

## Decent execution led by turnkey segment...

Engineers India (EIL) reported overall decent set of Q4FY20 numbers. Standalone revenues came in at ₹ 853.8 crore with strong growth of 39.4% YoY. Consultancy and turnkey (LSTK) segments contributed 47%, 53%, respectively. While for FY20 revenue grew 31% to ₹ 3203.1 crore YoY with 49% contribution from consultancy and 51% from turnkey segment. Absolute EBITDA came in at ₹ 111 crore, up 19% YoY while overall EBITDA margin came in at 13%, down 220 bps YoY mainly due to a change in the business mix. Consultancy and turnkey segments reported EBIT margins of 34.2% (vs. 28.7% in Q4FY19) and 2.9% (vs. 6.3% in Q4FY19), respectively. EIL reported PAT at ₹ 116.5 crore, up 22.8% YoY. Other income grew 14.9%, YoY to ₹ 68.5 crore. For FY20, PAT grew 16.3% to ₹ 430.3 crore YoY.

### Decent inflows for FY20, cautious guidance for FY21E...

Order inflows for Q4FY20 came in at ₹ 146 crore (₹ 1617 crore for FY20). All was from consultancy segment, taking the order backlog to ₹ 9555 crore. For FY20, within consultancy, 50% came from domestic market, 50% from overseas market mostly from hydrocarbon sector, primarily from customers like MRPL, Numaligarh Refinery Expansion, IOCL, HPCL, ADNOC, etc.

### Decent order pipeline expected in FY21E amid economic challenges

For FY21E, EIL expects order inflows to the tune of ~₹ 1600 crore as it is already in a favourable position in BPCL, Mumbai project (~₹ 200 crore), Panipat refinery-(~₹ 617 crore), Gail contract – (~₹ 400 crore) and HMEL cracker plant expansion project (~₹ 600-₹ 650 crore~), which are likely to materialise in FY21E. Additionally, a few projects like MRPL (₹ 700 crore opportunity size), Paradip refinery project (₹ 1000 crore opportunity) and CPCL Nagapattinam expansion, NRL are also in the pipeline. However, a likely change in ownership of NRL and likely possibility of timeline changes for IOC projects could defer some ordering in FY22E. Overall, it has sufficient opportunities for the next two years as sufficient capex in the oil & gas sector would continue despite economic challenges.

### Valuation & Outlook

Going forward, we expect revenue, EBITDA, PAT to grow at 0.7%, 4.7%, 8.1% CAGR, respectively, in FY20-22E with marginally higher contribution from consultancy segment. However, short-term headwinds could affect execution in FY21E owing to disrupted business operations. EIL's balance sheet continues to remain healthy with zero debt and cash balance of ~₹ 2720 crore. EIL's book to-bill is at healthy ~3x (order book at ₹ 9555 crore). We value EIL at 11.5x P/E on FY22E EPS of ₹ 8.0 with a revised target price of ₹ 92/share and maintain **BUY** rating. Key risks: Any project related headwinds or delays in turnkey segment may further affect revenue growth.

#### Key Financial Summary

(₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	FY20-22E
Net Sales	1,788	2,444	3,203	2,710	3,248	
Revenue	1,788	2,444	3,203	2,710	3,248	0.7
EBITDA	413	366	443	393	486	4.7
Net Profit	378	370	430	423	502.6	8.1
EPS (₹)	6.0	5.9	6.8	6.7	8.0	
P/E (x)	13.4	13.7	11.7	12.0	10.1	
Price / Book (x)	2.2	2.2	2.1	2.0	1.9	
EV/EBITDA (x)	6.4	6.6	5.3	6.6	4.9	
RoCE (%)	23.2	21.1	22.6	19.3	21.0	
RoE (%)	16.7	16.0	17.8	16.9	19.4	

Source: Company, ICICI Direct Research



A Navratna Company

#### Particulars

Particular	Amount
Market Capitalization	₹5055 Crore
Total Debt (FY 20)	₹6.7 Crore
Cash and Inv. (FY 20)	₹2723 crore
EV (FY 20)	₹2339 Crore
52 week H/L (₹)	124 / 50
Equity capital (FY 20)	₹316 Crore
Face value	₹5

#### Key Highlights

- Overall order inflow in Q4FY20 was at ₹ 146 crore (₹ 1617 crore for FY20). All was from consultancy segment, taking order backlog to ₹ 9555 crore
- For FY21E, EIL expects order inflows to the tune of ~₹ 1600 crore
- Overall EBITDA margin came in at 13%, down 220 bps YoY mainly due to change in business mix
- Value EIL at 11.5x P/E on FY22E EPS of ₹ 8.0 with revised target price of ₹ 92 per share and maintain BUY rating

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	853.8	612.6	39.4	890.6	-4.1	Decent execution with higher contribution of 53% from turnkey segment
Construction Mtl costs	92.5	123.4	-25.0	138.7	-33.3	
Employees Expenses	225.0	191.8	17.3	212.4	5.9	
Other Expenses	517.8	327.5	58.1	592.6	-12.6	
Total Expenditure	742.8	519.3	43.0	805.0	-7.7	
EBITDA	111.0	93.3	19.0	85.6	29.7	
EBITDA margins (%)	13.0	15.2	-223 bps	9.6	340 bps	Margin stress due to change in business mix, provisions and write-backs in base quarter
Interest	0.6	0.4		0.4		
Depreciation	6.7	5.8	15.9	5.6	20.3	
Tax	55.7	51.8	7.6	36.7	51.9	
Other Income	68.5	59.6	14.9	65.7	4.3	
PAT	116.5	94.9	22.8	108.6	7.3	

Key Metrics	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
<b>Revenue Segmentation</b>					
Con. & Engg. Projects	401.7	352.2	14.0	365.1	10.0
As a % of Sales	47.0	57.5		41.0	
Turnkey Projects	452.2	260.4	73.7	525.5	-14.0
As a % of Sales	53.0	42.5		59.0	
<b>Segmental EBIT</b>					
Con. & Engg. Projects	137.3	101.1	35.8	90.2	52.3
As a % of EBIT	91.3	86.1		85.0	
Turnkey Projects	13.0	16.3	-20.1	16.0	-18.4
As a % of EBIT	8.7	13.9		15.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19		FY20P			FY21E		FY22E		
(₹Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change		
Revenue	2,444.3	3,203.1	2,912.0	2,709.7	-6.9	3,200.0	3,247.6	1.5	Revised estimates considering execution ramp-up despite challenges	
EBITDA	366.0	443.1	389.0	392.9	1.0	438.0	485.5	10.8		
EBITDA Margin (%)	15.0	13.8	13.4	14.5	114 bps	13.7	15.0	126 bps		
PAT	370.1	430.3	415.0	423.0	1.9	471.8	502.6	6.5		
EPS (₹)	5.9	6.8	6.6	6.7	1.4	7.5	8.0	6.1		

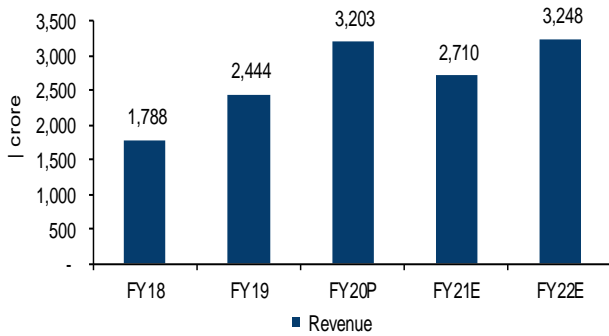
Source: Company, ICICI Direct Research

## Key Conference call highlights

- On the operational front, EIL did not experience much impact in Q4FY20 during the lockdown. Going forward, though there may be some impact in the near term, there would be no major impact on continuity of business in the long term. Q1FY21 will be a washout and gradually improve from Q2FY21 onwards. It is expected to normalise in H2FY21. However, FY21 revenue depends on availability of resources, vendors, workers and supply chain disruptions returning to normal
- For Q4FY20, consultancy margins jumped to 34% due to export incentives of ₹ 15-20 crore. Adjusting for the same, margin is at ~30%
- For FY21, EIL expects order inflows to the tune of ~₹ 1600 crore as it is already in favourable position in BPCL, Mumbai project (~₹ 200 crore), Panipat refinery-(~₹ 617 crore), Gail contract – (~₹ 400 crore) and HMEL cracker plant expansion project (~₹ 600-₹ 650 crore~), which are likely to materialise in FY21
- Additionally, few projects like MRPL (₹ 700 crore opportunity size), Paradip refinery project (₹ 1000 crore opportunity) and CPCL Nagapattinam expansion, NRL are also in the pipeline. However, a likely change in ownership of NRL and likely possibility of timeline changes for IOC projects could defer some ordering in FY22. Overall, it has sufficient opportunities for the next two years as sufficient capex in the oil & gas sector would continue despite economic challenges
- Export opportunities: Virtually all international projects have been postponed for three to six months. No export order is expected in the next 12 months
- For FY20: The company made provisions for contractual obligations worth ₹ 80 crore and provision for doubtful debt of ₹ 40 crore. For Q4FY20, provisions for doubtful debt were at ₹ 10 crore while contractual obligations at ₹ 15 crore. Also, provision for doubtful debts increased due to increase in trade receivables due to lockdowns. In April and May 2020, good amount of trade receivables got cleared
- Margins for FY21: Turnkey segment margins are expected to be in the range of 3-4% while consultancy margins are expected to be in the range of 25-28% in FY21
- Capex: The company is likely to do capex of ~₹ 60 crore in FY21

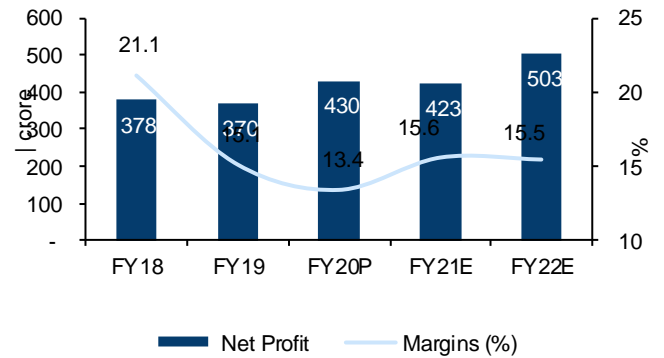
## Financial Story in charts

Exhibit 3: Trend in revenues..



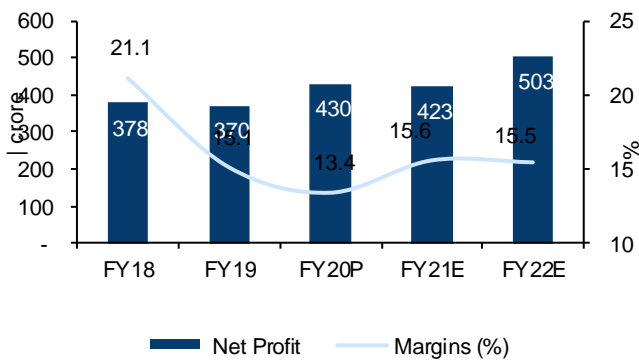
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin (%) trend.....



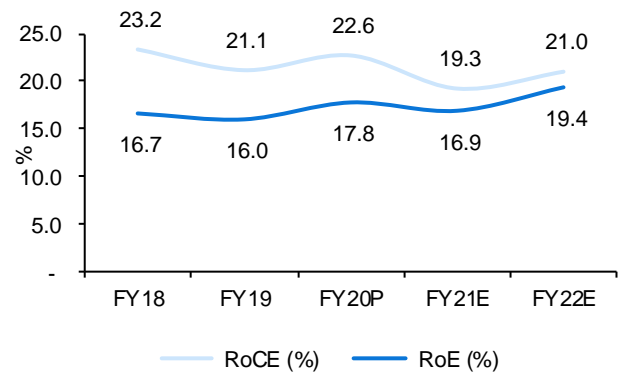
Source: ICICI Direct Research, Company

Exhibit 5: PAT and PAT margin (%) trend....



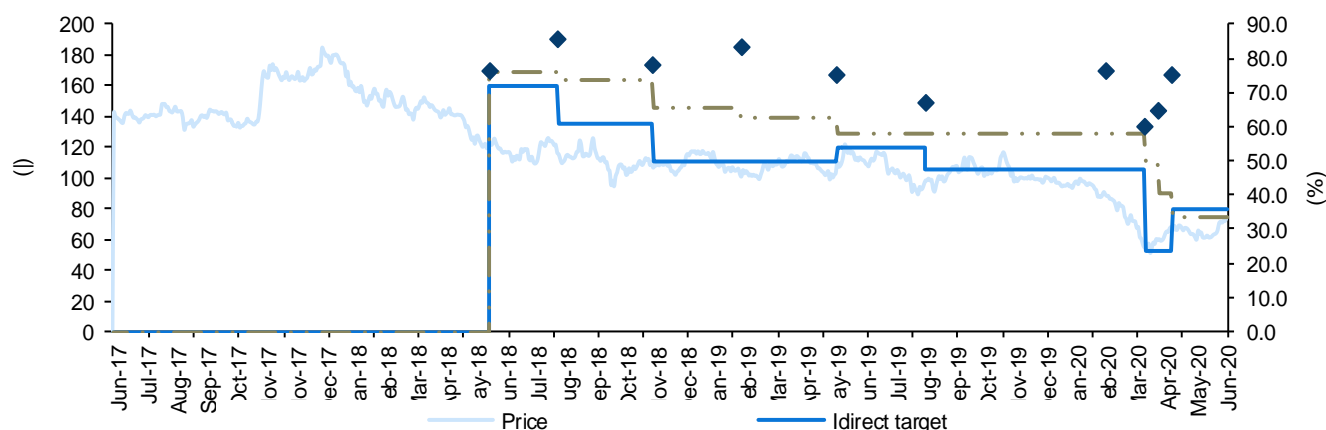
Source: Company, ICICI Direct Research

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	Investor Name	Filing Date	% O/S	osition (%)	Change
1	Government Of India	31-Mar-20	51.5	325.40m	0.00m
2	Icici Prudential Ass	31-May-20	7.0	44.04m	(0.71)m
3	L&T Mutual Fund	31-May-20	4.9	31.15m	(0.28)m
4	Life Insurance Corp	31-Dec-19	3.5	22.18m	(0.20)m
5	Hdfc Asset Managemen	31-May-20	2.8	17.60m	1.96m
6	Sbi Funds Management	31-May-20	2.7	16.85m	0.25m
7	Royal Bank Of Canada	31-Mar-20	1.7	10.52m	(3.15)m
8	Na	30-Jun-19	1.5	9.61m	9.61m
9	Aditya Birla Sun Lif	31-Dec-19	1.4	8.52m	8.52m
10	Reliance Capital Tru	10-Jun-20	0.8	5.10m	(0.08)m

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	52.0	52.0	52.0	51.5	51.5
FII	6.6	6.6	7.8	8.6	7.6
DII	25.5	26.1	24.8	23.3	25.5
Others	15.9	15.3	15.4	16.6	15.4

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement					₹ crore
(₹Crore)	FY19	FY20P	FY21E	FY22E	
Net Sales	2,444	3,203	2,710	3,248	
Other operating income	-	-	-	-	
<b>Revenue</b>	<b>2,444</b>	<b>3,203</b>	<b>2,710</b>	<b>3,248</b>	
% Growth	42.7	31.0	(15.4)	19.9	
Other income	225	258	200	215	
Total	2,669	3,461	2,910	3,463	
Total Raw Material Costs	-	-	-	-	
Employee Expenses	757	844	748	887	
Other expenses	1,321	1,916	1,569	1,875	
Total Operating Expendit	2,078	2,760	2,317	2,762	
<b>Operating Profit (EBIT)</b>	<b>366</b>	<b>443</b>	<b>393</b>	<b>486</b>	
% Growth	70.8	21.0	(11.3)	23.6	
Interest	1	2	3	3	
PBDT	590	699	590	698	
Depreciation	22	24	25	26	
PBT before Exceptional I	568	676	565	672	
Total Tax	197	245	142	169	
PAT before MI	370	430	423	503	
Minority Interest	-	-	-	-	
<b>PAT</b>	<b>370</b>	<b>430</b>	<b>423</b>	<b>503</b>	
% Growth	20.1	16.3	(1.7)	18.8	
<b>EPS</b>	<b>5.9</b>	<b>6.8</b>	<b>6.7</b>	<b>8.0</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(₹Crore)	FY19	FY20P	FY21E	FY22E	
Profit after Tax	370.1	430.3	423.0	502.6	
Depreciation	22.4	23.8	24.9	26.3	
Interest	1.2	1.7	2.5	2.5	
Cash Flow before WC c	393.7	455.8	450.4	531.4	
Changes in inventory	(5.8)	0.3	1.4	(0.5)	
Changes in debtors	130.8	(252.0)	62.7	(55.9)	
Changes in loans & Adv	(2.8)	(1.2)	2.1	(3.4)	
Changes in other curren	(21.0)	(3.9)	0.5	(10.1)	
Net Increase in Current	15.8	(156.2)	66.7	(69.8)	
Changes in creditors	29.6	32.1	(24.6)	34.2	
Changes in provisions	(150.7)	115.7	(107.1)	65.1	
Net Increase in Current	337.4	268.8	(300.0)	267.8	
<b>Net CF from Operatin</b>	<b>746.8</b>	<b>568.5</b>	<b>217.1</b>	<b>729.4</b>	
Changes in deferred tax	7.0	27.5	-	-	
(Purchase)/Sale of Fixe	(0.8)	(40.0)	(40.0)	(50.0)	
<b>Net CF from Investin</b>	<b>(176.3)</b>	<b>(187.5)</b>	<b>(140.0)</b>	<b>(100.0)</b>	
Dividend and Dividend T	(304.3)	(391.6)	(331.0)	(393.4)	
<b>Net CF from Financin</b>	<b>(335.0)</b>	<b>(319.5)</b>	<b>(344.9)</b>	<b>(408.9)</b>	
Net Cash flow	235.5	61.4	(267.8)	220.6	
Opening Cash/Cash Equ	2,425.5	2,661.1	2,722.5	2,454.7	
<b>Closing Cash/ Cash E</b>	<b>2,661.1</b>	<b>2,722.5</b>	<b>2,454.7</b>	<b>2,675.3</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					₹ crore
(₹Crore)	FY19	FY20P	FY21E	FY22E	
Equity Capital	316.0	316.0	316.0	316.0	
Reserve and Surplus	1,991	2,101	2,181	2,277	
Total Shareholders fund:	2,307	2,416	2,497	2,593	
Minority Interest	-	-	-	-	
Other Non Current Liabil	4.6	6.6	6.6	6.6	
Total Debt	3.9	6.7	6.7	6.7	
<b>Total Liabilities</b>	<b>2,315</b>	<b>2,430</b>	<b>2,510</b>	<b>2,607</b>	
Gross Block	437.4	485.0	530.4	580.4	
Acc: Depreciation	191.8	215.6	240.5	266.8	
Net Block	245.6	258.5	289.9	313.6	
Capital WIP	54.3	5.4	45.0	45.0	
Total Fixed Assets	299.9	263.9	334.9	358.6	
Non Current Assets	307.5	280.4	280.4	280.4	
Inventory	6.9	6.6	5.2	5.7	
Debtors	414.1	666.1	603.5	659.3	
Loans and Advances	13.1	14.3	12.2	15.6	
Other Current Assets	606.8	506.1	506.1	506.1	
Cash	2,661.1	2,722.5	2,454.7	2,675.3	
Total Current Assets	3,748.1	3,965.7	3,631.2	3,921.6	
Current Liabilities	247.6	279.7	255.1	289.3	
Provisions	476.1	591.8	484.7	549.7	
Net Current Assets	1,347.9	1,296.7	1,262.3	1,284.8	
<b>Total Assets</b>	<b>2,315</b>	<b>2,430</b>	<b>2,510</b>	<b>2,607</b>	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Per Share Data</b>					
EPS	5.9	6.8	6.7	8.0	
Cash per Share	42.1	43.1	38.8	42.3	
BV	36.5	38.2	39.5	41.0	
Dividend per share	4.0	5.1	4.4	5.2	
Dvidend payout ratio	0.7	0.8	0.7	0.7	
<b>Operating Ratios</b>					
EBITDA Margin	15.0	13.8	14.5	15.0	
PAT Margin	15.1	13.4	15.6	15.5	
<b>Return Ratios</b>					
RoE	16.0	17.8	16.9	19.4	
RoCE	21.1	22.6	19.3	21.0	
<b>Valuation Ratios</b>					
EV / EBITDA	6.6	5.3	6.6	4.9	
P/E	13.7	11.7	12.0	10.1	
EV / Net Sales	0.9	0.7	0.9	0.7	
Sales / Equity	1.2	1.4	1.2	1.3	
Market Cap / Sales	1.9	1.5	1.7	1.5	
Price to Book Value	2.2	2.1	2.0	1.9	
<b>Turnover Ratios</b>					
Asset turnover	6.1	7.1	5.5	6.0	
Debtors Turnover Ratio	5.6	6.4	4.6	5.5	
Creditors Turnover Ratio	11.5	13.1	10.9	12.7	
<b>Solvency Ratios</b>					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.4	0.6	0.6	0.6	
Quick Ratio	0.4	0.6	0.6	0.6	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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