

## Earning Review

### ISL: 1QFY22 EPS clocked in at Rs6.13, up 4.8x YoY

#### Event

- International Steels Limited (ISL PA) profitability clocked in at Rs2,668mn (EPS Rs6.13) in 1QFY22 as compared to profit of Rs559mn (EPS Rs1.29) in 1QFY21.
- The result is above our expectations due to higher volumes, in our view.

#### Impact

- Company's profitability has increased in 1QFY22 due to (1) increased pricing power given better HRC-CRC margins, (2) 56% YoY increase in revenue amid multiple price hikes and higher volumes, (3) lower finance cost given decline in working capital needs and (4) lower S&D cost.
- ISL revenue increased by 56/30% YoY/QoQ in 1QFY22 due to higher prices and increased volume. To highlight, ISL gross margins increased by 8.8ppt YoY to 17.7% in 1QFY22 due to multiple price hikes by the company during the period given increased pricing power amid lower imports by private traders.
- Company's finance cost declined by 32/19% YoY in 1QFY22 due to (1) retirement of short-term debt given decline in working capital requirement and (2) increased contribution of concessionary borrowing (LTFF and EFF) in total outstanding debt. To highlight, ISL total debt stands at Rs12.0bn at the end of FY21 as compared to Rs18.1bn as the end of FY20.
- Among other major heads, Admin/S&D expense increased/decreased by 50/11% YoY in 1QFY22.
- To highlight, ISL other operating expense increased by 307% YoY in 1QFY22. This increase is due to higher provision for WPPF/WWF given better profitability of the company, in our view.
- Furthermore, ISL effective tax rate clocked in at 26.3% in 1QFY22.

#### Outlook

- We have an 'Outperform' stance on scrip with June-22 TP of 123.1sh. 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.

#### Analyst

Usman Arif  
+92 21 3561 2290-94

usman.arif@fs.com.pk  
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Fig 1: ISL 1QFY22 Key Financial Highlights (Rs mn)

	1QFY22	1QFY21	YoY	QoQ
Net Sales	24,489	15,666	56%	30%
Cost of Sales	20,154	14,275	41%	40%
<b>Gross Profit</b>	<b>4,335</b>	<b>1,392</b>	<b>212%</b>	<b>-2%</b>
Administrative expenses	85	56	50%	-1%
S&D expenses	180	201	-11%	-60%
Other operating charges	280	69	307%	-58%
Other Income	6	51	-88%	-113%
<b>EBIT</b>	<b>3,797</b>	<b>1,116</b>	<b>240%</b>	<b>19%</b>
Financial charges	176	259	-32%	-19%
PBT	3,621	857	322%	22%
Taxation	954	298	220%	44%
PAT	2,668	559	377%	15%
<b>EPS</b>	<b>6.13</b>	<b>1.29</b>	<b>377%</b>	<b>15%</b>
GP Margins	17.7%	8.9%		
EBIT Margins	15.5%	7.1%		
NP Margins	10.9%	3.6%		

Source: Company Reports, Foundation Research, October 2021

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#### Recommendations definitions

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