Standard Capital Securities (Pvt) Ltd

A venture of Naushad Haroon Chamdia, incorporated in 1997

ANALYST CALL

20 August 2013

Pakistan Research | Steels

P&L (Rs.'000)	FY11	FY12	Chg.
Net sales	3,690,824	13,248,983	259%
COGS	(3,341,648)	(12,043,061)	260%
Gross profit	349,176	1,205,922	245%
Admin Exp.	(80,621)	(73,355)	-9%
Selling & Dist. Exp.	(27,785)	(74,898)	170%
	(108,406)	(150,253)	39%
Financial charges	(383,314)	(1,027,062)	168%
Oth. Op. Exp.	(40,558)	(248,154)	512%
	(423,872)	(1,275,216)	201%
Oth. Op. Inc.	121,070	99,057	-18%
Loss before tax	(62,032)	(120,490)	94%
Taxation - net	(17,370)	(16,019)	-8%
Loss for the year	(79,402)	(104,471)	-32%
Loss per share	(0.22)	(0.24)	-9%

Source: Company Results

Analyst

Mubeen Diwan

Email: mubeen_diwan@hotmail.com

Tel: 111-111-721 Ext:116

www.scstrade.com

P&L (Rs.'000)	9MFY12	9MFY13	Chg.
Net sales	9,628,870	12,170,250	26%
COGS	(8,889,039)	(11,102,217)	25%
Gross profit	739,831	1,068,033	44%
Admin Exp	(52,873)	(81,281)	54%
Selling & Dist. Exp.	(54,324)	(56,396)	4%
Financial charges	(879,786)	(780,910)	-11%
Oth. Op. Exp.	(58,439)	(32,531)	-44%
Oth. Op. Inc.	73,246	52,820	-28%
PBT	(232,344)	169,735	-173%
Tax			
- Current	(100,779)	(11,507)	-89%
- Deferred	50,071	(48,864)	-198%
PAT	(283,052)	109,364	139%
EPS	(0.65)	0.25	138%

Source: Company Results

International Steels now in Green Zone..... |BUY|

International Steels Limited (ISL) which has rated capacity of 250,000 tons of cold rolled coils and 150,000 tons of Hot Dipped Galvanized Steel **is now in Green zone and we have positive expectations for full year results with earning targets of Re0.4-0.5.**

Over FY11-12, we have witnessed dramatic changes in the dynamics of business. Although overall earnings has been dropped by 9% over FY11-12 whereas margins remained unchanged at a rate of 9% even in 9MFY13 results. The increase in sales was due to increased capacity utilisation in the wake of improved market penetration, brand loyalty and increasing demand. Exports were also a main trigger in fledgling sales figure where 6% of sales consisted of exports with Rs.1.02bn whereas local sales surged by 225% from Rs.4.5bn to Rs.14.7bn over FY11-12. Indeed, over 9MCY12-13 exports contributed 8% of total sales with 23% of growth.

It seems that management is trying to reduce non value adding costs as illustrated by reduction in 9%. However, there has been a huge turnaround in selling and distribution expenses where the figure surged by 170% during FY11-12 but cost to sales ratio has been slightly reduced from 0.75% to 0.57% over FY11-12 which justifies the relevant growth in expense head.

	FY11	FY12
Production Capacity		
Galvanising	150,000	150,000
Cold rolled steel strip	250,000	250,000
Actual Production		
Galvanising	38,796	113,851
Cold rolled steel strip	53,228	166,826
Capacity Utilisation		
Galvanising	26%	76%
Cold rolled steel strip	21%	67%

Source: Company Results

Trade debts have been soared from Rs.0.35mn to Rs.287mn which is translated into massive percentage. Due to this massive hike in trade debts, ISL has financed its working capital from short-term source finance i.e. Trade Payables and Short term borrowings causing drop in current ratio from 0.97x in FY11 to 0.89x in FY12. That is why, it could be predicted that collection from Receivables should be the main area of concerned in upcoming years since cash balance has also been dropped dramatically from Rs260mn in FY11 to just Rs3.9mn.

Expectations

Augmenting brand recognition along with increasing international & domestic steel prices are the factors that cause us to make good expectations for 1QFY14. Moreover, exports also provide ISL a new gateway for growth and also provide a competitive edge over other peers in the sector. **We expect EPS of Re.0.4-0.5/sh in FY13 therefore; we remain positive and maintain our BUY stance.**