

## Earning Review

### ISL: 3QFY22 EPS clocked in at Rs2.6, down 52% YoY

#### Event

- International Steels Limited (ISL PA) profitability clocked in at Rs1,132mn (EPS Rs2.60) as compared to profit of Rs2,378mn (EPS Rs5.47) in 3QFY22. This takes 9MFY22 profitability to Rs5,355mn (EPS of Rs12.31, up 4% YoY).

#### Impact

- Company's profitability declined due to (1) lower HRC-CRC margins, (2) higher finance cost and (3) increase in S&D cost.
- ISL revenue increased by 57/45% YoY/QoQ in 3QFY22 due to higher prices and increased volume. To highlight, ISL gross margins declined significantly by 15.1/7ppt YoY/QoQ to 8.4% in 3QFY22 due to 32/27% YoY/QoQ decline in HRC-CRC margins.
- Company's finance cost increased by 129% YoY in 3QFY22 due to increase in short-term debt given higher rise working capital requirement amid increase in interest rates.
- Furthermore, company other income declined by 60/85% YoY/QoQ in 3QFY22.
- Among other major heads, Admin/S&D expense decreased/increased by 43/35% YoY in 3QFY22.
- Furthermore, ISL effective tax rate clocked in at 17.6% in 2QFY22.

#### Outlook

- We have an 'Outperform' stance on scrip with June-22 TP of 123.1sh. Furthermore, we expect ISL to remain beneficiary of (1) imposition of 13.94% Anti-Dumping Duty on CRC imports from Canada and Russia, (2) increased regulatory checks to identify misreported imports and (3) declining market share of private importers.

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Fig 01: ISL 3QFY22 Financial Highlights (Rs mn)

	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Net Sales	27,263	17,402	57%	45%	70,557	50,918	39%
Cost of Sales	24,959	13,305	88%	57%	61,043	41,865	46%
<b>Gross Profit</b>	<b>2,304</b>	<b>4,097</b>	<b>-44%</b>	<b>-20%</b>	<b>9,514</b>	<b>9,053</b>	<b>5%</b>
Administrative expenses	75	131	-43%	-7%	240	276	-13%
S&D expenses	346	257	35%	60%	743	616	21%
Other operating charges	170	253	-33%	-44%	755	609	24%
Other Income	22	55	-60%	-85%	175	364	-52%
<b>EBIT</b>	<b>1,735</b>	<b>3,510</b>	<b>-51%</b>	<b>-28%</b>	<b>7,952</b>	<b>7,916</b>	<b>0%</b>
Financial charges	361	158	129%	-2%	906	596	52%
PBT	1,374	3,352	-59%	-33%	7,046	7,320	-4%
Taxation	242	974	-75%	-51%	1,691	2,168	-22%
PAT	1,132	2,378	-52%	-27%	5,355	5,152	4%
<b>EPS</b>	<b>2.60</b>	<b>5.47</b>	<b>-52%</b>	<b>-27%</b>	<b>12.31</b>	<b>11.84</b>	<b>4%</b>
GP Margins	8.4%	23.5%			13.5%	17.8%	
EBIT Margins	6.4%	20.2%			11.3%	15.5%	
NP Margins	4.2%	13.7%			7.6%	10.1%	

Source: Company Reports, Foundation Research, April 2022

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### Recommendations definitions

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