

Foundation Alert

ASTL: Analyst Briefing Key Takeaways

Event

- Amreli Steels Limited (ASTL PA) held its Analyst briefing today to discuss financial/operational performance for 1HFY22 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Amreli Steels Limited (ASTL PA) profitability clocked in at Rs1,303mn (EPS Rs4.39) in 1HFY22 against profit of Rs423mn (EPS Rs1.42) in 1HFY21.
- Management attributes increase in 1HFY22 profitability to (1) 53% YoY increase in volumes in 1HFY22, (2) increase in average retention price, and (3) change in custom valuation benchmark for determining duty on scrap to LMB (London Metal Bulletin).
- ASTL gross margins increased by 1.91ppt YoY to 12.74% in 1HFY22. Management attributes increase in margins to (1) increase in economic activity, (2) change in customs valuation for scrap import, and (3) changes in scrap usage.
- ASTL rebar sales clocked in at 183K tons in 1HFY22 while avg retention price to the company also increased significantly during 1HFY22.
- According to management, increase in expected credit loss is due to write-off in second quarter and uncertainty regarding IMF program and rupee devaluation.
- Moreover, finance cost increased due to increase in short term borrowings from Rs12bn to Rs15bn during 2QFY22, on the back of (1) increase in capacity utilization, (2) inventory build-up to support future sales, (3) increase in policy rate and (4) rupee devaluation.
- Management also shared details of ASTL sales mix. Retail/Gov't/Corporate sector is contributing 65/14/19% in company's sales. Furthermore, ASTL sales contribution from Punjab/Sindh/KPK/Baluchistan is 29/61/5/5%.
- Furthermore, management revealed that government has abolished 3% tax on unregistered person, minimum value of sales tax increased from 83K to 153K, and minimum tax rate for retailers is reduced from 1.25% to 0.25%. These measures would help to further boost company sales, as per management.
- Management also discussed scrap prices which rose by 229 CNF \$/ton in 1HFY22 with currency depreciated by 5% on average. Rebar prices increase by 800-850/ton for every 1 rupee devaluation in currency. This increase is directly passed on to the consumers.

Outlook

- We have a Positive stance on the scrip with Dec'22 TP of Rs66/sh. We expect company to benefit (1) listed players greater financial muscle as compared to ungraded players, (2) increased public sector spending by the government to uplift economic activity and (3) increased 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%	0.42%	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	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.