

Engineers India

Attractively priced

Engineers India Ltd (EIL) is one of the leading design and engineering organizations in South Asia. The company provides engineering consultancy and EPC services, and is principally focused on the oil & gas and petrochemical industries.

Leadership position in project implementation in hydrocarbon business: EIL has developed indigenous technology and expertise for offshore platforms, oil & gas processing, oil refining, petrochemicals and pipeline projects over the last 48 years enabling it to provide a gamut of management services from project conception to commissioning in hydrocarbon business. EIL's leadership in project implementation and long-term relationships with its clients gives it a competitive advantage over its peers.

Diversified operations across sectors and geographies: Over the years, the company has diversified across various segments such as LNG, fertilizer, power, mining and metallurgy and infrastructure to encash the untapped infra opportunity not only in Indian but globally (presence in Middle East, Africa, Asia and South-east Asia) as well and has an excellent track record of achieving the same. This will help the company to benefit from any recovery in the capex cycle both domestically and internationally.

Healthy order inflows over past couple of quarters: The company has secured orders worth ₹1,800cr (up 39.5 % yoy) in 9MFY2014, taking the order backlog to ₹3,820cr, implying an order backlog to sales ratio of 2.1x on a trailing basis. This includes a major order worth US\$139mn bagged from Dangote Group in Nigeria for project management consultancy and EPC management.

Outlook and valuation: Although the company has reported weak revenues in 9MFY2014, the improvement in order inflows indicates recovery in revenue going forward. At the lower and upper limit of the price-band of ₹145 and ₹150, the stock is currently trading at valuations of 8.4x and 8.7x FY2015E Bloomberg EPS respectively which is lower than its 3-year average PE of 14.8x. **Considering EIL's dominance in the hydrocarbon business and attractive valuations, we recommend Subscribe on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013
Net sales	1,994	2,823	3,699	2,506
% chg	30.1	41.6	31.0	(32.2)
Net profit (Adj.)	425	522	610	598
% chg	23.4	22.8	16.8	(1.9)
EBITDA margin (%)	24.7	22.8	19.1	23.4
EPS (₹)	12.6	15.5	18.1	17.8
P/E (x)	11.9	9.7	8.3	8.4
P/BV (x)	4.5	3.5	2.7	2.3
RoE (%)	34.2	40.8	37.1	29.3
RoCE (%)	38.6	48.7	41.2	27.9
EV/Sales (x)	1.6	1.2	0.9	1.3
EV/EBITDA (x)	6.6	5.2	4.8	5.5

Source: Company, Angel Research

SUBSCRIBE

Issue Open: February 06, 2014
 Issue Close: February 10, 2014

Issue Details

Face Value: ₹5

Present Eq. Paid-up Capital: ₹169cr

Offer Size: 3.37cr Shares

Post Eq. Paid-up Capital: ₹169cr

Issue size (amount): ₹489-506cr

Price Band: ₹145-150

Discount to retail inv./employees: ₹6

Promoters holding Pre-Issue: 80.4%

Promoters holding Post-Issue: 70.4%

Post Issue Shareholding Pattern

Promoters Group	70.4
MF/Banks/Indian FIs/FIIs/Public & Others	29.6

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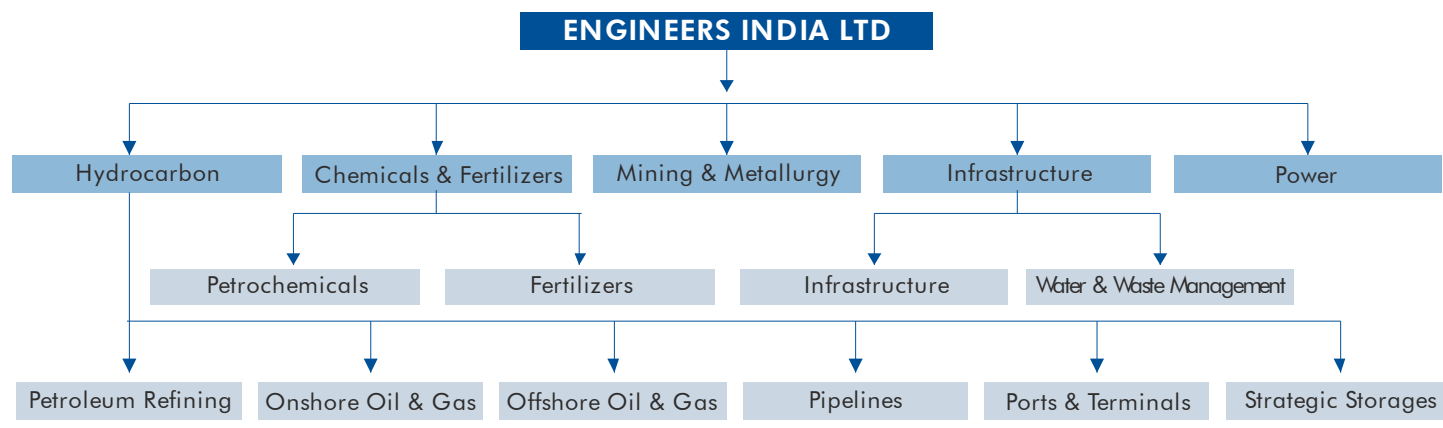
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Company background

EIL is an engineering consultancy company which provides a gamut of management services from project conception to commissioning which includes design, engineering, procurement, construction and integrated project management services. It also provides specialist services such as heat and mass transfer equipment design, environmental engineering, specialist materials and maintenance and plant operations and safety services.

Exhibit 1: Company various business segments



Source: Company, Angel Research

Issue details

The issue comprises an offer for sale of 3.37cr equity shares of face value of ₹5 each. There is no fresh issue of equity. EIL has fixed the price band of the issue at ₹145 to ₹150 and assigned a discount of ₹6/share on the issue price to the retail investors and employees of the company.

Exhibit 2: Shareholding Pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter and promoter group	270,900,540	80.4	237,206,880	70.4
Total public holding	66,036,060	19.6	99,729,720	29.6
Total	336,936,600	100.0	336,936,600	100.0

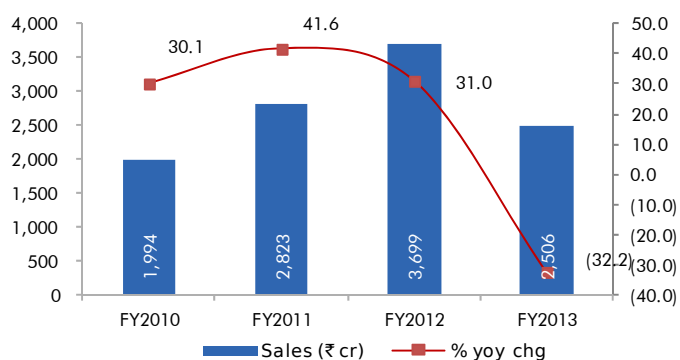
Source: Source: DRHP, Angel Research

Investment arguments

Leadership position in project implementation in hydrocarbon business

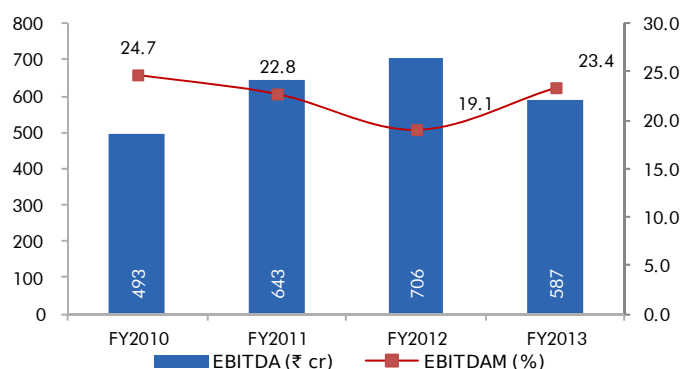
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Exhibit 3: Revenue trend



Source: Company, Angel Research

Exhibit 4: EBITDA and EBITDAM



Source: Company, Angel Research

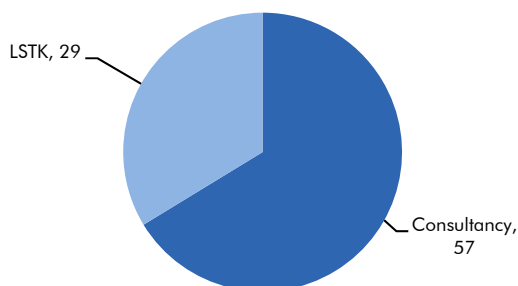
Diversified operations across sectors and geographies

Over the years, the company has diversified across various segments such as LNG, fertilizer, power, mining and metallurgy and infrastructure to encash the untapped infra opportunity not only in Indian but globally (presence in Middle East, Africa, Asia and South-east Asia) as well and has an excellent track record of achieving the same. This will help the company to benefit from any recovery in the capex cycle both domestically and internationally.

Healthy order inflows over past few quarters

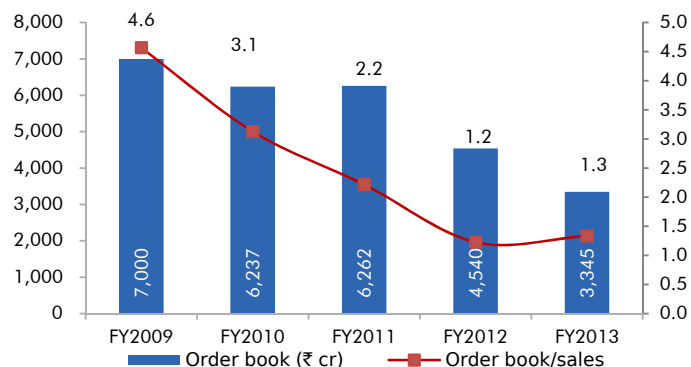
The company has secured orders worth ₹1,800cr (up 39.5 % yoy) in 9MFY2014, taking the order backlog to ₹3,820cr implying an order backlog to sales ratio of 2.1x on trailing basis. This includes a major order worth US\$139mn bagged from Dangote Group in Nigeria for project management consultancy and EPC management.

Exhibit 5: Health order inflow of ₹1800cr in 9MFY14



Source: Company, Angel Research

Exhibit 6: Order backlog trend

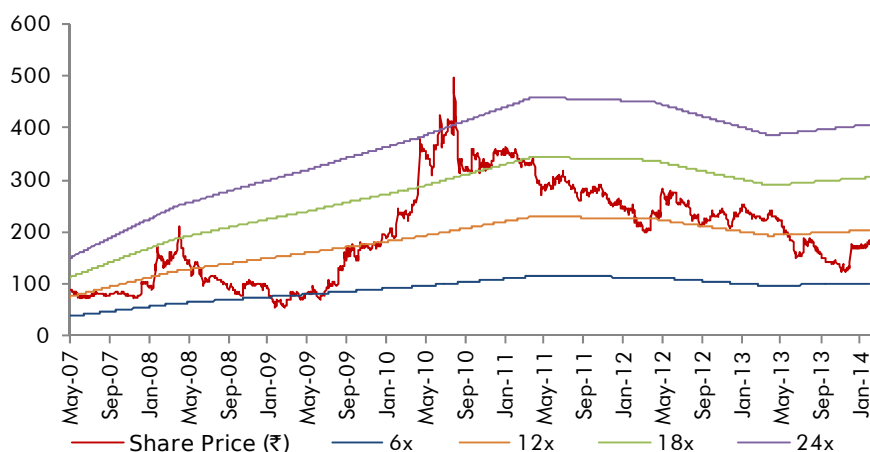


Source: Company, Angel Research

Outlook and valuation

Although the company has reported weak revenues in 9MFY2014, the improvement in order inflows indicates recovery in revenue going forward. At the lower and upper limit of the price-band of ₹145 and ₹150, the stock is currently trading at valuations of 8.4x and 8.7x FY2015E Bloomberg EPS respectively which is lower than its 3-year average PE of 14.8x. **Considering EIL's dominance in the hydrocarbon business and attractive valuations, we recommend Subscribe on the stock.**

Exhibit 7: 1-year forward P/E trend



Source: Angel Research, Bloomberg

Key concern

High dependence on government contracts

EIL bags a major portion of its order book from government entities funded by government itself or multi-lateral development finance institutions. Hence, it remains susceptible to risks such as high regulatory scrutiny and delay in receipt of collectibles.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013
Operating income	1,994	2,823	3,699	2,506
% chg	30.1	41.6	31.0	(32.2)
Total Expenditure	1,501	2,180	2,993	1,919
EBITDA	493	643	706	587
(% of Net Sales)	24.7	22.8	19.1	23.4
Depreciation & Amortization	13	15	19	11
EBIT	480	628	686	576
Interest & other Charges	3	4	4	1
Other Income	184	160	232	316
PBT	660	784	915	891
Tax	250	296	317	284
Deferred tax	(25)	(34)	(39)	(22)
PAT	435	523	636	629
Extraordinary items	10.3	0.4	26.5	30.2
Adjusted PAT	425	522	610	598
% chg	23.4	22.8	16.8	(1.9)
Basic EPS (₹)	12.6	15.5	18.1	17.8

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013
SOURCES OF FUNDS				
Equity Share Capital	56	168	168	168
Preference Capital	-	-	-	-
Reserves & Surplus	1,059	1,274	1,676	2,069
Shareholders' Funds	1,115	1,442	1,844	2,238
Total Loans	-	-	-	-
Other liabilities	-	21	25	25
Total Liabilities	1,115	1,463	1,869	2,262
APPLICATION OF FUNDS				
Net Block	60	60	53	50
Capital Work-in-Progress	12	13	52	136
Investments	101	512	635	653
Deferred Tax Asset	142	176	214	236
Current Assets	2,519	2,597	2,734	2,722
Cash	1,764	1,728	1,643	1,848
Loans & Advances	395	560	782	541
Inventories	43	1	1	1
Debtors	317	308	307	332
Current liabilities & Provisions	1,719	2,006	1,875	1,582
Net Current Assets	801	591	859	1,140
Other Assets	-	111	57	47
Total Assets	1,115	1,463	1,869	2,262

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013
Profit before tax	660	784	915	895
Depreciation	13	15	19	11
(Inc)/Dec in Working Capital	89	86	(299)	(45)
Others	(174)	(126)	(212)	(180)
Direct taxes paid	(233)	(266)	(317)	(240)
Cash Flow from Operations	355	493	107	441
(Inc.)/Dec.in Fixed Assets	(22)	(25)	(40)	(17)
(Inc.)/Dec. in Investments	228	(317)	108	(21)
Other income	-	-	-	-
Cash Flow from Investing	207	(342)	69	(38)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-
Dividend Paid (Incl. Tax)	(692)	(134)	(234)	(220)
Others	-	-	-	-
Cash Flow from Financing	(692)	(134)	(234)	(220)
Inc./(Dec.) in Cash	(131)	17	(59)	183
Opening Cash balances	1,894	1,764	1,728	1,643
Adjustments		(53)	(27)	22
Closing Cash balances	1,764	1,728	1,643	1,848

Key Ratios

Y/E March	FY2010	FY2011	FY2012	FY2013
Valuation Ratio (x)				
P/E (on FDEPS)	11.9	9.7	8.3	8.4
P/CEPS	11.3	9.4	7.7	7.9
P/BV	4.5	3.5	2.7	2.3
EV/Sales	1.6	1.2	0.9	1.3
EV/EBITDA	6.6	5.2	4.8	5.5
Per Share Data (Rs)				
EPS (Basic)	12.6	15.5	18.1	17.8
Cash EPS	13.3	15.9	19.5	19.0
Book Value	33.1	42.8	54.7	66.4
Returns (%)				
RoCE (Pre-tax)	38.6	48.7	41.2	27.9
RoE	34.2	40.8	37.1	29.3
Solvency ratios (x)				
Net debt to Equity	(1.6)	(1.2)	(0.9)	(0.8)
Net debt to EBITDA	(3.7)	(2.7)	(2.3)	(3.2)

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