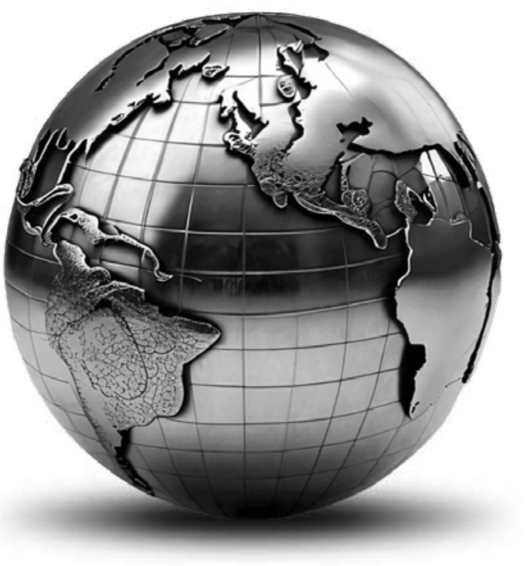
Directors' Report

The Directors of International Steels Limited are pleased to present the 17th Annual Report accompanied by the audited financial statements for the year ended June 30, 2024.

GLOBAL STEEL SCENARIO

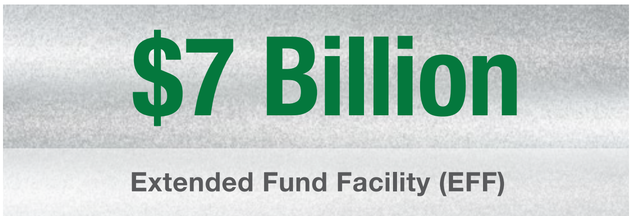
The global steel industry experienced a tumultuous year, characterized by price volatility, supply chain disruptions, and weakening demand in key markets. The average price of the hot rolled coil (HRC) declined by 9% compared to the previous year, while iron ore and coking coal prices experienced fluctuations of 25% and 35%, respectively. Multiple interconnected factors converged to shape the sector's trajectory. Steel prices fluctuated significantly, influenced by a combination of supply chain disruptions and inflationary pressures that tempered optimism. Raw material costs, particularly for iron ore and coking coal, exacerbated price volatility.

Developed economies grappled with economic uncertainties and inflationary pressures, resulting in more subdued demand. China's domestic policies aimed at stimulating economic growth bolstered demand, while efforts to curb overcapacity and reduce emissions influenced supply. Geopolitical tensions and trade disputes cast a long shadow over the global steel market. Tariffs, quotas, and other trade restrictions distorted trade flows and created uncertainties for industry.



NATIONAL ECONOMY

This year was marked by significant economic challenges for Pakistan, necessitating a comprehensive policy response. The government's efforts to stabilize the economy were underpinned by a Stand-By Arrangement (SBA) secured with the International Monetary Fund. The economy exhibited signs of recovery, with a GDP of around 2.4% primarily driven by a strong performance in the agriculture sector. In contrast, the industrial and services sectors witnessed relatively subdued growth.



Inflationary pressures remained a significant headwind, eroding purchasing power and dampening consumer confidence. The current account deficit continues to pose concerns and requires careful management of foreign exchange reserves. The energy sector remained a critical challenge, with circular debt and capacity payments hindering overall economic performance. Fiscal consolidation efforts were undertaken to address the widening fiscal deficit, but the impact on social spending and economic growth required careful balancing.

Pakistan has secured a staff-level agreement with the IMF for a 37-month Extended Fund Facility (EFF) worth approximately US$7 billion. This program aims to consolidate economic stability gains, address fiscal imbalances, and foster sustainable growth through structural reforms.

However, the program also comes with significant challenges. Implementing the required policy adjustments, such as tax reforms and subsidy reductions, could be politically difficult and may lead to short-term economic pain. Moreover, the success of the program hinges on the government's ability to build consensus and implement the necessary reforms consistently.

The economic outlook will depend on the sustainability of the achieved macroeconomic stabilization, the pace of structural reforms, and the evolving global economic environment.

BUSINESS REVIEW

The flat steel faced a complex and challenging operating environment during the fiscal year 2023-2024. A confluence of factors, including macroeconomic instability, energy crises, and policy measures, adversely impacted the sector's performance. The substantial increase in gas and electricity prices imposed significant cost pressures on manufacturers resulting in exerting pressure on profit margins. High inflation rates reduced consumer purchasing power, impacting demand for manufactured goods. The misuse of sales tax exemptions given to erstwhile FATA/PATA regions has created an uneven playing field to the detriment of the domestic steel manufacturing industry. The economic slowdown impacted domestic demand for manufactured goods, affecting production levels and capacity utilization. The government's efforts to stabilize the economy, including monetary tightening and fiscal consolidation, had mixed effects on the manufacturing sector. While these measures were necessary to address macroeconomic imbalances, they also contributed to higher borrowing costs and reduced business liquidity.

International Steels Limited demonstrated resilience in navigating the challenging economic landscape. The Company prioritized working capital management by aligning inventory levels with market demand and optimizing the utilization of letters of credit. Through operational efficiency initiatives, including energy conservation and strategic capital allocation, the Company generated substantial cash flows, reducing its reliance on external financing. This strategic focus enabled the maintenance of healthy gross profit margins despite inflationary pressures and a contracting market.

SALES

Despite operating in a challenging market characterized by a decline in overall steel demand, the Company maintained a strong market position, securing a 21% market share. The misuse of tax exemptions in erstwhile FATA/PATA regions posed significant competitive challenges, yet the Company's strategic focus enabled it to navigate these obstacles. Sales revenue reached PKR 69.3 billion, reflecting the Company's ability to optimize its product mix and penetrate key market segments. The Company successfully expanded its export footprint, with a 42% increase in export volumes compared to the previous year.

↑42% in Exports

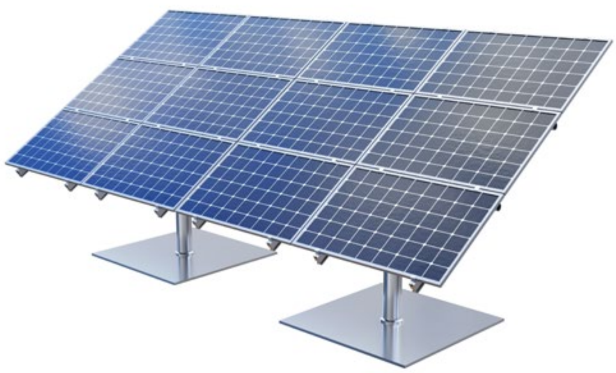
Volumes

Product diversification, including specialized grades for the automotive sector, contributed to revenue growth and enhanced market competitiveness.

MANUFACTURING OPERATIONS

The Company has prioritized operational excellence and sustainability. Lean manufacturing principles and Six Sigma methodologies have been instrumental in streamlining production processes, minimizing waste, and enhancing overall efficiency. To mitigate the impact of rising energy costs, the Company is installing a 6.4 MW solar power facility, reducing reliance on external energy sources.

Production aligned with market demand at 274KMT, while innovative packaging solutions and in-house maintenance initiatives contributed to cost reductions. These efforts underscore the Company's commitment to delivering cost-effective solutions while maintaining operational excellence.



HEALTH, SAFETY & 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 are ensured through HSE Management System integrated with the company's organization scheme and the Company is on track for continuous improvement with a focus on achieving & sustaining leadership levels. The Company has a dedicated Health, Safety & Environment team led by subject matter experts. We have engaged a top-notch HSE expert in the development of a behavioral-based safety culture to create a sustainable and safe working environment for our people, customers, contractors, and the community.

The Company received a fourth consecutive year Corporate Social Responsibility Award at the National Forum for Environment and Health (NFEH).

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 fourth 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.

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

Revenue for the fiscal year totaled PKR 69.3 billion, representing a 9.71% decrease compared to the previous year. Gross profit margin reduced to 12.37% from 13.82% in the prior year, primarily due to increased energy costs.

Profitability remained robust, with a profit after tax of PKR 3.7 billion. This was underpinned by effective working capital management, which generated a robust cash flow of PKR 4.9 billion from operating activities.

Rs. 3.7 Billion

Profit after Tax

A notable increase of 29% in conversion costs, primarily driven by higher energy tariffs, impacted profitability. Freight expenses surged by 156% due to increased exports. While administrative expenses increased by 22%, other operating expenses decreased by 69%. Financial charges were reduced significantly to PKR 856 million from PKR 2,264 million in the previous year.

EARNINGS PER SHARE

Earnings per share for the year ended June 30, 2024, were Rs. 8.40 compared with Rs. 8.09 per share last year.

VIS CREDIT RATING

VIS Credit Rating Company Limited has maintained the company ratings of 'A+/A-1' (Single A Plus/A-One) reviewed in November 2023. The outlook assigned was upgraded by the credit rating agency to 'Stable' from "Rating 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 682. 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 and MAP. In addition to local development opportunities at reputable international institutions. In recognition of its good HR practices, the Company was the recipient of the "Diamond Recognition Award" at 10th Employer of the Year awards, 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 positions and has female employees as part of the management team.

CORPORATE SOCIAL RESPONSIBILITY

The Company is committed to sustainable development and has allocated PKR 52 million towards corporate social responsibility initiatives. Key focus areas include education, healthcare, and environmental conservation. The Company has reduced its carbon footprint through energy efficiency measures and renewable energy adoption.

The Company regularly supports various healthcare facilities including SIUT, Karwan-e-Hayat and Al Rehmat Benevolent Trust, 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 and provides support to The Citizen Foundation and Aga Khan Education Services for their activities related to the promotion of education.

The Company demonstrates a firm commitment to contributing to social uplifting and community development initiatives by supporting organizations like the Amir Sultan Chinoy Foundation.

RISK MANAGEMENT

The Company employs a robust ERM framework to identify and manage strategic, operational, financial, and compliance risks. Key risks include market volatility, credit risk, operational disruptions, and regulatory changes. Mitigation strategies, such as risk transfer, risk avoidance, and risk reduction, are implemented to manage these risks effectively. A robust system of internal controls has been established, communicated, and monitored through regular self-assessments.

A detailed risk register, encompassing key risks and corresponding controls, is maintained and reviewed periodically by the Board Audit Committee. A dedicated BAC meeting was held on May 13, 2024, to review the risks and actions in place for their adequate mitigation.

Independent internal audit functions, reporting directly to the Audit Committee, ensure the design and operating effectiveness of these controls.

BOARDS COMPOSITION & REMUNERATION

The composition of the Board and the names of Members of Board Sub-committees are detailed on Page 86.

The Company has formulated a transparent policy and procedures for the remuneration of its directors (refer to note 36 of the financial statements) by the Companies Act, 2017, and the Listed Companies (Code of Corporate Governance) Regulations 2019.

RECOMMENDATION OF THE BOARD AUDIT COMMITTEE FOR APPOINTMENT OF AUDITOR

The Audit Committee's recommendation for auditor appointment is referred to on Page 103.

DIVIDEND

Given the financial results of the Company for the year 2023-24, the Board of Directors of the Company has recommended a final cash dividend of 30% i.e., Rs. 3.00 per share in addition to the interim cash dividend of 25% i.e., Rs. 2.50 per share, already paid, making a total of 55% i.e., Rs. 5.50 per share for the financial year ended June 30, 2024.

APPROPRIATIONS

	2024	2023
	(Rupees in '000)	
Profit after tax for the year	**3,654,814**	3,518,790
Interim Dividend 2024 Rs. 2.50 per share; (2023 Rs. 3.00 per share)	**(1,087,500)**	(1,305,000)
Final Dividend 2024 Rs. 3.00 per share; (2023 Rs. 2.50 per share)	**(1,305,000)**	(1,087,500)

CONTRIBUTION TO THE NATIONAL EXCHEQUER AND THE ECONOMY

Your Company contributed Rs. 13,335 Mn to the National Exchequer during the year by way of income tax, super tax, sales tax, customs duties, and other levies.

PROVIDENT FUND & GRATUITY FUND

The Company provides retirement benefits to its employees. These include a non-contributory defined benefit Gratuity Fund and a contributory Provident Fund. Both plans are recognized by tax authorities.

The values of the Provident Fund and the gratuity Fund are Rs. 350 Mn (2023: Rs. 256 Mn) and Rs. 502 Mn (2023: Rs. 372 Mn) respectively.

RECOGNITION

ISL won its fifth consecutive award at the 38th Corporate Excellence Awards (CEA) hosted by MAP, recognizing exceptional performance and management best practices.

ISL received the FPCCI 46th Best Export Performance Award for FY 2021-22, recognizing the company's consistent success in exports.

ISL was awarded the KCCI Best Export Performance Award for two consecutive fiscal years, FY 2019-20 and FY 2020-21.

ISL clinched 1st Prize in the Engineering, Automobile Manufacturing & Spare Parts/Components Sector at the 17th EFP Best Practices Award Ceremony for OSHE 2022.

ISL received the prestigious 11th FPCCI Achievement Award for the year 2022. This award, presented at a ceremony held on December 23, 2023, in Islamabad, recognized the company's outstanding contributions to promoting Pakistan's trade and industry.

FUTURE OUTLOOK

The Company anticipates a complex and dynamic operating environment in the coming year. While the ongoing economic challenges pose risks, the Company's strong financial position, operational efficiency, and market focus provide a solid foundation for navigating these uncertainties.

Key factors influencing the outlook include the pace of economic recovery, government policies, global steel market trends, and technological advancements. The Company will continue to prioritize cost management, operational excellence, and market diversification to ensure long-term sustainability and growth.

6.4 MW

Solar Power Plant

The company is in the process of installing 6.4 MW solar power plant at its factory and it is expected to be operational in the first half of this financial year. The installation of solar power reinforces the Company's commitment towards green energy and to reduce its carbon footprint. Besides, it will also help to reduce continuously increasing utilities cost.

The company has also made an investment in Supply Chain Management Software which will help to increase the effectiveness of inventory management, timely delivery of products and enhance customer satisfaction.

The Company subsequent to the financial year end has approved investment of Rs 48.45 million into an Associated Company – Chinoy Engineering & Construction (Private) Limited.

The company has also made an investment in Supply Chain Management Software which will help to increase the effectiveness of inventory management, timely delivery of products and enhance customer satisfaction.

A sustained focus on research and development will be crucial for adapting to evolving market dynamics and maintaining a competitive edge.

The Company remains committed to its stakeholders and will strive to deliver value while contributing positively to the community and the environment.

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.

Yousuf H. Mirza
Chief Executive Officer

Kamal A. Chinoy
Chairman

Karachi: August 20, 2024