

RATING REPORT

International Steels Limited (ISL)

REPORT DATE:

November 24, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	A+ / A-1	A+ / A-1
Rating Date	November 24, 2023	April 10, 2023
Rating Outlook	Stable	Rating Watch-Developing
Outlook Date	November 24, 2023	April 10, 2023
Rating Action	Maintained	Maintained

COMPANY INFORMATION

Incorporated in 2007	External auditors: M/s A.F. Ferguson & Co.
Public Listed Company	Chairman of the Board: Mr. Kamal A. Chinoy
	Chief Executive Officer: Mr. Yousuf H. Mirza
Key Stakeholders (with stake 5% or more):	
International Industries Limited – 56.33%	
Sumitomo Corporation – 9.07%	

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 Steels Limited (ISL)

OVERVIEW OF INSTITUTION	RATING RATIONALE
<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 1,000,000MT. The primary activity of the company is manufacturing cold rolled steel coils (CRC), hot dipped galvanized coils (HDGC), and color coated coils.</p> <p><i>Major shareholders of the company are International Industries Ltd. (IIL) and Sumitomo Corporation with a shareholding of 56.33% and 9.07% in ISL respectively. The remaining shareholders include directors, financial institutions, mutual funds, foreign companies, and general public</i></p>	<p>Corporate Profile</p> <p>International Steels Limited ('ISL' or 'the Company') was incorporated as a public unlisted company limited by shares in Sindh, Pakistan, on September 3, 2007. The company became publicly listed on the Pakistan Stock Exchange Limited on June 1, 2011. The Company is a subsidiary of International Industries Limited ('IIL' or 'the Parent'), holding 56.33% of its shares as of June 30, 2023. ISL acquired the Steel Project Undertaking of International Industries Limited in August 2010, issuing 417,716,700 fully paid-up ordinary shares in exchange. ISL is primarily engaged in manufacturing cold-rolled, galvanized, and color-coated steel coils and sheets. The company's registered office is located in Karachi, with manufacturing facilities in the Landhi Industrial Area, Karachi. ISL also has sales offices in Lahore, Islamabad, and Multan.</p> <p>Rationale for revision in rating outlook</p> <p>VIS has revised the outlook for ISL from "Rating Watch – Developing" to "Stable". This change reflects ISL's consistent financial performance and improvement in capitalization factors, despite economic challenges faced during FY23.</p> <p>During FY23, Pakistan's economy encountered challenges, including foreign exchange shortages that caused currency fluctuations and increased inflation. The State Bank of Pakistan implemented contractionary measures to stabilize the economy, influencing sectors such as construction, cement, and steel, which resulted in reduced sales volumes and lower capacity utilization.</p> <p>During this period, ISL experienced a significant decrease in sales volumes, reflecting in its capacity utilization levels falling from approximately 43% in FY22 to 31% in FY23. However, ISL managed to maintain its profit margins, slightly facilitated by the reduction in international steel prices. Additionally, reduced borrowing helped mitigate the adverse effects of higher interest rates on the bottom-line.</p> <p>In FY23, ISL's capitalization metrics demonstrated significant improvement as both gearing and leverage ratios exhibited positive trends. Gearing reduced to 0.2x (FY22: 1.1x), and leverage was at 1.1x (FY22: 1.8x), reflecting a healthier capitalization profile. ISL operated under a demand production model, which limited its inventory build-up and reduced the need for borrowing to meet working capital requirements. The Company's liquidity profile continues to provide sufficient cushion with a current ratio of 1.3x (FY22: 1.2x) in FY23. Coverages also recorded improvement with FFO to LTD and Total Debt higher at 328.5% (FY22: 181.4%) and 98.7% (FY22: 35.8%) respectively. Company's overall debt servicing profile remains healthy with a Debt Servicing Coverage Ratio (DSCR) of 2.6x (FY22: 3.2x) in FY23. Moreover, ISL's short-term debt coverage against its stock in trade and trade debt provides it with a strong cushion of 5.5x (FY22: 1.8x).</p> <p>Going forward, ratings will remain sensitive to the Company's maintenance of capitalization, liquidity and coverage metrics in-line with the assigned ratings. Moreover, improvement in profitability will also remain a critical factor for overall ratings.</p>

International Steels Limited

Appendix I

FINANCIAL SUMMARY		(PKR Millions)			
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22	FY23
Property, plant and equipment	19,862	20,638	19,180	20,750	20,305
Stock-in-trade	14,648	15,132	17,081	30,197	17,262
Trade debts - considered good	868	1,016	940	1,034	1,148
Cash and bank balances	403	106	293	896	1,765
Total Assets	39,762	42,861	41,720	55,905	42,392
Trade and Other Payables	5,612	8,932	6,588	6,470	10,713
Long-term Debt (incl. current portion and lease liability)	7,277	6,566	5,216	4,263	1,432
Short term borrowings - secured	10,191	11,520	6,796	17,360	3,334
Total Debt	17,468	18,086	12,012	21,623	4,766
Total Liabilities	26,883	30,135	22,832	34,309	20,708
Authorized Capital	5,000	5,000	5,000	5,000	5,000
Equity (excl. Revaluation Surplus)	11,590	11,472	17,667	19,185	19,496
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22	FY23
Net sales	57,484	48,082	69,796	91,424	76,753
Gross Profit	6,449	4,213	13,492	12,381	10,608
Operating Profit	4,968	2,757	11,107	9,323	7,456
Finance Costs	1,289	2,315	812	1,323	2,264
Profit Before Tax	3,679	442	10,295	8,001	5,191
Profit After Tax	2,664	495	7,466	5,412	3,519
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22	FY23
Gross Margin (%)	11.2%	8.8%	19.3%	13.5%	13.8%
Net Margin (%)	4.6%	1.0%	10.7%	5.9%	4.6%
Funds from Operation (FFO)	3,874	1,019	10,834	7,732	4,704
FFO to Total Debt (%)	22.2%	5.6%	90.2%	35.8%	98.7%
FFO to Long Term Debt (%)	53.2%	15.5%	207.7%	181.4%	328.5%
Gearing (x)	1.5	1.6	0.7	1.1	0.2
Leverage (x)	2.3	2.6	1.3	1.8	1.1
Debt Servicing Coverage Ratio (x)	2.3	0.9	4.9	3.2	2.6
Current Ratio	1.1	0.9	1.4	1.2	1.3
(Stock in trade + trade debts) / STD (x)	1.5	1.4	2.7	1.8	5.5
Return on Average Assets (%)	7.1%	1.2%	17.7%	11.1%	7.2%
Return on Average Equity (%)	21.6%	3.9%	47.2%	26.7%	16.3%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	International Steels 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
	<u>RATING TYPE: ENTITY</u>				
	24-Nov-23	A+	A-1	Stable	Maintained
	10-April-23	A+	A-1	Rating Watch - Developing	Maintained
	23-May-22	A+	A-1	Stable	Reaffirmed
	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	S.No.	Name	Designation	Date	
	1	Mr. Yousuf H. Mirza	Chief Executive Officer	September 28, 2023	
	2	Mr. Mujtaba Hussain	Chief Financial Officer	September 28, 2023	
	3	Mr. Usman Ahmed	General Manager Finance	September 28, 2023	