Foundation Alert

ASTL: Analyst Briefing Key Takeaways

Event

- Amreli Steels Limited (ASTL PA) held its Analyst briefing session today to discuss financial/operational performance for FY22 and outlook of the company. Following are the key takeaways of the briefing.

Impact

- ASTL FY22 profitability clocked in at Rs1.3bn (EPS Rs4.46, down 3.1% YoY) as compared to profit of Rs1.4bn (EPS Rs4.61) in FY21. Management attributes decline in FY22 profitability to (1) lower volumetric sales given slowdown in demand from private sector projects, (2) sectors inability to completely pass on the impact of higher manufacturing costs i.e. fuel and electricity (FCA charge 2.97/kwh above base tariff and increase in scrap prices from $510/ton to $628/ton).
- Management informed that ASTL gross margins/net margins declined by 0.42/1.21ppt YoY to 11.16/2.28% in FY22 due to (1) rising input and overhead costs, and (2) higher finance cost given hike in policy rate and imposition of super tax.
- ASTL rebar sales clocked in at 370K tons (down 1.75% YoY) in FY22 while avg retention price increased.
- ASTL rebar production at DRM/SRM is up by 3/8% YoY to 264k/106k per ton in FY22 while capacity utilization is up by 1/4% to 62/59% at DRM/SRM during the same period. Moreover, billet production went up by 4% YoY to 381k MT in FY22 with capacity utilization of 63% (Up 2% YoY).
- As per management, finance cost increased 42% YoY due to increase in short term borrowings from Rs9.5bn to Rs12.6bn during FY22 on the back of (1) higher working capital requirement given increase in capacity utilization and (2) increase in policy rate.
- 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 23% YoY while currency depreciated by 28% YoY on average in FY22.
- Management is expecting demand uptick from Feb-23 onwards and overall 15-20% YoY contraction of steel industry in FY23.

Outlook

- Steel demand would remain under pressure due to (1) slowdown in economic activity amid economic headwinds and (2) curtailment of development spending amid swelling fiscal imbalances.
- However, due to listed players' greater financial muscle as compared to ungraded players in long steel segment and protective Gov't policies, we have positive stance towards the sector.

Fig 01: ASTL 1QFY23 Financial Highlights (Rs mn)

	1QFY23	1QFY22	YoY	QoQ
Net Sales	9,820	11,844	-17%	-37%
Cost of Sales	8,231	10,152	-19%	-42%
Gross Profit	**1,589**	**1,692**	**-6%**	**14%**
Administrative expenses	164	178	-8%	-58%
S&D expenses	219	239	-8%	-2%
Other operating charges	65	51	28%	491%
Other Income	2	20	-91%	na
EBIT	**1,142**	**1,245**	**-8%**	**50%**
Financial charges	928	388	139%	16%
PBT	**214**	**857**	**-75%**	**na**
Taxation	10	155	-93%	-98%
PAT	**204**	**702**	**-71%**	**na**
EPS	0.69	2.36		
GP Margins	16.2%	14.3%		
EBIT Margins	11.6%	10.5%		
NP Margins	2.1%	5.9%		

Source: PSX, Foundation Research, November 2022

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Recommendations definitions

If

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