

June 27, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	104		83	
Sales (Rs. m)	27,126	31,051	28,522	32,150
% Chng.	(4.9)	(3.4)		
EBITDA (Rs. m)	2,922	4,540	3,837	4,701
% Chng.	(23.8)	(3.4)		
EPS (Rs.)	6.3	8.6	7.2	8.3
% Chng.	(12.3)	3.8		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	24,758	32,365	27,126	31,051
EBITDA (Rs. m)	3,756	4,532	2,922	4,540
Margin (%)	15.2	14.0	10.8	14.6
PAT (Rs. m)	3,729	4,339	3,982	5,455
EPS (Rs.)	5.9	6.9	6.3	8.6
Gr. (%)	(2.7)	16.3	(8.2)	37.0
DPS (Rs.)	3.3	3.4	3.2	3.9
Yield (%)	4.1	4.2	3.9	4.9
RoE (%)	15.9	18.3	15.9	19.8
RoCE (%)	15.1	18.0	10.4	15.2
EV/Sales (x)	0.9	0.7	0.8	0.5
EV/EBITDA (x)	6.1	4.9	7.0	3.4
PE (x)	13.5	11.6	12.7	9.3
P/BV (x)	2.2	2.1	1.9	1.7

Key Data

ENGI.BO | ENGR IN

52-W High / Low	Rs.124 / Rs.49
Sensex / Nifty	35,171 / 10,383
Market Cap	Rs.50bn/ \$ 667m
Shares Outstanding	632m
3M Avg. Daily Value	Rs.283.59m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	7.59
Domestic Institution	25.52
Public & Others	15.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	30.6	(20.8)	(34.8)
Relative	13.6	(7.3)	(26.6)

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Strong quarter amidst weak environment

Quick Pointers:

- Order inflows during 4Q came in at ~Rs1.5bn (up 40% YoY) driven by consultancy segment, taking the order backlog to ~Rs95.6bn as on 4QFY20.
- Management guided 25-28% margins for its consultancy segment, while Turnkey segments margins to be at 3-4% range for FY21E.

Engineers India (EIL) reported strong performance amidst challenging environment with healthy execution across both segments- Consultancy (up 14%) and Turnkey (up 74% YoY). During 4Q, company secured orders worth ~Rs1.5bn entirely attributed towards Consultancy segment. Order backlog stands at ~Rs95.6bn as on 4QFY20, of which Consultancy/Turnkey mix stands at 47:53. Execution could be a challenge in 1QFY21E domestically, due to Covid-19 Pandemic impact however it is expected to garner pace from 2Q onwards. Globally, the Dangote project was under execution even during lockdown. Management expects ordering pipeline from key project such as NRL, Chennai refinery, Panipat expansion and Mumbai refinery of BPCL to be awarded in FY21E.

We believe the real magnitude of outbreak and economy slowdown is difficult to assess and there would be some near term impact. As per the management, impact of Covid-19 Pandemic would be limited in terms of execution with margins being stable, however there could be deferment in order inflows. 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. The stock is currently trading at 12.7x/9.7x FY21E/FY22E. We maintain BUY rating on the stock with revised TP of Rs104.

Strong performance on all fronts: Sales came in at ~Rs8.5bn (up 39% YoY) vs (PLe ~Rs6.1bn) mainly led by growth in Turnkey segment which was up 74% YoY and Consultancy segment grew by 14% YoY. EBITDA grew by 19% YoY to Rs1.1bn (PLe ~Rs606mn) with EBITDA margins coming at 13% in 4QFY20 vs 15% in 4QFY19 largely due to higher employee cost (up,17% YoY) and other expenses (up 28% YoY). PBT increased by 17% YoY to Rs1.7bn (PLe ~Rs1.1bn) on back of rise in other income (up 15% YoY).PAT came in at Rs1.3bn (PLe Rs794mn), up 37% YoY on back of strong revenue growth.

Healthy order book giving strong revenue visibility: Order inflows for 4QFY20 came in at Rs1.5bn, up 40% YoY (OI in FY20 stood at Rs16.2bn), all from Consultancy segment, taking the order backlog to Rs95.6bn (down,15% YoY). Of the total order backlog, Consultancy segment stands at Rs47bn while Turnkey segment order book stands at Rs51bn primarily from customers like GAIL, IOCL and BPCL. For FY21E management expects order pipeline with large numbers of projects such as Numaligarh refinery expansion, BPCL (Mumbai) expansion, MRPL expansion, Panipat expansion, etc. which are likely coming up for the refinery capacity expansion.

Exhibit 1: Strong performance on all fronts, Results above estimates (Rs mn)

Y/e March	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	6,126	7,349	7,349	8,906	8,538	39.4	(4.1)	32,365	24,758	30.7
Total Revenues	6,126	7,349	7,349	8,906	8,538	39.4	(4.1)	32,365	24,758	30.7
Expenditure	5,193	5,954	5,954	8,050	7,428	43.0	(7.7)	27,833	21,002	32.5
<i>as % of sales</i>	<i>84.8</i>	<i>81.0</i>	<i>81.0</i>	<i>90.4</i>	<i>87.0</i>			<i>86.0</i>	<i>84.8</i>	
Consumption of RM	2,651	2,839	2,839	5,016	4,377	65.1	(12.7)	15,499	10,520	47.3
<i>as % of sales</i>	<i>43.3</i>	<i>38.6</i>	<i>38.6</i>	<i>56.3</i>	<i>51.3</i>			<i>47.9</i>	<i>42.5</i>	
Employee Cost	1,918	2,000	2,000	2,124	2,250	17.3	5.9	8,656	7,810	10.8
<i>as % of sales</i>	<i>31.3</i>	<i>27.2</i>	<i>27.2</i>	<i>23.8</i>	<i>26.4</i>			<i>26.7</i>	<i>31.5</i>	
Other expenditure	624	1,115	1,115	910	800	28.2	(12.1)	3,679	2,672	37.7
<i>as % of sales</i>	<i>10.2</i>	<i>15.2</i>	<i>15.2</i>	<i>10.2</i>	<i>9.4</i>			<i>11.4</i>	<i>10.8</i>	
EBITDA	933	1,394	1,394	856	1,110	19.0	29.7	4,532	3,756	20.7
Depreciation	58	57	57	56	67	15.9	20.4	240	225	6.7
EBIT	875	1,337	1,337	800	1,043	19.2	30.4	4,292	3,531	21.5
Other Income	596	583	583	657	685	14.9	4.3	2,555	2,223	14.9
Interest	4	3	3	4	6	46.2	39.5	17	12	41.6
PBT	1,467	1,917	1,917	1,453	1,722	17.4	18.5	6,830	5,742	18.9
Total Tax	518	676	676	366	425	(18.0)	16.0	2,492	2,013	23.8
Adjusted PAT	949	1,241	1,241	1,087	1,297	36.7	19.4	4,339	3,729	16.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	100	34	-
PAT after MI	949	1,241	1,241	1,087	1,297	36.7	19.4	4,238	3,695	14.7
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	949	1,241	1,241	1,087	1,297	36.7	19.4	4,238	3,695	14.7
Adjusted EPS	1.5	2.0	2.0	1.7	2.1	36.7	19.4	6.7	5.8	14.7
Margins (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	bps	bps	FY20	FY19	bps
EBIDTA	15.2	19.0	19.0	9.6	13.0	(223)	339	14.0	15.2	(117)
EBIT	14.3	18.2	18.2	9.0	12.2	(207)	323	13.3	14.3	(100)
EBT	23.9	26.1	26.1	16.3	20.2	(377)	386	21.1	23.2	(209)
PAT	15.5	16.9	16.9	12.2	15.2	(30)	299	13.1	14.9	(183)
Effective Tax rate	35.3	35.3	35.3	25.2	24.7	(1,064)	(53)	36.5	35.1	142

Source: Company, PL

Conference Call Highlights:

- Management indicated that they may see some near term impact in Q1FY21E but execution pace for overall FY21E could be less impacted. Globally, the Dangote project had taken an approval and work was getting executed even during lockdown.
- During 4Q, other expense was higher mainly due to a) Rs160mn expense for PPF, b) ~Rs100mn towards doubtful debts and c) Rs150mn towards contractual obligation. However, an export incentive of Rs150mn was recognized.
- During FY20, order intake stood at Rs16.17bn comprising only of consultancy segment. Going ahead, the company expects order inflows of Rs16bn for FY21E with few projects may get deferred due to Covid-19.
- During 4QFY20, company opted to settle income tax dispute of Rs74.5mn refund which was recognized during FY20.
- The company's cash flow position stands at Rs26bn with its own cash and cash balance standing at Rs25bn.
- On international markets front- the company has offshore projects in UAE, Oman, Qatar and Bahrain and expects limited traction in terms of ordering in 1QFY21E.
- Execution of its key projects Dangote refinery projects and Mangolia refinery projects worth Rs5.15bn are on track.
- The capex plan stands at Rs600mn for FY21E. Management indicated long term capex from its large clients to remain intact while short term capex may get deferred.
- Management expects healthy ordering activity from Oil & Gas sector as huge capex has been planned however Infra sector is expected see some slowdown.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	24,758	32,365	27,126	31,051
YoY gr. (%)	35.7	30.7	(16.2)	14.5
Cost of Goods Sold	10,520	15,499	12,614	13,818
Gross Profit	14,238	16,867	14,513	17,233
Margin (%)	57.5	52.1	53.5	55.5
Employee Cost	7,810	8,656	8,742	9,092
Other Expenses	776	1,138	814	1,056
EBITDA	3,756	4,532	2,922	4,540
YoY gr. (%)	(12.1)	20.7	(35.5)	55.4
Margin (%)	15.2	14.0	10.8	14.6
Depreciation and Amortization	225	240	304	344
EBIT	3,531	4,292	2,619	4,196
Margin (%)	14.3	13.3	9.7	13.5
Net Interest	12	17	13	15
Other Income	2,223	2,555	2,713	3,105
Profit Before Tax	5,742	6,830	5,318	7,286
Margin (%)	23.2	21.1	19.6	23.5
Total Tax	2,013	2,492	1,336	1,830
Effective tax rate (%)	35.1	36.5	25.1	25.1
Profit after tax	3,729	4,339	3,982	5,455
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,729	4,339	3,982	5,455
YoY gr. (%)	(2.7)	16.3	(8.2)	37.0
Margin (%)	15.1	13.4	14.7	17.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,729	4,339	3,982	5,455
YoY gr. (%)	(2.7)	16.3	(8.2)	37.0
Margin (%)	15.1	13.4	14.7	17.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,729	4,339	3,982	5,455
Equity Shares O/s (m)	632	632	632	632
EPS (Rs)	5.9	6.9	6.3	8.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	2,911	3,295	3,795	4,295
Tangibles	2,911	3,295	3,795	4,295
Intangibles	-	-	-	-
Acc: Dep / Amortization	730	970	1,273	1,617
Tangibles	730	970	1,273	1,617
Intangibles	-	-	-	-
Net fixed assets	2,181	2,325	2,522	2,678
Tangibles	2,181	2,325	2,522	2,678
Intangibles	-	-	-	-
Capital Work In Progress	544	54	54	54
Goodwill	-	-	-	-
Non-Current Investments	3,364	4,955	5,075	5,161
Net Deferred tax assets	2,991	2,720	2,720	2,720
Other Non-Current Assets	307	483	543	621
Current Assets				
Investments	489	520	948	1,733
Inventories	69	67	223	255
Trade receivables	4,269	6,802	5,574	6,380
Cash & Bank Balance	27,155	27,775	29,069	33,116
Other Current Assets	1,626	2,129	2,441	2,795
Total Assets	44,643	48,244	49,703	56,519
Equity				
Equity Share Capital	3,160	3,160	3,160	3,160
Other Equity	20,314	20,901	22,892	25,892
Total Network	23,473	24,060	26,051	29,052
Non-Current Liabilities				
Long Term borrowings	-	49	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,445	2,749	2,230	2,552
Other current liabilities	21,715	24,106	24,143	27,636
Total Equity & Liabilities	44,643	48,244	49,703	56,519

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	5,742	6,830	5,318	7,286
Add. Depreciation	225	240	304	344
Add. Interest	12	17	13	15
Less Financial Other Income	2,223	2,555	2,713	3,105
Add. Other	(1,698)	-	-	-
Op. profit before WC changes	4,281	7,088	5,635	7,645
Net Changes-WC	3,431	(1,583)	(24)	1,988
Direct tax	(2,222)	(2,492)	(1,336)	(1,830)
Net cash from Op. activities	5,490	3,013	4,275	7,802
Capital expenditures	(323)	105	(500)	(500)
Interest / Dividend Income	1,694	-	-	-
Others	(1,409)	(1,548)	(427)	(785)
Net Cash from Inv. activities	(38)	(1,443)	(927)	(1,285)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,619)	(2,543)	(1,991)	(2,455)
Interest paid	-	(17)	(13)	(15)
Others	-	(889)	(49)	-
Net cash from Fin. activities	(3,619)	(3,449)	(2,054)	(2,470)
Net change in cash	1,833	(1,879)	1,294	4,047
Free Cash Flow	5,490	3,013	4,275	7,802

Source: Company Data, PL Research

Key Financial Metrics

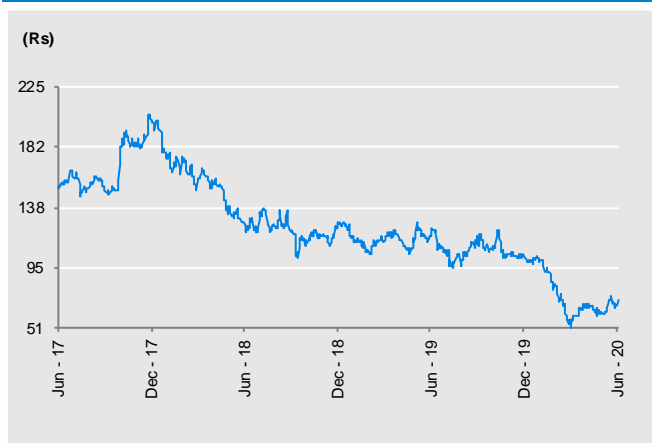
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	5.9	6.9	6.3	8.6
CEPS	6.3	7.2	6.8	9.2
BVPS	37.1	38.1	41.2	46.0
FCF	8.7	4.8	6.8	12.3
DPS	3.3	3.4	3.2	3.9
Return Ratio(%)				
RoCE	15.1	18.0	10.4	15.2
ROIC	(54.6)	(60.5)	(39.7)	(43.1)
RoE	15.9	18.3	15.9	19.8
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.2)	(1.2)	(1.2)
Net Working Capital (Days)	28	46	48	48
Valuation(x)				
PER	13.5	11.6	12.7	9.3
P/B	2.2	2.1	1.9	1.7
P/CEPS	12.8	11.0	11.8	8.7
EV/EBITDA	6.1	4.9	7.0	3.4
EV/Sales	0.9	0.7	0.8	0.5
Dividend Yield (%)	4.1	4.2	3.9	4.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	7,349	7,237	8,906	8,538
YoY gr. (%)	28.2	6.2	54.4	39.4
Raw Material Expenses	2,839	3,344	5,016	4,377
Gross Profit	4,510	3,894	3,890	4,161
Margin (%)	61.4	53.8	43.7	48.7
EBITDA	1,394	1,069	856	1,110
YoY gr. (%)	61.5	16.9	(9.8)	19.0
Margin (%)	19.0	14.8	9.6	13.0
Depreciation / Depletion	57	58	56	67
EBIT	1,337	1,012	800	1,043
Margin (%)	18.2	14.0	9.0	12.2
Net Interest	3	4	4	6
Other Income	583	655	657	685
Profit before Tax	1,917	1,663	1,453	1,722
Margin (%)	26.1	23.0	16.3	20.2
Total Tax	676	986	366	425
Effective tax rate (%)	35.3	59.3	25.2	24.7
Profit after Tax	1,241	678	1,087	1,297
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,241	678	1,087	1,297
YoY gr. (%)	43.2	(30.7)	19.7	36.7
Margin (%)	16.9	9.4	12.2	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,241	678	1,087	1,297
YoY gr. (%)	43.2	(30.7)	19.7	36.7
Margin (%)	16.9	9.4	12.2	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,241	678	1,087	1,297
Avg. Shares O/s (m)	632	632	632	632
EPS (Rs)	2.0	1.1	1.7	2.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	BUY	83	67
2	05-Feb-20	BUY	146	95
3	03-Jan-20	BUY	156	100
4	08-Nov-19	BUY	156	111
5	03-Oct-19	BUY	156	112
6	14-Aug-19	BUY	139	103
7	04-Jul-19	BUY	139	120

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	836
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	56
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	34	31
7	Capacite's Infraprojects	BUY	162	114
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	472	370
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	139	71
14	ITD Cementation India	BUY	67	50
15	J.Kumar Infraprojects	BUY	340	185
16	Kalpataru Power Transmission	BUY	261	193
17	KEC International	BUY	295	197
18	KNR Constructions	BUY	305	197
19	Larsen & Toubro	BUY	1,192	955
20	NCC	BUY	83	23
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	179
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,049
25	Thermax	Accumulate	798	752
26	Triveni Turbine	BUY	83	68
27	Voltamp Transformers	BUY	1,244	1,020

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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