

# Press Release

---

## **VIS Reaffirms Entity Ratings of International Industries Limited**

Karachi, June 21, 2019: VIS Credit Rating Company Limited has reaffirmed the entity ratings of International Industries Limited (IIL) at 'AA-/A-1' (Double A Minus/A-One). The long term rating signifies high credit quality with strong protection factors. Risk factors are modest but may vary slightly from time to time because of economic conditions. Short term rating of 'A-1' depicts high certainty of timely payment. Liquidity factors are excellent and are supported by good fundamental protection factors. Risk factors are minor. Outlook on the assigned ratings is 'Stable'. Previous rating action was announced on April 10, 2018.

Current ratings incorporate IIL's dominant position in the tube and pipes segment along with its sound financial profile, strong corporate governance framework and extensive experience and track record of its sponsors in the steel sector. Steel sector is characterized by moderate business risk given the cyclical nature of the industry. During the period under review, the industry faced significant volatility in steel prices where Hot Rolled Coil (HRC) prices increased along with recent rupee depreciation. These factors adversely impacted gross margins of market players given that HRC is imported.

Coupled with higher demand from infrastructure projects during the outgoing year, revenue base of the company grew on the back of increasing demand of gas distribution pipes and demand from the automobile industry. Sales mix of IIL largely comprises domestic sales representing 82% while remaining emanates from exports. While domestic sales volumes depicted significant growth during FY18, exports declined largely because of import levies in Sri Lanka on steel pipes and increase in domestic production in Afghanistan. IIL is exploring new markets for building its export business. Management anticipates revenue to remain at similar levels in the ongoing year as a result of slowdown in local and global economy.

Despite growth in top line, gross margins of the company came under pressure on account of higher raw material costs, during the outgoing year. However, profit after tax, excluding dividend income, reported at

a higher level in comparison to the previous year. Decline in bottom line, during FY18, was on account of a lower dividend income from its subsidiary. Dividend income from International Steel Limited (ISL) has represented almost one-third of the bottom line of IIL in FY18. Future profitability of IIL expected to remain under pressure owing to rising financing costs and nominal revenue growth due to challenging economic conditions and antidumping duty imposed by Canada, during FY19. Gearing levels have also trended upwards largely on account of increase in borrowings to fund higher inventory levels. Going forward, gearing and leverage indicators will depend on the company's strategy for working capital management and funding mix with regards to future expansion plans of the company. The ratings are sensitive to economy dynamics and revenue growth stemming out of it. Increase in margins along with improving capitalization and leverage indicators would be an important rating driver, going forward.

For further information on this rating announcement, please contact Mr. Javed Callea (Ext: 201) or Ms. Muniba Khan (Ext: 215) at 021-35311861-71 or fax to 021-35311872-3.

Atiq Anwar Mahmudi  
Advisor

Applicable Rating Criteria: Industrial Corporates (May 2016)  
<https://www.vis.com.pk/kc-meth.aspx>

---

*Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS Credit Rating Company Limited (JCR-VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s)/ranking(s) mentioned in this report. JCR-VIS is not an NRSRO and its credit ratings are not NRSRO credit ratings. JCR-VIS is paid a fee for most rating assignments. This rating/ranking is an opinion and is not a recommendation to buy or sell any securities. Copyright 2019 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.*