

Earning Review

ASTL: 2QFY23 LPS clocked in at Rs 1.31

Event

- Amreli Steels Limited (ASTL PA) loss clocked in at Rs389mn (LPS Rs1.31) in 2QFY23 against profit of Rs602mn (EPS Rs2.03) in 2QFY22. This takes 1HFY23 loss to Rs185mn (LPS Rs0.62) as compared to profit of Rs1,303mn (EPS Rs4.39) in 1HFY22.

Impact

- We attribute company loss to (1) lower volumetric sales given slowdown in demand from private sector projects amid record floods, (2) sectors inability to completely pass on the impact of higher manufacturing costs i.e. fuel, electricity and rupee depreciation impact, (3) lower retention prices due to discounts offered by the company and (4) higher finance costs.
- Company net sales decreased by 11% YoY in 2QFY23 due to lower volumes. However, on sequential basis ASTL sales increased by 35% QoQ due to recovery in volumes as prices remained on lower side.
- ASTL gross margins declined by 5.0/9.7ppt YoY/QoQ to 6.5% in 2QFY23 due to higher scrap prices, elevated electricity prices and increase in manufacturing overheads.
- Moreover, among other heads, company admin expenses were down by 3% YoY while S&D expenses went up by 6% YoY in 2QFY23.
- Furthermore, ASTL booked expected credit loss of Rs10.0mn in 2QFY23.
- ASTL finance cost increased by 119/11% YoY/QoQ in 2QFY23 on the back of significant increase in interest rates amid elevated debt levels.
- To highlight, company booked tax credit of Rs243mn in 2QFY23 as compared to tax charge of Rs90mn in 2QFY22.

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 on the scrip.

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

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Net Sales	13,211	14,778	-11%	35%	23,031	26,622	-13%
Cost of Sales	12,357	13,079	-6%	50%	20,588	23,230	-11%
Gross Profit	854	1,699	-50%	-46%	2,442	3,391	-28%
Admin expense	171	177	-3%	4%	335	354	-6%
S&D expenses	280	264	6%	27%	499	503	-1%
Other operating charges	9	102	-91%	-86%	74	153	-52%
Other Income	5	6	-9%	166%	7	21	-67%
EBIT	400	1,162	-66%	-65%	1,542	2,403	-36%
Financial charges	1,031	471	119%	11%	1,959	854	129%
PBT	(631)	692	n/a	n/a	(417)	1,549	n/a
Taxation	(243)	90	n/a	n/a	(232)	246	n/a
PAT	(389)	602	n/a	n/a	(185)	1,303	n/a
EPS	(1.31)	2.03			(0.62)	4.39	
GP Margins	6.5%	11.5%			10.6%	12.7%	
EBIT Margins	3.0%	7.9%			6.7%	9.0%	
NP Margins	-2.9%	4.1%			-0.8%	4.9%	

Source: PSX, Foundation Research, February 2023

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