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Mughal Iron - Financial Charges drag in FY20 | Review 1HFY20

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Mughal Iron & Steel: Financial charges to be a drag on earnings in FY20 | Review 1HFY20

Mughal Iron & Steel (MUGHAL) reported 1HFY20 earnings of Rs 366.5mn (EPS:Rs 1.46) as against Rs 713mn (EPS: Rs 2.83) in the same period last year. MUGHAL's 2Q EPS declined to Rs 102mn (EPS: Re 0.41) versus Rs 361mn (EPS: Rs 1.43) in the same period last year.

Despite the jump in rebar prices in the country, quantity sold may have declined (quantity sales likely to reach 72k tons per quarter) representing some 65% of capacity utilization. The prevalent rebar rate in the country is ~Rs116.5k/ton (FY19: Rs ~90k tons).

Going forward, we see that MUGHAL's EPS could be Rs3/sh in FY20 (FY19 EPS: Rs 5.48) given a slight decline in capacity utilization & drag of financial charges due to an increase in interest rates during the 2Q. MUGHAL has reported an increase in capacity expansion vide its two director's reports. Our earnings forecast could be tweaked if any capacity is published online during the 3Q or 4Q.

So far during the 1HFY20, margins remained flat despite a decrease in scrap rates to \$250/ton. The low utilization of billet may have resulted in higher imports. However, we see financial charges as a drag on quarterly earnings due to inventory cost.

MUGHAL recorded long term & short loan of Rs 2.7bn & Rs 10.2bn respectively.

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Ticker	MUGHAL
Price	41.49
Avg vol.	0.891 mn
52week lo	18.01
52week hi	47.1
Market Cap	10.44bn
Paid up	2516mn
Free float	60.81mn
Beta	1.59
EPS FY19	5.48
BVS 1Q	Rs 30/sh

P&L Rs	1QFY20	2QFY20	1HFY20	FY19	FY20E	Δ
Sales	6,677,856,137	7,400,809,603	14,078,665,740	30,828,088,786	30,818,240,740	0%
GP	836,688,494	515,742,551	1,352,431,045	3,188,993,589	3,026,388,545	-5%
EBIT	719,066,709	372,711,107	1,091,777,816	2,620,550,133	2,414,204,241	-8%
Fin.cost	402,441,500	344,176,601	746,618,101	786,328,489	1,615,471,726	105%
NPAT	264,285,089	102,201,470	366,486,559	1,379,551,621	652,807,362	-53%
EPS	1.05	0.41	1.46	5.48	2.59	-53%
DPS				1.20	0.65	-46%

Source: Company reports & SCS Research

Long term debt

Rs	1HFY20	1HFY19
Long term debt	2,622,798,627	2,808,581,748
Debt equity ratio	40%	44%

Source: Company reports

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- (Target Price, if any/Current Price - 1) > 10% Positive

- (Target Price, if any/Current Price - 1) < -10% Negative

- less than 10% (Target Price, if any/Current Price -1) Hold

- The time duration is the financial reporting period of Subject Company.

Valuation method

Following research techniques adopted to calculate target price/recommendation

Price to earnings & Price to Book, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value