McNally Bharat Engineering

Performance Highlights

Parameters (₹ cr)	4QFY11	4QFY10	% yoy	3QFY11	% qoq
Total revenue	**694**	**562**	**23**	**379**	**83**
EBITDA	41	41	1	25	67
EBITDA margin (%)	5.9	7.3		6.5	
PAT	**22**	**22**	**4**	**11**	**97**

Source: Company, Angel Research

McNally Bharat Engineering (MBE) reported disappointing set of numbers for 4QFY2011 on a standalone basis, as reduction in EBITDA margin along with higher interest and depreciation cost led to flat performance on the PAT front. On a consolidated basis, we estimate the company's order book to stand at ₹4,278cr as of 4QFY2011 (2.4x FY2010 consolidated revenue), led by the power sector, which lends high revenue visibility. **We maintain our Buy view on the stock.**

Lower EBITDA margin, higher interest and depreciation outflow restricts profit growth: Although MBE posted strong top-line growth of 23% yoy to ₹694 for the quarter backed by stronger execution cycle, EBITDA margin declined by 130bp to 5.9% (7.3%) due to a 550bp decline in gross margin to 46.1% (40.5%). Depreciation and interest for the quarter increased by 60% and 24%, respectively. This coupled with lower EBITDA margin led to flat PAT for the quarter.

Outlook and valuation: We believe an improving economic scenario, continuous government focus on infrastructure spend and pick-up in private capex augur well for companies providing EPC solutions to the core sector of the economy. We have revised our sales and EBITDA margin estimates downwards to factor in poor performance of MBE and its subsidiaries in 4QFY2011. At ₹189, the stock is available at attractive valuations of 5.9x FY2013E earnings and 3.3x FY2013E EV/EBITDA. Hence, we maintain Buy with a revised target price of ₹255 (₹307).

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net sales	**1,806**	**2,285**	**2,590**	**3,145**
% chg	61.9	26.5	13.3	21.4
Net profit	**52.1**	**57.5**	**75.8**	**99.2**
% chg	31.3	10.3	31.9	30.8
EBITDA (%)	8.5	6.9	7.4	7.6
EPS (₹)	**16.8**	**18.5**	**24.4**	**31.9**
P/E (x)	11.3	10.2	7.7	5.9
P/BV (x)	2.2	1.9	1.5	1.3
RoE (%)	22.1	20.0	21.9	23.5
RoCE (%)	22.7	20.1	22.7	24.4
EV/Sales (x)	0.4	0.3	0.3	0.2
EV/EBITDA (x)	5.6	4.7	4.1	3.3

Source: Company, Angel Research

BUY

CMP	₹189
Target Price	₹255
Investment Period	12 Months

Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	586
Beta	0.6
52 Week High / Low	385/186
Avg. Daily Volume	27417
Face Value (₹)	10
BSE Sensex	18,531
Nifty	5,545
Reuters Code	MCNL.BO
Bloomberg Code	MCNA@IN

Shareholding Pattern (%)	
Promoters	30.6
MF / Banks / Indian FIs	19.3
FII / NRIs / OCBs	13.0
Indian Public / Others	37.1

Abs. (%)	3m	1yr	3yr
Sensex	4.5	7.3	10.6
McNally	(6.4)	(41.6)	11.1

Sageraj Bariya
+91-22-3935 7800 ext. 6815
sageraj.bariya@angelbroking.com

Exhibit 1: 4QFY2011 and FY2011 performance (Standalone)

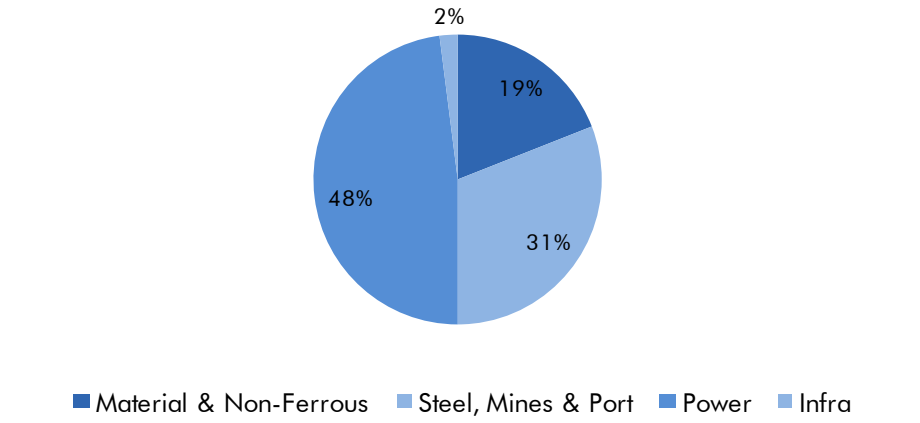
Y/E March (₹ cr)	4QFY11	4QFY10	% chg	FY2011	FY2010	% chg
Total Revenue	**694**	**562**	***23***	**1,758**	**1,448**	***21***
Total RM	374	334	*12*	921	833	*10*
as % of sales	54	59		52	58	
Gross Profit	**320**	**228**		**838**	**615**	
Gross margin (%)	*46.1*	*40.5*	*(550)bp*	*47.6*	*42.5*	
Staff cost	32	20	*56*	120	71	*70*
as % of sales	5	4		7	5	
Other Expenses	247	167	*48*	614	445	*38*
as % of sales	36	30		35	31	
Total Exp	653	522		1,655	1,349	
as % of sales	94	93		94	93	
EBITDA	**41**	**41**	***1***	**103**	**99**	***4***
EBITDA %	**5.9**	**7.3**	***(132)bp***	**5.9**	**6.8**	
Depreciation	2	1	*60*	8	5	*73*
EBIT	39	39		95	94	
EBIT %	5.6	7.0		5.4	6.5	
Other Income	1	3		11	3	
Interest	9	7	*24*	34	34	*(0)*
PBT	31	34		72	59	
Total tax	9	13	*(29)*	23	20	
tax rate	29	36		32	32	
PAT	**22**	**22**	***4***	**49**	**39**	***27***
PAT (%)	**3.2**	**3.8**		**2.8**	**2.7**	
Equity	31	31		31	31	
EPS (₹)	7.2	6.9		15.9	12.5	

Source: Company, Angel Research

Robust execution persists

MBE's standalone revenue grew by 23% yoy for the quarter to ₹694cr on the back of strong order booking. For FY2011, the power sector dominated the revenue mix, contributing 48% to revenue. The steel and mining sector stood second with a contribution of 31%. Materials and other segments followed with contributions of 19% and 2%, respectively.

Exhibit 2: Yearly sales mix (Standalone)

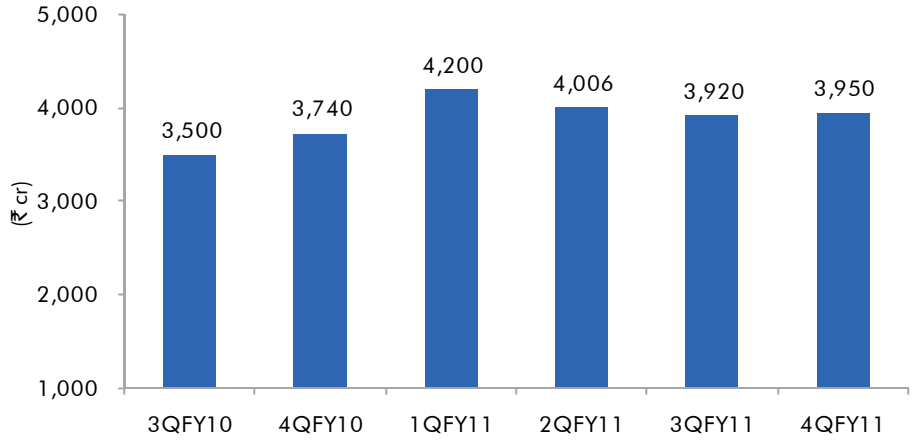


Source: Company, Angel Research

Muted growth in order inflow

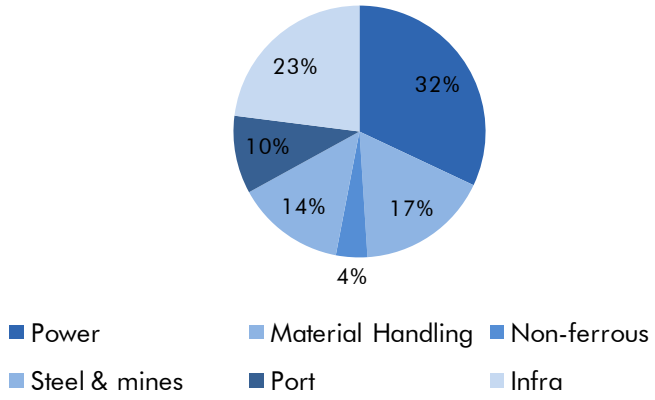
MBE's (standalone) order book grew from ₹3,740cr in 4QFY2010 to ₹3,950cr in 4QFY2011 (2.2x FY2010 standalone revenue), registering yoy growth of 6% only. On a consolidated basis, we estimate the company's order book to stand at ₹4,278cr as of 4QFY2011 (2.4x FY2010 consolidated revenue). Currently, MBE has bid for orders worth ₹14,310cr, of which orders worth ₹370cr are in L1 stage.

Exhibit 3: Order book trend (Standalone)



Source: Company, Angel Research

Exhibit 4: SBU-wise order break-up (Standalone)



Source: Company, Angel Research

Subsidiaries' performance

McNally Sayaji (MSE), one of the company's subsidiaries and a key contributor to its overall profit, posted lacklustre numbers for the year. Total sales declined by 4% to ₹300cr due to lower volume growth, while EBITDA margin fell by 400bp to 14.2% on account of higher contribution from the low-margin business. Lower EBITDA margin coupled with higher interest and depreciation on account of new capacity resulted in PAT falling by 20% to ₹19cr. The company has an order book of ₹215cr (0.7x FY2011 revenue), which declined by 18% qoq from ₹262cr in 3QFY2011. MSE's business model is undergoing changes, wherein it is shifting focus from its existing model of selling products to the high-growth segment of manufacturing products for which designs are provided by customers. Management expects revenue of ₹350cr in FY2012.

Exhibit 5: McNally Sayaji – FY2011 performance

Parameters (₹ cr)	FY2011	FY2010	% yoy
Sales	300	311	*(4)*
EBITDA	43	57	*(25)*
EBITDA margin (%)	14.2	18.2	*(400)bp*
PAT	19	23	*(20)*

Source: Company, Angel Research

The CMT unit posted total income of ₹310cr with EBITDA margin of 7.6% and PBT of ₹16cr for FY2011. The unit had an order book of ₹178cr at the end of the quarter, down 5% from the 3QFY2011 order book position of ₹188cr. Management has given revenue target of ₹300cr for FY2012.

Exhibit 6: CMT and German business

Parameters (₹ cr)	1QFY11	2QFY11	3QFY11	4QFY11	FY2011
Sales	76	111	36	86	310
EBITDA	3	15	0	5	24
EBITDA margin (%)	3.9	13.7	0.9	5.8	7.6
PBT	2	13	2	(1)	16

Source: Company, Angel Research

Investment arguments

Opportunities abound: Total upcoming opportunity for MBE is expected to be in the region of ₹51,600cr over FY2010–15. Over the long term, the port and steel sectors are likely to witness highest cumulative opportunity of ₹22,200cr. The power and mining sectors are expected to be the key growth drivers for the company in the near term. Pertinently, the government's focus on the power sector through 'Power for all by 2012' indicates the substantial ₹8,800cr potential opportunity that the sector is likely to offer. The mining industry also has similar opportunities coming up in the near future.

Strong order book: MBE registered a 57% CAGR in order inflow during FY2005–10, increasing from ₹406cr to ₹3,835cr. It may be noted here that even during the global meltdown in FY2009, the company registered substantial growth of 101% in sales on account of its presence across diverse sectors. Overall, order inflow has been robust on the back of improving economic environment, higher government investments and private capex in the basic infrastructure and power segments. We estimate the company's consolidated order book to stand at 4,278cr as of 4QFY2011 (2.4x FY2010 consolidated revenue), which provides high revenue visibility.

Rich experience in both turnkey solutions and products: MBE has a rich experience of over 49 years in EPC activities, including designing and developing Balance of Plants (BoPs) and supplying and installing material handling equipment for the core sectors. MBE provides turnkey solutions in the areas of power, steel, aluminium, material handling and mineral beneficiation. Thus, MBE's strong skill set developed over a period places it in an advantageous position to capitalise on the vast upcoming opportunities with industrial capex set to increase going ahead. Apart from having a rich experience in executing different types of EPC contracts, MBE has an extensive product and technology portfolio on the back of which it is able to offer complete solutions to its clients. For instance, the company's subsidiary, MSE manufactures a wide range of products that MBE requires for its projects. MBE through its subsidiaries and strategic tie-ups has access to various technologies required for BoP, which strengthens its portfolio and helps in bagging orders. Subsidiaries, EMW (Hungary) and Humboldt Wedage (Germany) hold innovator technology in ash handling and mineral processing.

Outlook and valuation

We believe an improving economic scenario, continuous government focus on infrastructure spend and pick-up in private capex augur well for companies providing EPC solutions to the core sectors of the economy. Overall emerging opportunities for MBE are expected to be around ₹51,600cr over FY2010–15. Over the long term, the port and steel sectors are likely to offer the highest opportunity of ₹22,200cr, while the power and mining sectors are likely to be the key growth drivers in the near term. The government's strong focus on the power sector through 'Power for all by 2012' is expected to result in an expansion of generation capacity in the sector, leading to higher opportunities for BoP players.

We believe MBE is well placed to seize the upcoming opportunities in the above-mentioned sectors due to its 1) vast experience in different EPC segments across sectors, 2) presence in the high-margin product segment through its subsidiary, MSE, and 3) access to key global technology for ash handling and mineral beneficiation.

We have revised our sales and EBITDA margin estimates downwards to factor in poor performance of MBE and its subsidiaries in 4QFY2011.

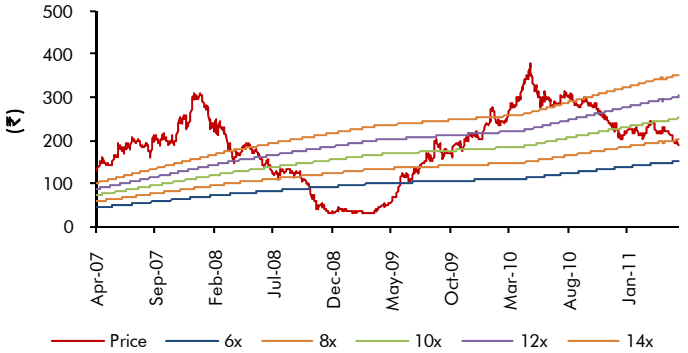
Exhibit 7: Change in estimates

₹ cr	Old		New		% chg	
	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
Sales	3,124	3,933	2,285	2,590	(26.9)	(34.2)
EBITDA	251	316	157	190	(37.6)	(39.8)
EBITDA %	8.1	8.1	6.9	7.4		
Adj PAT	91	126	57	76	(36.9)	(39.6)
EPS	29.3	40.4	18.5	24.4	(36.9)	(39.6)

Source: Company, Angel Research

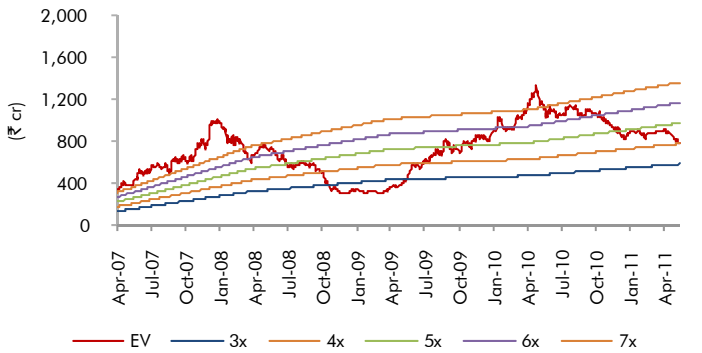
At ₹189, the stock is available at attractive valuations of 5.9x FY2013E earnings and 3.3x FY2012E EV/EBITDA. **Hence, we maintain our Buy rating on the stock with a revised target price of ₹255 (₹307).**

Exhibit 8: One-year forward rolling P/E band



Source: Company, Angel Research

Exhibit 9: One-year forward EV/EBITDA band



Source: Company, Angel Research

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Total operating income	**555**	**1,115**	**1,806**	**2,285**	**2,590**	**3,145**
% chg	*9.6*	*101.0*	*61.9*	*26.5*	*13.3*	*21.4*
Total Expenditure	510	1,007	1,661	2,128	2,399	2,908
Net Raw Materials	305	654	1,023	1,359	1,528	1,840
Other Mfg costs	43	70	123	149	168	204
Personnel	42	78	157	183	207	252
Other	24	25	55	73	83	110
EBITDA	**45**	**108**	**145**	**157**	**190**	**237**
% chg	*45.1*	*141.5*	*33.9*	*8.3*	*21.5*	*24.6*
(% of Net Sales)	*8.1*	*9.8*	*8.5*	*6.9*	*7.4*	*7.6*
Depreciation& Amortisation	2	10	16	20	24	28
EBIT	**42**	**99**	**128**	**137**	**167**	**209**
% chg	*46.1*	*132.3*	*30.2*	*6.6*	*21.7*	*25.4*
(% of Net Sales)	*7.7*	*8.9*	*7.5*	*6.0*	*6.5*	*6.7*
Interest & other Charges	13	39	49	48	49	55
Other Income	2	3	11	10	10	11
(% of PBT)	*7.0*	*4.2*	*12.1*	*10.2*	*7.9*	*6.5*
Recurring PBT	**31**	**62**	**90**	**99**	**128**	**165**
% chg	*33.0*	*97.1*	*44.8*	*10.3*	*29.2*	*28.7*
Extraordinary Expense/(Inc.)	1	20	-	-	-	-
PBT (reported)	**32**	**82**	**90**	**99**	**128**	**165**
Tax	10	29	33	34	44	56
(% of PBT)	*31.8*	*46.4*	*36.9*	*34.2*	*34.2*	*33.9*
PAT (reported)	**22**	**53**	**57**	**65**	**84**	**109**
Add: Share of earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	0	5	7	8	9	10
Prior period items	-	4	-	-	-	-
PAT after MI (reported)	**22**	**48**	**50**	**57**	**76**	**99**
ADJ. PAT	**21**	**40**	**52**	**57**	**76**	**99**
% chg	*33.0*	*91.1*	*31.3*	*10.3*	*31.9*	*30.8*
(% of Net Sales)	*3.8*	*3.6*	*3.0*	*2.5*	*2.9*	*3.2*
Basic EPS (₹)	**7.2**	**12.8**	**16.8**	**18.5**	**24.4**	**31.9**
Fully Diluted EPS (₹)	**7.2**	**12.8**	**16.8**	**18.5**	**24.4**	**31.9**
% chg	*24.2*	*76.3*	*31.3*	*10.3*	*31.9*	*30.8*

Balance sheet (consolidated)

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
SOURCES OF FUNDS						
Equity Share Capital	29	31	31	31	31	31
Preference Capital	-	-	-	-	-	-
Reserves& Surplus	129	177	232	282	348	435
Shareholders' Funds	**158**	**208**	**263**	**313**	**379**	**466**
Minority Interest	0	12	53	61	70	79
Total Loans	63	214	348	290	319	367
Deferred Tax Liability	1	14	17	17	15	13
Total Liabilities	**222**	**448**	**682**	**681**	**783**	**925**
APPLICATION OF FUNDS						
Gross Block	99	201	302	372	465	535
Less: Acc. Depreciation	37	33	57	77	101	130
Net Block	**62**	**168**	**245**	**295**	**364**	**405**
Capital Work-in-Progress	19	11	4	4	4	4
Goodwill / Intangibles	0	58	76	76	76	76
Investments	**14**	**2**	**3**	**3**	**3**	**3**
Current Assets	571	997	1,671	1,568	1,845	2,212
Cash	71	42	125	130	112	165
Loans & Advances	100	114	209	205	244	287
Other	400	841	1,337	1,233	1,489	1,760
Current liabilities	444	788	1,316	1,264	1,508	1,775
Net Current Assets	**127**	**209**	**355**	**304**	**337**	**437**
Others	-	-	-	-	-	-
Total Assets	**222**	**448**	**682**	**681**	**783**	**925**

Cash flow statement (consolidated)

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	32	82	90	99	128	165
Depreciation	8	13	70	68	73	83
Change in Working Capital	37	(118)	(98)	55	(55)	(53)
Less: Other income	-	-	1	-	-	-
Direct taxes paid	(4)	(14)	(27)	(34)	(44)	(56)
Cash Flow from Operations	**73**	**(37)**	**36**	**188**	**102**	**139**
(Inc)./ Dec. in Fixed Assets	(29)	(147)	(70)	(70)	(93)	(70)
(Inc.)/ Dec. in Investments	(8)	15	(24)	-	-	-
Inc./ (Dec.) in loans and advances				-	-	-
Other income	-	-	1	-	-	-
Cash Flow from Investing	**(37)**	**(133)**	**(95)**	**(70)**	**(93)**	**(70)**
Issue of Equity	19	-	33	-	-	-
Inc./(Dec.) in loans	(27)	160	137	(58)	29	48
Dividend Paid (Incl. Tax)	(3)	(4)	(5)	(6)	(7)	(9)
Others	(9)	(18)	(40)	(48)	(49)	(55)
Cash Flow from Financing	**(21)**	**139**	**125**	**(112)**	**(27)**	**(16)**
Inc./(Dec.) in Cash	15	(31)	66	6	(18)	53
Opening Cash balances	**56**	**73**	**59**	**125**	**130**	**112**
Closing Cash balances	**71**	**42**	**125**	**130**	**112**	**165**

Key ratio

Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Valuation Ratio (x)						
P/E (on FDEPS)	26.1	14.8	11.3	10.2	7.7	5.9
P/CEPS	23.4	11.9	8.6	7.6	5.9	4.6
P/BV	3.4	2.8	2.2	1.9	1.5	1.3
Dividend yield (%)	0.6	0.7	0.8	1.1	1.3	1.9
EV/Sales	0.9	0.7	0.4	0.3	0.3	0.2
EV/EBITDA	11.6	7.0	5.6	4.7	4.1	3.3
EV / Total Assets	2.3	1.7	1.2	1.1	1.0	0.8
Per Share Data (₹)						
EPS (Basic)	7.2	12.8	16.8	18.5	24.4	31.9
EPS (fully diluted)	7.2	12.8	16.8	18.5	24.4	31.9
Cash EPS	8.0	15.8	22.0	24.9	32.0	41.1
DPS	1.1	1.3	1.5	2.0	2.5	3.5
Book Value	55.1	66.8	84.5	100.6	122.0	149.8
Dupont Analysis						
EBIT margin	7.7	8.9	7.5	6.0	6.5	6.7
Tax retention ratio	68.2	53.6	63.1	65.8	65.8	66.1
Asset turnover (x)	3.8	4.1	3.8	4.1	4.3	4.4
ROIC (Post-tax)	19.8	19.6	17.8	16.4	18.1	19.4
Cost of Debt (Post Tax)	10.0	15.2	11.1	9.9	10.5	10.6
Leverage (x)	0.1	0.4	0.8	0.7	0.5	0.5
Operating ROE	21.2	21.4	23.4	20.6	22.0	23.6
Returns (%)						
ROCE (Pre-tax)	19.4	29.4	22.7	20.1	22.7	24.4
Angel ROIC (Pre-tax)	30.8	24.4	23.1	24.9	24.9	27.6
ROE	16.3	21.7	22.1	20.0	21.9	23.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	6	7	7	7	6	6
Inventory / Sales (days)	15	17	20	22	23	24
Receivables (days)	210	172	192	198	200	200
Payables (days)	132	108	120	120	120	120
Working capital cycle (ex-cash) (days)	46	41	32	32	29	26
Solvency ratios (x)						
Net debt to equity	(0.1)	0.8	0.8	0.5	0.5	0.4
Net debt to EBITDA	(0.5)	1.6	1.5	1.0	1.1	0.8
Interest Coverage (EBIT / Interest)	4.2	2.7	2.6	2.9	3.4	3.8

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important `Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	**McNally Bharat Engineering**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	