Engineers India (ENGIND)

ICICI direct Research

CMP: ₹ 103 Target: ₹ 105 (2%) Target Period: 12 - 15 months

HOLD

August 13, 2019

Result Update

ICICI Securities – Retail Equity Research

Strong Q1, led by higher consultancy contribution

Engineers India (EIL) reported strong Q1FY20 numbers led by higher-than-expected contribution from consultancy business coupled with strong margins. Revenues grew 28.2% YoY to ₹ 734.9 crore. Consultancy and turnkey segment contributed 60.5% and 39.5%, respectively. Consultancy revenues grew 38% to ₹ 444.5 crore while turnkey revenues jumped 15.7% to ₹ 290.4 crore, YoY. Absolute EBITDA grew 61.5% YoY to ₹ 139.4 core. This was due to healthy EBIT margins in consultancy segment. Consultancy and turnkey segments reported EBIT margins of 39.3% and 2.7%, respectively. Overall EBITDA margins came in at 19.0% vs. 15.1% YoY. Absolute PAT grew 43.2% YoY to ₹ 124.1 crore.

Decent inflows in Q1FY20, healthy guidance over FY20-21E

Order inflows for Q1FY20 came in at ₹ 943.6 crore, all from consultancy segment, taking the order backlog to ₹ 11,429 crore. Within consultancy, order inflow comprises ₹ 195.1 crore from domestic and ₹ 748.5 crore 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 ~₹ 1800-2000 crore and revenue growth of ~15% for FY20E. Accordingly, we estimate healthy inflows of ₹ 2000-2500 crore, in FY20-21E.

Overseas, non-hydrocarbon to provide diversification

In FY20E, EIL is expecting is expecting variation 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 grow at 15.1%, 21.2% and 14.6% CAGR, respectively, over FY19-21E. We expect accelerated revenue and EBITDA growth due to increasing contribution from turnkey segment, coupled with higher margins. EIL's balance sheet continues to remain healthy with zero debt and cash balance of ~₹ 2660 crore. EIL's book-to-bill is at healthy ~4.5x (order book at ₹ 11,429 crore). We value EIL at 13.5x P/E on FY21E EPS of ₹ 7.7 to arrive at a target price of ₹ 105 per share and maintain **HOLD** rating EIL. Key risks: Any project related headwinds or delays in turnkey segment may affect revenue growth.

Particulars

Particular	Amount
Market Capitalization	₹ 6509 Crore
Total Debt (FY19)	₹ 3.9 Crore
Cash and Investments (FY19)	₹ 2661 crore
EV (FY19)	₹ 3852 Crore
52 week H/L (₹) (BSE)	140 / 93
Equity capital (FY19)	₹ 316 Crore
Face value	₹ 5

Key Highlights

- Decent inflows of ₹ 943.6 crore (all in consultancy segment) in Q1FY20, healthy guidance for FY20-21E
- As on Q1FY20, order backlog at ₹ 11429 crore
- EIL sees overseas and non-hydro opportunities to aid strong growth over FY19-21E
- Maintain HOLD recommendation with revised target price of ₹ 105 per share

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Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20E	FY21E	FY19-21E
Net Sales	1,449	1,788	2,444	2,819	3,237	
Revenue	1,449	1,788	2,444	2,819	3,237	15.1
EBITDA	302	413	366	440	537	21.2
Net Profit	325	378	370	423	486.3	14.6
EPS (₹)	4.8	6.0	5.9	6.7	7.7	
P/E (x)	21.4	17.2	17.6	15.4	13.4	
Price / Book (x)	2.5	2.9	2.9	2.8	2.7	
EV/EBITDA (x)	15.5	9.9	10.5	8.5	6.4	
RoCE (%)	19.7	23.2	21.3	23.4	23.9	
RoE (%)	11.7	16.7	16.3	18.1	19.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	734.9	631.4	573.3	28.2	612.6	20.0	Revenue increased 28.2% YoY due to strong order booking in the consultancy segment
Construction Mtl costs	121.9	176.1	158.6	-23.1	123.4	-1.3	
Employees Expenses	200.1	194.0	184.7	8.3	191.8	4.3	
Other Expenses	395.4	341.6	302.3	30.8	327.5	20.7	
Total Expenditure	595.5	535.6	487.0	22.3	519.3	14.7	
EBITDA	139.4	95.8	86.4	61.5	93.3	49.4	
EBITDA margins (%)	19.0	15.2	15.1	391 bps	15.2	374 bps	
Interest	0.3	0.4	0.2		0.4		
Depreciation	5.7	5.9	5.5	3.7	5.8	-1.4	
Tax	67.6	48.2	46.2	46.3	51.8	30.5	
Other Income	58.3	54.0	52.2	11.7	59.6	-2.2	
PAT	124.1	95.3	86.6	43.2	94.9	30.7	

Key Metrics	Q1FY20		Q1FY19	YoY (%)	Q4FY19	QoQ (%)	
Revenue Segmentation							
Con. & Engg. Projects	444.5		322.3	37.9	352.2	26.2	Consultancy and turnkey segments contributed 60.5% and 39.5% to the topline, respectively
As a % of Sales	*60.5*		*56.2*		*57.5*		
Turnkey Projects	290.4		251.0	15.7	260.4	11.5	
As a % of Sales	*39.5*		*43.8*		*42.5*		
Segmental EBIT							
Con. & Engg. Projects	174.5		90.0	93.9	101.1	72.6	
As a % of EBIT	*95.7*		*85.9*		*86.1*		
Turnkey Projects	7.9		14.7	-46.1	16.3	-51.4	
As a % of EBIT	*4.3*		*14.1*		*13.9*		

Source: Company, ICICI Direct Research

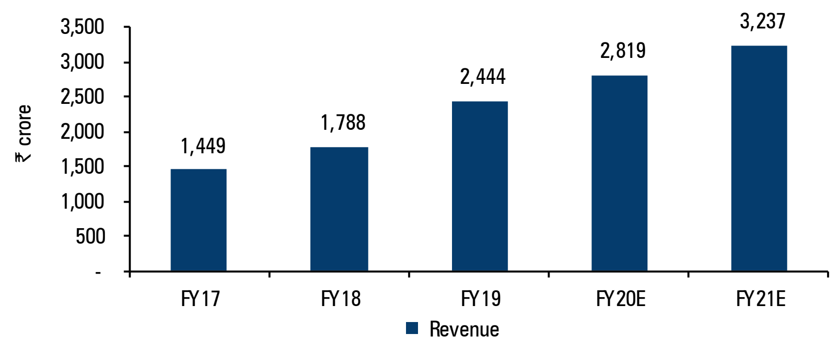
Exhibit 2: Change in estimates

	FY18	FY19		FY20E			FY21E	
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,967.1	2,669.4	3,016.5	3,048.6	1.1	3,467.4	3,472.0	0.1
EBITDA	413.0	366.0	434.7	439.7	1.1	546.3	537.3	-1.6
EBITDA Margin (%)	23.1	15.0	15.6	15.6	0 bps	16.9	16.6	-30 bps
PAT	377.9	370.1	419.8	422.9	0.7	493.7	486.3	-1.5
EPS (₹)	6.0	5.9	6.6	6.7	1.4	7.8	7.7	-1.3

Source: Company, ICICI Direct Research

Financial story in charts

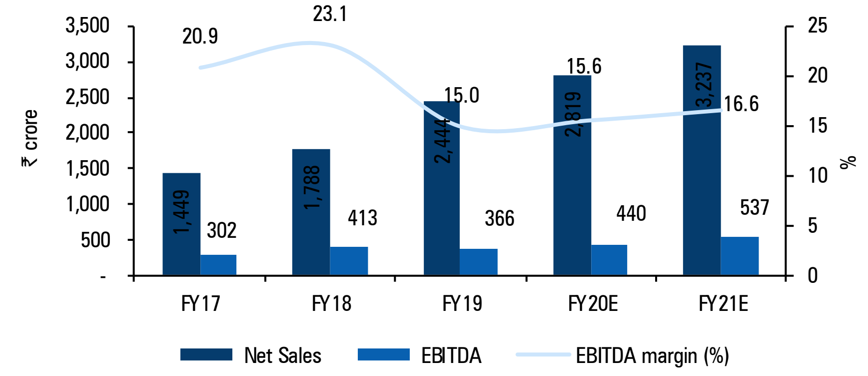
Exhibit 3: Revenue trend (consolidated)



Growth to be driven by turnkey segment for FY20E

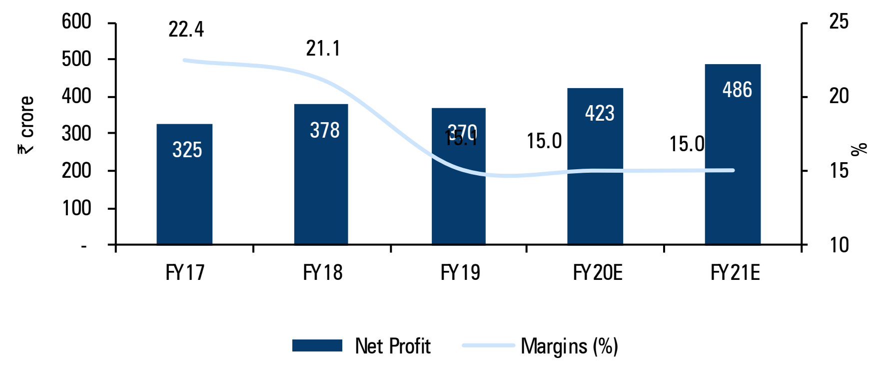
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin



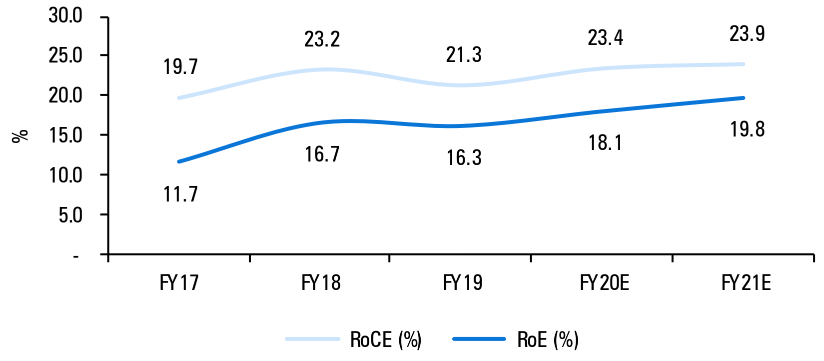
Source: Company, ICICI Direct Research

Exhibit 5: PAT trend and margins



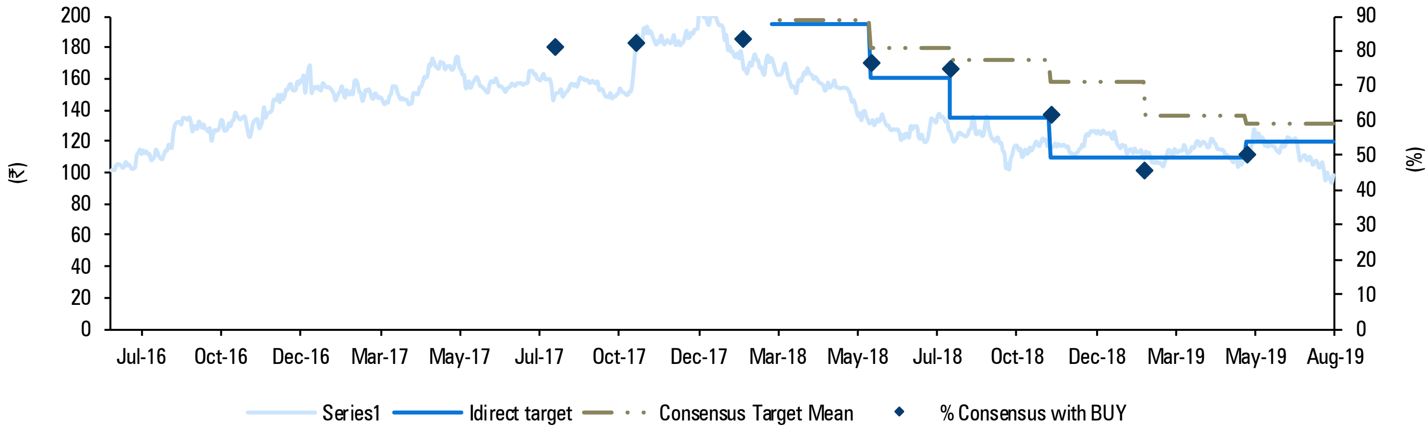
Source: Company, ICICI Direct Research

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 (m)	Change (m)
1	Government of India	30-Jun-19	52.0%	328.6M	+0.00M
2	ICICI Prudential Asset Management Co. Lt	30-Jun-19	7.5%	47.2M	-0.37M
3	L&T Investment Management Limited	30-Jun-19	6.4%	40.4M	0
4	Life Insurance Corporation of India	30-Jun-19	3.5%	22.4M	0
5	Reliance Nippon Life Asset Management L	30-Jun-19	1.9%	11.9M	-0.00M
6	UTI Asset Management Co. Ltd.	30-Jun-19	1.5%	9.6M	-0.80M
7	Goldman Sachs Asset Management (India	31-Mar-18	1.1%	6.8M	+0.30M
8	The Vanguard Group, Inc.	30-Jun-19	0.8%	5.2M	0
9	IDFC Asset Management Company Private	30-Jun-19	0.7%	4.7M	+0.08M
10	Dimensional Fund Advisors, L.P.	30-Jun-19	0.7%	4.1M	0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

		Buys			Sells
Investor Name	Value	Shares	Investor Name	Value	Shares
Union Investment Luxembourg S.A.	+3.59M	+2.12M	IDFC Asset Management Company Private Limited	-11.61M	-5.77M
Aditya Birla Sun Life AMC Limited	+0.39M	+0.22M	General Insurance Corporation of India	-1.37M	-0.65M
Canara Robeco Asset Management Company Ltd.	+0.29M	+0.16M	The New India Assurance Co. Ltd.	-0.96M	-0.45M
Axis Asset Management Company Limited	+0.25M	+0.14M	Aditya Birla Sun Life AMC Limited	-0.72M	-0.34M
IDFC Asset Management Company Private Limited	+0.14M	+0.08M	DHFL Pramerica Asset Managers Private Limited	-0.13M	-0.07M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	52.0	52.0	52.0	52.0	52.0
FII	4.3	4.4	6.5	6.6	6.6
DII	27.8	26.9	26.3	25.5	26.1
Others	15.9	16.7	15.2	15.9	15.3

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	2,819	3,237
Other operating income	-	-	-	-
Revenue	1,788	2,444	2,819	3,237
% Growth	*4.4*	*36.7*	*15.3*	*14.8*
Other income	179	225	230	235
Total	1,967	2,669	3,049	3,472
Total Raw Material Costs	-	-	-	-
Employee Expenses	757	757	800	874
Other expenses	617	1,321	1,578	1,826
Total Operating Expenditure	1,375	2,078	2,379	2,700
Operating Profit (EBITDA)	413	366	440	537
% Growth	*92.7*	*(11.4)*	*20.1*	*22.2*
Interest	1	1	2	3
PBDT	592	590	667	770
Depreciation	24	22	27	31
PBT before Exceptional Items	568	568	641	739
Total Tax	190	197	218	253
PAT before MI	378	370	423	486
Minority Interest	-	-	-	-
PAT	378	370	423	486
% Growth	*22.7*	*(2.1)*	*14.3*	*15.0*
EPS	6.0	5.9	6.7	7.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	377.9	370.1	422.9	486.3
Depreciation	23.8	22.4	26.8	30.8
Interest	0.6	1.2	2.2	2.5
Cash Flow before WC changes	402.3	393.7	451.9	519.6
Changes in inventory	(0.0)	(5.8)	5.5	(0.2)
Changes in debtors	(161.8)	130.8	(70.3)	(86.3)
Changes in loans & Advances	0.4	(2.8)	(2.1)	(2.1)
Changes in other current assets	110.2	(21.0)	(5.8)	(7.2)
Net Increase in Current Assets	(154.7)	15.8	(72.7)	(95.8)
Changes in creditors	(4.9)	29.6	44.8	40.6
Changes in provisions	163.4	(147.6)	76.2	77.1
Net Increase in Current Liabilities	830.9	340.5	142.6	304.0
Net CF from Operating activities	1,078.4	749.9	521.8	727.8
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)	(356.4)	(356.4)
Net CF from Financing Activities	(881.2)	(366.0)	(367.1)	(370.7)
Net Cash flow	170.1	235.5	104.7	307.1
Opening Cash/Cash Equivalent	2,255.4	2,425.5	2,661.0	2,765.8
Closing Cash/ Cash Equivalent	2,425.5	2,661.0	2,765.8	3,072.8

**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	2,018	2,136
Total Shareholders funds	2,268	2,276	2,334	2,452
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	2,457
Gross Block	439.1	437.4	483.4	573.4
Acc: Depreciation	169.4	191.8	218.5	249.3
Net Block	255.1	245.6	264.9	324.1
Capital WIP	51.8	36.0	40.0	45.0
Total Fixed Assets	307.0	281.6	304.9	369.1
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	484.4	570.7
Loans and Advances	10.3	13.1	15.2	17.4
Other Current Assets	521.4	606.8	606.8	606.8
Cash	2,425.5	2,661.0	2,765.8	3,072.8
Total Current Assets	3,528.3	3,748.1	3,925.5	4,328.4
Current Liabilities	218.0	247.6	292.3	332.9
Provisions	626.8	479.2	555.4	632.6
Net Current Assets	1,465.6	1,344.8	1,379.6	1,478.5
Total Assets	2,283	2,281	2,339	2,457

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	6.7	7.7
Cash per Share	38.4	42.1	43.8	48.6
BV	35.9	36.0	36.9	38.8
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	16.6
PAT Margin	21.1	15.1	15.0	15.0
Return Ratios				
RoE	16.7	16.3	18.1	19.8
RoCE	23.2	21.3	23.4	23.9
Valuation Ratios				
EV / EBITDA	9.9	10.5	8.5	6.4
P/E	17.2	17.6	15.4	13.4
EV / Net Sales	2.1	1.4	1.2	1.0
Sales / Equity	0.9	1.2	1.3	1.4
Market Cap / Sales	3.3	2.4	2.1	1.9
Price to Book Value	2.9	2.9	2.8	2.7
Turnover Ratios				
Asset turnover	4.5	6.1	6.3	6.1
Debtors Turnover Ratio	4.2	5.6	6.8	6.6
Creditors Turnover Ratio	8.9	11.5	11.3	11.1
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)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
L&T (LARTOU)	1315	1,675	Buy	182437	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	51	60	Hold	17759	3.5	3.2	3.8	17.2	19.0	15.7	6.9	6.0	7.0	3.9	3.5	4.2
AIA Engineering (AIAENG)	1650	2,050	Buy	15563	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1066	1,170	Hold	12702	23.1	28.3	34.1	47.3	38.6	32.0	18.0	17.0	18.7	11.2	11.3	12.3
KEC International (KECIN)	288	330	Hold	7404	19.2	22.8	27.3	15.1	12.7	10.6	24.8	25.2	25.6	20.1	20.2	20.2
Kalpataru Power(KALPOW)	488	570	Buy	7489	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2
Greaves Cotton (GREAVE)	118	145	Buy	2882	6.9	8.0	8.8	17.0	14.8	13.5	27.4	27.7	29.5	18.7	19.1	20.4
Elgi Equipment (ELGEQU)	241	300	Buy	3819	6.1	6.5	7.2	38.1	36.0	32.4	14.3	13.8	15.1	14.1	13.4	13.6
Bharat Electronics (BHAELE)	94	135	Buy	22904	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3
Engineers India (ENGIND)	103	105	Hold	6509	5.9	6.7	7.7	17.6	15.4	13.4	21.3	23.4	23.9	16.3	18.1	19.8
VaTech Wabag (VATWAB)	272	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	348	440	Buy	4,578	36.3	37.0	40.1	9.6	9.4	8.7	18.8	17.0	16.4	14.4	13.7	13.7
SKF (SKFIND)	1855	1,565	Reduce	9523	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4
Timken India (TIMIND)	701	830	Buy	5273	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	81	185	Hold	785	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3
Grindwell Norton (GRINOR)	542	635	Buy	6001	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5

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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