Directors' Report

Engineering Sector

For the Period Ended December 2022

402, 4th Floor, Clifton Diamond Building,
Block-4 Clifton, Karachi, Sindh, Pakistan-75601

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Introduction

A Directors’ Report in any Financial Statement has an important significance. The report includes summarization of the company activities and a discussion on its future prospects. It also includes any significant changes in performance of the company as compared to last period. By reading through the directors’ report, an investor gets the sense of how the Board and Management expecting the performance of the company and industry in which it operates.

Chase Securities Pakistan Private Limited aims to aggregate the Directors Reports of various companies so our clients can get a sense of the operating environment of different companies in the sector.

Directors' Report Key Takeaways

AGHA STEEL INDUSTRIES LIMITED	• During the period under review, the Company's businesses continued to face macroeconomic challenges, including demand contraction in downstream markets, cost push due to the impact of higher oil prices, devaluation of the Pak Rupee against the US Dollar, business-specific import restrictions, tax regime changes and volatility in global commodity prices. • Going ahead, the above factors will continue to pose a threat to overall industrial activity and concomitantly the demand for the Company's products. Agha Steel Industries Limited is nevertheless committed to minimizing these adverse impacts by leveraging on its product portfolio and cost rationalization efforts to provide sustainable results through mitigation efforts for the benefit of its stakeholders.
AISHA STEEL MILLS LIMITED	• The downward trend in HRC prices started in April 2022 and continued into the current financial year reaching near bottom in October 2022. • The total quantity sold during the Jul-Dec, 2022 period was 69,895 tons compared to 151,916 sold during the corresponding period last year showing a decline of about 54%. • The outlook in the medium term looks challenging. The restrictions on imports of raw material and essential spares are threat to the continuity of production and sales.
AMRELI STEELS LIMITED	• During the first half of the ongoing financial year, your Company registered net sales of Rs.23 billion, which represents a 13.5% decline in top-line performance when compared to the corresponding period last year. • The decline in profit is mainly due to a 28% decrease in gross profit and a 129% increase in finance costs when compared to the same half-year period last year. • Given that the steel industry is the backbone of the economy and many allied industries are connected to it, the Government and SBP must resolve the steel industry's LC issues on priority to save the industry which is currently in the midst of an unprecedented turmoil and on the brink of collapse.
BOLAN CASTINGS LIMITED	• During the six months under review, the Company recorded net sales of Rs. 930.21 million as compared to Rs.1,366.70 million of the same period of the last year. • The slight recent increase in demands of tractors and expected positive deal with IMF may bring the ease to the overall economy as well as the tractor and its allied industries.
CRESCENT STEEL & ALLIED PRODUCTS LIMITED	• During half year ended 31 December 2022 (HYFY23) the Company's after-tax loss amounted to Rs. 202.3 million

	mainly as compared to after tax profit of Rs. 882.5 million in HYFY22 which was mainly due to dividend from Altern Energy Limited. • We have also seen some line pipe demand in the Oil and Gas segment, bidding and awards against these projects are expected in due course of time and in case we are successful in our bids, these may be executed in FY24.
INTERNATIONAL INDUSTRIES LIMITED	• The decline in revenue resulted in an unconsolidated Profit after Tax for the period under review was Rs. 764 Mn (EPS 5.79), compared to a Profit after Tax of Rs. 1,857 Mn (EPS 14.08) during the first half of last year. • In the meantime, the Company will continue to strive to improve efficiencies and reduce costs, as well as make its strongest efforts in maintaining its share in both domestic and key export markets.
INTERNATIONAL STEELS LIMITED	• In the wake of uncertain economic conditions your Company has been focusing on vigilant inventory management in line with the weak market demand while undertaking certain key productivity measures to counter the economic headwinds. • Some of the measures taken include shutdowns during peak hours to save energy costs, lowering the borrowing levels to save on interest costs and restricting capital spending to key initiatives only.
MUGHAL IRON & STEEL INDUSTRIES LIMITED	• Amidst the prevailing adversities, the Company managed to maintain its topline in absolute terms, however, there was decline in volumes as compared to corresponding six months period. • Going forward, the impact of curtail on imports and increase in base discount rate will continue to impact the performance of the Company. It is expected that increase in construction activities, post floods will improve demand for long-rolled products, but this will again be dependent upon raw-material imports.

AGHA STEEL INDUSTRIES LIMITED

Directors' Review Report

The Directors are pleased to present their review, together with the unaudited financial statements of the Company, for the quarter and six months ended December 31st, 2022.

FINANCIAL PERFORMANCE

Your Company showed decrease in sales during the current period, the Company recorded gross sales revenue of Rs. 9,763 million with decline of 22% in the revenues as compared to first half of financial year 2021 (growth of 22% in corresponding period). The gross profit stood at Rs. 2,245 million as compared to Rs. 2,844 million as compared to the corresponding period. The gross profit percentage decreased to 22.63% as compared to first half of financial year 2021(corresponding period). This was mainly due to the lower demand of deformed bars and billets coupled with exorbitant currency devaluation and sudden increase in electricity tariff during the period.

Key financial highlights of the company is as follows:

Particulars	Period Ended December 31, 2022	Period Ended December 31, 2021
	PKR in Mn	
Sales – net	9,763	12,568
Gross Profit	2,245	2,844
Operating Profit	393	1,703
Profit Before Tax	614	1,420
Profit After tax	402	1,178
Earnings Per Share		
Basic and diluted (in Rupees)	0.66	1.95

Earnings Per Share

Basic and Diluted Earnings per share for the period ended December 31st, 2022 was Rs. 0.93 as compared with Rs. 1.95 per share in the corresponding period.

INDUSTRY AND FUTURE OUTLOOK

During the period under review, the Company's businesses continued to face macroeconomic challenges, including demand contraction in downstream markets, cost push due to the impact of higher oil prices, devaluation of the Pak Rupee against the US Dollar, business-specific import restrictions, tax regime changes and volatility in global commodity prices.

Monetary tightening measures introduced at the start of the current fiscal year, have further intensified in this quarter, causing a significant slowdown in economic activity across the country. With forex reserves plummeting to an alarmingly low level, industries are struggling to secure supplies of imported scrap and machinery spares for uninterrupted business operations. The socio-economic aftermath of the catastrophic monsoon flooding which led to large-scale loss of livelihood (employment, livestock and harvests) continue to be felt in the form of rising food costs and unemployment. These combined with higher energy costs, rising inflation, higher borrowing costs and devaluation of the local currency resulted in significant demand curtailment which remained a key challenge during the period.

In its latest annual economic outlook, the IMF has projected weak economic growth globally for the year 2023, caused by high inflation, aggressive monetary tightening, and uncertainties resulting from the Russia-Ukraine conflict. Supporting this outlook is the declining economic activity across the primary contributors of global growth; USA, Europe and China.

Going forward, the economic outlook is expected to be shaped largely by the the revival of the IMF programme, restoration of political stability, flood relief support from the international community, and support from friendly countries along with the continued implementation of reforms aimed at stabilising the economy to restore fiscal and external buffers. However, with the revival of the IMF loan programme, another wave of inflation is expected in the form of high energy prices, imposition of additional taxes, depreciation of the local currency, increase in interest rates and reduction in government spending which may lead to further demand curtailment and economic slowdown.

Going ahead, the above factors will continue to pose a threat to overall industrial activity and concomitantly the demand for the Company's products. Agha Steel Industries Limited is nevertheless committed to minimizing these adverse impacts by leveraging on its product portfolio and cost rationalization efforts to provide sustainable results through mitigation efforts for the benefit of its stakeholders.

AISHA STEEL MILLS LIMITED

Directors' Review Report

The Directors of Aisha Steel Mills Limited (ASML) present herewith Directors' Review Report together with condensed interim financial statements of the Company for the half year ended December 31, 2022.

Steel Market Review

The downward trend in HRC prices started in April 2022 and continued into the current financial year reaching near bottom in October 2022. The prices decreased from around US$ 950 FOB China to around US$ 500. The trend reversed, thereafter, and prices have increased gradually to levels near US$600 in December 2022 and still rising. The fall attributed to COVID related slowdown and then rise in post COVID industrial pick up.

However, improvement anticipated in Pakistan went astray due to country specific developments. The country confronted challenges the likes of which were seldom seen before. Prolonged political instability, balance of payment crises, declining rupee value and high interest rates compounded by devastating floods led to serious economic crises. To handle acute shortage of foreign exchange, drastic and abrupt policy changes were enforced to avoid international default. The sudden policy changes disrupted raw material flow, leading to slow down and in some cases stoppage in production. The ad hoc steps taken will have far-reaching consequences for the local business entities in both short and long term.

The biggest challenge for the industries in general and steel in particular is opening Letter of Credit and making payment by the banks when it becomes due. The steel sector may face difficulties in procuring raw material. Major suppliers are shying away from bidding as due payments against L/C's are delayed or not released by the banks. Prudent measures are in order to avoid long-term consequences of the on-going financial crises.

Operational Review

The total quantity sold during the Jul-Dec, 2022 period was 69,895 tons compared to 151,916 sold during the corresponding period last year showing a decline of about 54%. The export quantity was 1,152 tons compared to 20,335 tons exported during the corresponding period last year.

The total quantity produced during the period was 64,106 tons compared to 174,200 tons in the corresponding period last year, a decline of about 63%. The production was curtailed due to slow offtake and buildup of finished goods inventory. In addition to high cost of inventory, slow offtake, high rate of mark-up and exchange loss have been the main reasons for weak financial results of the Company.

A brief summary of the financial results as on December 31, 2022 is as follows:

Particulars	Period Ended December 31, 2022	Period Ended December 31, 2021
	PKR in Mn	

Revenue	15,686	31,581
Gross Profit	(272)	2,660
Financial Costs*	(1,575)	(1,027)
Exchange Loss (Net)**	(1,081)	(607)
(Loss)/Profit before tax	(3,115)	591
(Loss)/Profit after tax	(2,098)	452
(Loss)/earnings per share	(2.31)	0.53

Finance Cost

The State Bank of Pakistan vide its circular letter no. 9 of 2022 dated April 7, 2022 has imposed requirement of 100% cash margin to be deposited in current account of banks for opening of letter of credits for import of hot rolled coils. As a result of this requirement, we were required to incur finance charges on arrangement of cash margin deposited with the banks. Finance cost includes Rs.102 million incurred meeting this requirement.

Exchange loss

The International Financial Reporting Standards (IFRS), applicable to import of materials, require a business to record the purchase of the materials at the time the supplier ships the materials against a C&F contract, i.e., at the stage the goods are loaded onto a vessel, when the title to the goods is transferred to the importer. This accounting of the purchase is recorded at the contracted C&F price converted to the local currency of the importer at the spot exchange rate at the time of shipment, even though the exchange rate at which the importer will pay for the goods will be at the actual exchange rate prevailing when the shipping documents are received, and the materials are paid for. The IFRS require the difference in the exchange rate prevailing at the time of the shipment and the actual transaction exchange rate at which the payment is made, to be recorded as an accounting exchange gain or loss.

During the reporting period, following the accounting convention, the Company has recorded an exchange loss of Rs. 1,081 million, resulting from the exchange rate differential between the shipment date exchange rate and the actual transaction exchange rates applicable to the materials when paid to the suppliers and the exchange rate prevailing on the reporting date where payment of material is not made.

During the period ended December 31, 2022, out of the Rs. 1,081 million recorded as accounting exchange loss, Rs. 662 million pertains to the unsold materials the Company held either under transit or at its plant. Due to subsequent increase in selling price the company is expected to recover this exchange loss in next reporting period(s). The remaining Rs. 419 million is attributable to materials that has been converted to finished products and sold during the period ended December 31, 2022.

Future Outlook

The outlook in the medium term looks challenging. The restrictions on imports of raw material and essential spares are threat to the continuity of production and sales. Margins in current quarter have improved resulting in profitable operations even with limited quantities of production and sales, reducing losses of first two quarters.

During the reporting period, the Company has recorded an exchange loss of Rs. 1,081 million, out of which Rs. 577 million was an unrealized exchange loss. This unrealized exchange loss relates to raw materials that was not cleared due to payment restrictions arising from the unavailability of USD reserves in Pakistan. Due to subsequent increase in selling price, the Company is expected to recover this exchange loss in next reporting period(s). However, once the available raw material is exhausted, situation may become testing. Efforts are being made to convince the suppliers to take positive view on Pakistan and to offer them products to satisfy them in view of shortage of foreign exchange with Pakistan. Agreement with IMF is critical for improvement in the inflow of forex for Pakistan, resulting in restoration of normal operations of the Company.

AMRELI STEELS LIMITED

DIRECTORS' REVIEW REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2022

The Board of Directors present their review on the financial and operational performance of the Company for the half year ended 31 December 2022 against the backdrop of unfavorable politico-economic conditions.

The global economy is presently facing a challenging period with a possible recession looming on the horizon. Pakistan, like many other nations is not immune to these economic headwinds. The World Bank's recent report, "Global Economic Prospect", has given a wake-up call for both advanced and emerging economies with growth projections of 1.7%, predicting a prolonged and significant slowdown. The said report has projected growth rate to be around 2% for Pakistan for the ongoing fiscal year 2023. This sluggish picture is due to various reasons, including fast depleting forex reserves resulting in a severe LC crisis, a steep rise in inflation and interest rates, and a weakening rupee. Over the past six months under review, the local currency has witnessed a devaluation of 10% from Rs.205 on 01 July 2022 to Rs.226 on 31 December 2022, while inflation has risen by 16%, reaching an all-time high of 25%. Financial charges have also risen from 15% to 17%, further exacerbating the industry's difficulties.

Furthermore, the reserves currently held by the State Bank of Pakistan are at the lowest level since 1998, leaving import cover of less than a month, which has pushed Pakistan into a serious foreign exchange crisis, with both fiscal and current account deficits increasing. The above factors have exerted pressure on Pakistan's already fragile and resource-starved economy, facing devastating flash floods earlier in the first quarter of this financial year, where the economic loss was estimated to be around $20 billion. It is difficult to predict how the economy will return to normalcy, given its primary focus on avoiding a default on its sovereign liabilities on the international front. Persistent political instability, structural weaknesses, reliance and incentivizing few export segments, coupled with delays in IMF support, tightening of monetary policy, mismanagement of twin deficits, import restrictions and lack of proper planning have shattered the confidence of the business community and forced many of them to shut down their production facilities. Further, the abrupt measures taken to unlock the IMF package by cutting PSDP, removal of subsidies, removing the cap on the USD/PKR parity, and increasing energy costs have blurred the vision for many established and organized businesses.

During the first half of the ongoing financial year, your Company registered net sales of Rs.23 billion, which represents a 13.5% decline in top-line performance when compared to the corresponding period last year. The decline in the top line resulted in decrease in gross profit from Rs.3.4 billion (12.7%) to Rs. 2.4 billion (10.6%). Similarly, the operating profit decreased from Rs.2.4 billion (9.03%) to Rs.1.5 billion (6.7%) when compared to the half-year under review. The Company incurred a loss before and after tax of Rs.417 million and Rs.185 million, respectively. This represents a significant decrease in profitability when compared to the same half-year period last year, where the Company recorded a profit before and after tax of Rs.1.5 billion and Rs.1.3 billion, respectively. The decline in profit is mainly due to a 28% decrease in gross profit and a 129% increase in finance costs when compared to the same half-year period last year. The prime reasons for drop in gross margins were low volumes due to the floods in first quarter, significant increase in cost of inputs due to record inflation of 25% and demand compression due to market uncertainty impacting the Company's ability to pass through the impact of increased cost. The finance cost on the other hand mainly increased due to rise in interest rates from 8.5% to 16.5% and increased borrowing due to increased working capital requirement and decline in net margin.

Additionally, the Company recorded a loss per share (both basic and diluted) of Re.0.62 during the six-month period under review, as compared to earnings per share of Rs.4.39 during the corresponding period.

The key financial highlights of the Company are as follows:

Particulars	Period Ended December 31, 2022	Period Ended December 31, 2021
	PKR in Mn	
Net sales	**23,031**	26,621
Gross profit	**2,443**	3,391
Operating profit	**1,542**	2,403
Financial charges	**1,959**	854
(Loss)/Profit before tax	**(417)**	1,549
(Loss)/Profit after tax	**(185)**	1,303
Earnings per share (both basic and diluted) (in Rupee(s)	**(0.62)**	4.39

Future Outlook

Pakistan's economy will be going through one of the toughest times in the coming months as structural deficiencies and persistent political uncertainty raise recessionary risks in the country. The rupee has already reached 261 against the greenback and with the recent inflation of 34% and potential increase in interest rates north of 17%, the eco-political instability will exacerbate and may lead to security challenges. The country's foreign exchange reserves are at historic low level leaving the government unable to finance essential imports for oil, gas, medicines, fertilizers and food items. In November 2022, the government-imposed import restrictions on various commodities to conserve dollars, which has modestly lowered the current account deficit. This has also slowed industrial operations across Pakistan and has even caused shutdowns and high layoffs in some sectors.

The State Bank of Pakistan (SBP) is experiencing a shortage of foreign currency reserves, which has resulted in delays in opening letters of credit (LCs) for the import of essential raw materials, such as scrap steel and additives, necessary for the indigenous manufacture of steel. These LC issues have caused a shortage of materials, resulting in significant demurrage and detention costs due to the banks' inability to retire the documents promptly. The situation is being exacerbated by the recent confirmation of energy price increases and the hike in the General Sales Tax rate, as part of the International Monetary Fund's conditions. Given that the steel industry is the backbone of the economy and many allied industries are connected to it, the Government and SBP must resolve the steel industry's LC issues on priority to save the industry which is currently in the midst of an unprecedented turmoil and on the brink of collapse.

Currently, the ex-factory prices of deformed rebars are around Rs.302,000 per ton. However, due to inflationary pressures in the steel sector, further price increases may be necessary. This surge in steel prices is due in part to the significant devaluation of the rupee, increase in energy prices and significant increase in interest rates and lower capacity utilization resulting due to LC opening issues, which have increased the overall cost of production and financing.

High steel prices, coupled with the resulting need for high working capital and interest rates, have caused a decline in the market share of informal competitors. Informal players, due to their lower asset base, are unable to borrow significantly from banks. This trend is expected to persist, and listed players will benefit as the market share transitions from ungraded to graded manufacturers.

Despite the economic challenges facing the steel industry and the broader economy, our commitment towards pursuing growth opportunities remains firm. We have taken prudent measures to sustain these economic shocks to generate long-term value for our shareholders. Finally, we express our gratitude to all of our stakeholders, including valued shareholders, customers, financial institutions, and suppliers, for their ongoing encouragement and support.

BOLAN CASTINGS LIMITED

Directors' Review Report

The Directors of your Company are presenting the un-audited financial statements for the half year ended December 31, 2022.

During the six months under review, the Company recorded net sales of Rs. 930.21 million as compared to Rs.1,366.70 million of the same period of the last year. The gross profit for the six months under review was Rs. 26.22 million as against Rs. 106.45 million of corresponding period of the last year. The loss after tax for the six months was Rs. 65.97 million as compared to profit after tax Rs. 4.93 million of same period of the last year.

The loss per share was Rs. 5.75 as against the profit per share of Rs. 0.43 of corresponding period of last year.

The aftershocks of devastated flood during the first quarter are not over yet on the back of stagnant flood water in many areas of agricultural land of the country resulting high inflation and the lower demand of the tractors as well as its allied accessories. The company has to go on shut down that affected the sales and production of the company and contributed towards the losses of the company.

The country is struggling to overcome the economic challenges such as low foreign reserve level, high foreign exchange rates, high rate of inflation, high fuel and energy prices, disrupt raw materials supplies due to curb on imports and shrunk liquidity position that also affected the profitability of the company during the last six months and decrease of gross profit and operating profit ratios as compared of corresponding period of the last year.

The slight recent increase in demands of tractors and expected positive deal with IMF may bring the ease to the overall economy as well as the tractor and its allied industries. However, it depends on smooth supply of raw materials which may bring some hope for the remaining financial year.

We would like to thank our customers and shareholders for their trust and confidence in the Company. We also would like to convey our appreciation to the entire BCL Team for their dedicated efforts, contributions and for being steadfast and standing resolute with us during the period under review.

CRESCENT STEEL & ALLIED PRODUCTS LIMITED

Directors' Review Report

The Directors of the Company are pleased to submit their report together with unaudited condensed interim unconsolidated and consolidated financial statements of the Company and the Group, respectively, for the half year ended 31 December 2022.

ECONOMIC OUTLOOK

To recap, Pakistan closed FY22 at a GDP growth rate of 5.97% with consensus for growth forecasts for FY23 at 3.5% (World Bank) and FY23 average inflation at 20%. YoY inflation in June stood at 21.3% and the PKR was at 204.85/USD – amidst a commodity upcycle and twin deficits with current account deficit (CAD) at USD 17.41 billion and fiscal deficit of PKR 8 billion. Pakistan successfully resumed the IMF program against which a USD 1.1 billion grant was released in August 2022.

As it stands today, Pakistan is recovering from a climate catastrophe which left more than 33 million people displaced and caused damages that are estimated to be north of USD 30 billion; the PKR/USD parity stands at 230.40 with a growing arbitrage between interbank and kerb market rates, representative of both state interventions as well as demand from a neighbouring country. Inflation clocked in at 24.5% YoY in December 2022 – an increase of 12% during the first six months of this fiscal year. The country's FX reserves have now depleted to USD 10.85 billion from 15.45 billion on 30 June 2022. However, owing to import contractionary policies in place, CAD shrank by 59.66% to USD 3.67 billion.

Inflationary pressures prevailed throughout the first half of FY23 with average inflation clocking in at 25.05%. Food and energy sectors representing 58.21% weightage in the National CPI Index (Dec 22) have been the main drivers of the cost push inflation showing an increase of 35.5% and 7% on a Year-on-Year basis, respectively.

In continued monetary tightening, the SBP raised rates by 100 bps in November 2022, and 100 bps in January 2023 to 17% – cumulative increase of 375bps to date in FY23. Global supply chain bottlenecks and a depreciating currency coupled with post mitigation effects of floods are expected to keep the inflationary readings on the higher end.

FINANCIAL AND OPERATIONAL PERFORMANCE

Overall Unconsolidated Financial Performance

During half year ended 31 December 2022 (HYFY23) the Company's after tax loss amounted to Rs. 202.3 million mainly as compared to after tax profit of Rs. 882.5 million in HYFY22 which was mainly due to dividend from Altern Energy Limited. Loss per share (LPS) for HYFY22 was Rs. 2.61 per share as compared to Earnings per share (EPS) of Rs. 11.37 in HYFY22.

Company's sales revenue for the HYFY23 stood at Rs. 2,216.5 million (HYFY22: Rs. 2,640.7 million) generating a gross profit (GP) of Rs. 10.6 million (HYFY22: GP of Rs. 80.1 million) which was 0.5 percent of sales as compared to 3.03 percent in HYFY22.

Steel division and Cotton division generated 63.4 percent, 35.4 percent of the total sales respectively. Turnover of Steel division was Rs. 1,405.0 million (HYFY22: Rs. 1,170.9 million). Cotton Division posted a turnover of Rs. 784.8 million (HYFY22: Rs. 1,258.8 million), a decrease of 37.7 percent due to reduce shifts during Q2FY23 because of non-availability of cotton.

During HYFY23, GP of the Steel division amounted to Rs. 130.1 million (HYFY22: Gross loss of Rs. 73.9 million), whereas Cotton Division reported a Gross loss of Rs. 50.8 million i.e. 6.5% of sales (HYFY22: GP of Rs. 203.7 million). The Steel Division reported loss before tax (LBT) of Rs. 107.1 million (HYFY22 LBT: Rs. 274.2 million). Cotton Division reported LBT of Rs. 79.5 million [HYFY22 Profit before tax (PBT): Rs. 168.2 million]. IID Division reported a LBT of Rs. 6.1 million (HYFY22 PBT: Rs. 1,099.2 million).

The Company's LBT for HYFY23 was Rs. 279.3 million as compared to PBT of Rs. 909.5 million in HYFY22. Tax reversal during HYFY23 amounted to Rs. 77.1 million (current and prior year tax charge of Rs. 29.7 million while deferred tax reversal of Rs. 106.8 million).

BUSINESS SEGMENTS

Steel Segment

Steel Division revenue for the HYFY23 stood at Rs. 1,405.0 million as compared to Rs. 1,170.9 million in the corresponding period last year. Total GP during the HYFY23 was recorded at Rs. 130.1 million (i.e. 9.2%), as compared to gross loss of Rs. 73.9 million (i.e. -6.3%) in HYFY22.

Cotton Segment

Cotton Division net sales revenue for HYFY23 stood at Rs. 784.8 million as compared to Rs. 1,258.8 million in HYFY22. Division posted gross loss of Rs. 50.8 million i.e. - 6.5% of sales as compared to GP of Rs. 203.7 million i.e. 16.2% in HYFY22.

IID Segment

To recap, having lost 12.28% during FY22, the KSE-100 opened the fiscal year 2023 at 41,540.83 points, losing 1,120.38 points or 2.70% during HYFY23 to close at 40,420.45 points on 31 December 2022. On a CY basis the benchmark has lost 4,175.62 points or 10.33% from its opening of 44,596.07 points on 01 January 2022.

The KSE-100 swung between a low-hi of 39,026 – 43,888 points or -6.05% to +5.65% from its fiscal year opening, respectively. The Index, deeply affected by the prevailing political and economic uncertainties, tested the 39,000 mark twice during the start and tail end of the 1HFY23 – a trend line that was last witnessed back in November 2020.

On a calendar year basis, we saw volumes drying up with average traded volumes for all-share index during H2CY22 at 219.26 million shares traded/day down 8.9% when compared to H1CY22. On a Calendar year/YoY basis volumes shrank 35.68% during H1FY23 when compared to H1FY22 – indicating weak investor confidence. It is expected that going forward, higher money market yields and expectations of dampened corporate earnings will discourage short-term investors from participating in the market, resulting in low volumes.

The portfolio's accumulated LBT for the HYFY23 stood at Rs. 6.0 million, as against PBT of Rs. 1,099.2 million in the corresponding period last year.

The LBT includes unrealised losses and realised gains of Rs. 25.8 million and Rs. 5.00 million, respectively. Dividend income for the period stood at Rs. 21.8 million.

During the HYFY23, the Division's trading investments recorded negative ROI of -1.96% on weighted average investments of Rs. 255.9 million whereas the benchmark KSE-100 index decreased by 2.7%.

FUTURE OUTLOOK

As we are stepping into H2FY23, the economic policy seems to have taken a shift – the USD/PKR parity seems to be controlled, costing us a competitive advantage in export markets and creating long-term pressures on the local industry in an environment where it is already extremely difficult to operate. Today, it has become virtually impossible for industry to open letter of credits for import of critical raw material /spares. This had resulted temporary shutdowns of many industrial units.

The country's FX cover is barely enough for one month worth of imports as against a 3-year average of a 3-month cover. Faced with shortfalls in meeting external debt obligations, we are likely to see debt restructuring to avoid an otherwise inevitable default. This will come with further monetary tightening and steep PKR devaluation (PKR/USD projections stand at PKR 270/USD in the near term representing a devaluation of 18.4% from current official rate of PKR 228/USD).

For Crescent Steel, with core business dependent on infrastructure projects – in particular energy and water infrastructure – FY23 is marred with uncertainty. Our order book in the line pipe segment is linked with infrastructure projects of national importance and led by State Owned Enterprises and as such they are susceptible to delays – particularly given continued fiscal constraints.

As reported earlier, the Greater Karachi Bulk Water Supply project K-IV has been awarded to an international contractor. We got contract for pipe conversion (from client supplied HRC) and line pipe coating business for part of the project. Manufacturing against the said contract commenced in December 2022 with expected completion by Q2FY24.

We have also seen some line pipe demand in the Oil and Gas segment, bidding and awards against these projects are expected in due course of time and in case we are successful in our bids, these may be executed in FY24.

INTERNATIONAL INDUSTRIES LIMITED

Director's Report for the Period Ended December 31, 2022

The Directors of your Company are pleased to present the financial statements for the half year ended December 31, 2022.

The uncertain politico-economic situation prevalent in the country during the second half of the year continued to result in a challenging business environment, including rising costs - particularly energy prices, sharp increase in interest rates, difficulties in obtaining import financing and energy shortages. These were further exacerbated by negative global conditions such as the ongoing war in Ukraine and recessionary headwinds in most developed markets. This has adversely impacted the Company's business during the period under review. Domestic sales volumes were 39% lower than the same period last year and sales revenue for the period stood at Rs.12.9 Bn, which was 29% lower than the same period last year. A reduction in volumes was witnessed across all product segments as infrastructure development and construction activity remained sluggish in government as well as private sectors. Furthermore, key industries such as car and bike assembly came to a virtual standstill cutting off another major sales avenue for the Company. Additionally, the global economic slowdown and severe winter conditions in North America contributed to a drop in export volumes by 59%.

The decline in revenue resulted in an unconsolidated Profit after Tax for the period under review was Rs. 764 Mn (EPS 5.79), compared to a Profit after Tax of Rs. 1,857 Mn (EPS 14.08) during the first half of last year. This includes dividend income of PKR 1,142 Mn (SPLY: 1,764 Mn) from subsidiary and associate companies.

Dampened demand and depressed economic conditions also affected our major subsidiary, International Steels Limited (ISL), which reported Net Sales Revenue of Rs. 33.925 Bn which was down 22% from Rs.43.294 Bn over the same period last year. It generated a Profit after Tax (PAT) of Rs. 61 Mn (EPS 0.14) which was down 98.6% from Rs. 4,224 Mn (EPS 9.71) during the same period last year.

Efforts to develop the construction solutions business, in collaboration with a globally respected German company, continue to generate strong interest from the domestic market. A first-of-its-kind project is underway in Lahore and efforts on building a sustainable pipeline of business in this segment continue with strong momentum. The current challenges in establishing Letters of Credit are hampering the growth of this business, but the management is hopeful that these challenges will not remain insurmountable.

Pakistan's attempts to garner the support of donor countries and lending institutions have finally begun to show some early signs of promise - and will need to culminate in the revival of the IMF program. Only after these result in an inflow of external funds will the economy begin to show signs of recovery. This is an imperative for business conditions to improve and allow all major industries, including your Company, to improve operating results in the second half of the year. In the meantime, the Company will continue to strive to improve efficiencies and reduce costs, as well as make its strongest efforts in maintaining its share in both domestic and key export markets.

We extend our gratitude to all stakeholders for their continued support during this time of unprecedented challenges and look forward to a productive second half of the financial year.

INTERNATIONAL STEELS LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED DECEMBER 31, 2022

The Directors of your Company are pleased to present the financial statements for the half year ended December 31, 2022.

Pakistan is currently facing an economic crisis, characterized by a high fiscal deficit, significant trade and current account imbalances, and high inflation. The country has also struggled with a shortage of foreign currency, which has made it difficult to pay for imports and service its debt. The IMF program has stalled and other international financing being unavailable, the country's foreign exchange reserves are on a continuous decline. The State Bank of Pakistan has placed strict restrictions over import payments, albeit unannounced. LC opening has nearly become impossible for import of raw materials. As a result, large-scale manufacturing in the country has declined by 5.5%. Consequently, the demand for your Company's products has also dropped sharply.

Inflation has remained stubbornly high at 25% resulting in the State Bank of Pakistan's policy rate increasing to 17%. It is expected that the policy rate will continue to increase. While the official value of PKR has been maintained between Rs. 225 to 230 against USD, the gap between interbank and open market rate has been severely hurting the already precarious foreign currency reserves and diverting remittances from banking channels to the grey market.

Global steel prices declined sharply near the start of the financial year to USD 570 /MT after having reached an all-time high of USD 1,100 /MT last year. However, thereafter steel prices have seen a recovery on the back of production cuts by major mills across the world and ease of COVID related restrictions in China.

In the wake of such uncertain economic conditions your Company has been focusing on vigilant inventory management in line with the weak market demand while undertaking certain key productivity measures to counter the economic headwinds. Some of the measures taken include shutdowns during peak hours to save energy costs, lowering the borrowing levels to save on interest costs and restricting capital spending to key initiatives only.

Gas availability has remained a challenge in winter and has had an adverse impact in meeting the Company's energy requirements. It is expected that gas supply will improve in the coming months.

Rigorous efforts are being employed in working capital management to reduce leverage. As a result, the Company's net cash generated from operating activities was Rs. 9 Bn in the half year.

In the backdrop of the above stated weak economic conditions, the Company's revenue dropped by 22% from Rs. 43 Bn (SPLY) to Rs. 34 Bn for the half year ended 31 Dec 2022. High-interest rates with extreme volatility in exchange rates increased the finance costs and exchange loss by more than 3 times. The Company posted a profit after tax of Rs. 61 million and EPS of Rs. 0.14 compared to PAT of Rs. 4,224 million and EPS of Rs. 9.71 in the same period last year. In these uncertain times, your Company is proactively working towards meeting the challenges of this tough economic environment.

We thank the management and staff for their untiring efforts towards the Company's goals. The Board would also like to express its appreciation to our valued customers, dealers, vendors, banks and all other stakeholders for their cooperation and trust.

MUGHAL IRON & STEEL INDUSTRIES LIMITED

DIRECTORS' REVIEW

On behalf of the Board of Directors of MUGHAL IRON & STEEL INDUSTRIES LIMITED, we are pleased to present the un-audited condensed interim financial statements of the Company for the six months period ended December 31, 2022, the financial results of which are summarized below:

Particulars	Period Ended December 31, 2022	Period Ended December 31, 2021
	PKR in Mn	
Sales-net	31,240	32,082
Gross Profit	3,362	5,677
Profit Before Taxation	1,075	4,001
Taxation	268	(470)
Profit for the Period	1,343	3,531
Earnings Per Share – Basic & Diluted	4.00	10.52

Business, financial & operational review

During the period, political tensions, floods, rains, current account deficit, depreciating currency, struggling foreign exchange reserves, rising inflation, high discount rates and significant increase in energy cost and decline in sale prices impacted the overall performance of the Company. Amidst the prevailing adversities, the Company managed to maintain its topline in absolute terms, however, there was decline in volumes as compared to corresponding six months period. Overall gross margins witnessed sharp decline as compared to the corresponding six months period both within the ferrous and non-ferrous segments since the impact of increase in input costs could not completely be transferred into sale prices in the December quarter. Export commission decreased since entire exports was to existing parties.

Allowance for expected credit loss was reversed by Rs. 48.042 million. Other income decreased by 53.93% mainly on account of decline in foreign exchange gains. Finance cost increased significantly by 91.16% mainly due to significant hike in base discount rate. Taxation expense decreased by 156.92% due to recognition of deferred tax asset and also due to reversal of prior year tax provision. Resultantly, the Company posted profit for the period amounting to Rs. 1,342.568 million as compared to Rs. 3,530.967 million in corresponding period resulting in decrease of Rs. 2,188.399 million. Earnings per share (EPS) for the current period stood at Rs. 4.00 as compared to EPS of Rs. 10.52 in the corresponding period.

Additions in property, plant and equipment mainly represented additions in capital work-in-progress relating to installation of induction furnaces and non-ferros expansion. Cash and bank balances decreased by 27.56%. mainly due to utilization of funds reserved for repayment of Islamic Commercial Paper (ICP). Accrued profit / interest / mark-up increased mainly due to increase in base rate by SBP.

Resultantly, the statement of financial position footing stood at Rs. 55,875.934 million as of December 31, 2022, compared to Rs. 53,085.460 million as of June 30, 2022. Breakup value per share increased to 66.11 as of December 31, 2022 from Rs 62.11 as at June 30, 2022. Current ratio as at December 31, 2022 stood at 1.42:1 as compared to 1.45:1 as at June 30, 2022.

Future outlook

Going forward, the impact of curtail on imports and increase in base discount rate will continue to impact the performance of the Company. It is expected that increase in construction activities, post floods will improve demand for long-rolled products, but this will again be dependent upon raw-material imports.

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