

# Sitara Chemical Industries Limited (SITC)

## New 50MW Coal Facility Set to Spur Growth Momentum

Wednesday, September 3, 2025

**Initiating coverage with a BUY:** We initiate coverage on Sitara Chemical Industries Limited (SITC), with a **BUY** rating and **Jun26 target of PkR 1,441/sh**, offering a potential **upside of 100%**. The company will see a sharp expansion in gross margins because of its new 50MW coal power plant. Moreover, rising demand for caustic soda & allied products, supported by expected growth in textile sales volume, SITC may see a **three-year bottom-line CAGR of 100%**. The company has improved its product mix over the years, with caustic soda accounting for 61% of total revenue followed by soap noodles with a 10% share.

Over the past 12 months, SITC has outperformed the market by 21%, EPCL by 131%, NICL by 70% and ICL by 10%. We believe this outperformance is justified, given the company's growth potential and improving margins. We believe current levels offer an ideal entry point.

To summarize, SITC will likely benefit from: (i) commissioning of a 50MW coal power plant, (ii) improving local demand outlook, (iii) higher tariff on India to fuel our textile exports, leading to higher caustic soda demand, and (iv) lower interest rate to keep finance cost low.

**Margins expansion with coal power plant:** SITC, which relies heavily on electricity for its caustic soda production (contributing 61% of total revenue), is facing rising energy costs. Currently, the company sources power from gas (22%), the grid (35%), and imported coal (43%). However, it plans to shift entirely to a new 50MW local coal power plant by 1QFY26. This move aligns with government policy, is expected to **reduce electricity costs by PkR 8.5/kWh** and is projected to add **PKR 2,470 million (PkR 115/share)** to its annual earnings. As a result, we expect profit margins to improve, averaging 33% over the forecast horizon, up from the **16% average over the past five years**.

**Power savings to support earnings further by reducing working capital needs:** Coal project savings could help reduce Sitara's short-term debt (PkR 9,429mn), enhancing profits. With inflation easing, the SBP has cut rates to 11%, and a further 100 bps cut **could save PkR 111mn (PkR 5.2/share)** on its total debt of PkR 18,272mn.

**Growing demand for caustic soda led by higher textile volumes:** We project a three-year earnings CAGR of 100%, driven by stronger caustic soda demand from recovering local textiles and rising exports. Higher U.S. tariffs on Indian apparel (now 50%) may shift demand to Pakistan, supporting export growth. Locally, improving consumer sentiment is expected to drive textile volume growth at a ~5% CAGR.

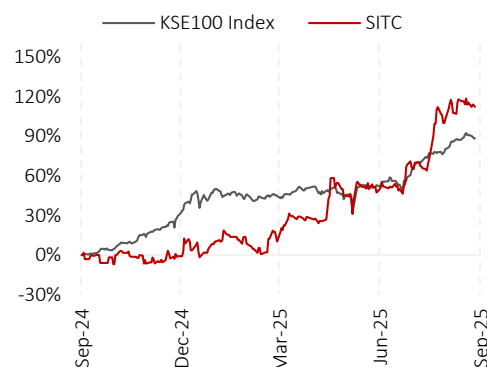
SITC	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
EPS	30.6	46.3	27.3	51.0	187.6	218.8
EPS growth	-51%	51%	-41%	87%	288%	17%
DPS	8.0	10.0	10.0	10.0	40.0	45.0
Div. yield	1%	2%	2%	2%	6%	7%
P/E (x)	21.5	14.2	24.1	12.9	3.5	3.0
ROE	4%	6%	3%	6%	18%	18%

Source: Company Accounts, BMA Research

SITC investment overview	
KATS Code	SITC
Bloomberg Code	SITC PA
Market Price	PkR 725
Target Price	PkR 1,441
Upside	100%
1-Yr High/ Low	PkR 664/255
Free float	35%
Share outstanding (mn)	21.43

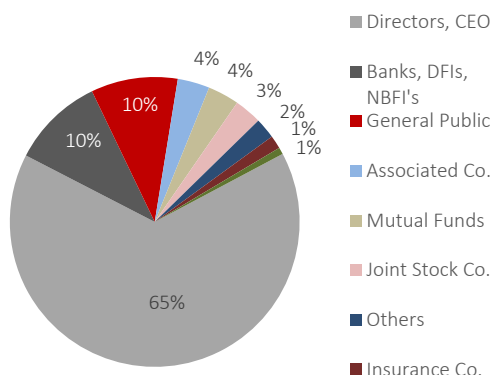
Source: PSX, BMA Research

### KSE100 Index vs SITC



Source: PSX, BMA Research

### SITC Shareholding



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**Market leader in caustic soda with market share of over 33%:** The company leads the caustic soda market with over a 50% share, followed by EPCL and ICL. With demand expected to grow at a 5-year CAGR of 5%, a potential supply gap could drive capacity expansions. We think SITC is well-positioned with surplus coal power. It also holds strong shares in Soap Noodles (10%), Sodium Hypochlorite (34%), Hydrochloric Acid (38%), and Liquid Chlorine (65%), contributing 10%, 6%, 3%, and 1% to revenue, respectively.

**Demand for other products won't lag:** Improved economic conditions and rising middle-class incomes in Pakistan are boosting FMCG demand, including soaps, paper, bleaching agents, paints, disinfectants, and pharmaceuticals. This trend will continue to benefit SITC's product portfolio.

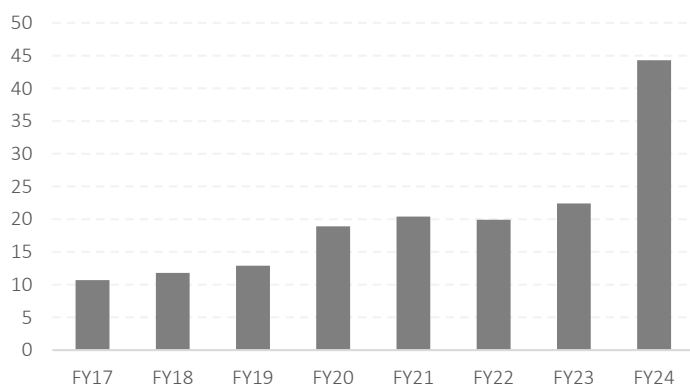
**Valuation:** Using a DCF model with a 12% risk-free rate, 6% equity risk premium, and 3% terminal growth, we value the company at **PkR 1,441/sh for Jun26**, implying an **upside of 100%** plus a dividend yield of 6%, for a total return of 106%. The stock trades at FY26E and FY27F PEs of 3.5x and 3.0x, discounted by 58% and 62% versus its 10-year average PE of 8.0x.

**Margins expansion with coal power plant:** Sitara's primary input in its manufacturing process is electricity. In recent years, grid power costs have risen significantly, while the increase in gas tariffs for captive power generation has further escalated overall energy costs. The company's key revenue driver, caustic soda, which contributes 61% to total revenue, is produced through the electrolysis process, an energy-intensive method.

Currently, Sitara's power mix comprises captive gas generators (SNGPL) at 22%, grid power at 35%, and a 38MW imported coal-based power plant contributing 43%. However, with the upcoming commissioning of a 50MW local coal-based power plant, the company plans to eliminate the use of more expensive energy sources. Post-commissioning, electricity needs will be met entirely through coal-based generation.

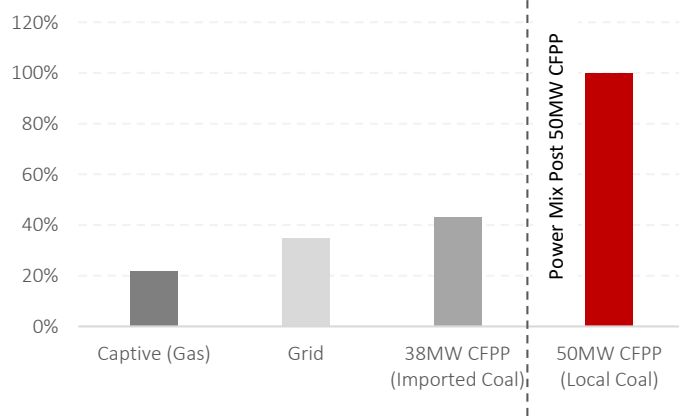
This strategic shift aligns with government policies and offers a more economically viable solution compared to WAPDA, HFO, and RLNG tariffs. It also enhances operational flexibility due to the adaptability to varying coal compositions. Based on our estimates, this transition is expected to generate annual **savings of PkR 8.5/kWh**, translating into a bottom-line impact of **PkR 2,470mn (PkR 115 per share)**. As per our channel checks, plant is expected to come online in 1QFY26. As a result, we expect profit margins to improve, averaging 33% over the forecast period—up from the 16% average over the past five years.

Grid (PkR /kwh)

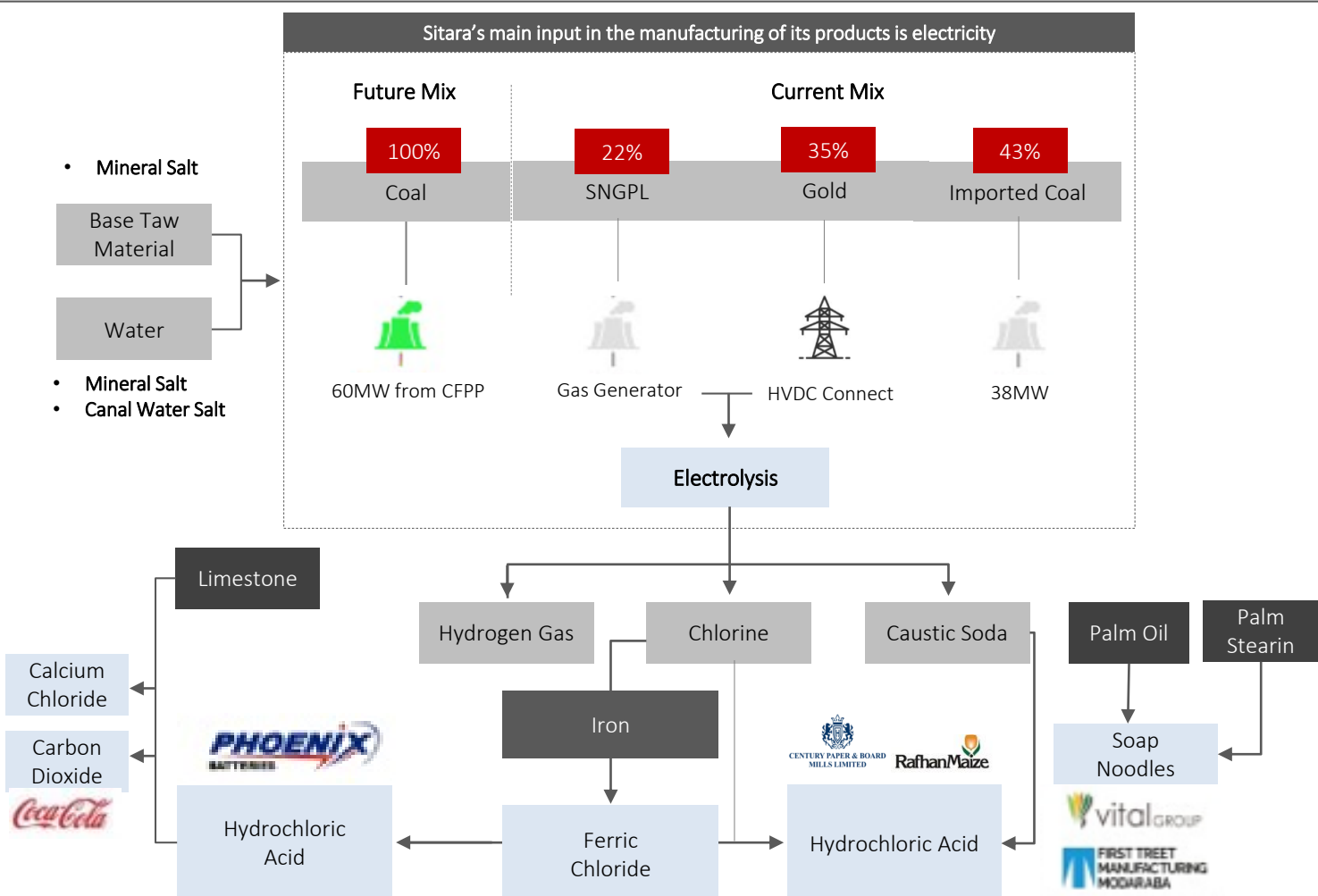


Source: NEPRA, BMA Research

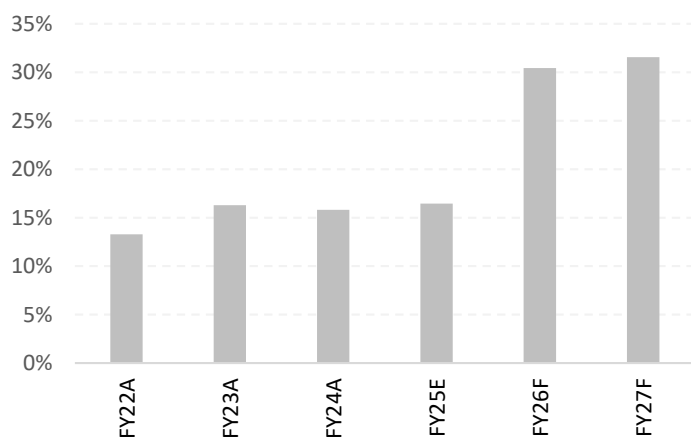
Power mix



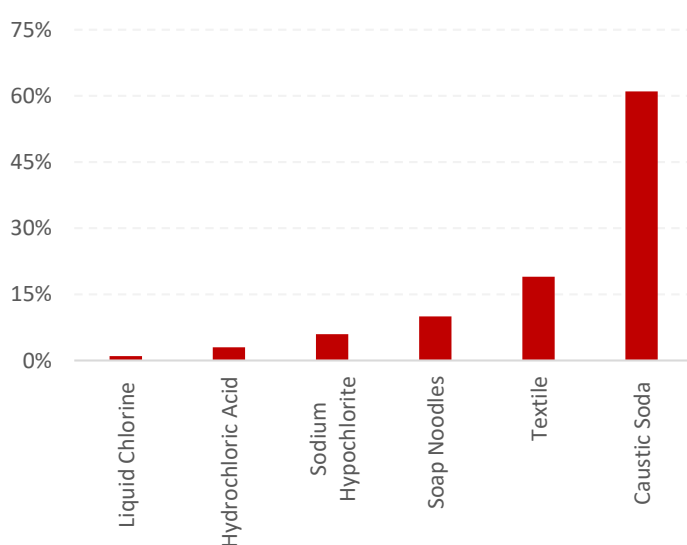
Source: BMA Research



### Gross Margin



### Revenue Mix

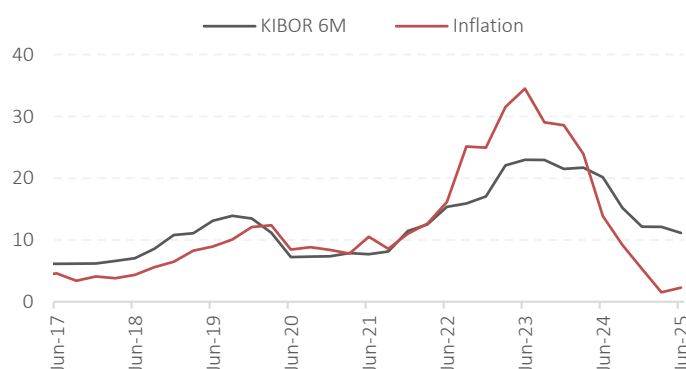


**Power savings to impetus earnings further by reducing working capital needs:** Savings from the coal power project may be used to reduce short-term borrowings, further supporting Sitara's bottom line. As per recent accounts, short-term borrowings stands at Pkr 9,429mn.

Additionally, easing inflation has allowed the State Bank of Pakistan (SBP) to begin its monetary easing cycle. After peaking at 38% in May 2023, inflation dropped to 0.3% by April 2025. In response, the SBP has cut the policy rate by 1,100 basis points to 11% over the past year.

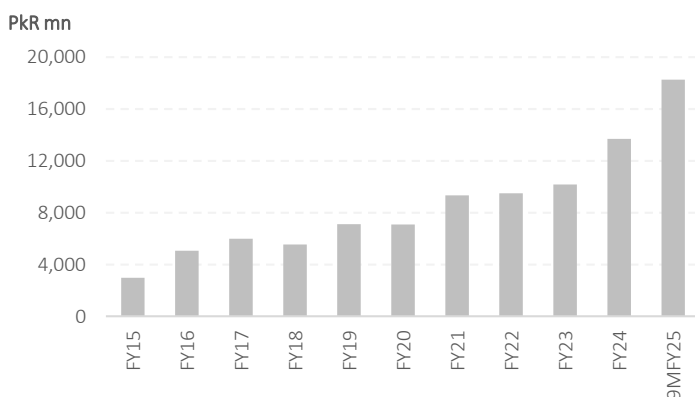
We believe that with inflation expectations between 7-8%, the central bank could reduce the policy rate by at least another 100 bps. This would result in savings of Pkr 111mn (Pkr 5.2 per share), given the company's total debt of Pkr 18,272mn.

**KIBOR vs Inflation**



Source: SBP, BMA Research

**Total Debt**



Source: Company Accounts, BMA Research

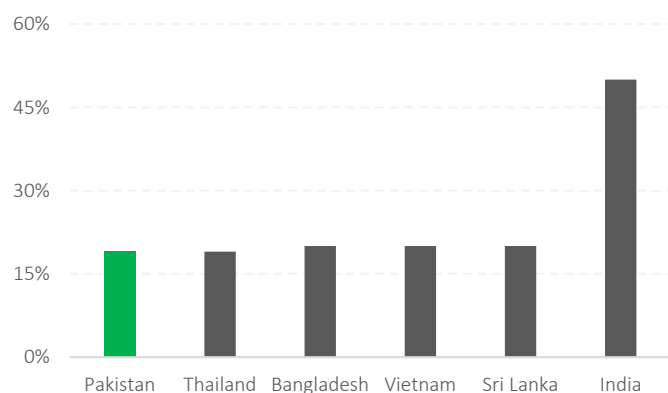
**Growing demand of caustic soda led by higher textile volumes:** We forecast a three-year earnings CAGR of 100%, driven by a positive outlook for caustic soda, supported by both improving local textile demand and a potential surge in exports, particularly to the United States, amid enhanced competitiveness.

To recap, the Trump administration recently increased reciprocal tariffs on Indian apparel exports from 25% to 50%. In 2024, India accounted for approximately 6% of the United States' total apparel imports, translating to around USD 4.8bn out of the US's USD 80bn apparel import bill. This represented 33% of India's total apparel exports. Additionally, India exported USD 5.2bn worth of textiles to the US, bringing total textile and apparel exports to approximately USD 10bn, based on the latest available data.

We believe the continuation of these reciprocal duties on India is likely to benefit Pakistan's textile and value-added product exports, leading to increased demand for caustic soda.

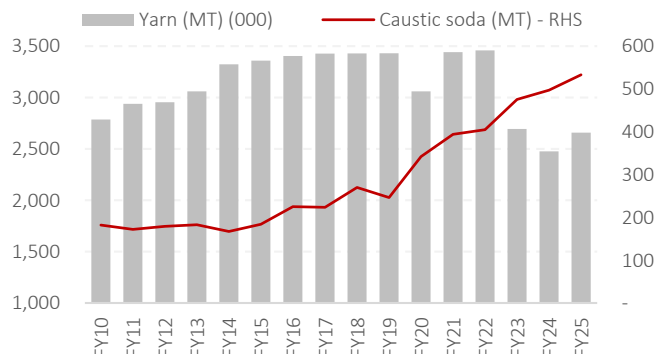
On the domestic front, textile demand is also expected to recover, supported by improving consumer purchasing power and rising consumer confidence. We forecast local textile volumes to grow at a five-year CAGR of 5%, which should provide an additional boost to caustic soda consumption.

**Reciprocal Tariff**



Source: BMA Research

**Caustic soda demand follows yarn demand**



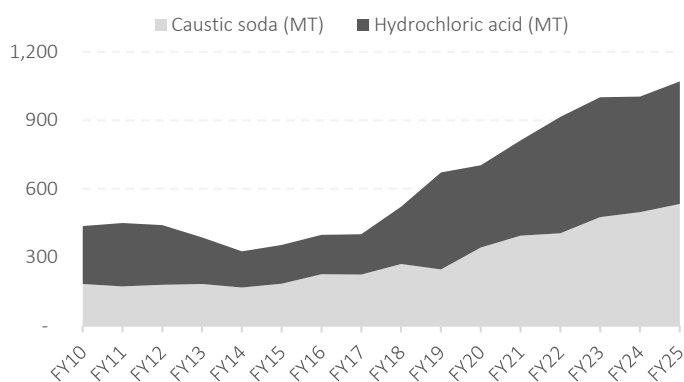
Source: PBS, BMA Research

**Largest player with capacity of 208k tons:** The company holds over 33% market share in caustic soda, followed by EPCL, NICL and ICL with market shares of 32%, 14% and 22%, respectively. Total domestic demand stands at approximately 450k tons, while SITC, EPCL, NICL, and ICL have installed capacities of 208k tons, 106k tons, 185k Tons and 160k tons, respectively.

We expect caustic soda demand to grow at a 5-year CAGR of 5%, potentially creating a demand-supply gap and necessitating capacity expansion by local players. In such a scenario, SITC could leverage surplus power from its coal plant to support capacity addition.

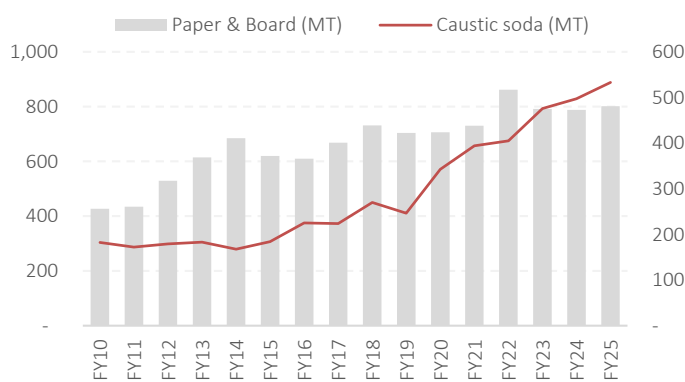
Additionally, the company holds market shares of 10% in Soap Noodles, 34% in Sodium Hypochlorite, 38% in Hydrochloric Acid, and 65% in Liquid Chlorine, with respective revenue contributions of 10%, 6%, 3%, and 1%.

Caustic soda and Hydrochloric acid production (in 000)



Source: PBS, BMA Research

Caustic soda demand follows paper and board demand (in 000)

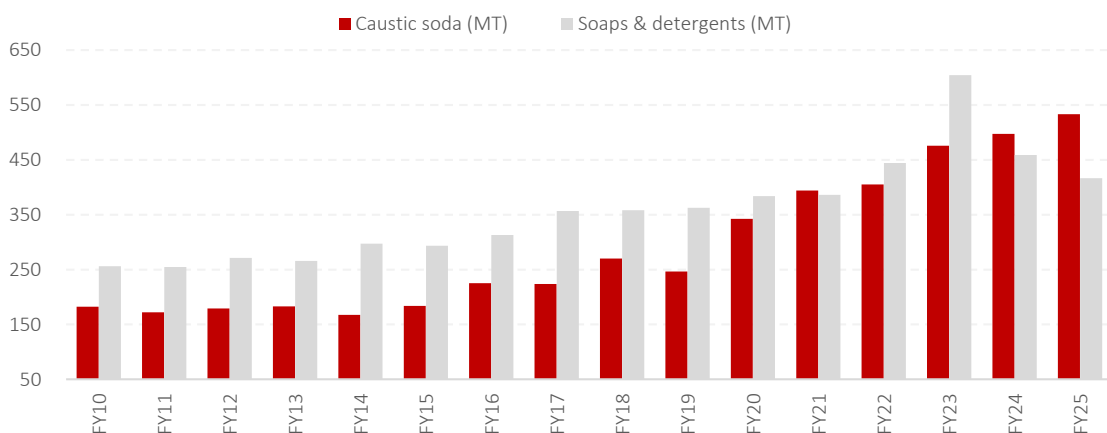


Source: PBS, BMA Research

**Demand for other chemical products won't lag:** Pakistan's economic landscape has improved significantly, boosting consumer sentiment. Demand for Fast Moving Consumer Goods (FMCG) is expected to grow robustly, driven by a growing middle class with rising disposable incomes and urbanization. This includes multipurpose soap, soaps and liquids, paper and pulp, bleaching agents, paint and dye, disinfectants, and pharmaceuticals, which will increase consumption of other products produced by SITC.

**Textile segment to maintain steady growth:** As previously discussed, the outlook for yarn demand in Pakistan is moderately positive but faces challenges due to high energy costs, which are affecting domestic production and competitiveness. However, the company is expected to witness steady growth in its textile segment. In-house power production from the cheapest available sources will also benefit the textile segment by keeping production costs low. Over the past five years, the textile segment has contributed an average of 17% to the company's topline.

Caustic soda production is moving in tandem with soap and detergent production



Source: SBP, BMA Research

**Valuation:** We have used blended valuation methodology to calculate the fair value of the company. We have assumed a risk-free rate of 12%, and an equity risk premium of 6%. Using a terminal growth rate of 3.0%, our Jun26 TP arrives at PKR 1,441/sh, offering an upside of 100%.

The stock is currently trading at FY26E PE of 3.5x and an FY27F PE of 3.0x, as compared to its 10-year average PE of 8.0 (Excluding Covid year), representing a discount of 56% and 62%, respectively.

**Key Risks:** (i) delay in coal power plant, (ii) lower than estimated sales, (iii) decline in selling price, (iv) higher than expected increase in coal prices, and (v) increase in KIBOR rate.



































**About the company:** Established in September 1981, Sitara Chemical Industries Limited is a listed company with two core divisions; the Chemical Division, which manufactures caustic soda & allied products, oleo chemicals and the Textile Division, specializing in yarn production.

The Company started with caustic soda production in 1985, with an initial daily output of 30 metric tons. SITC, over time has undertaken various expansions to reach its current capacity of 630 metric tons per day. In 1992, SITC ventured into the textile spinning industry and now operates a spinning unit with over 28,000 spindles producing polyester, cotton, and polyester viscose.

From 2001 onwards, SITC started diversifying its portfolio by adding the specialty chemicals, related verticals and independent plants for industrial gases and oleo chemicals.

In 2016, the Company installed bituminous coal-based power plant of 38 MW to meet its increasing energy needs. Over the past four decades, SITC has emerged as the operator of the largest Chlor Alkali complex in Pakistan, contributing significantly towards Pakistan's industrial progression

#### Expected 5-year growth trend amongst various glass using industries

Key Products	Major Customers	Select Consumers
Caustic Soda	    Good food. Good life	 <b>Textile</b>  <b>Paper</b>  <b>Soaps &amp; Detergents</b>
Soap Noodles	   	 <b>Multipurpose Soap</b>  <b>Textile</b>  <b>Soaps &amp; Liquids</b>
Sodium Hypochlorite	   	 <b>Textile Waste</b>  <b>Paper &amp; Pulp</b>  <b>Bleaching Agent</b>
Hydrochloric Acid	  	 <b>Paint &amp; Dye</b>  <b>PVC</b>  <b>Pharmaceuticals</b>
Liquid Chlorine	   	 <b>Paper</b>  <b>Water Treatment</b>  <b>Disinfectant</b>

## Sitara Chemical Industries Limited (SITC) - Financial Projections

Income Statement	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
Sales	21,626	27,493	31,112	32,276	35,264	37,849
Gross Profit	2,873	4,480	4,919	5,414	10,734	11,946
Administration expense	764	981	1,132	1,250	1,325	1,418
Selling & Distribution expenses	396	646	574	464	677	771
Finance cost	897	1,612	2,349	1,955	1,783	1,637
Profit before tax	898	1,476	1,142	1,749	6,590	7,687
Tax	243	483	556	655	2,570	2,998
Profit after tax	656	993	586	1,094	4,020	4,689
EPS	30.6	46.3	27.3	51.0	187.6	218.8
DPS	8.0	10.0	10.0	10.0	40.0	45.0
Balance Sheet	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
Non-Current Assets	21,439	23,242	26,777	32,011	30,660	29,409
Current Assets	11,115	11,698	13,734	13,072	16,175	20,469
Total Assets	32,554	34,940	40,511	45,083	46,835	49,878
Equity	16,038	16,604	18,064	18,886	22,692	26,524
Non-Current Liabilities	4,800	5,827	6,870	12,460	11,645	10,830
Current Liabilities	11,716	12,509	15,577	13,736	12,498	12,525
<b>Total Equity &amp; Liabilities</b>	<b>32,554</b>	<b>34,940</b>	<b>40,511</b>	<b>45,083</b>	<b>46,835</b>	<b>49,878</b>
Ratio	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
Gross Margin	13%	16%	16%	17%	30%	32%
Net Margin	4%	5%	4%	5%	19%	20%
ROE	4%	6%	3%	6%	18%	18%
P/E	21.5	14.2	24.1	13.6	3.5	3.0
P/S	0.7	0.5	0.5	0.4	0.4	0.4

Source: Company Accounts, PSX, BMA Research



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### Old rating system

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)