RATING REPORT

International Industries Limited

REPORT DATE:
February 01, 2017

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Date	*January 13, 2017*	

COMPANY INFORMATION	
Incorporated in 1949	External auditors: **KPMG, Taseer Hadi & Co, Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Mustapha A. Chinoy**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Riyaz T. Chinoy**
Directors, CEO, Sponsors and Family Members – 50.5%	
Associated Companies - 5.5%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016) ***http://www.jcrvis.com.pk/kc-meth.aspx***

International Industries Limited (IIL)

OVERVIEW OF THE INSTITUTION

International Industries Limited (IIL) was incorporated in Pakistan in 1948 and is quoted on the Pakistan Stock Exchange (PSX). IIL is in the business of manufacturing and marketing of galvanized steel pipes, precision steel tubes, API line pipes and polyethylene pipes.

Major shareholders of the company include Directors, CEO, Sponsors and Family members who collectively hold 50.57% of the shares. Remaining shareholding is held by general public (20.4%) and financial institutions.

IIL's subsidiaries and associates include International Steels Limited, IIL Stainless Steel (Pvt.) Ltd, IIL Australia Pty. Limited and Pakistan Cables Limited.

RATING RATIONALE

IIL is currently Pakistan's largest manufacturer of steel and plastic pipe with an annual pipe manufacturing capacity of 750,000 tons. To cater to its power related needs, IIL has an in-house co-generation plant with capacity of 4MW which is a source of competitive advantage. Excess power generated is sold to K-Electric Limited (KEL). The company also has investments in subsidiaries and associates with the most significant one being in International Steels Limited (ISL) amounting to Rs. 2.45b or 56%.

Sales mix of IIL is diversified in terms of local and export sales and comprises multiple products from two segments (steel and plastic). Local sales witnessed growth during FY16 and represent the major portion of company's sales. Over the last five years, export sales (in volumetric terms) have ranged between 30%-40% with the company exporting to 60 countries across five continents.

Market Position

The assigned ratings incorporate the company's position as the largest tube and pipe manufacturer in the country. Moreover, the extensive experience and track record of sponsors in the steel sector is also a key rating driver.

Business Risk

Steel sector is characterized by high business risk given the cyclical nature of the industry, volatility in steel prices and threat of dumping particularly from China. Duties on pipe imports along with IIL's strategy of keeping margins at competitive levels has facilitated in partly mitigating competition from imports. Moreover, current low per capita steel consumption and favorable demand outlook from industries (autos, construction and pipelines) catered to by IIL is expected to contribute positively to sales.

Profitability

Overall sales volume declined during FY16 due to lower exports on account of imposition of duty on exports to United States, the largest export market. The management has made up for lost sales from US during 1QFY17 vis-à-vis 1QFY16 by diversifying into other new markets and enhancing sales from existing markets. Moreover, International Trade Commission has fully overturned countervailing duty imposed on IIL by USA. Going forward, organic growth in traditional products along with sales from commissioning of large diameter steel pipe mill are expected to be the growth drivers for revenues. Moreover, sales from the plastic segment are also expected to increase with commissioning of PPRC fittings in the last quarter of FY17 which will supplement PPRC pipes currently being manufactured by IIL. Gross margins of the company have averaged 12.6% over the last five years. During FY16, gross margins of IIL improved to 16.6% (FY15: 10.6%) on account of inventory gains translating into improved profitability. With raw materials representing the major cost component and significant volatility in prices, efficient procurement, inventory management and volumetric off-take are critical to gross margins. Profitability of IIL is supported by increase in dividend income from subsidiary ISL which is expected to continue to grow.

Liquidity and Capitalization

Liquidity profile draws support from healthy cash flows in relation to outstanding obligations, improving working capital cycle (decline in days sales outstanding and increase in days payable outstanding) and ageing profile of trade debts. Given the increased volatility in raw material prices, inventory carried on the balance sheet has been reduced resulting in decline in borrowings. With an increase in equity base and decline in borrowings, leverage indicators have trended downwards. At end-1Q17, gearing and leverage stood at 0.85x and 1.27x, respectively. Even after sensitizing for lower than projected revenues and accounting for planned capex, debt servicing and gearing is expected to remain at manageable levels.

Corporate Governance

Overall corporate governance framework is supported by adequate board composition and oversight, stable and professional management team, strong internal control framework and focus on transparency and disclosures.

International Industries Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	30-June-16	30-June-15	30-June-14
Fixed Assets	4,852	3,622	3,502
Investments	2,743	2,743	2,593
Stock-in-Trade	4,058	3,653	6,671
Trade Debts	1,625	2,314	2,268
Cash & Bank Balances	16	25	72
Total Assets	13,977	13,138	16,247
Trade and Other Payables	1,859	1,375	3,160
Long Term Debt *(incl. current maturity)*	1,196	393	450
Short Term Debt	3,243	4,664	6,277
Tier-1 Equity	5,207	4,782	4,423
Total Equity	7,307	6,343	6,004
INCOME STATEMENT	**30-June-16**	**30-June-15**	**30-June-14**
Net Sales	14,821	17,674	16,341
Gross Profit	2,460	1,879	2,102
Operating Profit	1,387	1,100	1,338
Profit After Tax	786	731	503
RATIO ANALYSIS	**30-June-16**	**30-June-15**	**30-June-14**
Gross Margin (%)	16.6%	10.6%	12.9%
Net Working Capital	984	415	459
FFO to Total Debt (x)	0.28	0.16	0.08
FFO to Long Term Debt (x)	1.03	2.01	1.18
Debt Servicing Coverage Ratio (x)	3.14	1.96	1.65
ROAA (%)	5.8%	5%	3.3%
ROAE (%)	15.7%	15.9%	11.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 DISCLOSURE — Appendix III

Name of Rated Entity	International Industries Limited
Sector	Steel Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
13-Jan-17	AA-	A-1	Stable	Initial