

Engineers India

Other income drives profitability

OUTPERFORMER

1 August 2012

BSE Sensex: 17257

Sector: Engineering

Stock data

CMP (Rs)	240
Mkt Cap (Rs/USD)	81.0 bn/ 1.5 bn
Target Price (Rs)	278
Change in TP (%)	↔
Potential from CMP (%)	+15.7
Earnings change (%)	
FY13E	-
FY14E	-
Bloomberg code	ENGR IN
1-yr high/low (Rs)	294/194
6-mth avg. daily volumes (m)	0.22
6-mth avg. daily traded value (Rsm/US\$m)	56.1 / 1.01
Shares outstanding (m)	336.9
Free float (%)	19.6
Promoter holding (%)	80.4

Q1FY13 result highlights

- Engineers India (EIL) reported PAT of Rs1.54bn (+4% yoy) ahead of our estimates led by jump in other income (+75% yoy to Rs733mn).
- Revenues fell by 16% to Rs7.2bn led by fall of 25% yoy in LSTK (lumpsum turnkey) segment due to lower orders on hand. Consultancy revenues grew by 4% yoy to Rs2.9bn.
- Operating margins were flat at 21%, led by favorable revenue mix towards PMC segment (60% of revenues) despite marginal fall in segmental margins. Accordingly EBITDA was at Rs1.51bn.

Key positives: Rs21bn cash on books and favorable revenue mix driving margins

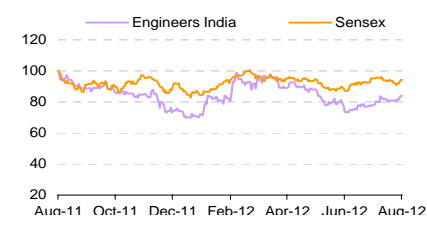
Key negatives: While order intake has picked up to Rs9bn till July-12, the order backlog remains muted at Rs40bn providing limited visibility for FY14 revenues.

Impact on financials: We have maintained our earnings estimate for FY13E and FY14E despite higher other income as revenues are likely to be slower.

Valuations & view

We believe EIL's order backlog of Rs40bn provides visibility for FY13E revenues. While revenues are likely to fall in FY14E, the mix change in favor of consultancy projects, is likely to limit the fall in earnings. EIL generates free operating cash considering its negative working capital and limited capex resulting in Rs21bn cash on books. At 13x FY13E earnings, the stock looks attractive in view of EIL's superior return ratios and Rs65/share cash on the books. Maintain Outperformer.

Price performance – relative and absolute



(%)	3-mth	6-mth	1-yr
Engineers India	(4.6)	1.1	(15.9)
Sensex	(0.4)	(0.2)	(5.8)

Key financials (quarterly)

(Rs m)	Q1FY12	Q4FY12	Q1FY13	% ch qoq	% ch yoy	% var from est
Net sales	8,536	12,253	7,200	(41.2)	(15.7)	(26.7)
EBITDA	1,797	1,784	1,509	(15.4)	(16.0)	2.4
OPM (%)	21.1	14.6	21.0	640bp	(10bp)	600bp
Other inc.	418	920	733	(20.4)	75.4	54.2
Interest	0	12	0	(99.9)	-	-
Depreciation	30	108	25	(77.0)	(17.0)	(48.4)
PBT	2,185	2,585	2,217	(14.2)	1.4	16.6
PAT	1,481	1,873	1,543	(17.6)	4.2	19.4
Reported PAT	1,481	1,903	1,543	(18.9)	4.2	19.4
EPS (Rs)	4.4	5.6	4.6	(17.6)	4.2	19.4

Bhoomika Nair

bhoomika.nair@idfc.com
91-22-6622 2561

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Standalone quarterly results: Detailed

(Rs m)	1QFY12	2QFY12	3QFY12	4QFY12	FY12	1QFY13	Remarks
Net Sales	8,536	8,274	7,925	12,253	36,988	7,200	LSTK revs fall by 25% led by lower orders
Total Expenses	6,739	6,646	6,103	10,469	29,956	5,691	
EBITDA	1,797	1,628	1,822	1,784	7,032	1,509	lower proportion of LSTK revenues (60%)
Other Income	418	540	444	920	2,322	733	Higher yield on cash of Rs21bn
Interest	-	-	-	12	12	0	
Depreciation	30	29	28	108	194	25	
PBT	2,185	2,139	2,239	2,585	9,148	2,217	
Current Tax	705	672	728	712	2,817	674	
<i>Tax Rate (%)</i>	<i>32.2</i>	<i>31.4</i>	<i>32.5</i>	<i>27.5</i>	<i>30.8</i>	<i>30.4</i>	
PAT	1,481	1,466	1,511	1,873	6,332	1,543	
Extra ordinary items	-	-	2	30	32	-	
Reported PAT	1,481	1,466	1,513	1,903	6,364	1,543	
% chg yoy							
Revenues	40.8	39.4	17.0	29.5	39.4	(15.7)	
Expenses	46.3	48.7	17.4	38.5	49.3	(15.5)	
EBITDA	23.7	10.9	15.8	(6.3)	8.9	(16.0)	
Other Income	44.2	54.8	35.8	44.2	44.8	75.4	
Interest	(100.0)	(100.0)	(100.0)	(20.7)	(20.9)	#DIV/0!	
Depreciation	5.9	(12.6)	(32.5)	167.6	33.4	(17.0)	
PBT	27.4	20.0	20.4	3.9	15.8	1.4	
PAT	29.3	22.3	23.2	15.6	20.6	4.2	
Reported PAT	29.3	22.3	23.5	15.0	20.5	4.2	
OPM (%)	21.1	19.7	23.0	14.6	19.0	21.0	
NPM (%)	17.3	17.7	19.1	15.3	17.1	21.4	
Equity	336.9	336.9	336.9	336.9	336.9	336.9	
EPS	4.4	4.4	4.5	5.6	18.8	4.6	
PER (x)	13.7	13.8	13.4	10.8	12.8	13.1	

Segmental trend

(Rs m)	1Q12	2Q12	3Q12	4Q12	FY12	1Q13
Revenues						
Consultancy & Engg Projects (CEP)	2,780	2,850	3,233	3,211	12,073	2,892
Lumpsum Turnkey (LSTK)	5,756	5,424	4,692	9,042	24,915	4,308
Total revenues	8,536	8,274	7,925	12,253	36,988	7,200
yoy % change						
Consultancy & Engg Projects (CEP)	3.9	4.6	12.7	6.6	6.7	4.0
Lumpsum Turnkey (LSTK)	70.0	68.9	20.2	40.1	63.9	(25.2)
Total revenues	40.8	39.4	17.0	29.5	39.4	(15.7)
EBIT						
Consultancy & Engg Projects (CEP)	1,165	1,186	1,455	1,302	5,109	1,203
Lumpsum Turnkey (LSTK)	732	557	481	882	2,652	450
EBIT(%)						
Consultancy & Engg Projects (CEP)	41.9	41.6	45.0	40.6	42.3	41.6
Lumpsum Turnkey (LSTK)	12.7	10.3	10.3	9.8	10.6	10.4

Income statement

Year to 31 Mar (Rs m)	FY10	FY11	FY12	FY13E	FY14E
Net sales	19,841	26,526	36,988	34,353	25,416
% growth	29.6	33.7	39.4	(7.1)	(26.0)
Operating expenses	14,922	20,067	29,956	28,140	20,177
EBITDA	4,919	6,460	7,032	6,213	5,240
% growth	58.7	31.3	8.9	(11.6)	(15.7)
Other income	1,837	1,604	2,322	3,042	3,224
Net interest	(13)	(15)	(12)	(15)	(18)
Depreciation	129	145	194	203	217
Pre-tax profit	6,613	7,903	9,148	9,037	8,228
Deferred Tax	(229)	(341)	(386)	(361)	(329)
Current Tax	2,449	2,995	3,203	3,163	2,962
Profit after tax	4,394	5,249	6,332	6,235	5,595
Non-recurring items	(38)	(24)	32	0	0
Net profit after non-recurring items	4,356	5,225	6,364	6,235	5,595
% growth	26.4	19.9	21.8	(2.0)	(10.3)

Balance sheet

As on 31 Mar (Rs m)	FY10	FY11	FY12	FY13E	FY14E
Paid-up capital	562	1,685	1,685	1,685	1,685
Preference share capital	0	0	0	0	0
Reserves & surplus	10,585	12,737	16,735	20,210	23,046
Total shareholders' equity	11,147	14,421	18,419	21,895	24,731
Total current liabilities	17,188	20,023	26,637	24,229	18,051
Total liabilities	17,188	20,023	26,637	24,229	18,051
Total equity & liabilities	28,335	34,444	45,056	46,124	42,781
Net fixed assets	719	820	922	1,115	1,293
Investments	1,007	5,124	6,124	7,624	9,124
Total current assets	25,194	26,743	35,867	34,881	29,531
Deferred tax assets	1,415	1,756	2,142	2,504	2,833
Working capital	8,006	6,721	9,231	10,652	11,480
Total assets	28,335	34,444	45,056	46,124	42,781

Cash flow statement

Year to 31 Mar (Rs m)	FY10	FY11	FY12	FY13E	FY14E
Pre-tax profit	6,613	7,903	9,148	9,037	8,228
Depreciation	129	145	194	203	217
chg in Working capital	1,070	684	1,333	(1,832)	(2,752)
Total tax paid	(2,449)	(2,995)	(3,203)	(3,163)	(2,962)
Ext ord. Items & others	(38)	(24)	32	-	-
Operating cash Inflow	5,326	5,713	7,505	4,245	2,731
Capital expenditure	(215)	(247)	(296)	(396)	(396)
Free cash flow (a+b)	5,111	5,466	7,209	3,850	2,335
Chg in investments	530	(4,117)	(1,000)	(1,500)	(1,500)
Capital raised/(repaid)	(0)	0	(0)	(0)	(0)
Dividend (incl. tax)	(6,925)	(1,342)	(1,563)	(2,365)	(2,760)
Misc	(18)	-	-	-	-
Net chg in cash	(1,302)	7	4,646	(16)	(1,924)

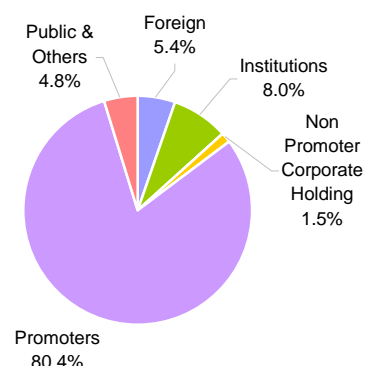
Key ratios

Year to 31 Mar	FY10	FY11	FY12	FY13E	FY14E
EBITDA margin (%)	24.8	24.4	19.0	18.1	20.6
EBIT margin (%)	24.1	23.8	18.5	17.5	19.8
PAT margin (%)	22.1	19.8	17.1	18.2	22.0
RoE (%)	35.3	41.1	38.6	30.9	24.0
RoCE (%)	38.5	49.4	41.6	29.8	21.5
Gearing (x)	(1.6)	(1.2)	(1.2)	0.0	0.0

Valuations

Year to 31 Mar	FY10	FY11	FY12	FY13E	FY14E
Reported EPS (Rs)	12.9	15.5	18.9	18.5	16.6
Adj. EPS (Rs)	13.0	15.6	18.8	18.5	16.6
PE (x)	18.4	15.4	12.8	13.0	14.5
Price/Book (x)	7.3	5.6	4.4	3.7	3.3
EV/Net sales (x)	3.1	2.2	1.4	1.7	2.4
EV/EBITDA (x)	12.7	9.0	7.5	9.4	11.6
EV/CE (x)	5.6	4.0	2.9	2.7	2.5

Shareholding pattern



As of March 2012

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2600
Shirish Rane	Co-Head of Research; Construction, Power, Cement	shirish.rane@idfc.com	91-22-662 22575
Nikhil Vora	Co-Head of Research; Strategy, FMCG, Media, Retail, Education, Mid-caps	nikhil.vora@idfc.com	91-22-662 22567
Prakash Joshi	Oil & Gas, Metals	prakash.joshi@idfc.com	91-22-662 22564
Nitin Agarwal	Pharmaceuticals, Real Estate, Agri-inputs	nitin.agarwal@idfc.com	91-22-662 22568
Hitesh Shah, CFA	IT Services & Telecom	hitesh.shah@idfc.com	91-22-662 22565
Bhoomika Nair	Logistics, Engineering	bhoomika.nair@idfc.com	91-22-662 22561
Pramod Kumar	Automobiles, Auto ancillaries	pramod.kumar@idfc.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil.desai@idfc.com	91-22-662 22573
Ashish Shah	Construction, Power	ashish.shah@idfc.com	91-22-662 22560
Chinmaya Garg	Financials	chinmaya.garg@idfc.com	91-22-662 22563
Probal Sen	Oil & Gas	probal.sen@idfc.com	91-22-662 22569
Swati Nangalia	Media, Education, Exchanges	swati.nangalia@idfc.com	91-22-662 22576
Abhishek Gupta	Telecom, IT services	abhishek.gupta@idfc.com	91-22-662 22661
Saumil Mehta	Metals, Pipes	saumil.mehta@idfc.com	91-22-662 22578
Harit Kapoor	FMCG, Retail, Paints, Mid-caps	harit.kapoor@idfc.com	91-22-662 22649
Vineet Chandak	Real Estate, Pharmaceuticals, Agri-inputs	vineet.chandak@idfc.com	91-22-662 22579
Nikhil Salvi	Construction, Power	nikhil.salvi@idfc.com	91-22-662 22566
Dharmesh R Bhatt, CMT	Technical Analyst	dharmesh.bhatt@idfc.com	91-22-662 22534
Dharmendra Sahu	Database Analyst	dharmendra.sahu@idfc.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh.sonawale@idfc.com	91-22-662 22572
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6622 2500
Tapasije Mishra	Group CEO	tapasije.mishra@idfc.com	91-22-6622 2601
Pareesh Shah	MD, Dealing	pareesh.shah@idfc.com	91-22-6622 2508
Vishal Purohit	Head of Sales	vishal.purohit@idfc.com	91-22-6622 2533
Rajesh Makharia	Director, Sales	rajesh.makharia@idfc.com	91-22-6622 2528
Kalpesh Parekh	Director, Sales	kalpesh.parekh@idfc.com	91-22-6622 2696
Pradip Seth	SVP, Sales	pradip.seth@idfc.com	91-22-6622 2595
Varun Saboo	AVP, Sales	varun.saboo@idfc.com	91-22-6622 2558
Dipesh Shah	Director, Derivatives	dipesh.shah@idfc.com	91-22-6622 2693
Sunil Pandit	Director, Sales trading	sunil.pandit@idfc.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh.chaturvedi@idfc.com	91-22-6622 2512
Viren Sompura	SVP, Sales trading	viren.sompura@idfc.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar.hiremath@idfc.com	91-22-6622 2516
IDFC Securities US	Designation	E-mail	Telephone
Sanjay Panicker	Director	sanjay.panicker@idfc.com	001 212 829 4353

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IDFC Securities
Naman Chambers, C-32, 7th floor,
G- Block, Bandra-Kurla Complex,
Bandra (East), Mumbai 400 051
INDIA

Tel: +91 22 6622 2600
Fax: +91 22 6622 2503

IDFC Capital (USA) Inc,
350 5th Avenue,
Suite 4711,
New York
NY 10118

Tel: +1 646 756 5864

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