

DIRECTORS' REPORT

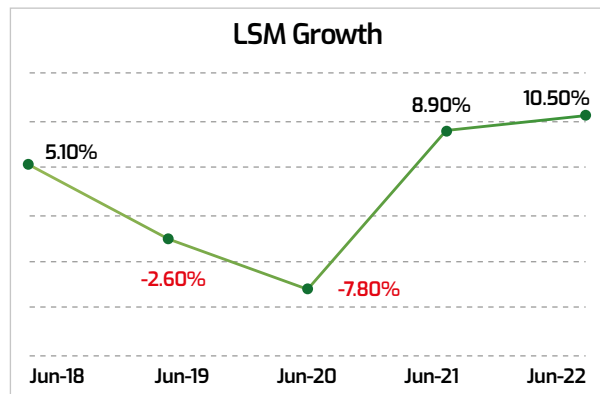
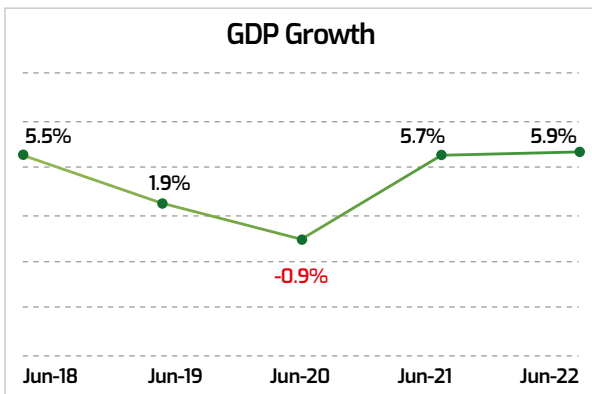
The Directors of International Industries Limited are pleased to present their report, along with the audited financial statements of the Company for the year ended June 30, 2022.

BOARD COMPOSITION & REMUNERATION

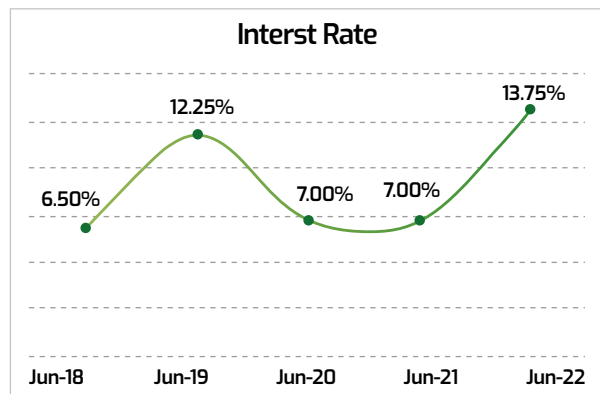
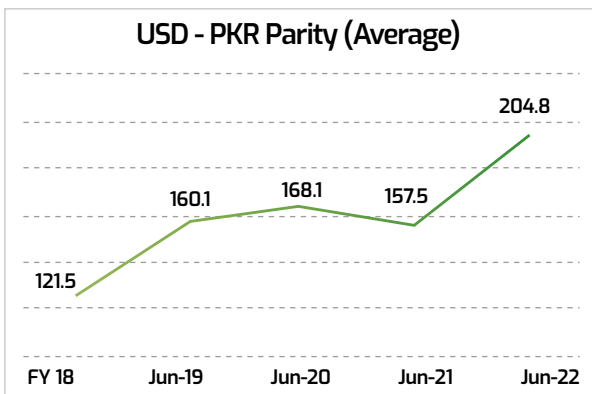
The composition of the Board and its sub-committees is disclosed on pages 131 & 145 (Corporate Governance section). The Company has a transparent policy and documented procedures for remuneration of its directors (refer to note 37 of the unconsolidated financial statements) in accordance with the Companies Act 2017 and the Listed Companies (Code of Corporate Governance) Regulations, 2019.

DOMESTIC ECONOMY

The economy registered a remarkable post-COVID recovery in FY2022. GDP grew by 5.97% and the Large Scale Manufacturing (LSM) sector grew by 10.50%. Record exports and foreign remittances of USD 31.8 billion and USD 31.2 billion respectively contributed positively to the economy.



More recently, however, the economy has begun to slow down because of the tightening monetary policy and rising input costs. The PKR has fallen sharply and State Bank of Pakistan has raised the policy rate as follows.



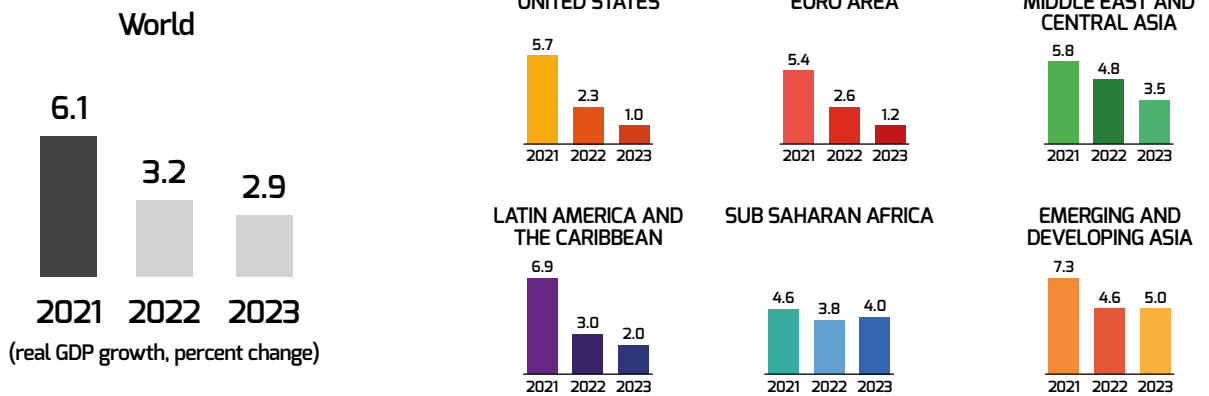
Minimum wage increase, sharply rising energy costs and new taxes (Super Tax, Poverty Alleviation Tax) are major challenges for FY 2023. The Government's measures to discourage imports by requiring a 100% LC margin in advance has made access to imported raw materials more difficult.

Economic growth for FY 2023 is forecasted to be low according to the IMF. High inflation in food and other basic necessities will restrict consumer ability to spend on goods that contribute to industrial growth. On an optimistic note, at the time of writing, it appears that Pakistan is closing in on loan deals with the IMF and friendly donor countries which may help stabilize the economy.

GLOBAL ECONOMIC OUTLOOK

After a strong post-COVID recovery in CY 2021, the global economy has started to slow down sharply. From an impressive 6.1% in CY 2021, growth for CY 2022 and 2023 is anticipated to drop to 3.2% and 2.9% respectively. The war in Ukraine and supply chain disruptions continue to hamper energy and food supply, fueling worldwide inflation which is anticipated to reach 6.6% in developed economies and 9.5% in emerging markets this year. To control rising inflation, central banks across the globe continue to tighten monetary policy aggressively.

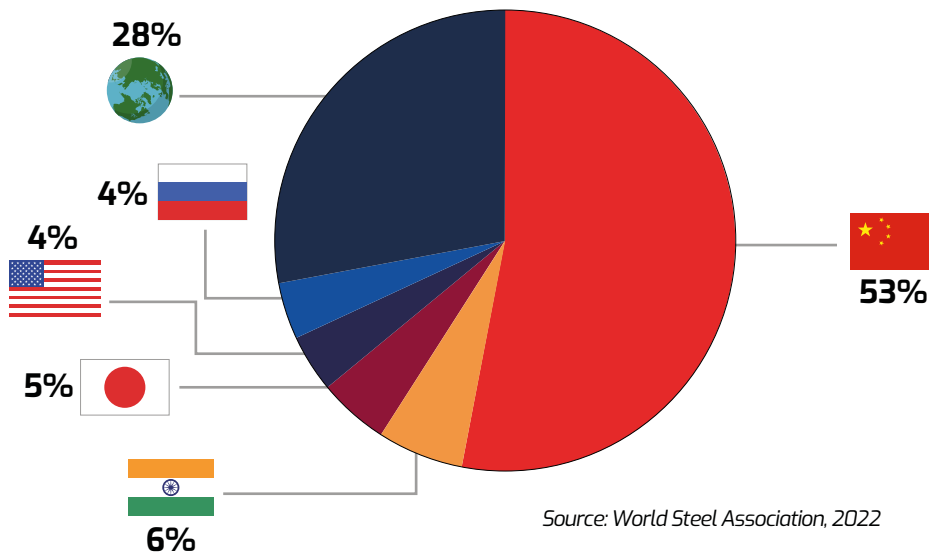
WORLD ECONOMIC OUTLOOK UPDATE JULY 2022 GROWTH PROJECTIONS BY REGION



Source: IMF World Economic Outlook, July 2022

GLOBAL STEEL SCENARIO

World crude steel production was estimated at 1.95 billion metric tons (MT) in CY 2021, which was 4% higher compared to the previous year. China accounted for 53% of global crude steel production and was down 3% year on year. Other major players include India (118 million MT), Japan (96 million MT), the United States (86 million MT), and Russia (76 million MT).

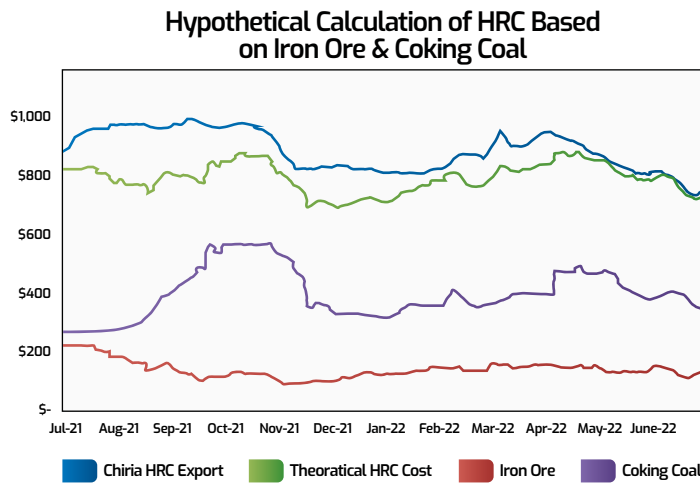


Source: World Steel Association, 2022

Steel markets remained volatile throughout FY 2021-22. The absence of Chinese steel exporters from the market and the war in Ukraine suppressed global supply for the most part of the year. Recently, the resumption of supplies from China has eased out supply constraints and prices.

Prime Hot Rolled Coil (HRC) prices have fallen sharply; from highs of USD 1,100 to just under USD 600 per MT during the year under review. As the USD strengthened, commodity prices and currencies tumbled alike. While the prices of hot rolled steel reduced by nearly 45%, a decline in the Pakistani Rupee value by over 31% has meant that the landed cost of steel in Pakistan remains almost the same.

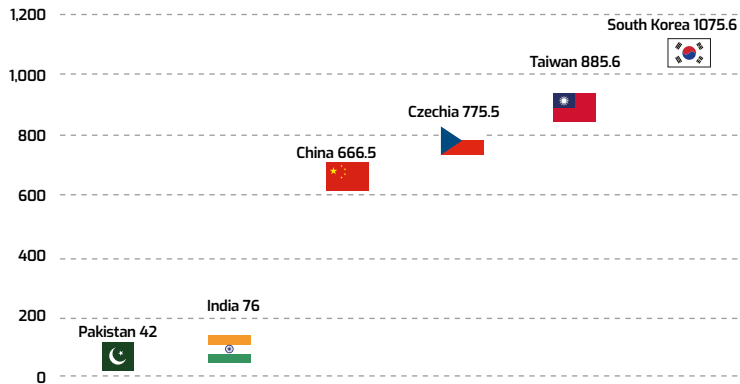
Iron Ore, Coking Coal and Hot Rolled Steel Coil Price
July 2021 – June 2022, USD per Ton



Source: Fast Markets

According to the World Steel Association's outlook for CY 2022 and CY 2023, global spillovers from the war in Ukraine, low growth in China and recessionary pressures in other developed markets point to slow growth expectations for global steel demand.

The World Steel Association's assessment of steel consumption for 2021 indicates a world average of approximately 233 kg/capita. Pakistan remains well below the world average at an estimated 46 kg/capita, which continues to underline the immense potential for growth in the domestic steel manufacturing and processing industry, providing the impact of other external factors is managed effectively.



Source: World Steel Association, 2022

Pakistan's demographics, government-led construction packages, housing schemes, progress on dams, CPEC projects, etc., are positive indications of future growth in steel consumption.

Steel Tube and Pipe Industry

The global steel tube & 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, and 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 International Tube Association, global production of steel tubes & pipes was around 156 million MT (an increase of 3.1% year on year), which represents around 8% of total world crude steel output. The welded tube & pipe segment represents 72% of total tubes and pipes produced, whereas seamless pipe represents 28% of the production share. Chinese steel producers remain on top, producing 84 million MT.



Pakistan's steel tubes & pipes market size is estimated at approximately 750,000 MT out of a total steel products market size of 9-10 million MT. The domestic steel tubes & 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 contracted by 14% in FY 2021-22 but is expected to grow in FY 2022-23.

Stainless Steel

Global production of stainless steel was approximately 58 million MT in CY 2021 compared to 52 million MT in CY 2020 with a CAGR of 6% over a 5-year period. China remained the largest supplier of stainless steel with 56% of world's output.

Stainless steel tubes & 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, comprise 57% of global stainless steel production. The more economical 200 Series constitutes 21%, whereas the 400 series, which is primarily used by the automotive sector, constitutes 21% 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.

Polymers

Our polymers 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 volumes and profitability. With a strategic objective to continue expanding this segment, the Company has recently introduced uPVC pipes and fittings into its product offering.



STRATEGIES, OBJECTIVES & CRITICAL PERFORMANCE INDICATORS

ILL remains focused on executing its mission to deliver excellent value to all its stakeholders while adhering to the best global practices. The Company plays a leading role in the country's pipe industry and strives to continuously improve products and processes to improve customer experiences and maximize shareholder returns. A detailed description of ILL's strategic imperatives, objectives and critical performance indicators can be found on page 61.

COMPANY OPERATIONS

Market Share

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, Hollow Structural Sections (HSS) and Black & Scaffolding 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 of its customers, dealers and business partners. The Company is continuously striving towards customer-centricity and is attuned to the market needs.

Gross Sales

The Company achieved sales volumes of 171 KMT during FY22, with a turnover of PKR 37.9Bn (FY21: PKR 28.9 Bn), a growth of 31%

Domestic Steel Sales

The Company's domestic sales for the year grew by 16% and were PKR 26.7Bn (FY21: PKR 23.1 Bn). Volumes were 10% lower than the last year due to the difficult business conditions during the financial year. Misuse of tax exemptions granted for FATA/PATA regions by unethical players, and shrinkage of market size due to uncertain economic conditions and steel price volatility had a substantial negative impact on sales volumes. Your Company was, however, able to maintain its market share.

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 deeply understanding market requirement.

Export Steel Sales

The Company exported products worth USD 62.3 million translated into PKR 11.1 Bn (FY21: PKR 5.9 Bn). This growth was a result of an expansion in volumes of 9% compared to last year, achieved on the back of improved access to European markets, which offset the loss of volumes in Sri Lanka and Afghanistan due to the political upheaval in those territories. Our overseas subsidiaries in Australia and North America have played a key role in expanding our global footprint and delivered strong sales growth in these key markets.

We are pleased to inform you that your Company was ranked as the 26th largest exporter from Pakistan in FY 2022 (source: PSX) and won the prestigious FPCCI Best Export Performance Award 2020 in its segment for the 21st consecutive year.

ILL Australia Pty Limited, Melbourne, Australia

ILL Australia, our wholly-owned subsidiary, continues to provide a stable export avenue for the Company in highly developed market. During the year, the Subsidiary achieved net sales of USD 31.1 million (FY21: USD 17.6 million), a growth of 77%, continuing to build a reliable base of satisfied business partners and customers.

ILL Australia has imported over 90,000 MT of product from ILL since its inception and has become a leading supplier to the Australian steel industry. 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.



ILL Americas Inc., Toronto, Canada

ILL Americas, also a wholly-owned subsidiary, continues to open channels of exports for ILL in the major market of North America. During the year under review, ILL Americas delivered tremendous growth, achieving sales of USD 15.0 million (FY21: USD 4.4 million), a growth of 340% .

ILL Construction Solutions (Pvt.) Limited, Pakistan

ILL Construction Solutions is a newly-formed, wholly-owned subsidiary. This company was formed to provide innovative engineering solutions to the local construction industry and is already making its mark. During the year under review, the company entered into a strategic partnership with MEVA Schalungs Systeme of Germany, a world-leading company, to offer products and expertise using their formwork and shoring solutions. Net sales of the Company for the year under review were PKR 700 million (FY21: Nil).



Stainless Steel Sales

Stainless steel tube sales grew by 74% compared to the previous year. The introduction of our economical SS 200 series of products and an expanded range of diameters and shapes have started to reflect in our overall volumes. Output is also expected to further increase next year as we commission new production lines.

Polymer Sales

Turnover of polymer pipes and fittings was PKR 2.6 Bn. (FY 2021: PKR 3.4 Bn.), generating a gross profit of PKR 220 million (FY21: PKR 532 million). Sales volume in this segment shrunk because of an almost complete lack of tender orders from the two national gas companies, which suffered from budget cutbacks by government.

We continue to drive the same customer-focused approach in this segment that is associated with ILL brand in the steel segment. However, the proliferation of inferior quality polymer products in Pakistan makes sales and marketing of premium quality products to customers with limited product knowledge and diminished purchasing power a formidable challenge. The Company continues to create awareness about quality standards and the long-term health, financial and other implications of using sub-standard polymer pipe systems. This is achieved through regular nationwide dealer events, seminars, site visits and media campaigns. We also continue to educate institutional clients about quality standards for water and duct pipes; however, the commercial market remains a challenge where cheap, sub-standard product is readily available in abundance in the absence of adequate regulations.

MANUFACTURING

Your Company has recently commissioned a plant to produce uPVC pipes and fittings at a cost of over PKR 200 million, which will complement our PPRC business. While PPRC pipes are used for water transmission into properties, uPVC pipes are deployed to remove water through drainage and sewerage. The addition of uPVC to our product offering will provide customers with complete solutions, backed by the ILL brand guaranteeing quality, and is expected to provide a major boost to the sales revenues of our Polymers segment. Two additional polymer extruders were also added during the year to cater to the growing demand for PE and PPRC water pipes.

The Company is also poised to commission four new stainless steel tube mills and polishing machines for square and rectangular tubes and sections, which will further enhance our product range and increase capacity.

FINANCIAL REVIEW

Company Results

The Company posted net sales of PKR 37,858 million, which was 31% higher than last year, earning a gross profit of PKR 4,669 million, Profit before Tax of PKR 3,657 million, and Profit after Tax of PKR 2,156 million. This has delivered an Earnings per Share (EPS) of PKR 16.35 to our shareholders.

These strong results, despite the backdrop of economic challenges and dampened demand, were a result of careful inventory and cost management even in the face of inflationary pressures, continuous negotiation of the best available borrowing rates from lenders, excellent export volumes, backed by a strong export showing by our overseas subsidiaries and sizeable dividends by our major subsidiary.

Cost of goods sold for the year at PKR 33,189 million was 33% higher than last year due to historical highs in steel prices in the first half of the year, coupled with the rapid depreciation in the value of the Pakistani Rupee. Selling and distribution expenses of PKR 2,588 million were 73% higher than last year on account of higher export sales volume and record increases in ocean freight costs to key, distant destinations. Administrative expenses of PKR 346 were million tightly controlled to be 10% lower than the previous year.

Other income of PKR 3,261 million showed an increase of PKR 209%, mainly due to higher dividend income and exchange gains on export sales. Financial charges during the year at PKR 1,182 million were 57% higher than the previous year primarily on account of a large rise in interest rates and higher borrowing levels required to import raw materials at increasingly disadvantageous USD: PKR exchange rates.

Segment Review

Revenue from the Steel segment stood at PKR 35,207 million, yielding a gross profit of PKR 4,448 million. Revenue from the Polymer segment was PKR 2,651 million, generating a gross profit of PKR 221 million.

Cash Flow Management and Borrowing Strategy

The rapidly depreciating PKR has increased the need to borrow, while continuously rising interest rates have added to the cost of borrowing. As a result, the amount of bank borrowing, as well as debt servicing requirements, has registered a sharp rise. The Company was able to partially mitigate the impact of these through proactive management of its banking relationships and financing lines and is working diligently to reduce its working capital requirements to minimize financial costs going forward. Furthermore, a continuous effort to access the best lending rates will ensure that the debt servicing obligation remains under check going forward.

The Company's debt ratio remained at 60% on June 30, 2022 (SPLY: 60%)

DIVIDEND

Your Board of Directors has recommended a final cash dividend of PKR 6.0 (60%) per share. With the interim dividend of PKR 2.0 (20%) per share already paid during the year, the total dividend for the financial year 2022 will amount to PKR 8.0 (80%) (FY21: PKR 10.0) per ordinary share of PKR 10 each.

AUDITORS

The present external auditors, A. F. Ferguson & Co., Chartered Accountants, were appointed in FY 2022. As recommended by the Board Audit Committee (BAC), the Board of Directors has approved the reappointment of the auditors for FY 2023.

The recommendations of the BAC for the appointment of the auditors may be referred to on page 150 (Report of the BAC on adherence to the Code of Corporate Governance).

INFORMATION SYSTEMS AND REENGINEERING

We are committed to the process of continuously upgrading and enhancing our IT infrastructure and moving towards greater process automation. Additionally, our IT team remains focused on working closely with end-users in analyzing their operational activities to find opportunities to streamline, automate and digitalize processes.



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 believes that employees are its biggest asset. Empowering employees with meaningful roles, challenging assignments, and strong learning platforms have paved the way for a more 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:

Industrial Relations

The bilateral negotiation and settlement with the CBA for 2021-2023 was harmoniously agreed upon in April 2022. The significant change was an increase of PKR 5,500 in the monthly gross salaries of workers.

Further, as approved in the Provincial Finance Bill, the minimum wage of unskilled workers was enhanced to PKR 25,000 per month from June 2022.

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 the minimum monthly 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 own objectives of being a responsible and inclusive corporate citizen and complying with the legal requirements to hire differently-abled persons, ILL's workforce includes 20 differently-abled staff members, who are a valuable part of our team.

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 is continuously reviewed and updated to ensure that it is capable of addressing evolving company needs in a dynamic and rapidly-changing environment.

Strategic Business Planning

A detailed strategic business planning exercise was conducted during the year under review involving the Company's senior and middle management. As a result, a 'ground-up' and comprehensive business strategy over a three-year horizon, with strong employee ownership, was presented to and approved by the Board of Directors.



Employee of the Year and Long Service Awards

The Company has introduced an Employee of the Year Award and continued with its Long Service Awards program to motivate staff by acknowledging and rewarding their contribution in terms of value addition and length of service respectively.



Occupational Health, Safety and Environment Systems (OHSE)

The health and safety of employees are crucial to IIL. 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. To improve safety standards and to prevent incidents at work, the Company imparts appropriate training as a recurring function and distributes safety helmets, harnesses, gloves, shoes, and other PPEs to its workforce. The Company also ensured that 100% of its workforce was vaccinated against COVID-19 during the year. Further information on our OHSE initiatives is available in our Sustainability Report.



CONTRIBUTION TO THE NATIONAL EXCHEQUER

IIL is registered with the Large Taxpayers Unit (LTU) and contributed over PKR 6.5 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 149.

RISK, OPPORTUNITY, AND MITIGATION REPORT

The management, in consultation with the Board of Directors, continues to develop capabilities to anticipate risks and formulate suitable strategies to mitigate them while formulating our strategic roadmap.

A detailed Risk & Opportunity Report is presented on page 96 for further details.

RELATIONSHIP WITH STAKEHOLDERS

IIL attaches the highest value to all its stakeholders' satisfaction and strives to nurture a positive relationship with them through effective 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 initialed 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 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 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

An independent credit rating exercise was conducted in May 2022 by JCR, resulting in a long-term rating of AA-, a short-term rating of A-1 and a stable outlook.

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 in excess of 423,610 MT, turnover of approximately PKR 91 billion and Profit after Tax of PKR 5.4 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 wiring.

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

Future Prospects

Despite significant economic headwinds, your Company has continued to invest in its manufacturing facilities, overseas operations and human capital. These investments will enable to further solidify its leadership in the domestic pipe market and enhance its export footprint. The Company expects to commission a substantial expansion to its stainless steel in the first half of the next financial year, as well as install significant capabilities to generate solar power at its Karachi and Sheikhpura factories.

Battling with serious economic challenges, particularly the widening current account deficit and shrinking foreign exchange reserves, the government has embarked on policies that will slow down the economy. Inflation is also expected to remain high during the next year. However, continued and sustainable investment in its manufacturing capability, process digitalization and automation, human resource and global and domestic marketing efforts would continue to provide your Company a competitive edge. Furthermore, our value-adding entry into the construction solutions segment promises to become a key revenue driver in future years. Your Company is continuously evolving its strategic thinking with a view to further drive its share of the local and international markets and find new avenues for growth, whilst remaining firmly focused on effective cost management.

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 year.

We continue to pray to Allah 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



Mustapha A. Chinoy
Chairman

Karachi
Dated: August 22, 2022