RATING REPORT

Lucky Cement Limited

REPORT DATE:
November 8, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A1+	AA+	A1+
Rating Date	*November 08, 2024*		*October 31st, 2023*	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1993	**External Auditors:** M/s. A.F. Ferguson & Co., Chartered Accountants
Public Listed Company	**Chairman of the Board:** Mr. Muhammad Sohail Tabba
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Mohammad Ali Tabba
Associated companies. Undertakings and Related Parties – 25.34%	
Sponsors – 24.58%	
Directors – 14.87%	
Local Public – 12.53%	
Foreign Public – 9.16%	

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Lucky Cement Limited

OVERVIEW OF THE INSTITUTION

Lucky Cement Limited was incorporated on September 18, 1993 as a public limited company. LCL is listed on Pakistan Stock Exchange Limited, 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.

RATING RATIONALE

Corporate Profile:

Lucky Cement Limited ('LCL', 'LUCK' or 'the Company') was incorporated in Pakistan on September 18, 1993, and is listed on the Pakistan Stock Exchange (PSX). The principal activity of the Company is manufacturing and selling of cement. The registered office of the Company is located in Khyber Pakhtunkhwa and the head office is situated in Karachi. The Company has two production facilities: one in Khyber Pakhtunkhwa and the other in Karachi, Sindh. Further, the Company's liaison offices are situated in Islamabad, Quetta, Multan, Faisalabad, Lahore and Peshawar.

Group Profile:

The Company operates as part of the Yunus Brother Group (YBG), a prominent conglomerate with a strong financial profile and a diversified presence across multiple sectors. YBG's business interests span across various sectors including Cement, Textiles, Power Generation, Chemicals, Automobiles, Pharmaceuticals, Healthcare, Real Estate, Entertainment, Food & Commodities, among others.

Operational Performance:

Production Capacity and Utilization	FY21A	FY22A	FY23A	FY24A
Installed Capacity - Clinker (MMT)	11.54	11.54	14.54	14.54
Actual Production - Clinker (MMT)	9.04	8.79	6.24	8.16
Utilization (%)	78.34%	76.17%	42.92%	56.12%
Installed Capacity - Cement (MMT)	12.15	12.15	15.30	15.30
Actual Production - Cement (MMT)	9.12	8.28	7.06	7.48
Utilization (%)	75.06%	68.15%	46.14%	48.89%

The Company reported an increase in clinker production capacity utilization, reaching 56.12% (FY23: 42.92%) in FY24. This resulted in a total clinker output of 8.16 MMT (FY23: 6.24 MMT) in FY24. Cement capacity utilization also slightly rose to 48.89% (FY23: 46.14%) in FY24, with total cement production increasing to 7.48 MMT (FY23: 7.06 MMT). In FY24, the Company's cement dispatches totaled 8.59 MMT (FY23: 7.37 MMT), registering a 16.5% increase compared to the same period last year (SPLY). This growth is attributable to the commencement of a new production line at the Pezu plant, as well as a notable expansion in export volumes. Export dispatches rose by 88%, while local dispatches saw a 3% increase year-over-year.

Cement Industry Update:

FY24 presented several challenges for the construction sector in Pakistan, including political instability, high inflation and interest rates, constrained expenditures leading to reduced Planning, Development, and Special Initiatives Program (PSDP) spending, and volatile energy prices. Despite these challenges, the cement industry in Pakistan reported marginal growth of 2%, supported by a rise in exports, which reached 45.3 mln tons (FY23: 44.6 mln tons) in FY24. Local sales volumes declined by 5% to 38.2 mln tons (FY23: 40.0 mln tons), impacted by the factors mentioned above. In contrast, exports increased significantly by 56%, reaching 7.1 mln tons (FY23: 4.6 mln tons) in FY24. This growth in export volumes was primarily driven by enhanced export viability, resulting from stable freight costs and lower energy expenses due to the deployment of green energy projects, such as solar and wind power.

Long-term prospects for Pakistan's cement industry remain positive, supported by government initiatives to construct both small and large-scale water reservoirs, dams, and Special Economic Zones as part of CPEC projects. Increased development expenditure, as outlined in the FY25 Budget, is expected to stimulate growth in the construction sector.

Going forward, Pakistan's economic outlook will largely hinge on the new government's commitment to reform, focusing on stabilizing the economy, restoring fiscal and external buffers, privatizing loss-making state-owned enterprises, and securing a new long-term IMF program. While these measures are expected to support long-term stability, they may constrain demand and introduce inflationary pressures in the short term. These factors are likely to continue influencing industrial activity and consumer demand across sectors.

Key Rating Drivers:

Medium business risk profile of the cement industry is characterized by high cyclicality, low to medium competition and elevated exposure to exchange rate risks with high import dependence.

VIS classifies the business and industry risk profile of the cement sector as medium, noting a moderate level of competition and a stable regulatory framework. However, the sector faces significant risks due to its cyclical nature, high barriers to entry, capital-intensive operations, and sensitivity to energy costs.

The cement industry in Pakistan is considered oligopolistic, with approximately 16 companies operating in the market. The sector's performance is closely tied to the overall economic environment, as production capacity and dispatch levels are directly influenced by demand and Public Sector Development Program (PSDP) allocation and disbursements, resulting in inherent cyclicality. The sector is characterized by energy sensitivity with fuel and power accounting for 60-65% of the industry's cost of manufactured goods. Furthermore, the sector relies significantly on imported coal, which also exposes it to the risk of fluctuations in international coal prices and exchange rate risks. However, LCL's risk profile is mitigated by its diversified group, professional management and strong presence in the market as well as its healthy balance sheet and cashflows.

Strong sponsor profile of YBG

Ratings are supported by the strong financial profile and diversified business interests of its sponsor, which substantially enhances the group's capacity to successfully ride through various economic cycles. The sponsor's broad presence in diversified sectors provides LCL operational synergies and resources backing, contributing positively to the Company's overall risk profile.

Significant market share in Pakistan's cement sector

In FY24, the Company recorded an aggregate market share of 18.7% in terms of revenue (FY23: 16.5%), consisting of 16.4% share (FY23: 15.5%) in the domestic market and 30.9% share (FY23: 25.6%) in the export market. The leading market position of the Company provides support to the assigned ratings.

Improvement in profitability supported by an increase in dispatches, economies of scale achieved from the new production line, higher cement prices, lower coal prices and higher dividend income from subsidiaries

In FY24, LCL reported a 20.3% increase in net sales, amounting to PKR 115.3 billion (FY23: PKR 95.8 billion). Local gross sales revenue increased by 15% to PKR 129.2 billion (FY23: PKR 112.1 billion), while export gross sales revenue rose by 65% to PKR 22.6 billion (FY23: PKR 13.7 billion). This growth was attributed to higher overall dispatches as well as an increase in cement prices.

An average 16% decline in coal prices as well as economies of scales achieved from the new production line led to improvement in gross margins to 33.65% (FY23: 27.19%) in FY24. Moreover, the Company's margins are also supported by its power generation capacity from renewable sources. LCL is meeting 55% of its power requirements through renewable sources. Gross margins are expected to improve further with a reduction in energy cost upon commissioning of the PKR 8.5 billion 28.8 MW wind energy plant in 1QFY25. Net margins improved to 24.37% (FY23: 14.32%) in FY24, driven by a 255% increase in dividends from subsidiaries, associates, and investments, which offset the impact of higher financial charges.

Highly liquid balance sheet, with strong cash and cash equivalent reserves.

The Company's balance sheet is characterized by a large cash and cash equivalent reserve with total cash and cash equivalents of 32,404.81 (FY23: 26,014.68) in FY24. This is reflected in a cash ratio, which is cash and cash equivalents divided current liabilities, of 0.60x (FY23: 0.56x). The quick and current ratios stand at 0.84x (FY23: 0.85x) and 1.26x (FY23: 1.29x), respectively. The cash conversion cycle is also improved to ~25 days (FY23: ~29 days) in FY24.

Conservative capitalization profile

As a result of healthy liquidity position, the Company has historically held a conservative debt profile resulting in low gearing and leverage ratios. The gearing and leverage ratios of the Company stood at 0.14x (FY23: 0.15x) and 0.58x (FY23: 0.55x), respectively in FY24.

Healthy coverage profile

With healthy profits and a conservative capitalization profile the Company has historically maintained a robust coverage profile. The debt service coverage ratio of the Company was reported at 19.93x (FY23: 20.44x) in FY24.

Lucky Cement Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	82,301.05	95,620.30	107,258.97
Intangible Assets	51.35	85.59	69.39
Long-term Investments	57,594.49	57,594.49	58,072.37
Stock-in-trade	7,171.36	6,048.51	8,505.44
Trade debts	3,522.93	5,089.67	6,932.48
Short-term Investments	12,751.16	21,898.50	29,837.63
Cash & Bank Balances	3,871.08	4,116.18	2,567.18
Other Assets	17,698.95	22,625.84	20,774.63
Total Assets	184,962.37	213,079.08	234,018.09
Creditors	3,353.00	5,030.55	7,172.14
Long-term Debt (incl. current portion)	14,595.65	15,156.94	14,859.79
Short-Term Borrowings	1,000.00	5,885.00	5,485.00
Total Debt	15,595.65	21,041.94	20,344.79
Other Liabilities	37,473.40	49,640.26	58,739.90
Total Liabilities	56,422.05	75,712.75	86,256.83
Paid up Capital	3,233.75	3,118.39	2,930.00
Revenue Reserve	117,963.16	10,973.28	33,492.90
Capital Reserves	7,343.42	123,274.66	111,338.38
Equity (excl. Revaluation Surplus)	128,540.33	137,366.33	147,761.28
Income Statement (PKR Millions)	**FY22A**	**FY23A**	**FY24A**
Net Sales	81,093.52	95,832.14	115,324.94
Gross Profit	22,551.84	26,060.67	38,804.57
Operating Profit	21,815.75	22,075.20	42,015.67
Finance Costs	394.52	1,169.77	1,581.17
Profit Before Tax	21,421.23	20,905.43	40,434.50
Profit After Tax	15,298.62	13,725.80	28,106.53
Ratio Analysis	**FY22A**	**FY23A**	**FY24A**
Gross Margin (%)	27.81%	27.19%	33.65%
Operating Margin (%)	26.90%	23.04%	36.43%
Net Margin (%)	18.87%	14.32%	24.37%
Funds from Operation (FFO) (PKR Millions)	23,510.78	25,660.45	44,810.87
FFO to Total Debt* (%)	150.75%	121.95%	220.26%
FFO to Long Term Debt* (%)	161.08%	169.30%	301.56%
Gearing (x)	0.12	0.15	0.14
Leverage (x)	0.44	0.55	0.58
Debt Servicing Coverage Ratio* (x)	28.49	20.44	19.93
Current Ratio (x)	1.48	1.29	1.26
(Stock in trade + trade debts) / STD (x)	21.90	4.29	5.47
Return on Average Assets* (%)	8.96%	6.90%	12.57%
Return on Average Equity* (%)	12.66%	10.32%	19.72%
Cash Conversion Cycle (days)	26.62	29.05	24.63
**Annualized, if required*			
A - Actual Accounts			
P - Projected Accounts			
M - Management Accounts			

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Lucky Cement Limited
Sector	Cement
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
08/11/2024	**AA+**	**A1+**	**Stable**	**Reaffirmed**
31/10/2023	AA+	A1+	Stable	Reaffirmed
10/06/2022	AA+	A1+	Stable	Reaffirmed
03/05/2021	AA+	A1+	Stable	Reaffirmed
19/02/2020	AA+	A1+	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.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Aftab Ahmed	Sr. DGM Finance	15 August, 2024