

## Earning Review

### MUGHAL: 4QFY21 EPS clocked in at Rs3.34, up 5.1x YoY

#### Event

- Mughal Iron & Steels Industries Ltd (MUGHAL PA) profitability clocked in at Rs976mn (EPS Rs3.34, up/down 405/12% YoY) in 4QFY21 against Rs193mn (EPS Rs0.66) in 4QFY20. This takes FY21 profitability to Rs3,484mn (EPS Rs11.94, up 488% YoY) compared to profitability of Rs593mn (EPS Rs2.03) in FY20. Result in also accompanied with bonus issue of 15%.
- The result is below our expectations given normalization of margins and absence of one offs, in our view.

#### Impact

- We attribute increase in MUGHAL profitability to (1) higher contribution from non-ferrous business (copper ingots) segment and (2) better rebar retention prices.
- MUGHAL sales increased by 152/46% YoY/QoQ in 4QFY21. We attribute increase in sales to (1) better retention prices in rebar market and (2) increased revenue from contribution of copper exports given opportunity available in international markets for copper exports triggered by supply-chain disruption during COVID.
- Furthermore, MUGHAL gross margins increased by 2.0ppt YoY to 12.5% in 4QFY21. However, on sequential basis MUGHAL gross margins declined by 8.6ppt QoQ in 4QFY21 due to (1) lower contribution of sales from trading products and (2) absence of one offs.
- MUGHAL finance cost increased by 55/15% YoY/QoQ in 4QFY21 due to increased working capital requirement of the company. MUGHAL current inventory/short term borrowing stands at Rs16.3/16.9bn at the end of 3QFY21.
- Among other major heads MUGHAL selling and distribution/admin expense increased by 8/43% YoY in 4QFY21. MUGHAL selling and distribution expenses increased due to copper exports and higher advertisement of Mughal Supreme by the company, in our view.
- To highlight, MUGHAL effective tax rate clocked in at 24.1% in 4QFY21 (up 9.9/9.3ppt YoY/QoQ).

#### Outlook

- We expect MUGHAL near term profitability to remain on higher side due to short term opportunity availed by the company in copper export market along with higher benefit of recent prices increase and large inventory of raw material procured at lower rates.
- Furthermore, now with increased capacity we expect MUGHAL volumetric growth will be lower than earlier expectation due to (1) increased competition in south Punjab market given entry of AGHA and Naveena steel and (2) unsustainability of copper ingot export business due to higher operating cycle compared to rebar market.

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Fig 01: MUGHAL 4QFY21 Financial Highlights (Rs 000)

	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Net Sales	15,154	6,008	152%	46%	44,972	27,305	65%
Cost of Sales	13,256	5,379	146%	62%	38,280	24,688	55%
<b>Gross Profit</b>	<b>1,898</b>	<b>630</b>	<b>201%</b>	<b>-14%</b>	<b>6,691</b>	<b>2,617</b>	<b>156%</b>
Administrative expenses	141	98	43%	-9%	538	407	32%
S&D expenses	42	39	8%	-71%	254	144	77%
Other operating charges	27	30	-9%	-88%	379	57	568%
Other Income	7	26	-74%	-186%	67	59	14%
<b>EBIT</b>	<b>1,769</b>	<b>524</b>	<b>238%</b>	<b>2%</b>	<b>5,865</b>	<b>2,254</b>	<b>160%</b>
Financial charges	408	263	55%	15%	1,370	1,515	-10%
PBT	1,286	225	471%	-1%	4,216	554	661%
Taxation	310	32	865%	60%	732	(39)	-1971%
PAT	976	193	405%	-12%	3,484	593	488%
<b>EPS</b>	<b>3.34</b>	<b>0.66</b>	<b>405%</b>	<b>-12%</b>	<b>11.94</b>	<b>2.03</b>	<b>488%</b>
GP Margins	12.5%	10.5%			14.9%	9.6%	
EBIT Margin	11.7%	8.7%			13.0%	8.3%	
NP Margins	6.4%	3.2%			7.7%	2.2%	

Source: Company Accounts, Foundation Research, September 2021

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.