

Earning Review

ILP: 2QFY23 LPS clocked in at Rs0.40

Event

- Interloop Limited (ILP PA) loss clocked in at Rs376mn (LPS Rs0.40) in 2QFY23 as compared to profit of Rs2.0bn (EPS Rs2.17) in 2QFY22. This takes 1HFY23 profitability to Rs4.6bn (EPS Rs4.91) compared to Rs4.7bn (EPS Rs5.05) in 1HCY22.
- Result is below our expectation due to lower sales and inventory losses.

Impact

- Sales of the company rose by 12% YoY in 2QFY23. Whereas, sales were down by 36% QoQ given slowdown in export markets.
- Gross profit declined by 28/65% YoY/QoQ and Gross Margins were down 8.7/17.4ppts YoY/QoQ attributable to inventory losses, in our view.
- Admin and Distribution expenses inclined by 23% YoY during the quarter.
- Other expenses at ~Rs1mn were down by ~100% YoY during 1QFY23. We await clarity on this front.
- Financial charges were up by 2.8x YoY given (1) higher interest rates (LTFF/EFS rates of 11.7% in 2QFY23, up 7.7ppts YoY) and (2) higher debt requirement (Rs53.8bn, up 50% YoY, as of Sep'30, 2022) to finance purchase of costlier cotton (domestic/international up by 6/6% YoY).
- Tax expense increased by 80% YoY during 2QFY23.

Outlook

- Near term profitability would remain a challenge amid slowdown in export markets. However, given diversification into denim and apparel, and further hosiery and other expansion plans, we believe ILP is poised for improvement in profitability. Thus, we have an "Outperform" stance on the scrip.

Analyst

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Table 1: Interloop Limited - 2QFY23 Financial Highlights

Rs (mn)	2QFY23	2QFY22	YoY	QoQ	FY22	1HFY22	YoY
Net sales	22,459	20,017	12%	-26%	52,922	39,347	35%
COGS	18,902	15,106	25%	-7%	39,250	28,899	36%
Gross profit	3,557	4,911	-28%	-65%	13,672	10,448	31%
Admin & Distribution cost	2,228	1,815	23%	-18%	4,945	3,562	39%
Other expenses	1	395	-100%	-100%	900	975	-8%
Profit from Operations	1,327	2,701	-51%	-80%	7,827	5,912	32%
Other income	39	20	91%	79%	61	25	141%
Financial charges	1,414	512	176%	16%	2,631	872	202%
PBT	(48)	2,210	na	na	5,257	5,065	4%
Tax	328	182	80%	-4%	671	347	93%
PAT	(376)	2,028	na	na	4,585	4,718	-3%
EPS	(0.40)	2.17			4.91	5.05	
DPS	-	2.0			-	2.0	
Gross Margin	15.8%	24.5%			25.8%	26.6%	
Net Margin	-1.7%	10.1%			8.7%	12.0%	
Effective tax rate	na	8.3%			12.8%	6.9%	

Source: PSX, Foundation Research, Feb 2023

Important disclosures:

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Recommendations definitions

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