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Mughal Steel: FY21 outlook

## Mughal Steel: FY21 outlook...q-o-q earnings to increase

### Mughal Steel reported FY20 EPS of Rs2.36/sh with deferred tax credit entry

Mughal Steel (MUGHAL) reported pre tax 4Q earnings of Rs228mn vs 3Q loss of Rs14mn. This may have to do with slight increase in pricing and decrease in financial charges. Overall we see decrease in rebar sales which may have to do with sluggish 4Q due to lockdown related issues.

MUGHAL reported FY20 EPS of Rs2.36/sh albeit deferred tax credit entry. MUGHAL reported FY20 sales of Rs 27.3bn versus Rs 30.8bn reported in FY19. The gross margins remained at 10% which actually benefitted MUGHAL bottom line in our view.

MUGHAL yield FY21 PE of 11.65x on current price – **neutral** on our valuation methodology. Any increase in capacity utilization above 60% or commencement of work on mega dam may sway valuations.

### FY21 outlook...may be an year of better earnings vs FY20

Unlike Amreli, we see MUGHAL earnings could increase *q-o-q* as well as in FY21 cumulatively given our assumption:

- price of ~Rs108k tons to Rs115k tons on rebar
- top line could increase substantially in the wake of probable expansion announced by company some time back
- our assumption of ~315k tons billet usage vs ~248k tons usage as per our estimation in FY20 (detailed accounts awaited)
- financial charges declining given existing interest rate regime
- existing tariff structure of RD making it difficult to import
- rebar absorptions goes hand-in-hand with cement usage which increased in the country so far

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Ticker	MUGHAL
Price	67.40
Avg. Volume	1.15mn
52 week hi	71.5
52 week lo	25.59
Paid up in Rs	2.5bn
Market cap Rs	16.9bn
Enterprise Value Rs	19.7bn
Exp Book Value Rs	34/sh

P&L - Rs	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Turnover - net	12,241,271,852	18,983,478,792	18,802,810,936	22,225,842,588	30,828,088,786	27,304,991,323	37,492,875,000
Gross profit	1,326,354,622	2,058,820,352	1,965,446,779	2,794,411,639	3,188,993,589	2,617,448,587	4,124,216,250
EBIT	1,104,185,303	1,756,581,550	1,536,322,966	2,235,177,626	2,620,550,133	2,066,530,817	3,374,358,750
PBT	634,095,879	1,292,247,794	1,222,297,788	1,603,727,936	1,737,423,261	553,726,995	2,159,546,216
PAT	659,166,169	893,411,580	990,759,915	1,290,214,932	1,372,931,179	592,872,065	1,446,895,965
EPS - basic	6.26	7.10	3.94	5.13	5.46	2.36	5.75
DPS	0.50	3.00	2.60	2.20	1.20	-	1.50

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*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*