RATING REPORT

Lucky Core Industries Limited (Formerly ICI Pakistan Limited)

REPORT DATE:
July 10, 2023

RATING ANALYST:

Shaheryar Khan Mangan
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Rating Details	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA	A-1+	AA	A-1+
Rating Date	*July 10, 2023*		*June 30,2022*	
Rating Outlook	Maintained		Stable	
Rating Action	Rating Watch-Developing		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1952	**External auditors:** EY Ford Rhodes Chartered Accountants
Public Limited Company	**Chairman:** Mr. Muhammad Sohail Tabba
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Asif Jooma
Lucky Cement Limited- 55% *Yunus Textile Mills Limited- 12.01%* *Lucky Textile Mills Limited- 6.23%* *Gadoon Textile Mills Limited-7.21%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates ***(May 2023)*** *https://docs.vis.com.pk/docs/CorporateMethodology.pdf*

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: *https://docs.vis.com.pk/docs/VISRatingScales.pdf*

Lucky Core Industries Limited (Formerly ICI Pakistan Limited)

OVERVIEW OF THE INSTITUTION

Lucky Core Industries Limited (Formerly ICI Pakistan Limited) was incorporated in 1952 as a public limited company. LCI is listed on Pakistan Stock Exchange Limited, with the head office situated in Karachi, and regional offices located in Lahore, Islamabad, Sheikhupura, Khewra, Hattar, Faisalabad, Sahiwal, Multan, Kasur, Peshawar, Sukkur and Hyderabad.

Profile of Chairman

Mr. Muhammad Sohail Tabba is an industry veteran with experience in diverse sectors – manufacturing, cement, energy, entertainment, real estate and philanthropy – spanning over almost three decades. Mr. Sohail is the CEO of Gadoon Textile Mills Limited, Lucky Knits Private Limited and Director of Yunus Textile Mills Limited, Lucky Textile Mills Limited – is spearheading Pakistan's leading company, YBG, in the arenas of textiles globally.

Profile of CEO

Asif Jooma has over 35 years of extensive experience in senior commercial and leadership roles. Mr. Jooma currently serves on the Board of International

RATING RATIONALE

Lucky Core Industries Limited (Formerly ICI Pakistan Limited) is a diversified business conglomerate listed on Pakistan Stock Exchange. The Company's product portfolio comprises Soda Ash, Polyester Staple Fibre (PSF), General and Specialty Chemicals, Pharmaceuticals, Nutraceuticals, Animal Health products and Agricultural products (Chemicals, Field crop seeds, Vegetable seeds, etc). LCI provides an array of drugs in the area of cardiology, oncology, probiotics and others. The Company has an investment in wholly owned Subsidiary "Lucky Core PowerGen Limited". It also has an investment in NutriCo Morinaga (Private) Limited, an Associate Company engaged in manufacturing, marketing and distributing formula products. Production facilities of the Company are located in Karachi, Lahore, Khewra (Jhelum), Sheikhupura, Kasur and Hattar. During the year under review, LCI divested its partial stake in NutriCo Morinaga, which constitutes around 26.5% of the issued and paid up capital to Morinaga Milk Industry Co. Ltd, Japan. Subsequent to this sale transaction, LCI's shareholding in NutriCo Morinaga stands at approximately 24.5%. Moreover, during the year, the company has incorporated two subsidiary companies namely; Lucky TG (Private) Limited and Lucky Core Ventures (Private) Limited.

<u>Business Update – LCI</u>

Operations, Sales & Profitability

Table 1: Capacity Utilization – Major Segments

MT	FY18	FY19	FY20	FY21	FY22
Soda Ash					
Capacity	425,000	425,000	425,000	425,000	442,000
Production	378,248	422,168	372,518	395,609	443,974
Utilization	89%	99%	88%	93%	100%
Sodium Bicarbonate					
Capacity	40,000	40,000	40,000	54,000	54,000
Production	38,000	40,353	38,122	45,522	46,217
Utilization	95%	101%	95%	84%	86%
Polyester					
Capacity	122,250	122,250	122,250	122,250	122,250
Production	126,853	121,585	108,339	137,720	139,099
Utilization	104%	99%	89%	113%	114%

- During FY22, LCI increased its Soda Ash production capacity by 75,000 MT in Jun'22, bringing the total capacity to stand at 500,000 MT. Further, in Mar'23, capacity was further expanded by 60,000 MT, taking the total capacity to 560,000 MT.
- Albeit a miniscule increase in the capacity utilization of Sodium Bicarbonate and Polyester, it remains on the higher side.
- Capacity utilization of Soda Ash crossed the 100% mark, of which, 41,595 metric tonnes was transferred for production of 46,217 tonnes of Sodium Bicarbonate.

Table 2: Sales & Profitability

	FY21	FY22	9M'FY22	9M'FY23
Sales	**62,618**	**86,972**	**62,441**	**80,309**
Sales Growth (%)	*16.8%*	*38.9%*	*34.2%*	*28.6%*
Gross Margin	22.9%	21.4%	22.1%	20.0%
Operating Margin	13.4%	13.5%	13.9%	13.0%
Net Margin	9.5%	7.2%	8.8%	18.2%

- LCI has been posting a strong topline growth at a CAGR of 16% in past six years (FY17-FY22), with an exception in FY20. During FY22, LCI posted a topline growth of 39% on the back of growth across all businesses. Sales of polyester contributed more than half of the sales growth, followed by sales of Soda Ash, which contributed around 34% to the uptick. Growth in 9M'FY23 emanated mainly from Soda Ash, accounting for around 71% of the revenue growth, primarily resulting from additional volumes from the Soda Ash business following the successful

Industries Limited, NutriCo Morinaga (Private) Limited Systems Limited and Pakistan Tobacco Company Limited

Mr. Jooma graduated cum laude from Boston University with a Bachelor of Arts in Development Economics. He has attended Executive Development Programmes at INSEAD and Harvard Business School.

commissioning of the 135,000 tonnes per annum (TPA) Soda Ash expansion project. Of the 135,000 TPA, 60,000 TPA were commissioned in March 2023, while the 75,000 TPA expansion was completed in Jun'22.

Table 3: Segment-wise Breakup of Sales

	FY21	FY22	9M'FY22	9M'FY23	▲FY22	▲9M'FY23
Sales	**62.6**	**87.1**	**62.4**	**80.3**	**24.4**	**17.9**
Polyester	24.3	*36.7*	26.5	*29.6*	*12.4*	*3.1*
Soda Ash	16.7	*25.1*	17.5	*30.2*	*8.4*	*12.7*
Pharmaceuticals	7.8	8.9	6.5	6.7	1.1	0.2
Animal Health	5.1	5.6	4.2	5.3	0.5	1.1
Chemicals and Agri Sciences	8.7	10.8	7.8	8.6	2.1	0.8

- With regards to the gross margins of each segment, margins of Pharmaceuticals, Animal Health and Chemicals and Agri Sciences ticked up in FY22 while margins of Polyester and Soda Ash contracted, which has restrained the overall gross margins of the Company. Further contraction in overall gross margin was noted in 9M'FY23, on account of dip in gross margins of all the segments, barring Chemicals and Agri Sciences.

Table 4: Segment-wise Gross Margins

	FY21	FY22	9M'FY23
Gross Margin	**22.9%**	**21.4%**	**19.9%**
Polyester	*13.6%*	*12.5%*	*9.0%*
Soda Ash	*30.8%*	*26.1%*	*23.9%*
Pharmaceuticals	32.6%	33.7%	32.8%
Animal Health	23.8%	29.1%	27.7%
Chemicals and Agri Sciences	24.6%	26.6%	28.7%

A brief business overview of each segment is as follows

- **Polyester:** The segment reported a topline growth of 51% and 12% in FY22 and 9M'FY23 respectively, which was attributable to higher import offers and higher prices led by the rise in input costs, rupee devaluation and supply chain disruptions. Growth in revenue from polyester was subdued during 9M'FY23 due to slowdown in the textile industry on the back of current macroeconomic situation both locally and internationally. Gross margins have shrank in FY22 while the same trend continued in 9M'FY23 on backup of rise in input costs, higher energy costs and reduction in energy subsidy by the Government to the Textile Sector. Going forward, growth in textile industry is expected to remain under stress given the economic headwinds being faced by the industry.
- **Soda Ash:** The topline of Soda Ash segment has shown a strong growth of 50% and 72% in FY22 and 9M'FY23 respectively. The uptick in FY22 revenue was a result of recovery in the demand post pandemic whereas higher revenues in FY23 were primarily resulting from additional volumes following the successful commissioning of the 135,000 tonnes per annum (TPA) Soda Ash expansion project of which 60,000 TPA were commissioned in March 2023, while the 75,000 TPA expansion was completed in Jun'22. Additional volumes coupled with cost push price adjustments due to inflationary increases on account of the devaluation of the Pak Rupee led to higher revenue by 72% versus the SPLY.
- Margins have dropped in FY22 and subsequently in 9M'F23 owing to input cost increases due to PKR devaluation, higher energy prices and inflationary pressures, albeit they remain strong. With the aforesaid expansion becoming operational, revenue of the segment is expected to augment, going forward. However, given the economic slowdown, growth is expected to remain on lower side.
- **Pharmaceutical:** Revenue emanating from pharmaceutical segment posted growth of 14% in FY22 owing to an improved product sales mix including contribution from new product launches whereas growth of 4% was witnessed in 9M'FY23 primarily on account of improvement in product sales mix partly offset by decline in sales volume. The improvement in the product mix has also trickled down into the gross margins, albeit a marginal decline was noted in 9M'FY23. The pharmaceutical industry is currently facing economic distress given the exponential rise in the cost of raw materials on the back of galloping inflation, imposition of sales tax and currency devaluation, thereby exerting pressure on the Company's margin. However, DRAP has recently

raised the retail prices of general medicines ranging up to 20% which will provide some relief. Nevertheless, Company's margins will remain under pressure.

- **Animal Health:** In spite of the challenges faced by the industry, such as price hikes, unavailability of raw materials, inflation, currency devaluation, and higher input costs, the Animal Health business managed to achieve growth of 10% and 27% in FY22 and M'FY23 respectively. The growth is mainly driven by strong performance of its locally manufactured farmer's choice portfolio. Gross margins have remained strong, albeit a slight dip in 9'MFY23 was observed. Going forward, given the challenges on the macro-economic front, demand is expected to be under stress, thereby impacting the topline of the segment.
- **Chemical & Agri Sciences:** Sales growth in the segment was relatively elevated in FY22 vis-à-vis SPLY, coming in at 24%. Growth in FY22 is attributable to improved demand amid consistent growth in the manufacturing industry. In spite of the catastrophic monsoon floods in the country, the Agri Sciences segment was able to post strong performance by leveraging its diversified portfolio. However, during 9M'FY23, Chemical business was dented due to uncertain economic condition in the midst of slowdown in activities across the country, which was further aggravated by the monsoon floods inflicting unprecedented damage across the country. In spite of the challenges, the segment managed to post a growth of 10%, albeit lower vis-à-vis SPLY. Margins in both the periods ascended owing to effective margin management and operational improvements. Going forward, given the challenges posed on the macroeconomic front, topline and profitability is expected to come under stress.
- **Float Glass JV:** During Feb'22, a Joint Venture and Shareholder's agreement was inked with Tariq Glass Industries for setting up a state-of-the-art float glass manufacturing facility, via incorporation of a joint venture company (JVCO), with a production capacity of up to 1,000 metric tonnes a day, to be set up in two phases of up to 500 metric tonnes each. The project will require equity injection of Rs. 4.6 Billion (LCI's share) Management estimates its completion in between 18-24 months subject to ease in import restrictions.

Financial Risk Profile

Table 5: Cash Flow Coverages & Financial Risk Indicators (All Figures in PKR' Millions, unless stated otherwise)

	Jun'21	Jun'22	Mar'23
Net Margin	9.5%	7.2%	18.2%
FFO*	**9,741**	**10,959**	**20,094**
Debt	**7,037**	**17,208**	**22,255**
- **Long Term**	5,238	5,883	4,929
- **Short Term**	1,799	11,325	17,327
Equity	**23,879**	**26,391**	**38,716**
FFO to Debt	138%	64%	120%**
FFO to LT Debt	186%	186%	544%**
Current Ratio	1.24	1.01	1.39
Gearing	0.29x	0.65x	0.57x
Leverage	0.83x	1.27x	1.06x
DSCR	5.44x	5.69x	8.44x**
*** Includes dividend on subsidiaries & associates and interest received on deposits **Annualized**			

- LCI's net margin reached double digits in the first nine months of FY23 mainly due to one off capital gain on disposal of 26.5% NutriCo Morinaga (Private) Limited shares.
- Short term borrowings has shown an upward trajectory wherein the borrowings has increased exponentially from Jun'21 to 9M'FY23. The increase in short term borrowings is attributable to increasing working capital requirements owing to local currency depreciation, increase in commodity prices and supply chain disruptions. Short term borrowings comprise of export refinance scheme and short term running finance.
- With an increase in short term borrowings, liquidity measures, such as coverage of short term debt by inventory and stock in trade, have come under distress, albeit the current ratio improved in 9M'FY23.
- In spite of the higher discount rate, debt service coverage has depicted a significant improvement owing to an exponential increase in FFO on the back of proceeds from sale of investments in NutriCo Morinaga (Private) Limited.

- Albeit the increase in total debt due to increase in short term borrowings, gearing and leverage indicators have witnessed contraction in 9M'FY23 on account of increase in the equity base of the Company. Given the financing requirement for financing the expansion project and for setting up the float glass manufacturing facility, gearing and leverage is expected to elevate.
- LCI has earmarked sales proceeds from NutriCo shares divestment and related profit being earned from investing these sales proceeds for acquisition of Lotte Chemicals. This would minimize debt requirements to execute the transaction. The completion of acquisition transaction is subject to receipt of requisite regulatory approvals and fulfilment of other conditions pursuant to the Share Purchase Agreement.

Key Rating Drivers

Assigned rating draws support from the strength of the sponsors
Assigned ratings of LCI incorporate strong financial profile and diversified presence of the Company's sponsor, Yunus Brothers Group (YBG) which is a leading conglomerate having presence across multiple sectors including Cement, Power, Real Estate, Textiles, Chemicals, Pharmaceuticals, Healthcare, Food and Automotive Sectors.

The assigned ratings incorporates low and diversified business risk profile of the Company
Business risk profile of the company is considered well-diversified with minimal inter-dependence between segments. Ratings incorporate LCI's market leadership position in the soda ash segment, second largest market share in polyester segment, low business risk profile of the pharmaceuticals segment, and sizeable growth potential in the animal health and chemicals and agri-sciences divisions. While all business segments remain exposed to adverse economic conditions prevailing in the country amid import hiccups, galloping inflation, rising input costs, and currency devaluation, ratings continue to derive strength from the diversity across industries, existence in businesses/ products which are essential to the needs of local customers and supported by historical track record of sustained profitability. LCI has earmarked sales proceeds from NutriCo shares divestment and related profit being earned from investing these sales proceeds, for acquisition of Lotte Chemicals, which will provide impetus to the business profile of the Company.

Assigned ratings takes into account financial risk profile and cash flow coverage indicators
Assessment of financial risk profile depicts a steady increase in gearing and leverage indicators on the back of increased short term borrowings resulting from higher working capital requirements. However, cash flow coverage indicators remain comfortable and in line with assigned rating. Going forward, given the financing requirement for financing expansion projects along with planned acquisition, gearing is expected to increase.

Lucky Core Industries Limited ***(Formerly ICI Pakistan Limited)*** **Appendix I**

Lucky Core Industries Limited (Unconsolidated Financial Summary) (PKR m)							
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets (PPE)	19,613.5	20,576.3	19,620.8	18,907.7	19,379.8	26,867.2	27,720.8
Long term Investments	2,954.3	3,913.1	3,913.1	3,186.8	3,696.8	4,467.0	2,407.3
Short term investments	-	-	-	-	-	-	12,176.9
Stock-in-Trade	5,746.6	8,737.6	9,841.2	9,327.8	11,286.4	16,668.9	19,652.6
Trade Debts	2,547.3	2,605.8	2,388.0	2,289.0	2,653.8	3,613.5	4,834.0
Cash & Bank Balances	141.7	218.8	237.4	246.4	234.0	352.9	2,267.5
Total Assets	36,155.9	43,148.1	43,514.2	41,509.1	43,803.6	59,940.8	79,857.4
Trade and Other Payables	10,040.0	6,159.8	7,185.1	8,231.4	10,991.5	11,387.1	12,677.4
Long Term Debt	5,553.7	9,200.5	8,454.2	7,690.0	5,238.3	5,882.5	4,929.0
Short Term Debt	2,118.4	7,356.5	7,056.4	3,399.2	1,799.1	11,325.4	17,326.9
Total Debt	7,672.1	16,557.0	15,510.5	11,089.1	7,037.4	17,207.9	22,255.9
Total Liabilities	19,228.1	25,066.7	24,905.3	21,277.3	19,924.4	33,549.7	41,141.0
Paid Up Capital	923.6	923.6	923.6	923.6	923.6	923.6	923.6
Total Equity (without revaluation surplus)	16,183.9	17,411.9	18,608.9	20,231.8	23,879.2	26,391.1	38,716.4
INCOME STATEMENT							
Net Sales	41,363.7	49,107.6	58,328.8	53,598.5	62,618.0	86,972.2	80,308.8
Gross Profit	7,765.5	8,554.2	9,451.7	10,556.3	14,348.2	18,619.0	16,024.3
Operating Profit	4,043.6	4,397.8	4,935.4	5,669.2	8,398.8	11,753.4	10,416.8
Profit Before Tax	4,394.4	3,650.4	3,180.5	4,329.8	8,228.8	10,199.1	17,976.9
Profit After Tax	3,296.1	3,059.7	2,304.9	3,095.8	5,959.4	6,248.6	14,634.3
RATIO ANALYSIS							
Gross Margin (%)	18.8%	17.3%	16.2%	19.7%	22.9%	21.4%	20.0%
Net Margin	8.0%	6.2%	4.0%	5.8%	9.5%	7.2%	18.2%
Net Working Capital	175.4	2,447.5	2,209.2	3,605.0	3,527.6	218.6	13,417.2
Trade debts/Sales	6%	5%	4%	4%	4%	4%	5%*
Adjusted FFO	6,408.6	5,217.5	4,989.5	6,265.5	9,741	10,959	20,094
FFO to Total Debt (%)	84%	32%	32%	57%	138%	64%	120%*
FFO to Long Term Debt (%)	115%	57%	59%	81%	186%	186%	542%*
Current Ratio (x)	1.01	1.17	1.13	1.27	1.24	1.01	1.39
Debt Servicing Coverage Ratio (x)	8.97	5.02	2.73	2.36	5.44	5.69	8.44*
Gearing (x)	0.47	0.95	0.83	0.55	0.29	0.65	0.57
Leverage (x)	1.19	1.44	1.34	1.05	0.83	1.27	1.06
Dividend payout	50%	50%	36%	49%	62%	52%	6.3%
(Stock in Trade+Trade Debts)/STD	392%	154%	173%	342%	775%	179%	141%
ROAA (%)	10%	7.7%	5.3%	7.3%	13.9%	12.0%	27.9%*
ROAE (%)	22%	18.2%	12.8%	15.9%	27.0%	24.9%	59.9%*
*Annualized							

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Lucky Core Industries Limited *(Formerly ICI Pakistan Limited)*				
Sector	Chemicals				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	Jul-10-2023	AA	A-1+	Maintained	Rating Watch-Developing
	Jun-30-2022	AA	A-1+	Stable	Reaffirmed
	Apr-9-2021	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**	
	1	Mr. Farhan Patel	Head of Corporate Finance	22-May-2023	
	3	Mr. Umair Ali Bhatti	Planning & Treasury Manager		