PAKISTAN **November 30, 2022**

Foundation Alert

MUGHAL: Analyst Briefing Takeaways

Event

- Mughal Iron & Steels Industries Ltd (MUGHAL PA) held its Analyst Briefing yesterday to discuss FY22 financial results and its future prospects. Following are the key takeaways of the briefing.

Impact

- The company is mainly involved in making of steel billets, rebars, girders and copper ingots.
- Major markets for rebar segment is urban housing sector and large infrastructure projects while for girders segment is rural areas. Whereas, company export majority of copper ingots to China.
- Management attributes 58% YoY incline in FY22 profitability to (1) better rebar retention prices, (2) 70% increase in non-ferrous sales, (3) higher other income and (4) lower selling & distribution expenses given lower volumetric sales and diversified inbound logistics with special arrangements with Pakistan railway.
- Company has the 25MW in-house electricity production facility that will be utilized when alternate fuel gets cheaper i.e. coal. To highlight, company currently has available load capacity of 90MW from the Grid.
- During the year company announced expansion in non-ferrous segment and also increased melting capacity for ferrous segment to 500,000MT/annum against 419,100MT/annum in FY21.
- Company effective tax rate remained flat due to the availability of tax credits despite super tax, as per management.
- Furthermore, rebar/girder sales increased/decreased to ~200,000/75,000MT in FY22 as compared to 175,000/130,000MT in FY21. To highlight, in ferrous segment rebar/girders/billets contributed 66/27/4/2% to total revenue.
- Management attributes 91% YoY surge in finance cost in FY22 to (1) increased working capital requirements, (2) higher debt levels and (3) record high interest rates.
- Going forward, management is expecting decline in sales for ferrous segment while for non-ferrous segment volumes will improve post expansion.
- Major headwinds that could impact company profitability are (1) record high interest rates, (2) slowdown in construction activity, (3) highly volatile exchange rate and (4) increase in energy prices.

Outlook

- MUGHAL's profitability growth would remain under stress in near term due to (1) lower ferrous segment sales amid record high interest rates (2) increased competition in south Punjab market due to entry of AGHA and Naveena steel and (3) lack of disbursement for public sector development funds.
- However, we expect company to benefit from (1) diversified product portfolio and increased penetration in retail market, (2) expansion in non-ferrous segment and (3) decline in scrap prices and robust inbound logistics.

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

	1QFY23	1QFY22	YoY	QoQ	FY22	FY21	YoY
Net Sales	14,073	14,023	0%	-26%	66,153	44,972	47%
Cost of Sales	11,989	11,274	6%	-26%	56,025	38,280	46%
Gross Profit	**2,084**	**2,749**	**-24%**	**14%**	**10,128**	**6,691**	**51%**
Administrative expenses	147	162	-9%	-19%	246	254	-3%
S&D expenses	61	55	10%	12%	705	538	31%
Other operating charges	90	149	-40%	-22%	567	434	30%
Other Income	126	69	82%	na	213	67	219%
EBIT	**2,024**	**2,562**	**-21%**	**-17%**	**8,824**	**5,532**	**60%**
Financial charges	882	446	98%	3%	2,622	1,370	91%
PBT	1,031	2,006	-49%	-29%	**6,202**	**4,161**	**49%**
Taxation	160	318	-50%	-62%	791	732	8%
PAT	**872**	**1,688**	**-48%**	**-16%**	**5,411**	**3,429**	**58%**
EPS	2.60	5.03			**16.12**	**10.22**	
GP Margins	14.80%	19.60%			15.31%	14.88%	
EBIT Margin	14.40%	18.30%			13.34%	12.30%	
NP Margins	6.20%	12.00%			8.18%	7.63%	

Source: PSX, Foundation Research, November 2022

Important disclosures:

Recommendations definitions

If

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