

Foundation Alert

INIL: Analyst Briefing Takeaways

Event

- International Industries Limited (INIL PA) held its Analyst briefing last Friday to discuss its FY22 financial/operational performance and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- INIL PA profitability clocked in at Rs2.4bn (EPS Rs18.38) (↓46% YoY) in FY22 as compared to profit Rs5.5bn (EPS Rs41.38) in FY21.
- Management attributes decrease in profitability to (1) lower volumetric sales, (2) higher finance cost due to uptick in working capital requirements amid higher interest rates, (3) imposition of super tax at the rate of 10% and (4) lower profitability of ISL due to lower HRC-CRC margins.
- In FY22, company's revenue grew by 23% YoY on account of higher prices and depreciation of rupee whereas volumes declined by 12% YoY.
- Moreover, management focus would be tilted towards efficient management of working capital amid high borrowing cost, exchange rate volatility and higher capex needs. Therefore, company reduced their inventory levels by 43% during the year and relied more on internal cash generation instead of paying dividends in the near future.
- Company's domestic sales volume decreased by 15.4% YoY to 124k tons, whereas exports grew 9% to 47k tons amounting to US\$62mn in FY22 on the back of growth in key developed markets especially Australia, North America and Canada. However, company lost two major export markets of Afghanistan and Sri Lanka during the year.
- Furthermore, INIL polymer segment declined by 61.9% YoY to 7.5K tons in FY22 due to underutilization of its capacity due to lower demand from gas companies (SSGC and SNGPL).
- On expansion of UPVC sewerage pipes and fitting projects, INIL management shared that project achieved COD in 4QFY22 with estimated cost of Rs200mn. This new project would allow company to increase its market share in PPRC market.
- Management further informed that expansion project of stainless steel would achieve COD in Oct'22 and 4MW solar power project will start commercial operations in Nov'22.
- As per management, demand destruction due to floods would be observed during 1QFY23. Whereas, some demand is being generated by gas companies after significant slowdown in previous 5 months.
- INIL management also highlighted the key challenges the company faced due to the Ukraine-Russia War, namely (1) global supply chain disruptions amid shortages of containers and ships, (2) higher freight cost, (3) higher energy cost, (4) looming gas shortages and (5) inventory loss triggered by increased volatility in steel prices.

Outlook

- The company is not in our formal coverage. However, company may benefit from (1) improving dynamics of ISL (INIL holds 55% of ISL), (2) increasing exports of the product and (3) expansions beyond borders.

Fig 01: 4QFY22 INIL Consolidated Financial Highlights (Rs mn)

	4QFY22	4QFY21	YoY	QoQ	FY22	FY21	YoY
Net sales	29,393	26,379	11%	-16%	121,740	98,746	23%
Cost of sales	25,126	21,181	19%	-21%	105,364	81,178	30%
Gross Profit	4,267	5,198	-18%	31%	16,376	17,568	-7%
Admin expense	246	195	26%	59%	731	791	-8%
S&D expense	1687	945	78%	50%	4457	2,525	77%
Other op charges	16	674	-98%	-92%	855	1,423	-40%
Other Income	-274	97	-382%	-156%	740	527	41%
EBIT	2,044	3,480	-41%	-10%	11,074	13,355	-17%
Financial charges	808	436	86%	19%	2504	1,567	60%
PBT	1,236	3,045	-59%	-22%	8,569	11,788	-27%
Taxation	1533	888	73%	220%	3835	3,071	25%
PAT	-297	2,157	-114%	-127%	4,734	8,717	-46%
NCI	13	1,011	-99%	-98%	2,310	3,260	-29%
Profit attrib to owner	-310	1,146	-127%	-156%	2,425	5,457	-56%
EPS @131.88mn	-2.35	8.69			18.38	41.38	
GP Margins	14.5%	19.7%			13.5%	17.8%	
NP Margins	-1.0%	8.2%			3.9%	8.8%	
Effective tax	124.0%	29.2%			44.8%	26.0%	

Source: Company Accounts, Foundation Research, October 2022

AnalystUsman Arif
+92 21 3561 2290-94usman.arif@fs.com.pk
Ext 339Ali Ahmad
+92 21 3561 2290-94ali@fs.com.pk
Ext 311

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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