

STOCK DATA

Market Cap	Rs6.7 bn.
Book Value per share	Rs36
Eq Shares O/S (F.V. Rs.10)	29.7 mn.
Median Vol (12 mths)	75,952 (BSE+NSE)
52 Week High/Low	Rs317/125
Bloomberg Code	MCNA.IN
Reuters Code	MCNL.BO

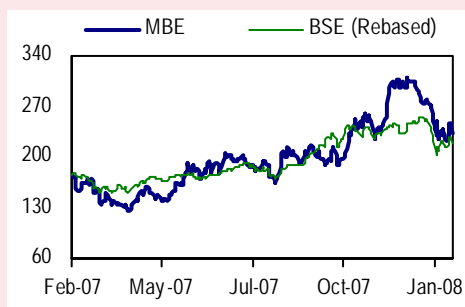
SHAREHOLDING PATTERN (%)

Qtr. Ended	Jun-07	Sep-07	Dec-07
Promoters	33.7	32.6	30.9
MFs/FIs	17.9	22.7	24.4
FIIIs	20.3	18.9	19.9
PCBs	8.9	7.5	9.0
Indian Public	19.2	18.3	15.8

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(19.8)	(2.9)	33.1
Relative	(8.5)	3.8	6.2

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

McNally Bharat Engineering Co. Ltd's (MBEL) Q3FY08 results were below our expectations on revenues front and above our estimates in terms of profitability.

Revenues expanded on a sedate note by 2% to Rs1.2bn, due to non booking of certain revenues in the quarter whilst OPM registered a sizeable increase on account of increase in share of equipment sales.

● **Net revenues impacted; post a meagre 2% growth**

A delay in booking large steel orders impacted revenues. These orders totalling ~Rs8bn account for ~47% of order backlog. Booking of these orders will commence from Q4FY08.

● **OPM zooms by 260 bps**

MBEL's share of margin accretive equipment sales increased to ~20% of sales. Consequently, they boosted OPM by 260 bps to 8.6% with operating profits surging by 46% to Rs101mn.

● **Higher tax impacts net profits**

A higher tax provisioning as a result of deferment in claiming MAT credit impacted net profits, which rose by 29% to Rs50mn.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs218, MBEL trades at a P/E of 12.8x and EV/EBITDA of 8x its FY09 estimates. MBEL has balanced its product mix over the last 2 years with an increasing share of equipment sales boosting margins. To sustain revenues, the company has booked large ticket orders from the steel and mineral beneficiation sectors.

MBEL is targeting areas like BOP packages for power plants, civil construction for projects, nuclear power and airport handling equipment, which would help garner scale and give a fillip to earnings. With a high visibility in earnings and robust order book of Rs17bn, we revise our rating upwards to 'BUY' with a 12-month price target of Rs262.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)				
	Jun-07	Sep-07	Dec-07	2005	2006	2007	2008E	2009E
Net Sales	1,109	1,152	1,181	2,977	3,397	5,162	5,992	10,574
YoY Gr.(%)	2.7	2.0	2.4	153.3	14.1	51.9	16.1	76.5
Op. Profits	91	83	101	125	173	251	475	891
Op. Marg.(%)	8.2	7.2	8.6	4.2	5.1	4.9	7.9	8.4
Net Profits	44	60	50	33	53	168	275	526
Eq. Capital	268	297	297	198	265	268	297	309

KEY RATIOS

	Yr Ended (March)				
	2005	2006	2007	2008E	2009E
Dil. EPS (Rs)	1.1	1.7	5.4	8.9	17.0
ROCE (%)	13.2	11.4	15.6	23.1	34.5
RONW (%)	8.5	9.2	19.1	23.5	28.2
P/E (x)	131.3	108.1	34.7	23.5	12.8
EV/Sales (x)	1.6	1.9	1.3	1.1	0.7
EV/EBDIT (x)	36.9	35.9	21.4	13.8	8.0

PERFORMANCE OVERVIEW

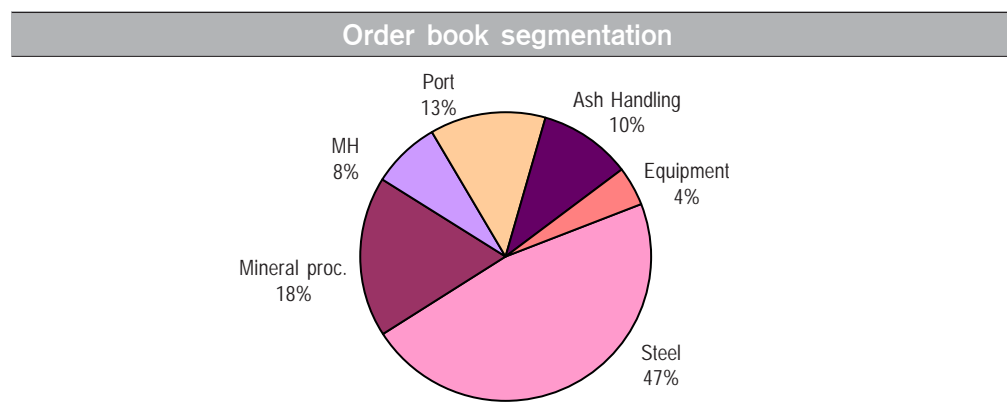
MBEL's net revenues grew by a sedate 2.4% YoY to Rs1.2bn. This was due to delays in execution of orders from Rashtriya Ispat Nigam Ltd and IISCO, which were postponed to Q4FY08.

OPM however, escalated by 260bps to 8.6% on account of a higher share of equipment orders in revenues. Equipment orders have double digit operating margins and hence they boosted overall OPM. Operating profits jumped by 46% to Rs101mn. However a higher effective tax rate led net profits accelerating by a lesser rate of 29% to Rs50mn.

Order book and future orders

MBEL's order book in Feb'08 stands at Rs17bn consisting of equipment orders worth Rs450mn and the balance from projects. In addition, MBEL is L1 for orders of ~Rs8bn in steel and other sectors. Almost 47% of order book comprises large steel sector orders of Rs8bn, which will impart scale and enhance margins. The share of other margin accretive sectors like port and mineral processing equipment has also increased with low-margin material handling segment constituting only 8% of the order book (~60% in FY07).

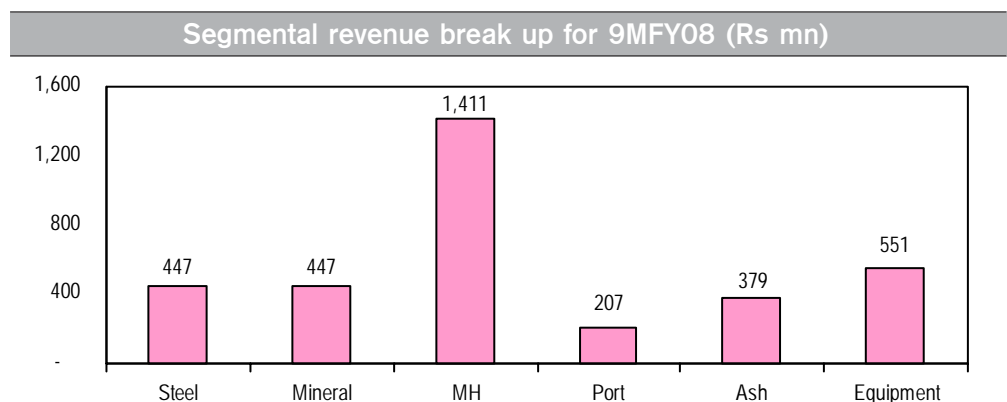
Order book robust with ~half accounted from big ticket steel orders...



Source: Company

Planned foray into BoP

MBEL plans to foray into the lucrative Balance of Plant (BOP) space in H2FY09. Apart from MBEL, L&T is the only player qualified to bid for a full BOP project. Qualification norms for these kind of projects are generally based on capability to execute large ticket orders (threshold >Rs5bn) and inhouse capability for equipment manufacturing. These have a gestation period of 24-30 months and can generate revenues of ~Rs14-15mn/MW. In addition, MBEL is focussing on civil construction for power projects & steel plants and is enhancing its equipment range to include airport baggage handling, wagon tippers and steel fabrication.



Source: Company

Capex and expansion

Expansion at Kumardhubi onstream while that in Bangalore and Asansol (greenfield) underway...

MBEL has embarked on expanding its manufacturing capability for equipment. Towards this, it is expanding existing locations of Bangalore and Kumardhubi and setting up a grainfield facility in Asansol (West Bengal). The expansion in Kumardhubi has been completed 4 months ahead of schedule and the augmentation in Bangalore is targeted for completion by Q4FY08. The grainfield facility in Asansol, coming up in two phases, should be ready by Q3FY09 and Q2FY10 respectively.

These expansions will help MBEL increase equipment sales and cater to a wider range of equipment like airport handling equipment, wagon tippers and conveyor systems. Towards the same, MBEL has incurred an initial capex of Rs290mn and will expend a further Rs800mn over the next two years. This is being financed through the FCCB issue of USD10mn, promoter contribution (Rs210mn) and internal accruals.

OUTLOOK

Focussing on high margin steel, civil construction, BOP and equipment space...

MBEL plans to sustain growth momentum by broadening its presence in the steel, mineral beneficiation and equipment space as well as target new growth areas like mechanical BoP and civil construction. MBEL has already garnered two big ticket orders in steel sector and is L1 for two more orders. It has bagged a mineral beneficiation order from Uranium Corporation of India and is bidding for more in this sector. Apart from these, it has widened its scope in equipment manufacturing with an increasing contribution to order book. The above should enable MBEL to garner an order backlog of Rs20bn by Q4FY08.

We have revised our estimates for FY08 in light of the delay in order execution in the steel sector. We expect net sales of Rs6bn, OPM of 7.9% and net profits of Rs275mn in FY08. We expect a 77% growth in net revenues to Rs10.6bn in FY09, buoyed by increasing execution of big ticket orders in steel and mineral beneficiation. We expect OPM to improve by 50 bps to 8.4% on the back of increased share of equipment and project revenues from margin accretive segments. Accordingly, net profits should surge by 91% to Rs526mn.

VALUATIONS

We revise our recommendation upwards to 'BUY' in light of visibility in earnings and strong order backlog...

At the CMP of Rs218, MBEL trades at a P/E of 12.8x and EV/EBDIT of 8x its FY09E earnings. MBEL continues to capitalise on robust demand and capex across sectors like steel, minerals and power. It is in the process of expanding capacity for its equipment sales. It has increased scale and is adding big ticket orders to its portfolio. These initiatives should boost revenues as well as aid margin expansion in the coming quarters. Thus, based on a robust order backlog and steady orders in the pipeline which impart visibility to earnings, we revise our recommendation upwards to 'BUY' with a price target of Rs262 on a 12 month investment perspective.

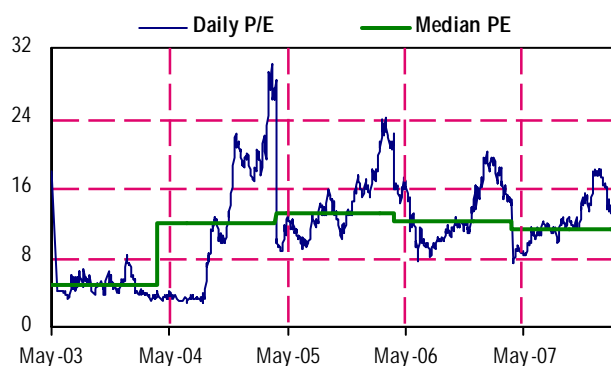
Company description

MBEL is a 46 yr old Williamson Magor and GP Birla group company operating out of Kolkata. It is an important player in the turnkey project segment and operates in the material handling, ash handling, mineral processing, ports and steel space. It also manufactures specialised equipment like wagon tippers, screens, conveyors and steel fabrications.

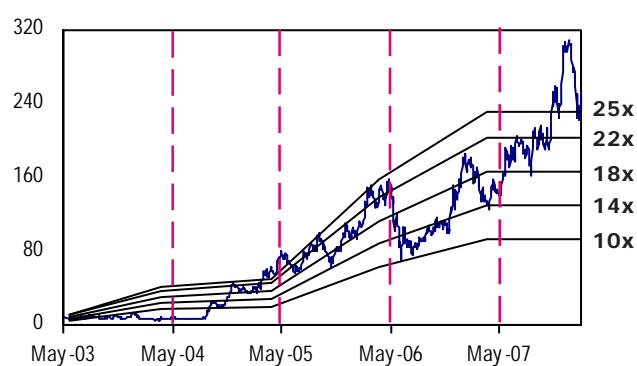
Financial Results for the quarter & nine months ended 31 December 2007 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/07	31/12/06	Gr %	31/12/07	31/12/06	Gr %	31/03/07
Net Sales	1,181	1,153	2.4	3,442	3,363	2.3	5,162
Expenditure	(1,080)	(1,084)	(0.4)	(3,167)	(3,165)	0.1	(4,911)
Consumption of raw mat	666	693	(3.9)	1933	2,252	(14.2)	3192
Outsourcing Exp for job work	169	191	(11.6)	563	420	34.0	923
Staff cost	91	62	47.2	230	168	37.1	236
Other exp	155	139	11.5	442	325	35.7	561
Operating profit	101	69	46.0	275	198	39.0	251
Other Income	1	2		9	4	130.8	51
PBDIT	102	71	43.4	284	202	40.8	302
Interest	24	23		72	60		90
Depreciation	6	4		15	14		18
PBT & Extra Ord. Items	72	44	62.4	197	127	54.5	194
Tax inc. deferred tax	23	6		43	17		26
Net Profit	50	38	29.2	153	110	39.1	168
Equity Capital (FV Rs 10)	297	265		297	265		268
Reserves (excl. rev. res.)	-	-		-	-		675
EPS for the period (Rs)	1.7	1.4	15.2	5.2	4.2	24.0	6.3
Book Value (Rs)	-	-		-	-		36.0
OPM (%)	8.6	6.0		8.0	5.9		4.9
NPM (%)	4.2	3.3		4.5	3.3		3.3
Expend. (% of net sales)							
Consumption of raw mat	56.4	60.1		56.1	67.0		61.8
Outsourcing Exp for job work	14.3	16.6		16.4	12.5		17.9
Staff cost	7.7	5.3		6.7	5.0		4.6
Other exp	13.1	12.0		12.8	9.7		10.9

Median PE v/s Daily PE



PE Band



Income Statement (Cons)	2005	2006	2007	2008E	2009E
Revenues	2,977	3,397	5,162	5,992	10,574
<i>Growth (%)</i>	<i>153.3</i>	<i>14.1</i>	<i>51.9</i>	<i>16.1</i>	<i>76.5</i>
Total Expenditure	2,851	3,225	4,911	5,517	9,683
Operating Profit	125	173	251	475	891
<i>Growth (%)</i>	<i>257.8</i>	<i>37.8</i>	<i>45.3</i>	<i>89.4</i>	<i>87.5</i>
Interest & dividend income	3	6	51	12	15
EBIDT	129	179	302	487	906
(-) Interest	58	81	90	97	125
(-) Depreciation	26	30	18	21	30
PBT & extraordinary items	44	68	194	369	751
(-) Tax provision	12	14	26	93	225
Net Profits	33	53	168	275	526
<i>Growth (%)</i>	<i>150.7</i>	<i>62.4</i>	<i>215.2</i>	<i>63.7</i>	<i>91.0</i>
Fully diluted Eq. sh. O/s (mn no)	19.8	26.5	26.8	29.7	30.9
Book Value (Rs)	19	30	36	46	76
Basic EPS (Rs)	1.7	2.0	6.3	9.3	17.0
Diluted EPS (Rs)	1.1	1.7	5.4	8.9	17.0

Balance Sheet	2005	2006	2007	2008E	2009E
<i>Equity Share Capital</i>	198	265	268	297	309
<i>Reserves & Surplus</i>	170	532	675	1082	2040
Net worth	368	797	943	1,379	2,349
Total Debt	617	799	1173	675	805
Deferred Tax liability	12	11	7	20	20
Capital Employed	997	1,607	2,144	2,074	3,174
Fixed Assets	457	550	571	834	1138
Net current assets	539	1,036	1,534	1,190	2,029
Investments	1	21	39	50	7
Total Assets	997	1,607	2,144	2,074	3,174

Cash Flow Statement	2005	2006	2007	2008E	2009E
PBT & Extraord. items	44	68	194	369	751
Depreciation	26	30	18	21	30
Interest & dividend inc.	(6)	(2)	(16)	(12)	(15)
Interest paid	64	83	94	97	125
Misc Exp W/off	16	22	(17)	(2)	(34)
Tax paid	(23)	(43)	(1)	(93)	(225)
(Inc/Dec in working capital	(100)	(517)	(115)	197	(925)
Cash from operations	21	(360)	157	577	(293)
Net capital expenditure	(74)	(34)	(110)	(281)	(325)
Net investments	0	(19)	(16)	(11)	43
Interest recd	18	2	12	12	15
Cash from investing activities	(55)	(51)	(114)	(281)	(267)
Issue of eq. shares	-	295	49	3	29
Share premium	-	-	410	153	459
Change in debt	191	183	(13)	(485)	130
Dividend paid	(0)	(5)	(15)	(18)	(18)
Interest paid	(64)	(83)	(88)	(97)	(125)
Cash from financing activities	127	390	342	(444)	475
Inc/Dec. in cash	93	(21)	385	(148)	(85)

Key Ratios	2005	2006	2007	2008E	2009E
EBIDT (%)	4.2	5.1	4.9	7.9	8.4
ROACE (%)	13.2	11.4	15.6	23.1	34.5
ROANW (%)	8.5	9.2	19.1	23.5	28.2
Sales/Total Assets (x)	4.1	3.9	6.6	5.4	7.5
Debt:Equity (x)	1.7	1.0	1.2	0.5	0.3
Current Ratio (x)	1.3	1.6	1.6	1.4	1.4
Debtors (days)	169.7	205.7	185.1	188.8	189.9
Inventory (days)	17.8	13.8	14.0	17.5	17.0
Net working capital (days)	110.8	97.6	87.8	57.5	76.8
EV/Sales (x)	1.6	1.9	1.3	1.1	0.7
EV/EBIDT (x)	36.9	35.9	21.4	13.8	8.0
P/E (x)	131.3	108.1	34.7	23.5	12.8
P/BV (x)	11.7	7.2	6.1	4.7	2.9

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