Engineers India (ENGIND)

ICICI direct Research

CMP: ₹ 113 | Target: ₹ 120 (⬆ 6%) | Target Period: 12 months | HOLD

Result Update

May 20, 2019

Strong Q4 despite higher turnkey contribution

Engineers India (EIL) reported strong Q4FY19 numbers. This was due to higher-than-expected contribution from the turnkey business coupled with strong margins. Revenues grew 20.2% YoY to ₹ 612.6 crore. Consultancy and turnkey segment contributed 57.5% and 42.5%, respectively. Consultancy revenues grew 4.4% YoY and turnkey revenues jumped 51% YoY. Absolute EBITDA increased 62.3% YoY to ₹ 93.3 core. This was due to healthy EBIT margins in the turnkey segment. Consultancy and turnkey segments reported EBIT margins of 28.7% and 6.3%, respectively. Overall EBITDA margins came in at 15.2% vs. 11.3% YoY. Other income grew 24.4% YoY. Absolute PAT grew 37.7% YoY to ₹ 94.9 crore.

Strong inflows in FY19, healthy guidance for FY20-21E

Order inflows for FY19 were at ₹ 5890 crore (consultancy ₹ 1585 crore, turnkey ₹ 4305 crore), taking the order backlog to ₹ 11,188 crore. This was primarily on account of large order win of HPCL Barmer greenfield project of ~₹ 5400 crore (LSTK order ₹ 4300 crore, consultancy order ₹ 1100 crore). Going forward, no large orders like Barmer project are expected. For FY20-21E, orders expected include Numaligarh refinery expansion, BPCL (Mumbai) expansion, petrochemical expansion of HMEL (comprising petrochemical unit, upgrade of pipeline and crude oil terminals, etc) MRPL expansion, Panipat expansion, etc. Accordingly, we estimate healthy inflows of ₹ 2000-2500 crore, in FY20-21E. The management has guided for order inflow of ~₹ 1800 crore and revenue growth of ~15% for FY20E.

Overseas, non-hydro opportunities

In FY20E, EIL is expecting is expecting variation in orders from Dangote and Bangladesh refinery in the range of US$10-20 million. For FY21, EIL is expecting orders for revamp projects in Kuwait and Oman. ADNOC has empanelled EIL (one of the five players) for five years, opening up significant opportunities in the overseas markets. 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 Q2FY20E.

Valuation & Outlook

Going forward, we expect revenue, EBITDA and PAT to increase at 15%, 22.2% and 15.5% CAGR, respectively, in FY19-21E. We expect accelerated revenue and EBITDA growth due to increasing contribution from turnkey segment, coupled with higher margins. **EIL is also likely to face project-related risks in this segment of the business.** EIL's balance sheet continues to remain healthy with nil debt and cash balance of ~₹ 2660 crore. EIL's book-to-bill is at healthy ~4x (order book at ₹ 11,188 crore). We value EIL at 15x P/E on FY21E EPS of ₹ 7.8 to arrive at a target price of ₹ 120 per share. We maintain **HOLD** rating on the company.

Particulars

Particular	Amount
Market Capitalization	₹ 7141 Crore
Total Debt (FY19)	₹ 3.9 Crore
Cash and Inv (FY19)	₹ 2661 crore
EV (FY19)	₹ 4483 Crore
52 week H/L (₹) (BSE)	148 / 100
Equity capital (FY19)	₹ 316 Crore
Face value	₹ 5

Key Highlights

- Strong inflows in FY19, healthy guidance for FY20-21E
- Overseas and non-hydro opportunities strong in FY20-21E
- Maintain our **HOLD** recommendation with a revised target price of ₹ 120

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Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20E	FY21E	FY19-21E
Net Sales	1,449	1,788	2,444	2,787	3,232	
Revenue	1,449	1,788	2,444	2,787	3,232	15.0
EBITDA	302	413	366	435	546	22.2
Net Profit	325	378	370	420	493.7	15.5
EPS (₹)	4.8	6.0	5.9	6.6	7.8	
P/E (x)	23.4	18.9	19.3	17.0	14.5	
Price / Book (x)	2.7	3.1	3.1	3.1	2.9	
EV/EBITDA (x)	17.7	11.4	12.2	10.1	7.4	
RoCE (%)	19.7	23.2	21.3	23.3	24.2	
RoE (%)	11.7	16.7	16.3	18.0	20.1	

ICICI Securities – Retail Equity Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	612.6	563.1	509.7	20.2	577.0	6.2	Revenue increased 20.2% YoY due to strong order booking in the turnkey sector
Construction Mtl costs	123.4	134.5	50.5	144.6	128.2	-3.7	
Employees Expenses	191.8	196.3	185.6	3.3	197.2	-2.8	
Other Expenses	327.5	299.5	266.6	22.8	285.0	14.9	
Total Expenditure	519.3	495.8	452.2	14.8	482.1	7.7	
EBITDA	93.3	67.4	57.5	62.3	94.9	-1.6	
EBITDA margins (%)	15.2	12.0	11.3	395 bps	16.4	-121 bps	
Interest	0.4	0.4	0.4		0.3		
Depreciation	5.8	6.2	5.8	0.6	5.3	9.1	
Tax	51.8	36.6	30.3	70.7	50.4	2.8	
Other Income	59.6	54.5	47.9	24.4	51.9	14.9	
PAT	94.9	78.7	68.9	37.7	90.8	4.5	

Key Metrics	**Q4FY19**		**Q4FY18**	**YoY (%)**	**Q3FY19**	**QoQ (%)**	
Revenue Segmentation							
Con. & Engg. Projects	352.2		337.3	4.4	342.5	2.8	Consultancy and turnkey segments contributed 57.5% and 42.5% to the topline, respectively
As a % of Sales	*57.5*		*66.2*		*59.4*		
Turnkey Projects	260.4		172.4	51.0	234.5	11.0	
As a % of Sales	*42.5*		*33.8*		*40.6*		
Segmental EBIT							
Con. & Engg. Projects	101.1		89.6	12.8	101.9	-0.7	
As a % of EBIT	*86.1*		*88.1*		*87.7*		
Turnkey Projects	16.3		12.1	34.8	14.3	14.4	
As a % of EBIT	*13.9*		*11.9*		*12.3*		

Source: Company, ICICI Direct Research

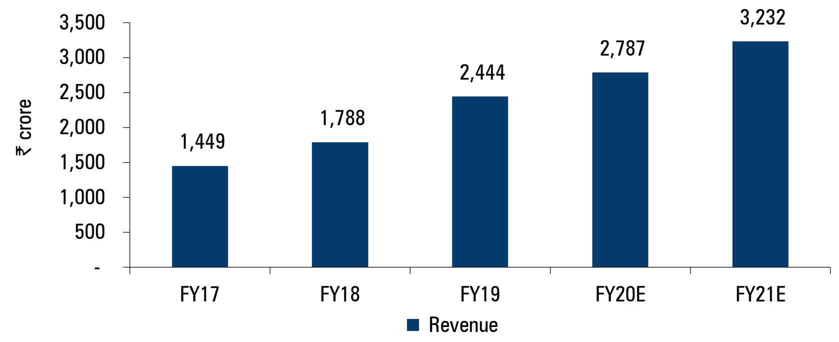
Exhibit 2: Change in estimates

	FY18	FY19			FY20E			FY21E		
(₹ Crore)	Actual	Old	Actual	% Change	Old	New	% Change	Old	New	% Change
Revenue	1,967.1	1,949.9	2,669.4	36.9	2,803.0	3,016.5	7.6	3,195.8	3,467.4	8.5
EBITDA	413.0	403.3	366.0	-9.2	438.3	434.7	-0.8	519.0	546.3	5.3
EBITDA Margin (%)	23.1	22.8	15.0	-783 bps	17.0	15.6	-140 bps	17.5	16.9	-60 bps
PAT	377.9	364.3	370.1	1.6	418.8	419.8	0.2	471.6	493.7	4.7
EPS (₹)	6.0	5.8	5.9	1.6	6.6	6.6	0.7	7.5	7.8	4.2

Source: Company, ICICI Direct Research

Financial story in charts

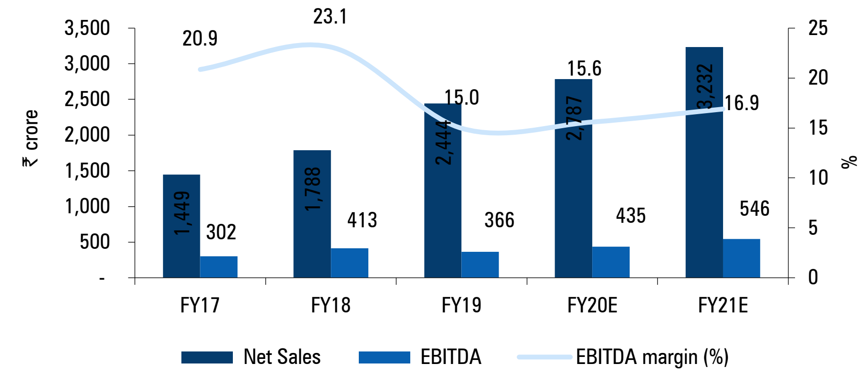
Exhibit 3: Revenue trend (consolidated)



Source: Company, ICICI Direct Research

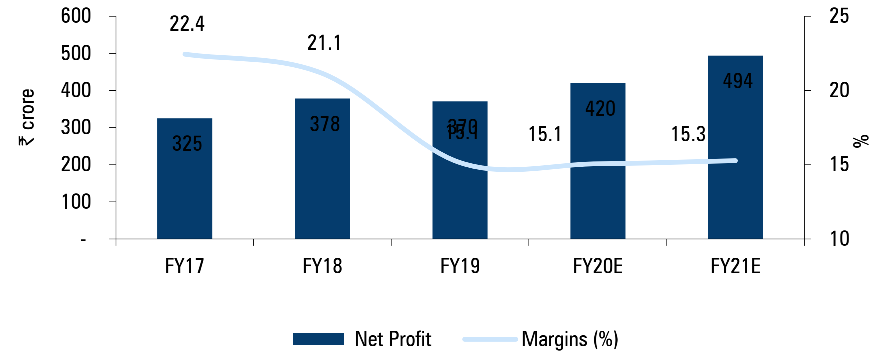
Growth to be driven by turnkey segment

Exhibit 4: EBITDA and EBITDA margin trend



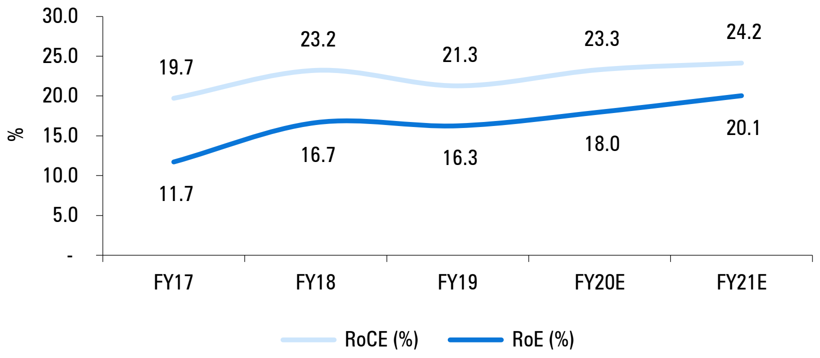
Source: Company, ICICI Direct Research

Exhibit 5: PAT trend and margins trend



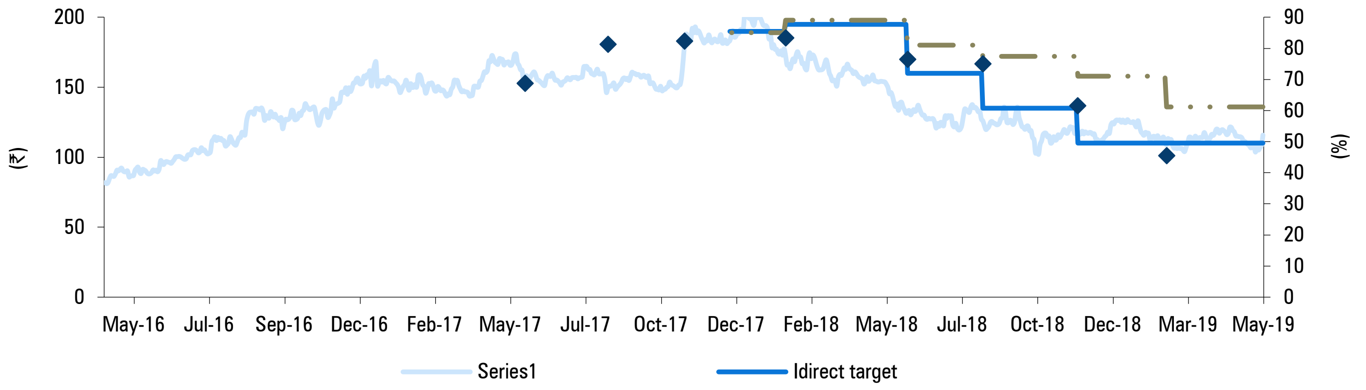
Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: 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 Limited	31-03-2019	2.00%	12.66M	+0.74M
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) Private Ltd.	31-03-2018	1.08%	6.84M	+0.30M
9	The Vanguard Group, Inc.	31-03-2019	0.84%	5.28M	0
10	Comgest S.A.	31-12-2018	0.64%	4.03M	0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
L&T Investment Management Limited	+15.35M	+8.54M	Norges Bank Investment Management (NBIM)	-9.91M	-5.51M
ICICI Prudential Asset Management Co. Ltd.	+9.56M	+5.32M	DSP Investment Managers Pvt. Ltd.	-5.54M	-3.08M
Canara Robeco Asset Management Company Ltd.	+2.51M	+1.48M	Morgan Stanley Investment Management (India) Pvt. Ltd.	-1.82M	-1.14M
Kotak Mahindra Asset Management Company Ltd.	+2.00M	+1.18M	BNP Paribas Asset Management India Pvt. Ltd.	-1.26M	-0.70M
Van Eck Associates Corporation	+1.70M	+1.00M	Axis Asset Management Company Limited	-0.94M	-0.60M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Dec-19
Promoter	52.0	52.0	52.0	52.0	52.0
FII	5.6	4.3	4.4	6.5	6.5
DII	26.5	27.8	26.9	26.3	25.6
Others	15.9	15.9	16.7	15.2	15.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement (₹ crore)

(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	1,788	2,444	2,787	3,232
Other operating income	-	-	-	-
Revenue	1,788	2,444	2,787	3,232
% Growth	*4.4*	*36.7*	*14.0*	*16.0*
Other income	179	225	230	235
Total	1,967	2,669	3,017	3,467
Total Raw Material Costs	-	-	-	-
Employee Expenses	757	757	819	924
Other expenses	617	1,321	1,533	1,762
Total Operating Expenditure	1,375	2,078	2,352	2,686
Operating Profit (EBITDA)	413	366	435	546
% Growth	*92.7*	*(11.4)*	*18.8*	*25.7*
Interest	1	1	2	3
PBDT	592	590	663	779
Depreciation	24	22	26	31
PBT before Exceptional Items	568	568	636	748
Total Tax	190	197	216	254
PAT before MI	378	370	420	494
Minority Interest	-	-	-	-
PAT	378	370	420	494
% Growth	*22.7*	*(2.1)*	*13.4*	*17.6*
EPS	6.0	5.9	6.6	7.8

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement (₹ crore)

(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	377.9	370.1	419.8	493.7
Depreciation	23.8	22.4	26.5	30.7
Interest	0.6	1.2	2.2	2.5
Cash Flow before WC changes	402.3	393.7	448.5	526.9
Changes in inventory	(0.0)	(5.8)	5.5	(0.2)
Changes in debtors	(161.8)	130.8	(65.2)	(90.6)
Changes in loans & Advances	0.4	(2.8)	(2.0)	(2.3)
Changes in other current assets	110.2	(21.0)	(5.2)	(7.7)
Net Increase in Current Assets	(154.7)	15.8	(66.9)	(100.8)
Changes in creditors	(4.9)	29.6	41.7	43.2
Changes in provisions	163.4	(147.6)	70.4	82.1
Net Increase in Current Liabilities	830.9	340.5	119.6	323.7
Net CF from Operating activities	1,078.4	749.9	501.2	749.9
Changes in deferred tax assets	(33.9)	19.6	-	-
(Purchase)/Sale of Fixed Assets	(19.7)	17.6	(50.0)	(50.0)
Net CF from Investing activities	(27.1)	(148.5)	(50.0)	(50.0)
Dividend and Dividend Tax	(228.2)	(304.3)	(353.8)	(353.8)
Net CF from Financing Activities	(881.2)	(366.0)	(364.4)	(368.0)
Net Cash flow	170.1	235.5	86.8	331.9
Opening Cash/Cash Equivalent	2,255.4	2,425.5	2,661.0	2,747.9
Closing Cash/ Cash Equivalent	2,425.5	2,661.0	2,747.9	3,079.8

**calculated, Source: Company, ICICI Direct Research*

Exhibit 13: Balance sheet (₹ crore)

(₹ Crore)	FY18	FY19	FY20E	FY21E
Equity Capital	316.0	316.0	316.0	316.0
Reserve and Surplus	1,952	1,960	2,017	2,146
Total Shareholders funds	2,268	2,276	2,333	2,462
Minority Interest	-	-	-	-
Other Non Current Liabilities	8.6	1.5	1.5	1.5
Total Debt	6.5	3.9	3.9	3.9
Total Liabilities	2,283	2,281	2,339	2,467
Gross Block	439.1	437.4	483.4	573.4
Acc: Depreciation	169.4	191.8	218.2	248.9
Net Block	255.1	245.6	265.2	324.5
Capital WIP	51.8	36.0	40.0	45.0
Total Fixed Assets	307.0	281.6	305.2	369.5
Non Current Assets	313.6	294.9	294.9	294.9
Inventory	1.1	6.9	1.4	1.6
Debtors	544.9	414.1	479.3	570.0
Loans and Advances	10.3	13.1	15.1	17.3
Other Current Assets	521.4	606.8	606.8	606.8
Cash	2,425.5	2,661.0	2,747.9	3,079.8
Total Current Assets	3,528.3	3,748.1	3,901.8	4,334.4
Current Liabilities	218.0	247.6	289.3	332.5
Provisions	626.8	479.2	549.6	631.7
Net Current Assets	1,465.6	1,344.8	1,378.9	1,487.8
Total Assets	2,283	2,281	2,339	2,467

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Per Share Data				
EPS	6.0	5.9	6.6	7.8
Cash per Share	38.4	42.1	43.5	48.7
BV	35.9	36.0	36.9	39.0
Dividend per share	3.0	4.0	4.7	4.7
Dvidend payout ratio	0.5	0.7	0.7	0.6
Operating Ratios				
EBITDA Margin	23.1	15.0	15.6	16.9
PAT Margin	21.1	15.1	15.1	15.3
Return Ratios				
RoE	16.7	16.3	18.0	20.1
RoCE	23.2	21.3	23.3	24.2
Valuation Ratios				
EV / EBITDA	11.4	12.2	10.1	7.4
P/E	18.9	19.3	17.0	14.5
EV / Net Sales	2.4	1.7	1.5	1.2
Sales / Equity	0.9	1.2	1.3	1.4
Market Cap / Sales	3.6	2.7	2.4	2.1
Price to Book Value	3.1	3.1	3.1	2.9
Turnover Ratios				
Asset turnover	4.5	6.1	6.2	6.0
Debtors Turnover Ratio	4.2	5.6	6.8	6.6
Creditors Turnover Ratio	8.9	11.5	11.2	11.2
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.6	0.4	0.5	0.5
Quick Ratio	0.6	0.4	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1325	1,680	Buy	183824	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	62	60	Hold	22762	2.6	3.5	4.3	23.0	17.1	13.9	5.0	6.2	7.2	2.9	3.9	4.8
AIA Engineering (AIAENG)	1770	1,890	Buy	16695	52.2	63.9	74.6	32.0	26.1	22.4	19.4	21.5	22.5	14.4	15.8	16.5
KEC International (KECIN)	271	315	Hold	6967	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	453	550	Buy	6952	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	140	150	Hold	3419	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	98	110	Buy	26803	6.6	7.0	7.8	11.4	10.6	9.6	25.6	25.0	25.3	18.2	17.4	17.3
Engineers India (ENGIND)	113	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	294	295	Hold	1493	20.9	25.5	36.7	13.2	10.8	7.5	16.6	19.3	22.8	9.4	10.2	13.2
Cochin Shipyard (COCSHI)	369	410	Buy	4,644	35.6	36.5	39.9	9.7	9.5	8.6	15.0	13.6	13.6	13.8	13.2	13.5
SKF (SKFIND)	1886	1,845	Hold	9729	65.4	69.4	76.8	27.5	25.9	23.4	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	552	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	174	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	596	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors 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 categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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