Directors' Report

The Directors of International Steels Limited are pleased to present the 11th Annual Report accompanied by the audited financial statements for the year ended June 30, 2018.

Boards Composition & Remuneration
Composition of the Board and the names of Members of Board Sub-Committees may be referred at Page No. 42 & 56.

Furthermore, the Board of Directors have a formal policy and transparent procedures for remuneration of its Directors in accordance with the Companies Act 2017 and the Listed Companies (Code of Corporate Governance) Regulations 2017.

Global Steel Scenario
World crude steel production touched 1.69 billion metric tons during the year, whereas the demand grew by 1.8% compared to last year. This depicts a positive growth globally through investment expenditure in both developed and developing economies, specially the infrastructural works and real estate projects that has been on the boom around the developing countries. China consumed about half of global steel output and the demand remained flat during the year, due to the fact that China made a shift from investment to consumption led growth this year. However, consumption in China will remain strong for years to come. The government of United States imposed 25% duty on steel imports into United States under Section 232 of US Trade Expansion Act, 1962. It is likely to create significant exportable surplus in major steel producing countries and impact steel prices.

Pakistan's Economy
Despite the political situation, the country's economy maintained the growth momentum and achieved GDP growth of 5.8%. The reasons beneath the persistent growth remained the same including improved energy supply, investment related to the China-Pakistan Economic Corridor and strong credit growth. However, the projection for 2019 will moderate to 4.7% due to macroeconomic vulnerabilities and domestic policy slippages.

Industrial sector recorded a growth of 5.8% as compared to 5.02% last year. Large Scale Manufacturing (LSM) recorded a growth of 6.13% against 5.1% last year. This is the highest growth percentage in last ten years. The construction sector continued to raise its share in GDP to 2.74% from last year's 2.65% supporting other allied industries including the steel industry.

Steel demand gained traction from increase in automobile production, appliances and ongoing construction activities. Such strong was the demand for steel that even a sharp growth in domestic production was not enough to curtail imports. Robust construction activities manly led to an increase in demand for steel and allied products. The improved energy supply as well as industry gained some comfort after recovery in global prices which provided room to local players to increase their prices which ultimately helped them to enhance their capacity utilization.

In order to deal with the emerging inflationary pressures mainly arising from a sharp increase in international oil prices, State Bank of Pakistan (SBP) increased the policy rate twice during the year bringing it to 6.5% as compared to the last year's rate of 5.75%. The rate has now hit a three-year high, depicting the adjustments in macro-economic fundamentals during the fiscal year; expected to continue in future as well. Adding to the worrying signals, the Pakistani Rupee experienced a worst fall ever against US dollar reaching at the historic level of Rs.128-130, eroding almost by 22% as compared to last year. Such an acute fall is owed to the constantly increasing current account deficit which shot up to 12 billion dollars during the first nine months of fiscal year and expected to cross US 15 billion dollars at the end of current fiscal year.

Manufacturing Operations
Current year production was 470,841 tons, reflecting an increase of 1.5% over the previous year. Various productivity based initiatives resulted in increased plant reliability and operational efficiencies.

Sales
The company maintained its growth momentum exhibited a substantial increase of 10% in volumes over the preceding financial year exceeding 540,000 metric tons of prime products comprising 346,000 metric tons of Galvanized and 194,000 metric tons of Cold Rolled Products despite the influx of low priced imports primarily from China and Russia. The net sales value also increased by 41.2% mainly due to increase in global steel prices during the year. The Company continued to consolidate and leverage its nation-wide dealer network, which has been integral in reaching smaller commercial as well as industrial end-consumers.

JCR-VIS Credit Rating
In 2018, the Company was awarded the rating of 'A+/A-1' (Single A Plus / A - One) by JCR-VIS Credit Rating Company Limited. Outlook assigned to the rating was 'Stable'.

Energy Management

Company's 19 MW power plant continued to operate satisfactorily and in line with our practice we continued to supply excess energy to K- Electric.

Health, Safety & Environment

Company believes in and is fully committed to improve Health, Safety and Environment standards to achieve sustainable HSE performance. Process Safety & Behavior Based Safety across the organization is ensured through HSE Management System integrated with the company's organization scheme and the Company is on track of continuous improvement with focus to achieve & sustain leading levels.

Implementation of rigorous safety and environmental standards and strong management focus, no major incident was reported and the on-going expansion project completed without a loss time incident. We ensured compliance with environmental standards, best practices for air emissions, noise, portable water and industrial effluent in line with the national environmental quality standards.

Human Resources

The Company maintained industrial peace and a positive and enabling work environment for all employees in the organization by promoting candor and fairness. The Company continues its efforts on development of personnel at all levels, proactively building capabilities and retaining talent for business continuity. Human Capital is governed under robust policies and procedures, overseen by a dedicated Human Resource department.

The Company has formulated a firm succession plan which includes performance evaluation and appropriate training requirements for development of potential future leaders. In 2017-18, the Company spent Rs. 2.76 million on various training programs involving 483 employees.

The Company successfully continued its operations with an optimal headcount. The headcount at year end 2017-18 was 673 compared with 567 of the previous year.

Corporate Social Responsibility

The Company has a policy to donate 1.5% of its profit after tax to charitable institutions. During the year, Company has donated Rs. 64 million to various nonprofit organizations.

Risk Management

The Risk Management infrastructure of the company is based upon Enterprise Risk Management methodology/framework addressing the major risk categories including Strategic, Operational, Compliance and Financial Reporting Risk. Adequate controls have been designed and communicated to the staff via various policy and procedural guidelines which are executed and self-assessed by the process/control owners.

An independent Internal Audit Department, under direct reporting to the Board Audit Committee, evaluates and oversees the design and operating effectiveness of these controls.

More over the Board has an effective Internal Control framework which may be referred at page no. 50.

Business Review

In 2018 the Company posted highest ever production of and sales. The Company posted the revenue of Rs. 47.62 billion against Rs. 33.73 billion last year. The rolling production during the year was 470,841 tons against 464,023 tons last year. Whereas, the total saleable production was 540,000 tons as compared to 491,000 tons of last year. Lean management and rigorous effort towards cost optimization lead the Company to maintain remarkable gross profit of Rs. 7.57 billion and profit after tax of Rs. 4.36 billion against gross profit of Rs. 5.91 billion and profit after tax of Rs. 3.04 billion last year.

The Company successfully completed a project for a new Compact Cold Rolling Mill in June 2018, thereby taking cold rolling capacity to 1,000,000 tons which together with steel galvanizing capacity of 462,000 tons will enable the Company to cater to the whole national demand of flat steel products and will further strengthen the position of the Company as the leading manufacturer of flat steel products. In order to establish a strong international presence and brand identity the Company's export revenue stood at Rs. 4.22 billion as compared to Rs. 3.91 billion last year.

The National Tariff Commission (NTC) imposed Anti-Dumping Duties (ADD) on Pre-Painted Galvanized Iron (PPGI) from China and South Africa, effective from 13 June 2018. The duties for PPGI ranged from 5.36% - 14.24%. The company expects that the enforcement of Anti-Dumping duties on Cold Rolled, Galvanized and Pre-Painted Galvanized Iron will create a level playing field for local manufacturers.However, these duties have been consistently challenged in different courts impeding the primary purpose of such impositions. We expect these cases will be decided by the courts soon.

Financials

The Company continued its growth momentum in the current year collecting revenue of Rs. 47.6 billion, which is 41% higher than last year. The gross margins stood at 16% (Rs. 7.6 billion) compared with 17.5% (Rs. 5.9 billion) last year due to under invoiced and secondary grade materials being imported into the country.

Administrative expenses were well contained at Rs. 285 million whereas, selling and freight expenses were increased by 30%, which was in line with increased sales volume for the current year. Other operating expenses at Rs. 661.6 million were significantly higher than last year, primarily due to higher WPPF and WWF charges (which were directly related to profit) and exchange loss. Financial charges recorded at Rs. 539 million depicted an increase of 18.4% mainly due to adverse exchange rate movement resulting in higher short -term borrowing as well as higher inventory holding.

Overall your Company posted a record profit before and after taxation of Rs. 5,803 million and Rs. 4,364 million respectively compared with Rs. 4,608 million and Rs. 3,044 million last year. Your Company is focused on improving working capital and cash flow management. During the year, the Company generated a net cash flow from operations of Rs. 294 million, a decrease of Rs. 1,275 million over last year, due to high volumes of stock in transit. An interim dividend of Rs. 652.5 million (Rs 1.5 per share) was paid during the year.

Information about the pattern of holding of the shares may be referred at Page No. 127.

Earnings per share

Earnings per share for the year ended June 30, 2018 was Rs. 10.03 compared with Rs. 7.00 per share last year.

Dividend

In view of the financial results of the Company for the year 2017-18, the Board of Directors of the Company has recommended a cash dividend of 30% i.e. Rs. 3.00 per share in addition to 15% interim cash dividend announced and paid, making a total dividend payout of Rs. 4.50 (45%) per share for the financial year ended June 30, 2018.

Recommendation of the Board Audit Committee for appointment of auditor

The recommendations of the Audit Committee for appointment of auditor may be referred at Page No. 61.

	2018	2017
Appropriations	Rupees in '000	
Profit after tax for the year	4,364,978	3,044,022
Interim Dividend (2018 Rs. 1.5 per share; 2017 Rs. 2.5 per share)	(652,500)	(1,087,500)
Final Dividend (2018 Rs. 3 per share; 2017 Re. 1 per share)	(1,305,000)	(435,000)

Contribution to National Exchequer and the Economy

Your Company made a contribution of Rs. 11,328 million to the National Exchequer during the year by way of income tax, sales tax, custom duties and other levies.

Provident Fund & Gratuity Scheme

The Company provides retirement benefits to its employees. These include a non-contributory defined benefit Gratuity Scheme for all employees and a contributory provident Fund for all employees except unionized staff. Both plans are funded schemes recognized by tax authorities.

The values of the Provident Fund and the Gratuity Scheme at the year end were Rs. 129.5 million and Rs. 125.4 million

Future Prospects

The company announced commercial production of its cold rolling capacity by 500,000 tons to 1,000,000 tons. The project involves Compact Cold Rolling Mill, a continuous Pickling Line and an Acid regeneration facility. The expanded capacity will cater for the robust growth in the industrial sector. The Company approved further expansion of Cold Rolling capacity by investing Rs. 290 million in additional annealing furnaces, expected to be commissioned in the Q3 of 2018-19. To serve the growing industrial customers in the country product service. center will be established in Karachi by Q4 2018-19.

Acknowledgement

The Board would like to thank all of their stakeholders, employees, customers, suppliers, shareholders, bankers and any others for their support and loyalty. Such support is required to not only meet normal commercial challenges but also those posed by security Issues and tough economic conditions. The confidence and goodwill of the stakeholders has allowed the Company to sustain and grow over the years .

We continue to pray to Allah for the success of the Company and for the benefit of all stakeholders, and the country in general.

Towfiq H. Chinoy
Executive Director / Advisor
Karachi: 15th August 2018

Yousuf H. Mirza
Chief Executive Officer