

Earning Review

ASTL: 3QFY22 EPS clocked in at Rs 1.79, up 6% YoY

Event

- Amreli Steels Limited (ASTL PA) profitability clocked in at Rs531mn (EPS Rs1.79) in 3QFY22 (up/down 6/12% YoY/QoQ) against profit of Rs503mn (EPS Rs1.69) in 3QFY21. This takes 9MFY22 profitability to Rs1,834mn (EPS Rs6.18, up 98% YoY) as compared to profit of Rs926mn (EPS Rs3.12) in 9MFY21.

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 higher input costs, and (3) lower effective tax rate. Moreover, on sequential basis, profitability declined due to 1) Higher Finance cost (up 38% QoQ) and 2) Higher S&D expenses (up 17% QoQ).
- ASTL gross margins/net margins declined by 3.2/1.8ppt YoY to 10.7/3.3% due to (1) rising input costs (scrap cost up 23/14% YoY/QoQ) amid 10.7% avg rupee devaluation (2) higher finance cost given hike in policy rate. Furthermore, on sequential basis ASTL gross margins/net margins declined by 0.8/0.7ppt in 3QFY22.
- Company's net sales increased by 63/8% YoY/QoQ in 3QFY22 due to (1) higher volumetric sales and (2) better retention prices given multiple prices hikes (domestic rebar prices up Rs27.5k/ton during the quarter).
- Moreover, among other heads, company's admin expenses were up/down by 18/11% YoY/QoQ while S&D expenses went up by 43/17% YoY/QoQ in 3QFY22.
- ASTL finance cost increased by 65/38% YoY/QoQ in 3QFY22 on the back of increase of 250bps in policy rate to control inflationary pressure.
- To highlight, ASTL booked reversal of credit loss provisioning of Rs17mn in 3QFY22.
- Effective Tax Rate of the company was recorded at 6.3% (down 6ppt YoY) during 3QFY22.

Outlook

- We have a Positive stance on the scrip with Dec'22 TP of Rs66/sh. We expect company to benefit from (1) its greater financial muscle as compared to ungraded players and (2) increased public sector spending by the government to uplift economic activity in the upcoming budget. 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 01: ASTL 3QFY22 Financial Highlights (Rs mn)

	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Net Sales	15,916	9,776	63%	8%	42,537	27,228	56%
Cost of Sales	14,208	8,416	69%	9%	37,438	23,977	56%
Gross Profit	1,708	1,360	26%	0%	5,099	3,251	57%
Administrative expenses	157	133	18%	-11%	511	391	31%
S&D expenses	308	216	43%	17%	811	660	23%
Other operating charges	29	50	-42%	-72%	181	62	192%
Other Income	2	7	-73%	-64%	28	21	30%
EBIT	1,216	969	25%	5%	3,624	2,159	68%
Financial charges	650	395	65%	38%	1,509	1,231	23%
PBT	566	575	-1%	-18%	2,115	927	128%
Taxation	36	72	-51%	-60%	281	2	16077%
PAT	531	503	6%	-12%	1,834	926	98%
EPS	1.79	1.69			6.18	3.12	
GP Margins	10.7%	13.9%			12.0%	11.9%	
EBIT Margins	7.6%	9.9%			8.5%	7.9%	
NP Margins	3.3%	5.1%			4.3%	3.4%	

Source: PSX, Foundation Research, April 2022

Important disclosures:

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