

Foundation Alert

ASTL: Analyst Briefing Key Takeaways

Event

- Amreli Steels Limited (ASTL PA) held its Analyst briefing session yesterday to discuss financial/operational performance for 9MFY22 and outlook of the company. Following are the key takeaways of the briefing.

Impact

- Amreli Steels Limited (ASTL PA) profitability clocked in at Rs1,834mn (EPS Rs6.18) in 9MFY22 against profit of Rs926mn (EPS Rs3.12) in 9MFY21 (up 98% YoY). Management attributes increase in 9MFY22 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.
- ASTL gross/net margins increased slightly by 0.1/0.9ppt YoY to 11.9% in 9MFY22 while quarterly margins declined by 3.2/1.8ppt YoY to 10.7/3.3% due to (1) rising input costs (2) higher finance cost given hike in policy rate.
- ASTL rebar sales clocked in at 282K tons (Up 3.5% YoY) in 9MFY22 while avg retention price also increased (up 50.93% YoY) during 9MFY22. Moreover, quarterly sales are up by 3.3% QoQ to 98.4k in 3QFY22.
- ASTL rebar production at DRM/SRM is up by 13/7% YoY to 214k/76k per ton in 9MFY22 while capacity utilization is up by 8/4% to 67/57% at DRM/SRM during the same period. Moreover, billet production went up by 8% YoY to 302k MT in 9MFY22 with capacity utilization was 67% (Up 5% YoY).
- Moreover, finance cost increased (up 65/38ppt YoY/QoQ) due to increase in short term borrowings from Rs9bn to Rs14bn during 9MFY22 on the back of (1) higher working capital requirement given increase in capacity utilization (2) increase in policy rate and (3) rupee devaluation.
- Management also shared details of ASTL sales mix. Retail/Gov't/Corporate sector is contributing 67/14/19% in company's sales. Furthermore, ASTL sales contribution from Punjab/Sindh/KPK/Baluchistan is 29/61/6/4%.
- Management also discussed scrap prices which rose by US\$188/ton YoY while currency depreciated by 8% on average in 9MFY22. According to management, they failed to pass on all of the input costs and are planning to further increase rebar prices once situation normalizes.
- Management is expecting 5% YoY growth in sales during the final quarter of FY22 taking a full year growth to 6.7%.

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.

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

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