Earning Review

MUGHAL: 2QFY23 EPS clocked in at Rs1.40, down 74% YoY

Event

- Mughal Iron & Steels Industries Ltd (MUGHAL PA) profitability clocked in at Rs471mn (EPS Rs1.40, down 74%/46% YoY/QoQ) in 2QFY23 against Rs1.8bn (EPS Rs5.49) in 2QFY22. This takes 1HFY23 profitability to Rs1.3bn (EPS Rs4.00, down 62% YoY) as compared to profit of Rs3.5bn (EPS 10.52) in 1HFY22.

Impact

- We attribute decline in MUGHAL profitability to (1) lower volumetric sales due to slowdown in construction activity given economic slowdown, (2) decline in copper exports amid lower retention prices and (3) higher finance cost due to increase in working capital requirement amid record high interest rates.
- MUGHAL sales declined by 5% YoY in 2QFY23 due to lower volumetric sales given (1) slowdown in demand post floods and (2) decline in public sector spending due to limited fiscal space.
- Furthermore, MUGHAL gross margins decreased by 8.8ppts YoY to 7.4% in 2QFY23 due to (1) lower contribution of sales from trading products and (2) higher direct costs per ton given lower capacity utilization.
- MUGHAL finance cost increased by 86/14% YoY/QoQ in 2QFY23 due to increased working capital requirement of the company amid higher interest rates.
- Among other major heads MUGHAL selling and distribution/admin expense declined by 48/10% YoY in 2QFY23.
- To highlight, MUGHAL booked tax credit of Rs427mn in 2QFY23 as compared to tax charge of Rs151.7mn in 2QFY22.

Outlook

- We expect MUGHAL near term profitability to remain under stress due to slowdown in construction sector amid economic headwinds. Moreover, with enhanced capacity, we expect MUGHAL volumetric growth would be lower than our earlier expectations given increased competition in south Punjab market due to entry of AGHA and Naveena steel.

Analyst

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Fig 01: MUGHAL 2QFY23 Financial Highlights (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Net Sales	17,167	18,059	-5%	22%	31,241	32,082	-3%
Cost of Sales	15,890	15,131	5%	33%	27,879	26,405	6%
Gross Profit	**1,277**	**2,928**	**-56%**	**-39%**	**3,362**	**5,677**	**-41%**
Administrative expenses	165	184	-10%	13%	83	99	-10%
S&D expenses	22	43	-48%	-63%	312	346	-16%
Other operating charges	43	152	-72%	-52%	133	301	-56%
Other Income	3	(13)	na	-98%	129	56	129%
EBIT	**1,049**	**2,536**	**-59%**	**-48%**	**2,962**	**4,988**	**-41%**
Financial charges	1,005	541	86%	14%	1,887	987	91%
PBT	**44**	**1,994**	**-98%**	**-96%**	**1,075**	**4,001**	**-73%**
Taxation (credit)	(427)	152	na	na	(268)	470	na
PAT	**471**	**1,843**	**-74%**	**-46%**	**1,343**	**3,531**	**-62%**
EPS	**1.4**	**5.5**			**4.0**	**10.5**	
GP Margins	7.4%	16.2%			10.8%	17.7%	
EBIT Margin	6.1%	14.0%			9.5%	15.5%	
NP Margins	2.7%	10.2%			4.3%	11.0%	

Source: Company Accounts, Foundation Research, February 2023

Important disclosures:

Recommendations definitions

If

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