

MCNally Bharat Engineering ₹59**Leading Engineering Company...!!! Buy**

Dec 22, 2017

Company Background

McNally Bharat Engineering Company Ltd (MBE) is one of the leading company in engineering in India, which was incorporated on 10 July 1961 under the name of McNally Bird Engg. Co. Ltd as a joint venture between McNally Pittsburg, USA and Bird & Co. Its headquartered at Kolkata engaged in providing Turnkey solutions in the areas of Power, Steel, Alumina, Material Handling, Mineral Beneficiation, Coal washing, Ash handling and disposal, Port Cranes, Civic and Industrial water supply etc. The turnkey construction activity of the company is managed by its Projects division also based at Kolkata through separate SBU's that assume responsibility for each activity from concept to commissioning. MBE also manufactures a range of equipment largely employed in the above activities, which are undertaken at two factories under the Products division of the company. MBE, a first Indian company made a association with Aluminium Pechiney (France) for building Hyper Dense Phase Alumina Conveying System at Angul for National Aluminium Company Ltd. Some of its associates include SOLIOS-France, Poltegor- Poland, Famac-Poland, TPE-Russia, DMT-Germany, Siemens Vai-France, KCI Cranes-Finland, CODCO-China, GRD Minproc- Australia, GeaMesso-Swiss, MCC (China), Uralmash Engg-Russia and Mekhanobr Chormet (Ukraine).

Key Highlights

- ➔ Company is taking aggressive steps to bid for new projects and is aiming to receive order bookings at least for ₹ 2500 cr in the year 2017-18.
- ➔ During the year company get the work orders nearly ₹ 694 cr from Hindustan Zinc Limited and Odisha.
- ➔ New areas of business like Solar Power, FGD and diversification attempts in infrastructure buildings both in industrial and social sectors will benefit to the company.
- ➔ House for all by 2022 under the pradhan Mantri Awas Yojana, entails to construction of 20 mn houses by 2022 and create 100 smart cities & rejuvenate 500 cities under AMRUT this initiations will have a direct impact on the performance of the company.

Key Financials

Year Ended 31 st	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	22,456.2	25,262.5	22,406.4
Rev. growth (%)	3.95	12.50	(11.31)
EBITDA (INR mn)	1,363.1	1,687.3	332.6
Net profit (INR mn)	(1,142.2)	(3,442.5)	(582.8)
Shares outstanding (mn)	50.3	51.1	136.9
EPS (INR)	0.0	0.0	0.0
EPS growth (%)	0.00	0.00	0.00
P/E (x)	0.00	0.00	0.00
RONW (%)	(36.98)	0.00	0.00
ROCE (%)	8.16	0.00	0.00

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: MCNL.BO
Bloomberg	: MCNA IN
NSE	: MBECL
BSE	: 532629

Market Data

52 Wk Range (₹)	: 37/79
Shares in Issue (mn)	: 136.90
Market. Cap (bn)	: 3.16
BSE 2 Wk Avg Vol	: 10000

Share Holding Pattern (%)

Promoters Holding	: 67.00
Public & Others	: 18.00
Corporate Holding	: 13.00
Foreign Institution	: 02.00
Institutions	: 00.00

Investment Theme

McNally Bharat Engineering is one of the leading Engineering Companies in India engaged in providing turnkey solutions in the areas of Power, Steel, Coal & Mining, Ports, Aluminium, Material Handling, Mineral Processing, Cement, Water, Oil & Gas and Infrastructure sectors such as Buildings & Townships, High Rises, Roads, Metro, Rail etc. The Indian engineering sector is divided into two major segments - heavy engineering and light engineering. The capital goods and engineering turnover in India is expected to have reached \$ 125.4 bn by FY 2016-17. Construction equipment industry recorded sales of 76,000 and 68,000 units of construction equipment in FY16 and FY17 respectively. This is further expected to grow to around 97,000 units by 2018. Exports of machine tools from India increased 15.65% in 2016-17 to reach \$ 452.34 mn, US & UK are major importer from India.

Beyond Engineering...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	21,701.1	24,770.5	14.1	19,215.2	(22.4)
Other Income	728.9	448.0	(38.5)	3,162.5	605.9
Change in Stocks	0.0	0.0	0.0	0.0	0.0
Raw Material Con.	11,119.3	14,164.4	27.4	14,841.0	4.8
Employee Exp.	1,365.7	1,132.3	(17.1)	934.4	(17.5)
Indirect Taxes	26.2	44.0	67.9	28.7	(34.8)
Other Exp.	8,231.6	9,545.2	16.0	7,335.6	(23.1)
Operating Exp.	20,742.8	24,885.9	20.0	23,139.7	(7.0)
Operating Profit	1,687.2	332.6	(80.3)	(762.0)	(329.1)
Total Interest	2,538.3	3,549.4	39.8	4,479.9	26.2
Gross Profit	(851.1)	(3,216.8)	278.0	(5,241.9)	63.0
Net Dep.	291.1	225.7	(22.5)	253.4	12.3
Total Taxation	0.0	0.0	0.0	(4,912.5)	0.0
Net Profit/Loss	(1,142.2)	(3,442.5)	201.4	(582.8)	(83.1)

4 Years Balance Sheet

(₹ mn)

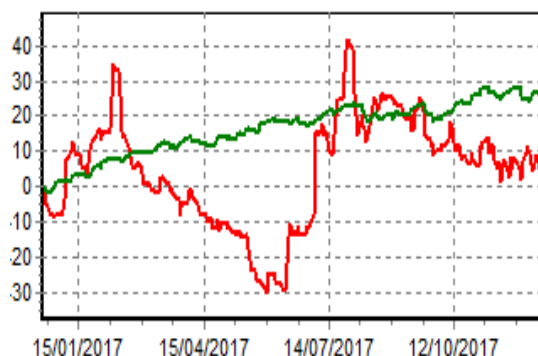
Balance Sheet as on 31 st	Mar 14	Mar 15	Mar 16	Mar 17
SOURCES OF FUNDS	15,051.7	19,151.9	18,582.4	28,920.8
Equity Share capital	408.4	503.4	510.9	1,368.8
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	75.0	62.5	0.0
Reserves & Surplus	2,874.5	2,571.5	(4,554.2)	(345.1)
Secured Loans	7,467.5	10,513.1	14,671.3	10,761.4
Unsecured Loans	4,301.3	5,488.9	7,891.9	17,135.7
USES OF FUNDS	15,051.7	19,151.9	18,582.4	28,920.8
Gross Block	1,936.1	1,972.3	1,134.1	1,139.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	609.6	889.9	222.0	474.1
Net Block	1,326.5	1,082.4	912.1	664.9
Capital Work in Progress	71.0	82.0	46.2	46.4
Investments	1,983.3	1,983.3	1,811.7	4,846.7
Current Assets	28,562.1	33,468.7	37,099.8	41,830.4
Less : Current Liabilities	17,231.2	17,943.0	21,326.2	22,324.7
Total Net Current Assets	11,330.9	15,525.7	15,773.6	19,505.7
Misc. Expenses not writtenoff	340.0	478.5	38.8	3,857.1
NOTE				
Book Value of Unquoted Investments	448.5	448.5	1,811.7	4,846.7
Market Value of Quoted Investments	3.8	5.5	4.6	4.7
Contingent Liabilities	2,053.5	1,822.3	2,445.5	2,371.1
Dividend (%)	10.0	0.0	0.0	0.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 16	Mar 17	Jun 17	Sep 17
Net Sales	4,571.9	6,900.4	3,793.7	3,795.2
Cost Of Sales	5,250.5	7,899.7	4,320.4	4,875.5
Operating Profit	(678.6)	(999.3)	(526.7)	(1,080.3)
Other Income	268.6	2,068.1	391.7	509.2
Adjusted PBDIT	(410.0)	1,068.8	(135.0)	(571.1)
Financial Expenses	1,002.9	1,096.8	1,265.0	1,196.7
Depreciation	53.9	45.3	40.5	37.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(1,466.8)	(73.3)	(1,440.5)	(1,805.3)
Tax Charges	0.0	(4,912.5)	(421.6)	(451.7)
Reported Profit	(1,466.8)	4,839.2	(1,018.9)	(1,353.6)
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	(1,466.8)	4,839.2	(1,018.9)	(1,353.6)

52 Week Index Relative Percentage Appreciation



MCNally Bharat vs SENSEX

Risks Associated

- ➔ MBE's decision not to participate in any tenders in last 3-years has created a sense in the market that it shall not continue Business of its traditional lines. Non-completion of projects on time, in recent years leads to reduction of level of customer confidence.
- ➔ Entry of small segmented competitors into technology driven areas of business leading to unfair competition. Large competitors are highlighting MBE's recent financial weakness to customers & delay in execution of projects.
- ➔ For 2nd quarter net sales are marginally rose to ₹ 3795.20 mn, operating loss was increased to ₹ 1080.30 mn from ₹ 526.70 mn, financial charges were jumped by 5.40% to ₹ 1196.70 mn and finally net loss also jumped by 32.85% to ₹1353.60 mn on QoQ basis.

Scope of Growth

- ➔ New business areas like Solar Power, FGD and diversification attempts in infrastructure buildings both in industrial & social sectors.
- ➔ Global industrial recession and overseas partners' strong reliance in MBE partnership creates unique opportunity to company in countries like Africa, Turkey & UAE & their renewed desire to work with it in India on long term basis.
- ➔ Company has the opportunity to utilize its diverse knowledge bank & Human resource in any area of industry wherever opportunity arises, in recessionary scenario. It's new action plan to complete all projects within Mar 2018 to regenerate confidence level of customers.



In a Nutshell

MCNally Bharat Engineering is one of the leading Engineering Company in India. Its headquarterd at Kolkata, engaged in providing Turnkey solutions in the areas of Power, Steel, Alumina, Material Handling, Mineral Beneficiation, Coal washing, Ash handling and disposal, Port Cranes, Civic and Industrial water supply etc. The turnkey construction activity of the company is managed by its Projects division. Company has good associates globally includes France, Poland, Russia, Germany, Australia, China, Ukraine and Swiss. Its R&D activities are undertakes in association with renowned Institutions including CMERI Durgapur, Indian School of Mines Dhanbad, National Metallurgical Laboratories, Jamshedpur, Indian Institute of Minerals, Bhubaneshwar, Structural Engineering Research Center, Chennai etc. Company was not participate any tenders in the past 3-years, it has created a sense in the market that the it shall not continue its traditional business lines. But it has the opportunity to utilize its diverse knowledge & human resource in any area of industry wherever opportunity arises. During the FY it has different work orders from Hindustan Zinc Ltd worth ₹ 30 Cr, Odisha for a value of ₹ 514 cr and some other orders from Hindustan Zinc nearly ₹ 247 cr. Now company also speed up the pending work orders to finish for March 2018. For FY 2016-17 net sales were declined by 22.40% to ₹ 192015.20 mn, other income was rose to ₹ 3162.50 mn, operating loss was ₹ 762 mn, interest cost was increased by 26.20% to ₹ 4479.90 mn and eventually net loss was ₹ 582.80 mn overall the previous year was not favourable to the company. There is no dividend announcement from BoDs, due to, no profit in the previous year. However the scope of growth hereon is better.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates 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. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.