

Earning Review

NML: 2QFY23 EPS at Rs10.48, up 59% YoY

Event

- Nishat Mills Limited (NML PA) announced its 2QFY23 profitability which clocked in at Rs3.7bn (EPS Rs10.48), up/down by 59/11% YoY/QoQ. This cumulated into 1HFY23 profitability of Rs7.8bn (EPS Rs22.29), up 40% YoY.

Impact

- Topline of the company rose by 16% YoY to Rs33.2bn in 2QFY23 given 21.7% YoY average Rs-US\$ depreciation in 2QFY23 despite decline in textile exports of Pakistan (down 17% YoY).
- Gross margins rose by 169bps YoY to 14.4%.
- Admin and Distribution expenses inclined by 3% YoY.
- Other Income (primarily driven by dividend from its strategic investment in associate companies) increased by 109% YoY in 2Q given higher dividend payout by MCB and NCL. However, we believe that other income is on the higher side and await clarity on this front.
- Financial charges were up by 221% YoY during 2Q given (1) higher interest rates (LTFF/EFS up by ~6/7bps YoY in 2QFY23) and (2) higher debt requirement (Rs52.1bn, up 29% YoY, as of Sep'30, 2022) to finance purchase of costlier cotton (domestic/international up by 6/6% YoY).
- During the quarter, effective tax rate was recorded at 17.9% given imposition of super tax.

Outlook

- Near term profitability would remain a challenge amid slowdown in export markets. We are positive on the scrip given (1) strong growth prospects in readymade garments segment and (2) company's investment in BMR to maintain market share in spinning, weaving and home textile segments.

Fig 1: Nishat Mills - Q2FY23 Financial Highlights

Rs (mn)	Q2FY23	Q2FY22	YoY	QoQ	1HFY23	1HFY22	YoY
Net sales	33,171	28,500	16%	-3%	67,507	52,892	28%
COGS	28,406	24,889	14%	3%	56,091	44,536	26%
Gross profit	4,764	3,611	32%	-28%	11,416	8,356	37%
Admin & Distribution cost	1,832	1,784	3%	-22%	4,187	3,379	24%
Other expenses	127	139	-9%	-36%	326	331	-1%
Profit from Operations	2,804	1,687	66%	-32%	6,903	4,646	49%
Other income	3,245	1,551	109%	114%	4,759	2,544	87%
Financial charges	1,564	488	221%	88%	2,396	777	209%
PBT	4,485	2,751	63%	-6%	9,265	6,413	44%
Tax	802	436	84%	28%	1,430	808	77%
PAT	3,683	2,315	59%	-11%	7,835	5,605	40%
EPS	10.48	6.58			22.29	15.94	
DPS	-	-			-	-	
Gross Margin	14.4%	12.7%			16.9%	15.8%	
Net Margin	11.1%	8.1%			11.6%	10.6%	
Effective tax rate	17.9%	15.9%			15.4%	12.6%	

Source: PSX, Foundation Research, February 2023

Analyst

Zeeshan Azhar
+92 21 3561 2290-94

zeeshan@fs.com.pk
Ext 331

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Recommendations definitions

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