

## Engineers India (ENGIND)

### Higher turnkey contribution dents performance

- Engineers India (EIL) reported weak Q3FY19 numbers due to higher contribution from the low margin turnkey business
- Due to strong execution in turnkey segment, revenue booking in this segment jumped 163.8% YoY to ₹ 234.5 crore. Accordingly, turnkey segment contributed 40.6% to the overall topline (normally contributes less than 25-35% to the overall business). This helped overall revenues grow 21.9% YoY to ₹ 577 crore. Consultancy revenues (₹ 342.5 crore) declined 10.9% YoY for the quarter. We estimated overall revenues of ₹ 556.2 crore for the quarter
- EBITDA declined 29.6% YoY. This was due to 90.5% jump in other expenses due to spike in sub-contracting and construction material expenses (primarily due to higher turnkey contribution). Consultancy and turnkey segments reported EBIT margins of 29.7% and 6.1%, respectively. Overall EBITDA margins came in at 16.4% vs. 28.5% YoY. Other income grew 32% YoY. Accordingly, PAT de-grew 16.3% YoY (against EBITDA decline of 29.6%) to ₹ 90.8 crore

#### Strong inflows in 9MFY19, healthy inflows expected in FY20-21E

**Order inflows for Q3FY19 were at ₹ 91 crore (₹ 13 crore turnkey and ₹ 78 crore consultancy order), taking total inflows for 9MFY19 to ₹ 5786 crore.** This was primarily on account of large order win of HPCL Barmer greenfield project of ~₹ 5400 crore in Q2FY19 (LSTK order ₹ 4300 crore, consultancy order ₹ 1100 crore). Going forward, for the remainder of FY19E, orders for polypropylene unit (BPCL Kochi) and 10 MMTA IOCL Panipat refinery expansion are expected. For FY20E, 6 MMTA Numaligarh refinery expansion project (consultancy order), greenfield petchem project by Gail-HPCL Kakinada, pipeline project for Numaligarh are expected. For FY21E, 9 MMTA greenfield refinery at CPCL Nagapatinam, 7.5 MMTA Bina refinery expansion project and 10 MMTA Mangalore refinery expansion project are expected. Additionally, domestic projects like Maharashtra West Coast Refinery, are also likely to keep the order pipeline robust for FY19E-21E. Accordingly, we estimate healthy inflows of ₹ 2000-2500 crore each year, over FY20-21E.

#### Overseas and other opportunities

EIL is also expecting an overseas order (greenfield refinery) in Q1FY20 in the range of ₹ 300-600 crore (consultancy order). The management is also pursuing other opportunities like two strategic crude reserves for ISPRIL at Chandikhole in Odisha and at Padur in Karnataka, large fertiliser projects (like Ramagundam Fertiliser Complex) and infrastructure projects (like Namami Gange, construction of UIDAI data centre complex, Atal Mission for Rejuvenation and Urban Transformation, etc).

#### Turnkey execution to operating performance, strong b/s, maintain HOLD

EBITDA and PAT for EIL are likely to grow at a muted rate of 10.3% and 9.3% CAGR, respectively, in FY18-21E. This is because of increasing contribution from turnkey segment (order book mix: consultancy 43%, turnkey 57%), which is likely to dent EBITDA margins to 17.5% in FY21E from 23.1% in FY18. We expect revenue growth of 21% CAGR in FY19E-20E. **EIL is also likely to face project-related risks in this segment of the business.** On the positive side, EIL's balance sheet continues to remain healthy with nil debt and cash balance of ~₹ 2300 crore. Also, EIL's book-to-bill is at healthy ~4.1x (order book at ₹ 10,787 crore). We value EIL at 14x P/E on FY21E EPS of ₹ 7.8 to arrive at a target price of ₹ 110 per share. We maintain **HOLD** rating on the company.

Rating matrix	
Rating Matrix	
Rating	: Hold
Target	: ₹ 110
Target Period	: 12 - 15 months
Potential Upside	: 3%

What's changed?	
Target	Unchanged
EPS FY20E	Changed from ₹ 6.1 to ₹ 6.9
EPS FY21E	Introduced at ₹ 7.8
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	628.9	512.7	22.7	742.8	-15.3
EBITDA	94.9	134.8	(29.6)	91.5	3.7
EBITDA (%)	16.4	28.5	-1204 bps	13.4	302 bps
PAT	90.8	108.4	(16.3)	97.8	(7.2)
EPS (₹)	1.4	1.7	-16.3	1.5	-7.2

Key financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Revenue	1,967	2,487	2,803	3,196
EBITDA	413	357	438	519
EBITDA (%)	23.1	15.7	17.0	17.5
Net Profit	378	361	419	472
EPS (₹)	6.0	5.7	6.6	7.5

Valuation summary				
(x)	FY18	FY19E	FY20E	FY21E
P/E	17.9	18.7	16.1	14.3
Target P/E	18.4	19.3	16.6	14.7
EV / EBITDA	10.5	12.7	10.0	8.0
P/BV	3.0	3.0	2.9	2.8
RoNW (%)	17	15.8	17.9	19.3
RoCE (%)	23.2	21.5	23.4	23.5

Stock data	
Particular	Amount
Market Capitalization	₹ 6761 Crore
Total Debt (FY19E)	₹ 6.5 Crore
Cash and Investments (FY19E)	₹ 2220 crore
EV (FY19E)	₹ 4548 Crore
52 week H/L (₹) (BSE)	206 / 100
Equity capital (FY19E)	₹ 316 Crore
Face value	₹ 5

Price performance				
Return (%)	1M	3M	6M	12M
Engineers India Ltd	(10.4)	(2.9)	(15.5)	(30.4)
Larsen & Toubro Ltd	(5.3)	(3.6)	1.9	(2.9)

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## Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	577.0	556.2	473.4	21.9	681.4	-15.3	Revenue increased 21.9% YoY due to strong order booking in the turnkey sector
Construction Mtl costs	128.2	0.0	24.8	415.9	201.4	-36.4	
Employees Expenses	197.2	184.7	189.0	4.3	183.4	7.5	
Other Expenses	285.0	244.7	149.6	90.5	406.5	-29.9	A 90.5% jump in other expenses due to spike in sub-contracting and construction material expenses
Total Expenditure	482.1	429.4	338.6	42.4	589.9	-18.3	
EBITDA	94.9	126.8	134.8	-29.6	91.5	3.7	EBITDA declined 29.6% YoY due to higher revenue contribution from low margin turnkey segment. Consultancy and turnkey segments reported EBIT margins of 29.7% and 6.1%, respectively
EBITDA margins (%)	16.4	22.8	28.5	-1204 bps	13.4	302 bps	
Interest	0.3	0.4	0.1		0.4		
Depreciation	5.3	5.3	5.9	-9.7	5.7	-6.9	
Tax	50.4	56.7	59.7	-15.7	49.1	2.7	
Other Income	51.9	48.0	39.3	32.0	61.4	-15.6	Other income jumped 32% YoY.
PAT	90.8	112.5	108.4	-16.3	97.8	-7.2	

Key Metrics	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	
<b>Revenue Segmentation</b>						
Con. & Engg. Projects	342.5	384.5	-10.9	332.4	3.0	Consultancy and turnkey segments contributed 59.4% and 40.6% to the topline, respectively
As a % of Sales	59.4	81.2		48.8		
Turnkey Projects	234.5	88.9	163.8	349.0	-32.8	
As a % of Sales	40.6	18.8		51.2		
<b>Segmental EBIT</b>						
Con. & Engg. Projects	101.9	144.0	-29.2	96.4	5.7	
As a % of EBIT	87.7	93.0		84.6		
Turnkey Projects	14.3	10.8	32.3	17.5	-18.5	
As a % of EBIT	12.3	7.0		15.4		

Source: Company, ICICI Direct Research

## Change in estimates

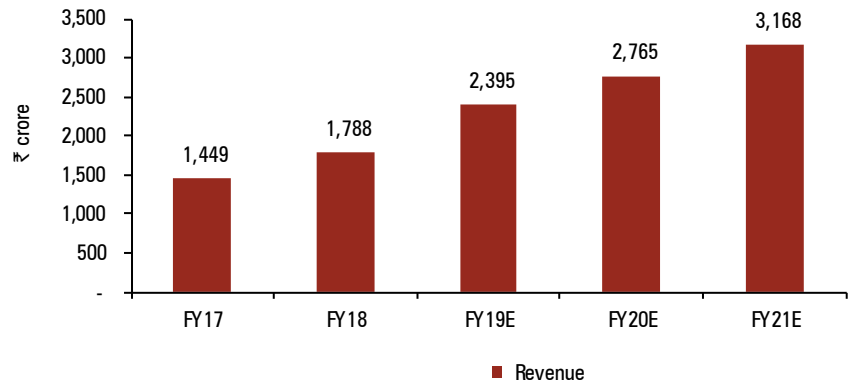
(₹ Crore)	FY17	FY18	FY19E			FY20E			FY21E
	Actual	Actual	Old	New	% Change	Old	New	% Change	Introduced
Revenue	1,672.3	1,967.1	2,393.4	2,487.0	3.9	2,722.3	2,803.0	3.0	3,195.8
EBITDA	302.2	413.0	424.3	356.7	-15.9	454.5	438.3	-3.6	519.0
EBITDA Margin (%)	20.9	23.1	19.2	15.7	-350 bps	18.0	17.0	-100 bps	17.5
PAT	325.0	377.9	387.9	361.1	-6.9	420.1	418.8	-0.3	471.6
EPS (₹)	4.8	6.0	6.1	5.7	-6.3	6.6	6.6	0.4	7.5

Source: Company, ICICI Direct Research

## Company Analysis

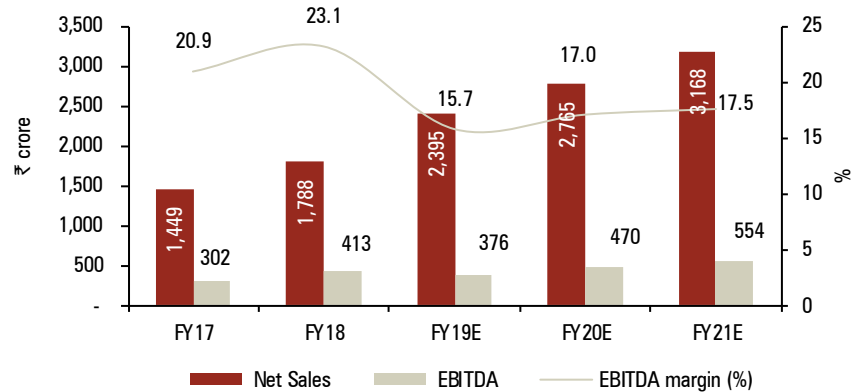
Execution pick-up in turnkey segment to drive revenue growth

**Exhibit 1: Revenue trend**



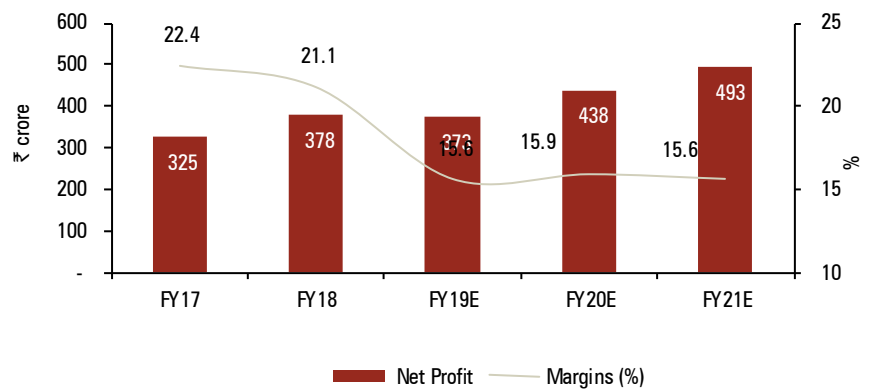
Source: Company, ICICI Direct Research

**Exhibit 2: EBITDA and EBITDA margin trend**



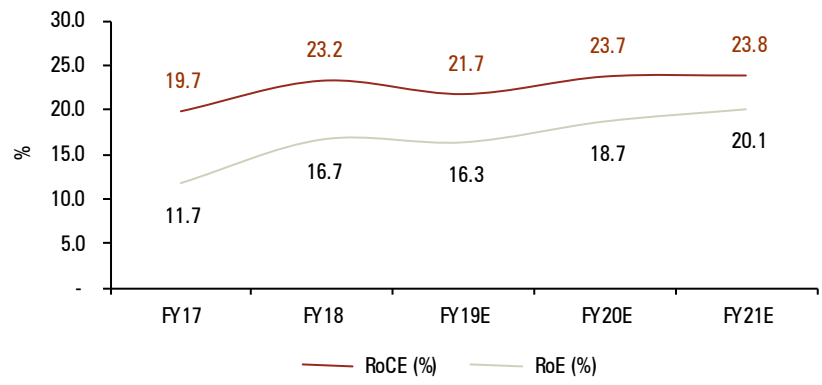
Source: Company, ICICI Direct Research

**Exhibit 3: PAT trend**



Source: Company, ICICI Direct Research

**Exhibit 4: RoE, RoCE trend**



Source: Company, ICICI Direct Research

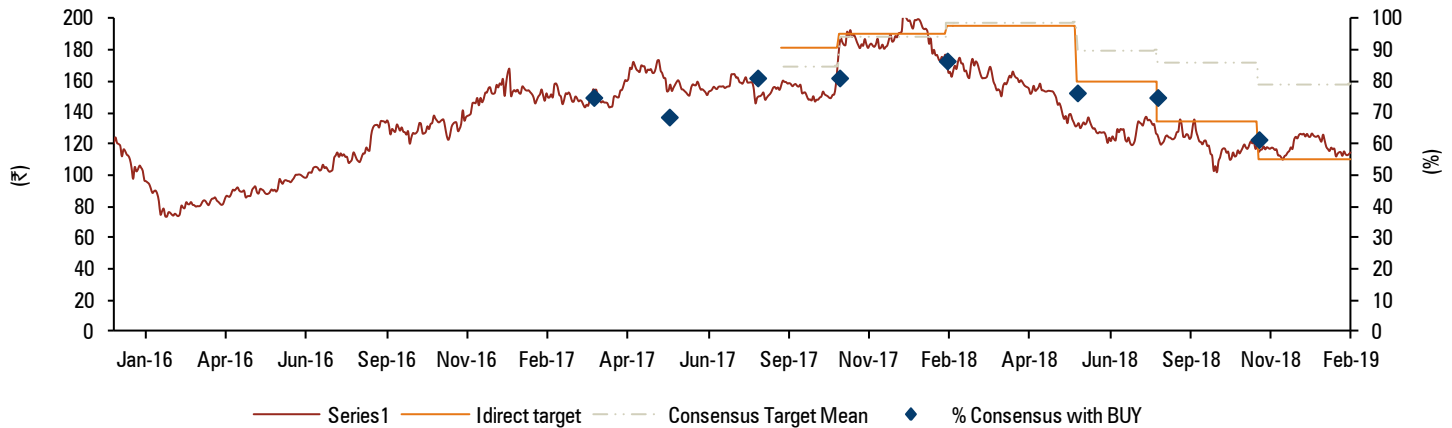
EIL has a sound track record of delivering topline and bottomline growth despite the cyclical nature of the industry due to volatile oil prices. Across business cycles, EIL has managed to keep its P&L and net worth ticking. The same is reflected in the growth of topline, bottomline and net worth of 11.3%, 6.8% and 11% CAGR over FY07-16, respectively

## Outlook and valuation

EIL has a sound track record of delivering topline and bottomline growth despite the cyclical nature of the industry due to volatile oil prices. Across business cycles, EIL has managed to keep its P&L and net worth ticking. The same is reflected in the growth of topline, bottomline and net worth of 11.3%, 6.8% and 11% CAGR over FY07-16, respectively. On the valuation front, EIL has commanded ~17x its earnings, which is the 10-year average of two year's forward earnings. However, in time of positive growth outlook, the company has commanded premium over average multiples.

**Going forward**, EBITDA and PAT for EIL are likely to grow at a muted rate of 10.3% and 9.3% CAGR, respectively, in FY18-21E. This is because of increasing contribution from turnkey segment (order book mix: consultancy 43%, turnkey 57%), which is likely to dent EBITDA margins to 17.5% in FY21E from 23.1% in FY18. We expect revenue growth of 21% CAGR in FY19E-20E. **EIL is also likely to face project-related risks in this segment of the business.** On the positive side, EIL's balance sheet continues to remain healthy with nil debt and cash balance of ~₹ 2300 crore. Also, EIL's book-to-bill is at healthy ~4.1x (order book at ₹ 10,787 crore). We value EIL at 14x P/E on FY21E EPS of ₹ 7.8 to arrive at a target price of ₹ 110 per share. We maintain **HOLD** rating on the company.

### Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research, Initiated coverage on March 16, 2017

### Key events

Date/Year	Event
Jun-14	Navratna status accorded to the Company
Jan-15	EIL, National Fertilizers Limited and Fertilizer Corporation of India Limited form a JVC for setting up new Ammonia and Urea plants of 2200 MT per day and 3850 MT per day capacity respectively at the existing site of Ramagundam Fertilizer Plant in Telangana
Sep-16	EIL signs contract with IOCL for providing EPCM services for implementing BSVI quality upgradation programs at its six refinery locations
Nov-16	EIL announces bonus of 1:1
Jan-17	HPCL awards contract of ~₹ 2500 crore of Vizag Refinery Modernization Project (VRMP) to EIL
Mar-17	Board approves buyback of 6.23% of paid-up equity share capital at ₹ 157 per share for an aggregate consideration not exceeding ₹ 658.8 crore
Sep-18	EIL wins order worth ₹ 5000 crore for Rajasthan Refinery Project from HPCL
Sep-18	EIL order book crosses all time high, over ₹ 12000 crore

Source: Company, ICICI Direct Research

### Top 10 Shareholders

Rank	Name	Latest Filing Date	O/S	Position	Position Change
1	Government of India	31-12-2018	52.02%	328.72M	+0.01M
2	ICICI Prudential Asset Management Co. Ltd.	31-12-2018	7.63%	48.21M	+5.32M
3	L&T Investment Management Limited	31-12-2018	5.53%	34.96M	+8.54M
4	Life Insurance Corporation of India	31-12-2018	3.54%	22.38M	0
5	Reliance Nippon Life Asset Management Lir	31-12-2018	2.04%	12.91M	+0.49M
6	UTI Asset Management Co. Ltd.	31-12-2018	1.65%	10.41M	+0.10M
7	DSP Investment Managers Pvt. Ltd.	31-12-2018	1.13%	7.15M	-3.08M
8	Goldman Sachs Asset Management (India) I	31-03-2018	1.08%	6.84M	+0.30M
9	Aditya Birla Sun Life AMC Limited	31-12-2018	0.87%	5.52M	-0.63M
10	The Vanguard Group, Inc.	31-12-2018	0.82%	5.21M	0

### Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	52.0	52.0	52.0	52.0	52.0
FII	5.9	5.6	4.3	4.4	6.5
DII	25.6	26.5	27.8	26.9	26.3
Others	16.5	15.9	15.9	16.7	15.2

Source: Reuters, ICICI Direct Research

### Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
L&T Investment Management Limited	+15.35M	+8.54M	DSP Investment Managers Pvt. Ltd.	-5.54M	-3.08M
ICICI Prudential Asset Management Co. Ltd.	+9.56M	+5.32M	Kotak Mahindra Asset Management Company Ltd.	-2.57M	-1.43M
Reliance Nippon Life Asset Management Limited	+0.88M	+0.49M	BNP Paribas Asset Management India Pvt. Ltd.	-1.26M	-0.70M
Schroder Investment Management Ltd. (SIM)	+0.44M	+0.28M	Aditya Birla Sun Life AMC Limited	-1.12M	-0.63M
UTI Asset Management Co. Ltd.	+0.17M	+0.10M	Axis Asset Management Company Limited	-0.94M	-0.60M

Source: Reuters, ICICI Direct Research

## Financial summary (Standalone)

Profit and loss statement		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Net Sales	1,788	2,395	2,765	3,168	
Other operating income	-	-	-	-	
Revenue	1,788	2,395	2,765	3,168	
% Growth	4.4	34.0	15.4	14.6	
Other income	179	215	225	230	
Total	1,967	2,610	2,990	3,398	
Total Raw Material Costs	-	-	-	-	
Employee Expenses	757	762	816	919	
Other expenses	617	1,257	1,479	1,695	
Total Operating Expenditure	1,375	2,019	2,295	2,613	
Operating Profit (EBITDA)	413	376	470	554	
% Growth	92.7	(9.0)	25.0	17.9	
Interest	1	1	2	3	
PBDT	592	590	693	782	
Depreciation	24	25	28	34	
PBT before Exceptional Items	568	565	664	748	
Total Tax	190	192	226	254	
PAT before MI	378	373	438	493	
Minority Interest	-	-	-	-	
PAT	378	373	438	493	
% Growth	22.7	(1.3)	17.6	12.5	
EPS	6.0	5.9	6.9	7.8	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Equity Capital	316.0	316.0	316.0	316.0	
Reserve and Surplus	1,952	1,967	2,024	2,132	
Total Shareholders funds	2,268	2,283	2,340	2,448	
Minority Interest	-	-	-	-	
Other Non Current Liabilities	8.6	8.6	8.6	8.6	
Total Debt	6.5	6.5	6.5	6.5	
Total Liabilities	2,283	2,298	2,355	2,463	
Gross Block	439.1	495.9	540.9	630.9	
Acc: Depreciation	169.4	192.8	219.4	251.4	
Net Block	255.1	303.1	321.6	379.6	
Capital WIP	51.8	35.0	40.0	45.0	
Total Fixed Assets	307.0	338.1	361.6	424.6	
Non Current Assets	313.6	313.6	313.6	313.6	
Inventory	1.1	1.2	1.3	1.5	
Debtors	544.9	613.2	691.1	788.0	
Loans and Advances	10.3	174.1	196.2	223.7	
Other Current Assets	521.4	521.4	521.4	521.4	
Cash	2,425.5	2,220.2	2,364.4	2,622.1	
Total Current Assets	3,528.3	3,778.9	4,054.8	4,476.3	
Current Liabilities	218.0	279.4	314.9	359.0	
Provisions	626.8	726.3	818.6	933.3	
Net Current Assets	1,465.6	1,463.8	1,497.8	1,587.6	
Total Assets	2,283	2,298	2,355	2,463	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Profit after Tax	377.9	361.1	418.8	471.6	
Depreciation	23.8	23.4	26.6	32.0	
Interest	0.6	1.2	2.2	2.5	
Cash Flow before WC changes	402.3	385.7	447.5	506.1	
Changes in inventory	(0.0)	(0.1)	(0.1)	(0.2)	
Changes in debtors	(161.8)	(68.3)	(77.9)	(96.9)	
Changes in loans & Advances	0.4	(163.8)	(22.1)	(27.5)	
Changes in other current assets	110.2	(223.7)	(31.6)	(39.3)	
Net Increase in Current Assets	(154.7)	(455.8)	(131.8)	(163.8)	
Changes in creditors	(4.9)	61.4	35.5	44.1	
Changes in provisions	163.4	99.5	92.3	114.7	
Net Increase in Current Liabilities	830.9	252.3	241.9	331.7	
Net CF from Operating activities	1,078.4	182.2	557.7	674.0	
Changes in deferred tax assets	(33.9)	-	-	-	
(Purchase)/Sale of Fixed Assets	(19.7)	(40.0)	(50.0)	(50.0)	
Net CF from Investing activities	(27.1)	(40.0)	(50.0)	(50.0)	
Dividend and Dividend Tax	(228.2)	(339.1)	(352.9)	(352.9)	
Net CF from Financing Activities	(881.2)	(347.5)	(363.5)	(366.3)	
Net Cash flow	170.1	(205.3)	144.2	257.7	
Opening Cash/Cash Equivalent	2,255.4	2,425.5	2,220.2	2,364.4	
Closing Cash/ Cash Equivalent	2,425.5	2,220.2	2,364.4	2,622.1	

Source: Company, ICICI Direct Research

Key ratios		(Year-end March)			
	FY18	FY19E	FY20E	FY21E	
Per Share Data					
EPS	6.0	5.7	6.6	7.5	
Cash per Share	38.4	35.1	37.4	41.5	
BV	35.9	36.1	37.0	38.7	
Dividend per share	3.0	4.5	4.6	4.6	
Dividend payout ratio	0.5	0.8	0.7	0.6	
Operating Ratios					
EBITDA Margin	23.1	15.7	17.0	17.5	
PAT Margin	21.1	15.9	16.2	15.9	
Return Ratios					
RoE	16.7	15.8	17.9	19.3	
RoCE	23.2	21.5	23.4	23.5	
Valuation Ratios					
EV / EBITDA	10.5	12.7	10.0	8.0	
P/E	17.9	18.7	16.1	14.3	
EV / Net Sales	2.2	1.8	1.6	1.3	
Sales / Equity	0.9	1.1	1.2	1.3	
Market Cap / Sales	3.4	2.7	2.4	2.1	
Price to Book Value	3.0	3.0	2.9	2.8	
Turnover Ratios					
Asset turnover	4.5	5.0	5.2	5.1	
Debtors Turnover Ratio	4.2	4.3	4.3	4.3	
Creditors Turnover Ratio	8.9	10.0	9.4	9.5	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.6	0.9	0.9	0.9	
Quick Ratio	0.6	0.9	0.9	0.9	

Source: Company, ICICI Direct Research



## **RATING RATIONALE**

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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