

Earning Review

ASTL: 2QFY22 EPS clocked in at Rs2.03

Event

- Amreli Steels Limited (ASTL PA) profitability clocked in at Rs602mn (EPS Rs2.03) in 2QFY22 (up/down 93/14% YoY/QoQ) against profit of Rs312mn (EPS Rs1.05) in 2QFY21. This takes 1HFY22 profitability to Rs1,303mn (EPS Rs4.39) as compared to profit of Rs423mn (EPS Rs1.42) in 1HFY21.
- The result is below our expectation.

Impact

- We attribute this modest increase in company's profitability to (1) higher volumes due to strong demand from private sector projects, (2) better rebar retention prices due to multiple price hikes to pass on the impact of escalating input costs, (3) decline in distribution cost and (4) lower effective tax rate.
- In 2QFY22, ASTL gross margins/net margins increased by 0.72/0.80ppt YoY to 11.50/4.07% due to aforementioned factors. However, on sequential basis ASTL gross margins/net margins declined by 2.79/1.85ppt in 2QFY22 attributable to (1) rising input costs, (2) higher finance cost given hike in policy rate, and (3) to the booking of expected credit loss provision during the quarter.
- Company's revenue increased by 55/25% YoY/QoQ in 2QFY22 due to (1) higher volumetric sales and (2) better retention prices.
- Moreover, among other heads, company's admin expenses were up by 86/11% YoY/QoQ in 2QFY22.
- ASTL finance cost increased by 24/21% YoY/QoQ in 2QFY22 on the back of increase of 275bps in policy rate to reduce the economic impact of rising inflation.
- To highlight, ASTL took expected credit loss provisioning of Rs47mn in 2QFY22.
- Effective Tax Rate of the company was recorded at 13% during 2QFY22.

Outlook

- We have a Positive stance on the scrip with Dec'22 TP of Rs66/sh. We expect company to benefit from (1) listed players greater financial muscle as compared to ungraded players, (2) increased public sector spending by the government to uplift economic activity in the upcoming budget and (3) greater private sector borrowings.
- Furthermore, ASTL's strategy to increase its presence in North by lowering premiums over ungraded steel mills would allow it to increase market share.

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Fig 1: ASTL 2QFY22 Financial Highlights (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Net Sales	14,778	9,538	55%	25%	26,622	17,452	53%
Cost of Sales	13,079	8,510	54%	29%	23,230	15,562	49%
Gross Profit	1,699	1,028	65%	0%	3,391	1,891	79%
Administrative expenses	264	142	86%	11%	503	343	46%
S&D expenses	177	243	-27%	0%	354	359	-1%
Other operating charges	102	-32	-418%	99%	153	13	1106%
Other Income	6	8	-31%	-73%	26	14	89%
EBIT	1,162	683	70%	-7%	2,407	1,190	102%
Financial charges	471	381	24%	21%	858	837	3%
PBT	692	302	129%	-19%	1,549	352	340%
Taxation	90	-10	-1001%	-42%	246	-70	-450%
PAT	602	312	93%	-14%	1,303	423	208%
EPS	2.03	1.05	93%	-14%	4.39	1.42	209%
GP Margins	11.50%	10.78%			12.74%	10.83%	
NP Margins	4.07%	3.27%			4.90%	2.42%	

Source: PSX, Foundation Research, Feb 2022

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