

BUZZING

STOCK

# McNally Bharat Engineering Company Ltd.

CMP – Rs.215

**Analyst**

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**Key Stock Data**

Sensex	16787
Nifty	4923
Sector	Engineering
Bloomberg	MCNA IN
Reuters	MCNL.BO
No. of shares (m)	26.8
Market Cap (Rs m)	5758
Market Cap (US\$ m)	144.6
52-week H/L	Rs 219/95

**Shareholding Pattern (%)**

Promoters	33.71
Mutual Funds	18.01
FII's	20.25
Corporate Bodies	8.85
Pubic & Others	19.18

**Company in Brief:** McNally Bharat Engineering Company Ltd. (MBE) is one of the leading Engineering Companies in India engaged in providing Turnkey solutions majorly in industries like Power, Metallurgy and Mining. It has got its pioneering capabilities in coal washing, beneficiation and other material handling solutions in the country.

**Growth in Volume and quality of order book :** By the end of FY07 the order backlog of MBE Rs 11.25 bn, which was 65% higher than in the corresponding period last year. This gives good revenue growth visibility for the company. The increase in order has come with improvement in quality of the order in terms of margin and size. In terms of segments the company currently has the highest exposure to the steel sector, which has got significant growth opportunity. However we believe the company would see better growth in orders in the ash handling projects of the power generation projects in the near future.

**Snapshot of order at the end of FY07**

Order Type	% of order
Material Handling	28
Steel Industry Solution	42
Port Handling	3
Ash Handling	9
Equipments	4
Mineral Processing	14

Source: Company

**Capacity Expansion in Equipment Facilities**

In FY07 MBE raised \$10 m through FCCB for its capacity expansion at its equipment manufacturing plants at Bangalore and Kumadhubi. Last year the equipment division has delivered one of the largest Apron Conveyor in the world to a France Company. Now these two plants are going for significant capacity expansion with additional investment in machine tools. The expansion at Kumardhubi has almost completed and the expansion at Bangalore is in progress. In the meanwhile the company has been allotted 25 acres of land, by Asansol Development Authorities, for setting up a heavy engineering equipment facility in Asansol.

**Outlook**

Being one of the leading infrastructure solution providers for the power, steel and ports, we believe the business prospects of the company are quite robust. Further we believe with improved capability and resources on hand the company would improve its bid success ratio, which is currently placed at 20-25%. The recent order win from SAIL (Rs 2.59 bn), JNPT (Rs 0.9 bn) and from NTPC (Rs 0.14 bn) has demonstrated its competency.

**Valuation**

We expect sales Rs 7.5 bn in FY08. The net profit would remain at Rs 264 mn. The current stock price discounts our FY08 EEPS of Rs 8.5 by 25 times.

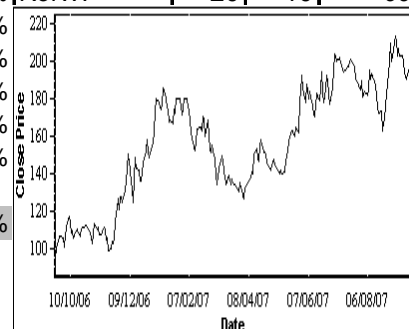
### Financials and Projection

Year	FY07	FY08E
Sales	5034	7500
Other Income	62.1	60
OPM (%)	5%	6.20%
EBITDA	308	525
EBITDA (%)	6.0%	6.9%
Interest	90.2	90
Depreciation	17.2	35
Tax	25.8	136
PAT	175	264
Equity (After Conversion)	310.7	310.7

Source: IDBI Capital Estimate

### Financial Snapshot

McNally Bharat Engineering Company						Rs.m	Ratios (%)			
	Q1 FY08	Q1 FY07	Chg. (%)	FY07	FY06	Chg. (%)		FY07	FY06	Chg.(%)
<b>Financial Year End: March</b>										
Net Sales	1,109	1,080	3%	5,040	3,327	51%	Debt -Equity	1.3	1.4	(7)
Other Income	3	1	275%	56	5	1024%	PBIDTM	7	7	(2)
Total Income	1,112	1,081	3%	5,096	3,332	53%	PBDTM	4	3	38
Total Expenditure	1,017	1,016	0%	4,788	3,152	52%	RoCE	20	18	11
PBIDT	94	65	NA	308	181	71%	RoNW	20	10	99
Interest	26	20	30%	90	87	3%				
PBDT	69	45	51%	218	93	134%				
Depreciation	5	5	-4%	17	27	-37%				
Tax	20	5	281%	26	14	91%				
Reported Profit After Tax	44	35	26%	175	53	233%				
Extra -ordinary Items	-	-	-	-	-	-				
Adj. Profit After Extra-ordinary item	44	35	26%	175	53	233%				
No. of shares (m)	26.8	26.5	-	27	26	-				
EPS (annualised.) (Rs.)	6.5	5.3	-	6.5	2.0	-				
P/E	32.9	40.8	-	32.9	108.4	-				



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