



# **Ittefaq Iron Industries Ltd.**

**Head Office :** 40-B-II, Gulberg-III, Lahore - Pakistan. Ph: (042) 35765021-26 Fax: (042) 35759546  
Ph: (042) 35759895, 35757397, 35757940 UAN: 111-94-94-11

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**Marketing Division**

Ph: (042) 35785468 Fax: (042) 35759411

E-mail: [info@ittefaqsteel.com](mailto:info@ittefaqsteel.com), [sales@ittefaqsteel.com](mailto:sales@ittefaqsteel.com), Web: [www.ittefaqsteel.com](http://www.ittefaqsteel.com)

***QUARTERLY COMPLIANCE REPORT  
IPO PROCEEDS UTILIZATION  
FROM JULY 1, 2017  
TO  
SEPTEMBER 30, 2017***

***ITTEFAQ IRON INDUSTRIES LIMITED***

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## COMPLIANCE AUTHORITIES

This report is prepared in compliance of following:

1. Securities and Exchange Commission of Pakistan.

This Quarterly report is being submitted to SCEP under directions of Pakistan Stock Exchange vide their correspondences referenced below.

a) PSX/GEN-2210 dated March 22, 2017 and

b) PSX/GEN-3157 dated April 26, 2017.

2. Pakistan Stock Exchange Limited.

Condition Number 18 for clearance of Prospectus of Ittefaq Iron Industries Limited,(the company) through correspondence bearing Ref. No PSX/GEN-2210 dated March 22, 2017 and Condition Number 5 for allocation of dates for publishing of Prospectus, Book building and public subscription through correspondence bearing Ref. No .PSX/GEN-3157 dated April 26, 2017.

## CONDITIONS IMPOSED BY COMPLIANCE AUTHORITIES

The condition imposed by compliance authorities are as follows:

1. Securities and Exchange Commission of Pakistan.

Ittefaq Iron Industries Limited, (the company) is directed by PSX to quarterly update SECP about the utilization of IPO proceeds within 15 days of the close of the said quarter.

2. Pakistan Stock Exchange Limited

The Company shall submit quarterly updates supported with Auditor`s Certificate relating to the utilization of proceeds of Initial Public Offering until the proceeds are fully utilized to the Exchange and the Commission within 15 days of close of each quarter for its dissemination to all concerned.

# EXTRACT OF PROSPECTUS

## EXTRACT OF PROSPECTUS REGARDING AFORMENTIONED CONDITIONS.

Following was mentioned in the prospectus about the utilization of proceed of Initial Public Offering:

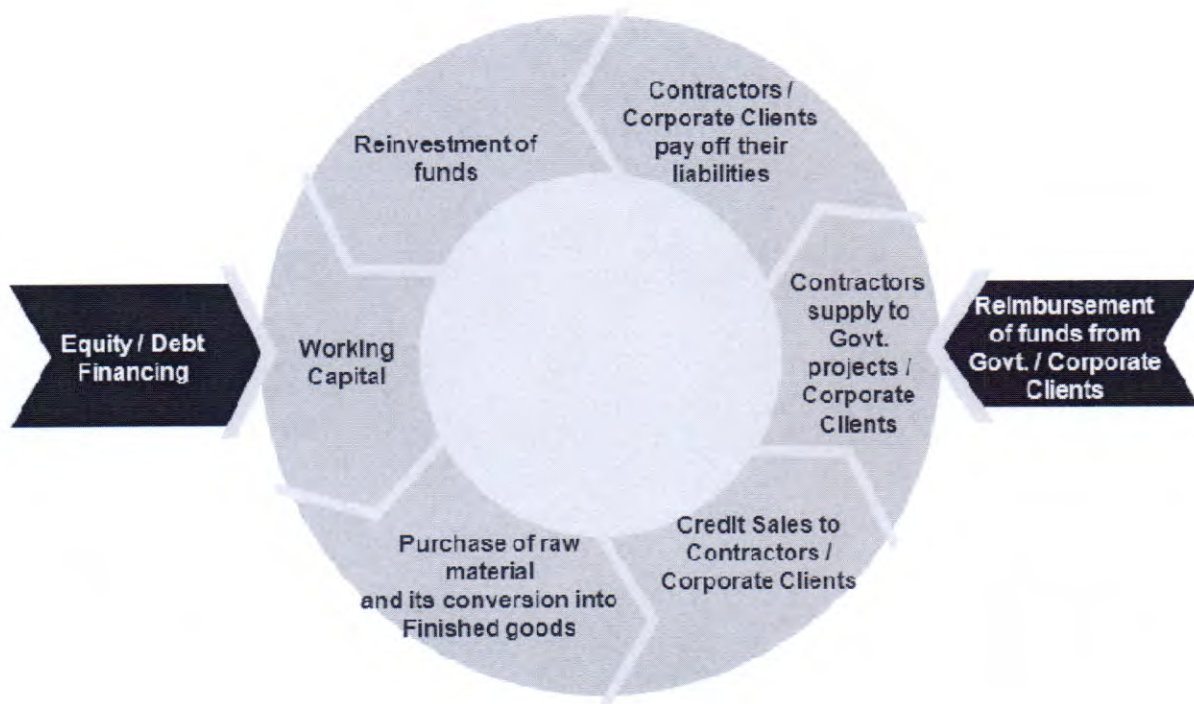
### **3.10. Principle Purpose of the Issue**

The Company intends to issue 41,750,000 ordinary shares at a floor price of PKR 12/share to raise PKR 501 million via IPO. The Primary purpose of the Issue is to enhance capital of the Company for facilitating its working capital requirements via equity financing instead of short term debt.

Given the contractual nature of the business with long lead times, the management is desirous of optimizing its level of debt relative to its equity in order to increase and sustain sales and profitability growth in the future. In order to cater to the increasing demand for its products, the Company requires enhancement in its working capital capacity which is intended to be raised via equity financing.

This equity injection will allow the Company to manage higher levels of inventory requirements to increase its re-bar sales to various on-going and upcoming construction related projects in the public sector. (Please see Section 5.4 of Prospectus)

The Company continues to strengthen its working capital through re-investment of its net margins to generate additional sales and profits. A brief overview of this cycle is depicted in the chart below:



The IPO proceeds will be used to purchase raw materials (i.e scrap and alloys) and managing manufacturing expenses related to converting those raw materials into finished goods for onward sale to various customers to meet the increasing demand for finished products of the Company.

During FY 16, the Company generated sales of PKR 3,917 mn by using working capital of approx. PKR 1,907 mn and similarly IPO proceeds will be utilized to generate further sales via supply to various projects disclosed in section (5.4 of Prospectus).

IPO proceeds utilization (Prospectus) break-up is given in the table below:

Sr. No.	Break-up of Utilization of Proceeds		
	Particulars	Amount (PKR Mn.)	Percentage of Total Issue (%)
1.	Raw Materials (Scrap & Alloys)	351	70%
2.	Manufacturing Overheads* to Convert the Raw Materials into Finished Goods	150	30%
<b>Total</b>		<b>501</b>	<b>100%</b>

#### Utilization of the Excess Amount

Any excess funds received by the Company would be used for any or all of the following purposes:

1. Repayment of short term borrowings
2. Modification and redesigning of plant & machinery of the Company including Girder Mill, subject to assessment of economic viability of conducting any modification / redesigning
3. Any other activity related to the Company's operations as deemed necessary by the board of directors

**Note:**

1. The Company shall submit quarterly updates to PSX, supported by auditor's certificates regarding utilization of IPO proceeds until the proceeds are fully utilized.
2. IPO proceeds shall not be used for the repayment of loan provided by the sponsors and their relatives as disclosed in section 8.3 of this prospectus.

**3.11. Expected Schedule for Utilization of IPO Proceeds**

The Company proposes to deploy the net proceeds in the aforesaid purpose during FY18.

# PROGRESS UPDATE

## Progress Update

The chronological detail of activities is as follows:

**1. Unconditional Approval by SECP.**

The receipt of clearance to issue, circulate and publish the prospectus for issue of 41.75 million ordinary shares by Ittefaq iron industries limited under section 87 (2) read with section 88(1) of the Securities Act, 2015 was received vide correspondence No SMD/CIW/SA-88/05/2017 dated April 24, 2017.

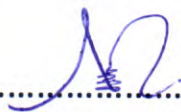
**2. Unconditional Approval by Pakistan Stock Exchange.**

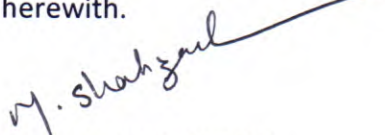
PSX communicated its notice regarding formal listing of Ittefaq Iron Industries Limited, ("the company") on June 29, 2017 vide its correspondence No.PSX/GEN-4442 which stated that the company will be listed on July, 3 2017.

3. After the Receipt of Approvals from the regulatory bodies, the company placed the funds in specific purpose accounts newly opened in banks having satisfactory ratings.
4. Pakistan Stock Exchange issued NOC in favour of Bankers to the issue for transfer of funds in newly opened company accounts vide their correspondence dated June 22, 2017.
5. Out of the total funds received PKR 1,260,850,000 the company has invested PKR 216,000,000 in TDR (term deposits receipts) short term investment with Soneri Bank Limited ranging for a period of 1 month on rollover basis at markup rate of 5%.
6. Out of the IPO proceeds, PKR 68 million was paid being the expenses incurred on the issue of ordinary shares in compliance with the provisions of the companies act, 2017.
7. For Working Capital Management as disclosed in prospectus the company has utilized PKR 977 million under different heads that have been explained below and certified by Auditors through their report as annexed. (Annexure-A)

### **AUDITORS REPORT ON AGREED –UPON PROCEDURES TO THE CHIEF EXECUTIVE OF IIIIL WITH RESPECT TO UTILIZATION OF THE IPO PROCEEDS OF THE INITIAL PUBLIC OFFER.**

The external auditor of the company has confirmed that the company has utilized the proceeds of the IPO, only for the purpose which is annexed herewith.

  
.....  
Chief Executive Officer

  
.....  
Company Secretary

Chief Executive  
Ittefaq Iron Industries Limited  
40-B-2, Gulberg-3,  
Lahore- Pakistan.

14 October 2017

Dear Sir

**ITTEFAQ IRON INDUSTRIES LIMITED - AUDITOR'S REPORT ON UTILIZATION OF THE PROCEEDS OF THE INITIAL PUBLIC OFFER OF 41,750,000 ORDINARY SHARES AT A PRICE OF RUPEES 30.2 PER ORDINARY SHARE FOR THE PURPOSES MENTIONED IN PROSPECTUS DATED 29 APRIL 2017 FOR THE PERIOD ENDED 30 SEPTEMBER 2017.**

We have verified the utilization of the proceeds of the initial public offer (IPO) of 41,750,000 ordinary shares at a price of Rupees 30.2 per ordinary shares for the purposes mentioned in the prospectus dated 29 APRIL 2017 for the period ended 30 September 2017.

Detail of utilization of IPO proceeds are as follows:

IPO proceeds utilization break-up is given below:

IPO Proceeds	1,261	100%
Less: Shares issuance cost	<u>68</u>	<u>5%</u>
Net proceeds	1,193	95%
Less: TDR - Investment (Soneri Bank Limited)	<u>216</u>	<u>17%</u>
<b>Net proceeds available for utilization</b>	<b><u>977</u></b>	<b><u>78%</u></b>
1 Raw Materials (Scrap & Alloys) Procurement Under LC Arrangements July to September (2017) (inclusive of Clearance and freight Charges) (N-1)	520	42%
2 Local Procurement (Billet)	287	23%
3 Working capital Managemet - Others (N-2)	62	5%
4 Modification of Furnaces and upgradation of Continuous Casting Machine (N-3)	35	3%
5 Repayment of loan (NBP) CF	<u>73</u>	<u>6%</u>
	<b><u>977</u></b>	<b><u>78%</u></b>

Note-1:

Procurement of Iron scrap was managed under Letter of Credit (LC) arrangements from National Bank of Pakistan while Ferro alloys were purchased from the local market. Total imported scrap received at mills during the quarter under review through LC arrangements was approximate 13,088MT, and payment of PKR 264 million was made during that quarter as settlement of banking liabilities corresponds to imported scrap procurements. Clearance charges paid for the release of imported shipments PKR 205 million (inclusive of refundable sales tax PKR 68 millions). From local market 494MT of

Ferro Alloys were purchased at market competitive rates, and payment made of PKR 66 million against such liabilities.

Note-2:

Working Capital management includes all activity based expenses in conversion of raw material into finished goods.

Note-3:

The funds incurred on the complete overhauling and design modification of furnaces, continuous casting machine tools installation for effective and smooth processing of melting operation.

Because our verification do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the utilization of the proceeds of the initial public offer of 41,750,000 ordinary shares at a price of Rupees 30.2 per ordinary share for the purposes mentioned in prospectus dated 29 APRIL 2017 for the period ended 30 September 2017.

Our report is solely for the purpose of your information and submission to the Securities and Exchange Commission of Pakistan and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified below and does not extend to any financial statements of Ittefaq Iron Industries limited as a whole.



Name of Engagement Partner:  
Muhammad Kaleem Rathor

**KALEEM & COMPANY**  
**CHARTERED ACCOUNTANTS**

Date: 14 October 2017

Lahore