



REDEFINING
PAKISTAN



**Unaudited Financial Statements
for the first quarter ended September 30, 2019**

In the name of Allah, the most Gracious, the most Merciful.
This is by the Grace of Allah.

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International Steels Limited Company Information

Chairman (Non-Executive)

Mr. Towfiq H. Chinoy

Independent Directors

Mr. Zakaullah Khan
Dr. Amjad Waheed
Ms. Nausheen Ahmad
Mr. Nihal Cassim

Non-Executive Directors

Mr. Mustapha A. Chinoy
Mr. Kamal A. Chinoy
Mr. Fuad Azim Hashimi
Mr. Kazuteru Mihara

Executive Directors

Mr. Yousuf H. Mirza - Chief Executive Officer
Mr. Samir M. Chinoy - Chief Operating Officer

Chief Financial Officer

Mr. Mujtaba Hussain

Company Secretary

Mr. Mohammad Irfan Bhatti

Group Chief Internal Auditor

Ms. Asema Tapal

External Auditors

M/s KPMG Taseer Hadi & Co.

Bankers

Allied Bank Limited
Bank Al Habib Limited
Bank Alfalah Limited
Dubai Islamic Bank (Pakistan) Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Industrial & Commercial Bank of China Limited
MCB Bank Limited
MCB Islamic Bank Limited
Meezan Bank Limited
Samba Bank Limited
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Legal Advisor(s)

Mrs. Sana Shaikh Fikree

Registered Office

101, Beaumont Plaza 10, Beaumont Road, Karachi-75530
Phone: +9221-35680045-54
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Multan Office

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Factory

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Phone: +9221-35013104-5
Fax: +9221-35013108
E-mail: info@isl.com.pk

Website

www.isl.com.pk

Investor Relations Contact

Shares Registrar

THK Associates (Pvt.) Ltd
40-C, Block-6, P.E.C.H.S,
Off Shahrah-e-Faisal, Karachi
Phone: +9221-111-000-322
Fax: +9221-34168271
E-mail: info@thk.com.pk

Corporate Affairs Department

101 Beaumont Plaza, 10 Beaumont Road,
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E-mail: irfan.bhatti@isl.com.pk
Phone: +9221-35680045-54
UAN: +9221-111-019-019
Fax: +9221-35680373

International Steels Limited Directors' Report

The Directors of your company are pleased to present the financial statements for the first quarter ended September 30, 2019.

Pakistan's economy is showing signs of recovery as the structural reforms agenda of the current Government aimed at addressing the macroeconomic imbalances has started to take effect. Reduction in current account deficit, declining bond yields in anticipation of lower expected inflation, and improvement in foreign exchange reserves are indicative of some improvement in the economic environment.

The bailout package negotiated with the International Monetary Fund has brought in fiscal and monetary discipline, however, at a cost of a slower pace of economic growth. The exchange rate faced a massive devaluation of around 34% in FY 2018-19, however, the rupee has shown slight recovery recently. The State Bank of Pakistan further tightened its monetary policy, increasing the policy rate by 100 bps to 13.25%. Such a hike in the policy rate continued to dampen the demand in the already weak economy, increasing inventory levels. This also increased financial charges for the period to Rs. 667 million compared to Rs. 285 million in the same period last year.

To counter weak demand in the domestic economy, your Company has focused on strengthening existing export markets and developing new ones, which is in line with the strategy discussed in the previous chairman's review. Resultantly, export sales of the Company rose to Rs. 2 billion as compared to Rs. 0.9 billion during the same period last year. The domestic sales decreased by 11.6%, and stood at Rs. 11.3 billion.

The continuing economic challenges had an impact on the margins and net profitability of the Company for the three-months period ended September 30, 2019. Profitability and earnings per share stood at Rs. 348 million and Rs. 0.80 per share respectively compared to Rs. 841 million and Rs. 1.93 per share for the same period last year.

The company continues to operate with 1,000,000 tons of commercial production capacity of cold rolling. The new Compact Cold Rolling Mill is complemented by a continuous pickling line, additional annealing furnaces and acid regeneration facility. The expanded capacity will enable your company to further increase its market share in the local and international markets and be instrumental in import substitution. A dedicated service center is under construction in the Port Qasim Area of Karachi. The strategic location of the center is aimed at increasing the Company's value proposition and service offerings.

We extend our gratitude to all our stakeholders for their continued support and thank management and staff for their commitment and hardwork.

We pray to almighty Allah for the continued success of your company.



Yousuf H. Mirza
Chief Executive Officer



Towfiq H. Chinoy
Chairman

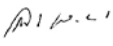
Karachi October 15, 2019

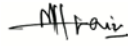
International Steels Limited Condensed Interim Statement of Financial Position

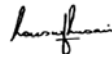
As at 30 September 2019

	Note	30 September 2019 (Un-audited)	30 June 2019 (Audited)
(Rupees in '000)			
ASSETS			
Non-current assets			
Property, plant and equipment	5	20,531,968	19,862,302
Intangible assets		2,324	2,736
Long term deposit with Central Depository Company of Pakistan Limited		100	100
		20,534,392	19,865,138
Current assets			
Stores and spares		746,591	610,974
Stock-in-trade	6	23,204,538	14,647,959
Trade debts - considered good	7	1,308,033	868,035
Receivable from K-Electric Limited (KE) - unsecured, considered good		42,024	38,997
Advances, trade deposits and prepayments	8	81,830	108,988
Sales tax receivable		3,452,518	2,312,713
Taxation		857,256	906,326
Cash and bank balances		50,058	402,912
		29,742,848	19,896,904
Total assets		50,277,240	39,762,042
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised share capital			
500,000,000 (2019: 500,000,000) ordinary shares of Rs. 10 each		5,000,000	5,000,000
Share capital			
Issued, subscribed and paid-up capital		4,350,000	4,350,000
Revenue reserve			
Un-appropriated profit		6,945,398	7,240,140
Capital reserve			
Revaluation surplus on property, plant and equipment		1,278,301	1,288,130
Total shareholders' equity		12,573,699	12,878,270
LIABILITIES			
Non-current liabilities			
Long term finance	9	6,016,921	6,367,141
Deferred taxation - net		2,068,058	2,230,618
Lease liabilities	3.4.1	102,175	-
		8,187,154	8,597,759
Current liabilities			
Trade and other payables	10	7,546,779	5,612,295
Contract liabilities	11	721,922	1,259,011
Short term borrowings	12	18,881,656	10,191,219
Unpaid dividend		654,885	2,385
Unclaimed dividend		6,452	6,453
Current portion of long term finance	9	1,292,998	909,943
Current portion of lease liabilities	3.4.1	34,065	-
Accrued mark-up		377,630	304,707
		29,516,387	18,286,013
Total liabilities		37,703,541	26,883,772
Contingencies and commitments	13		
TOTAL EQUITY AND LIABILITIES		50,277,240	39,762,042

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.


Dr. Amjad Waheed
Director & Chairman
Board Audit Committee


Mujtaba Hussain
Chief Financial Officer

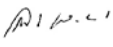

Yousuf H. Mirza
Chief Executive Officer


International Steels Limited
Condensed Interim Statement of Profit or Loss (Un-audited)

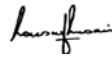
For the three months period ended 30 September 2019

	Note	Three months period ended	
		30 September 2019	30 September 2018
------(Rupees in '000)-----			
Net sales	14	11,545,349	11,627,840
Cost of sales	15	(10,311,143)	(10,008,752)
Gross profit		1,234,206	1,619,088
Selling and distribution expenses	16	(244,151)	(109,629)
Administrative expenses	17	(61,760)	(65,870)
		(305,911)	(175,499)
Finance cost	18	(667,214)	(285,357)
Other operating expenses	19	(24,369)	(94,836)
		(691,583)	(380,193)
Other income	20	64,533	78,252
Profit before taxation		301,245	1,141,648
Taxation	21	46,681	(300,305)
Profit after taxation		347,926	841,343
		(Rupees)	
Earnings per share - basic and diluted		0.80	1.93

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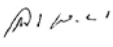

Yousuf H. Mirza
 Chief Executive Officer


International Steels Limited
Condensed Interim Statement of Comprehensive Income (Un-audited)

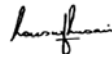
For the three months period ended 30 September 2019

	Three months period ended	
	30 September 2019	30 September 2018
	----- (Rupees in '000) -----	
Profit after taxation	347,926	841,343
Other comprehensive income	-	-
Total comprehensive income	347,926	841,343

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.


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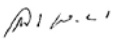

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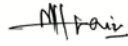
International Steels Limited
Condensed Interim Statement of Cash Flows (Un-audited)

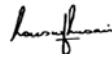
For the three months period ended 30 September 2019

	Three months period ended	
	30 September 2019	30 September 2018
	------(Rupees in '000)-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	301,245	1,141,648
Adjustments for:		
Depreciation and amortisation	349,074	244,272
Gain on disposal of property, plant and equipment	3,428	(685)
Provision for obsolescence against spares	8,512	-
Provision for staff gratuity	5,905	4,779
Provision for compensated absences	1,411	1,900
Income on bank deposits	(663)	(55)
Finance cost	667,214	285,357
	1,034,881	535,568
Changes in working capital	(8,853,733)	(6,339,811)
Net cash used in operations	(7,517,607)	(4,662,595)
Finance cost paid	(594,291)	(158,597)
Payment for staff gratuity	(5,905)	(4,779)
Compensated absences paid	(6,663)	(5,591)
Income tax paid	(66,807)	(33,090)
	(673,666)	(202,057)
Net cash used in operating activities	(8,191,273)	(4,864,652)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(1,024,957)	(383,135)
Proceeds from disposal of property, plant and equipment	3,202	2,282
Income on bank deposits received	663	55
Net cash used in investing activities	(1,021,092)	(380,798)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term financing	-	350,000
Proceeds from / (repayments) of long term financing	32,835	(319,672)
(Repayments) of / proceeds from short term borrowings - net	(42,256)	997,159
Lease liabilities	136,240	-
Dividend paid	(1)	(1,360)
Net cash generated from financing activities	126,818	1,026,127
Net decrease in cash and cash equivalents	(9,085,547)	(4,219,323)
Cash and cash equivalents at beginning of the period	(6,232,042)	(5,075,660)
Cash and cash equivalents at end of the period	(15,317,589)	(9,294,983)
CASH AND CASH EQUIVALENTS COMPRISE		
Cash and bank balances	50,058	191,308
Short term borrowings - secured	(15,367,647)	(9,486,291)
	(15,317,589)	(9,294,983)

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.


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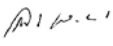

Yousuf H. Mirza
 Chief Executive Officer

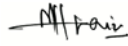
International Steels Limited
Condensed Interim Statement of Changes in Equity (Un-audited)

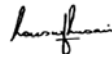
For the three months period ended 30 September 2019

	Issued, subscribed & paid-up capital	Revenue reserve - unappropriated profit	Capital reserve - Revaluation surplus on property, plant and equipment	Total
	----- (Rupees in '000) -----			
Balance as at 01 July 2018	4,350,000	6,532,704	942,304	11,825,008
Changes in equity for the period ended 30 September 2018				
Total comprehensive income for the period				
Profit after taxation	-	841,343	-	841,343
Other comprehensive income	-	-	-	-
Total comprehensive income	-	841,343	-	841,343
Transactions with owners recorded directly in equity - distributions				
Dividend:				
- Final dividend @ 30% (Rs. 3.00 per share) for the year ended 30 June 2018	-	(1,305,000)	-	(1,305,000)
Total transactions with owners of the Company - distributions	-	(1,305,000)	-	(1,305,000)
Transferred from revaluation surplus on property, plant and equipment on account of incremental depreciation - net of tax	-	5,106	(5,106)	-
Balance as at 30 September 2018	<u>4,350,000</u>	<u>6,074,153</u>	<u>937,198</u>	<u>11,361,351</u>
Balance as at 01 July 2019	4,350,000	7,240,143	1,288,130	12,878,273
Changes in equity for the period ended 30 September 2019				
Total comprehensive income for the period				
Profit after taxation	-	347,926	-	347,926
Other comprehensive income	-	-	-	-
Total comprehensive income	-	347,926	-	347,926
Transactions with owners recorded directly in equity - distributions				
Dividend:				
- Final dividend @ 15% (Rs. 1.50 per share) for the year ended 30 June 2019	-	(652,500)	-	(652,500)
Total transactions with owners of the Company - distributions	-	(652,500)	-	(652,500)
Transferred from revaluation surplus on property, plant and equipment on account of incremental depreciation - net of tax	-	9,829	(9,829)	-
Balance as at 30 September 2019	<u>4,350,000</u>	<u>6,945,398</u>	<u>1,278,301</u>	<u>12,573,699</u>

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.


Dr. Amjad Waheed
 Director & Chairman
 Board Audit Committee


Mujtaba Hussain
 Chief Financial Officer


Yousuf H. Mirza
 Chief Executive Officer

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

1. STATUS AND NATURE OF BUSINESS

International Steels Limited ('the Company') was incorporated on 03 September 2007 as a public unlisted company limited by shares under the repealed Companies Ordinance, 1984 and is domiciled in the province of Sindh. The Company was listed on the Pakistan Stock Exchange Limited on 01 June 2011. The Company is subsidiary of International Industries Limited ('the Holding Company') which holds 245,055,543 (30 June 2019: 245,055,543) shares of the Company as at 30 September 2019 representing 56.3% (30 June 2019: 56.3%) of the shareholding of the Company.

The net assets of the Steel Project Undertaking of International Industries Limited ('the Holding Company'), amounting to Rs. 4,177.167 million determined as at 23 August 2010 (day immediately preceding the completion date) in accordance with the Scheme of Arrangement, were transferred to the Company on 24 August 2010. In consideration of transferring to and vesting the Steel Project Undertaking in the Company, 417,716,700 fully paid-up ordinary shares were issued at par value to the Holding Company.

The primary activity of the Company is the business of manufacturing of cold rolled, galvanized and colour coated steel coils and sheets. The Company commenced commercial operations on 01 January 2011. The registered office of the Company is situated at 101, Beaumont Plaza, 10 Beaumont Road, Civil Lines, Karachi - 75530.

The manufacturing facility of the Company is situated at 399-405, Rehri Road, Landhi Industrial Area, Karachi and having sales offices located at Lahore, Islamabad and Multan.

2. BASIS OF PREPARATION

2.1 Statement of compliance

2.1.1 These condensed interim financial statements of the Company have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise:

- International Accounting Standard ('IAS') 34 'Interim Financial Reporting' issued by the International Accounting Standard Board ('IASB') as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

2.1.2 These condensed interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the audited annual financial statements of the Company as at and for the year ended 30 June 2019.

2.1.3 The comparative condensed interim statement of financial position presented in these condensed interim financial statements have been extracted from the audited annual financial statements of the Company as at and for the year ended 30 June 2019, whereas the comparative condensed interim statement of profit or loss, condensed interim statement of comprehensive income, condensed interim statement of cash flows and condensed interim statement of changes in equity are extracted from the unaudited condensed interim financial statements for the period ended 30 September 2018.

2.1.4 These condensed interim financial statements are un-audited and are being submitted to the shareholders as required by listing regulations of Pakistan Stock Exchange vide section 237 of the Companies Act, 2017.

2.2 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention except for the Company's liability under defined benefit plan (gratuity) that is determined based on the present value of defined benefit obligation less fair value of plan assets, freehold land & buildings thereon that are stated at fair values determined by an independent valuer and derivative financial instruments which are stated at fair value.

2.3 Functional and presentation currency

These condensed interim financial statements are presented in Pakistani Rupees which is also the Company's functional currency and all financial information presented has been rounded-off to the nearest thousand Rupee except where stated otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the financial statements for the year ended 30 June 2019 except for the adoption of new standards effective as of 01 July 2019 as referred to in note 3.4 to these condensed interim financial statements.

3.2 New standards, interpretations and amendments adopted by the Company

The Company has adopted IFRS 16 'Leases' from 01 July 2019. The impact of the adoption of the standard and the new accounting policies are disclosed in note 3.4 below. A number of other new standards are effective from 01 July 2019 but they do not have a material effect on the Company's condensed interim financial statements.

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

There are certain new standards, interpretations and amendments to the approved accounting standards that will be mandatory for the Company's annual accounting periods beginning on or after 01 July 2020. However, currently management considers that these new standards, interpretations and amendments will not have any significant impact on the financial reporting of the Company and, therefore, have not been disclosed in these condensed interim financial statements.

3.4 Changes in accounting policies

The below explains the impact of the adoption of IFRS 16 'Leases' on the Company's condensed interim financial statements different to those applied in prior periods.

3.4.1 IFRS 16 'Leases'

The Company has adopted IFRS 16 'Leases' from 01 July 2019 which is effective for annual periods beginning on or after 01 January 2019. IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases - Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

The Company has entered into rent agreements / contracts for a few properties. Such contracts convey the right to control the use of these properties for a period of time in exchange of the rentals, both explicitly mentioned in the contracts. The Company has, therefore, adopted the treatment required in IFRS 16 for the lessee of the properties.

i Recognition and initial measurement

At the commencement date i.e., 01 July 2019, the Company has recognized a right-of-use asset at cost, disclosed separately within the Property, Plant and Equipment in the Statement of Financial Position. Similarly, lease liability has been recognized at the present value of the rentals / lease payments to be paid according to the contracts. The lease liability has been disclosed in the Statement of Financial Position under Liabilities, disclosing separately the current portion of the lease liability. The rentals / lease payments have been discounted using the Company's incremental borrowing rate.

ii Subsequent measurement

At each reporting date, the right-of-use asset is continued to be carried at cost less accumulated depreciation charged on straight line basis. The depreciation charge is disclosed in the Selling and distribution expenses and Administrative expenses in the Statement of Profit of Loss.

The carrying amount of the lease liability is increased by the interest on the lease liability and reduced by the rentals / lease payments. The interest on lease liability is charged in the Finance cost in the Statement of Profit or Loss.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

4.1 The preparation of condensed interim financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

4.2 The significant judgements made by management in applying the Company's accounting policies and the key sources of estimating the uncertainty were the same as those applied to the audited annual financial statements as at and for the year ended 30 June 2019.

4.3 The financial risk management objectives and policies adopted by the Company are consistent with those disclosed in the audited annual financial statements as at and for the year ended 30 June 2019.

5. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Capital work in progress	Right-of-use assets	Total
	----- (Rupees in '000) -----			
Cost / revalued amount				
Opening balance	24,058,543	663,029	-	24,721,572
Additions	28,524	1,050,347	143,339	1,222,210
Transfer	(25,390)	(171,863)	-	(197,253)
Disposal	(8,473)	-	-	(8,473)
	24,053,204	1,541,513	143,339	25,738,056
Accumulated depreciation				
Opening balance	(4,859,270)	-	-	(4,859,270)
Charge for the period	(338,402)	-	(10,259)	(348,661)
Transfer	-	-	-	-
Disposal	1,843	-	-	1,843
	(5,195,829)	-	(10,259)	(5,206,088)
Written down value as at 30 September 2019 (Un-audited)	18,857,375	1,541,513	133,080	20,531,968
Written down value as at 30 June 2019 (Audited)	19,199,273	663,029	-	19,862,302

5.1 The 'right-of-use assets' along with its depreciation charge has been recognised to comply with the requirements of IFRS 16 'Leases'. Refer note 3.4.1 for details.

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

	Note	30 September 2019 (Un-audited)	30 June 2019 (Audited)
----- (Rupees in '000) -----			
6. STOCK-IN-TRADE			
Raw material - in hand		6,411,028	1,919,579
- in transit		7,045,653	4,811,283
Work-in-process		1,899,713	1,942,101
Finished goods		7,691,417	5,850,831
By-product		9,091	5,424
Scrap material		147,636	118,741
		<u>23,204,538</u>	<u>14,647,959</u>
7. TRADE DEBTS - considered good			
- Secured	7.1	200,451	151,932
- Unsecured		1,107,582	716,103
		<u>1,308,033</u>	<u>868,035</u>
7.1 Related party from whom debt is due is as under:			
- Sumitomo Corporation		65,629	-
- IIL Australia PTY Limited		18,860	19,120
		<u>84,489</u>	<u>19,120</u>
8. ADVANCES, TRADE DEPOSITS AND PREPAYMENTS			
Advances to suppliers - considered good		52,548	64,594
Trade deposits		14,246	14,617
Margin against shipping guarantee		8,986	16,255
Prepayments		6,050	13,522
		<u>81,830</u>	<u>108,988</u>
9. LONG TERM FINANCE - secured			
Conventional			
Long Term Finance Facility (LTFF)	9.1	1,694,641	1,460,418
Long term finance	9.2	177,778	266,666
Islamic			
Long term finance	9.3, 9.4 & 9.5	5,437,500	5,550,000
		7,309,919	7,277,084
Current portion of long term finances shown under current liabilities			
Conventional			
Long Term Finance Facility (LTFF)		(237,720)	(237,721)
Long term finance		(177,778)	(222,222)
Islamic			
Long term finance		(877,500)	(450,000)
		<u>(1,292,998)</u>	<u>(909,943)</u>
		<u>6,016,921</u>	<u>6,367,141</u>
9.1 This finance has been obtained from commercial banks and is secured by way of pari passu charge over fixed assets of the Company.			
9.2 Long term finance amounting to Rs. 178 million (30 June 2019: Rs.267 million) has been obtained from a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.			
9.3 Long term finance amounting to Rs. 187.5 million (30 June 2019: Rs.250 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.			
9.4 Long term finance amounting to Rs. 350 million (30 June 2019: Rs.400 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.			
9.5 Long term finance amounting to Rs. 4,900 million (30 June 2019: Rs.4,900 million) has been obtained from Islamic window of a commercial bank and is secured by way of ranking charge over fixed assets of the Company.			

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

	Note	30 September 2019 (Un-audited)	30 June 2019 (Audited)
----- (Rupees in '000) -----			
10. TRADE AND OTHER PAYABLES			
Trade creditors	10.1	4,340,965	2,525,391
Accrued expenses		1,775,343	1,742,862
Provision for infrastructure cess	10.2	1,143,248	1,058,166
Provision for government levies		328	329
Short term compensated absences		6,985	12,237
Workers' Profit Participation Fund		15,196	17,024
Workers' Welfare Fund		225,744	219,266
Others		38,970	37,020
		<u>7,546,779</u>	<u>5,612,295</u>
10.1 Related party to whom payment is due is as under:			
- Sumitomo Corporation		3,729,700	-
10.2 Provision for infrastructure cess			
Opening balance		1,058,166	774,813
Provided during the period		85,082	283,353
Closing balance		<u>1,143,248</u>	<u>1,058,166</u>
11. CONTRACT LIABILITIES			
Sales commission payable		8,118	50,183
Advances from customers	11.1	713,804	1,208,828
		<u>721,922</u>	<u>1,259,011</u>
11.1 Advances from customers are unsecured and include Rs. Nil (30 June 2019: Rs. 0.17 million) received from a related party for supply of finished goods.			
12. SHORT TERM BORROWINGS - secured			
<i>Conventional</i>			
Short term finance under mark-up arrangement from banks	12.1	12,073,238	6,381,084
Short term finance under Export Refinance Scheme	12.2	1,942,446	1,984,265
<i>Islamic</i>			
Short term finance under Running Musharakah	12.3	3,294,409	253,870
Short term finance under Term Murabaha	12.4	1,571,563	1,572,000
		<u>18,881,656</u>	<u>10,191,219</u>
12.1 The facilities for short term finance available from various commercial banks are for the purpose of meeting working capital requirements. The rate of mark-up on these finances ranges from 13.47% to 14.90% (30 June 2019: 7.12% to 13.90%) per annum.			
12.2 The Company has short term finance facility under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. The rate of mark-up on this facility ranges from 2.5% to 3% (30 June 2019: 2.5% to 3%) per annum.			
12.3 The Company has obtained facilities for short term finance under Running Musharakah. The rate of mark-up ranges from 13.97% to 14.30% (30 June 2019: 7.12% to 13.10%) per annum. This facility matures within twelve months and is renewable.			
12.4 The Company has obtained facilities for short term finance under Term Murabaha. The rate of mark-up is 13.25% (30 June 2019: 13.25%) per annum. This facility matures within twelve months and is renewable.			

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

12.5 As at 30 September 2019, the unavailed facilities from the above borrowings amounted to Rs. 2,422 million (30 June 2019: Rs. 11,459 million).

12.6 The above facilities are secured by way of joint pari passu charge over current and future moveable assets of the Company.

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

Details	Name of the court	Principal parties	Date instituted
<p>13.1.1 The Sindh Finance Act, 1994 prescribed an infrastructure fee at the rate of 1% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The Sindh High Court on petition filed by the petitioner, passed an interim order directing that every company subsequent to 27 December 2006 is required to clear the goods on paying 50% of the fee amount involved and furnishing a guarantee / security for the balance amount. Bank guarantees issued as per the above mentioned interim order amount to Rs.1,111.5 million (30 June 2019: Rs. 1,111.5 million), have been provided to the Department. However, a provision to the extent of amount utilized from the limit of guarantee has also been provided for by the Company on prudent basis (Note 10.2). Subsequently through Sindh Finance Act 2015 and 2016, the legislation has doubled the rate of Sindh infrastructure cess. The Company has obtained stay against these and the ultimate dispute has been linked with the previous infrastructure cess case.</p>	Sindh High Court	I.S.L. v/s Secretary Excise and Taxation / Federation of Pakistan	15-May-12
<p>13.1.2 In 2011, the Gas Infrastructure Development Cess was levied via GIDC Act 2011 and further the rate of cess was amended via Finance Bill 2012 - 2013 which was challenged in the Supreme Court of Pakistan. The Supreme Court of Pakistan declared GIDC Act 2011 to be unconstitutional and ultra vires on the grounds that GIDC is a 'Fee' and not a 'Tax' and in the alternative it is not covered by any entry relating to imposition or levy of tax under Part-I of the Federal Legislative List and on either counts the 'cess' could not have been introduced through a money bill under the Constitution.</p> <p>During 2015, the Government passed a new law 'Gas Infrastructure Development Cess Act 2015' ('the Act'), by virtue of which all prior enactments have been declared infructuous. The said Act levies GIDC at Rs. 100 per MMBTU on industrial consumption and Rs. 200 per MMBTU on captive power consumption, effective 01 July 2011. The Company has obtained a stay order on the retrospective application of the Act from the Sindh High Court. The Company is confident of favorable outcome and therefore has not recorded, to the extent of self consumption, a provision of Rs. 380.8 million (from 01 July 2011 till 22 May 2015) in these financial statements. However, the Company made a provision of GIDC to the extent of its self consumption from May 2015 onwards. On 26 October 2016, the Sindh High Court held that enactment of GIDC Act 2015 is ultra-vires to the Constitution of Pakistan. Sui Southern Gas Company Limited has filed an intra-court appeal before the Divisional Bench of Sindh High Court. This appeal filed before the Divisional Bench of Sindh High Court was dismissed on the ground that Learned Single Judge while</p>	Sindh High Court	I.S.L v/s OGRA / SSGC / Federation of Pakistan	8-Jan-12

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

Details	Name of the court	Principal parties	Date instituted
<p>passing the impugned judgement has considered all the material facts and also the relevant provisions of Oil and Gas Regulatory Authority ('OGRA') and has correctly applied the factual position. On 31 May 2017, separate petition filed by another company in the Peshawar High Court challenging the vires of the GIDC Act 2015 was dismissed for the reason that the Act has been passed by the Parliament strictly in accordance with the legislative procedures contained in the Constitution of Pakistan and therefore no procedural defect in the Act which could be made as a ground for its annulment. Such decision has been challenged on appeal before Supreme Court of Pakistan, where in the Company is not the party and decision is pending. In light of aforementioned developments, the Company on prudent basis, continues to recognise provision after the passage of the Act.</p> <p>Further the Company has not recognized GIDC amounting to Rs. 958 million (30 June 2019: Rs. 935 million) pertaining to period from 01 July 2011 to 30 September 2019 with respect to its captive power plant from which power generation is supplied to K-Electric Limited. Management considers that, in the event such levy is imposed, it shall recover GIDC from K-Electric Limited through fuel adjustments after getting requisite approval from National Electric Power Regulatory Authority (NEPRA).</p>			
<p>13.1.3 Oil and Gas Regulatory Authority ('OGRA') revised the gas tariff to Rs. 600 Per MMBTU vide its notification dated 30 December 2016, increasing the rate by Rs. 112 per MMBTU disregarding the protocol laid down in OGRA Ordinance, 2002. The Company filed a suit before the Sindh High Court ('the Court') challenging the increase in gas tariff. The Court granted a stay, subject to submission of security for the differential amount with the Nazir of the court. The Company has issued cheques amounting to Rs. 424.8 million (30 June 2019: Rs. 424.8 million) in favour of the Nazir of the Court upto September 2018. The Company, on prudent basis, has also accrued this amount in these financial statements. OGRA has further revised the gas tariff to Rs. 780 per MMBTU vide its notification dated 04 October 2018, further increasing the rate by Rs. 180 per MMBTU. The Company has filed a petition before the court challenging such further revision and the matter is partially heard. Pending the decision on the matter, the Company is settling the bills at the revised rate.</p>	Sindh High Court	I.S.L vs OGRA / SSGC / Federation of Pakistan	19-Jan-17
<p>13.1.4 The Company filed a constitutional petition in the Sindh High Court against notice to the Company for payment of Sindh Workers Welfare Fund under the Sindh Workers Welfare Fund Act, 2014. Stay was obtained on the ground that the Company is a trans-provincial establishment operating industrial and commercial activities across Pakistan and is liable to pay Workers Welfare Fund under Federal Workers Welfare Fund Ordinance, 1971.</p>	Sindh High Court	I.S.L vs Sindh Revenue Board / Government of Sindh/ Federation of Pakistan / Governing body of the Workers Welfare Fund / Federal Board of Revenue	6-Sep-17

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

- 13.1.5** Guarantees issued in favour of Sui Southern Gas Company Limited by bank amounted to Rs. 404.67 million (30 June 2019: Rs. 404.67 million) as a security for supply of gas.
- 13.1.6** Guarantees issued in favour of Pakistan State Oil Company Limited issued by bank on behalf of the Company amounted to Rs. 53 million (30 June 2019: Rs. 53 million).
- 13.1.7** Guarantees issued in favour of K-Electric Limited issued by bank on behalf of the Company amounted to Rs. 8.67 million (30 June 2019: Rs. 8.67 million).
- 13.1.8** Guarantees issued in favour of Wah Industries issued by bank on behalf of the Company amounted to Rs. 62.55 million (30 June 2019: Rs. 59.11 million).
- 13.1.9** Guarantees issued in favour of Collector of Customs issued by bank on behalf of the Company amounted to Rs. 3.55 million (30 June 2019: Rs. 4.39 million).

13.2 Commitments

- 13.2.1** Capital expenditure commitments outstanding as at 30 September 2019 amounted to Rs. 292.85 million (30 June 2019: Rs. 446.2 million).
- 13.2.2** Commitments under Letters of Credit for raw materials and spares as at 30 September 2019 amounted to Rs. 4,932.12 million (30 June 2019: Rs. 11,843 million).
- 13.2.3** The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 30 September 2019 amounted to Rs. 17,552 million (30 June 2019: Rs. 10,822 million) and Rs. 1,153 million (30 June 2019: Rs. 1,206 million) respectively.

14. NET SALES

	Three months period ended	
	30 September 2019	30 September 2018
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
Local	11,365,579	12,752,339
Export	1,986,869	864,718
	13,352,448	13,617,057
Sales tax	(1,589,842)	(1,854,714)
Trade discounts	(97,218)	(7,637)
Sales commission	(120,039)	(126,866)
	(1,807,099)	(1,989,217)
	11,545,349	11,627,840

14.1 DISAGGREGATION OF REVENUE

As required for the condensed interim financial statements, the Company disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

In the following table, revenue is disaggregated by primary geographical markets and major product lines:

Primary geographical markets:

Local	9,558,480	10,763,122
Asia	882,487	158,369
Australia	13,628	-
Americas	787,093	683,618
Africa	303,661	22,731
	11,545,349	11,627,840

Major product lines:

Cold Rolled	4,476,434	3,511,550
Galvanized Product	6,618,961	7,639,789
By-product	449,954	476,501
	11,545,349	11,627,840

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

	Three months period ended	
	30 September 2019	30 September 2018
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
15. COST OF SALES		
Raw material consumed		
Opening stock of raw material	1,919,579	5,930,244
Purchases	15,678,530	16,071,951
	17,598,109	22,002,195
Closing stock of raw material	(6,411,028)	(10,728,658)
	11,187,081	11,273,537
Manufacturing overheads		
Salaries, wages and benefits	155,976	151,584
Electricity, gas and water	400,120	287,014
Insurance	6,695	7,193
Security and janitorial	7,667	6,078
Depreciation and amortisation	306,612	218,292
Operating supplies and consumables	29,609	23,783
Provision for obsolescence against spares	8,512	-
Repairs and maintenance	21,136	23,098
Postage, telephone and stationery	1,305	1,875
Vehicle, travel and conveyance	8,275	6,818
Internal material handling	3,646	5,307
Environment controlling expense	517	562
Computer stationery and software support fees	2,638	1,265
Sundries	2,114	5,045
	954,822	737,914
	12,141,903	12,011,451
Work-in-process		
Opening stock	1,942,101	1,187,244
Closing stock	(1,899,713)	(1,461,386)
	42,388	(274,142)
Cost of goods manufactured	12,184,291	11,737,309
Finished goods, by-products and scrap		
Opening stock	5,974,996	2,561,284
Closing stock	(7,848,144)	(4,289,841)
	(1,873,148)	(1,728,557)
	10,311,143	10,008,752
16. SELLING AND DISTRIBUTION EXPENSES		
Salaries, wages and benefits	28,533	23,355
Rent, rates and taxes	105	3,626
Electricity, gas and water	889	809
Insurance	348	148
Depreciation and amortisation	11,551	1,878
Postage, telephone and stationery	1,145	710
Vehicle, travel and conveyance	7,490	9,308
Freight and forwarding charges	175,252	49,763
Sales promotion	15,520	18,736
Others	3,318	1,296
	244,151	109,629

International Steels Limited
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For the three months period ended 30 September 2019

	Note	Three months period ended	
		30 September 2019	30 September 2018
		(Un-audited)	
		(Rupees in '000)	
17. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits		43,669	45,910
Rent, rates and taxes		16	1,335
Electricity, gas and water		705	658
Insurance		291	590
Security and janitorial services		133	143
Depreciation and amortisation		3,304	1,382
Printing and stationery		848	1,268
Postage and communication		199	189
Vehicle, travel and conveyance		2,113	1,745
Legal and professional charges		5,925	9,483
Certification and registration charges		93	101
Directors' fee		1,925	825
Others		2,539	2,241
		61,760	65,870
18. FINANCE COST			
<i>Conventional</i>			
- Mark-up on long term finances		27,837	12,469
- Mark-up on short term borrowings		320,557	137,399
		348,394	149,868
<i>Islamic</i>			
- Profit on long term finances		172,550	82,747
- Profit on short term borrowings		136,962	47,427
		309,512	130,174
Bank charges		4,756	5,315
Interest on lease liabilities		4,552	-
		667,214	285,357
19. OTHER OPERATING EXPENSES			
Auditors' remuneration		685	1,005
Donations		1,010	7,900
Workers' Welfare Fund		6,478	24,552
Workers' Profit Participation Fund		16,196	61,379
		24,369	94,836
20. OTHER INCOME			
Income from non-financial assets			
Income from power generation	20.1	3,680	6,933
Recovery of shared resources cost		-	56
(Loss) / Gain on sale of property, plant and equipment		(3,428)	685
Rental income		487	487
Exchange gain		58,975	61,262
Others		4,156	8,774
		63,870	78,197
Income from financial assets			
Income on bank deposits - conventional		663	55
		64,533	78,252

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

	Three months period ended	
	30 September 2019	30 September 2018
	----- (Un-audited) ----- ----- (Rupees in '000)-----	
20.1 Income from power generation		
Net sales	140,501	95,078
Cost of electricity produced	(136,821)	(88,145)
	<u>3,680</u>	<u>6,933</u>
21. TAXATION		
- Current	(115,877)	(370,967)
- Deferred	162,558	70,662
	<u>46,681</u>	<u>(300,305)</u>
22. CHANGES IN WORKING CAPITAL		
<i>(Increase) / decrease in current assets:</i>		
Stores and spares	(144,129)	(80,158)
Stock-in-trade	(8,556,579)	(5,187,464)
Receivable from K-Electric Limited	(3,027)	4,474
Trade debts	(439,998)	248,059
Advances, trade deposits and prepayments	27,158	1,512
Sales tax receivable	(1,139,805)	(1,060,504)
	<u>(10,256,380)</u>	<u>(6,074,081)</u>
<i>Increase / (decrease) in current liabilities:</i>		
Trade and other payables	1,402,647	(265,730)
	<u>(8,853,733)</u>	<u>(6,339,811)</u>
22.1 CASH AND CASH EQUIVALENTS		
Cash and bank balances	50,058	402,912
Running finance under mark-up arrangement from banks	(12,073,238)	(6,381,084)
Short term borrowing under Running Musharakah	(3,294,409)	(253,870)

23. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise the Holding Company, associated undertakings, directors of the Company, key management personnel and staff retirement funds. The Company continues to have a policy whereby transactions with related parties are entered into at commercial terms, approved policy and at rates agreed under a contract / arrangement / agreement. The contribution to defined contribution plan (provident fund) are made as per the terms of employment and contribution to the defined benefit plan (gratuity fund) are made on the basis of latest actuarial advice. Remuneration of key management personnel are in accordance with their terms of engagement.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers its Chief Executive Officer, Chief Financial Officer, Company Secretary, Non-Executive Directors and departmental heads to be its key management personnel. There are no transactions with key management personnel other than their terms of employment / entitlement. Rental income is recognized on straight line basis over the term of the respective lease agreement.

Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these condensed interim financial statements, are as follows:

International Steels Limited
Notes to the Condensed Interim Financial Statements (Un-audited)

For the three months period ended 30 September 2019

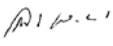
	Three months period ended	
	30 September 2019	30 September 2018
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
Holding company		
Sales	933,116	2,212,082
Purchases	94,238	4,887
Rent	9,375	2,220
Shared resources cost	20,505	20,099
Reimbursement of expenses	287	3,402
Partial manufacturing - sales	-	54
Associated companies		
Sales	121,659	334,119
Purchases	9,100,450	12,535,123
Rental income	1,365	487
Reimbursement of expenses	299	-
Services	15,581	6,866
Key management personnel		
Remuneration	62,703	53,076
Staff retirement funds		
Contribution paid	10,205	7,760
Non-executive directors		
Directors' fee	1,925	825
Reimbursement of Chairman's expenses	407	239

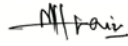
24. OPERATING SEGMENTS

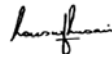
- 24.1** These condensed interim financial statements have been prepared on the basis of a single reportable segment.
- 24.2** Revenue from sales of steel products represents 99% (30 June 2019: 99%) of total revenue whereas remaining represent revenue from sale of surplus electricity to K-Electric Limited (KE). The Company does not consider sale of electricity to KE as separate reportable segment as the power plant of the Company is installed primarily to supply power to its Cold Rolling, Galvanizing and Colour Coating Plants and currently any excess electricity is sold to KE.
- 24.3** 85% (30 June 2019: 93.88%) of sales of steel sheets are domestic sales whereas 15% (30 June 2019: 6.12%) of sales are export / foreign sales.

25. GENERAL

- 25.1** Corresponding figures are rearranged and reclassified, wherever necessary, for the purposes of comparison and better presentation. There have been no significant rearrangements and reclassifications in these condensed interim financial statements.
- 25.2** These condensed interim financial statements were authorised for issue by the Board of Directors on 15 October 2019.


Dr. Amjad Waheed
 Director & Chairman
 Board Audit Committee


Mujtaba Hussain
 Chief Financial Officer


Yousuf H. Mirza
 Chief Executive Officer




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