RATING REPORT

Lucky Cement Limited (LCL)

REPORT DATE:
June 10, 2022

RATING ANALYST:
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Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 10, 2022*		*May 03, 2021*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 1993	**External auditors:** A. F. Ferguson & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Muhammad Yunus Tabba
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Muhammad Ali Tabba
- ***Directors and Spouse- 19.48%*** - ***Sponsors- 18.34%*** - ***Associated Companies, Undertakings & related parties- 22.82%*** - ***Mutual Funds- 5.46%*** - ***General Public (Local) - 13.21%*** - ***General Public (Foreign) - 12.09%***	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria ***(August 2021)*** **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

Lucky Cement Limited

OVERVIEW OF THE INSTITUTION

Lucky Cement Limited (LCL) was incorporated on September 18, 1993 as a public limited company. LCL is listed on Pakistan Stock Exchange Limited as well as London Stock Exchange, with the head office situated in Karachi, and regional office located in Pezu, KPK. Further, the Company's liaison offices are situated in Islamabad, Quetta, Multan, D.I.Khan, Lahore and Peshawar. The Company has two production facilities at Pezu, District Lakki Marwat in Khyber Pakhtunkhwa and at Main Super Highway in Karachi, Sindh. The Company is engaged in manufacturing, selling and marketing of cement.

Profile of Chairman

Mr. Muhammad Yunus Tabba possesses more than 50 years of experience spanning across various sectors. He has also been awarded "Businessman of the year" by the Chamber of Commerce several times during his career. Furthermore, in recognition of his services rendered in the field of entrepreneurship and public service, he has been bestowed with the award of "Sitara-e-Imtiaz" by the President of Islamic Republic of Pakistan.

Profile of CEO

Mr. Muhammad Ali Tabba also serves as the CEO of Yunus Textile Mills Ltd (YTML), a state-of-the-art home textile mill and the largest exporter of home textile products from Pakistan. Mr. Tabba also

RATING RATIONALE

Lucky Cement Limited ('LCL' or 'the Company') was incorporated in 1993 and is one of the largest cement manufacturers in Pakistan. The Company comes under the umbrella of Yunus Brothers Group (YBG), which is one of the biggest conglomerates of Pakistan. LCL is listed on Pakistan Stock Exchange (PSX). Furthermore, Global Depository Receipts (GDRs), issued by LCL, are listed on London Stock Exchange (LSE).

LCL has a Cement production capacity of 12.15m MT p.a. located in Karachi and Pezu (KPK province). An ongoing expansion at Pezu plant of 3.15 MT will increase the production capacity to 15.3 MT, which targeted for completion in Q2'FY23. The Company has its own captive power plant of 180MW and also produces energy through Waste Heat Recovery (WHR), Refuse Derived Fuel (RFD) and Tyre Derived Fuel (TDF).

LCL also has overseas operations, which include 1.74 MT p.a. cement grinding plant in Basra, Iraq and 1.18 MT p.a. fully integrated cement plant in Congo. Additionally, 1.20 MT p.a. cement production facility in Samawah, Iraq has commenced its commercial operations in March, 2021. Overseas cement production capacity now stands at 4.12 MT p.a.

Sector Update

- During FY21, the cement industry offtake recorded sizable uptick of 20.1% to 57.45 MT p.a. in comparison to 47.81 MT p.a. in FY20, on the back of strong growth (20.4%) in local dispatches.
- Factors that contributed to this phenomenal increase in sales volume were, i) pent-up demand, following the extraordinary slowdown observed in the pandemic-induced lockdown in Q4'FY21; and ii) Government's stimulus to incentivize construction sector given initiation of low-cost housing schemes, subsidization of housing finance and changes in banking regulations to ensure housing finance allocation.
- Exports of cement increased by 18.7% from 7.85 MT in FY20 to 9.31 MT in FY21.
- In 9M'FY22, cement industry sales were down by 5.9% vis-à-vis SPLY.
- The decline in overall dispatches emanated from a drop in in export volume (35.1 %), which was mainly attributable to supply chain issues and higher freight costs.

Table 1: Cement Industry Dispatches (in million MTs)

	FY19	*FY20*	*FY21*	*9M'FY21*	*9M'FY22*
Local	40.235	39.965	48.132	36.183	36.143
Export	6.522	7.847	9.314	7.148	4.639
Total	**46.757**	**47.812**	**57.446**	**43.331**	**40.783**

- The short term outlook for the industry is stressed, as the rising cost of cement, being driven by commodity bull cycle in coal and increase in domestic inflation, is likely to weigh on demand and profitability margins of cement companies. Furthermore, elevated political uncertainty and expectation of a relatively lower development budget going forward is also likely to act as a drag on demand. The long term outlook for cement industry remains positive, given Pakistan's status as a developing nation, low per capita consumption of cement and easy domestic availably of limestone.

serves in the capacity of Vice Chairman on the Board of ICI Pakistan Limited and is also the Chairman of KIA Lucky Motors. Moreover, Mr. Tabba also serves in the role of Chairman Lucky Electric Power Company Limited. Mr. Muhammad Ali Tabba was awarded the "Sitara-e-Imtiaz" by the President of Islamic Republic of Pakistan in 2018.

Operational Update

Table 2: Capacity Utilization

	FY20	*FY21*	*9M'FY21*	*9M'FY22*
Cement	53.4%	75.1%	76.9%	70.5%
Clinker	58.9%	77.6%	77.7%	75.6%

- During FY21, in line with the strong demand in the domestic cement industry as discussed above, the Company's capacity utilization depicted improvement.
- Nevertheless, the slowdown in cement dispatches has had a slight impact on capacity utilization of LCL in 9M'FY22, as illustrated in the table above.

Table 3: Cement Dispatches – LCL (in million MTs)

	FY19	*FY20*	*FY21*	*9M'FY21*	*9M'FY22*
Local	5.854	5.463	7.558	5.708	5.511
Export	1.820	2.162	2.406	1.898	1.556
Total	**7.674**	**7.625**	**9.964**	**7.606**	**7.068**

- LCL's local cement dispatches clocked in at 7.558mn MTs in FY21 (FY20: 5.463mn MTs), up by 38.3% YoY; this was following 6.7% contraction in FY20 and in tandem with the upturn in industry's local dispatches. LCL's share in the local dispatches has increased from 13.7% in FY20 to 15.7% in FY21.
- On the other hand, LCL has managed increased its export offtake by 11.3% in FY21. However, the uptick in export dispatches was slower than industry's export dispatch growth of 18.7%, resulting in the Company losing its share in the export market share from 27.6% in FY20 to 25.8% in FY21.
- Local dispatches dropped during 9M'FY22 by 3.4%, vis-à-vis SPLY. Furthermore, the Company's export dispatches fell 18.0% in 9M'FY22, compared to SPLY, resulting in overall sales volumes declining by 7.1%. The Company's overall industry market share decreased to 17.3% in 9M'FY22 compared to 17.6% in 9M'FY21.
- On exports market front, LCL is exporting to Sri-Lanka, Bangladesh and China. The management is actively working on identifying new export markets in order to increase its presence in global market.

Table 4: P&L Extract (In PKR' Millions, unless stated otherwise)

	FY20	*FY21*	*9M'FY21*	*9M'FY22*
Net Sales	**41,871**	**62,941**	**47,103**	**58,890**
Gross Profit	**6,077**	**18,956**	**14,704**	**13,985**
Gross Margin (%)	**14.5%**	**30.1%**	**31.2%**	**23.7%**
Operating Profit	**3,996**	**17,325**	**14,041**	**14,436**
Operating Margin (%)	**9.5%**	**27.5%**	**29.8%**	**24.5%**
Profit After Tax	**3,344**	**14,070**	**11,688**	**11,309**
Net Margin (%)	**8.0%**	**22.4%**	**24.8%**	**19.2%**

- As illustrated in the table above, LCL's topline revenue grew by 50% and 25% in FY21 and 9M'FY22 respectively, vi-a-vis SPLY. The uptick in topline in FY21 was a mix of quantitative growth in offtake, albeit majority (~60%) of it was attributable to pricing increase. Similar trend continued in 9M'FY22, wherein volumetric offtake fell but the Company was able to post growth 25% growth in topline, solely on the back of pricing increase.
- Amidst a commodity bull cycle, which in cement industry's case is mainly being precipitated by increase in coal pricing, LCL's margins were elevated in FY21. However, subsequently, Company's ability to pass on pricing increase to end consumers has been limited, as a result of which gross margin dropped in 9M'FY22. Going forwards, margins are projected to slide further, likely to normalize ~20%.

Key Rating Drivers

Strong sponsorship profile and diversified long term investment portfolio of LCL is a key rating driver

- LCL is a part of Yunus Brother Group (YBG) which is a leading conglomerate with strong financial profile and has diverse presence across multiple sectors including Cement, Power Generation, Chemicals, Automobile, Entertainment, Textile, Hospitality, Food & Commodities and others.
- Ratings assigned to LCL draw support from strong financial profile and diversified presence of sponsor. LCL's Long term investments amounted to 57.6b as at 31, March 2022, representing 33.2% of the Company's asset base (Jun'21: 34.0%).
- LCL earned other income of Rs. 5.85b in FY21, representing about a quarter of the Company's net income (gross margin + other income).

Other Income (PKR in '000')	Jun'20	Jun'21
Income from non-financial assets	**162,986**	**396,226**
Income from financial assets		
-Dividend from subsidiaries	1,162,684	4,345,673
-Dividend from associate	122,273	61,137
-Dividend from mutual fund	200,861	613,816
-Income from deposits	1,537,055	429,509
Grand Total	**3,185,859**	**5,846,361**

Table 5: Breakup of Other Income

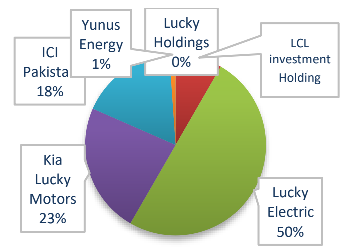

Figure 1: Breakup of Investment in Associates/Subsidiaries (Dec'21)

Strong liquidity profile and comfortable cash flow coverage

- Over the years, LCL has consistently generated healthy cash flow from operations which has resulted in accumulation of surplus liquidity. Excess cash flow has allowed the Company to undertake significant investments and capital expenditure over the years from internally generated cash. Also, the debt on LCL's books is entirely composed of financing under SBP's subsidized financing schemes.
- The Company's cash flow coverage indicators are considered to be comfortable. The cash flow generated in FY21, provided debt coverage of 2.0x.
- Going forward, there are plans for additional capital expenditure of Rs. 27b, of which Rs. 20b will be financed through new debt likely to appear on the books by September 2022. The additional debt projections have been incorporated in our analysis, wherein we expect FFO to Debt to remain commensurate with the benchmark for the assigned rating.

Table 6: Cash flow Coverage Indicators (In PKR' Millions, unless stated otherwise)

	FY20	FY21	9M'FY22
FFO	7,492	20,994	15,611
Debt	8,438	11,599	10,835
FFO to Debt	0.9x	1.8x	1.9x*
FFO to LT Debt	14.8x	4.6x	2.2x*
DSCR	54.3x	49.0x	24.5x*
****Annualized***			

Low leverage indicators & conservative financial policy translate in very low financial risk profile

- Equity base of the Company has grown at a CAGR of 9.1% over the past five years on account of healthy internal capital generation. The Company has not paid any dividend during the past 2-year period (FY20-21).
- Going forward, LCL is planning to acquire further subsidized long term debt under LTFF and TERF scheme to finance planned capital expenditure. Nevertheless, given sizable equity base accumulated, given profit retention over the years, financial risk indicators are projected to remain conservative.

Table 7: Balance Sheet Extract (All Figures in PKR' Billions, unless stated otherwise)

	June'19	*June'20*	*June'21*	*Mar'22*
Equity	94,318	99,184	113,200	124,495
Total debt	2,900	8,438	11,599	10,835
Short term debt	2,900	7,932	7,050	1,300
Long term debt	-	507	4,549	9,535
Gearing	0.03x	0.09x	0.10x	0.09x
Leverage	0.33x	0.37x	0.38x	0.39x
Dividend Payout Ratio	20%	-	-	-

Sound corporate governance framework supported by a well-designed organizational structure, experienced management team and strong disposition towards transparency and disclosures

- LCL has instituted a well-designed organizational structure comprising separate departments for key functions. All divisions have independent management teams and organizational structure. Board composition is in line with best practices while effective oversight mechanism is in place through functioning board committees. Detailed annual report disclosures reflect strong disposition towards transparency and disclosures.

Lucky Cement Limited (LCL) **Appendix I**

FINANCIAL SUMMARY- Unconsolidated					(Rs. in m)
BALANCE SHEET		**June'19**	**June'20**	**June'21**	**Mar'22**
Fixed Assets		57,276	60,155	62,390	73,243
Long term Investments		34,314	47,144	53,194	57,594
Stock-in-Trade + Stores and Spares		11,063	9,529	13,632	17,205
Trade Debts		2,059	3,423	2,710	2,872
Short term investments		1,056	2,971	16,227	12,473
Cash & Bank Balances		15,657	7,817	2,825	1,475
Current Asset		33,379	28,468	40,676	42,366
Total Assets		125,089	135,868	156,368	173,413
Trade and Other Payables		19,196	19,355	20,790	25,609
Long Term Debt		-	507	4,549	9,535
Short Term Debt		2,900	7,931	7,050	1,300
Total Debt		2,900	8,438	11,599	10,835
Current Liabilities		23,578	28,955	30,387	30,622
Paid Up Capital		3,234	3,234	3,234	3,234
Total Equity		94,318	99,184	113,200	124,495
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**9M'FY21**	**9M'FY22**
Net Sales	48,021	41,871	62,941	47,103	58,890
Gross Profit	13,984	6,077	18,956	14,704	13,985
Profit Before Tax	12,221	3,820	16,992	13,795	14,165
Profit After Tax	10,490	3,344	14,070	11,688	11,309
RATIO ANALYSIS		**June'19**	**June'20**	**June'21**	**Mar'22**
Gross Margin (%)		29.1%	14.5%	30.1%	23.7%
Net Margin (%)		21.8%	8.0%	22.4%	19.2%
Net Working Capital		9,801	(488)	10,289	11,744
Adjusted FFO**		14,101	7,492	20,994	15,611
FFO to Total Debt (x)		4.9	0.9	1.8	1.9*
FFO to Long Term Debt (x)		NA	14.8	4.6	2.2*
Debt Servicing Coverage Ratio (x)		967.2	54.31	48.98	24.48*
Gearing (x)		0.03	0.09	0.10	0.09
Leverage (x)		0.33	0.37	0.38	0.39
Current Ratio (x)		1.42	0.98	1.34	1.38
STD Coverage		452%	163%	232%	1544%
ROAA (%)		9.0%	2.6%	9.6%	9.1%*
ROAE (%)		11.6%	3.5%	13.2%	12.7%*
**Ratios Annualized*					
*** FFO Adjusted for dividend income*					

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Lucky Cement Limited
Sector	Cement and Construction
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/06/2022	AA+	A-1+	Stable	Reaffirmed
03/05/2021	AA+	A-1+	Stable	Reaffirmed
19/02/2020	AA+	A-1+	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Aftab Ahmed	Sr. DGM Finance	April 21, 2022
Mr. Raeel M Rafique	GM - Finance & Planning	
Mr. S.R. Khawar	Sr. Manager Treasury	