

# International Steels Limited - Recharging Growth: ISL's Resurgence Ahead

## Recommendation:

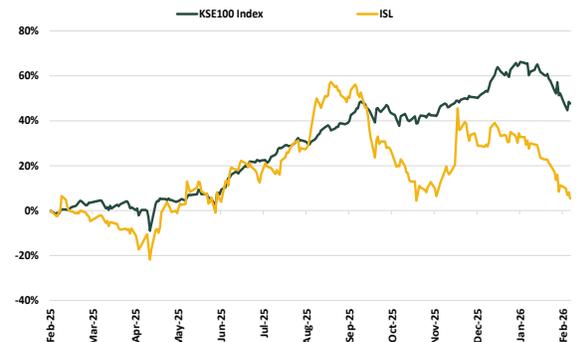
We reiterate our coverage on International Steels Limited (ISL) with a BUY recommendation and a FY27 Target Price (TP) of PKR 148/share, implying an upside of ~71% from the last closing price of PKR 86.31/share. Our valuation is derived using a Discounted Cash Flow (DCF) – FCFE approach, capturing earnings normalization, improving free cash flow generation, and a gradual deleveraging trajectory.

The stock is currently trading at FY26 P/E multiple of 12x, offering an attractive entry point relative to its earnings recovery potential. We project a FY26E EPS of PKR ~7.18 positioning the stock at a compelling forward multiple compared to the industry average of ~14x. Additionally, ISL is expected to maintain a healthy shareholder return profile, with an anticipated FY26 dividend payout of ~PKR 4/share, translating into a dividend yield of ~4.52%, while simultaneously sustaining reinvestment into operational and efficiency-led growth initiatives.

## Key Catalyst: Key catalyst include:

- a) **Interest Rate Decline:** Easing monetary conditions are expected to reduce finance costs, directly supporting bottom-line expansion.
- b) **Favorable HRC–CRC Spread:** Elevated spreads and margin normalization potential are likely to drive profitability recovery.
- c) **Capacity Utilization Recovery:** Gradual improvement in demand from downstream sectors should enhance operating leverage.
- d) **Energy Cost Efficiency:** Solar integration provides structural margin stability amid energy tariff volatility.
- e) **Diversified End-Market Exposure:** Growth in appliance and automobile sectors strengthens volume visibility.
- f) **Export Expansion Opportunities:** Improved regional competitiveness may unlock incremental revenue streams.
- g) **Strategic Debt Reduction:** Strengthened balance sheet supports earnings resilience and risk mitigation.
- h) **Associate Investment (Reko Diq Accommodation Camp):** Long-term strategic participation in ancillary infrastructure development linked to the Reko Diq mining project enhances diversification.

## Relative Performance



Source: PSX, HMFS Research

Ratio	2025A	2026F	2027F	2028F
ROE (%)	12.40%	11.12%	14.65%	17.29%
ROA (%)	6.10%	6.31%	8.31%	9.81%
DY (%)	2.80%	4.51%	5.42%	6.21%

Source: Company Financials, HMFS Research

## Price Performance (CRC & HRC) - USD/ton



Source: Bloomberg, HMFS Research

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## Company Overview & Group Profile:

ISL is a leading flat steel manufacturer in Pakistan, producing Cold Rolled (CRC), Hot Dip Galvanized (HDG), and Color Coated steel products. The company serves key industrial and consumer-linked sectors including automotive, appliances, construction, and agricultural infrastructure, positioning it as a critical upstream supplier within the domestic manufacturing value chain. Its diversified and value-added product mix allows exposure to both premium and volume-driven applications, reducing concentration risk and supporting relative revenue resilience across economic cycles.

ISL operates under the umbrella of the Amir S. Chinoy Group, a well-established industrial conglomerate with a multi-decade legacy in Pakistan's steel and electrical infrastructure sectors. Key group entities include International Industries Limited and Pakistan Cables Limited, collectively reflecting strong institutional credibility, operational scale, and governance depth. The group posted an aggregate turnover of approximately PKR 116bn in FY24–25, underscoring financial strength and procurement leverage that indirectly enhances ISL's competitive positioning and capital allocation discipline.

In 2024, the group further expanded into engineering and infrastructure services through Chinoy Engineering & Construction (Pvt.) Ltd., securing contracts linked to the Reko Diq development. This expansion reinforces the group's ability to capitalize on large-scale industrial opportunities while broadening its earnings ecosystem, thereby strengthening ISL's long-term strategic backing and sectoral relevance.

## Diversified End-Market Exposure:

A key strength of ISL lies in its diversified exposure to multiple demand verticals:

### Automobile Segment (~50% of Sales)

The two- and three-wheeler industry constitutes approximately half of ISL's total sales volume. Notably, this segment has demonstrated relative resilience during periods of macroeconomic stress. With improving macro stability, gradual recovery in purchasing power, and normalization of consumer financing conditions, demand in this segment is expected to revert closer to historical averages, supporting volume recovery for ISL.

## Exports and Local Sales



Source: Company Financials, HMFS Research

Product Segment	FY24 Utilization (%)	FY25 Utilization (%)
Cold Rolled Coil (CRC)	9.5	10.8
Hot Dip Galvanizing (GI)	37.3	32
Color Coated Steel	7.4	9.7

Source: Company Financials, HMFS Research

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## Appliances Segment (~20% of Sales)

The appliance industry remains a structurally important demand driver. Following a period of suppressed demand amid economic tightening, FY25 has witnessed a meaningful recovery supported by improved macroeconomic visibility and pent-up replacement demand. We expect this momentum to continue into FY26, particularly in locally assembled products where affordability dynamics favor domestic manufacturers over imported alternatives. Early fiscal-year data already indicates strong volume growth across major appliance categories, reinforcing the visibility of demand recovery.

## Agriculture Segment (~10% of Sales)

The agriculture sector contributes approximately 10% to ISL's sales, primarily through demand for storage silos and allied applications. Although sector growth moderated in FY25, forward prospects appear constructive amid targeted government support measures and strategic emphasis on agricultural development under policy reform initiatives. Improving crop yields and investment in agri-infrastructure could translate into incremental steel demand, providing an additional diversification buffer for ISL's volume base.

Overall, ISL's diversified exposure across cyclical and semi-defensive segments enhances earnings resilience.

## Utilization Recovery Potential across Segments:

ISL operates below optimal capacity, retaining meaningful operating leverage across CRC, HDG, and Color Coated segments. In FY25, ISL's actual production stood at 108k MT of CRC (10.8% utilization), 148k MT of Galvanizing (32% utilization), and 8.2k MT of Color Coated steel (9.7%), indicating continued underutilization relative to nameplate capacities. The constraint is demand-led, not operational. A recovery in domestic consumption and selective exports can lift utilization, improve fixed-cost absorption, and expand margins without incremental capex. Earnings remain sensitive to the HRC-CRC spread. Spread expansion supports inventory gains and margin recovery, while sharp HRC corrections may trigger temporary inventory losses and higher working capital needs. Conversion costs are stable. As volumes scale, improved capacity absorption is expected to drive higher EBITDA per ton and margin expansion.

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## FY25 Weakness, FY26 Earnings Upside on Track:

During FY25, International Steels Limited (ISL) reported net sales of PKR 62.31bn amid weak flat steel prices and tight monetary conditions. Gross margin stood at 7.7%, while net margin remained compressed at 1.8%. The company posted PAT of PKR 1.56bn, translating into EPS of PKR 3.58. On the balance sheet front, ISL reduced finance costs to PKR 810mn through deleveraging, despite elevated benchmark rates, strengthening its financial risk profile. Earnings were supported by disciplined administrative cost control and initial savings from energy efficiency initiatives.

In 1H FY26, performance rebounded sharply. Revenue increased ~38% YoY to PKR 43.95bn, while improved spreads and operating leverage lifted PAT to PKR 1.61bn, more than 3x YoY. Half-year EPS reached PKR 3.71, indicating margin normalization and demand recovery. With lower leverage and improving spreads, ISL is positioned to convert topline growth into stronger earnings momentum through FY26.

## HRC-CRC Spread Skyrockets, ISL Margins Get a Mega Lift:

ISL is currently witnessing a significant structural improvement in its core profitability. Based on recent data for January 2026, the HRC-CRC spread has widened to USD 95/ton (with CRC at USD 615/ton and HRC at USD 520/ton). This is a dramatic expansion from the FY25 average of ~USD 55/ton and serves as the primary driver for the earnings upgrade.

This organic margin growth is further amplified by the FY26 Federal Budget policy shifts, specifically the reduction of Regulatory Duty (RD) to 2.5% and the elimination of the 2% Additional Customs Duty (ACD) on HRC imports. We estimate these combined factors will drive a ~300bps expansion in Gross Margins for FY26. Supported by the company's recent ~202% y/y growth in half-yearly earnings and a strong deleveraging trend enhancing ISL's price competitiveness against untaxed informal players and reducing vulnerability to international price shocks.

## Controlled Leverage with Healthy Debt Serviceability:

As of FY25, ISL reported total borrowings of PKR 4.75bn. The debt profile comprises 75% short-term and 25% long-term facilities, reflecting working capital-driven financing requirements typical of the flat steel segment. The average borrowing cost stands at ~18.5%, broadly tracking prevailing policy rates during FY25 (which averaged significantly higher than previous years before the

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late-year easing). Leverage remains contained, with a debt-to-equity ratio (gearing) of 0.23x, while interest coverage stands at 4.04x, indicating adequate headroom for debt servicing. Subsequent interest rate cuts are expected to provide an additional earnings cushion and reduce financial risk in FY26.

### Solar-Powered Stability: ISL Cuts Costs, Strengthens Earnings Quality:

ISL commissioned a 6.4MW solar power project at its Karachi facility in May 2025, generating over 8mn kWh annually. The plant forms part of a broader USD 250mn investment in the steel complex aimed at enhancing energy efficiency and supporting sustainable manufacturing practices and meeting ~11–13% of power requirements, partially offsets grid tariff exposure and stabilizes EBITDA through lower unit energy costs. As volumes scale and margins recover, the integration of solar power enhances resilience against external electricity tariff fluctuations, reinforcing the company's earnings quality.

### Risks to Valuations:

- \* HRC price volatility
- \* PKR depreciation
- \* Steel demand slowdown in key sectors
- \* Import restrictions or policy changes
- \* Competitive pricing pressure

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Item (PKR Million)	FY25A	FY26F	FY27F	FY28F
Net Sales	62,311	87,890	94,042	100,625
Cost of Sales	-56,967	-78,925	-84,262	-89,959
<b>Gross Profit</b>	<b>5,344</b>	<b>8,965</b>	<b>9,780</b>	<b>10,666</b>
Gross Margin (%)	8.58%	10.20%	10.40%	10.60%
Operating Expenses	-2,026	-3,215	-3,450	-3,710
Operating Profit	3,318	5,750	6,330	6,956
Finance Cost	-806	-1,243	-1,050	-920
Other Income / (Exp)	-62	512	580	640
<b>Profit Before Tax</b>	<b>2,450</b>	<b>5,019</b>	<b>5,860</b>	<b>6,676</b>
Taxation	-890	-1,895	-1,743	-1,817
<b>Net Income (PAT)</b>	<b>1,560</b>	<b>3,124</b>	<b>4,117</b>	<b>4,859</b>
<b>EPS (PKR)</b>	<b>3.58</b>	<b>7.18</b>	<b>9.46</b>	<b>11.17</b>

Source: HMFS Research

Item (In Mn)	FY25A	FY26E	FY27F	FY28F
Net Income (PAT)	1,560	3,124	4,117	4,859
EPS (PKR)	4	7	9	11
Add: Depreciation & Am	1,957	2,350	2,600	2,950
Less: Changes in Net Wo	-1,200	-1,500	-1,850	-2,100
Less: CAPEX	-1,800	-2,200	-2,500	-2,800
Add: Net Borrowing	450	500	400	350
FCFE	967	2,274	2,767	3,259
PV of FCFE	—	2,119	2,403	2,638

Source: Company Financials, HMFS Research

Parameter	Value	Metric	Value
Risk-free Rate (Rf)	11%	Cost Of Equity (Ke)	13%
Beta	1.2	Terminal Growth Rate	2%
Terminal Value (TV)	53,889	Target Price (Dec 26)	148
PV of TV	41,311	Dividend per share	4
NPV / Share	148	Dividend Yield	4.5%
Valuation Method	FCFE / DCF	Recommendation	BUY

Source: Company Financials, HMFS Research

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### Valuation Methodology

To arrive at our fair value estimates, HMFS uses different valuation methodologies including but not limited to:

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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BUY	More than 15% Upside
HOLD	Between 15% Upside & 15% Downside
SELL	More than 15% Downside

**Note:** All fair value estimates are for a twelve month time horizon unless specified otherwise in the report  
Upside/Downside represents the difference between the stated "Fair Value" & the prevailing "Market Price"  
Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes