

Engineers India

Estimate change

TP change

Rating change


CMP: INR80
TP: INR93 (+16%)
Buy

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Bloomberg	ENGR IN
Equity Shares (m)	674
M.Cap.(INRb)/(USDb)	50.5 / 0.6
52-Week Range (INR)	124 / 50
1, 6, 12 Rel. Per (%)	16/-6/-24
12M Avg Val (INR M)	155

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	32.0	25.4	29.8
EBITDA	4.4	3.9	4.8
PAT	4.3	4.7	5.2
EBITDA (%)	13.8	15.4	16.2
EPS (INR)	6.8	7.4	8.3
EPS Gr. (%)	16.3	9.2	11.4
BV/Sh. (INR)	34.8	35.7	36.6
Ratios			
Net D/E	(1.4)	(1.3)	(1.3)
RoE (%)	18.3	19.6	21.2
RoCE (%)	20.8	22.1	23.9
Payout (%)	87.7	87.7	87.7
Valuations			
P/E (x)	11.7	10.8	9.7
P/BV (x)	2.3	2.2	2.2
EV/EBITDA (x)	5.3	6.6	5.3
Div Yield (%)	6.4	7.0	7.8
FCF Yield (%)	7.0	6.0	12.5

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.5	51.5	52.0
DII	25.5	23.3	25.5
FII	7.6	8.6	6.6
Others	15.4	16.6	15.9

FII Includes depository receipts

Favorable sales mix to aid profitability

In-line earnings on execution surprise led by lower margin turnkey project

- Revenues came in higher than estimated, led by superior performance in the Turnkey segment (74%/50% YoY increase in 4QFY20/FY20). With this, the revenue share of the low-margin Turnkey segment stood at 51% in FY20, up from 45% in FY19. An adverse revenue mix led to decline in EBITDA margins in 4QFY20/FY20.
- The order book declined 15% YoY to INR95.5b, with OB/Rev at 3x, the lowest in the last four years. With superior execution and lower order inflows, a depleting order book remains a concern, although it is not alarming at this stage. We tweak our FY21/FY22E EPS by -2%/+1% and maintain our Buy rating, with TP of INR93 (prior: INR100).

Earnings in-line; adverse revenue mix impacts margins

- 4QFY20 snapshot:** Revenues came in at INR8.5b, up 39% YoY (11% above estimate). EBITDA stood at INR1.1b, up 19% YoY (in-line). The EBITDA margin declined 220bp YoY to 13% on an adverse revenue mix. PBT stood at INR1.7b, up 17% YoY (in-line). The effective tax rate stood at 24.7% in 4QFY20 (v/s 35.3% in 4QFY19). Adj. PAT was up 37% YoY to INR1.3b (in-line).
- FY20 snapshot:** Revenue stood at INR32b, up 31% YoY. EBITDA stood at INR4.4b, up 21% YoY. The EBITDA margin stood at 13.8% (down 120bp) on an adverse revenue mix. PBT came in at INR6.7b, up 19% YoY. Adj. PAT stood at INR4.3b, up 16% YoY. CFO was at INR3.7b (v/s INR5.4b in FY20).
- Segmental snapshot – Consultancy:** 4QFY20 revenues stood at INR4b, up 14% YoY. The EBIT margin stood at 34.2%, up 550bp YoY. **FY20:** Revenues stood at INR15.6b, up 16% YoY. The EBIT margin stood at 31.9%, up 300bp YoY. The order book was at INR44.5b, up 3% YoY. **Turnkey:** 4QFY20 revenues stood at INR4.5b, up 74% YoY. The EBIT margin stood at 2.9%, down 340bp YoY. **FY20:** Revenues were at INR16.4b, up 50% YoY. The EBIT margin stood at 4%, down 170bp YoY. The order book stood at INR51b, down 26% YoY.

Order inflow and order book position

- Order inflows for FY20 were lower at INR16.2b (v/s INR59b in FY19). All the orders in FY20 came from the Consultancy segment (domestic – INR8.2b and overseas – INR8b).
- Order backlog in the Consultancy segment rose 3% YoY to INR44.6b, while it declined in the Turnkey segment by 26% YoY to INR51b.

Highlights from management commentary

- Margin guidance for Turnkey was reduced to 3–4% based on orders in hand. Margins for Consultancy are expected to be between ~25% and 28% on a steady-state.
- With the on-going slackness due to COVID-19, management expects order inflows of INR1.6b in FY21.

- The company generates INR0.5–1b in revenues from the Pipeline business annually and does not envisage any major revenue jump in FY21.
- Of the two tenders for the Numaligarh refinery out for bidding, the company has not participated in either owing to aggressive bidding.

Valuation and view

We slightly tweak our FY21/FY22E EPS by -2%/+1%. We forecast a revenue/EBITDA/PAT CAGR of -3.5%/4.4%/10.3% over FY20–22E. We expect the revenue mix to reverse going forward, thus aiding profitability. Maintain **Buy**, with TP of INR93 (prior: INR100).

Quarterly Performance

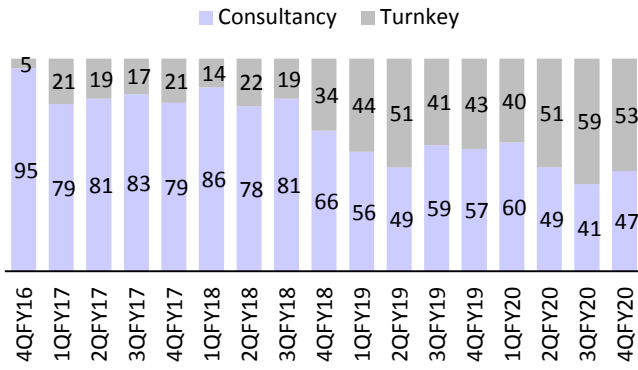
Y/E March	(INR m)											
	FY19				FY20				FY19	FY20	MOSLe	4QE Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	5,733	6,814	5,770	6,126	7,349	7,237	8,906	8,538	24,443	32,031	7,674	11
YoY Change (%)	52.7	58.8	21.9	20.2	28.2	6.2	54.4	39.4	36.7	31.0	25.3	
Total Expenditure	4,870	5,899	4,821	5,193	5,954	6,168	8,050	7,428	20,783	27,600	6,620	
EBITDA	864	915	949	933	1,395	1,069	856	1,110	3,660	4,430	1,053	5
Margins (%)	15.1	13.4	16.4	15.2	19.0	14.8	9.6	13.0	15.0	13.8	13.7	
Depreciation	55	57	53	58	57	58	56	67	224	238	63	
Interest	2	4	3	4	3	4	4	6	12	17	1	
Other Income	522	614	519	596	583	655	657	685	2,251	2,580	653	
PBT	1,328	1,468	1,411	1,467	1,917	1,663	1,453	1,722	5,675	6,755	1,642	5
Tax	462	491	504	518	676	986	366	425	1,974	2,453	410	
Rate (%)	34.8	33.4	35.7	35.3	35.3	59.3	25.2	24.7	34.8	36.3	25.0	
Reported PAT	866	978	908	949	1,241	678	1,087	1,297	3,701	4,302	1,232	5
Adj PAT	866	978	908	949	1,241	678	1,087	1,297	3,701	4,302	1,232	5
YoY Change (%)	6.3	-18.0	-16.3	0.0	43.3	-30.7	19.7	36.7	-8.4	16.3	29.6	
Margins (%)	15.1	14.3	15.7	15.5	16.9	9.4	12.2	15.2	15.1	13.4	16.1	

Exhibit 1: Segmental performance

	FY18		FY19				FY20			
	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Consultancy & Engineering Projects	3,845	3,373	3,223	3,324	3,425	3,522	4,445	3,540	3,651	4,017
Turnkey Projects	889	1,724	2,510	3,490	2,345	2,604	2,904	3,697	5,255	4,522
Total	4,734	5,097	5,733	6,814	5,770	6,126	7,349	7,237	8,906	8,538
YoY growth (%)										
Consultancy & Engineering Projects	42%	-4%	-1%	0%	-11%	4%	38%	7%	7%	14%
Turnkey Projects	64%	87%	393%	263%	164%	51%	16%	6%	124%	74%
Total	46%	15%	53%	59%	22%	20%	28%	6%	54%	39%
Segmental EBIT										
Consultancy & Engineering Projects	1440	896	900	964	1019	1011	1745	968	902	1373
Turnkey Projects	108	121	147	175	143	163	79	285	160	130
Total	1290	517	808	858	895	875	1,337	1,012	800	1,043
EBIT Margin (%)										
Consultancy & Engineering Projects	37.4%	26.6%	27.9%	29.0%	29.7%	28.7%	39.3%	27.4%	24.7%	34.2%
Turnkey Projects	12.1%	7.0%	5.9%	5.0%	6.1%	6.3%	2.7%	7.7%	3.0%	2.9%
Total	27%	10%	20%	13%	16%	14%	18%	14%	9%	12%

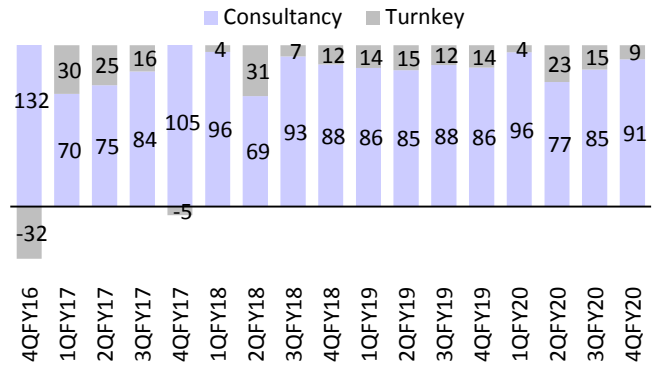
Source: MOFSL, Company

Exhibit 2: Revenue mix trend



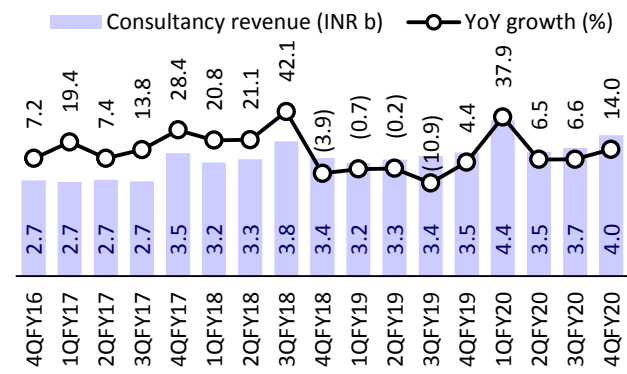
Source: MOFSL, Company

Exhibit 3: EBIT mix trend



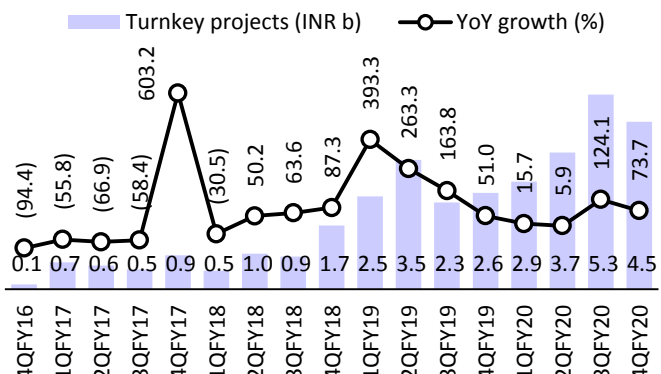
Source: MOFSL, Company

Exhibit 4: Consultancy revenue grew 14% YoY...



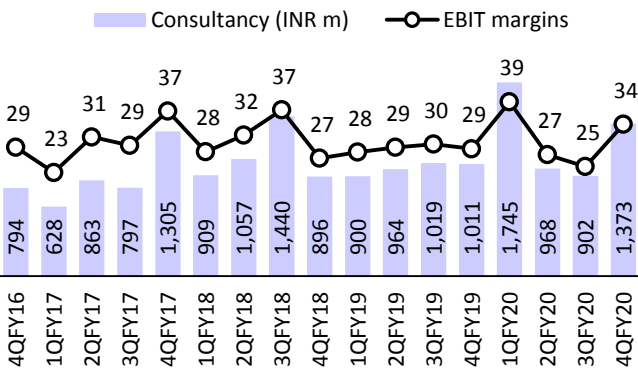
Source: MOFSL, Company

Exhibit 5: ...while Turnkey revenue grew 74% YoY



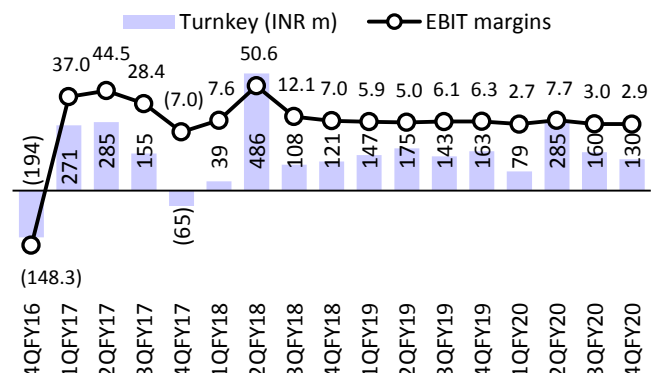
Source: MOFSL, Company

Exhibit 6: Consultancy margins were up by 550 bp YoY, partly owing to the receipt of export incentives...



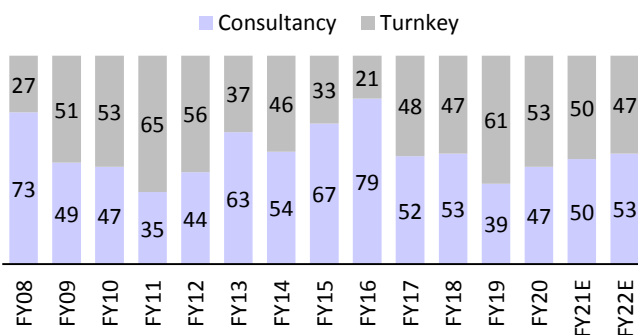
Source: MOFSL, Company

Exhibit 7: ...while Turnkey margins contracted by 340bp YoY on a high base of 4QFY19



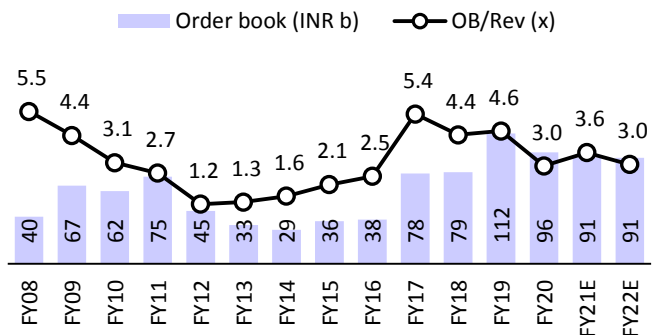
Source: MOFSL, Company

Exhibit 8: Order book is expected to turn in favor of Consultancy segment over FY21–22E



Source: MOFSL, Company

Exhibit 9: OB/Revenue is expected to remain range-bound over FY20–22E



Source: MOFSL, Company

Valuation and view

- **Leadership position in Hydrocarbon:** ENGR is a market leader in the Hydrocarbon segment, wherein it provides consultancy and turnkey solutions. OMCs' strong cash flow position post diesel price deregulation, the necessity to upgrade to BS-VI-compliant facilities, and the need to add capacities (given 100% utilization of existing facilities) augur well for the company.
- **Order book strong, but new order inflows key for re-rating:** The order book declined 15% YoY to INR95.5b, with OB/Rev at 3x, the lowest in the last four years. With superior execution and lower order inflows, a depleting order book remains a concern, although it is not alarming at this stage. Order backlog in the Consultancy segment rose 3% YoY to INR44.6b, while it declined in the Turnkey segment by 26% YoY to INR51b. The current OB/rev ratio stands at 3x and could fuel revenue growth in the near term. However, the new order outlook revival is key for a re-rating, in our view.
- **Maintain Buy:** We slightly tweak our FY21/FY22E EPS by -2%/+1%. We forecast a revenue/EBITDA/PAT CAGR of -3.5%/4.4%/10.3% over FY20–22E. We expect the revenue mix to reverse going forward, thus aiding profitability. We maintain **Buy**, with TP of INR93 (prior: INR100), assigning INR54 to the core business (10x FY22E core EPS), to which we add INR39 for cash on the book.

Exhibit 10: Earnings change table

Earnings Change (INR m)	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	30,558	33,150	25,440	29,839	-17	-10
EBITDA	4,117	4,683	3,929	4,828	(5)	3
EBITDA margin	13.5%	14.1%	15.4%	16.2%	2.0	2.1
Adj. PAT	4,774	5,164	4,699	5,233	(2)	1

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E
Total Revenues	14,486	17,876	24,443	32,031	25,440	29,839
Change (%)	-4.1	23.4	36.7	31.0	-20.6	17.3
Raw Materials	2,269	3,119	10,625	15,576	9,327	11,081
Staff Cost	6,540	7,571	7,571	8,444	9,309	10,558
Other Expenses	1,756	2,795	2,588	3,581	2,875	3,372
EBITDA	3,922	4,390	3,660	4,430	3,929	4,828
% of Total Revenues	27.1	24.6	15.0	13.8	15.4	16.2
Depreciation	225	238	224	238	254	274
Interest	32	6	12	17	17	17
Other income	2,237	1,795	2,251	2,580	2,622	2,456
Extraordinary items	-1,270	-260	0	0	0	0
PBT	4,632	5,681	5,675	6,755	6,279	6,993
Tax	1,752	1,902	1,974	2,453	1,580	1,760
Rate (%)	37.8	33.5	34.8	36.3	25.2	25.2
Reported PAT	2,881	3,779	3,701	4,302	4,699	5,233
Adjusted PAT	3,670	4,039	3,701	4,302	4,699	5,233
Change (%)	32.9	10.0	-8.4	16.3	9.2	11.4

Balance Sheet						(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E
Share Capital	3,369	3,160	3,160	3,160	3,160	3,160
Reserves	24,390	19,519	19,599	20,295	20,873	21,517
Net Worth	27,760	22,679	22,758	23,455	24,033	24,676
Loans	0	0	0	0	0	0
Deferred Tax Liability	-2,657	-3,029	-2,969	-2,695	-2,695	-2,695
Capital Employed	25,102	19,650	19,789	20,760	21,338	21,982
Gross Fixed Assets	3,552	3,547	3,564	3,757	4,057	4,357
Less: Depreciation	476	711	925	1,163	1,417	1,691
Net Fixed Assets	3,075	2,836	2,639	2,594	2,640	2,666
Capital WIP	181	234	337	21	21	21
Investments	5,324	2,440	3,200	4,768	6,310	7,851
Curr. Assets	31,948	35,764	37,699	40,210	34,903	36,848
Inventory	11	11	69	66	53	62
Debtors	3,831	5,449	4,141	6,661	5,291	6,206
Cash & Bank Balance	23,105	24,806	26,611	27,225	24,591	24,752
Loans & Other Assets	5,002	5,498	6,878	6,257	4,969	5,829
Current Liab. & Prov.	15,426	21,624	24,086	26,834	22,537	25,405
Current Liabilities	10,792	16,885	19,294	20,883	16,586	19,454
Provisions	4,634	4,739	4,792	5,951	5,951	5,951
Net Current Assets	16,522	14,140	13,613	13,376	12,367	11,443
Application of Funds	25,102	19,650	19,789	20,760	21,338	21,982

Financials and valuations

Ratios						
Y/E March	2017	2018	2019	2020	2021E	2022E
Basic (INR)						
Adj EPS	5.4	6.4	5.9	6.8	7.4	8.3
Cash EPS	5.8	6.3	5.8	6.7	7.4	8.2
Book Value	41.2	33.7	33.8	34.8	35.7	36.6
DPS	1.7	4.0	5.0	5.2	5.6	6.3
Payout (incl. Div. Tax.)	46.4	77.6	99.0	87.7	87.7	87.7
Valuation (x)						
P/E	17.4	12.5	13.7	11.7	10.8	9.7
Cash P/E	16.4	12.6	13.7	11.9	10.9	9.8
EV/EBITDA	10.4	2.4	2.4	2.3	2.2	2.2
EV/Sales	2.8	1.4	1.0	0.7	1.0	0.9
Price/Book Value	2.3	5.9	6.5	5.3	6.6	5.3
Dividend Yield (%)	1.8	5.0	6.3	6.4	7.0	7.8
Profitability Ratios (%)						
RoE	13.2					
RoCE	14.7	17.8	16.3	18.3	19.6	21.2
Turnover Ratios						
Debtors (Days)	97					
Creditor (Days)	272	5.0	6.9	8.5	6.3	6.8
Asset Turnover (x)	0.6	0.9	1.2	1.5	1.2	1.4
Leverage Ratio						
Net Debt/Equity (x)	(1.0)	111	62	76	76	76

Cash Flow Statement						(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E
PBT before EO Items	5,902	5,941	5,675	6,755	6,279	6,993
Depreciation	225	238	224	238	254	274
Interest & other	0	0	12	17	0	0
Direct Taxes Paid	-2,272	-2,274	-2,161	-2,220	-1,580	-1,760
(Inc)/Dec in WC	2,459	4,083	3,430	-385	-1,625	1,085
CF from Operations	6,315	7,989	5,447	3,717	3,328	6,592
(Inc)/Dec in FA	-452	-290	-322	-175	-300	-300
Free Cash Flow	5,862	7,699	5,126	3,542	3,028	6,292
(Pur)/Sale of Investments	0	0	-760	-1,542	-1,542	-1,542
CF from Investments	-452	-290	671	356	-1,842	-1,842
(Inc)/Dec in Networth	-1,355	-5,929	0	0	0	0
(Inc)/Dec in Debt	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0
Dividend Paid	-1,336	-2,931	-3,605	-3,301	-4,121	-4,589
CF from Fin. Activity	-2,691	-8,860	-3,605	-3,301	-4,121	-4,589
Inc/Dec of Cash	3,171	-1,161	2,513	773	-2,634	161
Add: Beginning Balance	26,246	23,105	24,806	26,610	27,225	24,591
Closing Balance	23,105	24,806	26,610	27,225	24,591	24,752

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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