

RATING REPORT

International Industries Limited

REPORT DATE:

October 22, 2024

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	October 22, 2024		November 13, 2023	

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. Yousaf Hussain Mirza

Key Stakeholders (with stake 5% or more):

Directors, Sponsors and Family Members – 42.98%

General Public – 29%

Govt. Financial Institutions & Associates – 18.6%

Public, Private and Other Companies – 5%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

International Industries Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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. As of June 30, 2024, 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)

Corporate Profile

International Industries Limited (“IIL” or “the Company”) is one of the major producers of steel pipes, stainless steel tubes, and polymer pipes and fittings. Part of the Amir S. Chinoy group, the Company owns two separate manufacturing facilities, 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 to offer the local market cutting-edge engineering services. IIL has 4MW captive power generation capacity to meet the needs of the business. In order to lower energy costs, the Company has also installed a 6MW solar power facility across two of its manufacturing units.

Subsidiaries and Associates:

Subsidiary	Investment Value (in Mn)	% Holding
International Steels Ltd	2,450.55	56.33
IIL Americas Inc	17.97	100
IIL Australia Pty. Ltd	9.17	100
IIL Construction Solutions Pvt Ltd	77.27	100
Associate	Investment Value (in Mn)	% Holding
Pakistan Cables Ltd	817.55	17.12

Group Profile:

The Amir S. Chinoy Group (‘ASC Group’ or ‘the Group’) has maintained presence in Pakistan's industrial sector for over seven decades. The Group’s operations encompass diverse industries, including heavy chemicals through Pak Chemicals Ltd (established 1951), steel and galvanized pipes through International Industries Limited (established 1948), and electrical wires and cables through Pakistan Cables Limited (established 1953). The Group's activities have also extended into areas such as trading, electrical contracting, and representation of major international companies in South Asia. In 2007, the Group expanded its portfolio by investing in a greenfield project focused on the production of Cold Rolled, Galvanized, and Color Coated steel coils and sheets through International Steels Limited.

Industry Overview:

Pakistan's steel tubes and pipes market contracted to approximately 625,000 MT in FY24 compared to 725,000 MT in FY-23. The overall domestic steel products market is estimated at 9-10 mln tons. The steel tubes and pipes market remain highly fragmented, comprising primarily small-to-medium-sized manufacturers spread across the country. While the pipe segment experienced negative growth on overall basis, the lower end of the market saw an increase in demand due to a shift in consumer preferences towards more economical, lower-quality pipes, primarily manufactured from low-grade Chinese material. Going forward, the domestic demand of steel is expected to remain sluggish on account of slowdown in construction industry, high interest rates, reduction and delay in release of PSDP funds and high inflation.

Operational Highlights:

Production data of the Company for the period FY23-24 is tabulated below:

Steel Pipes	Galvanized Pipes	Polymer Pipes and fittings	Stainless Steel – Pipes
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Production Capacity (MT)	585,000	90,000	35,000	4,800
Actual Production (MT) FY-23	78,079	29,373	7,071	1,147
Utilization	13.35%	32.64%	20.20%	23.90%
Actual Production (MT) FY-24	76,731	31,333	7,092	1,253
Utilization	13.12%	34.81%	20.26%	26.10%

During the years FY23 and FY24, capacity utilization levels remained subdued, primarily due to slowdown of construction activities constrained by prevailing stressed economic environment, inflationary pressures and restrictive monetary and fiscal policies. Going forward, demand is expected to be supported by the construction industry, gaining momentum with reducing policy rates noted in recent months, with further revisions anticipated in the near term.

Key Rating Drivers

The business risk profile of the steel industry is characterized by sensitivity to economic cyclicality and high competitiveness.

The demand for steel primarily originates from the construction and engineering sectors. Due to the cyclical nature of these industries, particularly the construction industry, the steel pipe sector remains vulnerable to economic fluctuations influenced by fiscal and monetary policy. The ratings are further constrained by the energy-intensive nature of steel pipe manufacturing, with the industry being highly sensitive to energy price fluctuations. In Pakistan, where energy costs are among the highest in the region, companies face reduced margins and competitive disadvantages in export markets. Additionally, the industry's lack of pricing power — due to steel's commodity nature, high competition, and strong bargaining position of both suppliers and buyers — limits companies' ability to fully pass on rising production costs, keeping margins under pressure.

Primary raw material, Hot Rolled Coils (HRC), is primarily imported, with both quality and price directly influencing production costs. HRC prices exhibit volatility, driven by international market dynamics of demand and supply, which are linked to global economic conditions and inventory levels of steel producers. The reliance on imports also exposes the Companies to exchange rate risk, particularly due to PKR depreciation against USD, and transfer risk stemming from SBP policies on Letters of Credit (LC) and foreign exchange controls. While exchange rate risk is mitigated to a certain extent by meeting much of imports through exports.

Sound group and sponsor profile provide support to the Company's business risk profile.

The Company's ratings are supported by the overall group and sponsor profile, which has established a longstanding presence in Pakistan's industrial sector. The Group's involvement in diverse industries, including steel, and electrical products, adds strength to the Company's business risk profile.

Financial performance is constrained by broader economic challenges.

During FY24, net sales increased by 8.8% to PKR 29,149.14 mln (FY23: PKR 26,786.77 mln) despite a 2.3% reduction in sales volumes. The increase in net sales is on account of to higher average prices, while the volumetric decline reflects broader economic challenges stemming from monetary tightening and fiscal consolidation. However, improved pricing, working capital management, and cost control measures contributed to an increase in gross margins to 13.15% (FY23: 12.77%). Operating profitability, however, was impacted by higher operating expenses, driven by inflation, lower other income and exchange loss of PKR 0.8 mln (FY23: gain of PKR 1,133 mln). Despite a decrease in finance costs by 15% due to lower credit utilization, the net profit declined by 35% year-on-year; reducing the net margin to 5.04% (FY23: 8.86%) in FY24.

The liquidity profile of the Company remains constrained by the elevated cash conversion cycle despite improvement in working capital deployed and a sound current ratio.

The Company maintains a healthy current ratio of 1.63x (FY23: 1.43x). This improvement resulted from the repayment of short-term loans and a reduction in payables supported by internal cash and generation. The cash conversion cycle shortened to ~236 days (FY23: ~311 days), driven by a decrease in inventory turnover to ~176 days (FY23: ~220 days) and a reduced collection period of ~64 days (FY23: ~96 days). However, overall cash conversion cycle is considered elevated and a strain on IIL's liquidity profile.

Improvement in cash conversion assisted the Company reduce its short-term debt drawdown to improve its capitalization profile.

The improvement in the cash conversion cycle during FY24 enabled the Company to adequately meet its working capital needs. As a result, available liquidity was utilized to reduce short-term debt, leading to an improved capitalization profile. The gearing ratio was reported at 0.78x (FY23: 1.16x), while the leverage ratio stood at 1.15x (FY23: 1.81x) in FY24.

Coverage profile is supported by income from subsidiaries.

The Company's operating profit contracted during the year, leading to a decline in Funds from Operations (FFO), which stood at PKR 1,628.95 mln (FY23: PKR 2,644.75 mln) in FY24 despite support of income from subsidiaries. This reduction in FFO led to lower debt service coverage ratio (DSCR) of 1.47x (FY23: 1.59x) in FY24, though remaining adequate.

New business initiatives to support future growth of the Company.

In FY24, IIL, invested in Chinoy Engineering and Construction (Pvt.) Ltd. (CECL), which is a partnership between ISL, IIL and PCAL all associate concerns within the ASC Group. CECL has successfully entered into a contract with Reko Diq Mining Company for the design and construction of a Permanent Accommodation Camp at Reko Diq Copper Gold Mines, Baluchistan. This collaboration is anticipated to support IIL's demand and contribute to incremental revenue streams over the medium-long term.

International Industries Ltd
Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	7,465.43	9,977.31	9,925.95	12,239.48
Stock-in-trade	11,923.53	13,577.79	14,105.80	9,897.36
Trade debts	5,246.82	8,800.38	5,270.75	4,998.27
Cash & Bank Balances	73.49	113.58	212.47	384.72
Other Assets	4,190.86	3,826.51	4,441.36	4,117.84
Total Assets	28,900.13	36,295.57	33,956.33	31,637.67
Creditors	196.08	262.73	454.58	94.45
Long-term Debt (incl. current portion)	2,961.33	2,425.39	4,613.04	3,891.46
Short-Term Borrowings	10,181.49	12,637.32	7,345.34	5,086.05
Total Debt	13,142.82	15,062.71	11,958.38	8,977.51
Other Liabilities	4,062.69	6,375.92	6,294.11	4,138.02
Total Liabilities	17,401.59	21,701.36	18,707.07	13,209.98
Paid up Capital	1,318.82	1,318.82	1,318.82	1,318.82
Equity (excl. Revaluation Surplus)	8,438.03	9,483.97	10,340.95	11,459.50
Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	28,940.10	37,857.87	26,786.78	29,203.14
Gross Profit	3,973.45	4,668.60	3,421.85	3,838.78
Operating Profit	3,014.54	4,838.84	4,615.09	3,278.77
Finance Costs	755.72	1,181.87	1,731.88	1,472.57
Profit Before Tax	2,258.82	3,656.97	2,933.56	1,758.25
Profit After Tax	2,314.56	2,155.66	2,373.73	1,473.12
Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	13.73%	12.33%	12.77%	13.15%
Operating Margin (%)	10.42%	12.78%	17.23%	11.23%
Net Margin (%)	8.00%	5.69%	8.86%	5.04%
Funds from Operation (FFO) (PKR Millions)	2,476.29	3,841.92	2,664.75	1,628.95
FFO to Total Debt* (%)	18.84%	25.51%	22.28%	18.14%
FFO to Long Term Debt* (%)	83.62%	158.40%	57.77%	41.86%
Gearing (x)	1.56	1.59	1.16	0.78
Leverage (x)	2.06	2.29	1.81	1.15
Debt Servicing Coverage Ratio* (x)	2.80	2.65	1.59	1.47
Current Ratio (x)	1.19	1.16	1.43	1.63
(Stock in trade + trade debts) / STD (x)	1.71	1.79	2.67	2.97
Return on Average Assets* (%)	8.90%	6.61%	6.76%	4.49%
Return on Average Equity* (%)	30.84%	24.06%	23.95%	13.51%
Cash Conversion Cycle (days)	204.77	208.17	310.56	236.08

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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					
	22-Oct-24	AA-	A-1	Stable	Reaffirmed	
	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	Salman Najeeb	Financial Controller	4/10/24		