

## Earning Review

### MUGHAL: 2QFY22 EPS clocked in at Rs5.49, up 76% YoY

#### Event

- Mughal Iron & Steels Industries Ltd (MUGHAL PA) profitability clocked in at Rs1,843mn (EPS Rs5.49, up 76/9% YoY/QoQ) in 2QFY22 against profit of Rs1,046mn (EPS Rs3.12) in 2QFY21. This takes 1HFY22 profitability to Rs3,531mn (EPS Rs10.52, up 153% YoY) compared to profitability of Rs1,398mn (EPS Rs4.17) in 1HFY21. Result in also accompanied with dividend of Rs3.0/sh.
- The result is below our expectations given normalization of margins and provision of expected credit loss, in our view.

#### Impact

- We attribute increase in MUGHAL profitability to (1) higher contribution from non-ferrous business (copper ingots) segment, (2) better rebar retention prices amid higher volumes post BMR of rebar mill and (3) higher other income due to strong liquidity position of the company.
- MUGHAL sales increased by 54/29% YoY/QoQ in 2QFY22. We attribute increase in sales to (1) better retention prices in rebar market amid higher volumes 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 1.4ppt YoY to 16.2% in 2QFY22. However, on sequential basis MUGHAL gross margins declined by 3.4ppt QoQ in 2QFY22 due to higher scrap prices and lower contribution of sales from trading products, in our view.
- MUGHAL finance cost increased by 82/21% YoY/QoQ in 2QFY22 due to increased working capital requirement of the company. MUGHAL current inventory/short term borrowing stands at Rs19.5/19.5bn at the end of 1QFY22.
- Among other major heads MUGHAL selling and distribution/admin expense increased by 12/48% YoY in 2QFY22.
- To highlight, MUGHAL effective tax rate clocked in at 7.6% in 2QFY22 (down 6.7/8.2ppt YoY/QoQ).

#### Outlook

- We have positive stance on the scrip with Dec-22 TP of Rs110/sh. Moreover, 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 increased competition in south Punjab market given entry of AGHA and Naveena steel.

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Fig 01: MUGHAL 2QFY22 Key Financial Highlights (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Net Sales	18,059	11,711	54%	29%	32,082	19,446	65%
Cost of Sales	15,131	9,976	52%	34%	26,405	16,848	57%
<b>Gross Profit</b>	<b>2,928</b>	<b>1,735</b>	<b>69%</b>	<b>7%</b>	<b>5,677</b>	<b>2,598</b>	<b>119%</b>
Administrative expenses	184	125	48%	14%	346	242	43%
S&D expenses	43	39	12%	-22%	99	68	46%
Other operating charges	271	91	198%	82%	420	121	246%
Other Income	106	37	188%	53%	175	68	158%
<b>EBIT</b>	<b>2,646</b>	<b>1,582</b>	<b>67%</b>	<b>3%</b>	<b>5,208</b>	<b>2,364</b>	<b>120%</b>
Financial charges	541	297	82%	21%	987	608	62%
PBT	1,994	1,221	63%	-1%	4,001	1,627	146%
Taxation	152	175	-13%	-52%	470	228	106%
PAT	1,843	1,046	76%	9%	<b>3,531</b>	<b>1,398</b>	153%
<b>EPS</b>	<b>5.49</b>	<b>3.12</b>	<b>76%</b>	<b>9%</b>	<b>10.52</b>	<b>4.17</b>	<b>153%</b>
GP Margins	16.2%	14.8%			17.7%	13.4%	
EBIT Margin	14.7%	13.5%			16.2%	12.2%	
NP Margins	10.2%	8.9%			11.0%	7.2%	

Source: Company Accounts, Foundation Research, February 2022

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### Recommendations definitions

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