

McNally Bharat

16 November 2011

Reuters: MCNL.BO; Bloomberg: MCNA IN

Order Traction to Begin

We had organised a conference call for our clients with Mr. Prabir Ghosh, whole-time director and group CFO of McNally Bharat on 15 November 2011 to discuss the company's 2QFY12 performance. Following are the key takeaways:

Healthy order inflow guidance: The order book in 2QFY12 stood at Rs34.3bn on a standalone basis, at 1.5x book-to-bill ratio with an average execution period of two years. McNally has received orders worth Rs14.5bn (including L1 of Rs4.8bn) in 1HFY12. The management expects McNally to win orders worth ~Rs20bn in the 2HFY12, mainly in 4QFY12, and as a result order inflow should grow 42% to Rs30bn in FY12. In the wake of slowdown in the power sector, the company is not expecting any big order from this sector in 2HFY12. The company has bid for projects worth Rs120bn and apart from small orders, it is banking on a few large orders - from the cement sector (Rs8bn), steel sector (Rs4bn) and US\$100mn coal beneficiation order from Mongolia. McNally has garnered revenue of Rs8,611mn in 1HFY12 and expects sales at Rs13,000mn in 2HFY12 besides revenue growth of 15-20% in FY13.

Stable performance of subsidiaries: McNally has grown inorganically in the past two years by acquiring McNally Sayaji and CMT, GmbH. McNally Sayaji has been witnessing consistent downward pressure on operating margin, which the management feels will stay at the current level of 11-12% in FY12. It expects a turnover of ~Rs2.5bn with a PAT of Rs100mn in FY12. In the case of CMT, it recently won an order worth US\$15mn, and has order book to Rs3.2bn, to be executed in a year. The management expects CMT to report ~euro 50mn of net sales with operating margin of 6-7% in FY12.

Higher working capital, interest rates boost interest costs: McNally has debt of Rs3,980mn/Rs6,300mn on standalone/consolidated basis. Following higher retention money of ~Rs5.5bn, receivables rose 38.2% YoY, and in addition, expecting stronger order execution in 2HFY12 loans & advances rose 40.2%. As a result, ex-cash working capital increased 78.2% to Rs4,151mn in 1HFY12, leading to interest costs 65% higher YoY at Rs143.3mn in 2QFY12. With the receipt of advance money from new orders in 2HFY12, McNally expects working capital to remain at the current level on a high sales base in FY12. With a pick-up in export orders, (tied up at lower interest rate), it expects some reduction in blended interest rate by 1QFY13 from 12.5% currently.

Not Rated

Sector: Engineering

CMP: Rs106

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Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HY11	1HY12	YoY (%)
Net sales	4,018	3,625	4,986	24.1	37.5	6,857	8,611	25.6
Net raw material & finished goods purchase	2,245	1,650	2,396	6.7	45.2	3,657	4,046	10.7
% of sales	55.9	45.5	48.1			53.3	47.0	
Employee expenses	314	302	400	27.5	32.3	560	702	25.5
% of sales	7.8	8.3	8.0			8.2	8.2	
Other expenses	481	381	589	22.4	54.7	770	970	25.9
% of sales	12.0	10.5	11.8			11.2	11.3	
Total expenditure	3,799	3,382	4,679	23.1	38.3	6,482	8,061	24.3
Operating profit	219	243	307	40.4	26.3	375	550	46.8
OPM (%)	5.4	6.7	6.2			5.5	6.4	
Interest costs	87	112	143	65.3	28.1	147	255	74.1
PBDT	132	131	164	24.0	24.9	228	295	29.2
Depreciation	21	22	23	9.1	1.3	39	45	16.5
Other income	35	9	20	(42.0)	119.4	50	30	(40.7)
PBT	146	118	161	10.2	36.8	240	279	16.7
Tax	50	42	54	8.8	30.3	81	96	17.7
Effective tax rate (%)	34.0	35.3				34.0	34.3	
Adjusted PAT	97	76	107	11.0	40.3	158	184	16.1
NPM (%)	2.4	2.1	2.2			2.3	2.1	
EPS (Rs)	3.1	2.5	3.4	11.0	40.3	5.1	5.9	16.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY09	FY10	FY11
Revenue	9,680	14,844	17,541
YoY (%)	76.7	53.3	18.2
EBITDA	733	1,024	1,172
EBITDA margin (%)	7.6	6.9	6.7
Adj PAT	182	359	457
EPS (Rs)	5.9	11.5	14.7
YoY (%)	(30.1)	97.3	27.5
RoE (%)	10.3	17.0	18.6
RoCE (%)	23.4	17.1	17.1
Dividend yield (%)	1.2	1.4	1.9
P/B (x)	1.7	1.5	1.2
P/E (x)	18.1	9.2	7.2
EV/ EBITDA (x)	5.1	3.3	3.7

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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