

DIRECTORS' REPORT

The Directors of International Industries Limited are pleased to present their report, along with the audited financial statements of the Company for the year ended June 30, 2023.

BOARD COMPOSITION & REMUNERATION

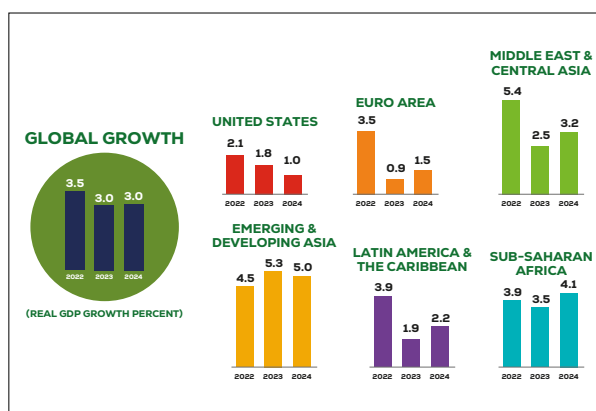
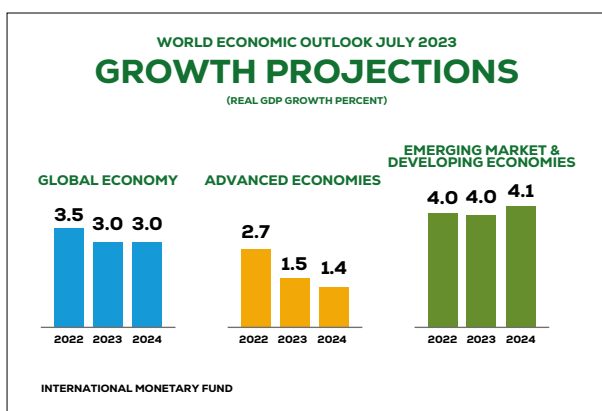
The composition of the Board of Directors, and its sub-committees, is presented on pages 133 & 149 (Corporate Governance) of the Annual Report. The Company has well documented policies and procedures for directors remuneration (note 37 of the unconsolidated financial statements) in accordance with the Companies Act, 2017 and the Listed Companies (Code of Corporate Governance) Regulations, 2019.

GLOBAL ECONOMIC OUTLOOK

The current state of the global economy can be best summed up as a 'polycrisis'. The interplay between pandemic, political, economic, and environmental challenges raised the level of uncertainty to unprecedented heights. While the lingering effects of COVID-19 pandemic persisted, the raising of interest rates to fight stubborn inflation weighed in heavily on economic activity. The war in Ukraine fueled uncertainties around world food and energy supply as well as prices. Climate change, excessive floods and droughts made things even more difficult for many nations. High interest rates caused disruption in several emerging economies, particularly in countries with high sovereign debt vulnerabilities.

On the positive side, world supply chain disruptions have begun to unwind and dislocations to energy and food markets caused by the Ukraine war are receding as countries adjust and adapt to the new realities. The tightening of monetary supply by most central banks has started to bear fruit as the rate of inflation has begun to slow down.

The IMF has forecasted global growth at 3% in 2023 and 2024. More importantly, it forecasts that global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and to 5.2% in 2024. The IMF's five-year outlook envisages slow economic growth, recommending global policymakers to focus on controlling inflation, maintaining financial stability, curbing budget deficits and maintaining targeted support for the most vulnerable..

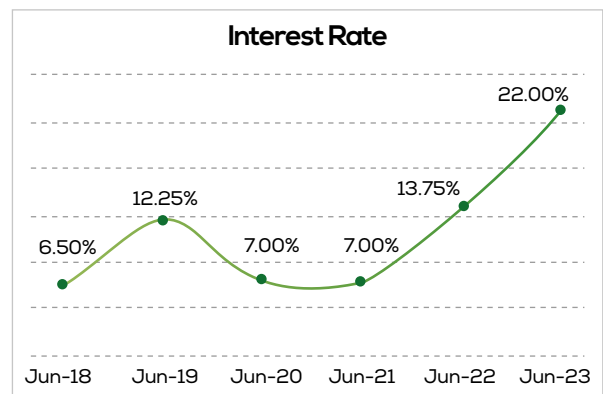
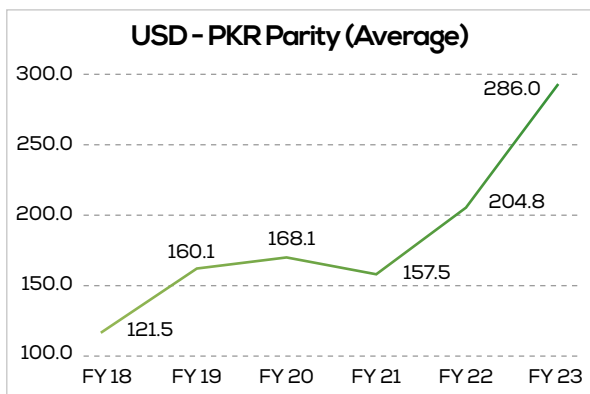
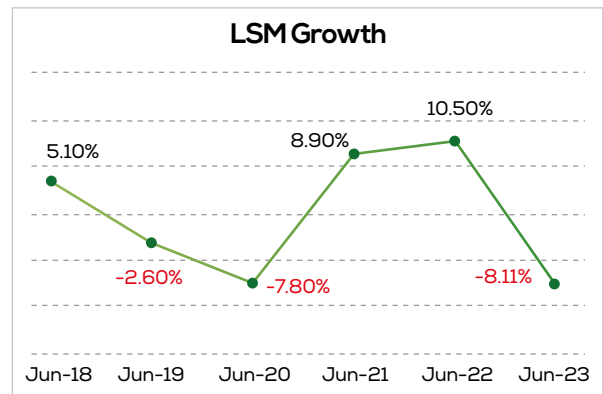
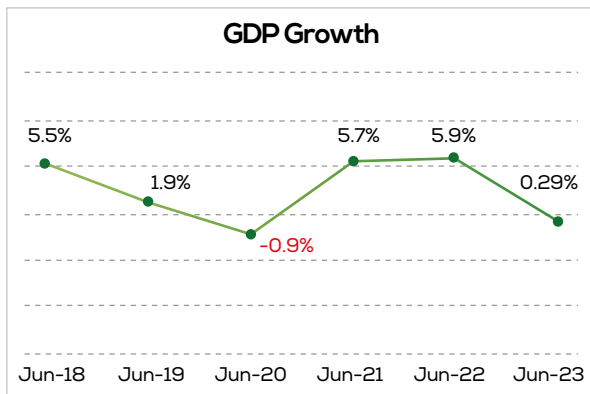


Source: IMF World Economic Outlook, July 2023

DOMESTIC ECONOMY

The VUCA (Volatile, Uncertain, Complex, Ambiguous) global environment, driving economic slowdown and inflationary pressures, has had a substantial impact on Pakistan's economy. Fiscal Year 2022-23 brought extraordinary challenges such as poor demand, rising policy rate, record floods and a fluid political landscape. In addition, the war in Ukraine severely disrupted the global demand-supply balance and increased the prices manifold. The Country's economic growth slowed drastically and large-scale manufacturing (LSM) witnessed contraction in volume. Drastic tightening of monetary policy and controls to curb imports such as rationing of Letters of Credit based on 100% cash margins also impacted business operations. Steep PKR depreciation made overseas employment opportunities attractive which triggered migration along with salary inflation and increased cost of production locally.

In FY2023, Pakistan's GDP grew by 0.3% (1.6% in agriculture, -2.9% in industrial sector, and 0.9% in the services sector). LSM shrunk by 10.26% during FY2023 versus growth of 10.6% in the previous year. The contraction in LSM volumes was witnessed across all major sectors, especially automobiles, textiles and construction. Iron & Steel production dropped by 4.0% during the period under review compared to a growth of 16.6% in the same period last year. Billets/ingots, mainly used by the construction industry, experienced a negative growth of 14.3%. Annual per capita income decreased from US\$ 1,765 to US\$ 1,568 in FY2023. This deceleration was attributed to the significant depreciation of PKR and the contraction in economic activity. The depreciation of the Rupee resulted in record inflation in our import-dependent economy recorded at 28.2% compared to 11.0% during the same period last year.



*Pakistan Bureau of Statistics)

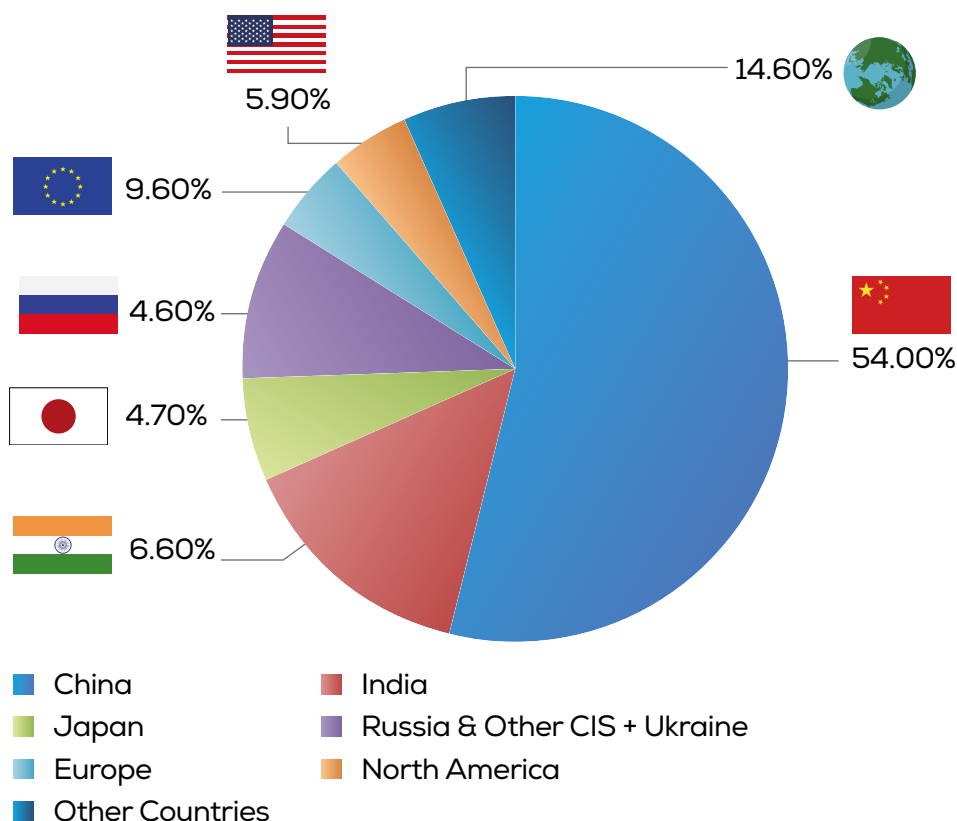
Uncertainties surrounding an IMF agreement finally came to an end as it approved a US\$ 3 billion stand-by agreement and released US\$ 1.2 billion in June 2023. The fears of an imminent sovereign default have been averted. The IMF has forecasted Pakistan's economic growth for FY 2024 at 3.5%.

GLOBAL STEEL SCENARIO

During CY 2022, the post-pandemic recovery momentum was hampered by high inflation, increasing interest rates, Russia's invasion of Ukraine, and the lockdowns in China. As a result, steel-using sectors' activity dampened in the last quarter of CY 2022 and stayed sluggish during the first half of CY 2023. This, combined with the impact of stock rationalization, led to a worse-than-expected contraction in steel demand.

World crude steel production was estimated at 1.9 billion metric tons (MT) in CY 2022, which was 4% lower than the previous year. China accounted for 54% of global crude steel production and was down 2% year on year. Other major players included India (125 million MT), Japan (89 million MT), the United States (81 million MT), and Russia (72 million MT).

WORLD STEEL PRODUCTION 2022

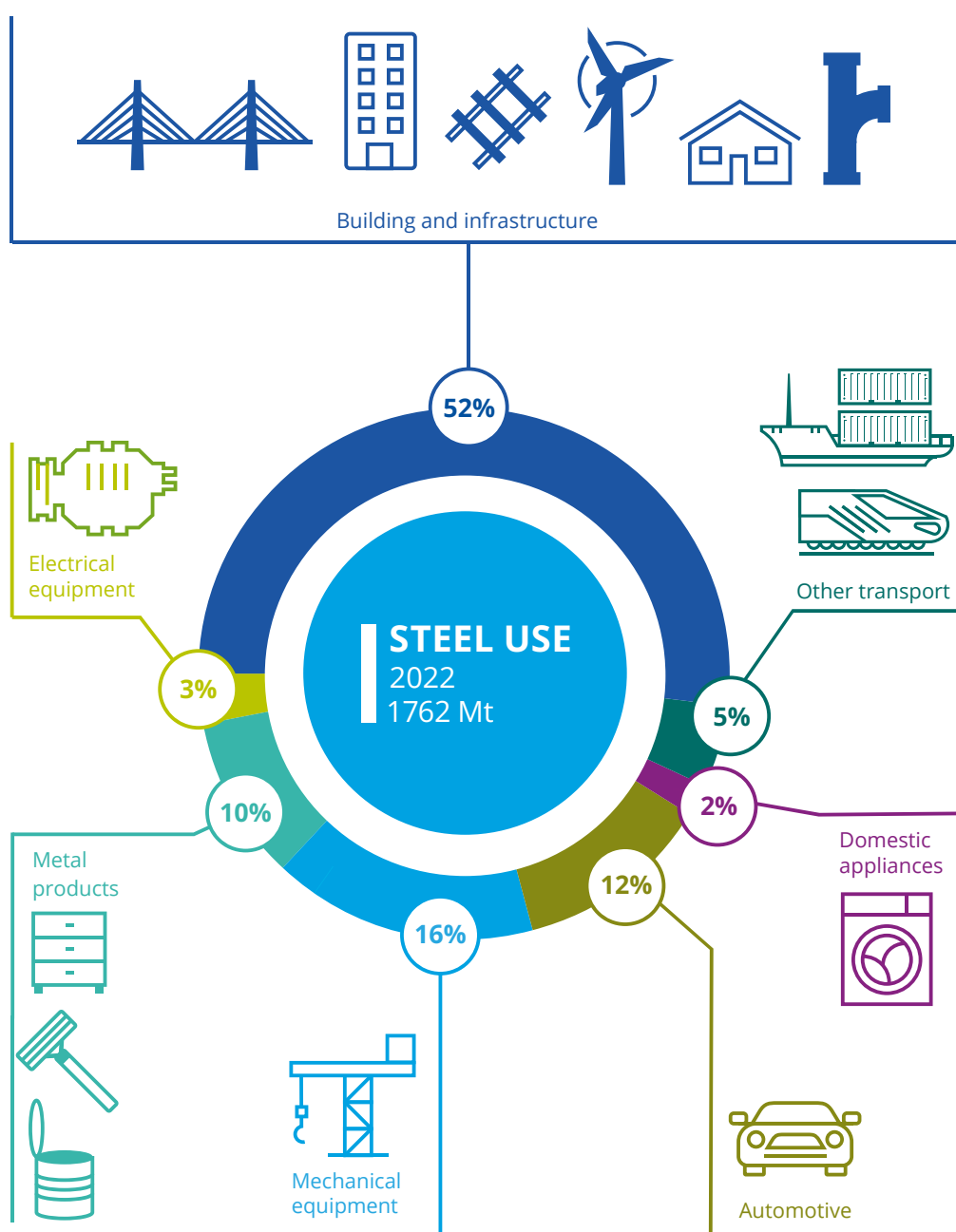


Source: World Steel Association, 2023

STEEL USES

Steel is one of the most commonly used material, be it in vehicles, construction, rails, roads, home appliances, cargo ships, surgical tools, fluid transmission, and so on. There are more than 3,500 different grades of steel with varying physical, chemical, and environmental properties. Approximately 75% of modern steels were developed in the past 20 years.

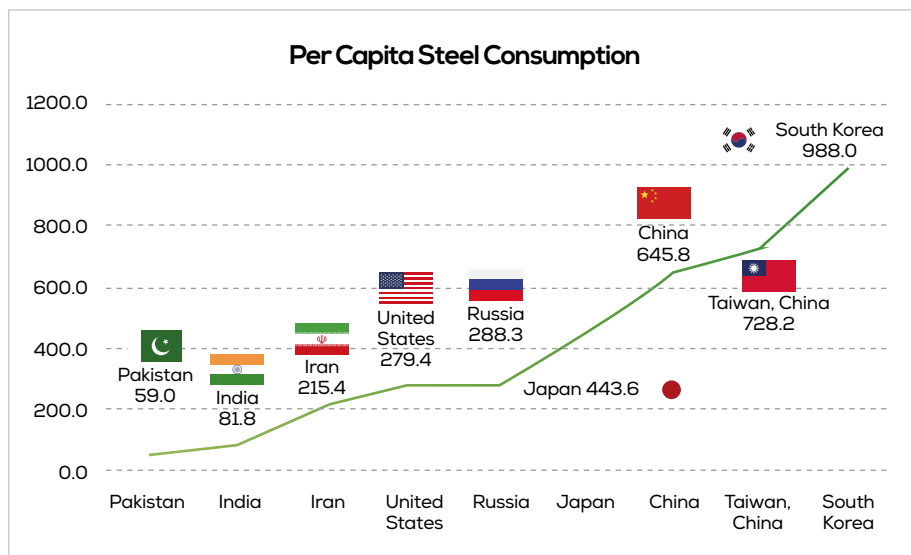
Steel is highly versatile in its uses and is sustainable by virtue of being infinitely recyclable. The steel industry has a tremendous contribution in the development of the world economies, evident from the variety of uses as depicted in the graphic below:



Global steel forecasts this year indicate that demand rebound by a 3.4% to reach 1,822 million tonnes over 1,762 million tons in CY 2022 and will reach 1,854 million tons with a growth of 1.7% in CY 2024. Manufacturing is expected to lead the recovery that, however, may be hampered by high-interest rates. Next year, growth is expected to accelerate in most regions; however, deceleration is expected in China.

Prime Hot Rolled Coil (HRC) prices have fallen sharply, from highs of US\$ 1,100 to just under US\$ 600 per MT during the year under review. While international prices of HRC reduced by nearly 45%, a decline in the Pakistani Rupee value by over 40% has meant that the landed cost of steel in Pakistan remains almost the same.

The World Steel Association's assessment of steel consumption for 2022 indicates a world average of approximately 222 kg/capita. Pakistan remains well below the world average at an estimated 59 kg/capita, which continues to underline the potential for growth in the domestic steel manufacturing and processing industry.



STEEL TUBE AND PIPE INDUSTRY

The global steel tube and pipe industry manufactures a broad range of welded and seamless tubes & pipes. Steel pipes are used primarily in oil & gas, water, and fluid transmission & distribution, as well as various fencing and fabrication-related applications. Structural steel pipes and Hollow Structural Sections (HSS) are used in high-strength applications in the construction industry, whereas cold-rolled steel tubing is used in automotive parts, bicycles, home appliance manufacturing and various furniture and fabrication-related applications.



According to the International Tube Association, global production of steel tubes & pipes was around 146 million tonnes last year (a decrease of 3.1% year on year), which represents around 8% of total world crude steel output. The welded tubes & pipes segment represents 73% of total tubes & pipes produced, whereas seamless pipe represents 27% of the production share. Chinese steel producers remain on top, producing 83 million tonnes.

Pakistan's steel tubes and pipes market size is estimated at approximately 750,000 MT, out of a total steel products market size of 9-10 million tons. The domestic steel tubes and pipes market is highly fragmented and consists mainly of a large number of small-to-medium-sized manufacturers scattered across the Country. The growth of the industry is closely correlated with the domestic flat steel market which grew by 2.7% in FY 2022-23.

STAINLESS STEEL

Global production of stainless steel was approximately 55 million tonnes in CY 2022 compared to 58 million tonnes in CY 2021 with a CAGR of 6.5% over a 5-year period. Once again, China remained the largest supplier of stainless steel with 58% of the world's output.

Stainless steel tubes and pipes are typically suited for end-uses that require high corrosion and temperature resistance as well as aesthetic appeal. The 300 Series stainless steel, offering strong corrosion inhibition properties, comprised more than 50% of global stainless-steel production. The more economical 200 Series constitutes around 20%, whereas the 400 series, which is primarily used by the automotive sector, constitutes approximately 20% of global production. Your Company's portfolio comprises of all these grades.

Pakistan's average stainless-steel consumption is approximately 0.5 kg/capita whereas the world average is 6 kg/capita; this again indicates a substantial potential for growth in this segment.

Your Company sees strong growth potential in this segment and commissioned a number of tube-making and polishing machines during the year under review to take advantage.

POLYMERS

Our polymer segment produces pipes and fittings for transmission and distribution of water and gas as well as for use in telecommunication and ducting applications. This segment has shown consistent growth over the last decade, both in terms of volumes and profitability. With a strategic objective to continue expanding this segment, the Company has recently introduced uPVC pipes and fittings into its product offerings.



STRATEGIES, OBJECTIVES & CRITICAL PERFORMANCE INDICATORS

ILL remains focused on executing its mission to deliver excellent value to all its stakeholders while adhering to global best practices. The Company plays a leading role in the Country's tubes and pipes industry and strives to continuously improve products and processes to enrich customer experiences and maximize shareholder returns. A detailed description of ILL's strategic imperatives, objectives and critical performance indicators can be found on page 93.

COMPANY OPERATIONS

Our Products

Your Company is the leading manufacturer of tubes and pipes in the domestic market for Galvanized Iron (GI) pipes, Cold Rolled (CR) tubes, Stainless Steel tubes and pipes, HSS and Black and Scaffolding pipes, and Polymer pipes, having the largest product range in the segments it operates in. The IIL brand is a benchmark for quality and has, over several decades, earned enduring loyalty from its customers, dealers and business partners.

Gross Sales

The Company achieved sales volumes of 95,363 MT during FY23, with a turnover of PKR 26.8 Bn (FY22: PKR 37.9 Bn), a decline of 29%.

Domestic Steel Sales

The Company's domestic sales for the year contracted by 18% and were PKR 21.7 Bn (FY22: PKR 26.7 Bn). Volumes were 38% lower than last year due to the difficult business conditions and economic environment during the financial year. The decline in sales volumes was attributable to dampened overall domestic demand in the face of political instability, absence of infrastructure projects, slowdown in the construction sector, frequent shut down of auto industries, difficulties in importing raw materials and misuse of tax exemptions granted for the FATA and PATA regions. Your Company was, however, able to maneuver through the challenges and maintained its market leadership in key segments.

The Company continues to actively enhance commercial and institutional customer engagement via nationwide events, sponsorships, and direct engagement mechanisms. This is part of its keen focus on customer-centricity and maintaining a deep and research-backed understanding of market trends and requirements.

Export Steel Sales

The Company exported products worth USD 20.4 million, which translated to PKR 5 billion (FY22: PKR 11 billion). Our overseas subsidiaries in Australia and North America have played a key role in expanding our global footprint and delivering growth in these key markets. Your Company was ranked amongst the largest exporters from Pakistan in FY 2022 and won the prestigious FPCCI Best Export Performance Award 2022 in its segment for the 22nd consecutive year.



IIL Australia Pty Limited, Melbourne, Australia

IIL Australia, a subsidiary of IIL, provides a stable export avenue in a highly developed market. However, the slow down of the Australian economy has reduced overall industry volumes. Net sales were down to US\$ 16.1 million (FY22: US\$ 31.1 million).

The recent signing of an FTA between Australia and India will skew the advantage in favour of Indian products. IIL Australia has strong relationship with its customers and goes the extra mile to provide unparalleled service – these traits will help maintain IIL Australia as a relevant player in the local market.

IIL Australia has imported over 90,000 MT of product from IIL since its inception and has become a leading supplier in the Australian tubes and pipes market. In recognition of its performance, the Australian Border Force (ABF) accredited the Company as an Australian Trusted Trader (ATT) in June 2022, a prestigious accolade and a first for any Pakistan-origin corporation. Its achievements also include the winning of several business awards and government grants in Australia.



IIL Americas Inc., Toronto, Canada

IIL Americas, also a subsidiary, continues to develop channels of exports for IIL in North America. However, during the year under review, the volume threshold set for the antidumping duties and the normal price reviews by the Canada Border Services Agency (CBSA) adversely affected sales opportunities in some of our more profitable segments. During the year under review, IIL Americas achieved sales of USD 12.1 million (FY22: USD 15.0 million), a decline 20%.

IIL Construction Solutions (Pvt) Limited, Pakistan

IIL Construction Solutions is also a subsidiary. This company was formed to provide innovative solutions to the challenges facing local construction industry. During the year under review, it entered into a strategic partnership with MEVA Schalungs Systeme of Germany, a world-leading company, to offer products and expertise in the area of formwork and shoring solutions in Pakistan.



Net sales of the Company for the year under review were PKR 419 million (FY22: PKR 652 million), lower than last year because of the slowdown in the construction sector.

Stainless Steel Sales

The impact of overall market contraction has also been felt in the Stainless Steel tube segment. Sales shrank by 31% compared to the previous year. During the next financial year, we are hopeful of increased market share on the back of our new SS200 product line featuring an expanded range of diameters and shapes.

Polymer Sales

Turnover of Polymer pipes and fittings was PKR 3.5 billion (FY 2022: PKR 2.7 billion) on the back of strong institutional business and the Company's success in capitalizing on market opportunities.

Safe use of Polymer products depends on the standard of inputs and production. IIL's products that comply with relevant standards whereas the market is inundated with cheaper and inferior-quality products. As a result, the Company has to maintain focus on educating its commercial and institutional customers on the virtues of products that comply with relevant standards. This is an uphill challenge, but it also becomes our unique selling point for customers that care for quality and health of its people.

MANUFACTURING

Faced with an extremely challenging economic environment, your Company focused on optimizing its operations and took several measures to reduce costs in order to combat high inflation. To reduce the dependence on expensive energy options and underline its credentials as a champion of UN Social Development Goal (SDG) #7, the Company commissioned a 1 MW solar energy system at its Karachi factory and is on course to install another 3 MW of solar energy in Karachi and Sheikhpura. Furthermore, in-house expertise was used to reduce operational costs including but not limited to making galvanizing more cost-effective and modifications of existing plant & machinery for expanding the range of hot rolled and UPVC products.

FINANCIAL REVIEW

Company Results

During the year under review, the Company posted net sales of PKR 26.8 Bn, which was 29% lower than last year, earning a gross profit of PKR 3,422 million, Profit Before Tax of PKR 2,883 million, Profit after Tax of PKR 2,273 million and Earnings per Share (EPS) of Rs. 17.23. These results were a fruit of pragmatic working capital and cost management in the face of inflationary pressures, focus on margin optimization, continuous negotiation of the best available borrowing rates from lenders, and significant dividends from our major subsidiary and other investments.

Cost of goods sold for the year at PKR 23,365 million was 30% lower than last year in synchronization with lower sales volumes. Selling and distribution expenses of PKR 1,404 million were 51% lower than last year mainly on account of low export sales volumes and cost curtailment measures. Administrative expenses of PKR 352 million were similar to the previous year, despite rising inflationary pressures.

Other income of PKR 3,089 million was slightly lower than last year mainly due to lower dividend income. Financial charges during the year at PKR 1,732 million were 47% higher than the previous year mainly on account of multiple interest rate increases and relatively higher financing requirements to import raw materials against a backdrop of increasingly disadvantageous exchange rates.

Cash Flow Management and Borrowing Strategy

Financial management remains in the throes of external factors – PKR depreciation and rising interest rates. The nominal cost of financing has almost doubled and the interest rates continue to rise. The Company was able to mitigate financial risk by reducing actual borrowing through efficient inventory management and guiding its subsidiaries to meet their working capital requirements through a combination of own source financing and bank financing arrangements in their home countries of residence. The Company reduced its debt ratio by 4% to 55% which is a significant achievement.

Dividend

Your Board of Directors has recommended a final cash dividend of Rs. 2.0 (20%) per share. With the interim dividend of Rs. 5.50 (55%) per share already paid during the year, the total dividend for the financial year 2023 will amount to Rs. 7.50 (75%) (FY22: Rs. 8.0) per ordinary share of Rs. 10 each.

Appropriations 2023

	Rupees in '000	
	2023	2022
Profit After Tax for the year	2,272,936	2,155,668
Interim Dividend 2023 Rs. 5.50 per share (2022: Rs. 2.00 per share)	(725,350)	(263,764)
Final Dividend 2023 Rs. 2.0 per share (2022 : Rs. 6.00 per share)	(263,764)	(791,291)

AUDITORS

Reappointment of A. F. Ferguson & Co., Chartered Accountants as auditors of the Company for FY 2024. The recommendations of the BAC for the appointment of the auditors may be referred to on page 154 (Report of the BAC on adherence to the Code of Corporate Governance).

INFORMATION SYSTEMS

We are committed to the process of continuously upgrading and enhancing our IT environment and moving towards greater process automation as well as digitalization. During the year under review, we remained focused on improving and integrating our ERP system to support business operations. Numerous initiatives were taken to improve systems efficiency by introducing bar coding systems for inventory management, a transport management system for real-time information on shipments, and the use of appropriate digital media platforms for e-invoicing and receiving customer feedback.

SOCIAL IMPACT

ILL prides itself on being a responsible corporate citizen and positive contributor to the communities in which it operates, as well as society at large. A detailed look into ILL's social, philanthropic, and environmental protection initiatives can be found in our Sustainability Report available on the Company's website.

HUMAN RESOURCE MANAGEMENT

ILL's ethos includes the firm belief that employees are its biggest asset. Empowering employees with meaningful roles, challenging assignments, growth opportunities and strong learning platforms have paved the way for a more vibrant, effective and motivated organization. The Company has taken several initiatives during the year for the well-being of its employees. A few of these initiatives are as follows:

Occupational Health, Safety and Environment Systems (OHSE)

Employee health and safety is crucial to ILL. We take our responsibility for providing a healthy, safe, and hazard-free environment to our employees and contractors very seriously and strive to achieve this through our OHSE Management System that is stewarded by the HSE Department and is overseen by a senior management level OHSE Committee. To improve safety standards and to prevent incidents at work, the Company imparts appropriate training as a recurring function and provides suitable PPEs to its workforce. Further information on our OHSE initiatives is available in our Sustainability Report.

Succession Planning

The Company has in place succession plans, which includes identification, performance evaluation and appropriate training requirements for the development of future leaders. This means recruiting employees, developing their knowledge and skill sets and preparing them for advancement into more challenging roles. Our succession plan, overseen by the Board's Human Resource & Remuneration Committee (HRRC), is continuously reviewed and updated to address the Company needs in a dynamic and rapidly-changing environment.

Participation in Job Fairs

The Company participated in job fairs held by various top educational institutions to recruit talent with the objective to hire, train, motivate and retain potential successors to the existing workforce.



Apprenticeship Training Program

Our Apprenticeship Training Program operates at all factories with apprentices obtaining training in the areas of production, maintenance, and quality control. A stipend equal to at least the minimum wage is paid to apprentices.

Gratuity Scheme and Provident Fund

The Company provides retirement benefits to its employees including 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.

Employment of Differently-abled People

In pursuance of its own objectives of being a responsible and inclusive corporate citizen and complying with the legal requirements, IIL's workforce includes 20 differently-abled staff members, who are a valuable and integral part of our team.

Employee of the Year and Long Service Awards

The Company has in place Employee of the Year and Long Service Awards programs to motivate staff by acknowledging and rewarding their contribution in terms of value addition, living the Company's values and length of service.



Employee Engagement Survey 2023

An employee engagement survey was conducted during the year, seeking feedback about fairness, communication, compensation, respect, gender diversity and work-life balance. The feedback has helped the Company identify areas for improvement.



CONTRIBUTION TO THE NATIONAL EXCHEQUER

IIL is registered with the Large Taxpayers Unit (LTU) and contributed over PKR 5.06 billion to the national exchequer in the form of Income Tax, Sales Tax, other taxes, duties, and levies during the financial year.

INTERNAL CONTROL FRAMEWORK

The Board has in place an effective internal control framework which may be referred to on page 154.

RISK, OPPORTUNITY, AND MITIGATION REPORT

The management, in consultation with the Board of Directors, continues to develop capabilities to anticipate risks and develop suitable strategies to mitigate them while formulating our strategic roadmap. A detailed Risk & Opportunity Report is presented on page 97.

RELATIONSHIP WITH STAKEHOLDERS

IIL attaches the highest value to all its stakeholders' satisfaction and strives to nurture a positive relationship with them through effective, transparent and timely communication and interaction.

QUARTERLY AND ANNUAL FINANCIAL STATEMENTS

Quarterly unaudited financial statements of the Company, along with Directors' Review, were approved and circulated to the shareholders on a timely basis. Half-yearly financial statements were subjected to a limited scope review by the external auditors. The annual financial statements annexed to this report have been audited by the external auditors, approved by the Board and will be presented to the shareholders at Annual General Meeting for approval. Periodic financial statements of the Company, duly endorsed by the CEO and CFO, were circulated to the directors. Half-yearly and annual accounts were verified by the external auditors before being presented to the Board Audit Committee and the Board of Directors for approval.

CHIEF FINANCIAL OFFICER (CFO), COMPANY SECRETARY, AND CHIEF INTERNAL AUDITOR

The CFO and the Chief Internal Auditor possess the requisite qualification and experience as prescribed in the Code of Corporate Governance whereas the Company Secretary possesses the same as prescribed in the Companies Act, 2017. The appointment, remuneration and terms and conditions of employment of the CFO, Chief Internal Auditor and Company Secretary were determined by the Board of Directors. The removal of the CFO and Company Secretary, whenever applicable, is made with the approval of the Board of Directors.

COMPLIANCE

At IIL, we are firmly committed to ensuring effective governance through the adoption of best business practices and standards. The Board reviews the Company's strategic direction and business plans and performance regularly.

The Board Audit Committee (BAC) is empowered to ensure effective compliance with the Code of Corporate Governance. All related party transactions are placed before BAC for review and recommendation before seeking approval from the Board. Your Board is strongly committed to maintaining the highest standard of corporate governance. For further details, reference can be made to the Code of Corporate Governance section of this report.

CREDIT RATING

VIS Credit Rating Company Limited (VIS) has maintained the entity ratings of International Industries Limited (IIL) at 'AA-/A-1' (Double A minus/A-One). However, the outlook on the steel sector at large has been revised from 'Stable' to 'Rating Watch – Developing' status.

INVESTMENTS

The Company holds a 56.33% ownership interest in its subsidiary, International Steels Limited (ISL), a listed company engaged in the business of processing flat steel products. ISL ended the financial year with sales volume of 308,000 MT, turnover of approximately PKR 76.8 billion and Profit after Tax of PKR 3.5 billion.

Your Company also holds a 17.12% ownership interest in Pakistan Cables Limited (PCL). PCL is a listed company engaged in the business of manufacturing copper rods, wires and cables and is the Country's first manufacturer of copper cables and wires.

ILL has also invested in three wholly-owned subsidiaries; IIL Australia Pty Ltd., IIL Americas Inc., and IIL Construction Solutions (Pvt.) Ltd.

FUTURE PROSPECTS

Polarized politics, steep devaluation of the PKR, stringent import restrictions, rising inflation and interest rates, devastating floods and a looming threat of sovereign default were the major challenges of FY 2023. Many of these challenges have spilled over into FY 2024 and are expected to continue in the medium term.

On a positive note, the conclusion of arrangements with IMF and financial assistance from friendly countries has averted the threat of sovereign default, at least in the short term. Resumption of Phase 2 of CPEC is likely to spur economic activity, especially as Saudi Arabia and UAE governments show interest in investing in Pakistan. Recent rains have filled all three major dams in the country to capacity, which can potentially lead to a recovery in the agriculture sector, which has positive knock-on implications for the automotive and construction industry. As and when the PKR stabilizes and inflation comes under control, policy rate may also decrease making credit more affordable for business activities.

The caretaker government has been vocal about its intention to address the issues surrounding the economy and revive cautious growth. It is hoped that pent up demand may emerge and stimulate business volume. Your company needs to be pragmatically optimistic about the future and be ready to exploit business opportunities as they arise.

ACKNOWLEDGEMENT

We thank all our stakeholders, including shareholders, customers, employees, bankers and suppliers for their continuing commitment to the Company and look forward to sharing more successes with them in the coming years.

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

For and on behalf of the Board of Directors



Sohail R. Bhojani
Chief Executive Officer



Kamal A. Chinoy
Chairman

Karachi
Dated: August 23, 2023