

DRAFT RATING REPORT

International Industries Limited (IIL)

REPORT DATE:

November 13, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	AA-/A-1	AA-/A-1
Rating Date	November 13, 2023	April 06, 2023
Rating Outlook	Stable	Rating Watch-Developing
Rating Action	Maintained	Maintained

COMPANY INFORMATION

Incorporated in 1948	External auditors: M/s A.F. Ferguson & Co.
Public Listed Company	Chairman of the Board: Mr. Kamal A. Chinoy
	Chief Executive Officer: Mr. Sohail R. Bhojani
Key Stakeholders (with stake 5% or more):	
Directors, Sponsors and Family Members – 42.3%	
General Public – 30.3%	
Govt. Financial Institutions & Associates – 10.4%	
Public, Private and Other Companies – 8.4%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – 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>

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 manufactures and markets galvanized steel pipes, precision steel tubes, API line pipes and polymer pipes & fittings.</p> <p>As of June 30, 2023, IIL's subsidiaries include International Steels Limited (ISL) (owns 56.33%), IIL Americas Inc. (owns 100%), IIL Australia Pty Limited (owns 100%), and IIL Construction Solutions (Pvt.) Limited (owns 100%). Associate company include Pakistan Cables Limited (PCL) (owns 17.12% of PCL shares).</p>	<p>Corporate Profile</p> <p>International Industries Limited ("IIL" or "the Company") is one of the major producers of steel pipes, stainless steel tubes, and polymer pipes and fittings. There are two manufacturing facilities owned by the Company, one each in Karachi and Sheikhpura, having a combined capacity of about 765,000 MT. The Company has two wholly owned subsidiaries, IIL Americas Inc and IIL Australia Pty. Inc, giving it additional access to the international markets. Additionally, IIL Construction Solutions (Pvt.) Ltd. was established as a new wholly owned subsidiary in FY22 to offer the local market cutting-edge engineering services. IIL has a 4MW internal power generation capacity, which is sufficient to meet the needs of the business. In order to lower energy costs, the Company has also installed a 2MW solar power facility across two of its manufacturing units and plans to increase capacity by 1MW in the third unit over the rating horizon.</p> <p>Rationale for revision in rating outlook</p> <p>VIS has revised the outlook for IIL from "Rating Watch – Developing" to "Stable". This change reflects IIL's steady financial performance and slight improvement in capitalization factors, despite significant economic challenges experienced in FY23.</p> <p>In FY23, Pakistan's economy faced difficulties, including foreign exchange shortages that led to currency fluctuations and heightened inflation. The State Bank of Pakistan implemented contractionary measures to stabilize the economy, affecting sectors like construction, cement, and steel, resulting in reduced sales volumes and decreased capacity utilization.</p> <p>During this challenging period, IIL reported a significant decline in sales volumes, with capacity utilization dropping from ~29% in FY22 to ~15% in FY23. Notably, the galvanizing steel segment bore the brunt with a substantial ~39% decline. However, IIL managed to sustain its margins due to eased international steel prices. While impact of currency volatility on profitability was mitigated by timely pricing adjustments. Additionally, sound financial management, encompassing decreased borrowing, limited the impact of elevated interest rates on profitability, with efficient cost controls providing further support to the Company's bottom line. However, overall bottom-line growth remained constrained by lower volumetric sales.</p> <p>In FY23, IIL's capitalization metrics demonstrated slight improvement as both gearing and leverage ratios exhibited positive trends. Gearing reduced to 1.2x (FY22: 1.59x), and leverage was at 1.8x (FY22: 2.29x), reflecting a lower reliance on total debt. However, the Company did acquire a fresh long-term facility for short-term debt restructuring. The same had a positive effect on liquidity, resulting in a modest increase in the current ratio to 1.4x (FY22: 1.2x) due to reduced current liabilities. Meanwhile, there was a marginal deterioration in the coverage profile, mainly due to lower funds from operations stemming from constrained revenue and slightly higher financial charges, despite a reduction in total debt. Nonetheless, the Company's overall debt servicing profile remained healthy at 1.8x (FY22: 2.1x) in FY23.</p> <p>Going forward, ratings will remain sensitive to the Company's capitalization and liquidity metrics, sustained profitability, and the maintenance of coverage metrics in-line with the assigned ratings.</p>

FINANCIAL SUMMARY					
	(PKR Millions)				
BALANCE SHEET	FY19A	FY20A	FY21A	FY22A	FY23A
Property, plant and equipment	7,360.5	7,081.4	7,480.3	9,983.8	9,933.0
Stock-in-trade	10,857.7	8,405.8	11,923.5	13,577.8	14,105.8
Trade debts	2,988.1	3,558.7	5,138.2	8,800.4	5,270.8
Cash and bank balances	250.7	299.5	73.5	113.6	212.5
Total Assets	25,327.2	23,139.5	28,791.5	36,295.6	33,955.0
Trade and Other Payables	2,764.0	1,846.1	3,097.3	4,440.5	4,223.0
Long-term Debt (incl. current portion and lease liability)	1,993.1	1,988.1	2,961.3	2,425.4	4,613.0
Short term borrowings	9,425.1	9,394.5	10,181.5	12,637.3	7,345.0
Total Debt	11,418.2	11,382.6	13,142.8	15,062.7	11,958.0
Total Liabilities	15,378.2	14,194.0	17,292.9	21,701.3	18,707.0
Issued, subscribed and paid-up capital	1,198.9	1,318.8	1,318.8	1,318.8	1,318.0
Equity (excl. Revaluation Surplus)	7,498.1	6,573.2	8,438.0	9,484.0	10,340.0
INCOME STATEMENT	FY19A	FY20A	FY21A	FY22A	FY23A
Net Sales	25,975.1	18,964.2	28,940.1	37,857.9	26,789.0
Gross Profit	2,826.3	1,371.3	3,973.4	4,668.6	3,424.0
Operating Profit	3,017.4	808.5	3,014.5	4,838.8	4,617.0
Finance Costs	924.3	1,238.3	755.7	1,181.9	1,732.0
Profit Before Tax	2,093.1	-429.8	2,258.8	3,657.0	2,885.0
Profit After Tax	1,574.7	-694.2	2,314.6	2,155.7	2,275.0
RATIO ANALYSIS	FY19A	FY20A	FY21A	FY22A	FY23A
Gross Margin (%)	10.9%	7.2%	13.7%	12.3%	12.8%
Net Margin (%)	6.1%	-3.7%	8.0%	5.7%	8.5%
Funds from Operation (FFO)	2,025.9	-368.1	2,271.2	3,752.3	2,618.0
FFO to Total Debt (%)	17.7%	-3.2%	17.3%	24.9%	21.9%
FFO to Long Term Debt (%)	101.6%	-18.5%	76.7%	154.7%	56.8%
Gearing (x)	1.5	1.7	1.6	1.6	1.2
Leverage (x)	2.1	2.2	2.0	2.3	1.8
Debt Servicing Coverage Ratio (x)	2.4	0.5	1.8	2.1	1.8
Current Ratio	1.1	1.0	1.2	1.2	1.4
(Stock in trade + trade debts) / STD (x)	1.5	1.3	1.7	1.8	2.6
Return on Average Assets (%)	6.6%	-2.9%	8.9%	6.6%	6.5%
Return on Average Equity (%)	16.7%	-7.3%	22.6%	16.5%	15.2%

REGULATORY DISCLOSURES				Appendix II	
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				
	13-Nov-23	AA-	A-1	Stable	Maintained
	06-Apr-23	AA-	A-1	Rating Watch - Developing	Maintained
	11-May-22	AA-	A-1	Stable	Reaffirmed
	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	S.No.	Name	Designation	Date	
	1	Mr. Salman Najeeb	Financial Controller	September 12, 2023	