

Turnkey segment leads execution rebound...

Engineers India (EIL) standalone revenues for Q2FY21 were at ₹ 683.4 crore down 5.6% YoY. Consultancy and turnkey (LSTK) segment contributed 51% and 49%, respectively. For Q2FY21, consultancy revenue de-grew 2.5% to ₹ 345.2 crore YoY while turnkey revenue de-grew 8.5% to ₹ 338.2 crore YoY owing to execution slowdown. Absolute EBITDA was at ₹ 77.2 crore, down 27.8% YoY while overall EBITDA margin came in at 11.3%, contracting 350 bps vs. Q2FY20 mainly due to lower margins in turnkey segment. Consultancy & turnkey segments reported EBIT margins of 27% (vs. 27.4% in Q2FY20) and 1.9% (vs. 7.7% in Q2FY20), respectively. PAT was at ₹ 92.7 crore, up 36.8% YoY mainly on account of deferred tax adjustments in base quarter. Other income declined 18.7%, YoY to ₹ 53.3 crore. EIL's board has approved the proposal to buyback ~6.97 crore shares representing 11.06% of total fully paid-up equity shares at a price of ₹ 84/share for aggregate consideration not exceeding ₹ 586.9 crore.

Decent inflows for H1FY21 but cautious guidance for FY21E...

For Q2FY21, EIL's order inflows were decent at ₹ 594 crore (₹ 166.7 crore in Q2FY20), all in the consultancy segment, primarily from customers like Gail, Odisha Mining, Bangladesh Petroleum, AAI, etc. Order book as on Q2FY21 was at ₹ 8978 crore (vs. ₹ 9116.8 crore in Q2FY20) comprising 49% from consultancy and 51% from turnkey segment. For Q2FY21, 86% came from domestic while 14% was from the overseas market.

Decent order pipeline for next two years amid challenges...

For H2FY21E, EIL expects order inflows to the tune of ~₹ 1100 crore (~₹ 675 crore received in H1FY21) as it is in favourable position in BPCL, Mumbai project (~₹ 200 crore) but expects deferral of Panipat refinery-(~₹ 617 crore) to FY22E. Additionally, projects like MRPL (₹ 700 crore), HMEL cracker plant expansion (~₹ 600 crore), Paradip refinery project (₹ 1000 crore opportunity) and CPCL (Cauvery) expansion may come in FY22E, FY23E. Some ordering in IOC projects may be deferred to FY22E, FY23E. Overall, planned capex will continue in next two years in oil & gas sector amid economic challenges.

Valuation & Outlook

Going forward, we expect revenue, EBITDA and PAT to grow at -0.3%, 3.3% and 5.4% CAGR, respectively, in FY20-22E with marginally higher contribution from consultancy segment. However, short-term headwinds may affect execution in FY21E amid challenges. EIL's balance sheet continues to remain healthy with zero debt and cash balance of ~₹ 2500 crore. Its book to-bill is at a healthy ~3x (order book at ₹ 8978 crore). We value EIL at 11x P/E on FY22E EPS of ₹ 7.6 with a revised target price of ₹ 83 per share and change our rating from BUY to **HOLD**. Key risks are any project headwinds or delays in turnkey segment may further affect revenue growth.



A Navratna Company

Particulars

Particular	Amount
Market Capitalization	₹4613 Crore
Total Debt (FY 20)	₹6.7 Crore
Cash and Inv. (FY 20)	₹2723 crore
EV (FY 20)	₹1897 Crore
52 week H/L (₹)	106 / 50
Equity capital (FY 20)	₹316 Crore
Face value	₹5

Key Highlights

- Overall order inflows for Q2FY21 came in at ₹ 594 crore (₹ 166.7 crore for Q2FY20), all from consultancy segment, taking order backlog to ₹ 8978 crore
- Overall EBITDA margin came in at 11.3%, down 350 bps YoY mainly due to change in business mix
- We value EIL at 11x P/E on FY22E EPS of ₹ 7.6 with revised target price of ₹ 83 per share and revise our rating from BUY to HOLD

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	FY20-22E
Net Sales	1,788	2,444	3,203	2,657	3,182	
Revenue	1,788	2,444	3,203	2,657	3,182	(0.3)
EBITDA	413	366	443	345	472	3.3
Net Profit	378	370	430	388	478.3	5.4
EPS (₹)	6.0	5.9	6.8	6.1	7.6	
P/E (x)	12.0	12.3	10.6	11.7	9.5	
Price / Book (x)	2.1	2.0	1.9	1.9	1.8	
EV/EBITDA (x)	5.3	5.2	4.1	6.1	4.0	
RoCE (%)	23.9	21.1	22.6	18.1	20.4	
RoE (%)	17.2	16.3	18.3	16.0	18.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	683.4	723.7	-5.6	467.8	46.1	Execution rebound in turnkey segment supported topline growth.
Construction Mtl costs	71.4	114.9	-37.9	43.0	66.2	
Employees Expenses	213.9	206.9	3.4	207.3	3.2	
Other Expenses	392.3	409.8	-4.3	239.1	64.1	
Total Expenditure	606.2	616.8	-1.7	446.4	35.8	
EBITDA	77.2	106.9	-27.8	21.4	260.6	
EBITDA margins (%)	11.3	14.8	-347 bps	4.6	672 bps	Margin stress due to change in business mix, provisions and some variation orders in base quarter
Interest	0.5	0.4		0.4		
Depreciation	6.0	5.8	2.8	5.3	11.8	
Tax	31.4	98.6	-68.1	17.2	82.2	
Other Income	53.3	65.5	-18.7	49.7	7.2	
PAT	92.7	67.7	36.8	48.1	92.7	

Key Metrics	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue Segmentation					
Con. & Engg. Projects	345.2	354.0	-2.5	275.1	25.5
As a % of Sales	50.5	48.9		58.8	
Turnkey Projects	338.2	369.7	-8.5	192.7	75.5
As a % of Sales	49.5	51.1		41.2	
Segmental EBIT					
Con. & Engg. Projects	93.3	96.8	-3.6	39.3	137.8
As a % of EBIT	93.7	77.2		93.0	
Turnkey Projects	6.3	28.5	-78.0	3.0	111.1
As a % of EBIT	6.3	22.8		7.0	

Source: Company, ICICI Direct Research

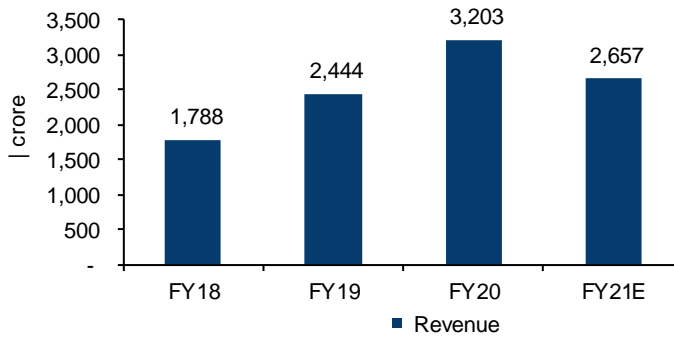
Exhibit 2: Change in estimates

	FY19		FY20			FY21E		FY22E		Comments
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change		
Revenue	2,444.3	3,203.1	2,709.7	2,656.8	-2.0	3,247.6	3,181.6	-2.0	Revise estimates considering execution pace amid challenges	
EBITDA	366.0	443.1	392.9	345.4	-12.1	485.5	472.5	-2.7		
EBITDA Margin (%)	15.0	13.8	14.5	13.0	-150 bps	15.0	14.9	-15 bps		
PAT	370.1	430.3	423.0	387.8	-8.3	502.6	478.3	-4.8		
EPS (₹)	5.9	6.8	6.7	6.1	-8.4	8.0	7.6	-5.4		

Source: Company, ICICI Direct Research

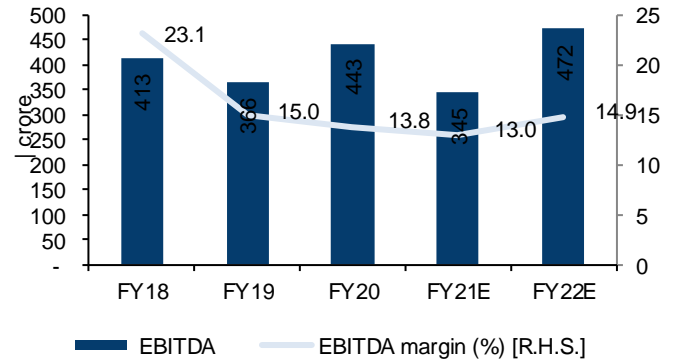
Financial Story in charts

Exhibit 3: Trend in revenues..



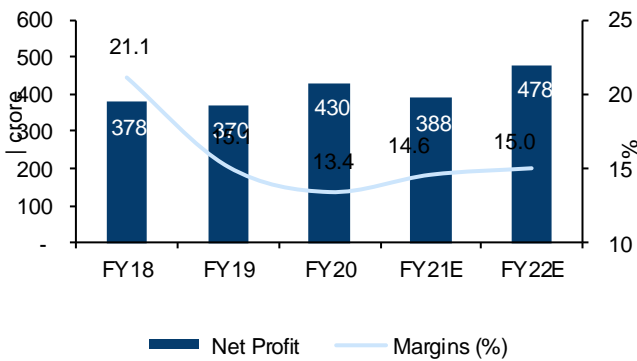
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin (%) trend.....



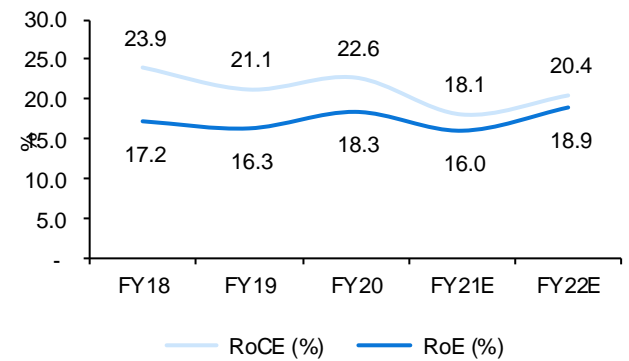
Source: ICICI Direct Research, Company

Exhibit 5: PAT and PAT margin (%) trend....



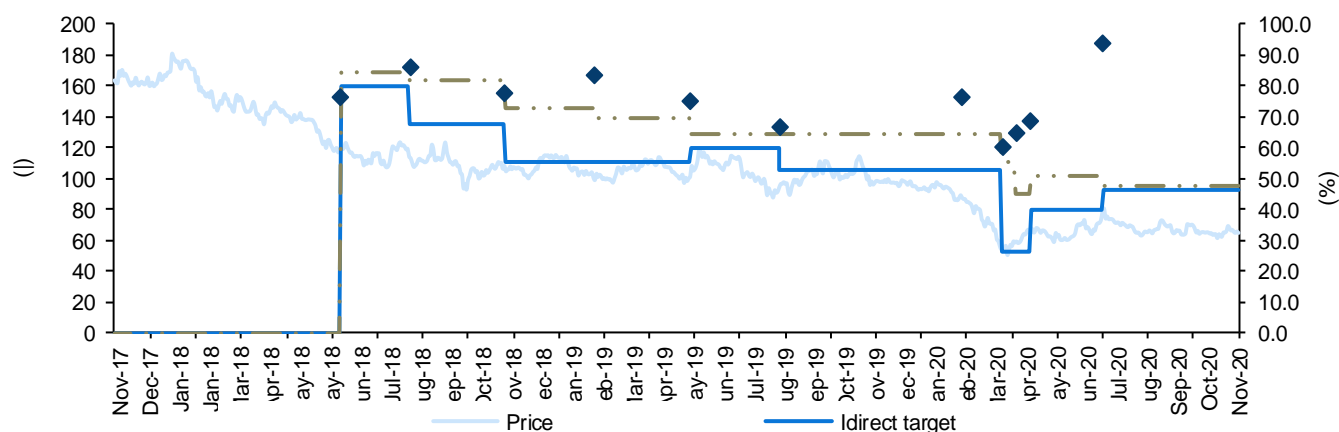
Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend....



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (₹)	Change
1	Government Of India	30-Jun-20	51.5	325.40m	0.00m
2	Icici Prudential Ass	30-Sep-20	4.6	29.11m	(2.61)m
3	Life Insurance Corp	31-Dec-19	3.5	22.18m	(0.20)m
4	Hdfc Asset Managemen	30-Sep-20	2.9	18.55m	0.00m
5	Sbi Funds Management	30-Sep-20	2.6	16.53m	0.05m
6	L&T Mutual Fund	30-Sep-20	1.9	12.29m	(6.63)m
7	Reliance Capital Tru	2-Nov-20	1.7	10.55m	5.55m
8	Na	30-Jun-19	1.5	9.61m	9.61m
9	Aditya Birla Sun Lif	31-Dec-19	1.4	8.52m	8.52m
10	Vanguard Group	30-Sep-20	0.8	5.22m	(0.07)m

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	52.0	51.5	51.5	51.5	51.5
FII	7.8	8.6	7.6	7.6	4.4
DII	24.8	23.3	25.5	25.5	23.0
Others	15.4	16.6	15.4	15.4	21.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement					₹ crore
(₹Crore)	FY19	FY20	FY21E	FY22E	
Net Sales	2,444	3,203	2,657	3,182	
Other operating income	-	-	-	-	
Revenue	2,444	3,203	2,657	3,182	
% Growth	42.7	31.0	(17.1)	19.8	
Other income	225	258	200	195	
Total	2,669	3,461	2,857	3,377	
Total Raw Material Costs	-	-	-	-	
Employee Expenses	757	844	834	869	
Other expenses	1,321	1,916	1,477	1,841	
Total Operating Expendit	2,078	2,760	2,311	2,709	
Operating Profit (EBIT)	366	443	345	472	
% Growth	70.8	21.0	(22.0)	36.8	
Interest	1	2	3	3	
PBDT	590	699	543	665	
Depreciation	22	24	24	26	
PBT before Exceptional I	568	676	518	639	
Total Tax	197	245	131	161	
PAT before MI	370	430	388	478	
Minority Interest	-	-	-	-	
PAT	370	430	388	478	
% Growth	20.1	16.3	(9.9)	23.3	
EPS	5.9	6.8	6.1	7.6	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(₹Crore)	FY19	FY20	FY21E	FY22E	
Profit after Tax	370.1	430.3	387.8	478.3	
Depreciation	22.4	23.8	24.4	25.8	
Interest	1.2	1.7	2.5	2.5	
Cash Flow before WC c	393.7	455.8	414.7	506.6	
Changes in inventory	(5.8)	0.3	1.5	(0.5)	
Changes in debtors	130.8	(252.0)	73.7	(50.4)	
Changes in loans & Adv	(2.8)	(1.2)	2.3	(3.2)	
Changes in other curren	(21.0)	(3.9)	1.4	(9.5)	
Net Increase in Current	15.8	(156.2)	78.9	(63.6)	
Changes in creditors	29.6	32.1	(29.2)	31.7	
Changes in provisions	(150.7)	115.7	(116.0)	60.2	
Net Increase in Current	337.4	268.8	(336.2)	247.9	
Net CF from Operatin	746.8	568.5	157.4	690.9	
Changes in deferred tax	7.0	27.5	-	-	
(Purchase)/Sale of Fixe	1.5	(1.0)	(40.0)	(50.0)	
Net CF from Investin	(174.0)	(147.4)	(140.0)	(100.0)	
Dividend and Dividend T	(360.5)	(330.1)	(303.5)	(374.3)	
Net CF from Financin	(300.5)	(359.6)	(307.0)	(378.7)	
Net Cash flow	272.3	61.5	(289.5)	212.2	
Opening Cash/Cash Equ	2,360.1	2,661.1	2,722.6	2,433.0	
Closing Cash/ Cash E	2,661.1	2,722.6	2,433.0	2,645.2	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					₹ crore
(₹Crore)	FY19	FY20	FY21E	FY22E	
Equity Capital	316.0	316.0	316.0	316.0	
Reserve and Surplus	1,960	2,029	2,113	2,215	
Total Shareholders fund:	2,276	2,345	2,429	2,531	
Minority Interest	-	-	-	-	
Other Non Current Liabili	4.6	7.7	7.7	7.7	
Total Debt	3.9	6.7	6.7	6.7	
Total Liabilities	2,284	2,360	2,443	2,545	
Gross Block	437.4	487.3	485.4	535.4	
Acc: Depreciation	191.8	215.6	240.0	265.8	
Net Block	245.6	271.7	245.4	269.6	
Capital WIP	52.0	3.1	45.0	45.0	
Total Fixed Assets	297.6	274.8	290.4	314.6	
Non Current Assets	307.5	280.4	280.4	280.4	
Inventory	6.9	6.6	5.1	5.6	
Debtors	414.1	666.1	592.5	642.9	
Loans and Advances	13.1	14.3	12.0	15.2	
Other Current Assets	606.8	506.1	506.1	506.1	
Cash	2,661.1	2,722.6	2,433.0	2,645.2	
Total Current Assets	3,748.1	3,965.7	3,597.3	3,873.1	
Current Liabilities	247.6	279.7	250.5	282.2	
Provisions	476.1	591.8	475.9	536.1	
Net Current Assets	1,348.0	1,296.8	1,264.5	1,292.4	
Total Assets	2,284	2,360	2,443	2,545	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per Share Data					
EPS	5.9	6.8	6.1	7.6	
Cash per Share	42.1	43.1	38.5	41.9	
BV	36.0	37.1	38.4	40.1	
Dividend per share	4.7	4.3	4.0	4.9	
Dvidend payout ratio	0.8	0.6	0.7	0.7	
Operating Ratios					
EBITDA Margin	15.0	13.8	13.0	14.9	
PAT Margin	15.1	13.4	14.6	15.0	
Return Ratios					
RoE	16.3	18.3	16.0	18.9	
RoCE	21.1	22.6	18.1	20.4	
Valuation Ratios					
EV / EBITDA	5.3	4.3	6.3	4.2	
P/E	12.5	10.7	11.9	9.6	
EV / Net Sales	0.7	0.5	0.8	0.6	
Sales / Equity	1.2	1.5	1.2	1.3	
Market Cap / Sales	1.7	1.3	1.6	1.4	
Price to Book Value	2.0	2.0	1.9	1.8	
Turnover Ratios					
Asset turnover	6.1	7.1	5.9	6.3	
Debtors Turnover Ratio	5.6	6.4	4.5	5.5	
Creditors Turnover Ratio	11.5	13.1	10.8	12.7	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.4	0.6	0.6	0.6	
Quick Ratio	0.4	0.6	0.6	0.6	

Source: Company, ICICI Direct Research

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