

Foundation Alert

MTL: FY21 Analyst Briefing Takeaways

Event

- Millat Tractors Limited (MTL PA) held its Analyst Briefing today to discuss FY21 financial results. Following are the key takeaways of the briefing.

Impact

- To recall company reported a profitability of Rs6.6bn (EPS 117.13) in FY21, up by 3.34x YoY, compared to Rs2.0bn (EPS 35.04) in FY20.
- Management discussed the business dynamics for Millat tractors limited which has strategically expanded vertically with 4 different companies to improve supply chain and increase localization. MTL's current market share of tractors is 70%.
- Apart from tractor, MTL has invested in Hyundai-Nishat Motor (HNMPL) as a part of its diversification plan. MTL has also entered into sales and implantation partnership for IFS application, which has contributed by Rs5/8mn in local/export sales.
- HNMPL is expected to increase its capacity as demand for passenger vehicles increases, however it is facing supply chain issues due to prevailing semiconductor shortage in the industry.
- MTL sold 35.5k tractors in FY21, (up 71.5% YoY) compared to 20.7k in FY20. This led to 7ppt YoY increase in market share in FY21.
- MTL has been actively pursuing to increase their foot print in south region, by establishing their detailed parts outlet as well.
- TIPEG INTERTRADE DMCC is located in DMCC free zone of Dubai, acting as a trading arm for Millat Group Companies, it has contributed to export sales of US\$2.7mn in FY21.
- Currently exports to Afghanistan and Africa account for 50/50% of the exports. However as political situation stabilizes in Afghanistan, the uncertainty in Africa arises, which would shift tilt towards Afghanistan. To highlight, the export sales are channeled through the principal.
- Rupee devaluation has been beneficial for MTL export sales, however this has also increased the cost of imported raw material for their vendors.
- MTL has recently introduced MF360 and MF375 models. The management believes the market base has low land holdings that can be categorized as niche market for international suppliers.
- Increase in interest rate would put pressure on the financing of tractors, however, due to high yield in crops this season, sales have shifted to cash. Furthermore, management expects the increase in sales tax to 17% due to IMF requirement may impact sales going forward.
- CCP inquiry is still under litigation in Islamabad High Court, which the management expects to be in their favor.
- Management believes increasing agricultural yield and increase in minimum support price would enhance purchasing power of the farmers.

Outlook

- The company is not under formal coverage.

Fig 01: MTL FY21 earnings preview

Income Statement (Rs mn)	4QFY21	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Net Sales	14,291	8,061	77%	12,578	14%	45,665	23,897	91%
COGS	9,762	5,913	65%	9,986	-2%	34,323	19,005	81%
Gross Profit	4,529	2,148	111%	2,592	75%	11,342	4,892	132%
SG&A	958	626	53%	467	105%	2,033	1,438	41%
Other Income	30	-97	-131%	269	-89%	567	149	282%
other expense	280	198	41%	169	66%	722	333	117%
EBIT	3,322	1,228	171%	2,225	49%	9,155	3,270	180%
Finance Cost	71	154	-54%	2	4401%	79	359	-78%
PBT	3,251	1,073	203%	2,223	46%	9,076	2,910	212%
Tax	986	470	110%	560	76%	2,509	946	165%
Net Profit	2,265	603	275%	1,663	36%	6,566	1,964	234%
EPS	40.41	10.76		29.67		117.13	35.04	
Gross Margins	31.69%	26.65%		20.61%		24.84%	20.47%	
Net Margins	15.85%	7.48%		13.22%		14.38%	8.22%	
ETR	30.3%	43.8%		25.2%		27.7%	32.5%	

Source: Company Accounts, Foundation Research, Nov 2021

AnalystHaris Siddiqui
+92 21 3561 2290-94haris@fs.com.pk
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.