

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	MCNL.BO
Bloomberg code	MCNA IN
Market cap. (US\$ mn)	116
6M avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	31
Target price (Rs)	193

Performance (%)	1M	3M	12M
Absolute	4	5	245
Relative	16	9	131

Valuation Ratios (Standalone)

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	12.9	19.3
+/- (%)	17.9	49.4
PER (x)	13.7	9.2
PBV (x)	2.7	2.2
Dividend/Yield (%)	0.7	0.8
EV/Sales (x)	0.5	0.4
EV/EBITDA (x)	7.0	5.0

Major shareholders (%)

Promoters	32
FII's	18
MF's	13
BFSI's	4
Public & Others	33

Financial highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenues	1,773	3,052	72.1	2,850	5,582	95.8	9,680	13,818	42.8	18,620	34.8
EBIDTA	117	213	82.2	168	384	128.5	580	967	66.7	1,341	38.6
Margin (%)	6.6	7.0	-	5.9	6.9	-	6.0	7.0	-	7.2	-
Other Income	11	3	(70.8)	17	6	(65.7)	285	80	(72.0)	60	(25.0)
Depreciation	5	0	(95.9)	8	15	87.2	24.1	33	37.5	44	31.7
Interest	73	112	52.6	96	191	99.2	328	414	26.3	460	11.2
Profit before Tax & EoI	49	104	111.2	81	184	126.8	514	600	16.9	897	49.4
Tax	17	15	(9.4)	32	40	25.0	173	198	14.9	296	49.4
EoI	-	(52.1)	-	-	(52.1)	-	-	-	-	-	-
Reported PAT	32	36	12.5	50	92	86.5	341	402	17.9	601	49.4
Adjusted PAT	32	88	175.3	50	144	191.7	341	402	17.9	601	49.4
Adj EPS (Rs)	1.2	2.8	142.7	1.6	4.6	191.7	11.0	12.9	17.9	19.3	49.4

McNally Bharat

Maintain Outperformer

Price: Rs 177

BSE Index: 15,405

03 November 2009

2QFY10 Result – Restructured and still going strong

Highlights

- Revenue grew by 72% YoY to Rs 3,052 mn. A strong order inflow during last year resulted in the strong performance, as most of the orders received were from mineral processing sector and had a shorter execution cycle.
- The operating margins have increased by 40 bps YoY to 7% as these projects offer higher margins as compared to steel sector projects. We expect a further increase in the margins as sales pick up in 2HFY10.
- Order book was healthy at Rs 29.2 bn (3x FY09 revenue) due to a strong order inflow during 1HFY10. The depreciation costs are negligible as most of the fixed assets are transferred along with the products division to the subsidiary.
- The extra-ordinary item of Rs 52.1 mn represents Rs 39 mn as acquisition of Coal & Minerals Technology business of Humboldt Wedag and Rs 13 mn on account of adjustment of sale of McNally Sayaji shares. Adjusted PAT reported a strong growth of 175.3% to Rs 88 mn due to a better operating performance and as a major portion of gross block and debt was transferred to MSEL, thus reducing the interest and depreciation costs.

Outlook

McNally Bharat's recent foray in balance of plant (BoP) of power projects is expected to augur well for the company. It has already received an order worth Rs 4.14 bn from Ideal Energy for 2x 270 MW thermal power plant in Nagpur. A healthy order book, venturing into new areas like BoP and acquisitions to extend the existing product range present a strong future outlook for the company. At the current market price of Rs 177, the stock trades at 13.7x FY10E EPS of Rs 12.9 and 9.2x FY11E EPS of Rs 19.8. We maintain an Outperformer rating on the stock.

Income Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	5,471	9,680	13,818	18,620
<i>Growth (%)</i>	<i>9.0</i>	<i>76.9</i>	<i>42.8</i>	<i>34.8</i>
Operating expenses	(5,051)	(9,100)	(12,851)	(17,279)
Operating profit	420	580	967	1,341
EBITDA	420	580	967	1,341
<i>Growth (%)</i>	<i>56.7</i>	<i>38.2</i>	<i>66.7</i>	<i>38.6</i>
Depreciation	(23)	(24)	(33)	(44)
Other income	12	285	80	60
EBIT	410	841	1,014	1,357
Interest paid	(86)	(328)	(414)	(460)
Pre-tax profit (before non-recurring)	323	514	600	897
Pre-tax profit (after non-recurring)	323	514	600	897
Tax (current + deferred)	(99)	(173)	(198)	(296)
Net profit (before Minority Interest, Pref. Dividend etc.)	224	341	402	601
Reported PAT	224	341	402	601
Adjusted net profit	224	341	402	601
<i>Growth (%)</i>	<i>8.5</i>	<i>52.3</i>	<i>17.9</i>	<i>49.4</i>

Balance Sheet (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09P	FY10E	FY11E
Cash and Marketable sec.	706	278	450	660
Other current assets	4,967	8,398	9,224	10,719
Investments	147	777	777	777
Net fixed assets	806	471	682	989
Other non-current assets	6	2	2	3
Total assets	6,632	9,927	11,135	13,148
Current liabilities	4,407	6,381	6,955	8,017
Total debt	626	1,510	1,800	2,200
Other non-current liabilities	18	30	15	15
Total liabilities	5,051	7,921	8,770	10,232
Share capital	287	312	312	312
Reserves & surplus	1,294	1,694	2,053	2,604
Shareholders' funds	1,581	2,006	2,365	2,916
Total equity & liabilities	6,632	9,927	11,135	13,148
Capital employed	2,225	3,546	4,180	5,131

Cash Flow Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09P	FY10E	FY11E
Pre-tax profit	323	514	600	897
Depreciation	23	24	33	44
Change in working capital	421	(1,456)	(259)	(440)
Total tax paid	(95)	(156)	(213)	(297)
Other operating activities	(32)	0	0	0
Cash flow from oper. (a)	639	(1,074)	162	203
Capital expenditure	(277)	310	(244)	(350)
Change in investments	(101)	(630)	0	0
Others	15	(0)	0	(0)
Cash flow from inv. (b)	(363)	(16)	(244)	(350)
Free cash flow (a+b)	276	(1,090)	(82)	(147)
Equity raised/(repaid)	461	(185)	0	0
Debt raised/(repaid)	(546)	884	290	400
Dividend (incl. tax)	(31)	(36)	(36)	(43)
Cash flow from fin. (c)	(116)	662	254	357
Net change in cash (a+b+c)	160	(428)	172	210

Key Ratios (Standalone)

Yr end 31 Mar (%)	FY08	FY09P	FY10E	FY11E
Adjusted EPS (Rs)	7.8	11.0	12.9	19.3
Growth	1.3	40.5	17.9	49.4
Book NAV/share (Rs)	53.3	53.1	64.6	82.3
Dividend/share (Rs)	1.1	1.0	1.2	1.4
Dividend payout ratio	16.3	10.5	10.7	8.3
Tax	30.7	33.6	33.0	33.0
EBITDA margin	7.7	6.0	7.0	7.2
EBIT margin	7.5	8.7	7.3	7.3
RoCE	18.7	29.2	26.3	29.1
Net debt/Equity	(5.0)	61.4	57.1	52.8

Valuations (Standalone)

Yr end 31 Mar (x)	FY08	FY09P	FY10E	FY11E
PER	22.7	16.2	13.7	9.2
PCE	20.6	15.1	12.7	8.6
Price/Book	3.3	3.3	2.7	2.2
Yield (%)	0.6	0.6	0.7	0.8
EV/Net sales	1.2	0.7	0.5	0.4
EV/EBITDA	16.1	11.6	7.0	5.0

Du Pont Analysis – ROE (Standalone)

Yr end 31 Mar (x)	FY08	FY09P	FY10E	FY11E
Net margin (%)	4.1	3.5	2.9	3.2
Asset turnover	1.0	1.2	1.3	1.5
Leverage factor	4.4	4.6	4.8	4.6
Return on equity (%)	17.6	19.0	18.4	22.8

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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