

November 23, 2020

Q2FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	104		104	
Sales (Rs. m)	31,051	36,532	31,051	36,532
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,540	6,582	4,540	6,582
% Chng.	-	-	-	-
EPS (Rs.)	8.6	11.7	8.6	11.7
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	32,365	29,451	31,051	36,532
EBITDA (Rs. m)	4,532	3,922	4,540	6,582
Margin (%)	14.0	13.3	14.6	18.0
PAT (Rs. m)	4,339	4,481	5,460	7,368
EPS (Rs.)	6.9	7.1	8.6	11.7
Gr. (%)	16.3	3.3	21.9	34.9
DPS (Rs.)	4.4	3.5	3.9	5.2
Yield (%)	5.9	4.8	5.3	7.2
RoE (%)	18.3	17.8	19.6	23.5
RoCE (%)	18.0	14.5	15.1	19.8
EV/Sales (x)	0.6	0.5	0.4	0.3
EV/EBITDA (x)	4.0	4.0	2.9	1.6
PE (x)	10.7	10.3	8.5	6.3
P/BV (x)	1.9	1.8	1.6	1.4

Key Data

ENGLBO | ENGR IN

52-W High / Low	Rs.106 / Rs.49
Sensex / Nifty	44,077 / 12,926
Market Cap	Rs.46bn/ \$ 626m
Shares Outstanding	632m
3M Avg. Daily Value	Rs.351.16m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	4.43
Domestic Institution	22.98
Public & Others	21.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.8	19.9	(29.3)
Relative	0.5	(16.6)	(35.2)

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Ordering activity improving gradually

Quick Pointers:

- Margins came in lower at 11.3% v/s 14.8% in 2QFY20 due to change in revenue mix wherein ratio of consultancy: turnkey stood at 51:49.
- Order inflows of ~Rs5.9bn (up 256% YoY) driven by consultancy segment took total order backlog to ~Rs90bn.

Engineers India (EIL) reported healthy performance, wherein better than expected revenue and cost rationalization measures led to a beat in profitability. Margins in turnkey projects were weak at 2% v/s 7.7% in 2QFY20 thereby lowering overall margins. Order inflows grew by 256% YoY to Rs5.9bn (lower base of OI in 2QFY20) led by improvement in ordering activity. Order inflow mainly came from domestic consultancy segment (~86%) and order book declined 17% YoY to Rs90bn. Management indicated the tendering pipeline remains healthy as the process of ordering continues during 1Q and expects an order inflow of ~Rs15bn for FY21E. Key project such as NRL, Kaveri Basin (few packages), HEML, petrochemical projects, etc. to be awarded in FY21E. HMEL petchem, MRPL expansion, Panipat refinery and petchem expansion in refinery orders (~Rs2bn) expected by FY22E.

With superior execution and lowering order inflows, we anticipate company's order book position would remain a concern in near term. Overall, we believe its strong balance sheet, zero debt, strong order book, growth visibility and higher cash would augur well for EIL in this challenging time. Given healthy 1H, we have revised FY21 revenue/PAT estimate by 8.6%/12.4%, while kept FY22/FY23 estimate unchanged. The stock is currently trading at 10x/8.2x FY21E/FY22E. We maintain BUY rating on the stock with TP of Rs104 (unchanged).

Higher execution boosts profitability: Sales came in at ~Rs6.8bn (down 6% YoY) vs (PLe ~Rs3.2bn) where Consultancy/Turnkey declined 2.5%/8.5% YoY. EBITDA de-grew by 28% YoY to Rs773mn (PLe ~Rs525mn) with EBITDA margins coming at 11.3% in vs 14.8% in 2QFY20. PBT decreased by 25% YoY to Rs1.2bnmn on back better operating performance PAT came in at Rs926mn (PLe ~Rs743mn), up 36% YoY.

Decent order book provides revenue visibility: The company secured orders worth Rs5.9bn mainly from domestic consultancy segment. Order book stands at Rs90bn as on 2QFY20 with Consultancy segment constituting Rs44bn while Turnkey segment comprises Rs45bn of total order book. For FY21E management expects order pipeline with large numbers of projects such as Numaligarh refinery expansion, some packages from Kaveri Basin, BPCL (Mumbai) expansion, GAIL, IOL, etc. which will likely come up for the refinery capacity expansion. Further projects such as IOC- main project; Kaveri basin – few packages, HMEL, MRPL, strategic storages tanks, etc. would be awarded in FY22E.

Exhibit 1: Better than expected topline lead to higher profitability (Rs mn)

Y/e March	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY gr. (%)	QoQ gr. (%)	1HFY21	1HFY20	YoY gr. (%)
Revenue	7,237	8,906	8,538	4,678	6,834	(5.6)	46.1	11,513	14,586	(21.1)
Total Revenues	7,237	8,906	8,538	4,678	6,834	(5.6)	46.1	11,513	14,586	(21.1)
Expenditure	6,168	8,050	7,428	4,464	6,062	(1.7)	35.8	10,526	12,122	(13.2)
<i>as % of sales</i>	<i>85.2</i>	<i>90.4</i>	<i>87.0</i>	<i>95.4</i>	<i>88.7</i>			<i>91.4</i>	<i>83.1</i>	
Consumption of RM	3,344	5,016	4,377	1,919	3,292	(1.6)	71.5	5,211	6,182	(15.7)
<i>as % of sales</i>	<i>46.2</i>	<i>56.3</i>	<i>51.3</i>	<i>41.0</i>	<i>48.2</i>			<i>45.3</i>	<i>42.4</i>	
Employee Cost	2,069	2,124	2,250	2,073	2,139	3.4	3.2	4,212	4,070	3.5
<i>as % of sales</i>	<i>28.6</i>	<i>23.8</i>	<i>26.4</i>	<i>44.3</i>	<i>31.3</i>			<i>36.6</i>	<i>27.9</i>	
Other expenditure	755	910	800	472	631	(16.4)	33.7	1,103	1,870	(41.0)
<i>as % of sales</i>	<i>10.4</i>	<i>10.2</i>	<i>9.4</i>	<i>10.1</i>	<i>9.2</i>			<i>9.6</i>	<i>12.8</i>	
EBITDA	1,069	856	1,110	214	773	(27.8)	260.7	987	2,464	(60.0)
Depreciation	58	56	67	53	60	2.9	11.8	113	115	(2.0)
EBIT	1,012	800	1,043	161	713	(29.5)	343.2	874	2,349	(62.8)
Other Income	655	657	685	497	533	(18.7)	7.2	1,029	1,238	(16.9)
Interest	4	4	6	4	5	22.3	8.2	9	7	29.6
PBT	1,663	1,453	1,722	653	1,241	(25.4)	90.0	1,894	3,580	(47.1)
Total Tax	986	366	425	172	315	(68.0)	82.8	487	1,662	(70.7)
Adjusted PAT	678	1,087	1,297	481	926	36.6	92.5	1,407	1,918	(26.7)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	678	1,087	1,297	481	926	36.6	92.5	1,407	1,918	(26.7)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	678	1,087	1,297	481	926	36.6	92.5	1,407	1,918	(26.7)
Adjusted EPS	1.1	1.7	2.1	0.8	1.5	36.6	92.5	2.2	3.0	(26.7)
Margins (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	bps	bps	1HFY21	1HFY20	bps
EBIDTA	14.8	9.6	13.0	4.6	11.3	(347)	673	8.6	16.9	(832)
EBIT	14.0	9.0	12.2	3.4	10.4	(354)	699	7.6	16.1	(851)
EBT	23.0	16.3	20.2	14.0	18.2	(482)	419	16.5	24.5	(809)
PAT	9.4	12.2	15.2	10.3	13.5	418	327	12.2	13.2	(93)
Effective Tax rate	59.3	25.2	24.7	26.4	25.4	(3,387)	(99)	25.7	46.4	(2,068)

Source: Company, PL

Conference Call Highlights:

- During 2Q, company secured orders of Rs6.6bn, and YTD OI is of Rs7.6bn major being Rs4.5bn from EPC/consultancy project of BHEL.
- Business mix stood of consultancy: turnkey stood at 51:49 v/s 49:51 in 1QFY20
- Other income stood at Rs530mn v/s Rs660mn in 2QFY20 led by reduction in interest rate up to 1-1.5%.
- Commissioning activities of RECL project have commenced and will be done by mid- Jan21.
- Cash position stands at Rs25bn and customer advances are Rs1bn.
- BPCL project (~Rs2.5bn) targeted for FY21E, IOCL- project done in phases, currently in phase 2 , phase 3 (~Rs6bn) is expected to be delayed to FY22E.
- Other unallocable expense came in at Rs280mn v/s Rs260crs and in 1H it stood at Rs550mn v/s Rs730mn due to certain impairment expense in 1HFY20.
- Management indicated that orders to be secured in 2H would not contribute more than 5-7% to the turnover as most orders would be secured by the end of FY21E.
- **Order Pipeline-** HMEL petchem might get shifted to 4QFY22E which was earlier expected in 2QFY22E, MRPL expansion, Panipat refinery, looking at petchem expansion in refinery orders worth Rs2bn expected in FY22E

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	32,365	29,451	31,051	36,532
YoY gr. (%)	30.7	(9.0)	5.4	17.7
Cost of Goods Sold	15,499	13,695	13,818	16,257
Gross Profit	16,867	15,756	17,233	20,275
Margin (%)	52.1	53.5	55.5	55.5
Employee Cost	8,656	8,742	9,092	9,456
Other Expenses	1,429	884	1,056	1,242
EBITDA	4,532	3,922	4,540	6,582
YoY gr. (%)	20.7	(13.5)	15.8	45.0
Margin (%)	14.0	13.3	14.6	18.0
Depreciation and Amortization	240	278	337	377
EBIT	4,292	3,643	4,203	6,205
Margin (%)	13.3	12.4	13.5	17.0
Net Interest	17	15	15	18
Other Income	2,555	2,356	3,105	3,653
Profit Before Tax	6,830	5,985	7,292	9,840
Margin (%)	21.1	20.3	23.5	26.9
Total Tax	2,492	1,503	1,832	2,472
Effective tax rate (%)	36.5	25.1	25.1	25.1
Profit after tax	4,339	4,481	5,460	7,368
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,339	4,481	5,460	7,368
YoY gr. (%)	16.3	3.3	21.9	34.9
Margin (%)	13.4	15.2	17.6	20.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,339	4,481	5,460	7,368
YoY gr. (%)	16.3	3.3	21.9	34.9
Margin (%)	13.4	15.2	17.6	20.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,339	4,481	5,460	7,368
Equity Shares O/s (m)	632	632	632	632
EPS (Rs)	6.9	7.1	8.6	11.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,211	3,711	4,211	4,711
Tangibles	3,211	3,711	4,211	4,711
Intangibles	-	-	-	-
Acc: Dep / Amortization	886	1,164	1,501	1,878
Tangibles	886	1,164	1,501	1,878
Intangibles	-	-	-	-
Net fixed assets	2,325	2,547	2,710	2,833
Tangibles	2,325	2,547	2,710	2,833
Intangibles	-	-	-	-
Capital Work In Progress	54	54	54	54
Goodwill	-	-	-	-
Non-Current Investments	4,955	5,126	5,161	5,281
Net Deferred tax assets	2,720	2,720	2,720	2,720
Other Non-Current Assets	483	589	621	731
Current Assets				
Investments	520	1,412	1,733	2,829
Inventories	67	242	255	300
Trade receivables	6,802	6,455	6,806	8,007
Cash & Bank Balance	27,775	29,308	31,499	33,261
Other Current Assets	2,129	2,651	2,795	3,288
Total Assets	48,244	52,212	55,670	61,334
Equity				
Equity Share Capital	3,160	3,160	3,160	3,160
Other Equity	20,901	23,141	26,145	30,197
Total Networkth	24,060	26,301	29,304	33,357
Non-Current Liabilities				
Long Term borrowings	49	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,749	2,421	2,382	2,202
Other current liabilities	24,106	26,211	26,704	28,495
Total Equity & Liabilities	48,244	52,212	55,670	61,334

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,830	5,985	7,292	9,840
Add. Depreciation	240	278	337	377
Add. Interest	17	15	15	18
Less Financial Other Income	2,555	2,356	3,105	3,653
Add. Other	(641)	-	-	-
Op. profit before WC changes	6,446	6,278	7,645	10,235
Net Changes-WC	(432)	455	(329)	(1,071)
Direct tax	(2,258)	(1,503)	(1,832)	(2,472)
Net cash from Op. activities	3,756	5,229	5,484	6,692
Capital expenditures	(175)	(500)	(500)	(500)
Interest / Dividend Income	2,027	-	-	-
Others	(4,145)	(892)	(320)	(1,096)
Net Cash from Inv. activities	(2,294)	(1,392)	(820)	(1,596)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,314)	(2,241)	(2,457)	(3,316)
Interest paid	-	(15)	(15)	(18)
Others	(27)	(49)	-	-
Net cash from Fin. activities	(3,341)	(2,305)	(2,473)	(3,334)
Net change in cash	(1,879)	1,533	2,191	1,762
Free Cash Flow	3,756	5,229	5,484	6,692

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	6.9	7.1	8.6	11.7
CEPS	7.2	7.5	9.2	12.3
BVPS	38.1	41.6	46.4	52.8
FCF	5.9	8.3	8.7	10.6
DPS	4.4	3.5	3.9	5.2
Return Ratio(%)				
RoCE	18.0	14.5	15.1	19.8
ROIC	(60.5)	(49.5)	(58.0)	(97.6)
RoE	18.3	17.8	19.6	23.5
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.2)	(1.1)	(1.1)
Net Working Capital (Days)	46	53	55	61
Valuation(x)				
PER	10.7	10.3	8.5	6.3
P/B	1.9	1.8	1.6	1.4
P/CEPS	10.1	9.7	8.0	6.0
EV/EBITDA	4.0	4.0	2.9	1.6
EV/Sales	0.6	0.5	0.4	0.3
Dividend Yield (%)	5.9	4.8	5.3	7.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	8,906	8,538	4,678	6,834
YoY gr. (%)	54.4	39.4	(36.3)	(5.6)
Raw Material Expenses	5,016	4,377	1,919	3,292
Gross Profit	3,890	4,161	2,760	3,542
Margin (%)	43.7	48.7	59.0	51.8
EBITDA	856	1,110	214	773
YoY gr. (%)	(9.8)	19.0	(84.6)	(27.8)
Margin (%)	9.6	13.0	4.6	11.3
Depreciation / Depletion	56	67	53	60
EBIT	800	1,043	161	713
Margin (%)	9.0	12.2	3.4	10.4
Net Interest	4	6	4	5
Other Income	657	685	497	533
Profit before Tax	1,453	1,722	653	1,241
Margin (%)	16.3	20.2	14.0	18.2
Total Tax	366	425	172	315
Effective tax rate (%)	25.2	24.7	26.4	25.4
Profit after Tax	1,087	1,297	481	926
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,087	1,297	481	926
YoY gr. (%)	19.7	36.7	(61.2)	36.6
Margin (%)	12.2	15.2	10.3	13.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,087	1,297	481	926
YoY gr. (%)	19.7	36.7	(61.2)	36.6
Margin (%)	12.2	15.2	10.3	13.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,087	1,297	481	926
Avg. Shares O/s (m)	632	632	632	632
EPS (Rs)	1.7	2.1	0.8	1.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	104	64
2	16-Aug-20	BUY	104	68
3	08-Jul-20	BUY	104	73
4	27-Jun-20	BUY	104	80
5	16-Apr-20	BUY	83	67
6	05-Feb-20	BUY	146	95
7	03-Jan-20	BUY	156	100

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	237
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Accumulate	110	103
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	144
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	109
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	105
15	Kalpataru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	336	255
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	48
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,032

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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