

RATING REPORT

International Industries Limited (IIL)

REPORT DATE:

March 12, 2021

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	AA-/A-1	AA-/A-1
Rating Date	March 12, 2021	October 20, 2020
Rating Outlook	Stable	Rating Watch-Negative
Outlook Date	March 12, 2021	October 20, 2020

COMPANY INFORMATION

Incorporated in 1948	External auditors: M/s KPMG Taseer Hadi & Co.
Public Listed Company	Chairman of the Board: Mr. Mustapha A. Chinoy
	Chief Executive Officer: Mr. Kamal A. Chinoy
Key Stakeholders (with stake 5% or more):	
<i>Directors, CEO, Sponsors and Family Member - 50.3%</i>	
<i>Govt. Financial Institutions & Associates - 9.0%</i>	
<i>Banks, DFI & NBFIs and Insurance Companies - 9.3%</i>	
<i>Mutual Funds - 6.5%</i>	
<i>General Public - 18.7%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: *Corporates (May 2016)*
<https://www.vis.com.pk/kc-meth.aspx>

International Industries Limited (IIL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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 polymer pipes & fittings. During the year, IIL merged IIL Stainless Steel (Pvt) Limited into itself, which was a 100% wholly owned subsidiary. As at March 31, 2019, IIL's subsidiaries include International Steels Limited (ISL) and IIL Australia Pty. Limited along with an associate company namely Pakistan Cables Limited (PCL). IIL holds 17.124% shares of PCL.</p>	<p>International Industries Limited ('IIL' or 'the company') is primarily engaged in the manufacturing of steel and polymer pipes and fittings with an annual manufacturing capacity of 741,200MT. The company has a dominant market positioning in Pakistan with a nation-wide clientele. Sales are led by the North region consisting of Punjab, Khyber Pakhtunkhwa, Azad Jammu and Kashmir and Gilgit-Baltistan followed by the South region consisting of Sindh and Balochistan. IIL is also Pakistan's main exporter of pipes and tubes with a significant export footprint spanning 60 countries across 6 continents with over 850,000 tons of pipe exported to date. As of 2019, export sales contributed 14% of the gross sales of the company.</p> <p>Outlook Revision</p> <p>IIL was placed on a 'Rating Watch – Negative' in October 2020 on account of the cash flow coverage indicators sliding below the threshold for the assigned rating. However, the increased steel demand witnessed in H1'FY21, has translated in significant improvement in turnover and profitability, while finance cost has also reduced on the back of lower prevailing benchmark rates. As a result, cash flow coverage indicators have depicted improvement. In view of the same, the outlook has been revised to 'Stable'.</p>

International Industries Limited
Appendix I

FINANCIAL SUMMARY					
(amounts in Rs . millions)					
BALANCE SHEET	Jun'17	Jun'18	Jun'19	Jun'20	Dec'20
Plant, Property and Equipment	5,088	5,770	7,360	7,081	6,874
Long term investments	2,743	3,277	3,277	3,295	3,295
Stock-in-Trade	8,165	9,005	10,858	8,406	7,565
Trade Debts	1,982	2,319	2,988	3,559	5,542
Sales Tax Receivable	267	518	279	218	-
Cash & Bank Balances	7	262	251	299	354
Total Assets	18,516	22,465	25,327	23,140	24,598
Trade and Other Payables	2,996	2,073	2,764	1,846	1,955
Long Term Debt	1,288	2,149	1,993	1,988	3,156
Short Term Debt	5,899	8,310	9,425	9,394	8,127
Total Liabilities	10,658	13,571	15,378	14,194	14,547
Paid-up Capital	1,199	1,199	1,199	1,319	1,319
Tier 1 Equity	5,841	6,936	7,498	6,573	7,711
Net Worth	7,859	8,894	9,949	8,946	10,051
INCOME STATEMENT	FY17	FY18	FY19	FY20	H1'FY21
Net Sales	16,707	25,923	25,975	18,964	13,274
Gross Profit	2,840	3,305	2,826	1,371	1,800
Selling & Distribution	873	1,136	1,141	813	580
Finance Cost	224	442	924	1,238	348
Profit Before Tax	2,393	2,149	2,093	(430)	964
Profit After Tax	1,842	1,582	1,575	(694)	1,113
FFO	2,641	2,116	2,026	(368)	1,051
RATIO ANALYSIS	FY17	FY18	FY19	FY20	H1'FY21
Gross Margin (%)	16.9%	12.7%	10.9%	7.2%	13.6%
Net Margin (%)	11.0%	6.1%	6.1%	(3.7%)	8.4%
Current Ratio	1.2	1.2	1.1	1.0	1.2
(Trade Debt+Inventory)/ ST Borrowings	1.7	1.4	1.5	1.3	1.6
FFO to Long Term Debt (x)	2.1	1.0	1.0	(0.2)	0.67**
FFO to Total Debt (x)*	0.4	0.2	0.2	(0.0)	0.09**
Gearing ratio (x)	1.2	1.5	1.5	1.7	1.5
Leverage ratio (x)	1.8	2.0	2.1	2.2	1.9
DSCR (x)*	7.9	4.7	2.8	0.6	2.7**
ROAA (%)	11.3%	7.7%	6.6%	(2.9%)	4.7%**
ROAE (%)	33.4%	24.8%	21.8%	(9.9%)	15.6%**

*FFO is adjusted and includes dividend income from subsidiary-ISL

** Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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	International Industries Limited				
Sector	Steel Industry				
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				
	12-Mar-21	AA-	A-1	Stable	Maintained
	20-Oct-20	AA-	A-1	Rating Watch-Negative	Maintained
	21-Jun-19	AA-	A-1	Stable	Reaffirmed
	10-Apr-18	AA-	A-1	Stable	Reaffirmed
	13-Jan-17	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	NA				