

April 17, 2020

Higher cash of ~ ₹ 41/share offers comfort...

Recently, Engineers India (EIL) hosted a conference call to discuss the possible impact of Covid-19 on its business performance, working capital, cash flows and order execution. The management mentioned that though the real magnitude of the outbreak is difficult to assess, in the short-term there may be some impact on all business variables. However, there will be a lesser impact on execution for FY21E as work is moving on major projects with permissions in India and abroad amid global and India lockdowns. However, there may be a near term impact in some projects, which could get delayed or deferred to H2FY21E. Accordingly, we factor in the likely near term impact and revise our earnings estimates for FY21E and FY22E.

Key conference call takeaways...

- EIL may see some near term impact in Q1FY21E but execution pace for overall FY21E to be less impacted with lumpy execution in H2FY21E. As all domestic sites are seeking permission and following standard operating procedure (SOP), once approval is given, remaining projects will commence work from April 20, 2020. Globally, the Dangote project has taken approval and work is getting executed even during lockdown
- Cash flows - with zero debt and cash levels at ~₹ 2500 crore, there is no issue on working capital stretch or liquidity front. However, there will be more clarity after a couple of months
- On the order inflow front, expect order inflows to the tune of ~₹ 1600 crore for FY21E and few projects may get deferred. Client is going ahead with tendering for projects that have already received approvals while projects in advanced stages would continue. Projects in client evaluation phase could be relooked at based on long term demand supply scenario and could affect inflows from FY22E onwards. No major impact on long term capex of clients while short term capex may get deferred by a year

Valuation & Outlook

Though the real magnitude of outbreak and economy lockdown is difficult to assess, there may be some near term impact. However, the management has guided that as of now not much impact is seen on execution and overall margins for FY21E but there may be some impact on order inflows as few projects may get deferred. Overall, strong balance sheet, zero debt, strong order book, growth visibility and higher cash per share (~₹ 41/share) would augur well for EIL in this challenging time. However, strict WC management would be a key for revival in long term. We expect revenue, EBITDA CAGR of 7.9%, 8.7%, respectively, in FY20-22E. We revise our target price to ₹ 80 per share (10.5x on FY22E EPS) and revise our rating from REDUCE to **BUY**.

Key risks: Any project related headwinds or delays in turnkey segment may further affect revenue growth.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20E	FY21E	FY22E	FY20-22E
Net Sales	1,788	2,444	2,750	2,912	3,200	
Revenue	1,788	2,444	2,750	2,912	3,200	7.9
EBITDA	413	366	371	389	438	8.7
Net Profit	378	370	370	415	471.8	13.0
EPS (₹)	6.0	5.9	5.9	6.6	7.5	
P/E (x)	11.2	11.4	11.5	10.2	9.0	
Price / Book (x)	1.9	1.9	1.8	1.8	1.7	
EV/EBITDA (x)	4.4	4.3	4.5	3.8	3.3	
RoCE (%)	23.2	21.3	20.7	17.6	19.8	
RoE (%)	16.7	16.3	16.0	17.4	19.1	

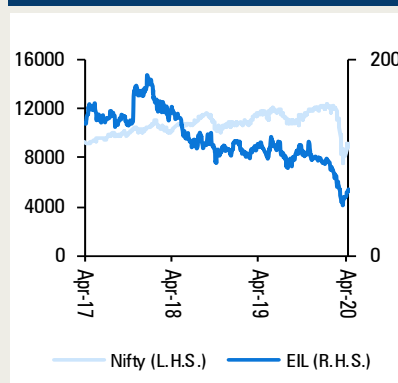
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 4171 Crore
Total Debt (FY19)	₹ 3.9 Crore
Cash and Investments (FY19)	₹ 2661 crore
EV (FY19)	₹ 1513 Crore
52 week H/L (₹) (BSE)	128 / 50
Equity capital (FY19)	₹ 316 Crore
Face value	₹ 5

Price Chart



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Exhibit 1: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	2,750.0	2,749.9	0.0	2,310.0	2,912.1	26.1	2,703.0	3,200.4	18.4
EBITDA	371.0	371.2	0.1	237.0	388.8	64.0	338.0	438.5	29.7
EBITDA Margin (%)	13.5	13.5	1 bps	10.3	13.4	309 bps	12.5	13.7	120 bps
PAT	370.0	369.7	-0.1	301.0	414.6	37.8	383.1	471.8	23.2
EPS (₹)	5.9	5.9	-0.8	4.8	6.6	36.7	6.1	7.5	22.4

Source: Company, ICICI Direct Research

Key conference call takeaways (continued)...

- EIL does not foresee much disruption with respect to booking of revenue and execution in FY21E. The operating margin should not be much of an issue for FY21E
- For Q4FY20E, it received a few small orders while e-tendering activities on client site are continuing from existing projects. EIL got smaller orders to do pre-project activities from west coast refinery
- NRL, Chennai refinery, Panipat expansion and Mumbai refinery of BPCL are going ahead with orders at the moment. HPCL, Barmer are at an EPC award phase. However, there could be some timeline slippage for a few projects, which may get deferred
- It continues to receive payments from clients as per milestone payment and does not have much advances from customers in cash balances

Financial summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20E	FY21E	FY22E
Net Sales	2,444	2,750	2,912	3,200
Other operating income	-	-	-	-
Revenue	2,444	2,750	2,912	3,200
% Growth	42.7	12.5	5.9	9.9
Other income	225	215	195	225
Total	2,669	2,965	3,107	3,425
Total Raw Material Costs	-	-	-	-
Employee Expenses	757	781	818	880
Other expenses	1,321	1,598	1,705	1,882
Total Operating Expenditure	2,078	2,379	2,523	2,762
Operating Profit (EBITDA)	366	371	389	438
% Growth	70.8	1.4	4.7	12.8
Interest	1	2	3	3
PBDT	590	584	581	661
Depreciation	22	24	27	30
PBT before Exceptional Item:	568	560	554	631
Total Tax	197	190	140	159
PAT before MI	370	370	415	472
Minority Interest	-	-	-	-
PAT	370	370	415	472
% Growth	20.1	(0.1)	12.2	13.8
EPS	5.9	5.9	6.6	7.5

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(₹ Crore)	FY19	FY20E	FY21E	FY22E
Equity Capital	316.0	316.0	316.0	316.0
Reserve and Surplus	1,960	1,988	2,066	2,155
Total Shareholders funds	2,276	2,304	2,382	2,471
Minority Interest	-	-	-	-
Other Non Current Liabilities	1.5	1.5	1.5	1.5
Total Debt	3.9	3.9	3.9	3.9
Total Liabilities	2,281	2,310	2,388	2,476
Gross Block	437.4	473.4	553.4	603.4
Acc: Depreciation	191.8	215.7	242.6	273.0
Net Block	245.6	257.7	310.8	330.4
Capital WIP	36.0	40.0	45.0	45.0
Total Fixed Assets	281.6	297.7	355.8	375.4
Non Current Assets	294.9	294.9	294.9	294.9
Inventory	6.9	1.6	2.6	2.8
Debtors	414.1	471.1	723.6	619.4
Loans and Advances	13.1	14.8	24.9	27.4
Other Current Assets	606.8	606.8	606.8	606.8
Cash	2,661.0	2,566.0	2,748.4	2,774.1
Total Current Assets	3,748.1	3,713.7	4,179.2	4,105.9
Current Liabilities	247.6	264.0	323.5	309.7
Provisions	479.2	501.6	614.6	588.4
Net Current Assets	1,344.8	1,257.2	1,222.1	1,241.1
Total Assets	2,281	2,310	2,388	2,476

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(₹ Crore)	FY19	FY20E	FY21E	FY22E
Profit after Tax	370.1	369.7	414.6	471.8
Depreciation	22.4	23.9	26.9	30.4
Interest	1.2	2.2	2.5	2.5
Cash Flow before WC changes	393.7	395.8	444.1	504.7
Changes in inventory	(5.8)	5.3	(0.9)	(0.3)
Changes in debtors	130.8	(57.0)	(252.4)	104.2
Changes in loans & Advances	(2.8)	(1.7)	(10.0)	(2.5)
Changes in other current assets	(21.0)	(7.3)	(19.6)	(2.3)
Net Increase in Current Assets	15.8	(60.7)	(283.1)	99.0
Changes in creditors	29.6	16.4	59.5	(13.8)
Changes in provisions	(147.6)	22.4	113.0	(26.2)
Net Increase in Current Liabilities	340.5	53.3	500.6	(92.3)
Net CF from Operating activities	749.9	388.4	661.6	511.4
Changes in deferred tax assets	19.6	-	-	-
(Purchase)/Sale of Fixed Assets	17.6	(40.0)	(40.0)	(50.0)
Net CF from Investing activities	(148.5)	(140.0)	(140.0)	(100.0)
Dividend and Dividend Tax	(304.3)	(333.8)	(324.5)	(369.3)
Net CF from Financing Activities	(366.0)	(343.4)	(339.2)	(385.7)
Net Cash flow	235.5	(95.0)	182.4	25.7
Opening Cash/Cash Equivalent	2,425.5	2,661.0	2,566.0	2,748.4
Closing Cash/ Cash Equivalent	2,661.0	2,566.0	2,748.4	2,774.1

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per Share Data				
EPS	5.9	5.9	6.6	7.5
Cash per Share	42.1	40.6	43.5	43.9
BV	36.0	36.5	37.7	39.1
Dividend per share	4.0	4.4	4.3	4.9
Dividend payout ratio	0.7	0.8	0.7	0.7
Operating Ratios				
EBITDA Margin	15.0	13.5	13.4	13.7
PAT Margin	15.1	13.4	14.2	14.7
Return Ratios				
RoE	16.3	16.0	17.4	19.1
RoCE	21.3	20.7	17.6	19.8
Valuation Ratios				
EV / EBITDA	4.1	4.3	3.7	3.2
P/E	11.3	11.3	10.1	8.8
EV / Net Sales	0.6	0.5	0.5	0.4
Sales / Equity	1.2	1.3	1.3	1.4
Market Cap / Sales	1.6	1.4	1.3	1.2
Price to Book Value	1.8	1.8	1.8	1.7
Turnover Ratios				
Asset turnover	6.1	6.3	5.6	5.7
Debtors Turnover Ratio	5.6	6.7	5.2	5.1
Creditors Turnover Ratio	11.5	11.6	10.6	10.8
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.4	0.5	0.6	0.6
Quick Ratio	0.4	0.5	0.6	0.6

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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