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NCL: FY21 Analyst Briefing Takeaways

AKD Securities Limited

NCL held its analyst briefing today to discuss FY21 results and future outlook of the company. To highlight, the company reported unconsolidated NPAT of PkR2.2bn (EPS: PkR9.23) in 1QFY22 vs. NPAT of PkR0.5bn (EPS: PkR2.0) in the same period last year. In FY21, earnings stood at PkR5.6bn (EPS: PkR23.3) vs NPAT of PkR0.3bn (EPS: PkR1.11). The company reported consolidated NPAT of PkR2.5bn (EPS: PkR10.5) in 1QFY22 vs. NPAT of PkR0.97bn (EPS: PkR4.04) in the same period last year. In FY21, earnings stood at PkR6.9bn (EPS: PkR28.56) vs NPAT of PkR1.9bn (EPS: PkR7.75).

Key highlights of the briefing were:

- Total unconsolidated revenue increased by 38.2%YoY to PkR49.3bn in FY21. Export sales clocked in at PkR26.3bn (+39.8%YoY) and local sales clocked in at PkR22.3bn (+37.4%YoY). Segment wise sales of Spinning/Weaving/Home Textile were PkR27.6/4.5/16.9bn with an increase of 32/6.3/62.5%YoY in FY21.
- Spinning remains the largest contributor of revenue with 56%, followed by Home Textile 34% and Weaving 9%.
- Spinning revenue largely came from domestic/export markets (61/39% in FY21) where major exporting regions were Asia & Africa with 38% while Home Textile revenue largely came from export market (Europe/USA & Canada with contribution of 39/33% in FY21).
- Gross margins improved significantly to 22.4/18.2% in 1QFY22/FY21 vs 10.7/11.8% in 1QFY21/FY20, mainly attributable to huge inventory gains in spinning segment (Spinning GMs: 31.3/19.3% in 1QFY22/FY21 vs 6.1/10.8 in 1QFY21/FY20).
- Finance cost reduced by 34%YoY in FY21 as a result of the company paying off its short term loans while other income saw a huge jump (+90%YoY in FY21) amid PkR depreciation which helped in boosting the bottom line.
- Moving forward, the company is in process of increasing operational efficiencies of Spinning segment with associated capex of PkR5bn and a major revamping of ring frames and auto cone machines. Moreover, in Weaving segment, new Jacquard Looms have been installed and started working efficiently. In Dyeing and Stitching segments, installation of new stitching production line is in process along with new stitching unit.
- Furthermore, management is focused on increasing its online presence and market share of retail business where company is already selling on Amazon US and looking to enter UK, EU and UAE online markets. The company is also planning to increase its retail business overseas with a flagship store in Dubai is expected to be open soon.
- The management expects spinning revenues to remain strong in 2HCY21 amid the current crop shortage, resulting in higher local yarn margins.
- The company has its own coal-based power plant of 46MW, whereas, current power needs of the company stands at 33-35MW. Management also mentioned that it has 3-4 month coal inventory (procure at lower rate) for its power generation while it also has alternative sources (gas power engine or government provided subsidized electricity from LESCO) if required.