Engineers India

Strong visibility, improving outlook

Q2FY17 Result Update

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Rating	**Accumulate**
Price	Rs266
Target Price	Rs297
Implied Upside	11.7%
Sensex	26,228
Nifty	8,080

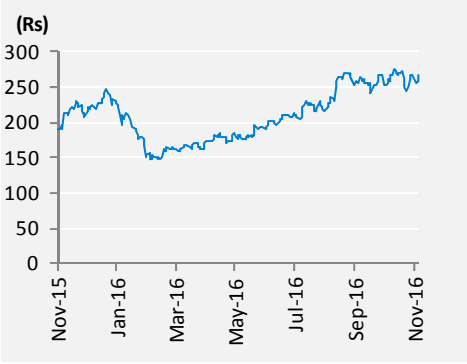
(Prices as on November 17, 2016)

Trading data	
Market Cap. (Rs bn)	89.7
Shares o/s (m)	336.9
3M Avg. Daily value (Rs m)	532.5
Major shareholders	
Promoters	59.37%
Foreign	7.53%
Domestic Inst.	20.00%
Public & Other	13.09%

Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	4.2	46.0	36.3
Relative	9.0	44.3	34.9

How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2017	11.0	11.0	*0.1*
2018	12.4	13.2	*-6.0*

Price Performance (RIC: ENGI.BO, BB: ENGR IN)



Source: Bloomberg

- **Strong beat in margins led by provision reversal:** EIL reported overall sales of Rs3.4bn down by 24.6% YoY (PLe Rs. 4.6bn). Sales for Consultancy & Engineering Projects segment was up by 7% YoY to Rs 2.7 bn while sales for Turnkey Projects was down by 67% YoY to Rs 640 mn due to weak order carry in the segment. EBITDA was up by 44% YoY to Rs 937mn (PLe Rs. 713mn), EBITDA margins were up by 1322bps YoY to 27.7% (PLe 15.5%), write back worth Rs500mn helped improve margin. EBIT margins from Consultancy & Engineering Projects segment were up by 97bps YoY to 31.4% while EBIT for Turnkey Projects was up by 4048bps to 44.5%. PAT was up by 21.4 % YoY to Rs 938mn (PLe Rs 871mn).

- **Order book at 5 year high:** Order book at the end of Q2FY17 was Rs ~51bn (Highest in last 5 years), up by 47.4%, while order inflow was up by 15.7% YoY to Rs1.5bn. EIL expect Vizag refinery and few Namami Gange programme orders to be concluded in H2FY17. EIL has maintained order inflow guidance for FY17 at Rs35bn. Other medium term opportunities include Maharashtra refinery phase-I(site finalization completed), Barmer refinery(HPCL), few Brownfield expansion projects and 4 fertilizer plants. The Dangote refinery (Africa) is also looking at 10mt expansion which could lead to addition orders for EIL in FY18.

- **Outlook and Valuation:** The stock is trading at 22x FY18E earnings.EIL has a healthy balance sheet and strong cash balance of ~Rs24bn (~30% of market cap). The company is best placed to benefit from revival in Oil & Gas capex, given its dominant position in the segment. We have cut our earnings by 2% for 4% for FY18 to factor in weak execution in quarter. We have increased our target PER multiple to 24x from 22x to factor in improving visibility on Oil& Gas capex. We expect stock to deliver earrings CAGR of 24% over FY16-18E. We maintain '**Accumulate**' on the stock with TP of Rs297 (previous Rs285)

Key financials (Y/e March)	**2015**	**2016**	**2017E**	**2018E**
Revenues (Rs m)	17,130	14,958	14,506	19,002
Growth (%)	*(6.1)*	*(12.7)*	*(3.0)*	*31.0*
EBITDA (Rs m)	2,143	1,600	3,085	3,316
PAT (Rs m)	3,080	2,583	3,717	4,166
EPS (Rs)	9.1	7.7	11.0	12.4
Growth (%)	*(36.0)*	*(16.1)*	*43.9*	*12.1*
Net DPS (Rs)	4.1	3.4	4.4	5.6

Profitability & Valuation	**2015**	**2016**	**2017E**	**2018E**
EBITDA margin (%)	*12.5*	*10.7*	*21.3*	*17.5*
RoE (%)	*12.2*	*9.9*	*13.4*	*13.8*
RoCE (%)	*12.3*	*9.9*	*13.4*	*13.8*
EV / sales (x)	3.9	4.3	4.4	3.3
EV / EBITDA (x)	30.8	40.0	20.6	18.9
PE (x)	29.1	34.7	24.1	21.5
P / BV (x)	3.5	3.4	3.1	2.9
Net dividend yield (%)	*1.5*	*1.3*	*1.7*	*2.1*

Source: Company Data; PL Research

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Exhibit 1: Q2FY17 Result Overview (Rs m)

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Net Sales	**3,389**	**4,494**	*(24.6)*	**3,418**	**6,807**	**8,408**	*(19.0)*
Expenditure							
Operating & Manufacturing Expenses	**908**	**2,433**	*(62.7)*	**1,133**	**2,040**	**4,452**	*(54.2)*
% of Net Sales	*33.1*	*33.1*		*33.1*	*33.1*	*33.1*	
Personnel Cost	**1,544**	**1,412**	*9.3*	**1,552**	**3,096**	**2,962**	*4.5*
% of Net Sales	*45.4*	*45.4*		*45.4*	*45.4*	*45.4*	
Total Expenditure	**2,452**	**3,845**	*(36.2)*	**2,685**	**5,137**	**7,414**	*(30.7)*
EBITDA	**937**	**649**	*44.4*	**733**	**1,670**	**994**	*68.0*
Margin (%)	*27.7*	*14.4*		*21.4*	*24.5*	*11.8*	
Other income	**561**	**609**	*(7.9)*	**546**	**1,107**	**1,186**	*(6.7)*
Depreciation	**53**	**52**	*1.6*	**53**	**106**	**137**	*(23.0)*
EBIT	1,445	1,206	*19.9*	1,226	2,672	2,043	*30.8*
Interest	**0**	**0**		**1**	**1**	**1**	
PBT	1,445	1,206	*19.9*	1,225	2,670	2,042	*30.8*
Total Taxes	**508**	**434**	*17.0*	**422**	**930**	**735**	*26.5*
ETR (%)	*35*	*36*		*34*	*35*	*36*	
PAT	**938**	**772**	*21.4*	**803**	**1,741**	**1,307**	*33.1*
Other Comprehensive income	**(19)**	**(46)**	*NA*	**0**	**(19)**	**(23)**	*NA*
Total Comprehensive income	**919**	**726**	*26.6*	**803**	**1,722**	**1,284**	*34.1*

Source: Company Data, PL Research

Exhibit 2: Segmental Break-up (Rs m)

	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Segment revenue							
Consultancy & Engineering Projects	2,749	2,560	*7.4*	2,686	5,435	4,809	*13.0*
Turnkey Projects (Lumpsum)	640	1,934	*(66.9)*	732	1,372	3,600	*(61.9)*
EBIT							
Consultancy & Engineering Projects	863	778	*10.8*	628	1,490	1,233	*20.9*
EBIT margin (%)	*31.4*	*30.4*		*23.4*	*27.4*	*25.6*	
Turnkey Projects (Lumpsum)	285	78	*265.5*	271	556	161	*245.6*
EBIT margin (%)	*44.5*	*4.0*		*37.0*	*40.5*	*4.5*	

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	**17,130**	**14,958**	**14,506**	**19,002**
Raw Material Expenses	2,537	3,697	3,627	4,750
Gross Profit	14,593	11,262	10,880	14,251
Employee Cost	5,919	5,927	5,802	7,981
Other Expenses	6,530	3,735	1,992	2,954
EBITDA	**2,143**	**1,600**	**3,085**	**3,316**
Depr. & Amortization	196	248	280	310
Net Interest	2	1	—	—
Other Income	2,731	2,569	2,826	3,165
Profit before Tax	**4,676**	**3,920**	**5,632**	**6,172**
Total Tax	1,596	1,337	1,915	2,006
Profit after Tax	**3,080**	**2,583**	**3,717**	**4,166**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**3,080**	**2,583**	**3,717**	**4,166**
Avg. Shares O/S (m)	**336.9**	**336.9**	**336.9**	**336.9**
EPS (Rs.)	**9.1**	**7.7**	**11.0**	**12.4**

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	2,704	2,828	2,307	3,246
C/F from Investing	5,381	616	(400)	(600)
C/F from Financing	(2,036)	(1,479)	(1,487)	(1,875)
Inc. / Dec. in Cash	6,050	1,966	420	771
Opening Cash	17,680	23,729	25,695	26,115
Closing Cash	23,729	25,695	26,115	26,887
FCFF	2,124	2,430	1,907	2,646
FCFE	2,124	2,430	1,907	2,646

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	(6.1)	(12.7)	(3.0)	31.0
EBITDA (%)	(43.3)	(25.3)	92.8	7.5
PAT (%)	(36.0)	(16.1)	43.9	12.1
EPS (%)	(36.0)	(16.1)	43.9	12.1
Profitability				
EBITDA Margin (%)	12.5	10.7	21.3	17.5
PAT Margin (%)	18.0	17.3	25.6	21.9
RoCE (%)	12.3	9.9	13.4	13.8
RoE (%)	12.2	9.9	13.4	13.8
Balance Sheet				
Net Debt : Equity	(0.9)	(1.0)	(0.9)	(0.9)
Net Wrkng Cap. (days)	(1,101)	(872)	(900)	(783)
Valuation				
PER (x)	29.1	34.7	24.1	21.5
P / B (x)	3.5	3.4	3.1	2.9
EV / EBITDA (x)	30.8	40.0	20.6	18.9
EV / Sales (x)	3.9	4.3	4.4	3.3
Earnings Quality				
Eff. Tax Rate	34.1	34.1	34.0	32.5
Other Inc / PBT	58.4	65.5	50.2	51.3
Eff. Depr. Rate (%)	4.0	4.7	5.0	5.0
FCFE / PAT	69.0	94.1	51.3	63.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	25,679	26,650	28,880	31,347
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	**25,679**	**26,650**	**28,880**	**31,347**
Net Fixed Assets	2,881	3,032	3,432	4,032
Goodwill	—	—	—	—
Investments	1,404	389	389	389
Net Current Assets	19,067	21,035	23,145	25,147
Cash & Equivalents	*23,729*	*25,695*	*26,115*	*26,887*
Other Current Assets	*8,818*	*9,479*	*11,830*	*15,230*
Current Liabilities	*13,480*	*14,139*	*14,800*	*16,970*
Other Assets	2,319	2,194	1,914	1,779
Total Assets	**25,671**	**26,650**	**28,881**	**31,347**

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	**3,684**	**2,864**	**3,418**	**3,389**
EBITDA	**387**	**394**	**733**	**937**
% of revenue	*10.5*	*13.8*	*21.4*	*27.7*
Depr. & Amortization	53	58	53	53
Net Interest	—	—	1	—
Other Income	616	663	546	561
Profit before Tax	**950**	**998**	**1,225**	**1,445**
Total Tax	329	298	422	508
Profit after Tax	**621**	**700**	**803**	**938**
Adj. PAT	**621**	**700**	**803**	**938**

Source: Company Data, PL Research.

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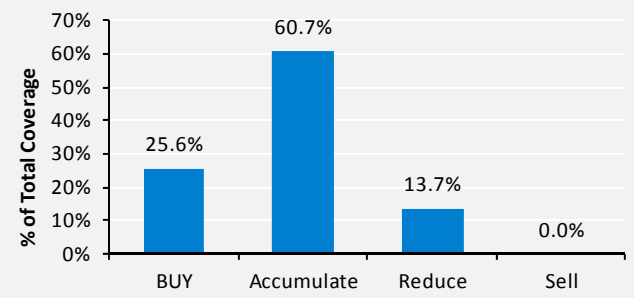

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
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