

Engineers India (ENGIND)

Weak Q1 but heading strong...

- Engineers India (EIL) reported weak Q1FY18 numbers. The company reported topline, EBITDA and PAT numbers, which were below our estimates
- Revenue increased 9.8% YoY to ₹ 375.4 crore, which was below our estimate of ₹ 446.8 crore. This was primarily on account of lower order booking in the turnkey (EPC) segment. Turnkey segment contributed only 13.6% to the topline of the company (₹ 50.9 crore) vs. our expectation of ~30% for the quarter
- EIL reported strong EBITDA margins of 21.8% (our estimate of 20%) due to increased contribution from high margin consultancy segment. The consultancy segment contributed 86.4% to the topline and ~95% to the EBITDA of the company. Accordingly, EBITDA grew 11.5% YoY at ₹ 81.7 crore. We expected EBITDA of ₹ 89.4 crore for the quarter
- EIL also witnessed decline in other income by 16.4% YoY. This led to muted PAT growth of 1.3% YoY. Absolute PAT came in at ₹ 81.4 crore vs. our expectation of ₹ 97.4 crore for the quarter

Healthy order book, well-placed for upcoming capex cycle

In Q1FY18, LSTK biz was down 30.5% YoY as most of old projects are on the completion stage and new projects awarded over last 8-10 months are yet to contribute to the topline. We expect its ₹ 1200 crore CPCL's Manali refinery project and ₹ 2300 HPCL's Vizag refinery projects in LSTK segment to contribute to LSTK revenues from H2FY18. For the quarter order inflow remained muted at ₹344 crore, taking the order book to ₹ 7698 crore. For FY18E and FY19E, EIL expects order inflow to remain robust with likely brown field expansions by Indian Oil Corporation Ltd (Gujarat/ Panipat), Bharat Oman Refineries Limited (BORL) phase 2 expansion, HPCL Mittal Energy Ltd, Bhatinda refinery etc, apart from major green field expansion projects like the West Coast Mega Refinery. For FY18E, the company has guided order inflows of ₹ 2300-2400 crore for the quarter. Additionally, the management has also indicated opportunities from projects like the Strategic Crude Reserves, large fertilizer projects (like Ramagundam Fertilizer Complex) and Infrastructure projects (like Namami Gange, Construction of UIDAI Data Centre Complex, Atal Mission for rejuvenation and urban transformation, etc).

Healthy B/S, pick-up in execution to drive profitability

Despite healthy dividend payout and buyback (6.23% of the total equity), EIL balance sheet continues to remain healthy with nil debt and cash balance of ~₹ 1850 crore. With strong order back-log (₹ 7698 crore) and favourable business mix (consultancy 49% and turnkey 51%), we expect EIL to clock healthy EBITDA margins of over 20% in FY18E-19E. This is because consultancy segment is likely to earn healthy EBITDA margins of 25+% over FY17-19E. The management has also indicated progress of several stuck projects during the quarter. Write backs from this stuck projects is likely to augur well for the company over FY18E-19E. We believe with pick-up in execution of the large order book, EIL is likely to deliver accelerated sales and PAT CAGR of 29.5% and 25.2%, respectively, in FY17-19E. Accordingly, we value EIL at ₹ 182 (TP unchanged) i.e. 24x P/E on FY19E EPS of ₹ 7.6 and retain BUY recommendation on the company.

Rating matrix	
Rating Matrix	
Rating	: Buy
Target	: ₹ 182
Target Period	: 12 - 15 months
Potential Upside	: 21%

What's changed?	
Target	Unchanged
EPS FY18E	Changed from ₹ 6.3 to ₹ 6.1
EPS FY19E	Changed from ₹ 7.7 to ₹ 7.6
Rating	Unchanged

Quarterly performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	421.0	396.4	6.2	500.0	-15.8
EBITDA	81.7	73.3	11.5	54.3	50.6
EBITDA (%)	21.8	21.4	33 bps	12.3	952 bps
PAT	81.4	80.3	1.3	66.0	23.3
EPS (₹)	1.2	1.2	1.3	1.0	23.3

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	1,753	1,672	2,293	2,804
EBITDA	180	302	398	503
EBITDA (%)	12.0	20.9	19.6	20.1
Net Profit	278	325	414	509
EPS (₹)	4.1	4.8	6.1	7.6

Valuation summary				
(x)	FY16	FY17	FY18E	FY19E
P/E	36.3	31.1	24.4	19.8
Target P/E	44.1	37.7	29.6	24.1
EV / EBITDA	42.1	24.7	17.7	13.2
P/BV	3.8	3.7	3.4	3.1
RoNW (%)	10	11.8	14.0	15.8
RoCE (%)	15.1	17.4	19.1	21.1

Stock data	
Particular	Amount
Market Capitalization	₹ 10108.1 Crore
Total Debt (FY17)	₹ 35 Crore
Cash and Investments (FY17)	₹ 2686.6 crore
EV (FY17)	₹ 7565.6 Crore
52 week H/L (₹)	176 / 106
Equity capital	₹ 336.9 Crore
Face value	₹ 5

Price performance				
Return (%)	1M	3M	6M	12M
Engineers India Ltd	(6.7)	(13.0)	(6.6)	32.4
Larsen & Toubro Ltd	0.3	(0.2)	15.6	17.1

Research Analyst	
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Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Revenue	375.4	446.8	341.8	9.8	442.9	-15.3	Revenue miss due to low order booking in the turnkey segment
Raw materials costs	0.0	0.0	0.0		0.0		
Employees Expenses	193.8	174.3	155.2	24.8	279.0	-30.5	Sharp spike in expense on account of provision of ~₹ 38 crore for incremental gratuity expenses and wage revisions
Other Expenses	99.8	183.2	113.3	-11.9	109.7	-9.0	
Total Expenditure	293.6	357.5	268.5	9.4	388.7	-24.5	
EBITDA	81.7	89.4	73.3	11.5	54.3	50.6	
EBITDA margins (%)	21.8	20.0	21.4	33 bps	12.3	952 bps	
Interest	0.0	0.1	0.1		3.0		
Depreciation	6.0	6.9	5.3	12.9	6.0	-1.2	
Tax	40.0	50.5	42.2	-5.4	36.3	10.0	
Other Income	45.6	65.4	54.6	-16.4	57.1	-20.1	
PAT	81.4	97.2	80.3	1.3	66.0	23.3	

Key Metrics	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue Segmentation					
Con. & Engg. Projects	324.5	268.6	20.8	350.9	-7.5
As a % of Sales	86.4	78.6		79.2	
Turnkey Projects	50.9	73.2	-30.5	92.0	-44.7
As a % of Sales	13.6	21.4		20.8	
Segmental EBIT					
Con. & Engg. Projects	90.9	62.8	44.9	130.5	-30.3
As a % of EBIT	95.9	69.8		80.0	
Turnkey Projects	3.9	27.1	-85.7	32.5	-88.1
As a % of EBIT	4.1	30.2		20.0	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	2,293.1	2,292.7	0.0	2,804.8	2,803.6	0.0
EBITDA	408.3	398.1	-2.5	515.6	503.1	-2.4
EBITDA Margin (%)	20.1	19.6	-50 bps	20.6	20.1	-50 bps
PAT	422.8	413.8	-2.1	518.5	509.5	-1.7
EPS (₹)	6.3	6.1	-2.5	7.7	7.6	-1.8

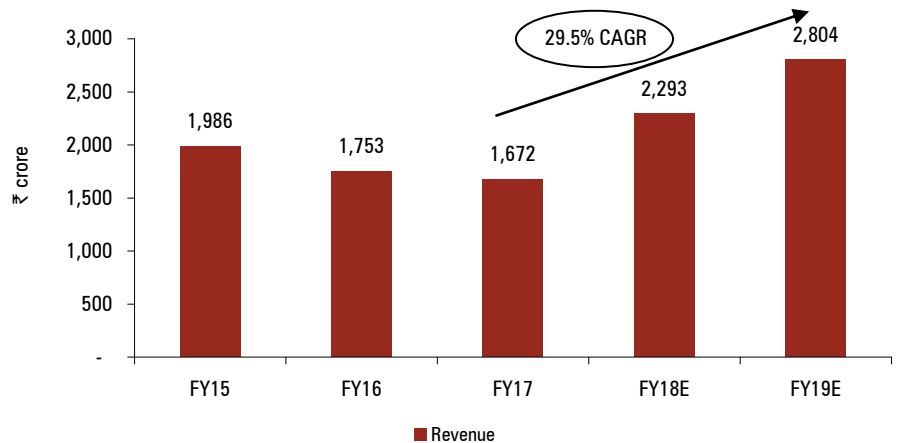
Source: Company, ICICIdirect.com Research

Company Analysis

Stable order inflows, execution pick-up to drive revenue growth of 29.5% CAGR in FY17-19E

We expect standalone revenues to increase from ₹ 1672 crore in FY17 to ₹ 2805 crore in FY19E at a CAGR of 29.5%, mainly on the back of strong order inflows and execution of backlog orders over the next two years. Order backlog as on Q1FY18 was at ₹ 7698 crore. We expect order inflows of ₹ 2750 crore and ₹ 2900 crore in FY18E and FY19E, respectively. Assuming, execution rate of ~19% and ~22% for consultancy orders and ~16% and ~19.5% execution rate for turnkey orders, we estimate EIL to post revenues of ₹ 2293 crore in FY18E and ₹ 2804 crore in FY19E.

Exhibit 1: Revenue trend

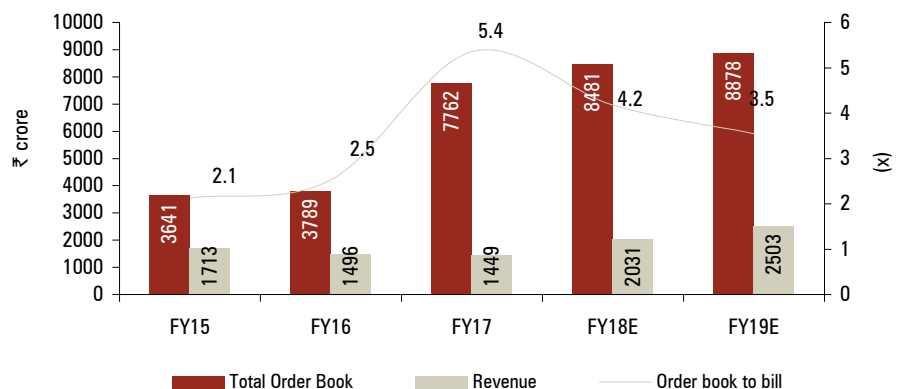


Source: Company, ICICIdirect.com Research

Order book growth to keep ticking

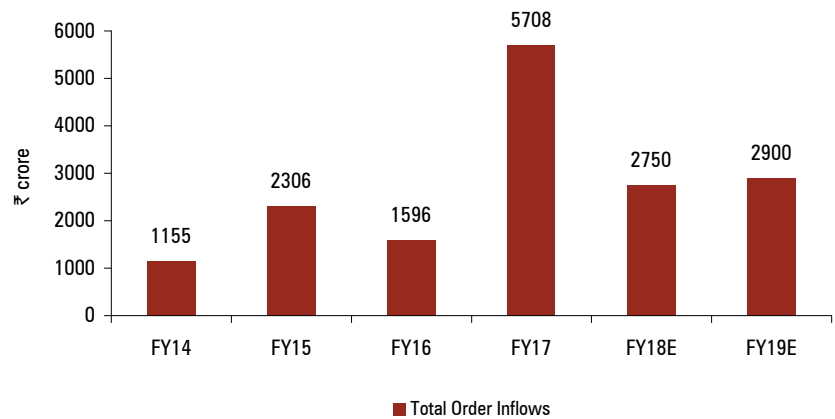
Order backlog for EIL has historically grown at 4.5% CAGR in FY13-16. However, with domestic capex of Oil PSUs gaining steam, we expect order backlog for BEL to continue growing at 6.9% CAGR in FY17-19E despite a higher base of FY17.

Exhibit 2: Order backlog trend



Source: Company, ICICIdirect.com Research

Exhibit 3: Order inflows trend



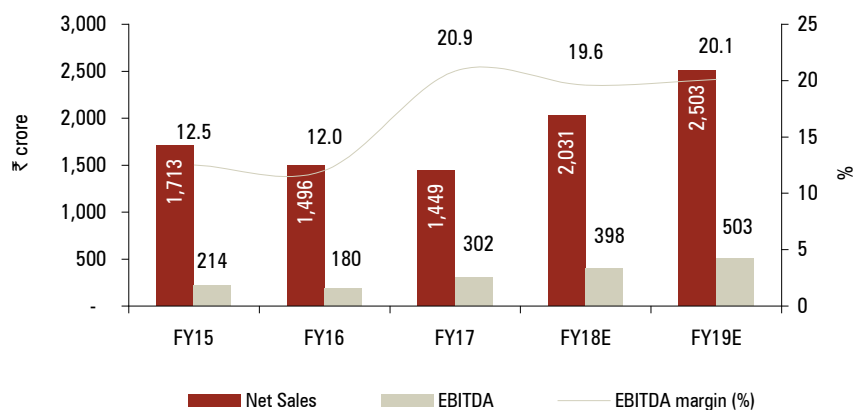
Source: Company, ICICIdirect.com Research

EBIDTA margins to stabilise at 20.1% in FY19E

BEL reported strong EBITDA margins of 20.9% in FY17 vs. 12% in FY16. A sharp increase in margins was due to higher proportion of consultancy revenues in the total topline. EIL's operating income de-grew at 31.2% CAGR in FY12-16. This was due to a decline in revenue of the company coupled with a drop in EBITDA margins. EIL reported EBITDA margins of 19.2% in FY12, which dropped to 10.7% in FY16. EIL being a knowledge-based company has a significant employee cost of ~39% of topline. Due to subdued order inflow over FY12-16, the company witnessed negative operating leverage, exacerbating the drop in operating profit.

Going forward, we expect EIL's EBITDA to improve from ₹ 302 crore in FY17 to ₹ 503 crore in FY19E at a CAGR of 29%.

Exhibit 4: EBITDA and EBITDA margin trend



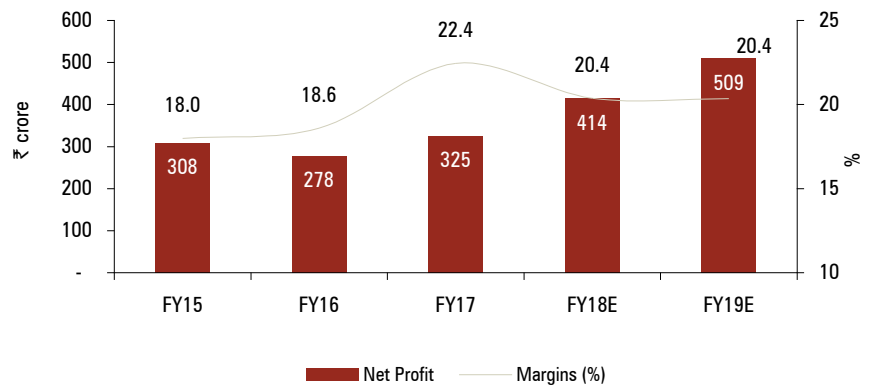
Source: Company, ICICIdirect.com Research

PAT to grow at 25.2% CAGR in FY17-19E

EIL's net profit de-grew at 20.4% CAGR in FY12-16. However, the decline was moderate in comparison to the drop in EBITA (31.2% drop over the same period). This was due to interest income earned by the company on its healthy cash reserves (average reserves of ~₹ 2000 crore in FY12-16). Cash on the books of the company grew from ~₹ 1640 crore in FY12 to ~₹ 2530 crore in FY16. Going forward, we expect PAT to accelerate due to strong operating performance of the company. We estimate PAT

growth of 25.2% CAGR in FY17-19E. We expect ₹ 509 crore of net profit in FY19E.

Exhibit 5: PAT trend

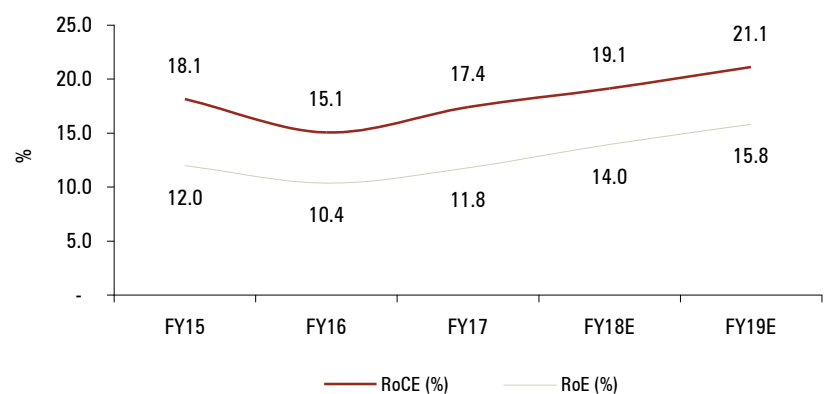


Source: Company, ICICIdirect.com Research

Return ratios to remain stable

Return ratios exhibited a declining trend over the past few years. From RoEs of ~35% in FY12, returns dropped to 9.7% in FY16. Over the past 10 years, the company has delivered average RoEs of 23.5%. We believe with operating leverage kicking in due to higher order inflows, returns will improve substantially from here. Accordingly, we expect EIL's RoEs to improve from 11.8% in FY17 to 15.8% in FY19E. RoCEs are also likely to improve from 17.4% in FY17 to 21.1% in FY19E.

Exhibit 6: RoE, RoCE trend



Source: Company, ICICIdirect.com Research

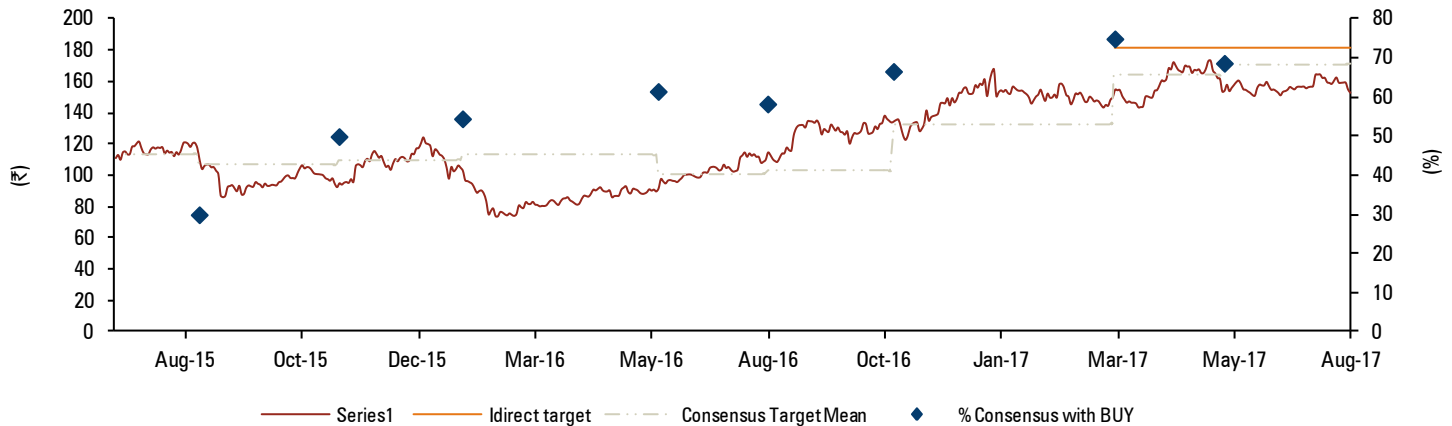
EIL has a sound track record of delivering topline and bottomline growth despite the cyclical nature of the industry due to volatile oil prices. Across business cycles, EIL has managed to keep its P&L and net worth ticking. The same is reflected in the growth of topline, bottomline and net worth of 11.3%, 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 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 10 year average of two year forward earnings. However, in time of positive growth outlook, the company has commanded premium over average multiples. Going forward, we believe EIL will command higher premium as it is likely to deliver superior topline and bottom line growth of 29.5% and 25.2% over FY17-19E.

Despite healthy dividend payout and buyback (6.23% of the total equity), EIL balance sheet continues to remain healthy with nil debt and cash balance of ~₹ 1850 crore. With strong order back-log (₹ 7698 crore) and favourable business mix (consultancy 49% and turnkey 51%), we expect EIL to clock healthy EBITDA margins of over 20% in FY18E-19E. This is because consultancy segment is likely to earn healthy EBITDA margins of 25+% over FY17-19E. The management has also indicated progress of several stuck projects during the quarter. Write backs from this stuck projects is likely to augur well for the company over FY18E-19E. We believe with pick-up in execution of the large order book, EIL is likely to deliver accelerated sales and PAT CAGR of 29.5% and 25.2%, respectively, in FY17-19E. Accordingly, we value EIL at ₹ 182 (TP unchanged) i.e. 24x P/E on FY19E EPS of ₹ 7.6 and retain BUY recommendation on the company.

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research, Initiated coverage on 16th March 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
Jun-15	EIL's Abu Dhabi Office wins orders worth ₹ 150 Crores
Jan-16	Government of India (promoter of EIL announces OFS of 3,36,93,660 equity shares representing 10% of the total paid up equity share capital
Apr-16	EIL signs contract with Bangladesh Petroleum Corporation (BPC) for providing PMC Services in Bangladesh
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

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	O/S	Position	Position Change
1	Government of India	30-06-2017	57.02%	384.22M	0
2	ICICI Prudential Asset Management Co. Ltd.	30-06-2017	3.46%	23.32M	+13.30M
3	Life Insurance Corporation of India	30-06-2017	3.32%	22.38M	-5.00M
4	L&T Investment Management Limited	30-06-2017	2.31%	15.54M	+2.56M
5	UTI Asset Management Co. Ltd.	30-06-2017	1.72%	11.61M	+2.03M
6	Tata Asset Management Limited	31-07-2017	1.37%	9.26M	0
7	LIC Mutual Fund Asset Management Comp	30-06-2017	1.27%	8.57M	-3.07M
8	General Insurance Corporation of India	30-06-2017	1.25%	8.44M	0
9	Goldman Sachs Asset Management (India) I	30-06-2017	1.25%	8.40M	-0.05M
10	Reliance Nippon Life Asset Management Lir	30-06-2017	1.24%	8.39M	-2.72M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	59.4	59.4	58.9	57.0	57.0
FII	7.5	8.7	6.6	6.9	6.2
DII	20.0	20.1	18.9	19.9	20.4
Others	13.1	11.8	15.6	16.3	16.4

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
ICICI Prudential Asset Management Co. Ltd.	+31.65M	+13.30M	Life Insurance Corporation of India	-11.89M	-5.00M
SBI Life Insurance Co., Ltd.	+16.76M	+7.05M	Jupiter Asset Management Ltd.	-7.38M	-3.32M
Norges Bank Investment Management (NBIM)	+9.11M	+3.83M	FIL Investment Management (Singapore) Ltd.	-7.04M	-3.17M
L&T Investment Management Limited	+6.09M	+2.56M	LIC Mutual Fund Asset Management Company Ltd.	-7.29M	-3.07M
UTI Asset Management Co. Ltd.	+4.84M	+2.03M	Reliance Nippon Life Asset Management Limited	-6.46M	-2.72M

Source: Reuters, ICICIdirect.com Research

Financial summary (Standalone)

Profit and loss statement		₹ Crore			
(₹ Crore)	FY16	FY17	FY18E	FY19E	
Net Sales	1,496	1,449	2,031	2,503	
Other operating income	-	-	-	-	
Revenue	1,496	1,449	2,031	2,503	
% Growth	(12.7)	(3.2)	40.2	23.2	
Other income	257	224	262	301	
Total	1,753	1,672	2,293	2,804	
Total Raw Material Costs	-	-	-	-	
Employee Expenses	593	744	792	976	
Other expenses	723	402	841	1,024	
Total Operating Expenditure	1,316	1,146	1,633	2,000	
Operating Profit (EBITDA)	180	302	398	503	
% Growth	(16.1)	68.0	31.7	26.4	
Interest	0	3	3	0	
PBDT	437	523	656	804	
Depreciation	25	23	28	29	
PBT before Exceptional Items	412	500	629	774	
Total Tax	134	175	215	265	
PAT before MI	278	325	414	509	
Minority Interest	-	-	-	-	
PAT	278	325	414	509	
% Growth	(9.7)	16.8	27.3	23.1	
EPS	4.1	4.8	6.1	7.6	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(₹ Crore)	FY16	FY17	FY18E	FY19E	
Equity Capital	168.5	336.9	336.9	336.9	
Reserve and Surplus	2,516.4	2,423.8	2,627.2	2,883.9	
Total Shareholders funds	2,684.8	2,760.8	2,964.2	3,220.8	
Minority Interest	-	-	-	-	
Other Non Current Liabilities	-	-	-	-	
Total Debt	16.0	35.0	65.0	95.0	
Total Liabilities	2,701	2,796	3,029	3,316	
Gross Block	471.0	495.4	520.4	555.4	
Acc: Depreciation	192.3	218.5	246.1	275.5	
Net Block	278.8	276.9	274.3	279.9	
Capital WIP	24.4	45.0	75.0	100.0	
Total Fixed Assets	303.2	321.9	349.3	379.9	
Non Current Assets	295.3	310.0	325.0	340.0	
Inventory	1.0	0.9	1.3	1.5	
Debtors	362.1	343.6	471.1	576.1	
Loans and Advances	113.4	133.8	183.4	196.3	
Other Current Assets	395.6	395.6	395.6	395.6	
Cash	2,558.5	2,686.6	3,126.4	3,557.2	
Total Current Assets	3,442.5	3,644.1	4,292.4	4,838.8	
Current Liabilities	202.5	252.0	345.5	422.5	
Provisions	439.9	453.6	621.9	760.4	
Net Current Assets	2,044.6	2,102.4	2,293.4	2,534.5	
Total Assets	2,701	2,796	3,029	3,316	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(₹ Crore)	FY16	FY17	FY18E	FY19E	
Profit after Tax	278.2	325.0	413.8	509.5	
Depreciation	24.8	22.5	27.6	29.4	
Interest	0.1	3.2	3.2	0.2	
Cash Flow before WC changes	303.1	350.7	444.6	539.0	
Changes in inventory	(0.2)	0.1	(0.3)	(0.3)	
Changes in debtors	64.0	18.5	(127.5)	(105.0)	
Changes in loans & Advances	18.1	(20.4)	(49.6)	(12.8)	
Changes in other current assets	112.0	(71.6)	(31.0)	2.5	
Net Increase in Current Assets	121.2	(73.5)	(208.5)	(115.6)	
Changes in creditors	(44.1)	49.5	93.5	77.0	
Changes in provisions	(78.7)	13.7	168.3	138.6	
Net Increase in Current Liabilities	52.1	143.8	457.3	305.3	
Net CF from Operating activities	476.4	421.0	693.5	728.7	
Changes in deferred tax assets	12.5	(10.6)	(10.0)	(10.0)	
(Purchase)/Sale of Fixed Assets	(39.1)	(45.0)	(55.0)	(60.0)	
Net CF from Investing activities	(112.5)	(59.7)	(70.0)	(75.0)	
Dividend and Dividend Tax	(161.2)	(242.6)	(202.2)	(242.6)	
Net CF from Financing Activities	(161.7)	(233.2)	(183.6)	(222.9)	
Net Cash flow	202.3	128.1	439.8	430.8	
Opening Cash/Cash Equivalent	2,356.1	2,558.5	2,686.6	3,126.4	
Closing Cash/ Cash Equivalent	2,558.5	2,686.6	3,126.4	3,557.2	

Source: Company, ICICIdirect.com Research

Key ratios		(Year-end March)			
	FY16	FY17	FY18E	FY19E	
Per Share Data					
EPS	4.1	4.8	6.1	7.6	
Cash per Share	38.0	39.9	46.4	52.8	
BV	39.8	41.0	44.0	47.8	
Dividend per share	2.0	3.0	2.5	3.0	
Dividend payout ratio	0.5	0.6	0.4	0.4	
Operating Ratios					
EBITDA Margin	12.0	20.9	19.6	20.1	
PAT Margin	18.6	22.4	20.4	20.4	
Return Ratios					
RoE	10.4	11.8	14.0	15.8	
RoCE	15.1	17.4	19.1	21.1	
RoC	88.0	136.3	206.6	430.9	
Valuation Ratios					
EV / EBITDA	42.1	24.7	17.7	13.2	
P/E	36.3	31.1	24.4	19.8	
EV / Net Sales	4.3	4.5	3.1	2.4	
Sales / Equity	0.7	0.6	0.8	0.9	
Market Cap / Sales	5.8	6.0	4.4	3.6	
Price to Book Value	3.8	3.7	3.4	3.1	
Turnover Ratios					
Asset turnover	3.7	3.4	4.4	5.0	
Debtors Turnover Ratio	4.4	4.7	5.6	5.4	
Creditors Turnover Ratio	7.8	7.4	7.7	7.3	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.8	0.8	0.8	0.7	
Quick Ratio	0.8	0.8	0.8	0.7	

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com 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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