

Foundation Alert

ISL: Analyst Briefing Takeaways

Event

- International Steels Limited (ISL PA) held its analyst briefing session yesterday to discuss its financial/operational performance for FY22 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- International Steels Limited (ISL PA) profitability clocked in at Rs57mn (EPS Rs0.13) in 4QFY22 as compared to profit of Rs2.3bn (EPS Rs5.32) in 4QFY21. This takes FY22 profitability to Rs5.4bn (EPS of Rs12.44, down 28% YoY) as compared to profit of Rs7.4bn (EPS Rs17.2) in FY21.
- Management attributes decrease in company's profitability to (1) Imposition of Super tax at the rate of 10% has an impact of Rs716mn, (2) decreased pricing power given lower HRC-CRC margins, (3) Lower volumes declining by 14% YoY and (4) higher finance cost given incline in working capital needs amid higher interest rates.
- ISL revenue increased by 31% YoY in FY22. Management attributed increase in sales to (1) 57% YoY increase in exports which represent 20% of total sales and (2) higher prices.
- But, Overall volumetric sales declined by 13.8% YoY in FY22 due to breakdown in demand post Russia Ukraine War amid commodity super cycle and rising interest rates. Moreover, the company lost sales in two major markets, Afghanistan/ Sri Lanka tons due to political and economic unrest.
- Company witnessed overall production of 411k tons in FY22, decreasing by 16.5% YoY against 492K tons in FY21, mainly due to higher HRC prices amid volatile PKR, interest rate hikes and barriers on import.
- Company exported 87k tons primarily in bulk shipments due to limited container availability with majority of the sales to North America.
- On demand front, management is expecting flat steel market of CR & Color coated to decline by 5% YoY in FY23 with 1.05mn sales.
- During the year the company commissioned Electrolytic Cleaning Line (ECL), to improve product quality for automotive and appliances sector. The rewinding line with an electrolytic cleaning section designed specifically to debottleneck CRC capacity and increased efficiency in Tin Mill Black Plate (TMBP) production.
- ISL management also discussed its ongoing debottlenecking project worth Rs1.23bn that will enhance its CRC capacity by 120K tons to 350K tons.
- Regarding local manufacturing of HRC, management informed that new plant having capacity of 1.2mn tons would be established near port which is likely to achieve COD in 36 months for which company would acquire 200 acres of land.
- As per management, major challenges being face by the company are 1) Exchange rate volatility, 2) rising energy prices, 3) declining commodity prices exerting price pressures, 4) 100% cash margin requirement on raw material import, 5) looming threat of gas shortages and 6) global supply chain disruptions.

Outlook

- We expect, company's near term profitability to remain under pressure given lower HRC-CRC margins and slowdown in demand. However, protection in shape of Anti-Dumping Duty on CRC imports and increased regulatory checks to identify misreported imports along with rejuvenation of HRC-CRC margin would compel us to have an "Outperform" stance on the scrip.

Fig 01: ISL 4QFY22 Financial Highlights (Rs mn)

	4QFY22	4QFY21	YoY	QoQ	FY22	FY21	YoY
Net Sales	20,866	18,878	11%	-23%	91,424	69,796	31%
Cost of Sales	17,999	14,439	25%	-28%	79,042	56,304	40%
Gross Profit	2,867	4,439	-35%	24%	12,381	13,492	-8%
Administrative expenses	100	85	17%	34%	340	362	-6%
S&D expenses	869	447	94%	151%	1,612	1,063	52%
Other operating charges	552	667	-17%	225%	1,308	1,277	2%
Other Income	26	(49)	na	19%	201	316	-36%
EBIT	1,372	3,191	-57%	-21%	9,323	11,107	-16%
Financial charges	417	216	93%	15%	1,323	812	63%
PBT	955	2,975	-68%	-30%	8,001	10,295	-22%
Taxation	898	660	36%	271%	2,589	2,828	-8%
PAT	57	2,314	-98%	-95%	5,412	7,466	-28%
EPS	0.13	5.32			12.4	17.2	
GP Margins	13.7%	23.5%			13.5%	19.3%	
EBIT Margins	6.6%	16.9%			10.2%	15.9%	
NP Margins	0.3%	12.3%			5.9%	10.7%	

Source: Company Reports, Foundation Research, September 2022

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