# RATING REPORT

# Lucky Core Industries Limited

**REPORT DATE:**
March 05, 2025

**RATING ANALYST:**
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| Rating Details | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity** | AA | A1+ | AA | A1+ |
| **Rating Outlook/Watch** | Positive | | Stable | |
| **Rating Action** | *Maintained* | | *Maintained* | |
| ***Rating Date*** | *March 05, 2025* | | *February 28, 2024* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 1952** | **External auditors:** A F Ferguson & Co 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%*<br>*Yunus Textile Mills Limited- 12.01%*<br>*Gadoon Textile Mills Limited-7.20%*<br>*Lucky Textile Mills Limited- 6.23%*<br>*State Life Insurance Corp of Pakistan 5.36%* | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria: Industrial Corporates** |
| *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* |

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

**Lucky Core Industries 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.

**Group Profile:** Yunus Brothers Group (YBG) is the sponsor of the Company and is a leading conglomerate having presence across multiple sectors including Cement, Power, Real Estate, Textiles, Chemicals, Pharmaceuticals, Healthcare, Food and Automotive Sectors.

## Company Profile

Lucky Core Industries Limited ("LCI"), a diversified conglomerate listed on the Pakistan Stock Exchange, offers a wide range of products, including Soda Ash, Polyester Staple Fiber (PSF), Chemicals, Pharmaceuticals, Animal Health products, and Agricultural inputs. On September 6, 2024, LCI acquired a manufacturing facility, selected pharmaceutical products, brands and associated trademarks from Pfizer Pakistan Limited and other relevant Pfizer group entities. The Company has an investment in wholly owned Subsidiary Lucky Core Powergen Limited with investments in NutriCo Morinaga (Private) Limited, an associate Company engaged in manufacturing, marketing, and distributing formula products. In line with its growth strategy, LCI is committed to expanding its operational footprint and enhancing its product offerings across various sectors while navigating the challenges posed by the economic environment.

## 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. LCI is majority owned by Lucky Cement Limited with the total Group's shareholding standing at 81.54% of the paid-up capital. YBG's business interests span across various sectors including Cement, Textiles, Power Generation, Chemicals, Automobiles, Pharmaceuticals, Healthcare, Real Estate, Entertainment, Food & Commodities, retail, among others.

## Operational Profile

Lucky Core Industries Limited (LCI) operates manufacturing facilities in key locations across Pakistan. Its facilities include a Soda Ash plant in Khewra, District Jhelum; Polyester Staple Fiber and related manufacturing units in Sheikhupura; and various production units in Karachi, Lahore, Haripur, and Kasur.

**Table 1: Capacity Utilization – Major Segments**

| MT | FY20 | FY21 | FY22 | FY23 | FY24 |
|---|---|---|---|---|---|
| **Soda Ash** | | | | | |
| **Capacity** | 425,000 | 425,000 | 442,000 | 560,000 | 560,000 |
| **Production** | 372,518 | 395,609 | 443,974 | 512,002 | 544,572 |
| **Utilization** | 88% | 93% | 100% | 91% | 97% |
| **Sodium Bicarbonate** | | | | | |
| **Capacity** | 40,000 | 54,000 | 54,000 | 54,000 | 54,000 |
| **Production** | 38,122 | 45,522 | 46,217 | 42,150 | 47,250 |
| **Utilization** | 95% | 84% | 86% | 78% | 87% |
| **Polyester** | | | | | |
| **Capacity** | 122,250 | 122,250 | 122,250 | 122,250 | 122,250 |
| **Production** | 108,339 | 137,720 | 139,099 | 124,866 | 111,507 |
| **Utilization** | 89% | 113% | 114% | 102% | 91% |

- In FY24, production of Soda Ash increased to 544,572 MT, achieving a utilization rate of 97%, supported by increased exports to Bangladesh and China.
- Polyester capacity utilization declined to 91% (FY23: 102%) in FY24, with production reducing from 124,866 MT to 111,507 MT. This was due to a slump in demand from the textile sector amidst a constrained economic environment.
- Due to the diverse nature of products and limited trade in certain items, quantifying capacity and assessing production performance across other business segments is challenging.

## Industry Overview

**Soda Ash** In the FY24, Pakistan's soda ash sector experienced a contraction in domestic demand, with market consumption decreasing by 4% to 590,000 tons. To mitigate the effects of declining domestic demand, the industry shifted focus towards international markets, achieving record exports of 150,000 tons and generating $40 million in foreign exchange.

The total industry capacity for soda ash stood at 910,000 tons, with LCI contributing 560,000 tons. LCI has announced plans to expand its production capacity by an additional 200,000 tons over the next two to three years, aiming to increase total capacity to 760,000 tons per annum. This expansion is currently in the design phase, expected to take one year, followed by the construction phase. Additionally, LCI plans to add a dense ash capacity of 70,000 tons by March 2025.

Going forward, the State Bank of Pakistan (SBP) projects a real GDP growth rate between 2.5% and 3.5%, with anticipated improvements in the industrial and services sectors. This is expected to also influence the soda ash industry positively, normalizing domestic demand. However, challenges such as energy costs and global market conditions remain pertinent factors that could impact the sector’s performance.

### Polyester

The demand for polyester staple fiber (PSF) in Pakistan, largely driven by the textile sector, hovers around 459,388 metric tons annually. While domestic production capacity exists, ~10% of the market is supplied by imports mainly from China. These imports create competition, which pressures profit margins for local manufacturers including LCI. The industry is also affected by high energy costs, currency fluctuations, and price volatility of raw materials such as PTA and MEG. The future growth of domestic manufacturers depends on overcoming these challenges and improvement in the overall business environment.

### Pharmaceuticals

Pakistan pharmaceutical industry is essentially concentrated on drug formulation rather than innovation. As a formulation industry, its pharmaceutical products mostly include tablets, liquids and syrups, injections, capsules, tinctures and ointments. The Pharma market is dominated by locally manufactured pharmaceuticals, predominantly generic drug manufacturers, which meet approximately 70 % of the country’s needs. The remaining 30% is met by local manufacturing of multinational companies (MNCs) and imports.

Domestic pharmaceutical sales have grown 15.3 %, compounded annually in 2019–23, outperforming multinational companies (MNCs), which saw a growth of 9.34 % CAGR. Currently Pakistan has more than 800 pharmaceutical formulation units, including those operated by 25 multinationals present in the country. The pharmaceutical market in Pakistan is expected to reach close to Rs one trillion by 2025, driven by increasing local production and healthcare spending and price deregulation of the non-essential drugs in February 2024.

The pharmaceutical sector outlook in Pakistan remains positive driven by population growth, increasing health awareness, rising personal income and heavier disease burden. Pakistan is also strategically positioned to capitalize on the shifts in global supply and demand patterns. Nonetheless, the ongoing trend of relying on imports for majority of raw materials is unsustainable as a permanent strategy for the industry.

## Key Rating Drivers

### Business Risk Profile

#### Industry Risk – Soda Ash: Medium to Low

The business risk profile for Pakistan's soda ash manufacturing sector is assessed as medium to low, considering factors such as competition, capital intensity, and energy sensitivity. The sector is characterized by a few dominant players, notably Lucky Core Industries, which holds approximately 65-70% of the market share, and Olympia Chemicals, with around 20-25%. The industry is capital-intensive, requiring substantial investment in production facilities and technology to maintain competitiveness. Energy sensitivity is significant, as soda ash production is energy-intensive, making manufacturers vulnerable to fluctuations in energy prices and supply stability.

#### Industry Risk - Polyester Manufacturing: High to Medium

The business risk profile for Pakistan's polyester manufacturing sector is assessed as High to Medium, considering factors such as demand cyclicality, competition, substitution, exchange rate and energy sensitivity.

Demand for polyester products is closely linked to the textile industry, which is subject to economic cycles. Economic downturns can lead to reduced demand for polyester, affecting production volumes and profitability.

The sector faces competition from both domestic and international players. Barriers to entry are moderate, with significant capital investment required for establishing manufacturing facilities. Substitution risk exists as natural fibers like cotton can replace polyester, depending on market preferences and price dynamics. Growth trends are influenced by global demand for textile products and shifts towards sustainable materials.

. Fluctuations in energy prices and supply can impact production costs and operational efficiency.

### Industry Risk - Pharmaceuticals: Low

The business risk profile for Pakistan's pharmaceutical manufacturing sector is assessed as low, considering factors such as demand stability, regulatory environment, and competition. Demand for pharmaceutical products in Pakistan is relatively inelastic, driven by consistent healthcare needs and growing population, which mitigate cyclicality risks. The sector is characterized by high barriers to entry due to stringent regulatory requirements enforced by the Drug Regulatory Authority of Pakistan (DRAP).

### Industry Risk – Agri Sciences: Medium

The business risk profile for Pakistan's agri-sciences sector, focusing on agricultural chemicals and seeds, is assessed as medium, considering factors such as regulatory risk, competition, and technology risk.

The sector faces regulatory challenges, including stringent approval processes and over-regulation, which can hinder investment and innovation. Competition is significant, with low barriers to entry leading to market fragmentation and prevalence of counterfeit products, impacting growth and profitability. Technological advancements require continuous investment in research and development to improve product efficacy and meet evolving agricultural needs.

### Assigned rating draws support from the sponsors strength

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, Retail, Food and Automotive and Communication Sectors.

### The assigned ratings incorporate low and diversified business risk profile of the Company

The business risk profile of the company is considered low given well-diversified and minimal inter-dependent business 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.

## Financial Risk Profile

**Table 2: Sales & Profitability**

| PKR mln | FY22A | FY23A | FY24A | 3MFY24M | 3MFY25M |
|---|---|---|---|---|---|
| **Sales** | **86,972** | **109,486** | **120,460** | **29,100** | **30,737** |
| **Sales Growth (%)** | 38.89% | 25.89% | 10.02% | 20.09% | 5.62% |
| **Gross Margin** | 21.41% | 20.22% | 22.34% | 21.66% | 21.99% |
| **Operating Margin** | 13.51% | 13.38% | 14.24% | 14.09% | 13.68% |
| **Net Margin** | 7.18% | 12.58% | 9.25% | 8.64% | 8.44% |

In FY24, LCI reported a 10% growth in net turnover, reaching PKR 120.5 billion, supported by the Soda Ash and Pharmaceuticals businesses, with stable volumes and increasing prices, negating the impact of lower performance of their polyester segment on profitability. In 1QFY25, net turnover increased further by 6% year-on-year to PKR 30.7 billion, with Pharmaceuticals and Polyester segments growing by 54% and 20%, respectively. Growth in polyester is supported by a slight recovery noted in the domestic textile segment during the period. Going forward, profitability is expected to receive further support from the recently acquired manufacturing facility and brands from Pfizer entities.

**Table 3: Segment-wise Breakup of Sales**

| PKR bln | FY22A | FY23A | FY24A | 3MFY24M | 3MFY25M |
|---|---|---|---|---|---|
| **Sales** | **86.9** | **109.4** | **120.4** | **29.1** | **30.7** |
| **Polyester** | 36.6 | 40.4 | 40.2 | 9.3 | 11.2 |
| **Soda Ash** | 25.0 | 41.4 | 47.6 | 12.2 | 11.1 |
| **Pharmaceuticals** | 8.8 | 9.2 | 12.2 | 2.7 | 4.1 |
| **Animal Health** | 5.6 | 6.8 | 6.7 | 1.5 | 1.3 |
| **Chemicals and Agri Sciences** | 10.8 | 11.7 | 13.7 | 3.3 | 3.0 |

In FY24, LCI's gross margins varied across segments. Pharmaceuticals saw improvements due to stability in PKR and operational efficiencies. Chemicals and Agri Sciences maintained stable margins, despite challenges. However, Polyester experienced margin contractions from higher energy costs and competitive pressures amid subdued demand. In 1QFY25, margins remained mostly stable supported by the diverse nature of the Company's portfolio with investment across cyclical and non-cyclical industries.

**Table 4: Segment-wise Gross Margins**

| | FY23 | FY24 | 3M'FY25 |
|---|---|---|---|
| **Gross Margin** | **20.2%** | **22.3%** | **21.9%** |
| **Polyester** | *9.3%* | 5.4% | *5.2%* |
| **Soda Ash** | *24.6%* | *29.5%* | *30.2%* |
| **Pharmaceuticals** | 31.2% | 38.9% | 36.3% |
| **Animal Health** | 27.9% | 27.2% | 35.2% |
| **Chemicals and Agri Sciences** | 28.7% | 29.5% | 28.4% |

The Company maintains a conservative capitalization profile, with a five-year average gearing and leverage ratios of 0.48x and 1.04x, respectively. In FY24, strong internal cash generation allowed LCI to reduce its short-term debt, improving gearing to 0.39x (FY23: 0.53x) and leverage to 0.92x (FY23: 1.14x). However, in 1QFY25, debt financing for the acquisition of Pfizer's manufacturing facility and seven brands led to an increase in gearing to 0.54x and leverage to 1. 18x.The Company's strong liquidity, backed by substantial cash reserves and short-term investments, is reflected in a five-year average current ratio of 1.27x. In FY24, it improved to 1.47x (FY23: 1.36x), but normalized to 1.37x post-Pfizer acquisition.

Since the Company maintains a conservative debt profile, with strong internal cash generation, LCI has a sound coverage profile as reflected in a five-year average debt service coverage ratio (DSCR) of 3.91x. In 1QFY25, the DSCR remains healthy at 5.28x (FY24: 3.90x, FY23: 3.54x).

**Lucky Core Industries Limited** **Appendix I**

## Financial Summary

| Balance Sheet (PKR Millions) | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Property, plant and equipment | 27,508.26 | 29,766.51 | 35,308.51 |
| Right-of-use Assets | 116.71 | 182.46 | 302.33 |
| Intangible Assets | 1,663.88 | 1,682.95 | 2,655.17 |
| Long-term Investments | 2,687.89 | 2,412.49 | 2,412.49 |
| Stock-in-trade | 18,731.54 | 15,395.39 | 17,617.31 |
| Trade debts | 5,197.49 | 5,575.31 | 5,836.52 |
| Short-term Investments | 12,674.66 | 14,984.88 | 15,622.67 |
| Cash & Bank Balances | 900.26 | 2,264.53 | 2,930.57 |
| Other Assets | 11,585.98 | 11,301.22 | 11,113.90 |
| Total Assets | 81,066.67 | 83,565.74 | 93,799.47 |
| Creditors | 2,666.91 | 5,502.16 | 0.00 |
| Long-term Debt (incl. current portion) | 5,015.40 | 5,091.82 | 10,863.79 |
| Short-Term Borrowings | 15,001 | 11,735 | 12,520 |
| Total Debt | 20,016.05 | 16,826.32 | 23,383.48 |
| Other Liabilities | 20,553.07 | 17,661.25 | 27,292.36 |
| Total Liabilities | 43,236.03 | 39,989.73 | 50,675.84 |
| Paid up Capital | 923.59 | 923.59 | 923.59 |
| Revenue Reserve | 36,597.41 | 24,342.77 | 23,890.38 |
| Other Equity (excl. Revaluation Surplus) | 309.64 | 18,309.64 | 18,309.64 |
| Equity (excl. Revaluation Surplus) | 37,831 | 43,576 | 43,124 |

| Income Statement (PKR Millions) | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Net Sales | 109,486 | 120,460 | 30,737 |
| Gross Profit | 22,133.12 | 26,906.22 | 6,760.04 |
| Operating Profit | 24,790.93 | 20,038.02 | 4,824.51 |
| Finance Costs | 2,880.13 | 3,537.03 | 628.96 |
| Profit Before Tax | 21,910.80 | 16,500.99 | 4,195.55 |
| Profit After Tax | 13,772.40 | 11,140.22 | 2,595.45 |

| Ratio Analysis | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Gross Margin (%) | 20.22% | 22.34% | 21.99% |
| Operating Margin (%) | 22.64% | 16.63% | 15.70% |
| Net Margin (%) | 12.58% | 9.25% | 8.44% |
| Funds from Operation (FFO) (PKR Millions) | 11,311.12 | 13,908.04 | 4,213.75 |
| FFO to Total Debt* (%) | 57% | 83% | 72% |
| FFO to Long Term Debt* (%) | 226% | 273% | 155% |
| Gearing (x) | 0.53 | 0.39 | 0.54 |
| Leverage (x) | 1.14 | 0.92 | 1.18 |
| Debt Servicing Coverage Ratio* (x) | 3.54 | 3.90 | 5.28 |
| Current Ratio (x) | 1.36 | 1.47 | 1.37 |
| (Stock in trade + trade debts) / STD (x) | 1.92 | 2.29 | 2.31 |
| Return on Average Assets* (%) | 19.53% | 13.53% | 11.71% |
| Return on Average Equity* (%) | 42.89% | 27.37% | 23.95% |
| Cash Conversion Cycle (days) | 75.99 | 66.96 | 69.29 |

**Annualized, if required*

A - Actual Accounts
P - Projected Accounts
M - Management Accounts

| **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** | |
| **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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Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook/Watch | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| Mar-05-2025 | AA | A1+ | Positive | Maintained |
| Feb-28-2024 | AA | A1+ | Stable | Maintained |
| Jul-10-2023 | AA | A1+ | RW-Dev | Maintained |
| Jun-30-2022 | AA | A1+ | Stable | Reaffirmed |
| Apr-9-2021 | AA | A1+ | Stable | Initial |

**Due Diligence Meetings Conducted**

| | Name | Designation | Date |
|---|---|---|---|
| 1 | Mr. Farhan Patel | GM Corporate Finance | 08-01-2025 |
| 3 | Mr. Mohsin ul Ibad Haider | Head of Planning & Treasury | |