

## Earning Review

### NML: 3QFY23 EPS at Rs9.39, down 4% YoY

#### Event

- Nishat Mills Limited (NML PA) announced its 3QFY23 profitability which clocked in at Rs3.3bn (EPS Rs9.39), down by 4/10% YoY/QoQ. This cumulated into 9MFY23 profitability of Rs11.1bn (EPS Rs31.67), up 23% YoY.

#### Impact

- Topline of the company rose by 18% YoY to Rs37.1bn in 3QFY23 given 31.7% YoY average Rs-US\$ depreciation in 3QFY23 despite decline in textile exports of Pakistan (down 23% YoY).
- However, gross margins fell by 4.0ppts YoY to 13.1% and gross profit declined by 9% YoY in 3Q.
- Other Income (primarily driven by dividend from its strategic investment in associate companies) increased by 2.4x YoY in 3Q given higher dividend payout by MCB and NPL. However, we believe (1) exchange gains, (2) profit on bank deposits and (3) interest income on loans to subsidiaries also contributed significantly to the surge in other income during the quarter.
- Financial charges were up by 3.1x YoY during 3Q given (1) higher interest rates and (2) higher debt requirement (up 27% YoY in 3QFY23).
- During the quarter, effective tax rate was recorded at 17.0% given imposition of super tax.

#### Outlook

- Near term profitability would remain a challenge amid slowdown in export markets. We have an "Outperform" stance 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 - Q3FY23 Financial Highlights

Rs (mn)	Q3FY23	Q3FY22	YoY	QoQ	9MFY23	9MFY22	YoY
Net sales	37,102	31,361	18%	12%	104,609	84,253	24%
COGS	32,255	26,020	24%	14%	88,346	70,557	25%
<b>Gross profit</b>	<b>4,847</b>	<b>5,340</b>	<b>-9%</b>	<b>2%</b>	<b>16,263</b>	<b>13,696</b>	<b>19%</b>
Admin & Distribution cost	2,043	2,011	2%	12%	6,230	5,390	16%
Other expenses	155	201	-23%	22%	482	532	-9%
<b>Profit from Operations</b>	<b>2,648</b>	<b>3,129</b>	<b>-15%</b>	<b>-6%</b>	<b>9,551</b>	<b>7,775</b>	<b>23%</b>
Other income	3,425	1,445	137%	6%	8,184	3,989	105%
Financial charges	2,099	685	206%	34%	4,495	1,462	208%
<b>PBT</b>	<b>3,975</b>	<b>3,889</b>	<b>2%</b>	<b>-11%</b>	<b>13,240</b>	<b>10,302</b>	<b>29%</b>
Tax	674	440	53%	-16%	2,104	1,248	69%
<b>PAT</b>	<b>3,300</b>	<b>3,449</b>	<b>-4%</b>	<b>-10%</b>	<b>11,136</b>	<b>9,054</b>	<b>23%</b>
EPS	9.39	9.81			31.67	25.75	
DPS	-	-			-	-	
Gross Margin	13.1%	17.0%			15.5%	16.3%	
Net Margin	8.9%	11.0%			10.6%	10.7%	
Effective tax rate	17.0%	11.3%			15.9%	12.1%	

Source: PSX, Foundation Research, April 2023

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**Recommendations definitions**

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