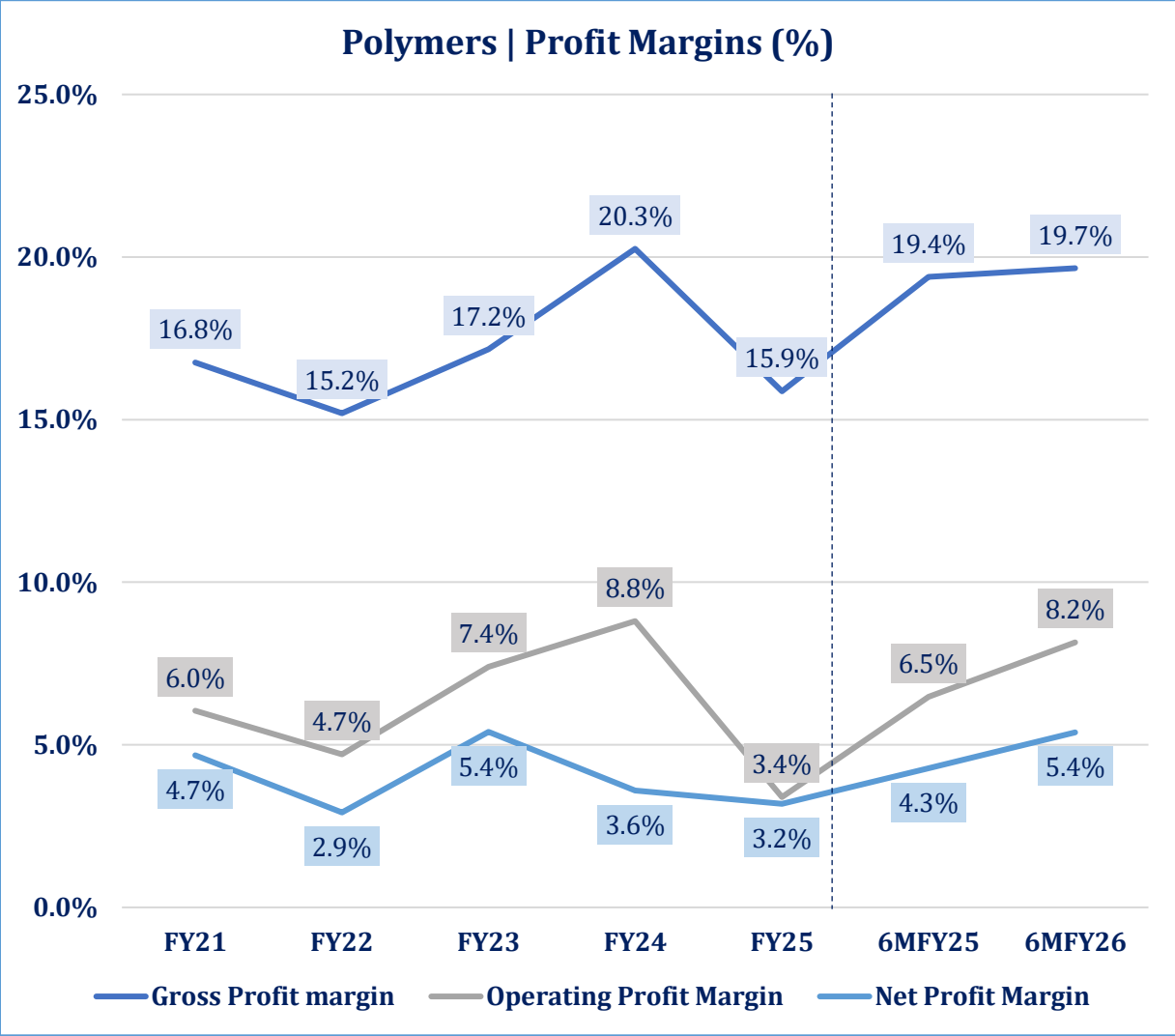


Note: Data is based on 1 PACRA-rated players.

Chemicals

Polymers | Margins

- Gross profit margin edged up to ~19.7% (6MFY25: ~19.4%) as revenue grew 14.3% YoY, while cost of sales remained broadly stable due to flat raw material and energy costs, lower manufacturing overheads, and improved fixed-cost absorption from higher plant utilization. Operating profit margin increased to ~8.2% (6MFY25: ~6.5%) as operating expenses rose only ~1.8% YoY, significantly below revenue growth. Net profit margin improved to ~5.4% (6MFY25: ~4.3%), supported by a ~10.8% decline in finance costs amid a lower interest rate environment.
- Gross profit margin declined to ~15.9% in FY25 from ~20.3% in FY24. The sharp decline was due to production costs increasing faster than sales, reflecting higher raw material costs. Operating profit margin fell to ~3.4% in FY25 from ~8.8% in FY24. In addition to weaker gross profitability, higher operating expenses further compressed margins, highlighting pressure on the sector's core earnings. Net profit margin narrowed slightly to ~3.2% in FY25 from ~3.6% in FY24. Although operating profitability weakened significantly, the relatively modest decline at the net level was attributable to a significant tax credit.

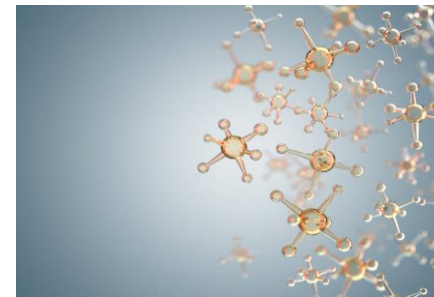
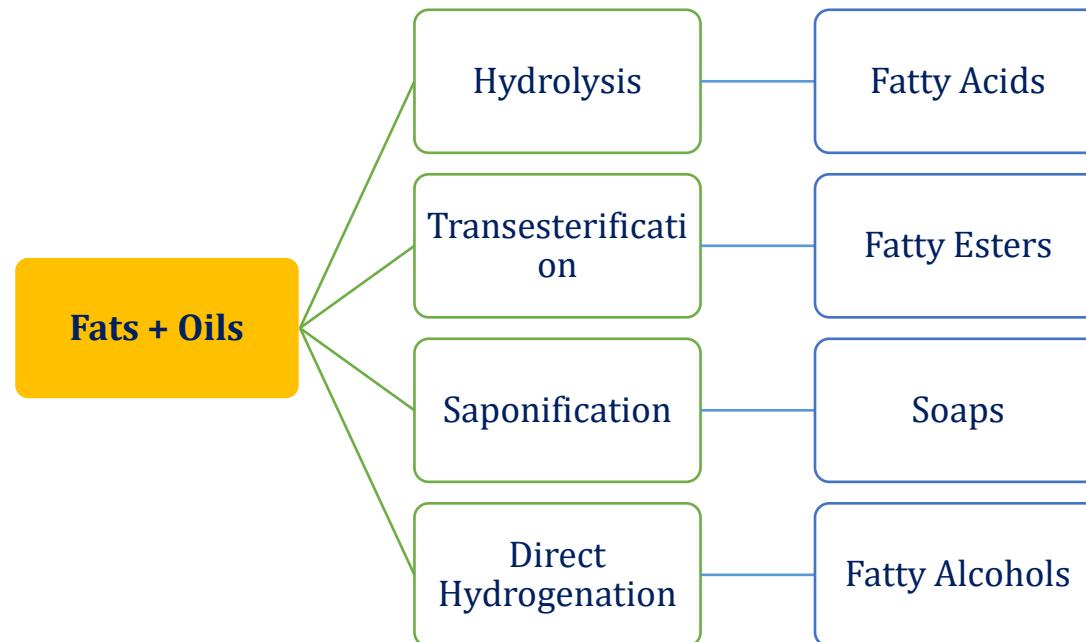


Note: Data is based on 1 PACRA-rated players.

Chemicals

Oleochemicals | Production Process

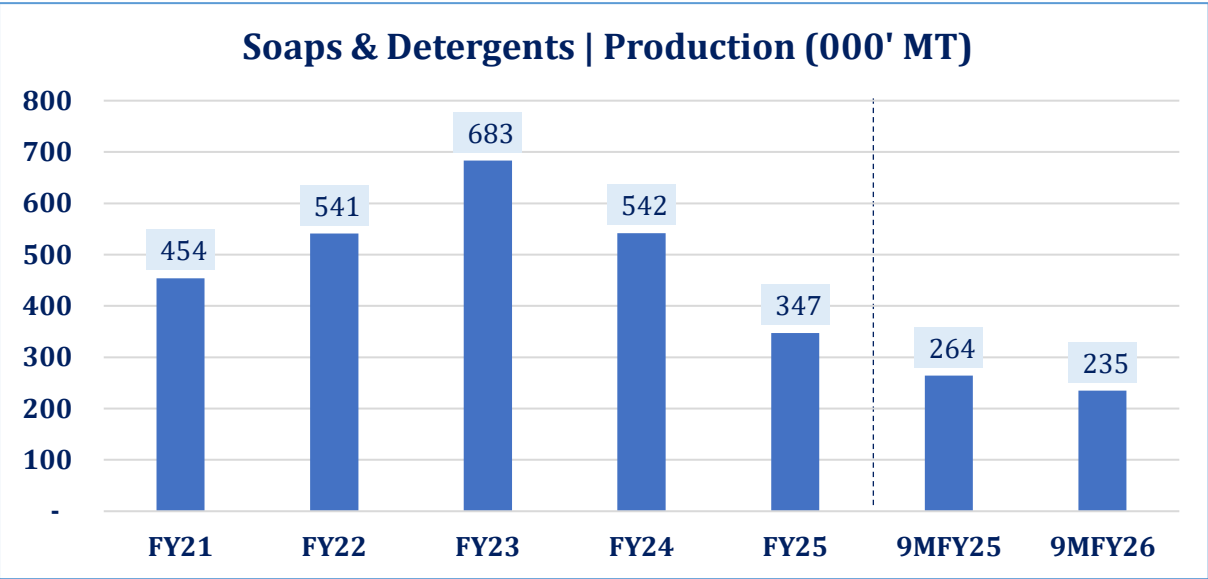
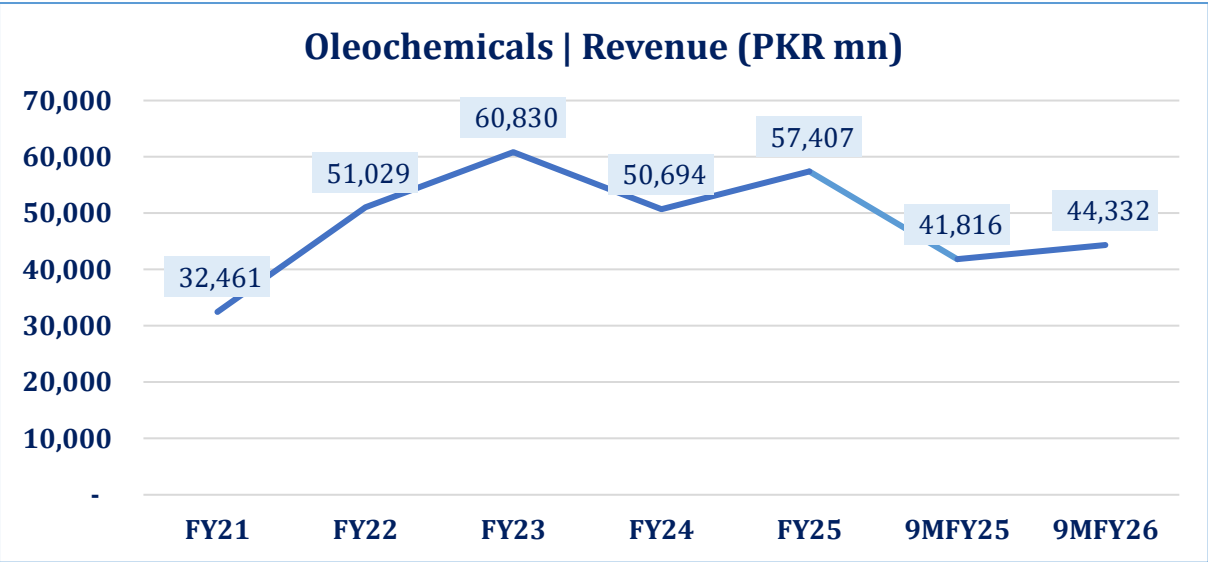
- Oleochemicals have four different processes, each of which gives a different by-product for different product manufacturing. These processes are: hydrolysis, transesterification, saponification and direct hydrogenation. The primary inputs for the manufacturing of oleochemicals are fats and oils. These depend on which type of process is used and by-product is needed.
- Oleochemicals are used across several industries. In personal care, they are used in soaps, moisturizers, and shampoos. In the food industry, they act as emulsifiers and protective coatings, and supply omega-3s in supplements. In pharmaceuticals, they form capsule shells and feature in topical creams and tablet processing. Industrially, they support biodiesel production, machinery lubricants, and detergent surfactants, while in agriculture they serve as carriers in pesticides, feed additives, and adjuvants for fertilizers and sprays.



Chemicals

Oleochemicals | Demand and Supply

- The total installed capacity of the segment was recorded at FY25 ~140,000MT, unchanged from the previous year. NIMIR Chemicals holds majority market share in the oleochemicals segment.
- Oleochemicals sector revenue rose to PKR~44,332mn in 9MFY26 from PKR~41,816mn in 9MFY25, a growth of ~6.0%, continuing the gradual recovery trend visible since the FY24 dip. In contrast, soaps and detergents production declined to ~235,000MT in 9MFY26 from ~264,000MT in 9MFY25, a fall of ~11.0%, extending the downward volume trajectory that has persisted since the FY23.
- The divergence between rising oleochemicals revenue and falling soaps and detergents volumes over the same nine-month period suggests the revenue growth was driven more by pricing than by underlying production or demand volume.
- Soap and detergent production has fallen sharply over the past few years, declining from ~683,000MT in FY23 to ~542,000MT in FY24 and ~347,000MT in FY25. The slowdown continued in 9MFY26, with production falling a further ~11% year-on-year. According to the Pakistan Soap Manufacturers Association (PSMA), the industry's main challenge is the high burden of taxes and duties, including customs duty, sales tax, and income tax. The association states that these costs have forced some factories to close, while many others are struggling to remain operational.

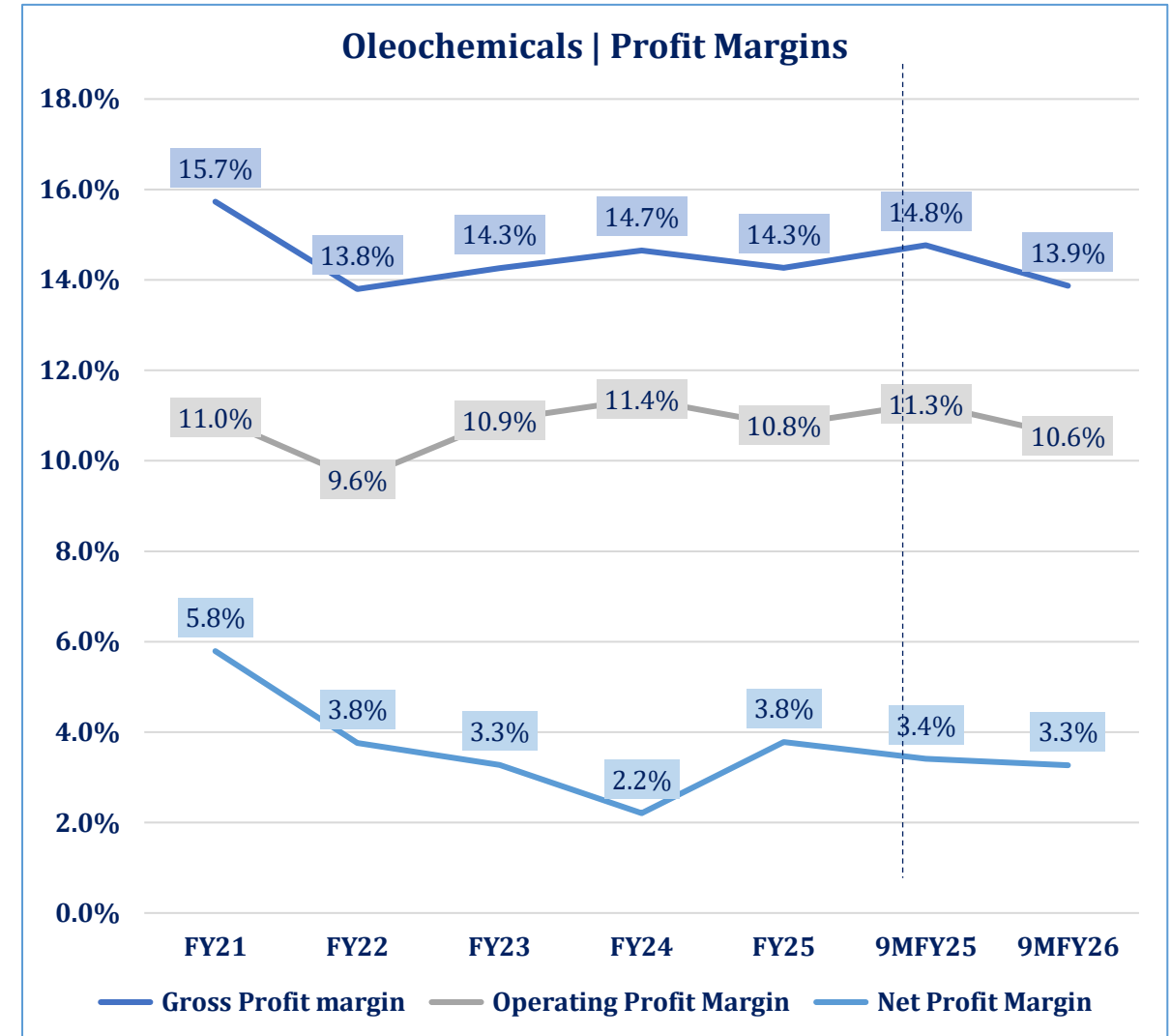


Note: Data is based on 2 PACRA-rated/ listed Sector players. *Soaps & Detergents also include toilet soaps, while data is representative of LSM QIM.

Chemicals

Oleochemicals | Margins

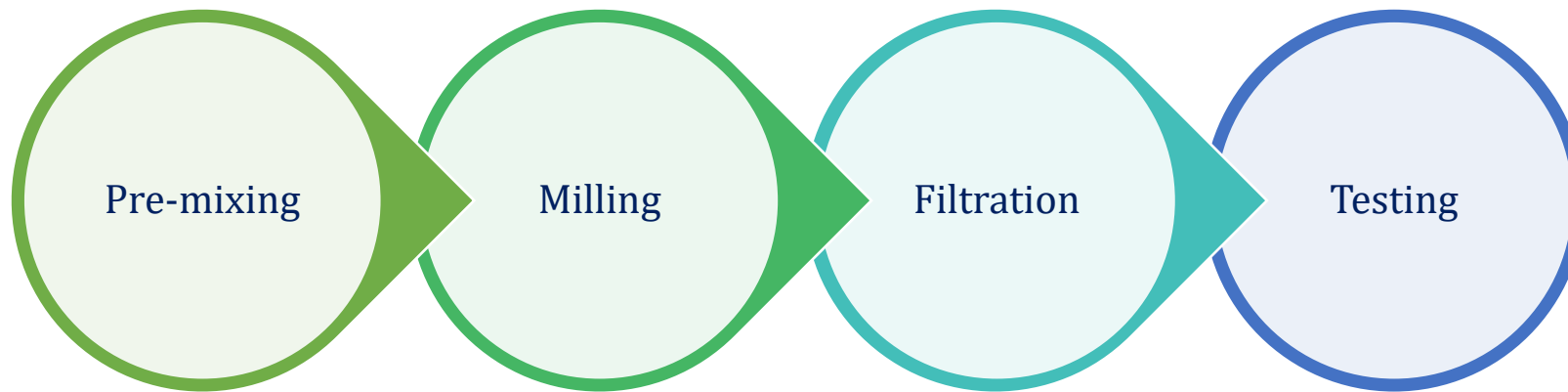
- Gross profit margin declined to ~13.9% in 9MFY26 from ~14.8% in 9MFY25, mainly due to raw material costs rising by ~8.3%, outpacing sales growth of ~6.0%. Energy costs increased in line with sales, while other cost of sales items remained largely stable, making raw materials the primary driver of margin compression.
- Operating profit margin fell to ~10.6% from ~11.3%, primarily due to lower gross margins, as operating expenses stayed relatively constant.
- Net profit margin eased only slightly to ~3.3% from ~3.4%. Although higher taxation weighed on earnings, a ~19.2% decline in finance costs largely offset the weaker operating performance, allowing net profit to increase marginally by ~1.5%.
- Oleochemical producers require high working capital because they import large volumes of feedstocks such as palm oil, palm kernel oil, coconut oil, and tallow.. Since feedstock prices are volatile and influenced by crude oil and biodiesel markets, companies often need additional short-term borrowing to finance inventory and imports. This results in relatively higher finance costs and consequently, thin net margins.



Chemicals

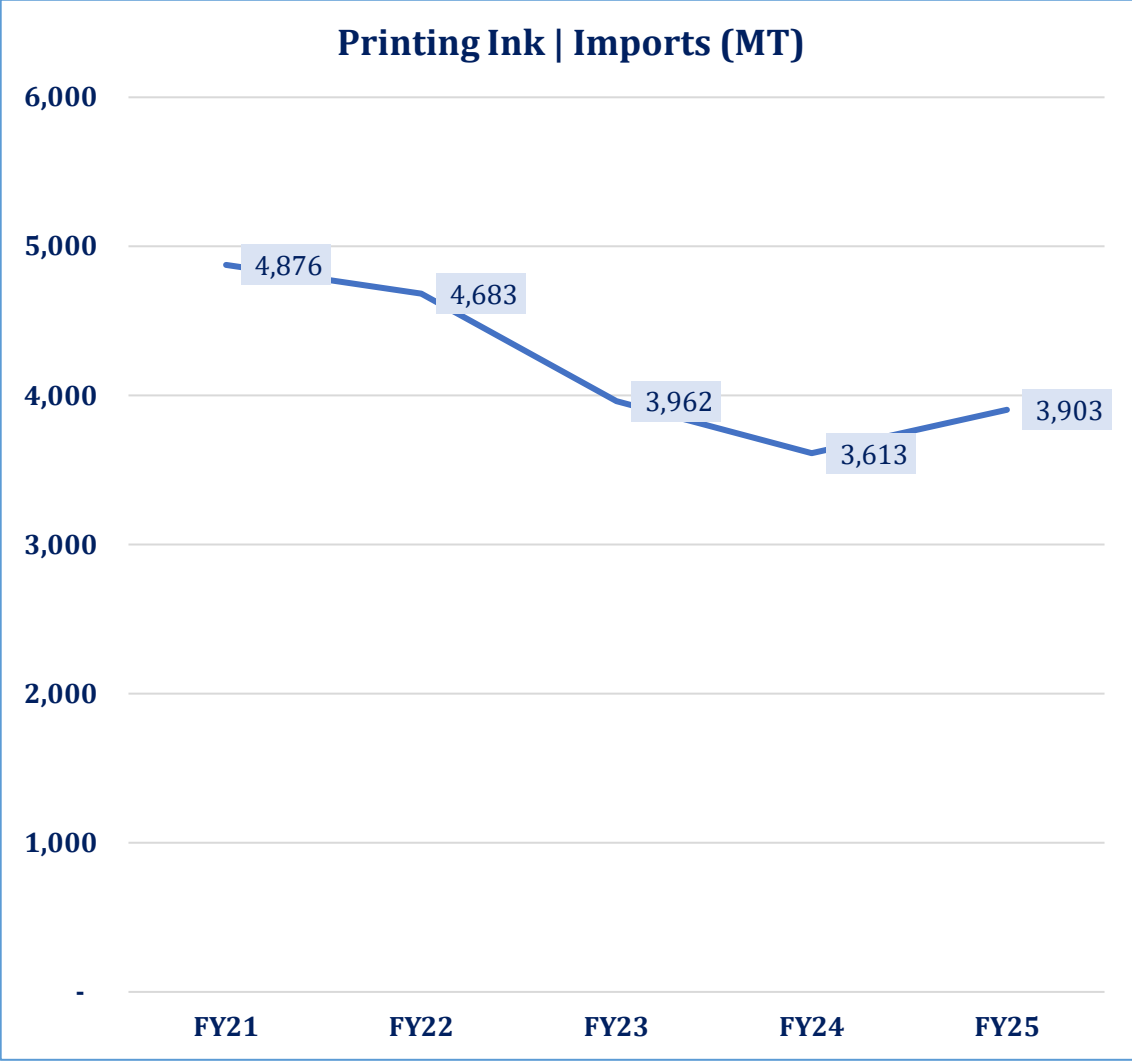
Printing Ink | Production Process

- **Premixing:** The addition of ingredients like pigments, waxes and driers is done at this stage.
- **Milling:** The ink is forced into the chamber and the rotating disks move the metal pellets through the ink, breaking the pigment down.
- **Filtration:** After milling, ink may be put through a series of filtration steps to remove any oversized particles.
- **Testing:** The finished ink can be tested for a wide variety of properties. Those particularly, tack, fineness of grind (pigment particle size), and water pickup (emulsification rate).



Printing Ink | Demand and Supply

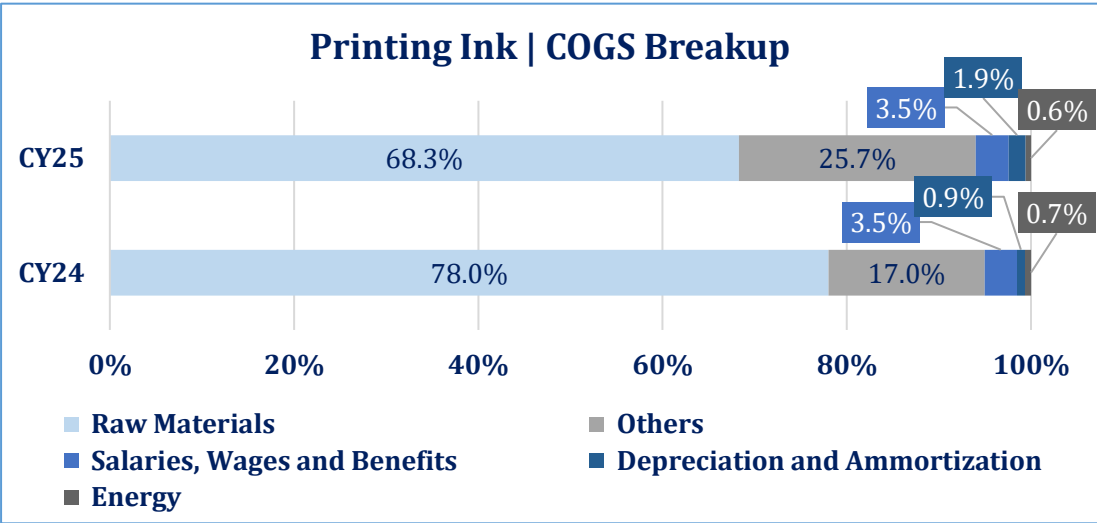
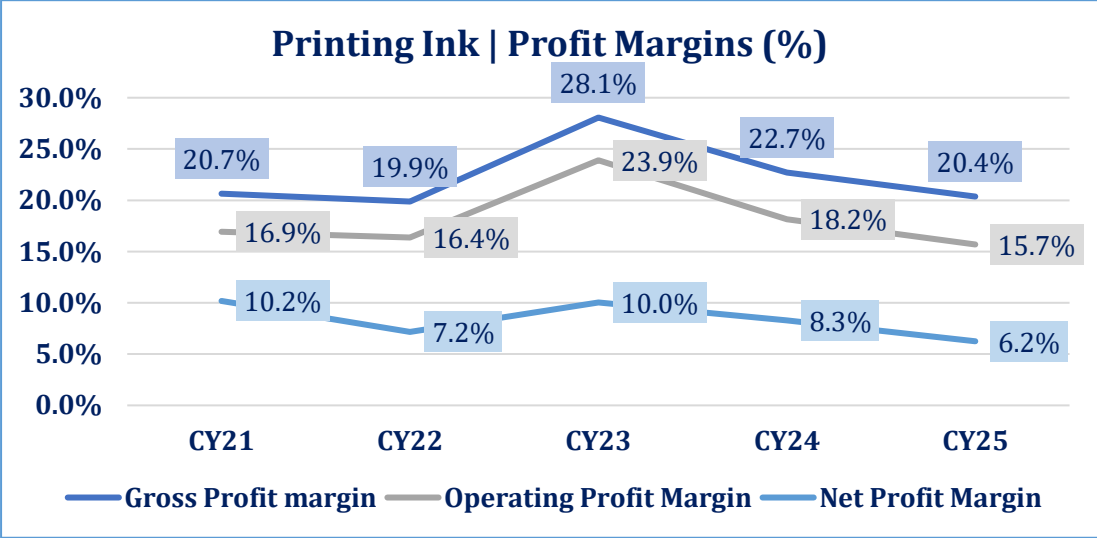
- Printing Ink is used by both direct consumers for personal printers as well as commercial users for packaging and branding purposes. Therefore, the use of printing ink is spread across a diverse range of sectors.
- Pakistan's printing ink imports increased to ~3,903MT in FY25 from ~3,613MT in FY24, up ~8.0% YoY (~290MT), marking the first increase after three consecutive years of decline. However, import volumes remained ~19.9% below FY21 levels, indicating that demand is still recovering rather than returning to previous highs.
- The increase was supported by improving macroeconomic conditions, as lower interest rates, easing inflation, and relaxed import financing constraints made it easier for businesses to import raw materials. At the same time, demand from key end-use industries such as food & beverage, pharmaceuticals, and other packaging-related sectors continued to improve, boosting the need for printing inks. Overall, the FY25 recovery reflects improving business conditions and gradually strengthening demand rather than a major structural change in the industry.



Chemicals

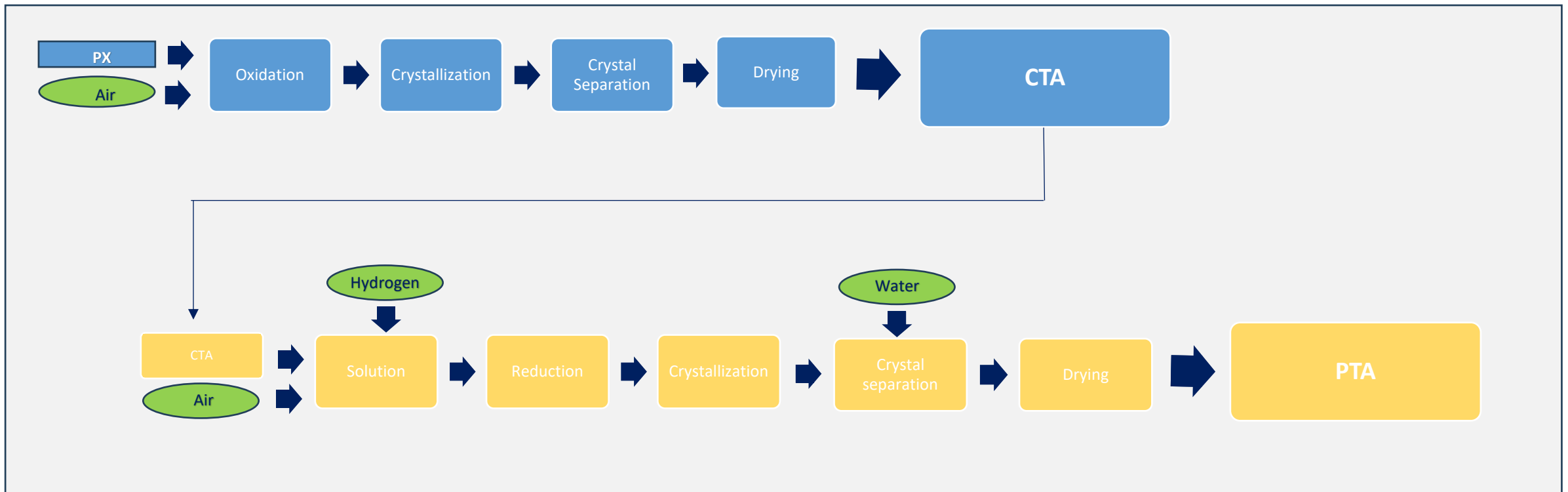
Printing Ink | Margins

- Printing Ink margins weakened across all levels in CY25. Gross margin declined to ~20.4% from ~22.7% in CY24, operating margin fell to ~15.7% from ~18.2%, while net margin contracted to ~6.2% from ~8.3%.
- The decline in gross margin came despite sales increasing by ~5.7%, as cost of goods sold grew faster (~8.9%). Although raw material costs declined, this benefit was more than offset by a sharp rise in other cost of sales items, higher depreciation and amortization, and increased employee costs.
- Operating margin came under further pressure as operating expenses increased by ~8.0%, reducing operating profit despite higher revenue.
- Net margin declined further due to a significant increase in non-operating expenses, which more than doubled during the year. While finance costs remained broadly stable and taxation declined in absolute terms, these factors were insufficient to offset the weaker operating performance, resulting in a decline in net profit.
- The CY25 cost breakup shows a clear shift away from raw materials, which fell from ~78.0% to ~68.3% of COGS, mainly as manufacturers sold more resale goods alongside their own manufactured ink. The Others category, which rose from ~17.0% to ~25.7%, driven by resale purchase costs, higher outsourced labor, and increased unsold stocks. Depreciation also rose, from ~0.9% to ~1.9%, reflecting the year's higher capital spending on plant and buildings.



Purified Terephthalic Acid (PTA) | Production Process

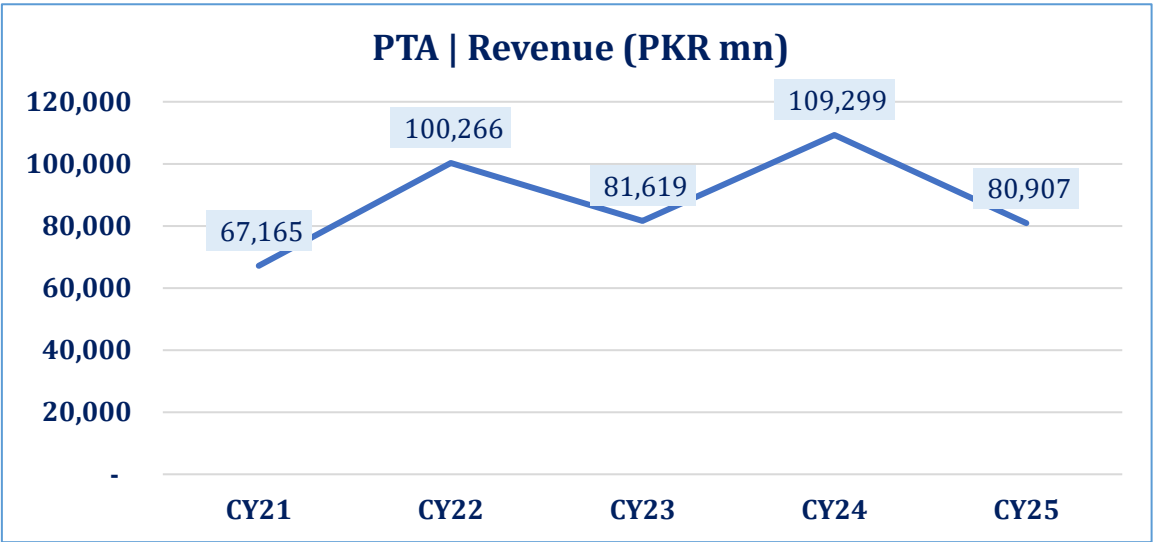
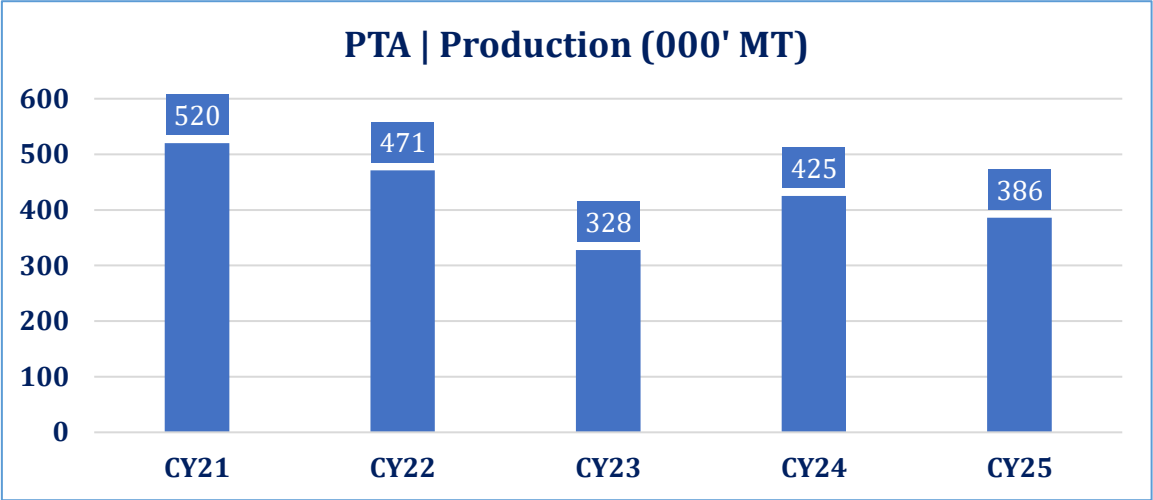
- The process of producing Purified Terephthalic Acid (PTA) is divided into two stages. The first stage is oxidation where Paraxylene (PX) is oxidized in acetic acid with a catalyst and air to produce Crude Terephthalic Acid (CTA). This is then crystallized and dried.
- Next is the purification stage in which the CTA is re-dissolved in hot water, the impurities are then removed through hydrogenation and the end product PTA is acquired. It is then again crystallized and dried for maximum purity.



Chemicals

Purified Terephthalic Acid (PTA) | Demand and Supply

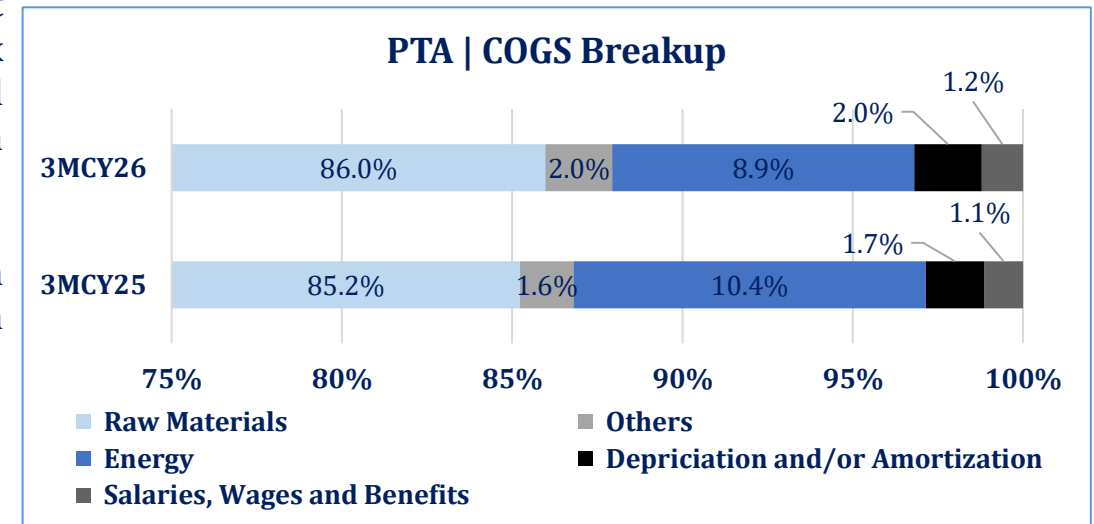
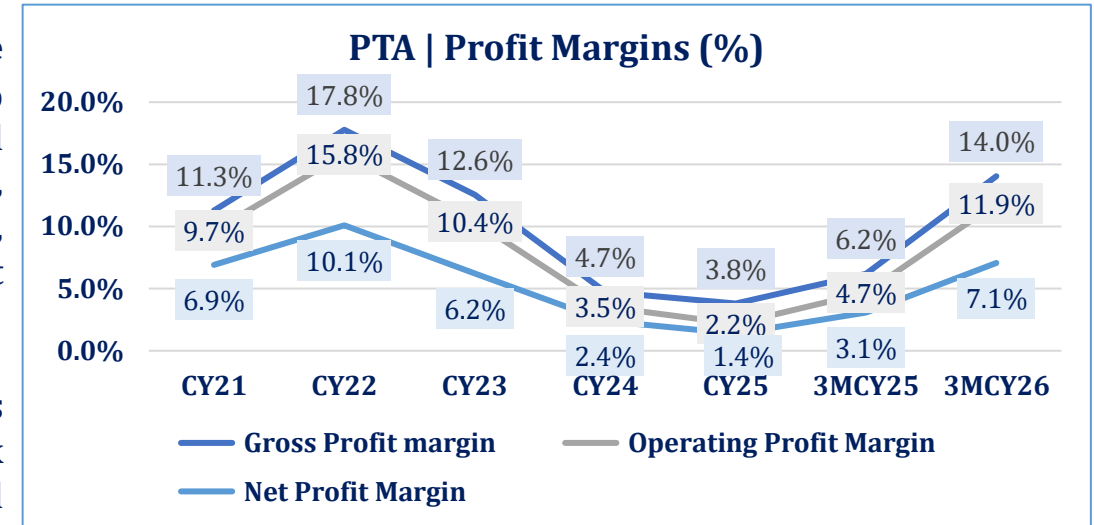
- Lotte Chemical Pakistan Limited is the sole producer of PTA in Pakistan, operating entirely out of its Port Qasim facility in Karachi, boasts an annual production capacity of approximately ~506,750MT as of FY25. PTA is mostly utilized for producing polyester staple fiber, polyester filament yarn (used in textiles) and Polyethylene Terephthalate (PET). The main raw material for PTA is Paraxylene (PX) which is derived from crude oil, so its price is very much dependent on the crude oil prices in the market.
- In March 2026, Lotte Chemical Pakistan submitted a non-binding offer to acquire Engro Corporation's 56.19% stake in EPCL, Pakistan's leading PVC and caustic soda producer. The deal is still under negotiation; however, it's finalization will lead to Lotte Chemical becoming a larger and more diversified chemical group by adding PVC and caustic soda to its portfolio.
- CY25 was weaker than CY24 in both production and revenue. Production declined by ~9% to ~386,000 MT from ~425,000 MT, while revenue fell more sharply by ~26% to PKR~80,907mn from PKR~109,299mn. As revenue declined much faster than production, the slowdown was likely driven mainly by lower PTA prices rather than lower sales volumes.



Chemicals

Purified Terephthalic Acid (PTA) | Margins

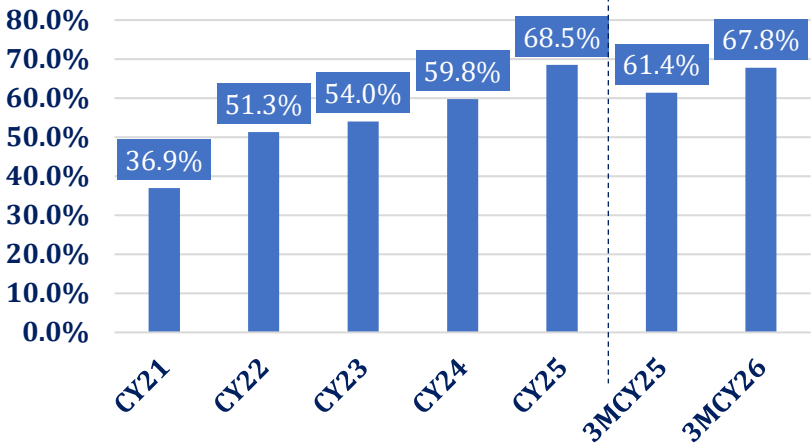
- The PTA Segment's profitability improved significantly in 3MCY26, reversing the weaker margins seen over the past two years. Gross margin increased to ~14.0% from ~6.2% in 3MCY25, while operating margin rose to ~11.9% from ~4.7% and net margin improved to ~7.1% from ~3.1%. Despite sales remaining broadly flat, gross profit went up by ~120%. Operating profit also more than doubled, increasing by ~147%, while net income increased by ~123 %. The improvement was primarily driven by lower production costs rather than stronger sales.
- The margin recovery was largely driven by inventory gains as paraxylene prices increased during the quarter. This improvement came despite continued feedstock supply challenges, as Lotte Chemical's Kuwait supply arrangement remained under force majeure, requiring paraxylene to be sourced from Oman on the spot market. Production in CY26 is expected to remain constrained by feedstock availability. Meanwhile, Pakistan's total PTA demand stood at around ~750,000MT in 2025, with the balance of domestic requirements met through imports.
- Raw materials (paraxylene) continued to accounted for ~86.0% of COGS in 3MCY26 (3MCY25: ~85.2%) , while energy costs eased to ~8.9% of COGS from ~10.4%.



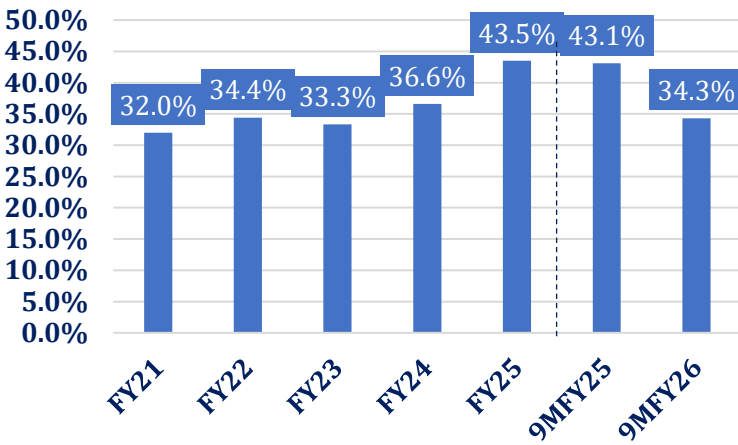
Chemicals

Financial Risk | Leverage

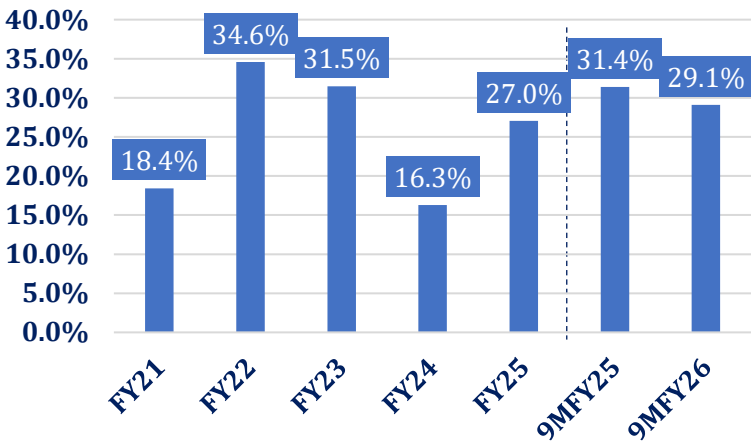
PVC | Leverage (%)



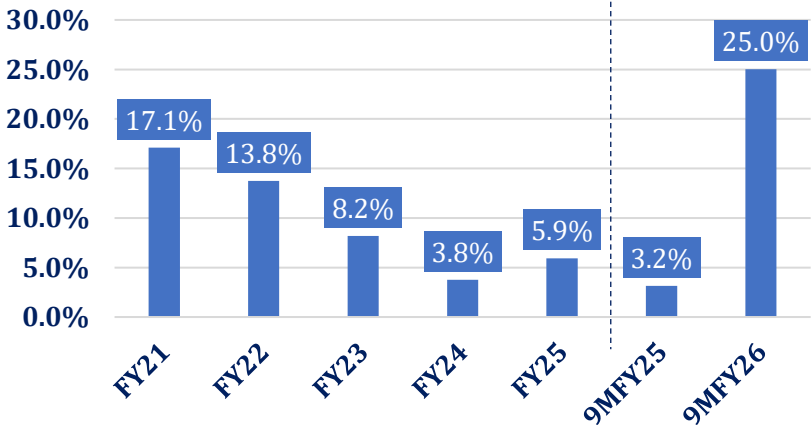
Caustic Soda | Leverage (%)



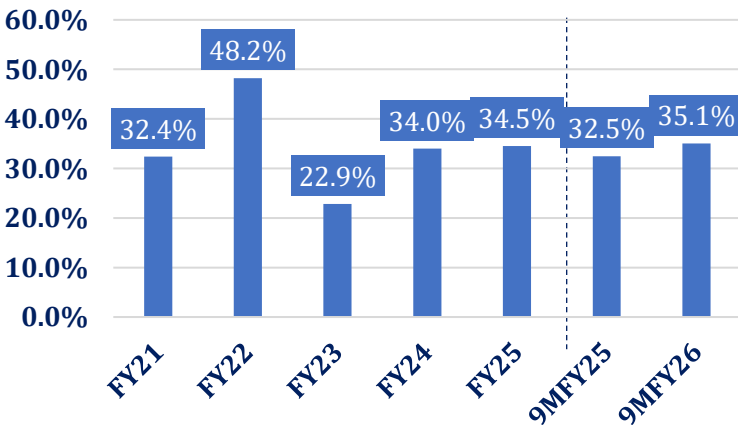
Soda Ash | Leverage (%)



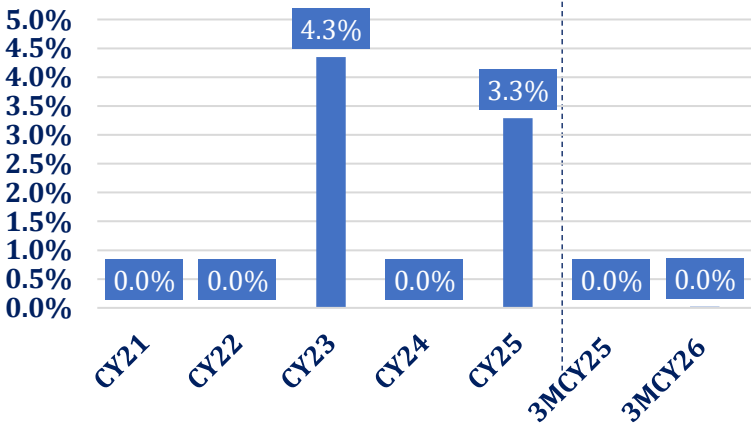
HPO | Leverage (%)



Resins | Leverage (%)



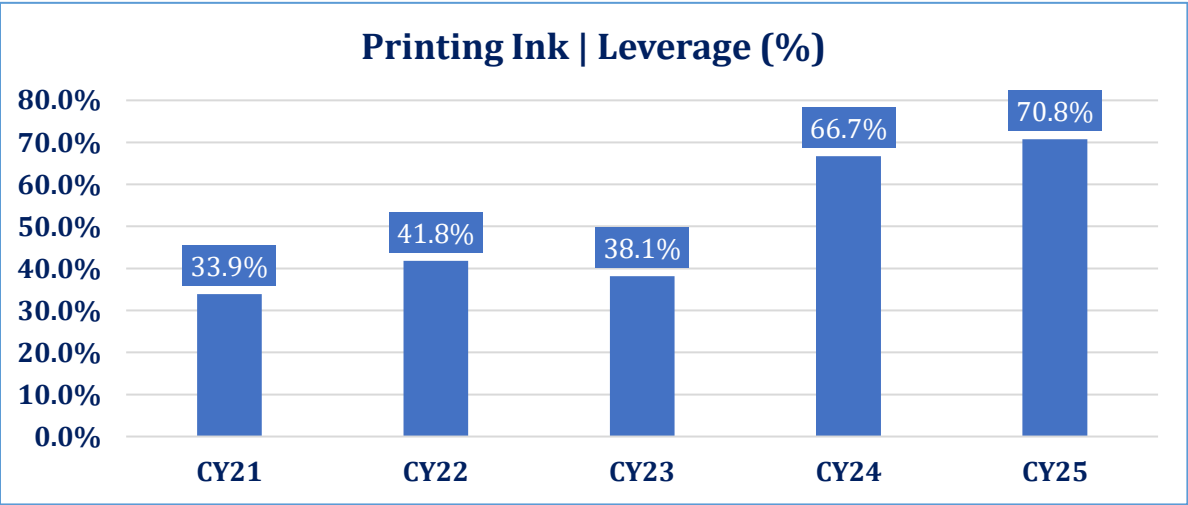
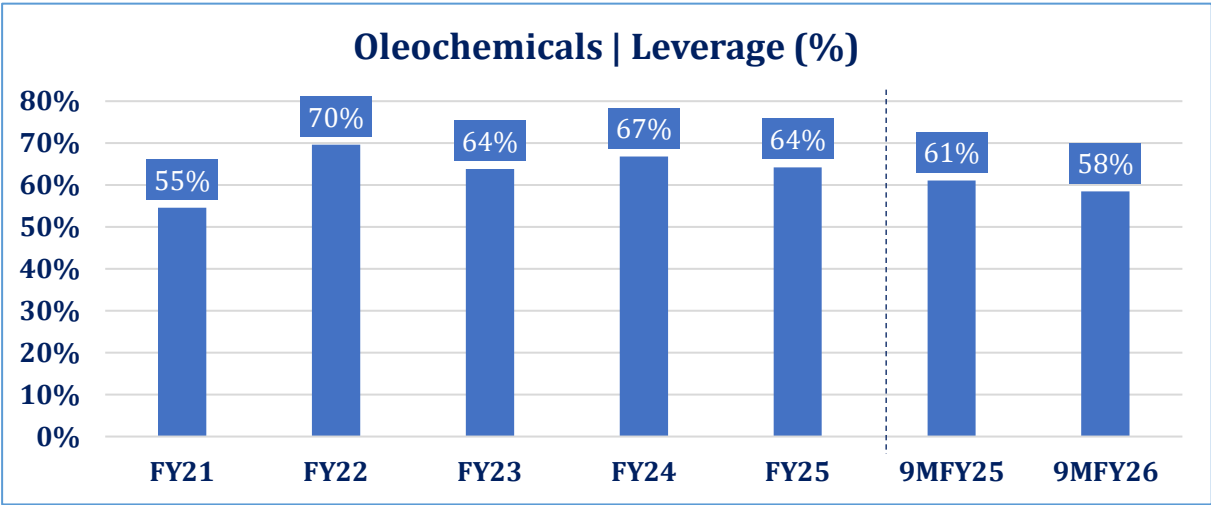
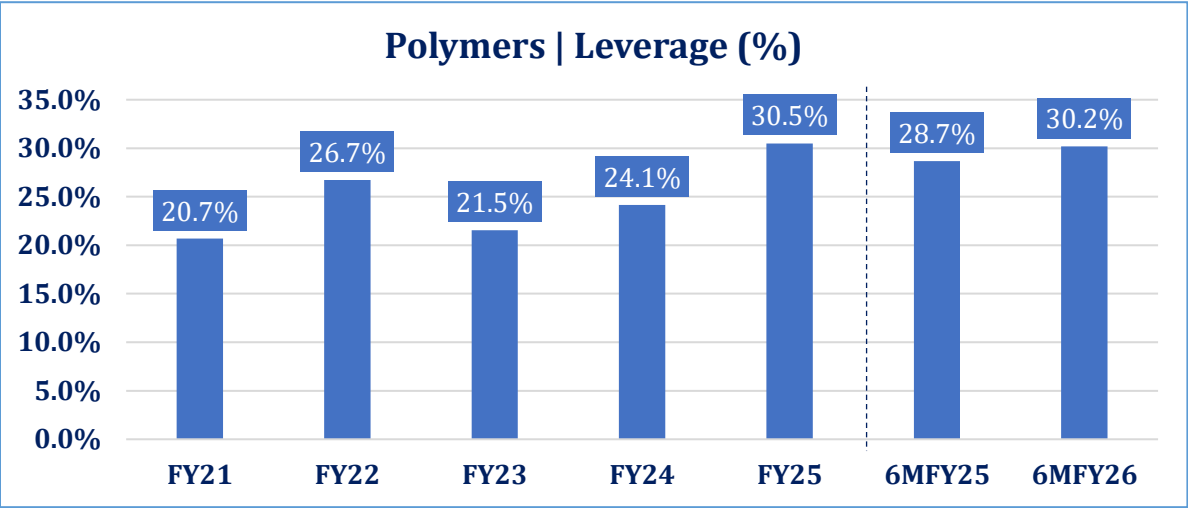
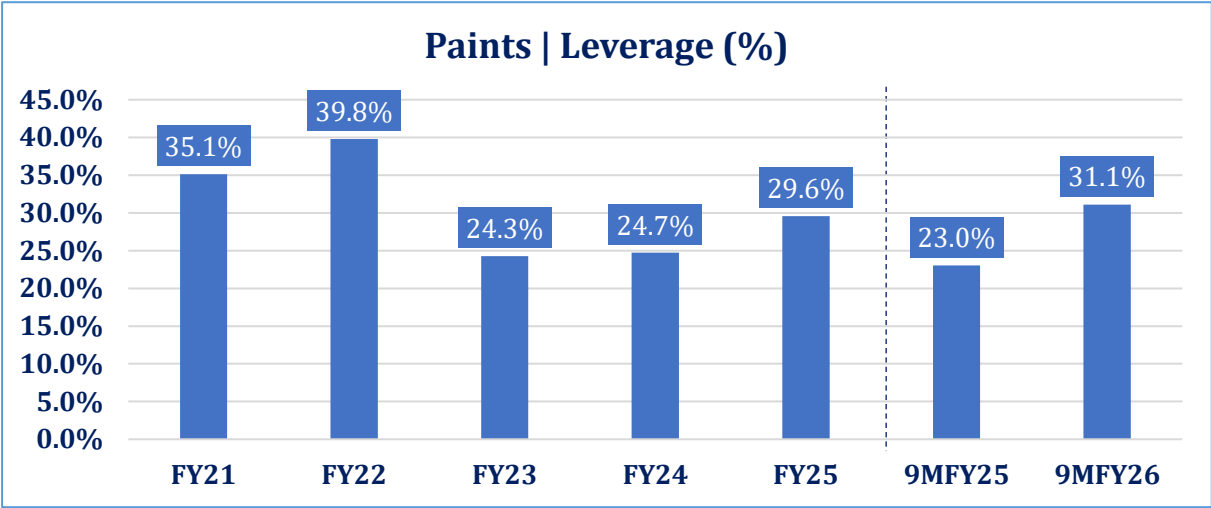
PTA | Leverage (%)



Note: Data is based on 14 PACRA-rated/ listed Sector player.

Chemicals

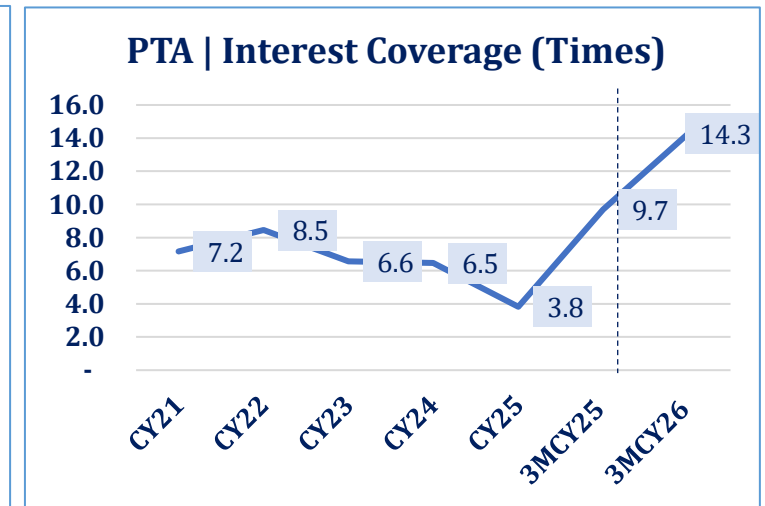
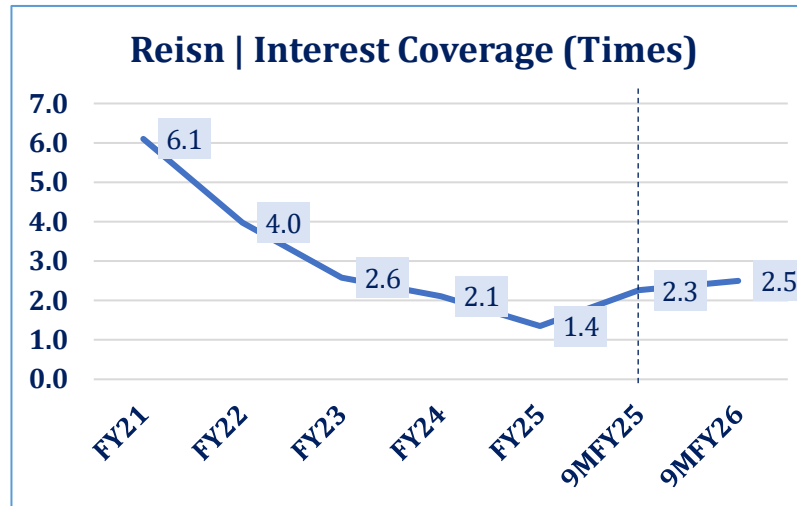
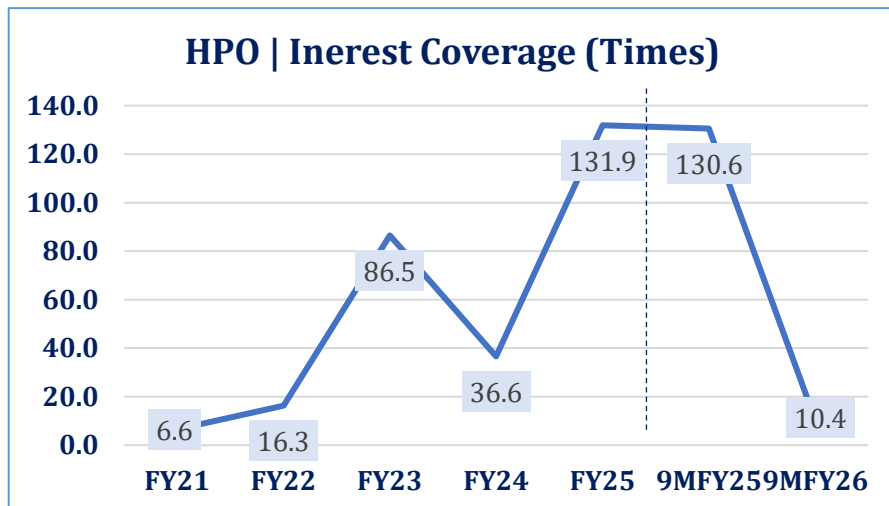
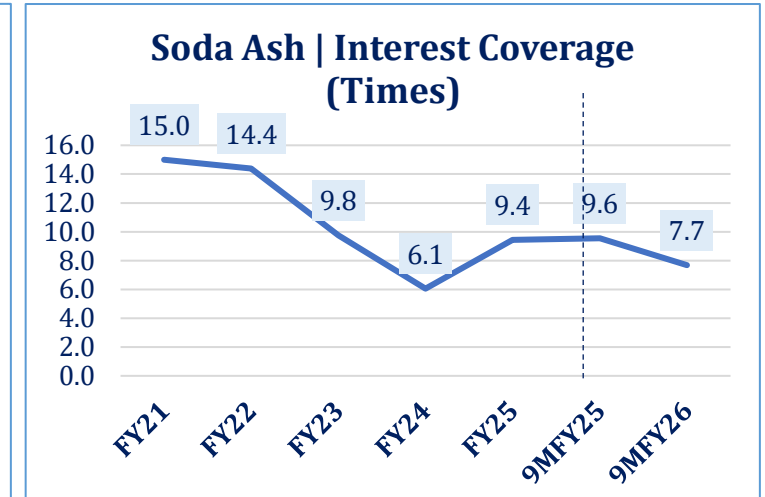
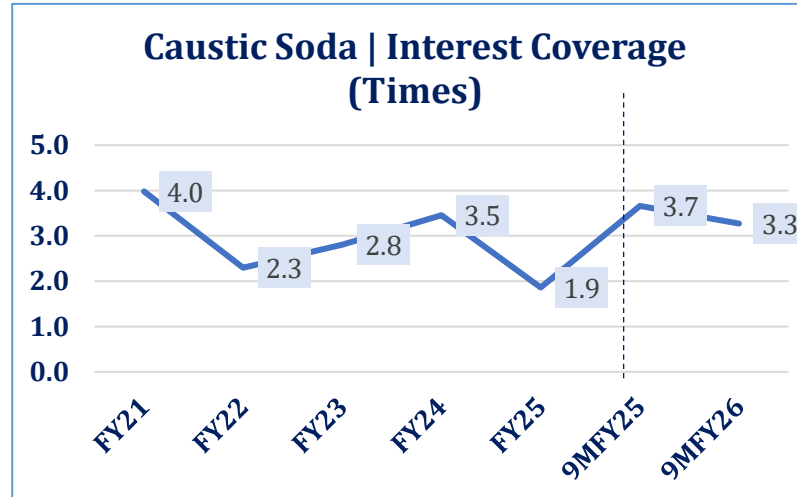
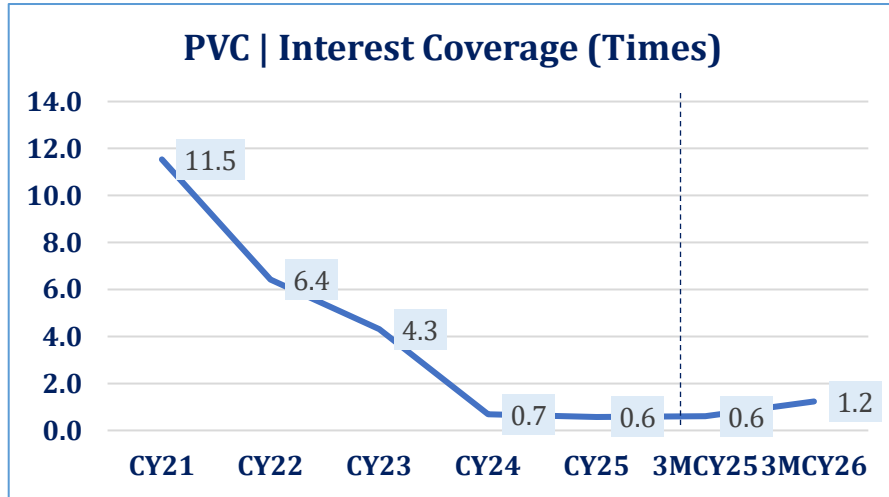
Financial Risk | Leverage



Note: Data is based on 14 PACRA-rated/ listed Sector players.

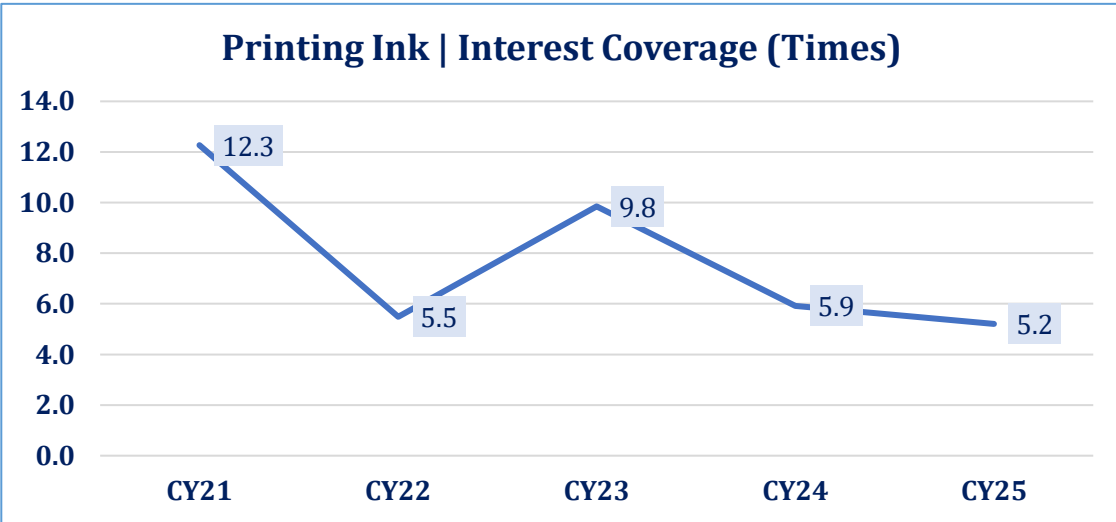
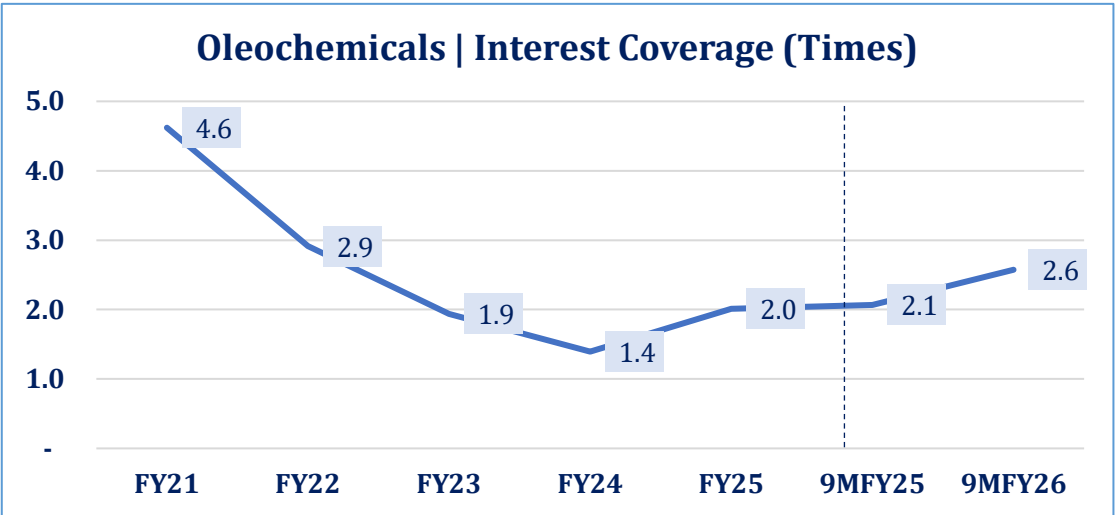
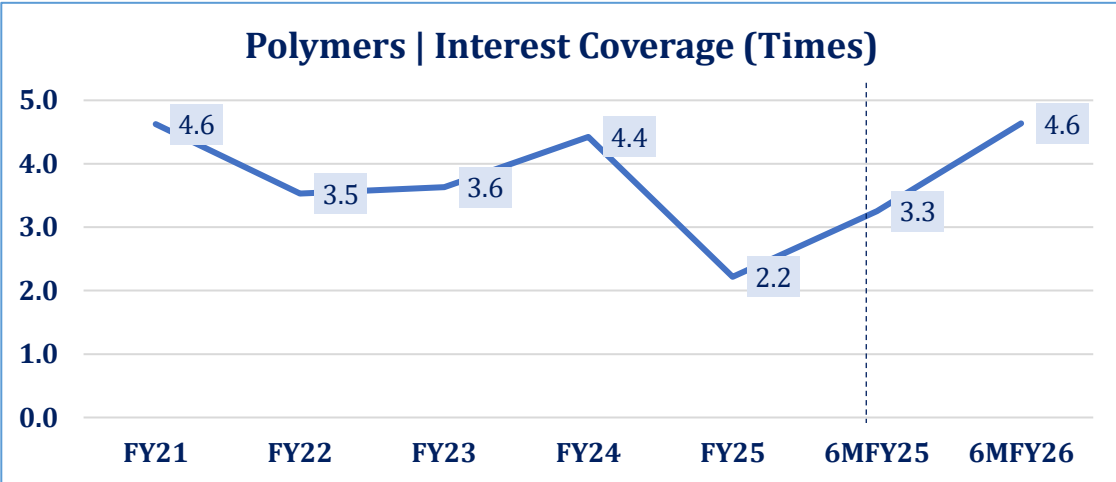
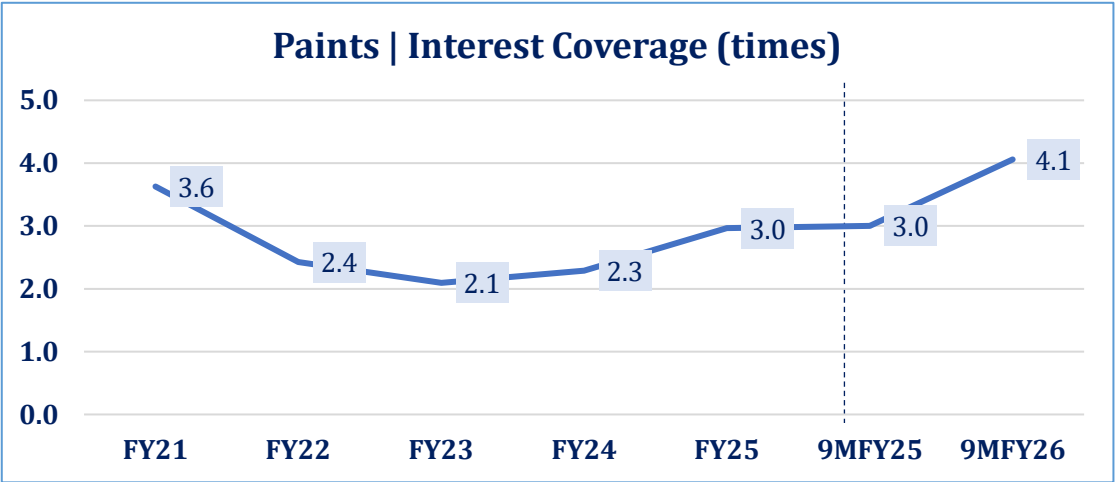
Chemicals

Financial Risk | Coverages



Chemicals

Financial Risk | Coverages

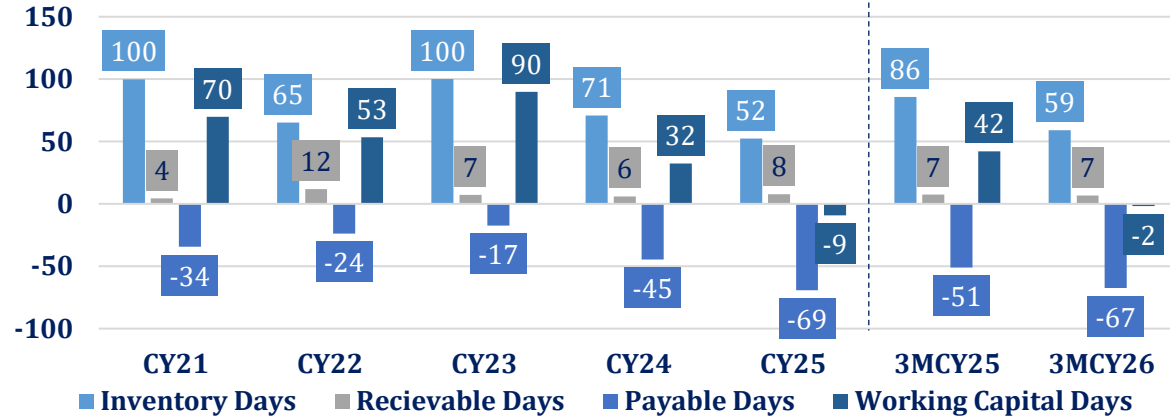


Note: Data is based on 14 PACRA-rated/ listed Sector players.

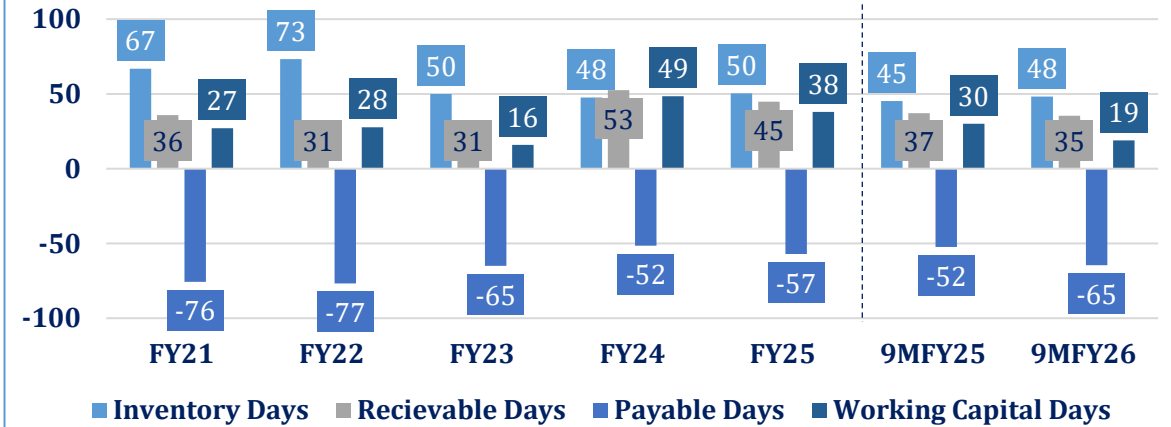
Chemicals

Financial Risk | Working Capital Management

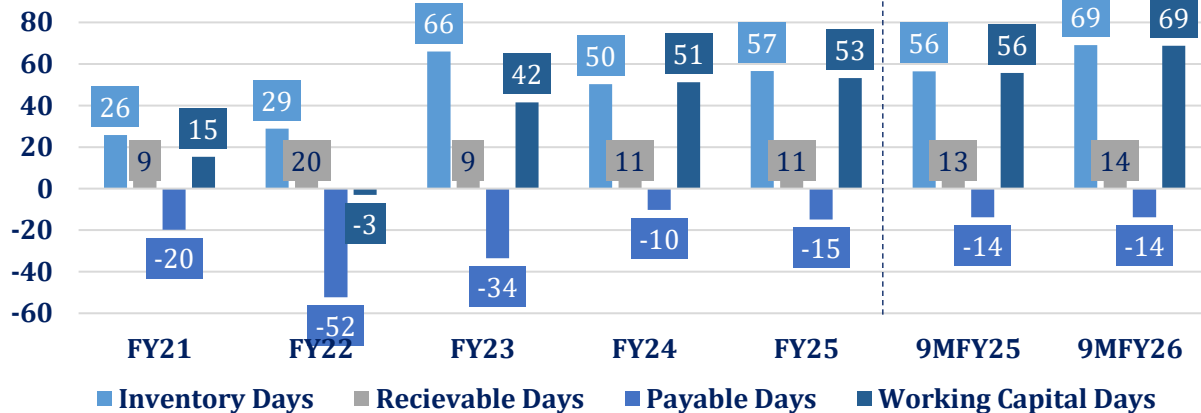
PVC | Working Capital (Days)



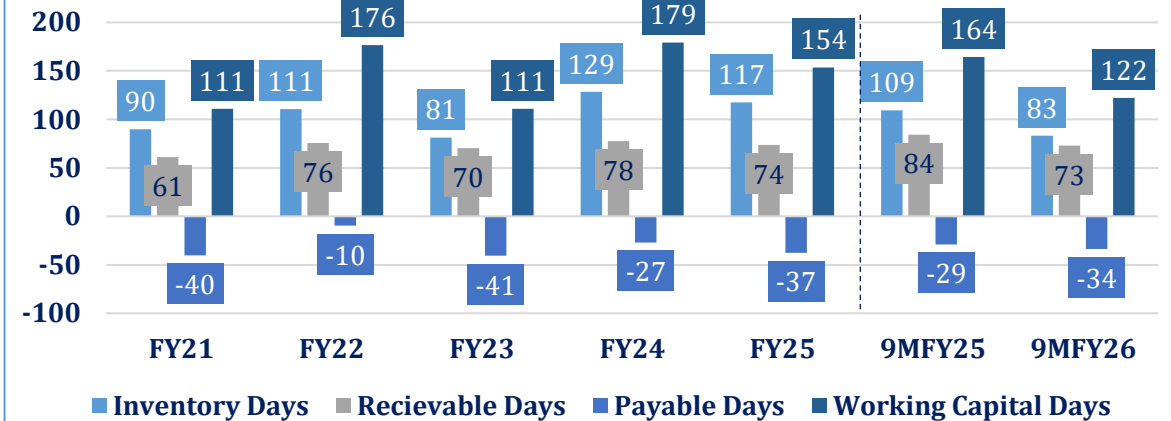
Caustic Soda | Working Capital (Days)



HPO | Working Capital (Days)

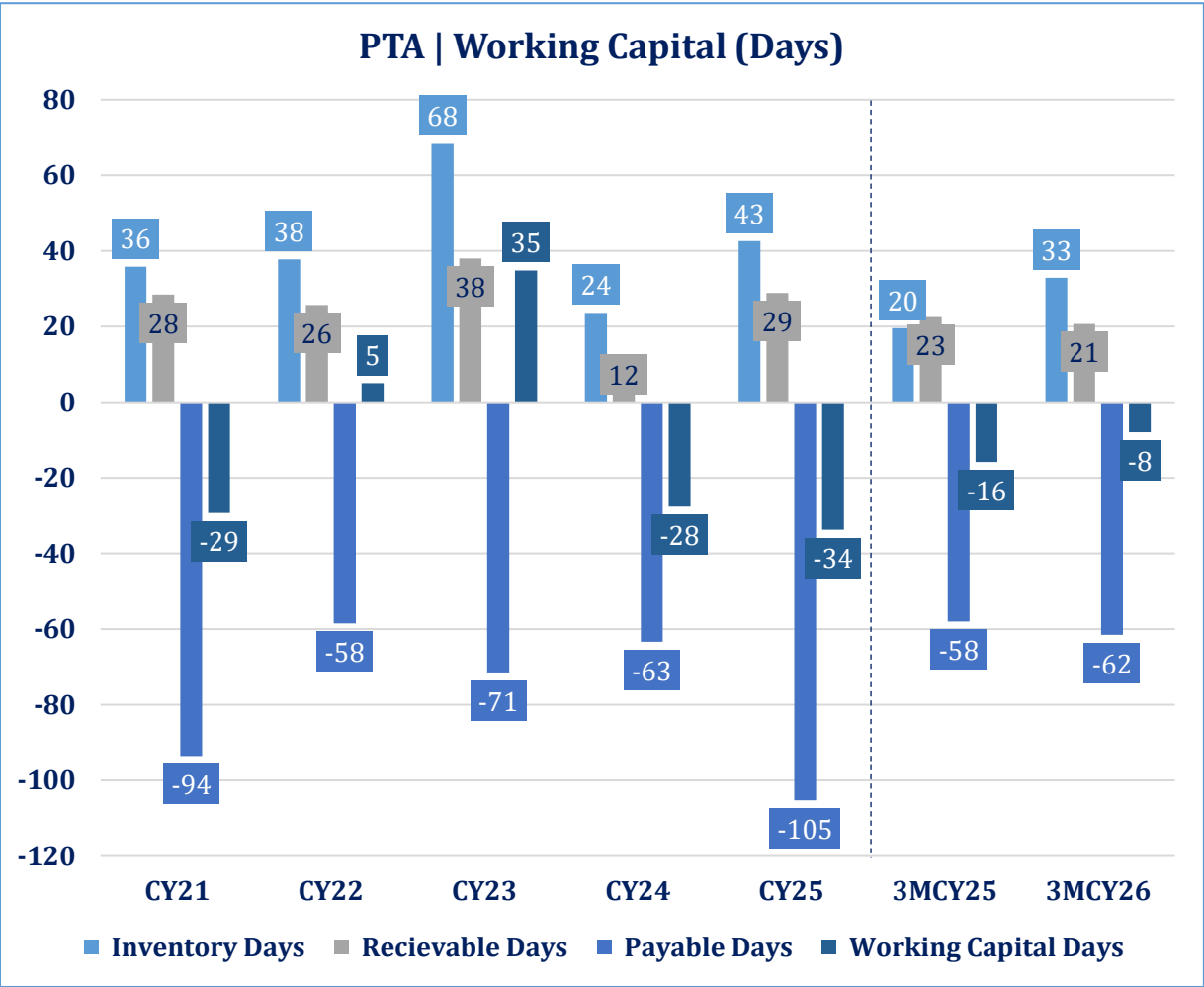
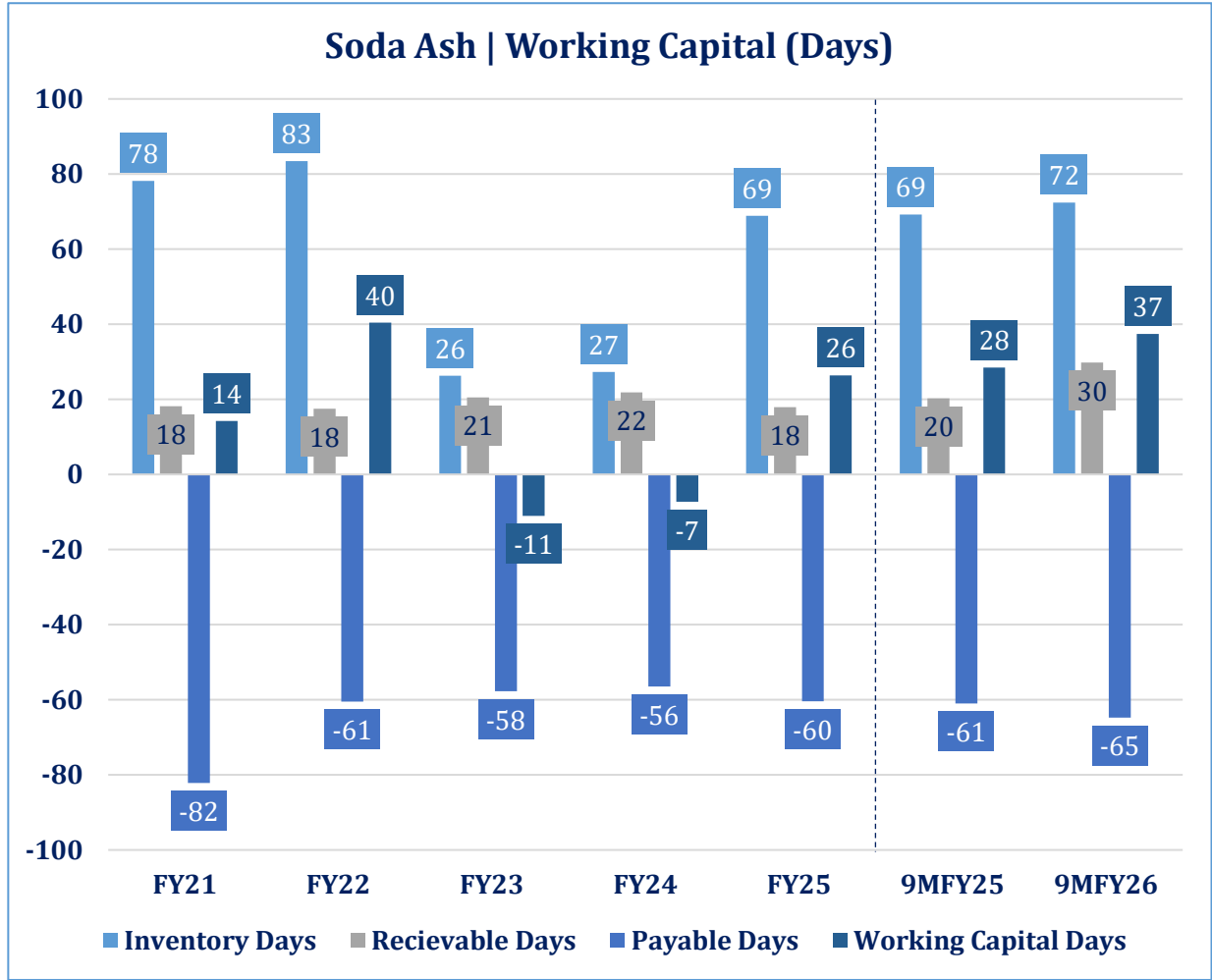


Resins | Working Capital (Days)



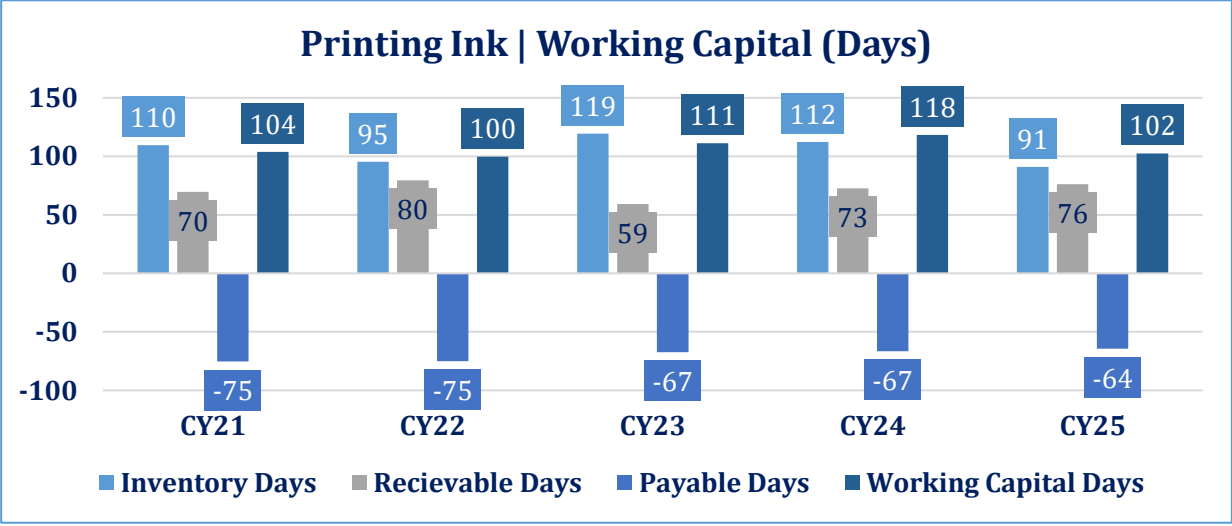
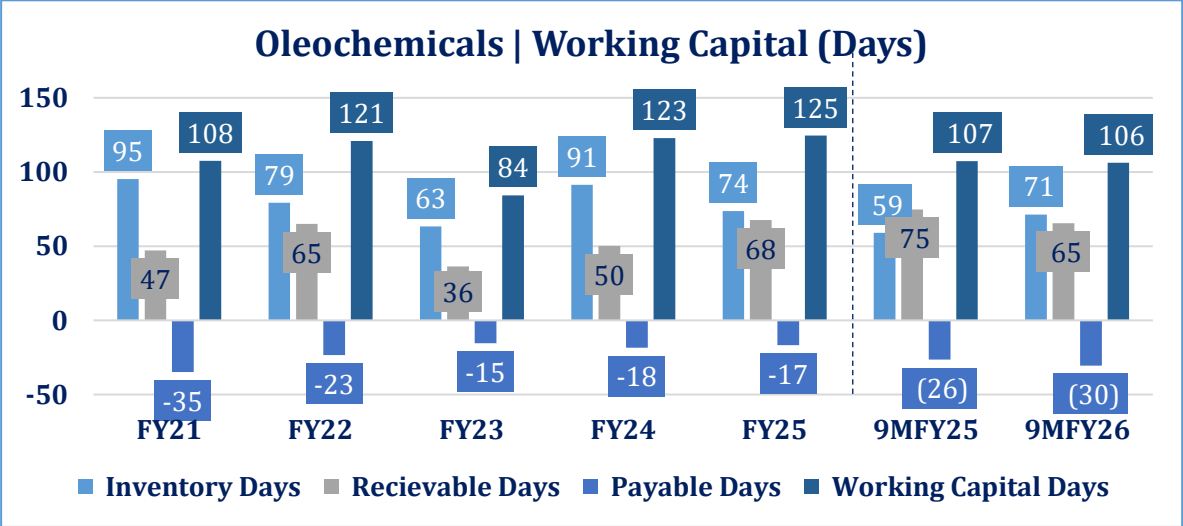
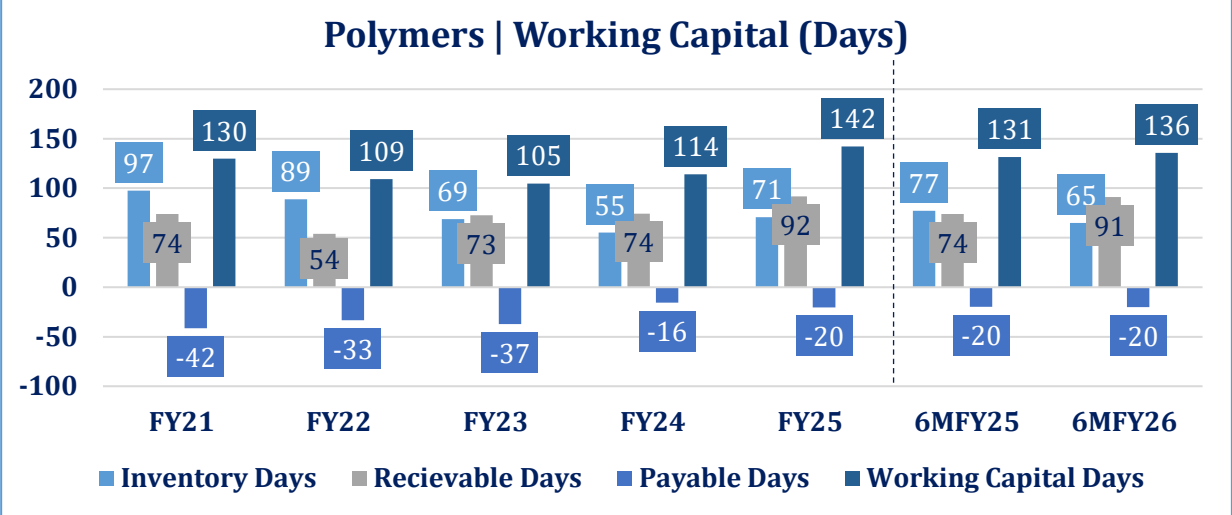
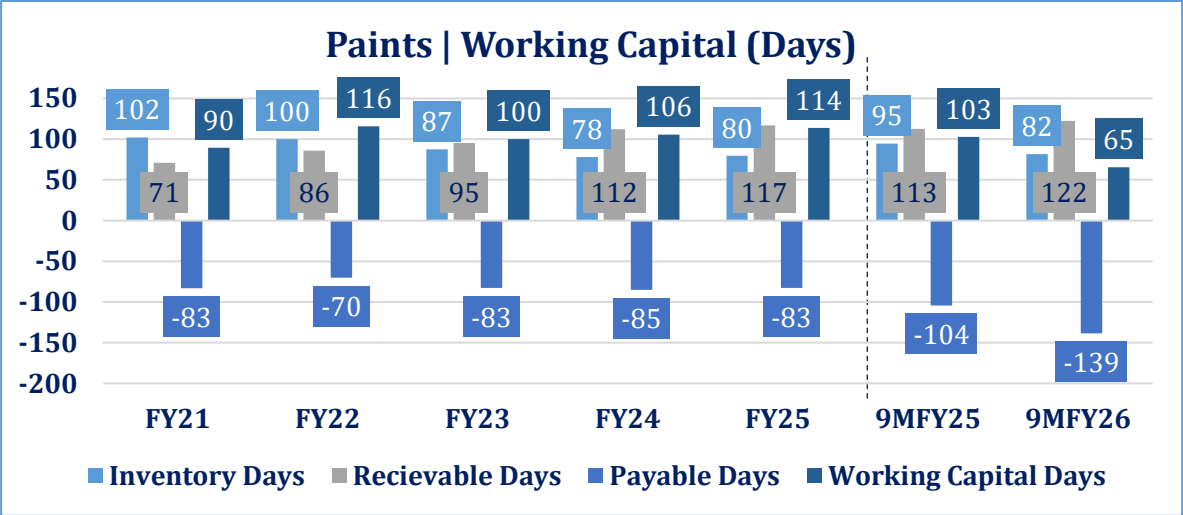
Chemicals

Financial Risk | Working Capital Management



Chemicals

Financial Risk | Working Capital Management

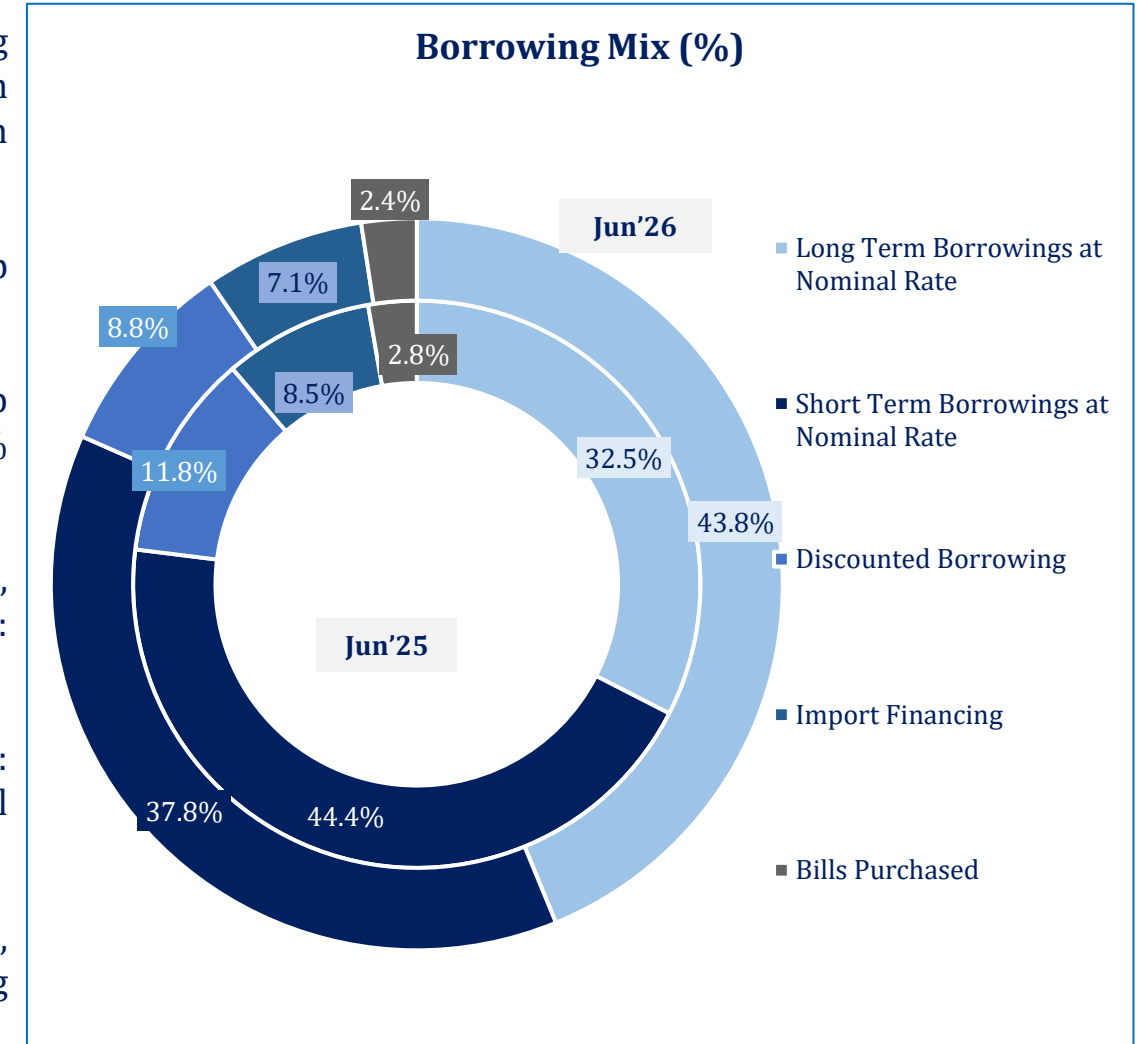


Note: Data is based on 14 PACRA-rated/ listed Sector players.

Chemicals

Financial Risk | Borrowing Mix

- The sector's borrowing mix is well-balanced, reflecting the diverse financing needs across sub-segments. While capital-intensive segments rely on long-term borrowings to fund expansion and capacity enhancement, others depend on short-term borrowings to meet working capital requirements.
- As of End-Jun'26, the Sector's overall borrowings stood at PKR~867.4bn, up ~30.7% YoY (End-Jun'25: PKR ~663.8bn).
- Short-term borrowings (STBs) at nominal rate stood at PKR~328.1bn, up ~11.2% YoY, and held the largest share in the Sector's borrowing mix at ~43.8% (End-Jun'25: ~32.5%).
- Long-term borrowings (LTBs) at nominal rate stood at PKR~379.9bn, up~75.9% YoY and held a share of ~37.8% in overall borrowings (End-Jun'25: ~44.4%).
- Discounted borrowing (LTFF & EFS) stood at PKR~76.7bn (End-Jun'25: PKR~78.2bn), down ~1.9% YoY and held a share of ~8.8% in the overall borrowing mix (End-Jun'25: ~11.8%).
- Meanwhile, import financing stood at PKR~61.6bn (End-Jun'25: PKR~56.5bn), up ~9.1% YoY as of End-Jun'26, and held ~7.1% share in the total borrowing mix during the period (End-Jun'25: ~8.5%).
- Bills Purchased stood at PKR~10.3bn (End-Jun'25: PKR~10.3bn), up ~0.0% YoY and held a share of ~2.4% in the overall borrowing mix (End-Jun'25: ~2.8%).



Chemicals

Duty Structure

HS Code	Description	Customs Duty		Additional Customs Duty	Income Tax		Sales Tax		Regulatory Duty
		FY26	FY27	FY27	FY26	FY27	FY26	FY27	FY27
3904.22	Polyvinyl Chloride (Plasticized)	15%	15%	0%	12%	12%	18%	18%	0%
3904.21	Polyvinyl Chloride (Non-Plasticized)	10%	10%	0%	12%	12%	18%	18%	0%
3904.109	Polyvinyl Chloride (Others)	10%	10%	0%	12%	12%	18%	18%	0%
2815.11	Caustic Soda Solid	20%	15%	2%	12%	12%	18%	18%	0%
2847	Hydrogen Peroxide, whether or not Solidified with Urea	10%	10%	0%	12%	12%	18%	18%	2%
3903.909	Polymer (Others)	10%	10%	0%	12%	12%	18%	18%	0%
3208.201	Paints	15%	15%	0%	12%	12%	18%	18%	0%
3208.9011	Paints (Varnishes)	10%	10%	0%	12%	12%	18%	18%	4%
3208.902	Paints (Other)	20%	20%	2%	12%	12%	18%	18%	4%
3215.192	Digital Printing Ink	20%	20%	2%	12%	12%	18%	18%	0%
3215.193	Other Processed Printing Ink	20%	20%	2%	12%	12%	18%	18%	0%
3215.199	Printing Ink (Other)	20%	20%	2%	12%	12%	18%	18%	0%
3215.119	Printing Ink (Black)	20%	20%	2%	12%	12%	18%	18%	0%

Chemicals

SWOT Analysis

- Steadily increasing demand.
- Local availability of raw materials.
- Ability to pass on increased cost of production.

- Highly competitive.
- Exchange rate exposure.
- New entry of players.
- Volatility in energy cost.
- Middle East supply disruptions



- Reliance on imported power source such as Oil, gas, coal.
- Exposure to exchange rate volatility.
- Shortage of locally available materials PVC, Polymer.

- Low per capita consumption
- Export market to neighboring countries
- Room for research and development
- CPEC Phase II demand

Chemicals

Porter's 5 Forces



Potential New Entry

Purchasing Power

Substitutes

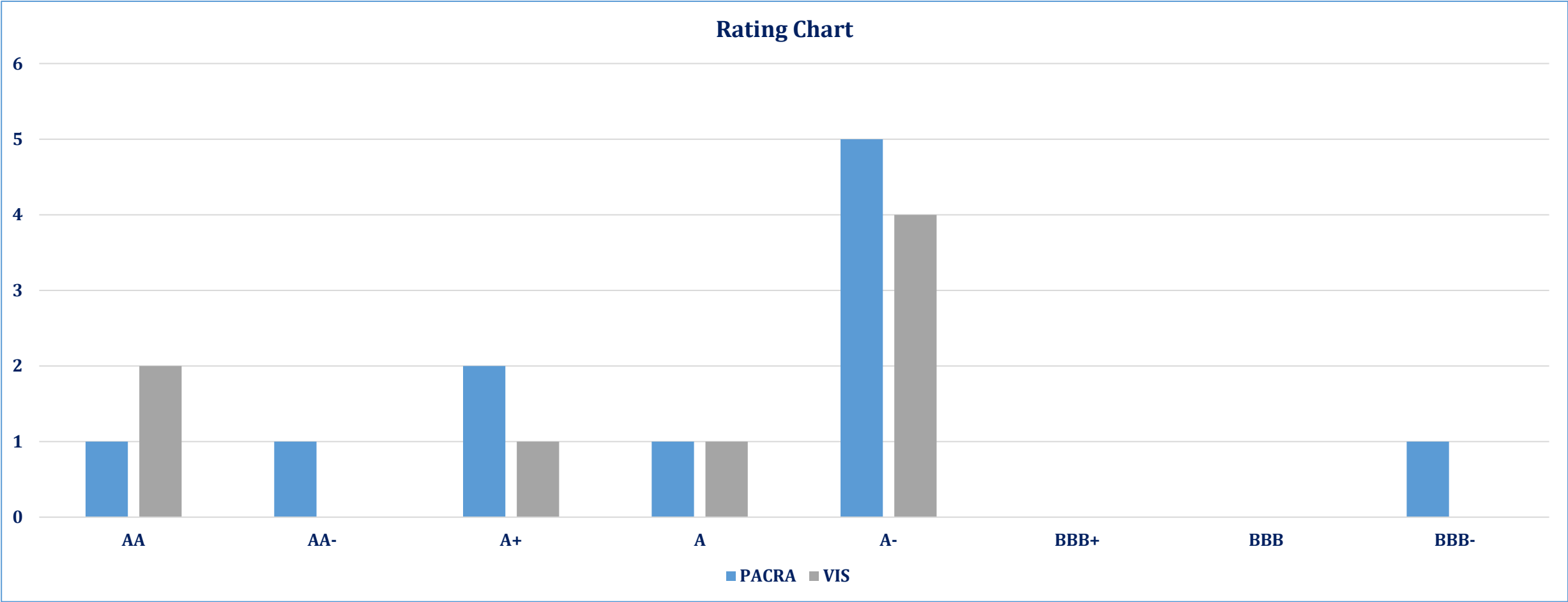
Supplier Power

Competitive Rivalry

- | | | | | |
|--|--|--|---|--|
| <ul style="list-style-type: none"> ▪ PVC Low Capital Intensive ▪ Caustic Soda Medium Abundant Raw material, Technical Process ▪ Soda Ash Low Capital Intensive, Technical Process ▪ HPO Medium Abundant raw material, Technical Process ▪ Resin High Local Availability of raw material, Simplicity of production process ▪ Paints Medium Big players ▪ Oleochemical Low Monopoly ▪ Polymer High ▪ Printing Ink Low ▪ PTA Low Monopoly | <ul style="list-style-type: none"> ▪ PVC Low Single Player ▪ Caustic Soda High Capacity greater than demand ▪ Soda Ash Low ▪ HPO Low Two Players ▪ Resin High Numerous small Players ▪ Paints High Variety ▪ Oleochemical High ▪ Polymer High ▪ Printing Ink Low ▪ PTA Low Single Player | <ul style="list-style-type: none"> ▪ PVC Low ▪ Caustic Soda High Multiple other products ▪ Soda Ash Medium Availability of other products ▪ HPO Medium ▪ Resin High ▪ Paints Low Expensive substitutes ▪ Oleochemical High Multiple products ▪ Polymer High Multiple products ▪ Printing Ink Low ▪ PTA Low | <ul style="list-style-type: none"> ▪ PVC High Imported raw material ▪ Caustic Soda Low Local availability of raw materials ▪ Soda Ash Low Local availability of raw materials ▪ HPO Low Local availability of raw materials ▪ Resin Low Easily available ▪ Paints Low ▪ Oleochemical High ▪ Polymer Low ▪ Printing Ink High ▪ PTA High Imported raw materials | <ul style="list-style-type: none"> ▪ PVC Low Single Producer ▪ Caustic Soda High Multiple Producers ▪ Soda Ash Low Two Players ▪ HPO Low Two Players ▪ Resin High Multiple producers ▪ Paints High ▪ Oleochemical Low One producer ▪ Polymer High ▪ Printing Ink Low Three major players ▪ PTA Low Single Producer |
|--|--|--|---|--|

Rating Curve

- PACRA rates 11 entities of the Chemical Sector. Rating bandwidth is from AA to BBB-.



Chemicals

Segment-wise Outlook

PVC: Stable

- The PVC segment maintained annual production capacity of ~295,000MT in CY25, with utilization edging down to ~78.0% (CY24: ~71.9%) as sales volumes recovered ~8.5% YoY to ~230,000 tons on the back of stronger construction and infrastructure activity. However, revenue grew only ~1.7% to ~PKR 62.2bn, as weak global price, driven by excess Chinese supply and rising import competition after the customs duty cut, kept average selling prices ~6.3% lower, signaling that demand has revived while pricing power remains constrained.
- Profitability, though, staged a meaningful turnaround in 3MCY26, with gross margins improving to ~10.8% (3MCY25: ~2.2%) and net margins turning positive at ~0.1% (from a ~9.7% loss), as a rebound in global prices and better plant utilization spread fixed costs over a larger base and offset elevated energy costs—reflecting the segment's leverage to global price cycles and volume scale rather than domestic factors alone.
- From now on, the sector's trajectory hinges largely on the sustainability of the global PVC price recovery; a continued upswing would support pricing and margin expansion, but persistent oversupply from China, currency volatility, and elevated energy costs remain key headwinds that could cap the recovery.

Caustic Soda: Stable

- The caustic soda segment saw production decline ~10.4% YoY to ~318k MT in 9MFY26, yet sales value rose ~8.7% YoY to ~PKR 48.4bn, as higher average selling prices more than compensated for lower volumes.
- The price strength stemmed from tighter regional supply following chlor-vinyl plant shutdowns amid Middle East disruptions, alongside higher gas, electricity, and freight costs that producers passed on to customers, while stable demand from the textile sector supported realization. This dynamic highlights the sector's defining characteristic of pricing resilience, where diversified demand across textiles, soaps, paper, and water treatment allows for steady cost pass-through and limits margin volatility. Accordingly, gross margins held firm at ~17.2% in 9MFY26, and net margins improved to ~4.6% (9MFY25: ~3.7%) on the back of lower finance costs, even as operating margins eased to ~10.2% slightly on higher operating expenses. With energy comprising the single largest cost at ~43.2% of COGS, the segment's profitability is driven more by movements in energy and financing costs than by demand swings.
- Going forward, the sector's stability is likely to persist given its essential and diversified demand base, which underpins consistent pricing power. However, the trajectory of margins will hinge on energy tariffs and the pace of interest rate easing, while any normalization in regional supply could soften the current price advantage..

Segment-wise Outlook

Soda Ash: Stable

- The soda ash segment saw production fall ~14.5% YoY to ~548,287 MT in 11MFY26, a steeper decline than the ~11% drop in FY25, signaling that market conditions continued to deteriorate. The weakness spanned both fronts, as exports lost ground to low-priced Chinese competition while cheaper imports rose domestically after Federal Budget FY26 tariff changes; the float glass industry, the largest consumer, also continued operating at around 50% capacity, capping domestic demand.
- This translated into broad margin compression, with gross margins easing to ~20.0% (from ~21.8%) and sharper falls in operating (~12.3%) and net (~7.6%) margins indicating strain beyond higher production costs, reflecting a reduced ability to absorb fixed costs at lower volumes. Raw materials also became a heavier burden at ~58.4% of COGS, a pressure set to intensify with rising global freight and crude oil prices following the Middle East conflict.
- Going forward, profitability is likely to remain under pressure unless downstream demand recovers, particularly a revival in float glass utilization, or import competition eases. With input cost pressures mounting even as volumes decline, a near-term turnaround appears constrained.

Hydrogen Peroxide: Negative

- The HPO segment operates on a supply base that has grown with the addition of Engro Polymer's ~28,000 MT HPO plant in February 2025, yet local production has stayed broadly flat at ~21,000 MT in FY25 while imports remain a steady feature of the market. The sector depends heavily on imported raw materials such as anthraquinone and hydrogen feedstock, which keeps production costs highly sensitive to currency movements and freight, meaning margins can come under pressure even when global input prices hold steady.
- Profitability fell sharply in 9MFY26, with gross margins dropping to ~19.5% from ~32.5%, operating margins to ~9.0% from ~25.8%, and net margins to ~8.6% from ~15.8%. The decline was driven by lower selling prices, as cheap imports and new domestic capacity pressured the market, alongside soft demand from the textile sector, HPO's largest customer. This strain also showed on the balance sheet, with leverage jumping to ~25.0% from ~3.2% a year earlier and interest coverage falling steeply to ~10.4x from ~130.6x, signaling higher borrowing and a much thinner cushion to service finance costs.
- The outlook stays weak, as the sector faces the twin drag of low-priced imports and added domestic capacity on the supply side and a struggling textile sector on the demand side. A recovery would likely require a rebound in textile activity or a firmer pricing environment, neither of which appears near-term.

Segment-wise Outlook

Resins: Stable

- Resin demand is likely to continue recovering, since FY25 production rose ~13.2% YoY to ~27.4 thousand MT, the first increase after three consecutive years of decline, supported by stabilization in the paints and coatings market and by lower inflation and interest rates through FY25 that revived construction and industrial activity. Continued infrastructure spending, including CPEC Phase II, should provide further support to decorative and industrial coatings demand.
- Despite margin compression and rising leverage, net profitability has held steady at ~2.3% in 9MFY26 (9MFY25: ~2.7%), with net income still growing ~24% YoY, aided by strong ~46% YoY sales growth and lower finance costs. This resilience in bottom-line earnings, even as gross and operating margins narrowed, supports a Stable outlook.

Paints: Stable

- Paints demand growth remains subdued as production fell ~6.7% YoY to ~101mn liters in FY25 (FY24: ~108mn liters). Pakistan's Large-Scale Manufacturing sector rebounded ~6.5% in FY26, suggesting the segment's production volume is likely to increase in FY26.
- Profitability, however, has held up well and continued to improve. Gross margin expanded to ~21.7% in 9MFY26 from ~19.4% in 9MFY25, while operating margin held broadly steady at ~6.5% (9MFY25: ~6.7%) and net margin edged up to ~3.4% from ~3.2%, extending a gradual recovery in profitability since the FY22 trough (net margin: ~2.6%).
- This margin resilience persisted even as raw materials continued to dominate the cost base, though their COGS share eased slightly to ~83.8% in FY25 from ~85.1% in FY24, providing modest relief.
- The segment's structurally fragmented market (~60% unorganised) continues to limit pricing power, and reliance on imported raw materials leaves margins exposed to currency and freight movements.

Chemicals

Segment-wise Outlook

Polymers: Positive

- Polymers demand is expected to remain resilient, underpinned by Pakistan's position as a major global manufacturer of footballs and other sporting goods. Football production rose ~19.9% YoY in 6MFY26, directly lifting foam-segment offtake and helping segment revenue grow ~14.3% YoY.
- Since this demand is substantially export-linked rather than tied purely to domestic construction or consumer spending, the segment is comparatively insulated from the softer domestic demand pressures affecting several other chemical sub-sectors covered in this report.
- Profitability has also stabilised after a weak FY25. Gross margin improved to ~19.7% in 6MFY26 from ~19.4% in 6MFY25, and net margin rose to ~5.4% from ~4.3%, aided by lower finance costs and a reduced tax burden, even as operating margin eased slightly on higher operating expenses.
- Raw materials, at ~71.8% of costs, remain the key exposure, and a weaker rupee or renewed global raw material price increases would pressure margins given the sector's reliance on imported monomers and catalysts.
- Still, with revenue on a broadly rising multi-year trend since FY21, an export-oriented and relatively niche demand base, and improving net profitability, the segment's fundamentals are the strongest among the Chemical Segments. The outlook is Positive, though sustained global sporting-goods demand and rupee stability remain key preconditions.

Oleochemicals: Stable

- Oleochemicals revenue is likely to continue its gradual recovery, having risen ~6.0% YoY to ~PKR44,332mn in 9MFY26, extending the upward trend since the FY24 dip and reflecting the segment's diversified end-markets across lubricants, plastics, paper, soaps and lotions.
- However, this revenue growth appears to be pricing-led rather than volume-led, since soaps and detergents production, a key downstream demand indicator, fell ~11.0% YoY to ~235,000MT in the same period. This divergence suggests that underlying physical demand remains soft even as realized prices have supported the topline.
- Margins came under mild pressure, with gross margin easing to ~13.9% from ~14.8% as raw material costs rose ~8.3%, outpacing the ~6.0% sales growth, while operating margin narrowed to ~10.6% from ~11.3%.
- Net margin held broadly steady at ~3.3%, cushioned by a ~19.2% decline in finance costs that offset the weaker operating performance. With Nimir Chemicals holding majority market share and installed capacity unchanged at ~140,000MT since FY23, near-term supply is unlikely to expand materially, limiting both downside from oversupply and upside from capacity-led growth. Given resilient, diversified demand and stable net profitability alongside softening volumes and raw-material cost pressure, the outlook is Stable

Segment-wise Outlook

Printing Ink: Stable

- Printing ink demand is expected to see modest improvement, since FY25 imports rose ~8.0% YoY to ~3,903MT, ending a three-year decline. This recovery was supported by end-use growth in food & beverage, pharmaceutical, and packaging industries, and by better import financing.
- However, the State Bank of Pakistan raised the policy rate from 10.5% to 11.5% in April 2026 (held through July 2026) as Middle East-related oil price increases pushed headline inflation back into double digits (~11.1% in June 2026), which is likely to tighten import financing and dampen the FY25 momentum.
- The segment's raw materials are almost entirely imported, leaving margins directly exposed to currency and freight cost movements. Despite raw materials' COGS share falling to ~68.3% in CY25 from ~78.0%, this was offset by a near-doubling of "other" costs to ~25.7%, compressing gross margin to ~20.4% from ~22.7% and net margin to ~6.2% from ~8.3%.
- Segment leverage also rose sharply to ~70.8% in CY25 (CY21: ~33.9%), while interest coverage fell to ~5.2x from ~12.3x over the same period, indicating a marked thinning of debt-servicing capacity.

PTA: Stable

- PTA demand in Pakistan remains strong, with annual demand of around 750,000MT compared to Lotte Chemical Pakistan's production of about 386,000MT in CY25. The shortfall is met through imports, allowing Lotte, as the country's only PTA producer, to maintain a ready domestic market despite short-term demand and price fluctuations.
- CY25 was weaker than CY24, with production declining by ~9% and revenue falling by ~26%, indicating that lower PTA prices had a bigger impact than lower sales volumes. However, profitability improved significantly in 3MCY26. Gross, operating, and net margins all strengthened, mainly due to inventory gains from higher paraxylene (PX) prices and lower energy costs as a share of production costs. The improvement appears cyclical rather than structural, as raw materials continue to account for the majority of production costs.
- Feedstock supply remains a key risk. Lotte's Kuwait PX supply agreement is still under force majeure, forcing the company to rely on more expensive spot imports from Oman, which may limit production in CY26. However, the company has so far managed alternative sourcing without disrupting operations. Separately, Lotte's proposed acquisition of Engro's stake in EPCL remains under negotiation. If completed, it would diversify Lotte into PVC and caustic soda, but it does not currently affect the company's credit profile. Overall, strong domestic demand, improving margins, and manageable feedstock risks support a Stable outlook.

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