

Earning Review

ISL: 4QFY21 EPS clocked in at Rs5.32, DPS Rs7

Event

- International Steels Limited (ISL PA) profitability clocked in at Rs2,314mn (EPS Rs5.32) in 4QFY21 as compared to loss of Rs161mn (EPS Rs0.37) in 4QFY20. This takes FY21 profitability to Rs7,466mn (EPS 17.16, up 1409% YoY) as compared to profit of Rs495mn (EPS Rs1.14) in FY20.
- The result is accompanied with a cash payout of Rs7/sh, taking total payout to Rs10/sh in FY21.
- Earnings are above our expectations due to better retention prices.

Impact

- Company's profitability has increased in 4QFY21 due to (1) increased pricing power given better HRC-CRC margins, (2) 97% YoY increase in revenue amid multiple price hikes and higher volumes and (3) lower finance cost given decline in working capital needs.
- ISL revenue increased by 97/8% YoY/QoQ in 4QFY21 due to higher prices and increased volume. To highlight, ISL gross margins increased by 15.0ppt YoY to 23.5% in 4QFY21 due to multiple price hikes by the company during the period given increased pricing power.
- Company's finance cost declined by 62% YoY in 4QFY21 due to (1) retirement of short-term debt given decline in working capital requirement, (2) 625bps cut in policy rate due to monetary easing, and (3) increased contribution of concessionary borrowing (LTFE and EFF) in total outstanding debt. To highlight, ISL total debt stands at Rs10.3bn at the end of 3QFY21 as compared to Rs18.1bn as the end of FY20.
- Among other major heads, Admin/S&D expense increased by 32/175% YoY in 4QFY21.
- To highlight, ISL other operating expense increased by 290% YoY in 4QFY21. This increase is due to higher provision for WPPF/WWF given better profitability of the company.
- Furthermore, ISL effective tax rate clocked in at 22.2% in 4QFY21.

Outlook

- We have an "Outperform" stance on the scrip. Furthermore, we expect ISL to remain beneficiary of (1) recovery in HRC-CRC margins for flat steel companies given reduction in tariff by U.S and increased global demand due to strong economic recovery in developed markets, (2) imposition of 13.94% Anti-Dumping Duty on CRC imports from Canada and Russia, (3) increased regulatory checks to identify misreported imports, (4) declining market share of private importers and (5) lower finance cost due to decline in working capital needs.

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Fig 01: ISL 4QFY21 Financial Highlights (Rs 000)

	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Net Sales	18,878	9,589	97%	8%	69,796	48,082	45%
Cost of Sales	14,439	8,776	65%	9%	56,304	43,869	28%
Gross Profit	4,439	813	446%	8%	13,492	4,213	220%
Administrative expenses	85	65	32%	-35%	362	263	38%
S&D expenses	447	162	175%	74%	1,063	894	19%
Other operating charges	667	171	290%	164%	1,277	334	282%
Other Income	(49)	(69)	N/A	-189%	316	36	789%
EBIT	3,191	346	822%	-9%	11,107	2,757	303%
Financial charges	216	568	-62%	37%	812	2,315	-65%
PBT	2,975	(222)	N/A	-11%	10,295	442	2228%
Taxation	660	(62)	N/A	-32%	2,828	(53)	N/A
PAT	2,314	(161)	N/A	-3%	7,466	495	1409%
EPS	5.32	(0.37)			17.16	1.14	
GP Margins	23.5%	8.5%			19.3%	8.8%	
EBIT Margins	16.9%	3.6%			15.9%	5.7%	
NP Margins	12.3%	-1.7%			10.7%	1.0%	

Source: Company Reports, Foundation Research, August 2021

Important disclosures:

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.