



Research



RESEARCH:: COMPANY:: McNally Bharat Engineering Company LIMITED

22nd January 2010

Long Term Buy

Approx price	= Rs265
Target price	= Rs390
Estimated EPS	= 18
Projected PE	= 21-23
Investment period	=12 months
Potential Upside	=47%

STOCK INFO (TTM Basis)

Sector	Capital Goods
Market cap (Rs Cr)	827.1
Face value	Rs10
Book value	Rs63.04
EPS	11.99
Cash EPS	14.02
Dividend	12.5%
Sales Growth	115.3%
RONW	19.02%
Debt to equity	0.61
52 week H/L	289.80/29
Avg. Daily Vol (2wk)	58000
Chairman	D. Khaitan
Incorporation	1961
Listed At	NSE/BSE
Equity capital	31.09cr
Promoter Holding	32.29%
FII's/MF Holding	21.81/17.17%

Prepared By:-

Varun Khanna

Research Associate

varun.khanna@fairwealth.in

Reviewed By:-

Prakash Pandey

AVP- Portfolio management

Prakash.pandey@fairwealth.in

COMPANY PROFILE

McNally Bharat Engineering Company Ltd. (MBECL) is one of the leading engineering companies in India. It is engaged in providing turnkey solutions in the areas of Power, Steel, Aluminum, Material Handling, Mineral Beneficiation, Pyroprocessing, Pneumatic Handling of powdered materials including fly ash handling and high concentrate disposal, coal washing, port cranes, civic and industrial water supply etc.

Future Outlook

At the current price of Rs 265, the stock is available at 24.15x of its FY09 earnings, 17.24x of its FY10E earnings and 13.54x of its FY11E earnings.

Particulars	FY09	FY10E*	FY11E*
Net Sales	967.98	1295.52	1367.55
Other Income	28.9	8.32	7.53
PBIDT	102.2	111.41	128.82
Interest	48.42	40.87	39.63
Depreciation	2.41	2.26	2.33
PBT	51.37	68.28	86.86
Tax	17.25	20.49	26.06
PAT	34.12	47.80	60.80
EPS	10.98	15.37	19.56
CEPS	11.75	16.10	20.31

*expected

Investment Rationale:

Order book is above Rs 3000cr, which is thrice of annual revenue of the company for FY09 amounting to Rs 967.98cr.

Due to the diversified portfolio of the company, the risk is very less. MBECL plans to grow by broadening the scope of operations in the projects segment. It is looking forward to tap profitable sectors like steel, minerals and ports. It is also considering entering new areas like nuclear power and civil construction.

QUARTERLY ANALYSIS:

Particulars	30-Sep-09	30-Sep-08	Var% YOY	30-Jun-09	Var% QOQ
Net Sales	305.17	177.32	72.10	269	13.45
Other Income	0.31	1.06	-70.75	0	-
Total Income	305.48	178.38	71.25	269	13.56
Less: Expenditure	289.12	165.65	74.54	244.81	18.10
PBIDT	16.36	12.73	28.52	24.19	-32.37
Less: Interest	11.2	7.34	52.59	9.76	14.75
Less: Depreciation	0.02	0.49	-95.92	2.2	-99.09
PBT	5.14	4.9	4.90	12.23	-57.97
Less: Tax	1.54	1.7	-9.41	4.16	-62.98
Net Profit	3.6	3.2	12.50	8.07	-55.39
Add: Exceptional Item	-3.67	-0.27	0.00	0	-
Adjusted Net Profit	7.27	3.47	109.51	8.07	-9.91

During the Quarter ended 30th Sep, 2009 the total income of the company increased by 72.10% on y-o-y basis to Rs 305.48cr as against Rs 177.32cr, in the corresponding quarter last year.

Operating profit of the company increased by 28.52% to Rs 16.36cr as against Rs 12.73cr in the same quarter last year, however operating profit margin of the company fell by 182 bps to 5.36% as against 7.18% on y-o-y basis since the raw material cost as a percentage of sales rose by 664bps to 62.29% as compared to 55.65% during the corresponding quarter last year.

Net profit of the company, during the quarter ended 30th Sep, 2009, increased marginally by 12.5% to Rs 3.6cr as against Rs 3.2cr in the corresponding quarter last year. Below par performance of the bottom- line despite impressive growth in net sales was largely on account of higher interest cost of the company amounting to Rs 11.2cr as against Rs 7.34cr during the same quarter last year.

Revenue Mix for the Quarter

Segments	Revenue Q2 Sep, 2009		Revenue Q1 June, 2009	
	Amount cr	%	Amount cr	%
Material & Non Ferrous	183.10	60	102.22	38
Steel, Mines & Ports	103.76	34	99.53	37
Power	18.31	6	29.59	11
Equipments	-	-	37.66	14
Total	305.17	100	269	100

During the quarter ended 30th Sep, 2009, material & non- ferrous segments of the company contributed 60% to the total net sales at Rs 580.79 as against Rs 208.22cr in the corresponding period last year. As a part of company's restructuring policy, the equipment segment is being transferred to its subsidiary, McNally Sayaji Engineering Ltd.

PAST FIVE YEARS PERFORMANCE

Particulars (cr)	2008-09	2007-08	2006-07	2005-06	2004-05
Net Sales	967.98	547.96	503.41	331.19	287.87
Other income	28.9	4.53	7.81	2.24	1.26
Total Income	996.88	552.49	511.22	333.43	289.13
Less: Expenditure	894.68	494.47	482.86	311.12	268.36
PBIDT	102.2	58.02	28.36	22.31	20.77
Less: Interest	48.42	20.74	16.53	14.95	11.65
PBDT	53.78	37.28	11.83	7.36	9.12
Less: Depreciation	2.41	2.25	1.72	2.73	2.3
PBT	51.37	35.03	10.11	4.63	6.82
Less: Tax	17.25	12.63	-7.39	-0.62	4.2
Net Profit	34.12	22.4	17.5	5.25	2.62
Equity Share capital	31.09	28.69	26.78	26.46	19.78
Basic EPS	10.98	7.81	6.53	1.98	1.32
Cash EPS	11.75	8.59	7.18	3.02	2.49
Operating Profit Margins	10.56	10.59	5.63	6.74	7.22
Net Profit margins	3.52	4.09	3.48	1.59	.91

During the Financial Year 2009, the Company achieved a total income of Rs. 997cr approx. registering a growth of about 80% over the previous year's total income of Rs. 552cr. Profit before tax increased from Rs.35cr to Rs.51cr and Profit after tax increased from Rs.22cr to Rs.34 cr. The earnings per share increased to Rs.10.98 per share from Rs. 8.10 per share.

BALANCE SHEET: McNally Bharat Engineering Company Limited (Rs Crores)

	2009	2008	2007	2006	2005
Net Worth	196	158	96.26	78.86	36.1
Loans- Term	55.13	13.66	57.15	31.55	18.46
Loans - Working Capital	95.9	48.98	60.14	47.99	42.98
Deferred Tax Liability	8.34	1.13	0.7	1.1	1.16
Total	355.37	221.77	214.25	159.5	98.7
Net Block Including WIP	46.92	80.52	56.57	52.91	43.38
Investments	77.36	14.71	4.61	3.21	1.22
Net Working Capital	231.09	126.54	153.07	103.38	54.1
Deferred Revenue Expenses	0	0	0	0	0
Total	355.37	221.77	214.25	159.5	98.7

Peer Comparison:

Particulars	McNally Bharat	Engineers India Ltd	Punj Llyod	Thermax	Rel Ind Infra
Market Cap	827.10	11687.00	6605.87	7891.13	1503.05
Sales	1336.81	1795.65	7557.72	2902.21	63.87
PBIDT	102.88	653.55	772.19	424.74	36.79
Net Profit	37.28	427.32	265	265.88	22.78
PBIDTM (%)	7.7	36.40	10.22	14.64	57.60
PATM (%)	2.8	23.80	3.51	9.16	35.67
EPS	11.99	76.09	7.98	22.31	15.09
P/E	22.10	28.04	25.44	29.53	65.36
EV/PBIDT	9.44	17.1	12.83	19.58	49.24

Figures on TTM Basis

With robust order book position, earning visibility of the company is good for next 2-3 years. However low operating margins as compared to its peers is a concern for the company.

ANALYSIS & REPORT

Why to invest in shares of McNally Bharat Engineering Company Limited?

SECTOR:

Increased government spending on development of Infrastructure, non- hydrocarbon energy, refinery and oil & gas sectors is likely to provide a boost to the sector. This should ensure strong order flow for capital goods and engineering companies in future.

The demand for the sector depends on GDP growth, which in turn depends on expenditure in core sectors like power, railways etc. With the growth in Indian economy and easing liquidity situation in the country, capital goods & engineering companies are expected to pick up pace with economy.

India is being preferred by global manufacturing companies as an outsourcing destination due to its lower labour cost and better engineering and designing capabilities.

COMPANY:

Diversification

MBECL is amongst the top-most engineering companies in India. It operates in areas like bulk material handling, ash handling, port handling, mineral beneficiation, water management, road construction & maintenance, open cast mining machineries. This helps the company in reducing its risk which would be higher had the company concentrated on a single sector.

Restructuring

The company is in the process of reconstruction of the Company and its subsidiary, viz. McNally Sayaji Engineering Ltd (MSEL). Under the reconstruction scheme the Products Division of the Company engaged in the business of manufacture and/or procuring equipment for various engineering and infrastructure projects will be transferred to MSEL

Strategic Move:

With the acquisition of KHD Humboldt, MBECL is expected to enhance its expertise in coal and mineral processing, cement as well as in the power sector. This move will give MBECL a much needed presence in Europe, Australia, and China.

FUNDAMENTALS:

Debt Repayment:

The company is planning to pay its debt to the tune of Rs 40-45cr from its right issue. This will result in saving of interest cost to the tune of Rs 5-8cr.

Improved performance of Sayaji:

During the quarter ended 30th Sep, 2009, an 86% subsidiary of McNally Bharat Engineering Company Ltd, posted net sales of Rs. 68.59, an increase of 29.2% as against Rs 53.09cr during the same quarter last year. Operating profit of the company increased by 20.15 to Rs 12.78cr. Net profit of the company rose by 31.2% to Rs 6.82cr as against Rs 5.20cr during Q2 FY09.

Backward Integration:

The company has transferred its product business to its 86% subsidiary McNally Sayaji Engineering Ltd. (MSE), to supply equipment for its project business.

Order Book:

The order book of the company stands at Rs 3025cr. Comparing order book position of the company to its last year revenue of Rs 967.98cr, it is more than thrice to its annual revenue. Order book includes Rs. 900cr from power, Rs. 817 cr from material & non ferrous, Rs. 847cr from steels, mines & ports, and Rs 454cr from infrastructure. Earning visibility of the company is good for next 2-3 years.

Notes: Figures and graph sourced from www.bseindia.com , capital market and annual report (2008-09).

END

FUNDAMENTAL ANALYSTS	DESIGNATION	CONTACT NO.
Rajesh Gupta	Research Head	0124 -3024862 Rajesh.gupta@fairwealth.in Research@fairwealth.in
Prakash Pandey	AVP- Portfolio management	0124 - 3024864 Prakash.pandey@fairwealth.in
Varun Khanna	Research Associate	0124 – 3024874 varun.khanna@fairwealth.in
Shashi Srivastava	Research Associate	0124 – 3024840 Shashi.s@fairwealth.in
Tanisha jolly	Research Associate	0124 – 3024840 tanisha.jolly@fairwealth.in
Suvarna Binjola	Research Associate	0124 – 3024869 Suvarna.binjola@fairwealth.in

Disclaimer:

This publication has been solely prepared for the information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed reliable investors are advised to satisfy themselves before making any investments. Fairwealth Securities Pvt Ltd does not bear any responsibility for authentication of the information contained in the reports and consequently is not liable for any decision taken based on the same. Further Fairwealth Research report only provides information updates and analysis. All opinions for buying and selling are available to investors when they are registered clients Of Fairwealth Investment advisory services. As a matter of practice, Fairwealth refrains from publishing any individual names with its reports. As per SEBI requirements it is stated that, Fairwealth securities Pvt Ltd, and/or individuals thereof may have positions in securities referred herein and may make purchases or sale while this report is in circulation.



**FAIRWEALTH SECURITIES PVT. LTD.
FAIRWEALTH COMMODITY BROKING PVT. LTD.**

H. O. : Plot No. 651-652, Udyog Vihar, Phase-5, Gurgaon 122001 (Haryana)
Phone: 0124-3024400 - Fax : 0124-3024474
Website : www.fairwealth.in • E-mail: info@fairwealth.in

• **Delhi**: UG-3, Somdutt Chambers II, 9 Bhikaji Cama Place, New Delhi-110 066 • Ph.: 46091111 (50 Lines) • **Mumbai**: Unit No,12, 2nd Floor, Sonawala Apollo Building, Mumbai Samachar Marg, Above Oriental Bank of Commerce, Fort, Mumbai - 400 001 (Maharashtra) • Ph.: 022-26200053 • **Haryana**: SCO-250, Sector-16, Panchkula - Haryana, Pin - 134109 • Ph. : 017-25057614, 15, 17 • **Punjab**: SCO - 135, First Floor, Chooti Bharadani, Patiala, Punjab • 0175-3241555, 3243555, 3246555 • **Rajasthan**: 411, 4th Floor, Ganpati Plaza, M.L. Road, Jaipur 30200, Rajasthan • Ph.: 0141-4073710 • **Ahmedabad**: 206, Peoples Plaza, Nr. Memnagar Fire Station, Navrangpura, Ahmedabad-380009 • Ph. : 079-27911126 • **Indore**: 101-102, Kalyan Palace, Opp. Sheesh Mahal, Cloth Market, Indore, M.P.-452001 • Ph. : 0731-4250007/8/9 • **Lucknow**: 24, 1st Floor, Mahavir Plaza, B.N. Road, Lal Bagh, Lucknow, UP-226001 • Ph. : 0522-4082901/02/03 • **Kolkata**: 3rd Floor, Tobacco House, Dalhousie Square, 1, Old Court House Corner, Kolkata-1 • **Dehradun**: 1st Floor, City Centre, 54, Rajpur Road, Dehradun (Uttaranchal) • **Surat**: G-10, Empire State Building, Near Udhna Darwaja, Ring Road, Surat, Gujarat -395002 • Ph. : 0261-3103298, 3102890 • **Raipur**: 1st Floor, Guri Apartment, Main Road, Sadar Bazar, Raipur, Chattishgarh - 4920019 • Ph.: 0771-4243200, 02