

## Foundation Alert

### ISL: Analyst Briefing Takeaways

#### Event

- International Steels Limited (ISL PA) held its analyst briefing session today to discuss its financial/operational performance for FY21 and future outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- International Steels Limited (ISL PA) profitability clocked in at Rs2,314mn (EPS Rs5.32) in 4QFY21 as compared to loss of Rs161mn (LPS Rs0.37) in 4QFY20. This accumulates into FY21 profitability of Rs7,466mn (EPS 17.16, up 15.1x YoY) as compared to profit of Rs495mn (EPS Rs1.14) in FY20.
- Management attributes increase in company's profitability to (1) higher volumes due to strong rebound in economic activity witnessed by 15% YoY growth in LSM, (2) increased pricing power given better HRC-CRC margins, (3) increase in revenue amid multiple price hikes and higher volumes and (4) lower finance cost given decline in working capital needs amid lower interest rates.
- ISL revenue increase by 45% YoY in FY21. Management attributes increase in revenue to 17.7% YoY increase in volumes and higher prices. Furthermore, flat steel industry demand increased by 32% YoY in FY21 and CRC/Coated steel sector demand increased by 45/21% YoY in FY21.
- Company management also shared details of industries currently reliant on domestic flat steel manufactured products for their basic raw material needs and disclosed that flat steel is majorly used in automobile parts, appliances, electrical goods, steel tubes and sections, construction (for roofs) and industrial/agricultural equipment.
- ISL management also discussed its ongoing debottlenecking project worth Rs1.23bn and disclosed that after completion of project its CRC capacity would be increased by 120K tons to 350K tons.
- Management has also discussed ISL plans to locally manufacture HRC. New plant would be established near port and achieve COD in 27 months for which company would acquire 200 acres of land.
- On revival of Pakistan Steel Mills (PSM), ISL said that it would not pose any material threat to company's future plans as PSM capacity will be insufficient to meet domestic demand and availability of required quality will also be an issue. Furthermore, ISL is currently mostly importing HRC from Japan due to quality issues.

#### Outlook

- We have an "Outperform" stance on the scrip with Jun-22 target price of Rs123.1/sh. 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 mn)

	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%
<b>Gross Profit</b>	<b>4,439</b>	<b>813</b>	<b>446%</b>	<b>8%</b>	<b>13,492</b>	<b>4,213</b>	<b>220%</b>
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%
<b>EBIT</b>	<b>3,191</b>	<b>346</b>	<b>822%</b>	<b>-9%</b>	<b>11,107</b>	<b>2,757</b>	<b>303%</b>
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%
<b>EPS</b>	<b>5.32</b>	<b>(0.37)</b>			<b>17.16</b>	<b>1.14</b>	
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, October 2021

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