

Mcnally Bharat Eng. Co Ltd

Sensex: 19468

CMP: INR 76

Target: INR 142



Engineering

MBECL came out with disappointing set of numbers, in line with our estimates due to slower execution (resulting in tepid revenue growth of mere 5.5%) and deterioration in working capital cycle (leading to sharp surge in interest expenses). The company witnessed sharp surge in order bookings (+2.6x to INR 28.8 bn in 9MFY13) leading to total order backlog of INR 53.0 bn, which provides healthy revenue visibility for the company over the next couple of years. We retain our BUY rating and target of INR 142 on the stock.

Execution delays leading to muted revenue growth

MBECL reported a tepid topline growth of 5.5% YoY to INR 5169 mn due to slow down in execution owing to tight liquidity conditions faced by some of its clients. Resultantly MBECL deferred execution and billing for such customers. The infrastructure sector dominated the revenue mix, contributing 56% to revenues in 9MFY13. The steel, mining & port sector contributed 35%.

Marginal decline in operating margins

EBIDTA margin declined marginally by 39 bps to 6.3% in Q3FY13, largely due to 402 bps increase in proportion of other expenses to 11.6%. This decline was partly compensated by 327 bps decrease in proportion of outsourcing expenses to 20.7%. Henceforth, EBIDTA remained flat at INR 327 mn in Q3FY13. However sharp increase of 27.2% in interest cost coupled with 20.6% surge in depreciation expenses resulted in 56.5% decline in net profit to INR 54 mn.

Order bookings gaining momentum

MBECL's standalone order book grew from INR 38.5 bn in Q3FY12 to INR 53.0 bn (L1 INR 3.1 bn) in Q3FY13 (2.4x TTM revenue), registering a growth of 37.5%. Further order backlog is diverse with power accounting for 38% of backlog, followed by steel, mining & port sector (29%), infrastructure/oil & gas (26%) and remaining 7% coming from process plants. MBECL has witnessed sharp surge in order bookings resulting in highest ever order inflow of INR 28.8 bn in 9MFY13 (increased by 2.6x YoY). With an order pipeline of INR 134 bn, the momentum in order inflows is expected to continue in coming quarters.

Increasing debt burden

MBECL's standalone debt continued to surge, increasing by 6.2% from ~INR 6.5 bn in Q2FY13 to INR 6.9 bn in Q3FY13. This has largely been due to deterioration in working capital cycle. Consequently, its D:E Ratio has risen from 1.3x in FY12 to 1.9x in 9MFY13. The working capital cycle is likely to start improving from Q1FY14 onwards once the retention money from large steel & power plant jobs (~INR 2.50 bn expected) falls due for refund. MBECL has also obtained shareholder's nod to raise ~INR 1 bn through preferential issue of shares.

Subsidiary performance

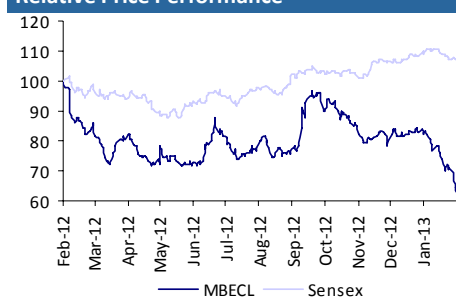
MSEL registered 8.8% growth in topline to INR 1917 mn in 9MFY13. EBITDA improved by 2.0x to INR 242 mn with margin improving 588 bp to 12.6%. The company reported a profit of INR 16 mn at PBT level as against a loss of INR 75 mn in 9MFY12. Going ahead we expect FY13 revenues to be ~INR 2810 mn. The overseas subsidiary performed well, with Global Coal & Mineral Business doubling its revenue to INR 2169 mn in 9MFY13 and increasing its EBIDTA by 47.4% to INR 112 mn.

Outlook & Valuation

Infrastructure sector remains a long term play and MBECL with rich product portfolio and presence across the core sectors of economy is best placed to benefit from the improving economic scenario. Although MBECL is currently facing headwinds in terms of tight liquidity conditions and deteriorating working capital, valuations at 3.7x FY14E EPS, 3.7x FY14E EBIDTA and 0.5x FY14E BV adequately covers all the concerns. MBECL's strong and good quality order backlog coupled with expected investments in its participating sectors of activity, provides comfort on long term growth. We retain our BUY rating and target of INR 142 on the stock.

Shareholding (%)	Sep-12
Promoters	32.28
FIIIs	6.29
DIIIs	14.60
Others	46.83

Relative Price Performance

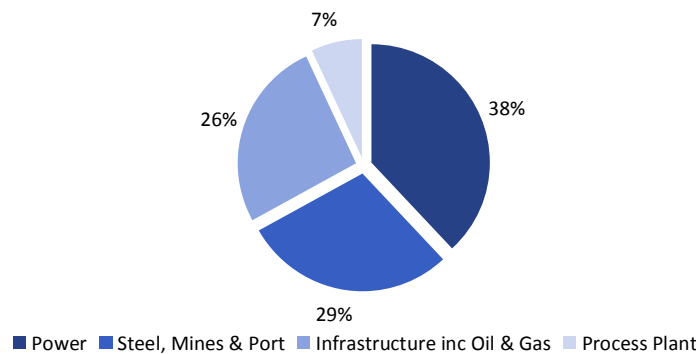
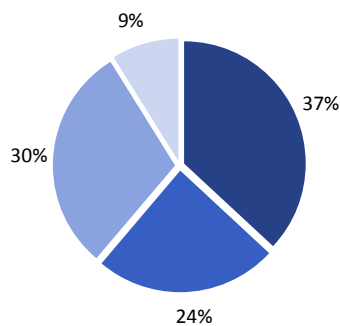
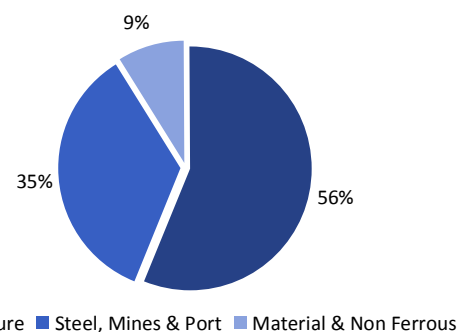


Key Data	
BSE Code	532629
NSE Code	MBECL
Bloomberg Code	MCNA IN
Reuters Code	MCNL.BO
Shares O/S (mn)	31.09
Face Value	10
Mcap (INR bn)	2.36
52 Week H/L	124.00/75.00
2W Avg. Qty, NSE	33573
Free Float (INR bn)	1.59
Beta	0.61

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	23923	26432	27114	31639
Growth (%)	32.70%	10.49%	2.58%	16.69%
EBIDTA Margin (%)	7.04%	5.80%	7.26%	7.40%
APAT	625	485	525	631
Growth (%)	22.18%	-22.37%	8.34%	20.12%
EPS	20.09	15.60	16.90	20.30
P/E	10.88	5.59	4.48	3.73
P/BV	2.13	0.75	0.56	0.50
EV/EBIDTA	6.12	4.57	4.56	4.24
Net Debt-Equity Ratio	1.42	1.82	1.81	1.77
RoACE (%)	20.38	17.17	15.48	16.03
RoAE (%)	21.48	14.21	13.39	14.09

Standalone Quarterly Performance

Particulars (INR mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	% YoY	% QoQ	H1FY13	H1FY12	% YoY
Net Sales	4981	4900	7258	4231	5130	2.99%	21.23%	9361	8581	9.09%
Other Operating Income	5	4	19	48	12	136.54%	-74.32%	60	30	100.67%
Other Income	20	28	36	28	4	-79.90%	-85.14%	32	30	6.73%
Total Income	5006	4933	7313	4307	5146	2.79%	19.49%	9453	8640	9.40%
Total Expenditure	4679	4586	6748	3942	4752	1.57%	20.55%	8694	8061	7.86%
Raw Material Consumed	2396	2644	3941	2379	2366	-1.25%	-0.54%	4745	4046	17.27%
Outsourcing expenses	1294	1176	1719	816	1480	14.39%	81.39%	2296	2342	-2.00%
Employee Expenses	400	386	345	368	399	-0.17%	8.56%	767	702	9.23%
Other Expenses	589	380	742	380	507	-13.92%	33.62%	887	970	-8.58%
PBIDT	327	347	566	365	394	20.28%	7.98%	759	580	30.84%
PBIDTM (%)	6.16%	6.49%	7.28%	7.88%	7.58%	142 bps	(30 bps)	7.71%	6.39%	133 bps
Interest	143	137	210	206	239	66.50%	15.77%	445	255	74.26%
PBDT	184	209	356	159	155	-15.70%	-2.14%	314	325	-3.30%
Depreciation	23	28	32	31	31	35.68%	-1.91%	62	45	37.92%
PBT	161	181	324	127	124	-22.92%	-2.20%	252	279	-9.95%
Tax	54	56	99	40	39	-28.23%	-2.51%	79	96	-17.75%
APAT	107	125	224	87	86	-20.24%	-2.06%	173	184	-5.88%
PATM (%)	2.15%	2.55%	3.08%	2.04%	1.66%	(49 bps)	(38 bps)	1.83%	2.13%	(30 bps)
EPS	3.45	4.02	7.21	2.81	2.75	-20.24%	-2.06%	5.56	5.91	-5.88%
Equity	311	311	311	311	311	-	-	311	311	-

Break-up of Order backlog - Division-Wise

Order Booking - 9MFY13

Revenue break-up - 9MFY13


Financials Consolidated
Income Statement

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	23923	26432	27114	31639
<i>Growth (%)</i>	32.70%	10.49%	2.58%	16.69%
Cost of goods sold	5809	5072	5152	6075
Power & Fuel Cost	179	222	228	253
Employees Cost	2441	2963	2983	3449
Total Expenditure	22238	24900	25146	29298
EBIDTA (without OI)	1685	1532	1968	2341
<i>Growth (%)</i>	7.17%	-9.10%	28.51%	18.94%
<i>EBITDA Margin %</i>	7.04%	5.80%	7.26%	7.40%
Depreciation	229	264	286	316
EBIT	1457	1268	1682	2025
<i>EBIT Margin %</i>	6.09%	4.80%	6.20%	6.40%
Interest Expenses	557	925	1093	1226
Other Income	170	509	222	190
EBT	1070	852	811	989
Tax Expenses	398	189	276	341
PAT	673	663	535	648
Exceptional/Extraordinary Items	9	171	0	0
Minority Interest	39	6	10	17
APAT	625	485	525	631
<i>Growth (%)</i>	22.18%	-22.37%	8.34%	20.12%
<i>APAT Margin (%)</i>	2.61%	1.83%	1.94%	1.99%

Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E
Per Share Data (INR)				
Adjusted EPS	20.09	15.60	16.90	20.30
CEPS	5.70	4.17	5.22	6.09
DPS	2.00	1.00	2.50	3.00
BVPS	102.81	116.76	135.66	152.44
Return Ratios				
RoACE (%)	20.38	17.17	15.48	16.03
RoAE (%)	21.48	14.21	13.39	14.09
Balance Sheet Ratios				
Net Debt-Equity Ratio	1.42	1.82	1.81	1.77
Current Ratio	1.33	1.42	1.62	1.66
Interest Cover Ratio	2.92	1.92	1.74	1.81
Efficiency Ratios				
Total Asset Turnover	3.00	2.55	2.20	2.29
Inventory Days	22	28	32	29
Debtors Days	201	208	215	206
Creditors Days	114	116	118	110
Valuations				
P/E	10.88	5.59	5.81	4.84
P/BV	2.13	0.75	0.72	0.64
Dividend Yield (%)	0.92%	1.15%	2.55%	3.05%
Market Cap / Sales	0.28	0.10	0.11	0.10
EV/EBIDTA	6.12	4.57	4.88	4.52

Balance Sheet

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS				
Share Capital	311	311	311	311
Reserves	2886	3319	3907	4428
Total Networth	3196	3630	4218	4739
Minority Interest	556	562	572	589
Secured Loans	4750	6380	7380	7680
Unsecured Loans	816	803	1053	1403
Total Debt	5566	7182	8433	9083
Total Liabilities	9318	11374	13222	14411

APPLICATION OF FUNDS

Net Block	3402	3455	3765	3499
Capital Work in Progress	357	596	50	50
Investments	293	462	462	462
Total Current Assets	22059	23588	23568	26482
Total Current Liabilities	16586	16611	14507	15967
Net Current Assets	5473	6977	9061	10515
Misc. Exp. not written off	0	0	1	1
Net Deferred Tax	(208)	(116)	(116)	(116)
Total Assets	9318	11374	13222	14411

Cash Flow

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
EBT	1070	852	811	989
Depreciation	229	264	286	316
Interest	557	925	1093	1226
Inc./Dec. in working capital	(2241)	(1955)	(1773)	(1550)
Tax paid	(364)	(289)	(276)	(341)
Other Income	(170)	(509)	(222)	(190)
Cash flow from operations (a)	(920)	(713)	(80)	450
Inc./Dec. in investments	(266)	(169)	0	0
Change in Fixed Assets	(416)	(277)	(596)	(50)
Change in CWIP	(316)	(239)	546	0
Others	(557)	(925)	(1093)	(1226)
Cash flow from investing (b)	(1555)	(1610)	(1143)	(1276)
Inc./Dec. in debts	2073	1617	1250	650
Dividend paid	(62)	(31)	(78)	(93)
Interest paid	(557)	(925)	(1093)	(1226)
Others	787	1210	1376	1400
Cash flow from financing (c)	2241	1871	1456	731
Opening cash balance	1246	1012	560	793
Cash Flow during the year (a+b+c)	(234)	(452)	233	(96)
Closing cash balance	1012	560	793	697

 Sharad Avasthi Dy Head - Equity Research sharad.avasthi@spagroupindia.com Tel.: +91-33-4011 4800 Ext.832

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Disclosure of Interest Statement

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| 1. Analyst ownership of the stock | - No |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

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SPA Securities Limited : SPA House, Nyay Sagar, Near Gurunanak Hospital, Bandra (E), Mumbai - 400051, Tel. No. : +91-022-4289 5600

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