

August 14, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	139		139	
Sales (Rs. m)	28,186	32,414	28,186	32,414
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,127	4,980	4,127	4,980
% Chng.	-	-	-	-
EPS (Rs.)	6.7	7.7	6.7	7.7
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	18,243	24,760	28,186	32,414
EBITDA (Rs. m)	4,275	3,758	4,127	4,980
Margin (%)	23.4	15.2	14.6	15.4
PAT (Rs. m)	3,833	3,697	4,217	4,895
EPS (Rs.)	6.1	5.9	6.7	7.7
Gr. (%)	23.8	(3.6)	14.1	16.1
DPS (Rs.)	4.0	4.0	4.6	5.3
Yield (%)	3.9	3.9	4.4	5.1
RoE (%)	14.8	15.5	17.1	19.2
RoCE (%)	15.6	14.9	15.8	18.4
EV/Sales (x)	2.2	1.5	1.3	1.1
EV/EBITDA (x)	9.3	9.8	8.6	6.9
PE (x)	17.0	17.7	15.5	13.3
P/BV (x)	2.8	2.7	2.6	2.5

Key Data

ENGR.BO | ENGR IN

52-W High / Low	Rs.140 / Rs.93
Sensex / Nifty	37,312 / 11,029
Market Cap	Rs.65bn / \$ 916m
Shares Outstanding	632m
3M Avg. Daily Value	Rs.401.05m

Shareholding Pattern (%)

Promoter's	52.00
Foreign	6.58
Domestic Institution	26.08
Public & Others	15.35
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.9)	(8.3)	(13.7)
Relative	(1.2)	(11.8)	(12.5)

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Ahead of estimates, visibility intact

Engineers India Ltd (EIL) reported good set of numbers for 1QFY20, led by higher contribution coming from Consultancy Segment. Revenue/PAT up 28%/43% YoY, mainly led by strong revenue performance in Consultancy segment which grew by 38% YoY at Rs4.4 bn (included Rs966mn on account of change in order) and margin expansion in Consultancy segment. Order inflow during the quarter stood at Rs9.4 bn against Rs832 mn in 1QFY19, taking order backlog to Rs114 bn (42% Consultancy). Management indicated strong hydrocarbon tender activities in international geographies like Middle-East, Bangladesh and Nigeria (Dangote). Order inflow for FY20 is expected to be Rs18 bn and indicated robust pipeline for FY21E. EIL management has maintained the guidance of 15% revenue growth in FY20 and maintained current margins. We are positive on the company as 1) We believe the company is key beneficiary of refinery capex in the country, 2) net cash balance sheet 3) healthy return ratios with RoE/RoCE of ~19% in FY21E. We expect EIL's consolidated Revenue/PAT to grow at CAGR of 14%/15% over the next 2 years (FY19-21E). The company also offers attractive dividend yield of 4%. The stock is currently trading at 15.4/13x FY20/FY21E. We maintain BUY rating on the stock with target price of Rs139 (18x FY21E).

Consultancy drives strong revenue growth: EIL's revenue was up 28.2% YoY at Rs7.3 bn (PLe Rs6.8 bn) mainly led by strong growth in Consultancy segment (contributed 60% against 56% in 1QFY19). Consultancy segment revenue was up 38% YoY, while Turnkey revenue was up 16% YoY. Absolute EBITDA grew 61.5% YoY to Rs1.4 bn. This was due to healthy EBIT margins in Consultancy segment. Consultancy and turnkey segments reported EBIT margins of 39.3% and 2.7%, respectively. The lower EBIT margin in Turnkey segment are expected to normalize in subsequent quarters of the year and reach 5% level. Overall EBITDA margins came in at 19.0% against 15.1% in 1QFY19. Reported PAT grew 43.2% YoY to Rs1.2 bn.

Robust order book keeps visibility intact: Order inflows for 1QFY20 came in at Rs9.4bn, all from Consultancy segment, taking the order backlog to Rs114 bn (+58% YoY). Within Consultancy, order inflow comprises Rs2 bn from domestic and Rs7.5 bn from overseas markets mostly from hydrocarbon sector, primarily from customers like IOCL, BPCL, HPCL, Shapoorji Energy. Going forward, no lumpy orders like Barmer project are expected. For FY20-21E, expected orders in pipeline includes Numaligarh refinery expansion, BPCL (Mumbai) expansion, Petrochemical expansion of HMEL, MRPL expansion, Panipat expansion, etc. The management has guided for order inflow of Rs18 bn and revenue growth of ~15% for FY20E.

New areas of opportunity: In FY20E, EIL is expecting variation orders from Dangote (Nigeria) and Bangladesh refineries in the range of US\$10-20 mn. The Abu Dhabi National Oil Company (ADNOC) has empaneled EIL (one of the five players) for five years, opening up significant opportunities in the overseas markets. For FY21, EIL is expecting orders for revamp projects in Kuwait and Oman. In the non-hydro-carbon space, EIL will tap opportunities like strategic crude reserves, fertiliser projects and infrastructure projects. EIL is also expecting order from a non-ferrous player (alumina project) in 2QFY20E.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	1QFY20	1QFY19	YoY gr. (%)	4QFY19	FY20E	FY19	YoY gr. (%)
Net Revenue	7,349	5,733	28.2	6,126	28,186	24,760	13.8
EBITDA	1,394	864	61.5	933	4,127	3,758	9.8
EBITDA Margin (%)	19.0	15.1		15.2	14.6	15.2	
Other Income	583	522	11.7	596	2,428	2,223	9.2
Depreciation	57	55	3.7	58	249	225	10.5
Interest	3	2		4	12	12	
Exceptional items	0	0		0	0	0	
Profit before Tax	1,917	1,328	44.3	1,467	6,294	5,744	9.6
Tax	676	462	46.3	518	2,077	2,013	3.2
Reported PAT	1,241	866	43.2	949	4,217	3,697	14.1
Adjusted PAT	1,241	866	43.2	949	4,217	3,697	14.1
Net Margin (%)	16.9	15.1		15.5	15.0	14.9	
Adjusted EPS	2.0	1.4		1.5	6.7	5.9	

Source: Company, PL

Exhibit 2: Segmental Breakup

Y/e March	1QFY20	1QFY19	YoY gr. (%)	4QFY19	QoQ gr. (%)
Segment revenue (Rs mn)					
Consultancy & Engineering Project	4,445	3,223	37.9	3,522	26.2
Lumpsum Turnkey Project/EPC	2,904	2,510	15.7	2,604	11.5
Total	7,349	5,733	28.2	6,126	20.0
Segment EBIT (Rs mn)					
Consultancy & Engineering Project	1,745	900	93.9	900	(89.6)
Lumpsum Turnkey Project/EPC	79	147	(46.1)	147	(131.3)
EBIT - (%)					
Consultancy & Engineering Project	39.3	27.9		25.6	
Lumpsum Turnkey Project/EPC	2.7	5.9		5.7	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	18,243	24,760	28,186	32,414
YoY gr. (%)	23.3	35.7	13.8	15.0
Cost of Goods Sold	998	6,116	7,046	8,103
Gross Profit	17,245	18,644	21,139	24,310
Margin (%)	94.5	75.3	75.0	75.0
Employee Cost	7,710	7,810	9,358	10,826
Other Expenses	3,154	2,672	2,863	2,993
EBITDA	4,275	3,758	4,127	4,980
YoY gr. (%)	36.0	(12.1)	9.8	20.7
Margin (%)	23.4	15.2	14.6	15.4
Depreciation and Amortization	240	225	249	275
EBIT	4,035	3,533	3,879	4,706
Margin (%)	22.1	14.3	13.8	14.5
Net Interest	6	12	12	12
Other Income	1,762	2,223	2,428	2,612
Profit Before Tax	5,791	5,744	6,294	7,305
Margin (%)	31.7	23.2	22.3	22.5
Total Tax	1,957	2,013	2,077	2,411
Effective tax rate (%)	33.8	35.0	33.0	33.0
Profit after tax	3,833	3,731	4,217	4,895
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,833	3,697	4,217	4,895
YoY gr. (%)	16.1	(3.6)	14.1	16.1
Margin (%)	21.0	14.9	15.0	15.1
Extra Ord. Income / (Exp)	-	34	-	-
Reported PAT	3,833	3,731	4,217	4,895
YoY gr. (%)	16.1	(2.7)	13.0	16.1
Margin (%)	21.0	15.1	15.0	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,833	3,731	4,217	4,895
Equity Shares O/s (m)	632	632	632	632
EPS (Rs)	6.1	5.9	6.7	7.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	2,285	2,205	2,097	1,994
Tangibles	2,226	2,181	2,072	1,969
Intangibles	59	23	25	26
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	2,285	2,205	2,097	1,994
Tangibles	2,226	2,181	2,072	1,969
Intangibles	59	23	25	26
Capital Work In Progress	518	520	576	643
Goodwill	-	-	-	-
Non-Current Investments	2,814	3,364	3,533	3,709
Net Deferred tax assets	3,049	2,991	2,991	2,991
Other Non-Current Assets	129	307	322	339
Current Assets				
Investments	250	489	489	489
Inventories	11	69	11	11
Trade receivables	5,619	4,269	6,178	8,880
Cash & Bank Balance	25,372	27,847	29,214	30,394
Other Current Assets	4,965	6,095	6,950	7,992
Total Assets	45,140	48,325	52,515	57,621
Equity				
Equity Share Capital	3,160	3,160	3,160	3,160
Other Equity	20,253	21,005	21,864	22,860
Total Network	23,412	24,165	25,023	26,019
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	122	76	80	84
Other non current liabilities	151	54	57	60
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,171	2,445	2,784	3,201
Other current liabilities	19,283	21,584	24,571	28,257
Total Equity & Liabilities	45,139	48,325	52,515	57,622

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	5,791	5,710	6,294	7,305
Add. Depreciation	240	225	249	275
Add. Interest	0	-	-	-
Less Financial Other Income	1,762	2,223	2,428	2,612
Add. Other	(382)	(2,211)	(2,416)	(2,599)
Op. profit before WC changes	5,648	3,724	4,127	4,980
Net Changes-WC	3,139	2,327	605	304
Direct tax	(2,799)	(1,955)	(2,077)	(2,411)
Net cash from Op. activities	5,988	4,096	2,655	2,874
Capital expenditures	136	(12)	(12)	(12)
Interest / Dividend Income	(20,045)	(740)	(148)	(155)
Others	21,555	2,077	2,232	2,372
Net Cash from Invt. activities	1,647	1,324	2,071	2,205
Issue of share cap. / premium	(2,282)	(2,945)	(3,359)	(3,898)
Debt changes	-	-	-	-
Dividend paid	-	-	-	-
Interest paid	-	-	-	-
Others	(6,638)	49	-	-
Net cash from Fin. activities	(8,920)	(2,896)	(3,359)	(3,898)
Net change in cash	(1,285)	2,524	1,367	1,180
Free Cash Flow	5,989	4,083	2,643	2,862

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	6,814	5,770	6,126	7,349
YoY gr. (%)	58.8	21.9	20.2	28.2
Raw Material Expenses	-	-	-	-
Gross Profit	6,814	5,770	6,126	7,349
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	915	949	933	1,394
YoY gr. (%)	(34.2)	(29.6)	62.3	61.5
Margin (%)	13.4	16.4	15.2	19.0
Depreciation / Depletion	57	53	58	57
EBIT	858	895	875	1,337
Margin (%)	12.6	15.5	14.3	18.2
Net Interest	4	3	4	3
Other Income	614	519	596	583
Profit before Tax	1,468	1,411	1,467	1,917
Margin (%)	21.5	24.5	23.9	26.1
Total Tax	491	504	518	676
Effective tax rate (%)	33.4	35.7	35.3	35.3
Profit after Tax	978	908	949	1,241
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	978	908	949	1,241
YoY gr. (%)	(18.0)	(16.3)	37.7	43.2
Margin (%)	14.3	15.7	15.5	16.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	978	908	949	1,241
YoY gr. (%)	(18.0)	(16.3)	37.7	43.2
Margin (%)	14.3	15.7	15.5	16.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	978	908	949	1,241
Avg. Shares O/s (m)	632	632	632	632
EPS (Rs)	1.5	1.4	1.5	2.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	6.1	5.9	6.7	7.7
CEPS	6.4	6.2	7.1	8.2
BVPS	37.0	38.2	39.6	41.2
FCF	9.5	6.5	4.2	4.5
DPS	4.0	4.0	4.6	5.3
Return Ratio(%)				
RoCE	15.6	14.9	15.8	18.4
ROIC	865.8	(50.5)	(50.9)	(58.8)
RoE	14.8	15.5	17.1	19.2
Balance Sheet				
Net Debt : Equity (x)	(1.1)	(1.2)	(1.2)	(1.2)
Net Working Capital (Days)	69	28	44	64
Valuation(x)				
PER	17.0	17.7	15.5	13.3
P/B	2.8	2.7	2.6	2.5
P/CEPS	16.0	16.7	14.6	12.6
EV/EBITDA	9.3	9.8	8.6	6.9
EV/Sales	2.2	1.5	1.3	1.1
Dividend Yield (%)	3.9	3.9	4.4	5.1

Source: Company Data, PL Research

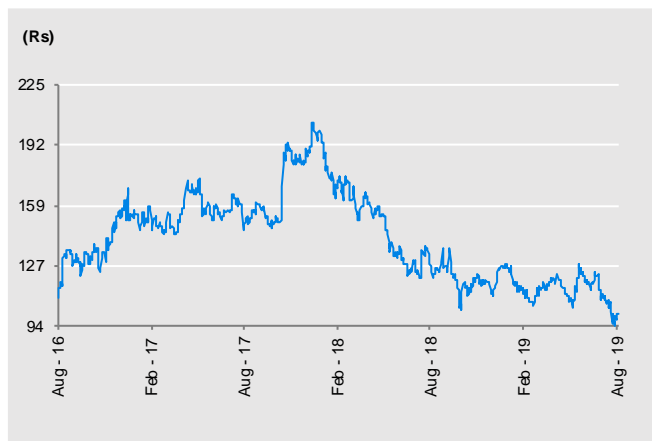
Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Segmental Performance				
Revenue (Rs mn)				
Consultancy & Eng. Projects	14,160	13,809	14,500	16,675
Turnkey projects	4,083	10,949	13,686	15,739
Total	18,243	24,758	28,186	32,413
EBIT (Rs mn)				
Consultancy & Eng. Projects	4,451	4,006	4,205	4,919
Turnkey projects	754	628	799	934
Total	5,205	4,634	5,003	5,853
EBIT Margin (%)				
Consultancy & Eng. Projects	31	29	29	30
Turnkey projects	18	6	6	6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	139	120
2	18-May-19	BUY	139	108
3	5-Apr-19	BUY	136	120
4	5-Oct-18	BUY	165	113

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,296	1,394
2	Apar Industries	Accumulate	795	538
3	Bharat Electronics	Accumulate	120	98
4	BHEL	Hold	56	57
5	Cummins India	Hold	619	604
6	Engineers India	BUY	139	120
7	GE T&D India	Hold	179	175
8	Kalpataru Power Transmission	BUY	624	482
9	KEC International	BUY	352	294
10	Larsen & Toubro	BUY	1,710	1,400
11	Power Grid Corporation of India	BUY	224	211
12	Siemens	BUY	1,263	1,101
13	Thermax	Accumulate	1,147	1,091
14	Triveni Turbine	Accumulate	124	103
15	Voltamp Transformers	BUY	1,505	1,160

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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