

RATING REPORT

International Steels Limited

REPORT DATE:

March 12, 2021

RATING ANALYST:Arsal Ayub, CFA
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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
Entity	A+ / A-1	A+ / A-1
Rating Date	<i>March 12, 2021</i>	<i>October 20, 2020</i>
Rating Outlook	Stable	Rating Watch-Negative
Outlook Date	<i>March 12, 2021</i>	<i>October 20, 2020</i>

COMPANY INFORMATION

Incorporated in 2007	External auditors: KPMG Taseer Hadi & Co.
Public Limited Company	Chairman: Mr. Amjad Waheed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Yousuf H. Mirza
International Industries Limited- 56.3%	
Sumitomo Corporation- 9.1%	

APPLICABLE METHODOLOGY(IES)

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

International Steels Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

<p><i>International Steels Limited (ISL) was incorporated in 2007 and is currently Pakistan's premium producer of flat steel products with an annual production capacity of 1,000,000MT. The primary activity of the company is manufacturing of cold rolled steel coils (CRC), hot dipped galvanized coils (HDGC), and color coated coils.</i></p> <p><i>Major shareholders of the company are International Industries Ltd. (IIL) and Sumitomo Corporation with a shareholding of 56.3% and 9.1% in ISL respectively. The remaining shareholders include directors, financial institutions, mutual funds, foreign companies, and general public.</i></p>	<p>International Steels Limited (ISL) was incorporated in 2007 and is currently Pakistan's premium producer of flat steel products with an annual production capacity of 1m MTs. The primary activity of the company is manufacturing of cold rolled steel coils (CRC), hot dipped galvanized coils (HDGC), and color coated coils. Major shareholders of the company are International Industries Ltd. (IIL) and Sumitomo Corporation with a shareholding of 56.3% and 9.1% in ISL respectively. The remaining shareholders include directors, financial institutions, mutual funds, foreign companies, and general public. The company has made arrangements with a geographically diversified network of distributors who sell ISL's products. Its in-house co-generation plant is a competitive advantage for ISL; installed capacity of the plant is 19MW and is sufficient to cater to the power related needs of the company. Excess power generated is sold to K-Electric Limited.</p> <p>Outlook Revision</p> <p>ISL was placed on a 'Rating Watch – Negative' in October 2020 on account of the cash flow coverage indicators sliding beyond 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 debt has been notably reduced, translating in much better cash flow coverage indicators. In view of the same, the outlook has been revised to 'Stable'.</p>
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International Steels Limited
Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	Jun'17	Jun'18	Jun'19	Jun'20	Dec'20	
PPE	13,639	18,263	19,862	20,638	19,975	
Stock-in-Trade	9,538	14,133	14,648	15,132	8,321	
Trade Debts	764	645	868	1,016	570	
Cash & Bank Balances	53	100	403	106	122	
Total Assets	26,371	35,593	39,762	42,861	35,851	
Trade and Other Payables	6,134	5,458	5,612	8,921	4,201	
Long Term Debt	4,818	7,970	7,277	6,585	5,913	
Short Term Debt	5,039	8,462	10,191	11,520	5,006	
Paid-up Capital	4,350	4,350	4,350	4,350	4,350	
Core Equity	7,596	10,883	11,590	11,472	14,263	
Net Worth	8,554	11,825	12,878	12,726	15,500	
<u>INCOME STATEMENT</u>	FY17	FY18	FY19	FY20	H1'FY20	H1'FY21
Net Sales	34,822	49,160	57,484	48,082	25,365	33,516
Gross Profit	5,906	7,573	6,449	4,213	2,224	4,956
Admin Expenses	215	285	284	263	135	145
Selling & Distribution	334	434	702	894	442	359
Profit Before Tax	4,609	5,803	3,679	442	397	3,968
Profit After Tax	3,044	4,365	2,664	495	466	2,774
<u>RATIO ANALYSIS</u>	Jun'17	Jun'18	Jun'19	Jun'20	H1'FY20	H1'FY21
Gross Margin (%)	17.0%	15.4%	11.2%	8.80%	14.8%	
Net margin (%)	8.7%	8.9%	4.6%	1.0%	8.3%	
Current Ratio (x)	1.0	1.1	1.1	0.9	1.2	
FFO	5,413	5,738	3,876	1,017	4,110	
FFO to Total Debt (x)	0.55	0.35	0.22	0.06	0.75*	
FFO to Long Term Debt (x)	1.12	0.72	0.53	0.15	1.39*	
DSCR (x)	5.17	3.75	2.14	1.03	4.53x	
Gearing (x)	1.30	1.51	1.51	1.58	0.70	
Leverage(x)	2.34	2.18	2.32	2.62	1.43	
ROAA (%)	12.9%	14.1%	7.1%	1.20%	14.1%*	
ROAE (%)	44.2%	47.2%	23.7%	4.30%	43.1%*	
* Annualized						

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 Steels Limited				
Sector	Steel				
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	A+	A-1	Stable	Maintained
	20-Oct-20	A+	A-1	Rating Watch-Negative	Maintained
	21-Jun-19	A+	A-1	Stable	Reaffirmed
	04-Apr-18	A+	A-1	Stable	Reaffirmed
	13-Jan-17	A+	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				