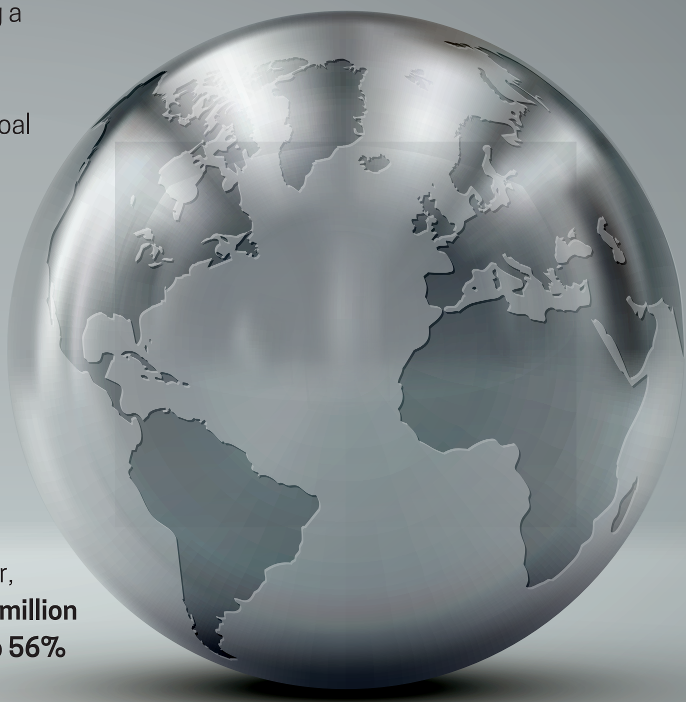
Directors' Report

The Directors of International Steels Limited are pleased to present the 16th Annual Report accompanied by the audited financial statements for the year ended June 30, 2023.

Global Steel Scenario

- Global steel prices declined by almost **49%** after hitting a record high of **US$1,100/MT** this year.
- The prices of raw materials, mainly iron ore and coking coal witnessed significant downward adjustments.
- The global market weakened in the first half of the 2022-23 but recovered in the later part of the year to **US$650/MT.**
- World crude steel production remained at **1.8 billion metric tons** during the year, with a decrease of **5%** as compared to last year's production of **1.9 billion metric tons.**
- China continued to lead the global steel market however, its total production has increased to **1,035** from **1,018 million metric tons** with its overall share in the global output to **56%** from **54%** last year.



National Economy

Pakistan's economy faced severe shocks over the past year, with notable impacts stemming from the consequences of floods, highly fluctuating commodity prices, and tighter external and domestic financing circumstances.

These factors disrupted the post-pandemic recovery and resulted in a substantial rise in inflation and a notable depletion of forex reserves. Conditions were further exacerbated by frequent announcements of temporary plant closures due to challenges in importing machinery and intermediate inputs, leading to raw material scarcities and an economic deceleration.

These actions have reduced the current account deficit to **US$2.5 billion** from last year's **US$ 17 billion.** However, they have also led to stricter financial conditions, higher borrowing expenses, particularly for the Large-Scale Manufacturing sector, and suppressed demand.

Business Review

Ukraine's war exerts supply chain disruptions, leading to a spike in global commodity prices.

This inflationary pressure exacerbated the deteriorating foreign exchange reserves of the country resulting in a sharp decline in foreign exchange reserves. The State Bank raised the policy rates several times during the year to curb inflation and imposed import-related administrative measures to conserve precarious exchange reserves.

The import curbs provided an opportunity for the State Bank to curtail the current account balance but restricted the industry's access to procure raw materials which lead to a massive contraction in overall GDP. Similarly, the policy rates hike significantly increased the government financing requirements to curb the budget deficit, which was tackled through the increase of taxes.

The company, however, navigated proficiently across these vulnerable times with a precise focus on effective inventory and cash management. The management further improved by incorporating operational efficiencies, implementing energy conservation plans, and executing only business-critical capital projects. These measures enabled the company to generate valuable cash and resulted in a reduction in borrowing levels.

The company was able to maintain healthy gross profit margins on the back of inventory rationalization and by increasing its market share in the shrinking economy. Further, productivity initiatives and lean manufacturing approach ensure that costs remained well below all-time high inflation.

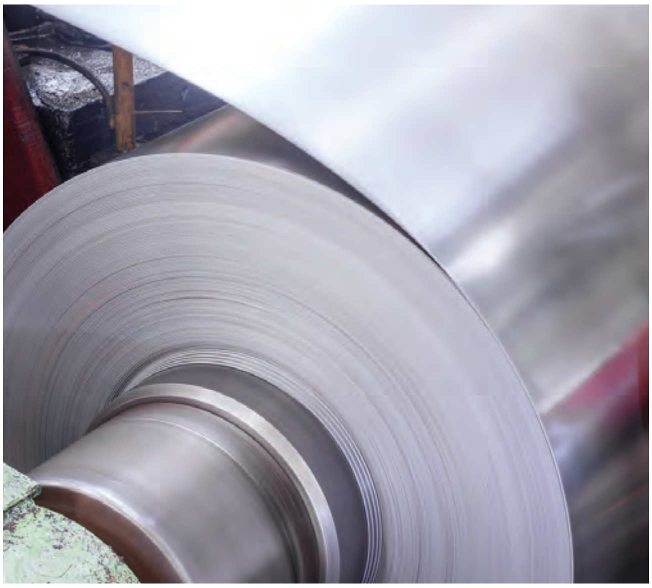
Sales

In the fiscal year 2022-23, sales remained a challenge due to substantial **36%** reduction in the overall market size. The market was further impacted due to tax exemptions to manufacturers in the erstwhile FATA / PATA regions. Despite these factors, the company increased its market share to **36%** from **31%** in last year. The sales volume was at **308,000 MT,** including **8,000 MT** from toll manufacturing. Even amidst the challenges posed by the contraction of the North American market and the fluctuations in international steel prices, the company has successfully exported **48,000 MT**.

Furthermore, it's worth highlighting that the company's efforts were recognized with the FPCCI 46th Best Export Performance Award for the year 2021-22 and KCCI Best Export Performance Award for 2019-20 and 2020-21, underscoring its dedication and excellence in exports.

Manufacturing Operations

The company practices Lean manufacturing and Six sigma to drive efficiencies in the production processes and reduce wastages. The current year's production was **304,000 MT** which was in line with sales demand.



The company has proactively undertaken several initiatives to streamline its costs and enhance efficiency through strategic production planning which effectively mitigated the impact of high energy costs during the winter season along with operations in non-peak hours only. This initiative resulted in a substantial energy cost reduction.

Furthermore, innovative packaging solutions and in-house plant maintenance replaced the imported materials resulting in reduced operational costs. These collective efforts exemplify the company's commitment to achieving cost-effective solutions while maintaining operational excellence.

Health, Safety and Environment

The company believes in and is fully committed to improving 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 for continuous improvement with a focus to achieve & sustain leadership levels. The Company has a dedicated Health, Safety & Environment department manned by subject matter experts. We have engaged a top-notch HSE expert in the development of behavioral-based safety culture to create a sustainable and safe working environment for our people, customers, contractors, and the community.

Implementation of focused safety programs, environmental standards, and strong visible leadership resulted in yet another year without any major incidents. Your company continued to comply with National Environmental Quality Standards including best practices for air emissions, noise, portable water, and industrial effluent. The Company received a third consecutive year Corporate Social Responsibility Award at the National Forum for Environment and Health (NFEH). The Company is operating an incident management program using "Safesite" as a tool. It assists in reporting unsafe acts and conditions, near misses and incidents as well as ensuring the key learnings are shared across the organization.

The Company conducted environmental monitoring in compliance with Sindh Environmental Protection Agency (SEPA) requirements at ISL Factory & Service Centre for the year 2022-23.

Energy Management

The company's **19 MW** co-generation power plant continued to operate satisfactorily, the heat recovered in the process meets most of the utility needs of the process and in line with our practice, excess energy is supplied to K- Electric.

Financials

The Company has successfully upheld favorable profit margins despite the economic crisis.

For the current fiscal year, the company has reported a revenue of **Rs. 76.7 billon**, accompanied by a gross margin of **13.8%,** exhibiting resilience in these challenging times. The company has posted **Rs. 3.5 billion** profit after tax after taking a charge of **Rs. 486 million** of a last minute super tax of **10%.**

The company efficiently managed its working capital, leading to the generation of cash flows. Additionally, the company retired its long term KIBOR based loan early, resulting in significant financial cost savings.

From operational activities, the company generated a robust cash flow of **Rs. 22.3 billion** and successfully lowered its overall long and short-term borrowings by **Rs. 16.8 billion** in the fiscal year 2022-23.

The management remained focused on working capital management through effective inventory management and was able to reduce the inventory from **Rs. 30 billion** at the end of June 2022 to **Rs. 17 billion** at the end of June 2023.

Conversion cost increased by **4.8%** to **Rs. 4,557 million** as compared to prior year cost of **Rs. 4,349**, despite average inflation of **28%** for the year.

Selling and freight expenses decreased by **36%** to **Rs. 997 million** as compared to last year of **Rs. 1,563 million,** where administrative expenses increased by **14%** to **Rs. 389 million.**

Other operating expenses increased by **42%** to **Rs. 1,922 million** mainly on account of an exchange loss of **Rs. 1,479 million** net exchange loss due to extreme volatility in the exchange rate **(Rs. 205 / USD to Rs. 286 / USD).**

Financial charges stood at **Rs. 2,264 million** against last year's **Rs. 1,323 million**. This increase can be attributed mainly to higher interest rates and the imposition of a 100% cash margin requirement on the imports of HRC, which exerts pressure on working capital requirements. Additionally, the introduction of a 10% super tax amounting to **Rs. 486 million** led to a higher effective taxation rate for the year.

Earnings Per Share

Earnings per share for the year ended June 30, 2023, were **Rs. 8.09** compared with **Rs. 12.44** per share last year.

VIS Credit Rating

In its interim rating review in March 2023, VIS Credit Rating Company Limited has maintained the company ratings of **'A+/A-1' (Single A Plus/A-One).** The outlook assigned to the entire steel sector by the credit rating agency is 'Watch developing'.

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 continued its efforts on the development of personnel at all levels, proactively building capabilities and retaining talent for business continuity.

Employee engagement has been managed with robust policies and procedures.

Team building activities were organized during the year, involving various cross-functional teams to foster networking and coherence amongst departments.

A state-of-the-art gymnasium continues to operate to encourage employees to adopt a healthy lifestyle.

The Company successfully continued its operations with an optimal headcount of **688.**

The Company has developed a detailed succession plan, which includes performance evaluation and appropriate training requirements for the development of potential future leaders.

The Company continued to enhance the capabilities of employees by providing them with development opportunities in prestigious institutions including LUMS, IBA, ICAP, MAP, and PIM.

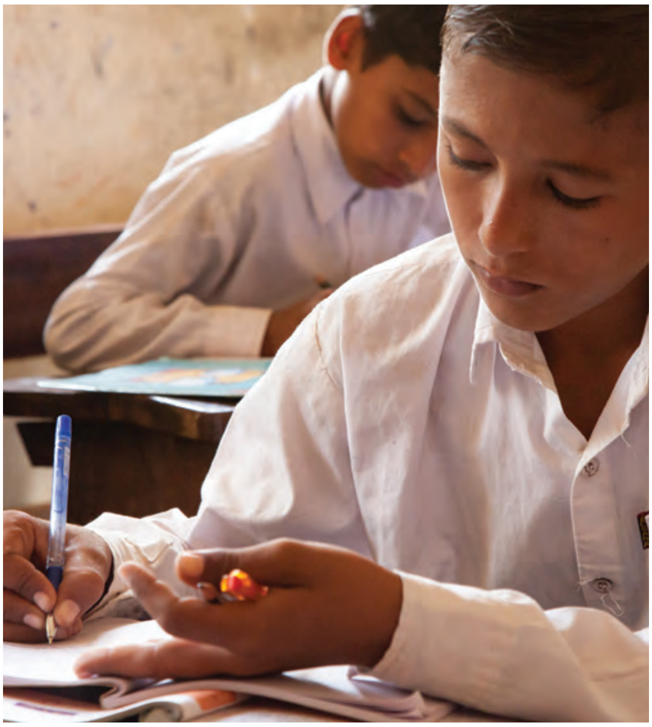
In recognition of its good HR practices, the Company was the recipient of the "Employer of the Year" award, from the Employers' Federation of Pakistan.

The Company remains committed to being an equal opportunity employer and has through various initiatives onboarded females in various managerial positions across different functions within the organizations.

The Company also encourages Women in Leadership position and have female employee as part of management team.

Corporate Social Responsibility

The Company is committed to supporting the community and has a policy to contribute at least **1.5%** of its profit after tax. The Company contributed **Rs. 55.6 million**, **1.58%** of its profit after tax, to different health care, educational, and social uplifting projects.The Company regularly supports various healthcare facilities including, Karwan-e-Hayat, Al Rehmat Benevolent Trust, AKUH Patients Behbud Society, and The Indus Hospital to ensure the provision of quality healthcare facilities to the less privileged section of society.



ISL believes that the future of our country is linked with high-quality education. Education is critical for sustainable economic development as well as human and social interaction within society. The Company has continued to maintain a scholarship program at NED University for deserving students. The Citizen Foundation school campus at Landhi has been supported for over a decade to cater to growing needs of education in the area. The Company demonstrates a firm commitment to contributing to social uplifting and community development initiatives by supporting organizations like Amir Sultan Chinoy Foundation.

Risk Management

The Risk Management Infrastructure of the company is based upon an Enterprise Risk Management 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 owners. A comprehensive risk register has also been developed by the management laying down key risks of each area/function with corresponding controls and their ratings for effective evaluation. The Risk Register is presented in a special BAC meeting along with four quarterly reviews and subsequently presented to the Board. An independent Internal Audit Department, direct reporting to the Board Audit Committee, evaluates, oversees, and comments on the design and operating effectiveness of these controls.

Boards Composition and Remuneration

The composition of the Board and the names of Members of Board Sub-committees are detailed on Page No. 82.

The Company has formulated a transparent policy and procedures for the remuneration of its directors (refer to note 35 of the financial statements) by the Companies Act, 2017, and the Listed Companies (Code of Corporate Governance) Regulations 2017.

Recommendation of the Board Audit Committee for Appointment of Auditor

The Audit Committee's recommendation for auditor appointment is referred to Page No 100.

Dividend

Given the financial results of the Company for the year 2022-23, the Board of Directors of the Company has recommended a final cash dividend of **25%** i.e., **Rs.2.50** per share in addition to the interim cash dividend of **30%** i.e., **Rs. 3.00** per share, already paid, making a total of **55%** i.e., **Rs. 5.50** per share for the financial year ended June 30, 2023.

Appropriations

	2023	2022
	Rupees in '000	
Profit after tax for the year	**3,518,790**	5,412,190
Interim Dividend 2023 Rs. 3.00 per share; (2022 Rs. 2.00 per share)	**(1,305,000)**	(870,000)
Final Dividend 2023 Rs 2.50 per share; (2022: Rs. 4.50 per share)	**(1,087,500)**	(1,957,500)

Contribution to National Exchequer and the Economy

Your Company contributed **Rs. 16,720 million** to the National Exchequer during the year by way of income tax, super tax, sales tax, customs 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 and a contributory Provident Fund. Both plans are funded schemes recognized by tax authorities.

The values of the provident fund and the gratuity scheme are **Rs. 229 million (2022: Rs. 249 million)** and **Rs. 372 million (2022: Rs. 294 million).**

Recognition

ISL has received the 37th Corporate Excellence Award in Engineering sector by the Management Association of Pakistan (MAP). Furthermore, it's important to highlight that the company's dedication and excellence in exports were acknowledged through the FPCCI 46th Best Export Performance Award for the year 2021-22 and KCCI Best Export Performance Award for 2019-20 & 2020-21, further affirming its position as a leader in the industry.

Future Outlook

The Company remains steadfast in its commitment to investing in its manufacturing facilities, human capital, ERP systems, and product quality improvements. These strategic investments are poised to reinforce the Company's already robust position within the engineering sector.

Pakistan has entered a 9-month Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) amounting to **USD$3 billion.** This agreement signifies a pivotal step forward for Pakistan, offering vital support for its economic stabilization program amid a demanding economic landscape. However, necessary adjustments relating to energy price increases, upticks in consumption taxes, and the ripple effects of currency depreciation will permeate through the economy.

Nevertheless, the Company's dedication to ongoing and sustainable investments in manufacturing capabilities, supply chain processes, product quality, human capital, and marketing prowess will persist. These commitments continue to furnish the Company with a competitive edge over its peers in the market. The Company remains unwavering in its pursuit of augmenting market share both domestically and internationally, with a strategic focus on contributing to import substitution

Acknowledgments

The Board would like to thank our employees, customers, suppliers, shareholders, and bankers for their continued support. The confidence and goodwill of the stakeholders have allowed the Company to sustain and grow over the years.

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

Mr. Yousuf H. Mirza
Chief Executive

Mr. Kamal A. Chinoy
Chairman

Karachi: August 21, 2023