

Engineers India (ENGR IN)

Rating: BUY | CMP: Rs68 | TP: Rs104

August 16, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	104		104	
Sales (Rs. m)	31,051	36,532	31,051	36,532
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,540	6,582	4,540	6,582
% Chng.	-	-	-	-
EPS (Rs.)	8.6	11.7	8.6	11.7
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	32,365	27,126	31,051	36,532
EBITDA (Rs. m)	4,532	2,922	4,540	6,582
Margin (%)	14.0	10.8	14.6	18.0
PAT (Rs. m)	4,339	3,982	5,455	7,363
EPS (Rs.)	6.9	6.3	8.6	11.7
Gr. (%)	16.3	(8.2)	37.0	35.0
DPS (Rs.)	3.4	3.2	3.9	5.2
Yield (%)	4.9	4.6	5.7	7.7
RoE (%)	18.3	15.9	19.8	23.7
RoCE (%)	18.0	10.4	15.2	19.9
EV/Sales (x)	0.5	0.5	0.3	0.1
EV/EBITDA (x)	3.2	4.6	2.2	0.8
PE (x)	9.9	10.8	7.9	5.8
P/BV (x)	1.8	1.6	1.5	1.3

Key Data

ENGLBO | ENGR IN

52-W High / Low	Rs.123 / Rs.49
Sensex / Nifty	37,877 / 11,178
Market Cap	Rs.43bn/ \$ 572m
Shares Outstanding	632m
3M Avg. Daily Value	Rs.399.63m

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	(4.2)	(19.8)	(34.3)
Relative	(8.9)	(12.7)	(35.3)

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Execution run rate improving

Quick Pointers:

- Order inflows during 1Q came in at ~Rs8.1bn (down 14% YoY) driven by consultancy segment, taking the order backlog to ~Rs91.2bn as on 1QFY21.
- Management maintained guidance of 25% margins for its consultancy segment, while Turnkey segments margins to be at 3-4% range for FY21E.

Engineers India (EIL) reported decent performance amidst challenging environment. Revenues came in at Rs4.7bn better than our/consensus estimate of Rs3.2/3.8bn. Order inflows came in Rs810mn (Rs970mn till date) in 1QFY21 primarily from the hydrocarbon segment. Order book stands at Rs91.2bn with Consultancy/Turnkey mix constituting 46:54. Execution run rate for 1Q stands at 60-65% and is expected to garner pace sequentially. Management indicated the tendering pipeline remains healthy as the process of ordering continues during 1Q and expects an order inflow of ~Rs15bn for FY21E. Key project such as NRL, Kaveri Basin (few packages), HEML, petrochemical projects, etc. to be awarded in FY21E. On the international market the company is witnessing a slowdown in ordering as countries like Oman, UAE, Saudi, etc have deferred their capex plan.

We believe execution to remain under pressure for 2Q given the current challenging environment and is expected to garner pace from 3Q onwards. Further, there could be deferment of orders such as MRPL, IOL main project, several storage tanks projects, etc which are expected to be awarded in FY22E. 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 10.8x/7.9x FY21E/FY22E. We maintain BUY rating on the stock with TP of Rs104.

Results higher than estimates: Sales came in at ~Rs4.7bn (down 36% YoY) vs (PLe ~Rs3.2bn) led by de-growth across segments where Consultancy/Turnkey declined 38%/34% YoY. EBITDA de-grew by 85% YoY to Rs214mn (PLe loss ~Rs785mn) with EBITDA margins coming at 4.6% in 1QFY21 vs 19% in 1QFY20. PBT decreased by 66% YoY to Rs653mn on back lower operating performance and lower other income (down 15% YoY). PAT came in at Rs481mn (PLe loss of ~Rs540mn), down 61% YoY.

Decent order book, awarding to pick up: The company secured orders worth Rs810mn (Rs970mn till date) in 1Q primarily from the hydrocarbon segment. Order book stands at Rs91.2bn as on 1QFY20 with Consultancy segment constituting Rs42bn while Turnkey segment comprising of Rs48.9bn of total order book. For FY21E management expects order pipeline with large numbers of projects such as Numaligarh refinery expansion, some packages from Kaveri Basin, BPCL (Mumbai) expansion, GAIL, IOL, etc. which are likely coming up for the refinery capacity expansion. Further projects such as IOC- main project; Kaveri basin – few packages, HEML, MRPL, strategic storages tanks, etc would be awarded in FY22E.

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

Y/e March	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY gr. (%)	QoQ gr. (%)	FY21E	FY20	YoY gr. (%)
Revenue	7,349	7,237	8,906	8,538	4,678	(36.3)	(45.2)	27,126	32,365	(16.2)
Total Revenues	7,349	7,237	8,906	8,538	4,678	(36.3)	(45.2)	27,126	32,365	(16.2)
Expenditure	5,954	6,168	8,050	7,428	4,464	(25.0)	(39.9)	24,204	27,833	(13.0)
<i>as % of sales</i>	<i>81.0</i>	<i>85.2</i>	<i>90.4</i>	<i>87.0</i>	<i>95.4</i>			<i>89.2</i>	<i>86.0</i>	
Consumption of RM	2,839	3,344	5,016	4,377	1,919	(32.4)	(56.2)	12,614	15,499	(18.6)
<i>as % of sales</i>	<i>38.6</i>	<i>46.2</i>	<i>56.3</i>	<i>51.3</i>	<i>41.0</i>			<i>46.5</i>	<i>47.9</i>	
Employee Cost	2,000	2,069	2,124	2,250	2,073	3.7	(7.9)	8,742	8,656	1.0
<i>as % of sales</i>	<i>27.2</i>	<i>28.6</i>	<i>23.8</i>	<i>26.4</i>	<i>44.3</i>			<i>32.2</i>	<i>26.7</i>	
Other expenditure	1,115	755	910	800	472	(57.7)	(41.0)	2,848	3,679	(22.6)
<i>as % of sales</i>	<i>15.2</i>	<i>10.4</i>	<i>10.2</i>	<i>9.4</i>	<i>10.1</i>			<i>10.5</i>	<i>11.4</i>	
EBITDA	1,394	1,069	856	1,110	214	(84.6)	(80.7)	2,922	4,532	(35.5)
Depreciation	57	58	56	67	53	(6.9)	(20.8)	304	240	26.5
EBIT	1,337	1,012	800	1,043	161	(88.0)	(84.6)	2,619	4,292	(39.0)
Other Income	583	655	657	685	497	(14.8)	(27.5)	2,713	2,555	6.2
Interest	3	4	4	6	4	38.5	(29.4)	13	17	(22.6)
PBT	1,917	1,663	1,453	1,722	653	(65.9)	(62.1)	5,318	6,830	(22.1)
Total Tax	676	986	366	425	172	(74.5)	(59.4)	1,336	2,492	(46.4)
Adjusted PAT	1,241	678	1,087	1,297	481	(61.2)	(62.9)	3,982	4,339	(8.2)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	100	-
PAT after MI	1,241	678	1,087	1,297	481	(61.2)	(62.9)	3,982	4,238	(6.0)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	1,241	678	1,087	1,297	481	(61.2)	(62.9)	3,982	4,238	(6.0)
Adjusted EPS	2.0	1.1	1.7	2.1	0.8	(61.2)	(62.9)	6.3	6.7	(6.0)
Margins (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	bps	bps	FY21E	FY20	bps
EBIDTA	19.0	14.8	9.6	13.0	4.6	(1,439)	(843)	10.8	14.0	(323)
EBIT	18.2	14.0	9.0	12.2	3.4	(1,476)	(878)	9.7	13.3	(361)
EBT	26.1	23.0	16.3	20.2	14.0	(1,212)	(621)	19.6	21.1	(150)
PAT	16.9	9.4	12.2	15.2	10.3	(660)	(492)	14.7	13.1	158
Effective Tax rate	35.3	59.3	25.2	24.7	26.4	(889)	171	25.1	36.5	(1,136)

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 likely getting 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	FY20	FY21E	FY22E	FY23E
Net Revenues	32,365	27,126	31,051	36,532
YoY gr. (%)	30.7	(16.2)	14.5	17.7
Cost of Goods Sold	15,499	12,614	13,818	16,257
Gross Profit	16,867	14,513	17,233	20,275
Margin (%)	52.1	53.5	55.5	55.5
Employee Cost	8,656	8,742	9,092	9,456
Other Expenses	1,138	814	1,056	1,242
EBITDA	4,532	2,922	4,540	6,582
YoY gr. (%)	20.7	(35.5)	55.4	45.0
Margin (%)	14.0	10.8	14.6	18.0
Depreciation and Amortization	240	304	344	384
EBIT	4,292	2,619	4,196	6,198
Margin (%)	13.3	9.7	13.5	17.0
Net Interest	17	13	15	18
Other Income	2,555	2,713	3,105	3,653
Profit Before Tax	6,830	5,318	7,286	9,834
Margin (%)	21.1	19.6	23.5	26.9
Total Tax	2,492	1,336	1,830	2,470
Effective tax rate (%)	36.5	25.1	25.1	25.1
Profit after tax	4,339	3,982	5,455	7,363
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,339	3,982	5,455	7,363
YoY gr. (%)	16.3	(8.2)	37.0	35.0
Margin (%)	13.4	14.7	17.6	20.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,339	3,982	5,455	7,363
YoY gr. (%)	16.3	(8.2)	37.0	35.0
Margin (%)	13.4	14.7	17.6	20.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,339	3,982	5,455	7,363
Equity Shares O/s (m)	632	632	632	632
EPS (Rs)	6.9	6.3	8.6	11.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,295	3,795	4,295	4,795
Tangibles	3,295	3,795	4,295	4,795
Intangibles	-	-	-	-
Acc: Dep / Amortization	970	1,273	1,617	2,000
Tangibles	970	1,273	1,617	2,000
Intangibles	-	-	-	-
Net fixed assets	2,325	2,522	2,678	2,795
Tangibles	2,325	2,522	2,678	2,795
Intangibles	-	-	-	-
Capital Work In Progress	54	54	54	54
Goodwill	-	-	-	-
Non-Current Investments	4,955	5,075	5,161	5,281
Net Deferred tax assets	2,720	2,720	2,720	2,720
Other Non-Current Assets	483	543	621	731
Current Assets				
Investments	520	948	1,733	2,829
Inventories	67	223	255	300
Trade receivables	6,802	5,946	6,806	8,007
Cash & Bank Balance	27,775	28,426	31,278	34,806
Other Current Assets	2,129	2,441	2,795	3,288
Total Assets	48,244	49,703	55,417	62,840
Equity				
Equity Share Capital	3,160	3,160	3,160	3,160
Other Equity	20,901	22,892	25,892	29,942
Total Network	24,060	26,051	29,052	33,101
Non-Current Liabilities				
Long Term borrowings	49	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,749	2,230	2,382	2,502
Other current liabilities	24,106	24,143	26,704	29,957
Total Equity & Liabilities	48,244	49,703	55,417	62,840

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,830	5,318	7,286	9,834
Add. Depreciation	240	304	344	384
Add. Interest	17	13	15	18
Less Financial Other Income	2,555	2,713	3,105	3,653
Add. Other	-	-	-	-
Op. profit before WC changes	7,088	5,635	7,645	10,235
Net Changes-WC	(1,583)	(667)	793	690
Direct tax	(2,492)	(1,336)	(1,830)	(2,470)
Net cash from Op. activities	3,013	3,632	6,608	8,455
Capital expenditures	105	(500)	(500)	(500)
Interest / Dividend Income	-	-	-	-
Others	(1,548)	(427)	(785)	(1,096)
Net Cash from Inv. activities	(1,443)	(927)	(1,285)	(1,596)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(2,543)	(1,991)	(2,455)	(3,314)
Interest paid	(17)	(13)	(15)	(18)
Others	(889)	(49)	-	-
Net cash from Fin. activities	(3,449)	(2,054)	(2,470)	(3,332)
Net change in cash	(1,879)	651	2,852	3,527
Free Cash Flow	3,013	3,632	6,608	8,455

Source: Company Data, PL Research

Key Financial Metrics

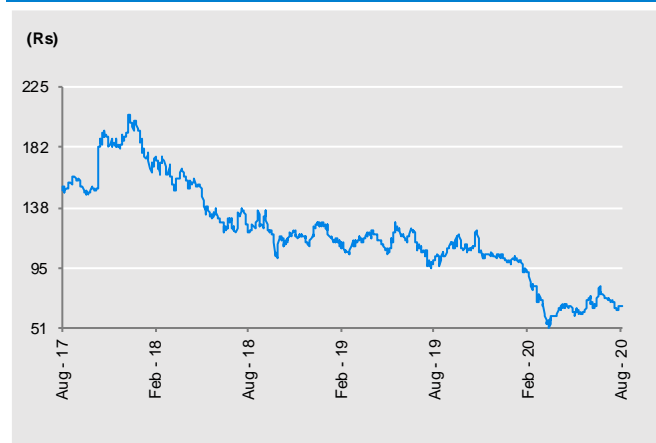
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	6.9	6.3	8.6	11.7
CEPS	7.2	6.8	9.2	12.3
BVPS	38.1	41.2	46.0	52.4
FCF	4.8	5.7	10.5	13.4
DPS	3.4	3.2	3.9	5.2
Return Ratio(%)				
RoCE	18.0	10.4	15.2	19.9
ROIC	(60.5)	(45.7)	(57.6)	(70.8)
RoE	18.3	15.9	19.8	23.7
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.1)	(1.1)	(1.1)
Net Working Capital (Days)	46	53	55	58
Valuation(x)				
PER	9.9	10.8	7.9	5.8
P/B	1.8	1.6	1.5	1.3
P/CEPS	9.4	10.0	7.4	5.5
EV/EBITDA	3.2	4.6	2.2	0.8
EV/Sales	0.5	0.5	0.3	0.1
Dividend Yield (%)	4.9	4.6	5.7	7.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	7,237	8,906	8,538	4,678
YoY gr. (%)	6.2	54.4	39.4	(36.3)
Raw Material Expenses	3,344	5,016	4,377	1,919
Gross Profit	3,894	3,890	4,161	2,760
Margin (%)	53.8	43.7	48.7	59.0
EBITDA	1,069	856	1,110	214
YoY gr. (%)	16.9	(9.8)	19.0	(84.6)
Margin (%)	14.8	9.6	13.0	4.6
Depreciation / Depletion	58	56	67	53
EBIT	1,012	800	1,043	161
Margin (%)	14.0	9.0	12.2	3.4
Net Interest	4	4	6	4
Other Income	655	657	685	497
Profit before Tax	1,663	1,453	1,722	653
Margin (%)	23.0	16.3	20.2	14.0
Total Tax	986	366	425	172
Effective tax rate (%)	59.3	25.2	24.7	26.4
Profit after Tax	678	1,087	1,297	481
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	678	1,087	1,297	481
YoY gr. (%)	(30.7)	19.7	36.7	(61.2)
Margin (%)	9.4	12.2	15.2	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	678	1,087	1,297	481
YoY gr. (%)	(30.7)	19.7	36.7	(61.2)
Margin (%)	9.4	12.2	15.2	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	678	1,087	1,297	481
Avg. Shares O/s (m)	632	632	632	632
EPS (Rs)	1.1	1.7	2.1	0.8

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	104	73
2	27-Jun-20	BUY	104	80
3	16-Apr-20	BUY	83	67
4	05-Feb-20	BUY	146	95
5	03-Jan-20	BUY	156	100
6	08-Nov-19	BUY	156	111
7	03-Oct-19	BUY	156	112

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	913
2	Ahluwalia Contracts (India)	BUY	288	244
3	Ashoka Buildcon	BUY	147	60
4	Bharat Electronics	Hold	99	97
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	106
7	Container Corporation of India	BUY	468	386
8	Cummins India	Accumulate	472	437
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	71	82
11	H.G. Infra Engineering	BUY	259	200
12	IRB Infrastructure Developers	BUY	139	114
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	102
15	Kalpataru Power Transmission	BUY	276	250
16	KEC International	BUY	333	294
17	KNR Constructions	BUY	305	215
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	31
20	PNC Infratech	BUY	205	151
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,159
24	Thermax	Accumulate	798	751
25	Triveni Turbine	BUY	83	64
26	Voltamp Transformers	BUY	1,244	1,132

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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