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ISL has announced its 1HFY23 result where it posted a profit after tax of Rs61mn (EPS: Rs0.14) as compared to a profit after tax of Rs4.22bn (EPS: Rs9.71) in the same period last year, down by 98.6% YoY owing to lower CRC-HRC margins, higher finance costs, and an increase in other expenses.

The company has posted a revenue of Rs33.93bn against Rs43.29bn in SPLY, recording a decline of 21.6% YoY owing to lower volumetric takeoff. The gross margin has plunged to 8.8% as compared to 16.7% during SPLY amid lower-than-expected CRC-HRC spreads and depreciation of PKR.

Moreover, SG&A expenses went down by 46.3% YoY to Rs301mn as compared to Rs561mn during SPLY. Furthermore, other expenses have surged by 90.6% to Rs1.12bn. Lastly, finance costs increased by 203.5% YoY amounting to 1.65bn due to higher interest rates.

ISL is trading at FY23 P/B of 1.01x which offers a discount of 22% relative to its historical 3-year average of 1.30x. We maintain our **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs50 which provides an upside potential of 25%.

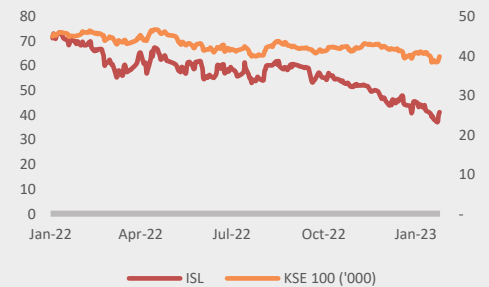
Rupees' millions	2QFY23	2QFY22	YoY	1HFY23	1HFY22	YoY
Net Sales	17,382	18,805	7.6% ▼	33,926	43,294	21.6% ▼
Cost of Sales	-16,646	-15,930	4.5% ▲	-30,951	-36,084	14.2% ▼
Gross Profit	736	2,875	74.4% ▼	2,975	7,211	58.7% ▼
SG&A Expenses	-168	-297	43.3% ▼	-301	-561	46.3% ▼
Other Expenses	-340	-305	11.5% ▲	-1,116	-585	90.6% ▲
Operating Profit	227	2,273	90.0% ▼	1,558	6,064	74.3% ▼
Other Income	37	147	75.1% ▼	62	153	59.4% ▼
Finance Cost	-789	-368	114.3% ▲	-1,652	-544	203.5% ▲
Profit Before Taxation	-526	2,051	125.6% ▼	-32	5,672	100.6% ▼
Taxation	138	-495	128.0% ▼	92	-1,449	93.6% ▼
Profit After Taxation	-388	1,556	124.9% ▼	61	4,224	98.6% ▼
Earnings Per Share	-0.89	3.58	124.9% ▼	0.14	9.71	98.6% ▼
Dividend	0.00	2.00	100.0% ▼	0.00	2.00	100.0% ▼
Bonus	0.00	0.00		0.00	0.00	
Right	0.00	0.00		0.00	0.00	
Gross Margin	4.2%	15.3%	11.1% ▼	8.8%	16.7%	7.9% ▼
SG&A Expenses to Sales	-1.0%	-1.6%	0.6% ▼	-0.9%	-1.3%	0.4% ▼
Other Income to Sales	0.2%	0.8%	0.6% ▼	0.2%	0.4%	0.2% ▼
Ex. Gain / (Loss) to Sales	-1.0%	-1.6%	0.6% ▼	-0.9%	-1.3%	0.4% ▼
Effective Taxation	-26.3%	-24.1%	2.2% ▲	-293.1%	-25.5%	267.6% ▲
Net Margin	-2.2%	8.3%	10.5% ▼	0.2%	9.8%	9.6% ▼

Source: ACPL Research, Company Financials

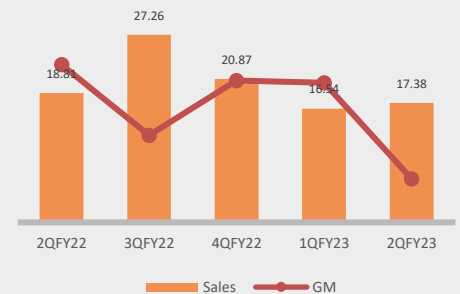
Key Statistics

Symbol	ISL
TP - Dec 23	50
LDCP	40.20
Upside (%)	25
Free Float ('mn)	152
Market Cap. (Rs.'mn)	17,487

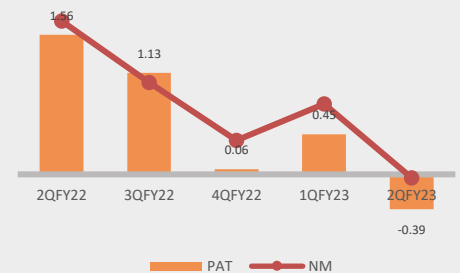
ISL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	48,082	69,796	91,424	67,854	88,009	110,531	135,086
Cost of sale	43,869	56,304	79,042	61,902	80,141	101,464	123,762
Gross profit	4,213	13,492	12,381	5,952	7,867	9,067	11,325
Selling and promotion expenses	894	1,063	1,612	297	1,092	1,372	1,677
Administration expenses	263	362	340	306	397	553	675
Other operating expenses	334	1,277	1,308	2,231	1,921	2,412	2,948
Operating Profit	2,721	10,791	9,122	3,118	4,458	4,730	6,025
Other operating income	36	316	201	124	161	202	247
Finance cost	2,315	812	1,323	3,294	1,469	1,440	1,608
Profit before taxation	442	10,295	8,001	- 52	3,150	3,492	4,664
Taxation	- 53	2,828	2,589	- 152	848	929	1,226
Profit after taxation	495	7,466	5,412	100	2,302	2,563	3,438
EPS	1.14	17.16	12.44	0.23	5.29	5.89	7.90

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	-12.7%	45.2%	31.0%	-25.8%	29.7%	25.6%	22.2%
Cost of sale	-9.8%	28.3%	40.4%	-21.7%	29.5%	26.6%	22.0%
Gross profit	-34.7%	220.3%	-8.2%	-51.9%	32.2%	15.3%	24.9%
Selling and promotion expenses	27.4%	18.9%	51.6%	-81.6%	267.8%	25.6%	22.2%
Administration expenses	-7.6%	37.6%	-6.0%	-10.0%	29.7%	39.4%	22.2%
Other operating expenses	-37.4%	281.9%	2.4%	70.6%	-13.9%	25.6%	22.2%
Operating Profit	-44.5%	302.9%	-16.1%	-65.2%	42.4%	6.8%	27.2%
Other operating income	-9.9%	789.1%	-36.4%	-38.3%	29.7%	25.6%	22.2%
Finance cost	79.5%	-64.9%	62.9%	149.1%	-55.4%	-1.9%	11.6%
Profit before taxation	-88.0%	2228.2%	-22.3%	-100.6%	-6173.8%	10.9%	33.6%
Taxation	-105.2%	-5468.8%	-8.5%	-105.9%	-657.8%	9.6%	31.9%
Profit after taxation	-81.4%	1408.8%	-27.5%	-98.1%	2198.3%	11.4%	34.1%
EPS	-81.4%	1408.8%	-27.5%	-98.1%	2198.3%	11.4%	34.1%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	8.76	19.33	13.54	8.77	8.94	8.20	8.38
OP Margin	%	1.03	10.70	5.92	0.17	2.62	2.31	2.55
NP Margin	%	5.73	15.91	10.20	4.78	5.25	4.46	4.64
ROE	%	3.87	47.24	26.74	0.54	10.56	11.45	15.02
ROCE	%	14.29	43.79	34.93	8.89	12.06	12.14	14.59
ROA	%	2.35	33.41	18.85	0.34	6.41	6.14	6.89

Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	0.94	1.38	1.20	1.74	1.61	1.50	1.40
Acid-test	x	0.22	0.17	0.13	0.57	0.41	0.40	0.45

Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	3	3	3	2	3	3	4
Inventory Days		126	111	139	129	124	114	104
Receivables Days		6	8	5	4	8	4	4
Payables Days		74	43	30	30	40	50	60
Operating Cycle		59	73	114	108	89	69	49

Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
EPS	Rs.	1.14	17.16	12.44	0.27	5.30	5.88	7.91
DPS	Rs.	0.00	10.00	10.00	0.00	4.50	4.50	6.50
Div. Yield	%	0.00	24.88	24.88	0.00	11.19	11.19	16.17
Dividend Cover	x	2.00	1.72	1.24	1.24	1.24	1.24	1.24
BVPS	Rs.	29.25	43.42	49.65	49.70	50.74	51.89	53.45
Payout	%	0.00	58.26	80.37	0.00	84.89	76.57	82.14
Retention	%	100.00	41.74	19.63	100.00	15.11	23.43	17.86
No. of Shares	'm	435	435	435	435	435	435	435
P/E	x	35.34	2.34	3.23	148.50	7.58	6.84	5.08
Sales per share		110.53	160.45	210.17	155.99	202.32	254.10	310.54
P/BV		1.72	1.16	1.01	1.01	0.99	0.97	0.94
Price to Sales		0.36	0.25	0.19	0.26	0.20	0.16	0.13

Gearing Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	1.42	0.63	1.00	0.56	0.56	0.63	0.70
L.T. Debt to Equity	x	0.51	0.27	0.19	0.09	0.01	0.00	0.00
Interest Cover	x	1.19	13.68	7.05	0.98	3.16	3.40	3.91

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
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