

**CMP : Rs.236**

**Reco : BUY**

**Target : Rs.298**

**STOCK INFO**

BSE	532178
NSE	ENGINEERSIN
Bloomberg	ENGR IN
Reuters	ENGI BO
Sector	Consulting Services
Face Value (Rs)	5
Equity Capital (Rs mn)	1,685
Mkt Cap (Rs mn)	79,382
52w H/L (Rs)	363.0/237.1
3m Avg Daily Vol. in mn (BSE + NSE)	227,442

**SHAREHOLDING PATTERN**

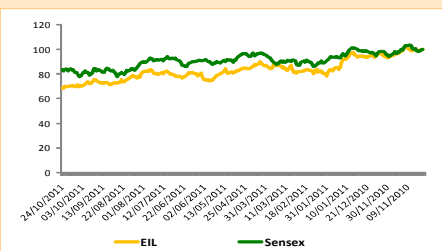
	%
<i>(as on 30th Sep. 2011)</i>	
Promoters	80.4
FII's	5.2
DII's	7.9
Public & Others	6.4

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
EIL	-6	-19	-33
Sensex	7	-9	-15

Source: Capitaline, IndiaNivesh Research

**EIL v/s BSE SENSEX**



Source: Capitaline, IndiaNivesh Research

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- Engineers India Ltd (EIL) reported Rs 8,274 mn worth of standalone revenues against our expectations of Rs 7,153 mn. The reported top-line numbers reflect 39.4% year-over-year increase, however, it was 3.1% below previous quarters. Management has highlighted that the revenues have flown from projects across the board. During the quarter, a major 67.4% of the total revenues were from the Consultancy and Engineering Projects (CES) segment, with the remaining business coming from the Lumpsum Turnkey Projects (LTP- 32.6% of standalone revenues) segment. The CES segment reported 1.1% year-over-year and 3.1% sequential decline in its Q2FY12 revenues. The LTP segment reported sharp 73.7% year-over-year increase in top-line.
- During the quarter, the company reported order wins worth Rs 4.5 bn, thereby, taking the total order backlog to Rs 63.3 bn. Based on our estimates the current order backlog, gives revenue visibility for over next 2 years. During the quarter the company formed JV with Indian Oil Tanking Ltd. (IOCL subsidiary) & Jabalddharan, all 3 players having equal stake in the JV. This JV has been formed to pursue consulting and turnkey opportunities within Saudi Arabian markets. With huge Saudi market opening up for the company, we expect the company to report robust order wins going forward.
- The company reported standalone EBITDA of Rs 1,628 mn during the quarter, reflecting 10.9% year-over-year and 9.4% sequential decline. Growth in the EBITDA numbers was restricted due to 79.2% and 14.6% year-over-year increase in the construction material and employee costs to Rs 3,131 mn and Rs 1,354 mn, respectively. On sequential comparison, sub-contracting expenses reported a 25.3% increase to Rs 1,573 mn.
- EIL reported standalone net profit of Rs 1,466 mn against our expectation of Rs 1,436 mn. Net profit numbers during the quarter reflect 22.3% year-over-year increase (1.0% decline sequentially). Quarterly net profit numbers reflect the impact of partial deterioration seen across some of the operating metrics, marginal decline in effective tax rates, which declined from 32.7% in Q2FY11 and 32.2% in Q1FY12 to 31.4% in Q2FY12.

**Valuation**

At CMP of Rs 236, based on our estimates (at consolidated level) the stock is currently trading at FY12E and FY13E P/E multiple of 11.8x and 9.8x, respectively. We continue to maintain our BUY rating on the stock and advice investors to accumulate the stock at current levels, with a price target of Rs 298, implying 26.5% upside potential from current levels, on the back of recent price correction, expected order wins resulting from their strategy to pursue opportunities across new verticals and geographies, entry to Saudi markets through the JV route, above 30% dividend payout levels for FY12 and FY13 and strong balance sheet strength.

## Consolidated Financial statements

## Income statement

Y E March (Rs m)	2009A	2010A	2011A	2012E	2013E
<b>Net sales</b>	<b>15,514.5</b>	<b>20,139.8</b>	<b>26,775.4</b>	<b>36,989.8</b>	<b>44,982.5</b>
Growth %		29.8%	32.9%	38.1%	21.6%
Inc/(Dec) in stock	(14.1)	(96.8)	(1,706.5)	0.0	0.0
Employee cost	3,902.9	4,911.7	5,240.6	6,769.1	8,186.8
Other Operating Expenses	8,403.1	10,213.1	16,694.0	21,786.9	26,593.7
Total Operating Expenses	12,291.8	15,027.9	20,228.1	28,556.1	34,780.5
<b>EBITDA</b>	<b>3,222.7</b>	<b>5,111.8</b>	<b>6,547.3</b>	<b>8,433.7</b>	<b>10,202.0</b>
Growth %		58.6%	28.1%	28.8%	21.0%
EBITDA Margin %	20.8%	25.4%	24.5%	22.8%	22.7%
Depreciation	110.0	131.0	145.1	166.5	179.9
<b>EBIT</b>	<b>5,328.1</b>	<b>6,810.5</b>	<b>7,998.7</b>	<b>10,122.2</b>	<b>12,222.1</b>
EBIT Margin %	34.3%	33.8%	29.9%	27.4%	27.2%
Other Income	2,215.3	1,829.7	1,596.5	1,855.0	2,200.0
Interest	2.5	12.9	14.7	18.5	22.5
<b>PBT</b>	<b>5,325.6</b>	<b>6,797.6</b>	<b>7,984.0</b>	<b>10,103.7</b>	<b>12,199.6</b>
Tax	1,814.1	2,296.2	2,671.2	3,384.9	4,087.1
Effective tax rate %	34.1%	33.8%	33.5%	33.5%	33.5%
Extraordinary items	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Adjusted PAT</b>	<b>3,511.5</b>	<b>4,501.5</b>	<b>5,312.9</b>	<b>6,718.8</b>	<b>8,112.5</b>
Growth%		28.2%	18.0%	26.5%	20.7%
PAT margin %	22.6%	22.4%	19.8%	18.2%	18.0%

## Balance sheet

Y E March (Rs m)	2009A	2010A	2011A	2012E	2013E
Share Capital	561.6	561.6	1,684.7	1,684.7	1,684.7
Reserves & Surplus	13,543.0	10,980.6	13,214.0	16,339.8	20,564.5
<b>Net Worth</b>	<b>14,104.5</b>	<b>11,542.2</b>	<b>14,898.7</b>	<b>18,024.5</b>	<b>22,249.1</b>
<b>Total Liabilities</b>	<b>14,104.5</b>	<b>11,542.2</b>	<b>14,898.7</b>	<b>18,024.5</b>	<b>22,249.1</b>
Gross Block	1,710.7	1,864.3	1,969.3	3,684.3	5,113.7
Accumulated Depreciation	1,128.3	1,230.8	1,336.9	1,468.4	1,610.3
<b>Net Block</b>	<b>582.4</b>	<b>633.6</b>	<b>632.4</b>	<b>2,216.0</b>	<b>3,503.4</b>
Capital WIP	85.3	118.5	219.4	0.0	0.0
Deferred Tax Asset	1,168.8	1,419.2	1,761.2	1,761.2	1,761.2
Investments	1,514.9	974.9	5,127.9	6,127.9	7,327.9
<b>Current Assets</b>	<b>26,901.7</b>	<b>25,626.4</b>	<b>27,224.5</b>	<b>32,990.3</b>	<b>39,020.2</b>
Inventories	8.5	9.7	8.7	10.3	12.5
Sundry Debtors	3,090.1	3,258.8	3,278.5	4,418.2	5,622.8
Cash & Bank Balance	19,214.7	17,944.8	17,981.3	19,502.7	23,263.7
Loans & advances	2,205.7	1,853.6	2,575.2	3,390.7	4,123.4
Other Current assets	2,382.7	2,559.5	3,380.8	5,668.4	5,997.8
<b>Current Liabilities &amp; provisions</b>	<b>16,151.0</b>	<b>17,230.9</b>	<b>20,066.8</b>	<b>25,070.8</b>	<b>29,363.6</b>
Current Liabilities	12,961.5	14,036.5	15,452.4	19,008.6	21,866.5
Provisions	3,189.6	3,194.4	4,614.3	6,062.2	7,497.1
<b>Net Current Assets</b>	<b>10,750.6</b>	<b>8,395.5</b>	<b>7,157.7</b>	<b>7,919.5</b>	<b>9,656.6</b>
Other Assets	2.5	0.6	0.1	0.0	0.0
<b>Total assets</b>	<b>14,104.5</b>	<b>11,542.2</b>	<b>14,898.7</b>	<b>18,024.5</b>	<b>22,249.1</b>

## Cash Flow

Y E March (Rs m)	2009A	2010A	2011A	2012E	2013E
PBT	5,326.5	6,709.1	8,042.4	10,122.2	12,222.1
Depreciation	110.0	131.0	149.3	166.5	179.9
Interest on dep/ adv.	(1,474.5)	(1,531.2)	(1,264.9)	(1,484.0)	(1,760.0)
Other non cash charges	(29.7)	(195.1)	(20.1)	(30.0)	(30.0)
Changes in working capital	4,201.3	867.0	333.1	(324.4)	1,229.2
Tax	2,158.6	2,383.3	2,710.0	3,384.9	4,087.1
Prior period adj.	(0.9)	(8.2)	(58.4)	0.0	0.0
<b>Cash flow from operations</b>	<b>5,974.1</b>	<b>3,589.4</b>	<b>4,471.3</b>	<b>5,065.3</b>	<b>7,754.1</b>
Capital expenditure	(194.0)	(183.9)	(152.3)	(1,715.0)	(1,429.3)
<b>Free Cash Flow</b>	<b>6,168.1</b>	<b>3,773.2</b>	<b>4,623.6</b>	<b>6,780.3</b>	<b>9,183.5</b>
Inc/Dec. in Investments	(49.7)	540.0	(4,154.0)	(1,000.0)	(1,200.0)
<b>Cash flow from investments</b>	<b>1,295.4</b>	<b>2,070.4</b>	<b>(3,087.6)</b>	<b>(981.6)</b>	<b>(839.3)</b>
Equity capital raised	0.0	0.0	0.0	0.0	0.0
Dividend paid (incl tax)	(757.7)	(6,929.6)	(1,347.3)	(2,562.4)	(3,153.7)
<b>Cash flow from Financing</b>	<b>(757.7)</b>	<b>(6,929.6)</b>	<b>(1,347.3)</b>	<b>(2,562.4)</b>	<b>(3,153.7)</b>
<b>Net change in cash</b>	<b>6,511.8</b>	<b>(1,269.8)</b>	<b>36.5</b>	<b>1,521.4</b>	<b>3,761.1</b>
<b>Cash at the beginning of the year</b>	<b>12,702.9</b>	<b>19,214.7</b>	<b>17,944.8</b>	<b>17,981.3</b>	<b>19,502.7</b>
<b>Cash at the end of the year</b>	<b>19,214.7</b>	<b>335.7</b>	<b>17,981.3</b>	<b>19,502.7</b>	<b>23,263.7</b>

## Key ratios

Y E March	2009A	2010A	2011A	2012E	2013E
EPS (Rs)	10.4	13.4	15.8	19.9	24.1
Cash EPS (Rs)	17.7	10.7	13.3	15.0	23.0
DPS (Rs)	3.1	17.7	5.0	6.5	8.0
BVPS	41.9	34.3	44.2	53.5	66.0
ROCE	22.8%	44.3%	44.3%	46.8%	45.9%
ROE	24.9%	39.0%	35.7%	37.3%	36.5%
RoIC	16.3%	-21.4%	22.5%	23.1%	22.3%
EBITDA Margin %	20.8%	25.4%	24.6%	22.8%	22.7%
Net Margin %	22.6%	22.4%	19.8%	18.2%	18.0%
PER (x)	22.6x	17.6x	14.9x	11.8x	9.8x
P/BV (x)	5.6x	6.9x	5.3x	4.4x	3.6x
P/CEPS (x)	13.3x	22.1x	17.8x	15.7x	10.2x
EV/EBITDA (x)	18.2x	11.8x	8.5x	6.4x	4.8x
Dividend Yield %	1.3%	7.5%	2.1%	2.8%	3.4%
M-Cap/Sales (x)	5.1x	3.9x	3.0x	2.1x	1.8x
Net Debt/Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Net Debt/EBITDA (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Source: Company Filings; IndiaNivesh Research



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