

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, 2024.

BOARD COMPOSITION & REMUNERATION

The composition of the Board of Directors, and its sub-committees, is presented on pages 209 & 200 (Corporate Governance) of the Annual Report. The Company has well-documented policies and procedures for directors' remuneration (note 38 of the unconsolidated financial statements) in accordance with the Companies Act, 2017 and the Listed Companies (Code of Corporate Governance) Regulations, 2019.

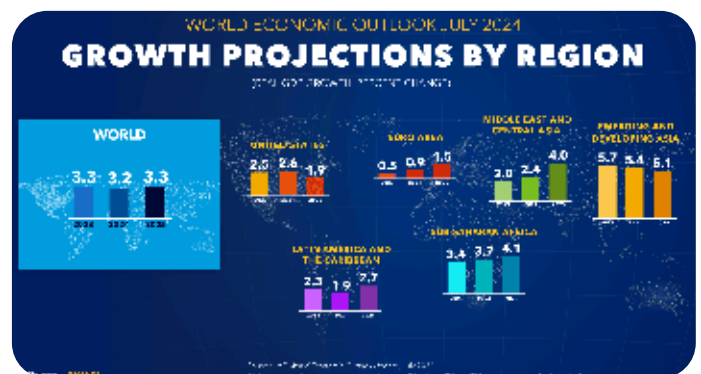
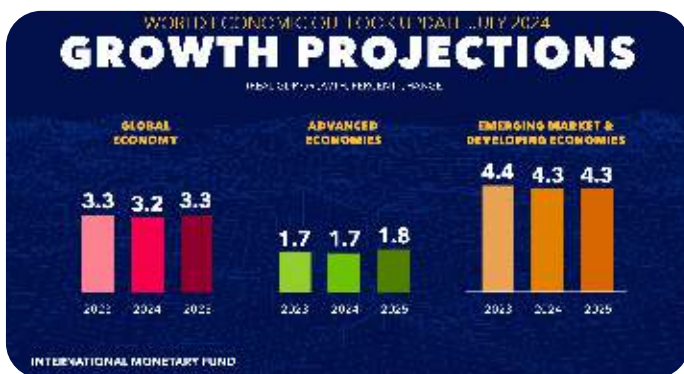
GLOBAL ECONOMIC

The global economy remained uncertain throughout 2023-24 however, the possibility of stagflation and global recession were largely defied. Economic growth remained slow, owing to near-term factors, such as high borrowing costs and withdrawal of fiscal support, and longer-term effects from the COVID-19 pandemic, Russia's invasion of Ukraine, the conflict in Gaza and Israel, weak growth in productivity, and increasing geoeconomic fragmentation.

Global economic recovery remained slow due to geopolitical and macroeconomic challenges

There are signs that the global outlook has started to brighten, though growth remains modest. Tighter monetary conditions are suppressing inflation due to which private sector confidence is improving. Supply and demand imbalances in labor markets are easing, with unemployment remaining at or close to record lows.

The IMF has forecasted global growth at 3.2% in 2024 and 3.3% in 2025 and global headline inflation at 5.9% in 2024 and 4.5% in 2025. The IMF's five-year outlook envisages slow economic growth and recommends prudent monetary policies, budgets for debt sustainability, structural reforms, multilateralism, and cooperative climate solutions.



Source: IMF World Economic Outlook, July 2024

DOMESTIC ECONOMY

Recent years have seen an exacerbation of persistent challenges. Pakistan's economy experienced impressive growth in FY 2021 and FY 2022 as relaxation in COVID-19 restrictions allowed the latent demand to boost the economy. However, the catastrophic floods, followed by political upheaval, high interest rates and foreign currency disruptions in FY 2023, impeded the momentum and restrained economic growth rate to 0.29%. The economy improved at a sluggish 2.38% in FY 2024 whereas FY 2025 is expected to witness growth at 3.5%.

Growth and Investment

GDP Growth	2.38%
Agriculture	6.25%
Industries	1.21%
Services	1.21%
Per Capita Income	USD 1,680
Investment as % of GDP	13.1%
Savings	13.0%

Source: Economic Survey of Pakistan 2024

Manufacturing and Mining

LSM Growth Rate	(0.1%)
Textile Growth	(8.3%)
Wearing Apparel	5.4%
Furniture	23.1%
Leather Product	5.3%
Fertilizer	16.4%
Pharmaceutical	23.2%
Mining & Quarrying	4.9%

Source: Economic Survey of Pakistan 2024

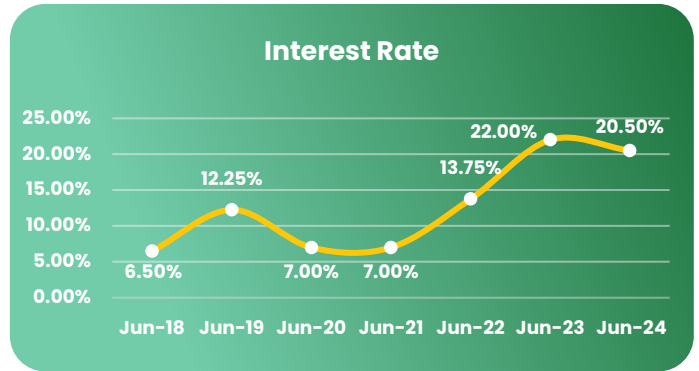
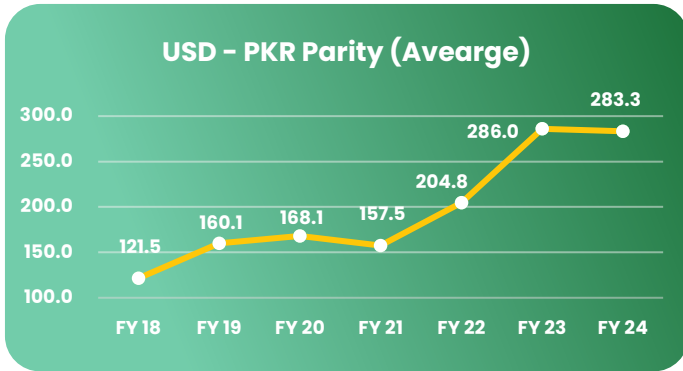
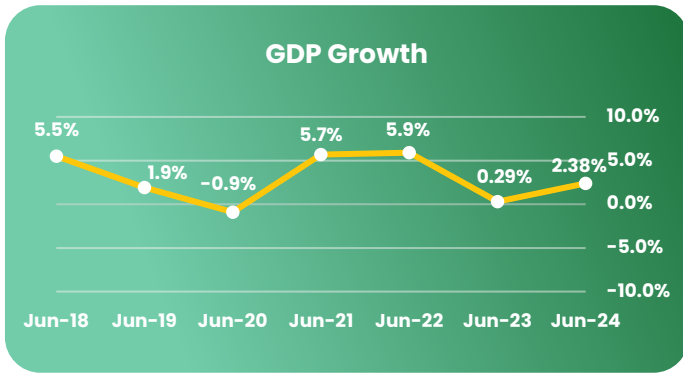
According to the Economic Survey of Pakistan 2023-24, the agricultural sector witnessed healthy growth and is paving the way for the strengthening of the economy. A tight fiscal policy and successful completion of the IMF's Stand-By Arrangement (SBA) have yielded significant progress in reinstating economic stability.

Improved economic activity and a stable exchange rate have played a key role in increasing per capita income to US\$ 1,680 in the period under review compared to US\$ 1,551 for the previous period. CPI inflation for the period July-April FY 2024 was recorded at 26.0% as against 28.2% during the same period last year and is now on a downward trajectory.

The industrial sector's performance heavily relies on manufacturing, which constitutes 65.3% of the industry. The manufacturing sector grew by 2.42% on the back of a healthy growth of 9.08% in the small-scale industry and 6.63% growth in the meat industry. However, large-scale manufacturing (LSM), continued to struggle as curbs on imports due to a shortage of foreign exchange restricted the availability of imported raw materials, coupled with high cost of credit and escalating energy prices, subdued activity. The automobile sector witnessed a contraction of 37.4% against 42.2% in 2023.

Iron & Steel production declined by 2.2% during the period under review against the negative growth of 4.0% in the same period last year, indicating a lower demand from construction-related sectors. The steel industry's major challenges include spiralling energy costs, imported raw materials, high shipping costs and the threat of dumping of imported products. Sluggish demand from complementary industries such as automobiles, electrical equipment, heavy and light machinery resulted in low utilization of flat steel.

Ominously, the misuse of tax exemption granted to the FATA/PATA regions by unscrupulous elements has severely compromised the industry as well as government revenues.



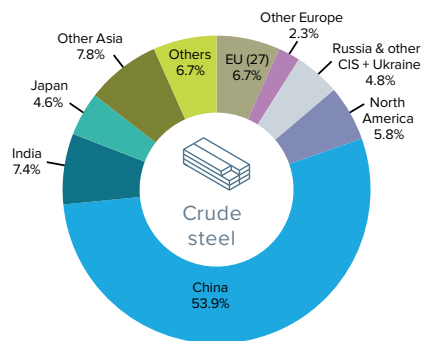
Source: Economic Survey of Pakistan 2024

GLOBAL STEEL SCENARIO

During the year under review, global steel markets experienced various challenges, including supply chain disruptions due to the Russia-Ukraine conflict, elevated global inflationary pressures leading to monetary tightening, and oil price shocks due to elevated geopolitical tensions in the Middle East. Demand and supply of steel products in its biggest market in China remained stagnant as the Chinese construction sector struggled, which caused a global slowdown of the steel economy. The rise in freight costs further exacerbated the downward pressure on steel prices.

World crude steel production was estimated at 1.9 billion metric tons (MT) in CY 2023, almost the same as the previous year. China continued to maintain its share at 54.0% of global crude steel production. Other major players included India 7.4% (141 million MT), Japan 4.6% (87 million MT), the United States 4.3% (81 million MT), and Russia 4.0% (76 million MT).

Crude steel production
World total: 1,892 million tonnes



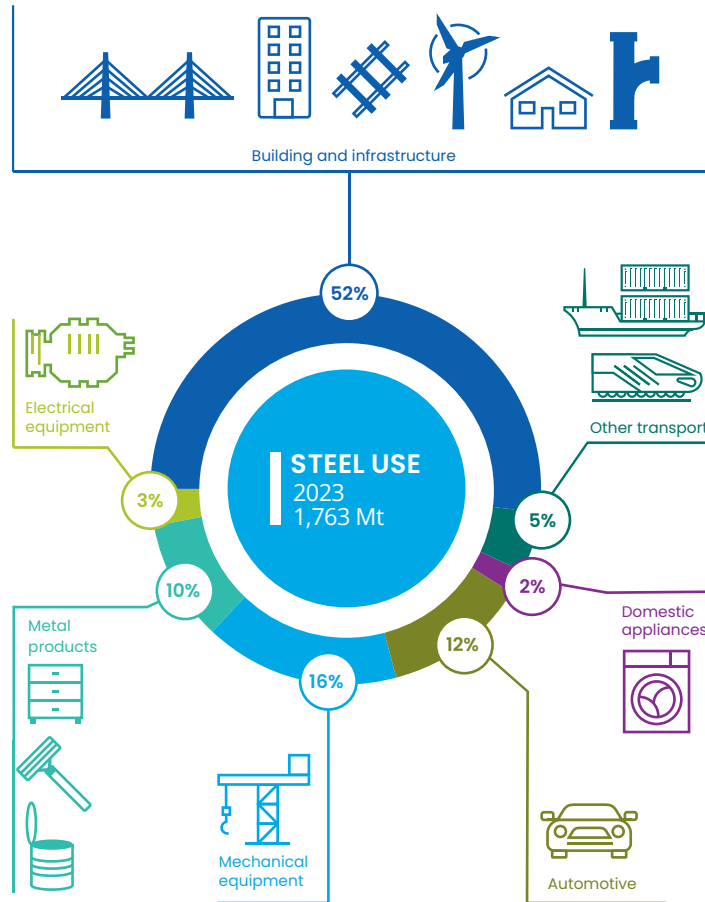
Others comprise:

Africa	1.3%	South America	2.2%
Middle East	2.9%	Australia and New Zealand	0.3%

Source: World Steel Association

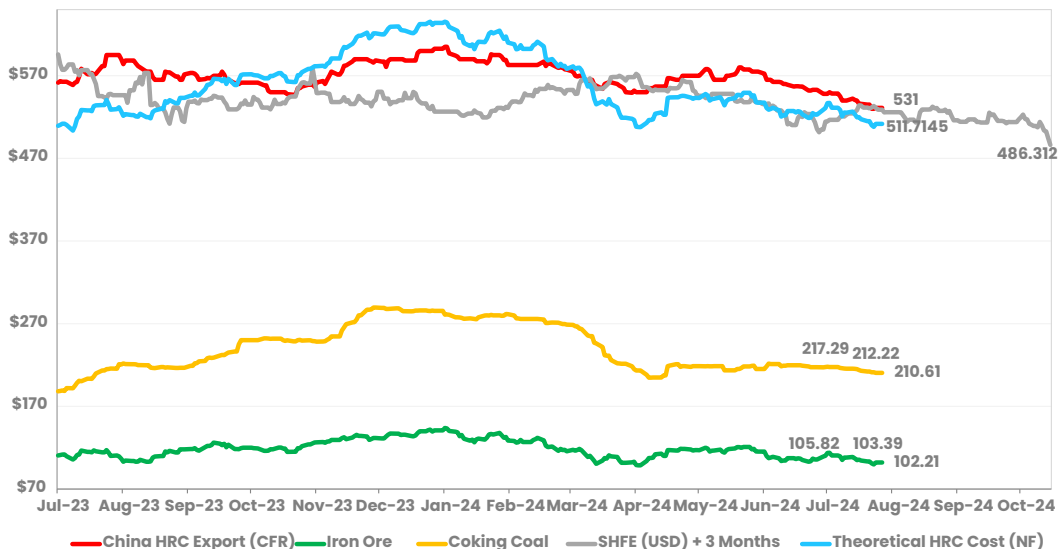
STEEL USAGE

Steel is highly versatile in its uses and is sustainable by being infinitely recyclable. The steel industry has tremendous contribution to the development of the world economies which is evident from the variety of users, as depicted in the graphic below for the year under review:



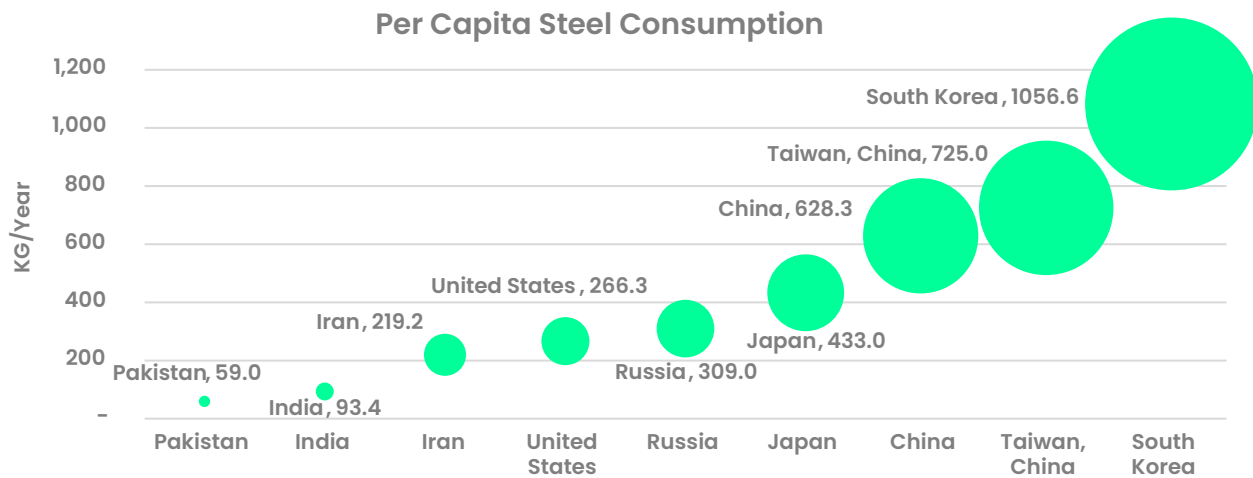
Source: World Steel Association

Global metals and steel performance continues to slow down in 2024. It is forecasted that global metals and steel production, along with Prime Hot Rolled Coil (HRC) prices, will remain subdued in 2025 as well given the anticipated global low demand.



Source: World Steel Association

The World Steel Association’s assessment of steel consumption for 2023 indicates a world average of approximately 219 kg/capita. Pakistan remains well below the world average at an estimated 59 kg/capita, which continues to underline both the need to enhance infrastructure spending and the potential for growth in the domestic steel manufacturing and processing industry.



Steel Tube & Pipe Industry

According to the International Tube Association, global production of steel tubes & pipes was around 167 million tons last year (an increase of 12.3% year on year), which represents around 9% of total world crude steel output. The welded tubes & pipes segment represents 70% of the total tubes & pipes produced, whereas seamless pipe represents 30% of the production share. Chinese steel producers remain on top, producing 94 million tons.

Pakistan’s steel tubes & pipes market size shrank to approximately 625,000 MT from 725,000 MT last year, whereas the overall domestic steel products market was estimated at between 9-10 million tons. The domestic steel tubes & pipes market is highly fragmented and consists mainly of many small-to-medium-sized manufacturers scattered across the country. While the overall pipe segment registered negative growth, significant growth has been witnessed at the bottom-end of the segment because of a shift in customers’ choice from standard products to more economical lower-quality pipes made from low-grade Chinese material.

Polymers

The polymer pipe market in Pakistan is growing, driven by infrastructure development, urbanization, and agricultural needs. PVC and PE pipes dominate the market due to their wide range of applications and cost advantages, while CPVC, PP, and PB pipes cater to specific needs in various industrial and specialized applications.

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 ten years, both in terms of volume and profitability. With keen strategic focus, the Company remains committed to continue expanding its capability and reach in this segment.

STRATEGIES, OBJECTIVES AND 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 key performance indicators can be found on page 96.

COMPANY OPERATIONS

Our Products

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

Gross Sales

The Company achieved sales volumes of 93,153 MT during FY24, with a turnover of PKR 29.20 Bn (FY23: PKR 26.79 Bn), an increase of 9%.

Domestic Steel Sales

The Company's domestic sales for the year increased by 12% and were PKR 24.41 Bn (FY23: PKR 21.7 Bn). However, volumes were 2.3% lower than last year. During the year under review, the overall demand was sluggish due to high inflation and expensive borrowings. The construction industry, a vital segment, remained stagnant, while demand was low from the automotive industry, which continues to experience significant contraction. Furthermore, political instability, misuse of tax exemptions granted to FATA/PATA regions and the increased incidence of sub-standard and counterfeit products have compromised sales volumes. Despite the challenging year, your Company successfully maintained its market share in key segments and improved its margins.

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

Export Steel Sales

The Company exported products worth USD 16.97 million, which translated to PKR 4.8 billion (FY23: USD 20.4 million-PKR 5.0 billion). Dampened demand in key global markets, especially from the building & construction sector, adversely impacted export sales. Despite numerous global and country-specific challenges, your Company remained steadfast in searching for new markets across the globe. ILL maintains its place amongst the largest exporters from Pakistan and won the prestigious FPCCI Best Export Performance Award 2023 for the 23rd consecutive year.

ILL Australia Pty Limited, Melbourne, Australia

ILL Australia, a subsidiary of ILL, provides a stable export avenue in a highly developed market. This market experienced low sales volumes given the general slowdown of the Australian economy and skewed business towards lower-priced Indian products imported under the free trade agreement between Australia and India. Net sales were down to US\$ 8.9 million (FY23: US\$ 15.9 million).

ILL Australia is exploring value-added revenue streams to enhance its business model and is confident of remaining a valuable supplier in the Australian market.

ILL Americas Inc., Toronto, Canada

ILL Americas, also a 100% owned subsidiary, continues to develop channels for exports in North America. During the year under review, the price threshold set for the antidumping duties after price reviews by the Canada Border Services Agency (CBSA) adversely affected sales opportunities in some of the Company's more profitable segments. During the year under review, ILL Americas achieved sales of USD 8.2 million (FY23: USD 12.1 million).

ILL Construction Solutions (Pvt.) Limited, Pakistan

ILL Construction Solutions is also a 100% owned subsidiary. This company was formed to provide innovative solutions to the challenges faced by the local construction industry. During the year under review, the Company undertook various projects some of which have been completed with the help of formworks patented by a world-leading company, MEVA Schalungs Systeme of Germany, with whom the Company has an exclusive partnership, and scaffolding manufactured at its state-of-the-art manufacturing facilities.

Net sales of the Company for the year under review were PKR 43.5 million.

As a strategic move, the construction solutions business has been merged into the parent company. As a result, ILL Construction Solutions (Pvt.) Limited will be phased out going forward.

Polymer Sales

Turnover of polymer pipes and fittings was PKR 4.5 billion (FY 2023: PKR 3.5 billion) on the back of strong institutional business and the Company's success in capitalizing on market opportunities.

The safety of polymer products depends on the standard of inputs and production. ILL produces products that comply with relevant standards but the market is inundated with inferior quality products. To overcome this, the Company maintains a continuous focus on educating its commercial and institutional customers on the virtues of products that comply with relevant standards. This is an uphill challenge, but also becomes its unique selling point for customers conscious of quality and health considerations.

MANUFACTURING

Faced with a challenging economic environment, your Company focused on optimizing its operations and took several measures to reduce costs to combat high inflation. To reduce the dependence on expensive energy options and underscore its credentials as a champion of UN Social Development Goal (SDG) #7, the Company commissioned solar energy systems of 3 MW and 1 MW at its Karachi and Shekhupura manufacturing facilities, respectively, making a total of 4 MW. We intend to continue exploring initiatives to further expand our alternate energy sources.

Furthermore, in-house expertise was used to reduce operational costs including 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 29.2 Bn, which was 9% higher than last year, earning a gross profit of PKR 3,838 million, Profit Before Tax of PKR 1,806 million, Profit after Tax of PKR 1,473 million and Earnings per Share (EPS) of Rs. 11.17. Despite lower sales volumes, the Company was successful in delivering strong profits on the back of efficient working capital management, 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 sales for the year, at PKR 25,364 million, was 9% higher than last year because of the increased conversion, energy and freight costs despite the lower throughput. Selling and distribution expenses of PKR 1,356 million were 3% lower than last year. Administrative expenses of PKR 429 million were 22% higher than the previous year on account of rising inflationary pressures on various costs.

Other income of PKR 1,351 million was 56% lower than last year mainly due to lower dividends and exchange gains on export proceeds. Financial charges during the year at PKR 1,473 million were 15% lower than the previous year mainly due to efficient working capital management.

Cash Flow Management and Borrowing Strategy

Financial management remains a cornerstone of the Company's strategy and is especially key in the face of adverse external factors, particularly high interest rates and inflation. The Company was able to mitigate financial risk by reducing borrowings and consistent deleveraging through efficient inventory management and enabling its subsidiaries to finance their working capital needs through well-negotiated bank financing arrangements in their countries of residence. The Company reduced its debt to equity ratio to 42%, an improvement of 13%, is a significant achievement attributable to effective working capital management and cash conservation through focused fixed costs and capital expenditure controls, resulting in a substantial reduction in bank borrowings.

DIVIDEND

Your Board of Directors has recommended a final cash dividend of Rs. 3.50 (35%) per share. With the interim dividend of Rs. 2.0 (20%) per share already paid during the year, the total dividend for the financial year ended 30 June 2024 will amount to Rs. 5.50 (55%) (FY23: Rs.7.5) per ordinary share of Rs. 10 each.

APPROPRIATIONS 2024

	2024	2023
	Rupees in '000	
Profit after tax for the year	1,473,131	2,272,936
Interim Dividend 2024: Rs. 2.00 per share (2023: Rs. 5.50 per share)	(263,764)	(725,350)
Final Dividend 2024: Rs. 3.50 per share (2023: Rs. 2.00 per share)	(461,587)	(263,764)

AUDITORS

The reappointment of A. F. Ferguson & Co., Chartered Accountants, as auditors of the Company for FY 2025 has been approved as per the recommendation of the Board Audit Committee (page 204 - Report of the Board Audit Committee on adherence to the Code of Corporate Governance).

INFORMATION SYSTEMS

Your Company is committed to the process of continuously upgrading and enhancing its 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 a 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:

Diversity, Equity & Inclusion (DE&I)

The Company is focused on increasing Diversity, Equity, and Inclusion (DE&I) in the organization and does not discriminate in its hiring and human resource management processes in terms of religion, race, gender and physical ability. Policies have been implemented to develop an environment and culture to attract more female employees. A program titled 'WISE' (Women in Science & Engineering) was initiated to provide career opportunities to young female graduate engineers. This unique program will also be an opportunity for young female graduates to work along with experienced mentors who will guide and empower them for towards career fulfilment and growth.

Anti-harassment Policy

ILL is committed to providing an environment free of any kind of harassment to its diverse workforce. The Company is also implementing the recommendations & mechanism prescribed under the Protection against Harassment of Women at the Workplace Act, 2010.

Occupational Health, Safety and Environment Systems (OHSE):

Employee health and safety are crucial to ILL. We take our responsibility for providing a healthy, safe, and hazard-free environment for our employees and contractors very seriously and strive to achieve this through our OHSE Management System that is stewarded by the OHSE Department. To improve safety standards and prevent incidents at work, the Company imparts appropriate training as a recurring function and provides suitable personal protective equipment to its workforce as well as visitors to its manufacturing sites. Further information on our OHSE initiatives is available in the Company's Sustainability Report.

Succession Planning

The Company has in place a succession plan, 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's needs in a dynamic and rapidly changing environment.

Participation in Job Fairs

The Company participated in job fairs arranged by various prominent educational institutions to recruit top talent 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 experience in the areas of production, maintenance, and quality control. A stipend equal to the minimum wage is paid to apprentices.

Gratuity Scheme and Provident Funds

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 objectives of being a responsible and inclusive corporate citizen and complying with the legal requirements, ILL'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, as well as other effective recognition mechanisms, to motivate staff by acknowledging and rewarding their contribution in terms of value addition and length of service.

Performance Management System

As part of digitization, the Company has introduced a cloud-based, digitalized Performance Management system for effective and efficient monitoring of employees' performance.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

ILL is registered with the Large Taxpayers Unit (LTU) and contributed nearly PKR 6.4 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 196.

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 charting our strategic roadmap. A detailed Risk & Opportunity Report is presented on page 119.

RELATIONSHIP WITH STAKEHOLDERS

ILL 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, including frequent townhall meetings with the CEO.

QUARTERLY AND ANNUAL FINANCIAL STATEMENTS

Quarterly unaudited financial statements of the Company, along with the 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 the 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 (BAC) and the Board of Directors for approval.

CHIEF FINANCIAL OFFICER (CFO), COMPANY SECRETARY, AND HEAD OF INTERNAL AUDIT

The CFO and the Head of Internal Audit 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, Head of Internal Audit, 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 ILL, 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 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). The outlook status on the assigned ratings has been marked as 'Stable'.

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 a turnover of approximately PKR 69.3 billion and Profit after Tax of PKR 3.7 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.

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

Recently IIL has invested in Chinoy Engineering & Construction (Pvt) Limited (CECL), an associated company, amounting to 17% of the latter's paid-up capital.

Future Prospects

The country faces a serious challenge in attracting domestic and foreign investment as investors show concerns about the lack of consistent policymaking, an onerous tax regime, high costs of industrial inputs and energy, infrastructure & resource challenges, limited access to credit, shortage of skilled labor, political and law & order instability. Investment prospects and overall economic growth will largely depend on how these concerns are addressed by the new government.

The government's efforts for macroeconomic stability appear to be yielding some results. Inflation has declined from 36% to around 12% and the value of the PKR has lately experienced stability. Moreover, the fresh Stand-by Agreement with IMF and the efforts to attract foreign investment through SIFC, especially in previously unexplored sectors such as mining and agriculture, seem to be meeting with some success and bode well for the economy.

These macroeconomic factors will play a crucial role in shaping the business environment at large, and how it affects your Company. While there are growth projections for the industrial sector, the Company is mindful of further macroeconomic turbulence in the Country and cautiously carving out its strategy for the future, focussed on diversification, innovation, and strategic investments in technology and human resources to navigate through the challenges and seize opportunities.

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, the benefit of all stakeholders, and the country in general.

On behalf of the Board
International Industries Ltd.



Sohail R. Bhojani
Chief Executive Officer



Kamal A. Chinoy
Chairman

Karachi
August 22, 2024