

C.M.P:
Rs.327.25

Target Price:
Rs.386.00

December 09th, 2010

1 Year Comparative Graph



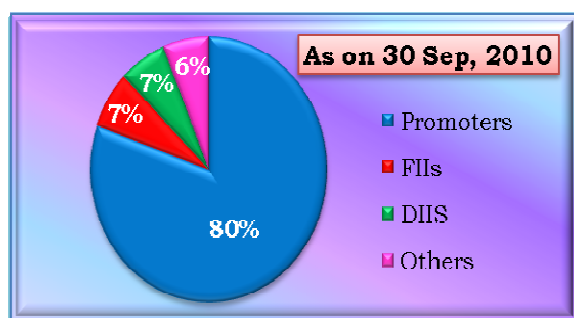
Engineers Ind

BSE SENSEX

Stock Data

Sector	Capital Goods & Engg
Face Value (Rs.)	5.00
52 wk. High/Low (Rs.)	538.00/222.14
Volume (2 wk. Avg.)	40000
BSE Code	532178
Market Cap (Rs.mn.)	110262.31

Share Holding Pattern



V.S.R. Sastry
Equity Research Desk
vsrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.
Chief Research Officer
drsastry@firstcallindia.com

SYNOPSIS

- Engineers India Limited provides engineering and related technical services for petroleum refineries and other industrial projects primarily in India.
- The company has broadened its activities in other areas such as pipelines, petrochemicals, oil and gas processing, offshore structures and platforms, fertilizers, metallurgy and power.
- EIL has set up 50:50 joint venture companies with Tata Projects viz., TEIL Projects for undertaking EPC projects for hydrocarbon, power and other sectors has already been incorporated.
- It received "Certificate of Recognition" from Hindalco as mark of recognition on achieving a landmark of 1.16 million accident-free man-hours at Muri Alumina Brownfield Expansion Project.
- The company's net sales and net profit are expected to grow at a CAGR of 25% and 18% over FY09 to FY12E.

Financials

(Rs. in mn.)	FY10	FY11E	FY12E
Net Sales	19937.97	24723.08	29667.70
EBIDTA	6746.74	7662.85	8878.21
PAT	4355.75	4920.26	5706.43
EPS	77.57	14.60	16.94
P/E	4.22	22.41	19.32

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Peer Group Comparison

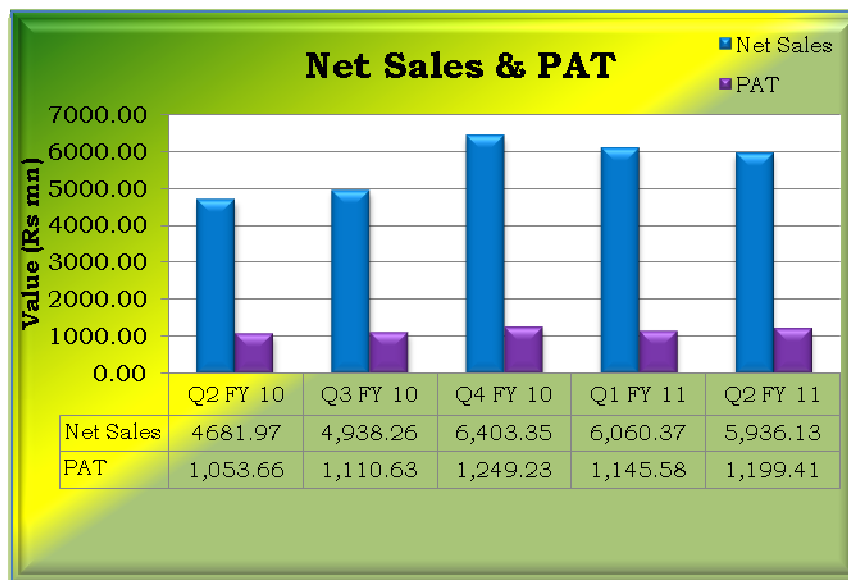
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Engineers India Ltd	327.25	110262.31	77.57	4.22	1.65	1060.00
Veritas India	372.25	9012.20	0.62	600.40	275.74	0.00
Artefact Proj	59.00	293.70	3.52	16.76	1.73	7.50

*As on 09/12/2010

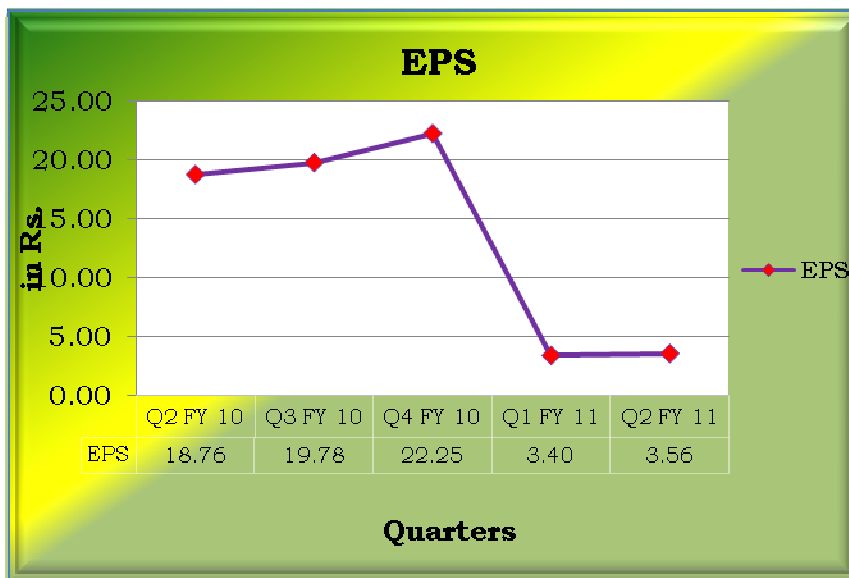
Investment Highlights

■ Results Updates (Q2 FY11) (Standalone)

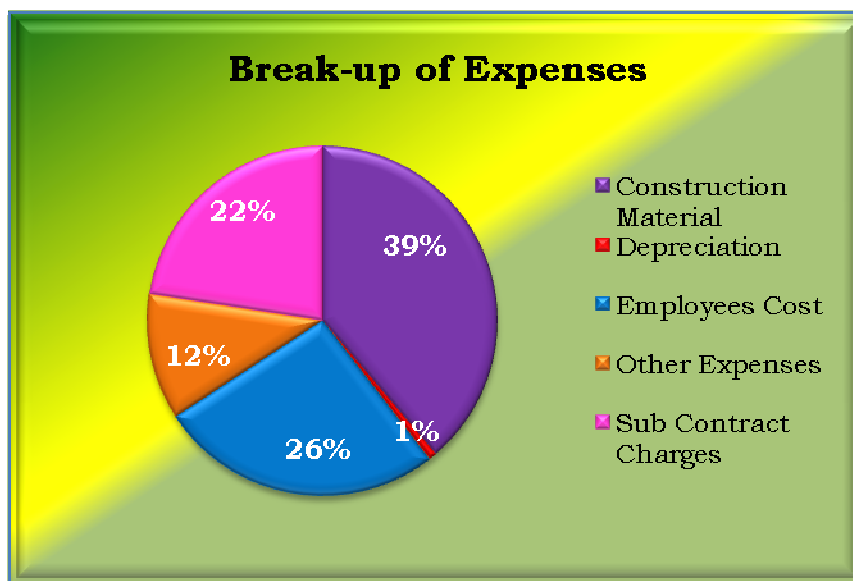
For the Second quarter, the top line of the company increased 27%YoY and stood at Rs.5936.13mn against Rs.4681.97mn of the same period of the last year. The bottom line of the company for the quarter stood at Rs.1199.41mn from Rs.1053.66mn of the corresponding period of the previous year i.e. an increase of 14%YoY.



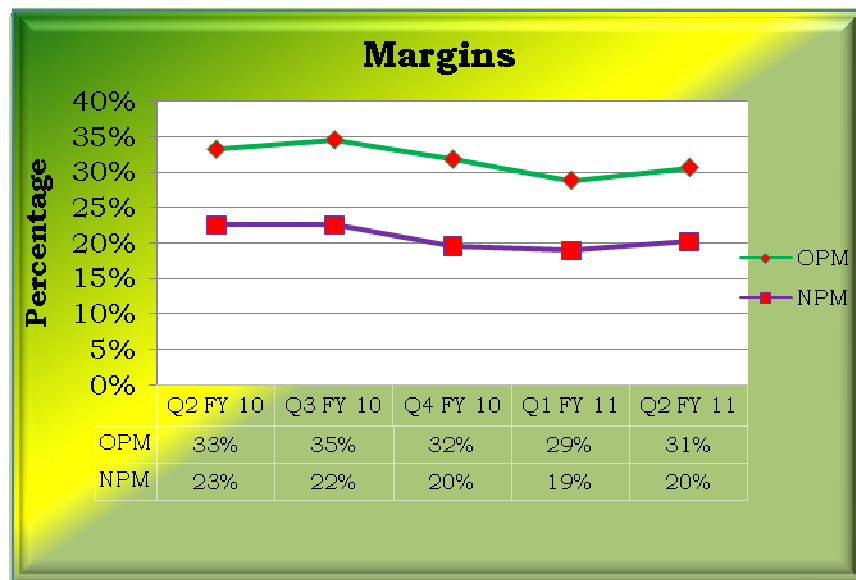
EPS of the company for the quarter stood at Rs.3.56 for equity share of Rs.5.00 each.



Expenditure for the quarter stood at Rs.4468.98mn, which is around 20% higher than the corresponding period of the previous year. Construction material cost of the company for the quarter accounts for 29% of the sales of the company and stood at Rs.1747.06mn from Rs.1188.47mn of the corresponding period of the previous year i.e., an increase of 47%YoY. Employ Cost increased 49%YoY to Rs.1181.30mn from Rs.794.35mn and accounts for 20% of the revenue of the company for the quarter.



OPM and NPM for the quarter stood at 31% and 20% respectively from 33% and 23% respectively of the same period of the last year.



Company Profile

Engineers India (EIL), incorporated in 1965, is engaged in the business of providing engineering and related technical services for petroleum refineries and other industrial projects. The company has broadened its activities in other areas such as pipelines, petrochemicals, oil and gas processing, offshore structures and platforms, fertilizers, metallurgy and power.

EIL has emerged as Asia's leading design and engineering company that offers complete range of project services. In order to offer its services, EIL has explored new areas such as highways and bridges, IT, airports, mass rapid transport systems, ports and terminals, power projects, non-conventional / renewable energy sources, specialist materials and maintenance services, intelligent buildings, water and urban development projects.

The company has received ISO 9001:2000 certifications for quality management. Headquartered in New Delhi, company has branches offices located at Mumbai, Kolkata, Chennai and Vadodara. Internationally company's offices are located at London, Abu Dhabi, Kuwait, Qatar, Malaysia and Australia.

EIL operates a wholly-owned subsidiary namely, EIL Asia Pacific Sdn Bhd in Malaysia and Certification Engineers International that is engaged in the business of undertaking independent certification and third party inspection assignments.

The company has formed strategic alliances with various companies such as UK-based VAI Industries for iron and steel plants; Deutsche Montan Technologies GmbH of Germany for coke oven-by product plants/gas cleaning systems; IOCL (R&D) for technology and catalyst for DHT and hydrotreater projects in India; GAIL India for overseas projects in LPG extraction and Pipeline transfer and many more.

EIL has set up 50:50 joint venture company with Tata Projects viz., TEIL Projects for undertaking EPC projects for hydrocarbon, power and other sectors has already been incorporated. For executing EPC projects in UAE, the company has formed a JV with Tecnimont S.p.A., Italy.

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY09	FY10	FY11E	FY12E
Description	12m	12m	12m	12m
Net Sales	15324.63	19937.97	24723.08	29667.70
Other Income	2215.25	1836.71	1432.63	1461.29
Total Income	17539.88	21774.68	26155.72	31128.99
Expenditure	-12224.62	-15027.94	-18492.87	-22250.77
Operating Profit	5315.26	6746.74	7662.85	8878.21
Interest	-2.48	-12.91	-12.92	-14.22
Gross Profit	5312.78	6733.83	7649.93	8864.00
Depreciation	-108.10	-129.05	-138.08	-151.89
Profit Before Tax	5204.68	6604.78	7511.84	8712.10
Tax	-1759.34	-2249.03	-2591.59	-3005.68
Net Profit	3445.34	4355.75	4920.26	5706.43
Equity Capital	561.56	561.56	1684.68	1684.68
Reserves	13191.80	10585.50	15505.76	21212.19
Face Value (Rs)	10.00	10.00	5.00	5.00
Total No. of Shares	56.16	56.16	336.94	336.94
EPS	61.35	77.57	14.60	16.94

Quarterly Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10E
Description	3m	3m	3m	3m
Net Sales	6403.35	6060.37	5936.13	6232.94
Other income	372.88	289.71	348.64	376.53
Total Income	6776.23	6350.08	6284.77	6609.47
Expenditure	-4742.86	-4606.79	-4468.98	-4662.24
Operating Profit	2033.37	1743.29	1815.79	1947.23
Interest	-11.20	-0.01	-0.02	-0.02
Gross Profit	2022.17	1743.28	1815.77	1947.21
Depreciation	-41.60	-28.15	-32.86	-34.83
Profit Before Tax	1980.57	1715.13	1782.91	1912.38
Tax	-731.34	-569.55	-583.50	-652.12
Net Profit	1249.23	1145.58	1199.41	1260.26
Equity capital	561.56	1684.68	1684.68	1684.68
Face Value (Rs)	10.00	5.00	5.00	5.00
Total No. of Shares	56.16	336.94	336.94	336.94
EPS	22.25	3.40	3.56	3.74



Firstcall Research

(KPO Division Of Firstsubject Technologies Ltd.)

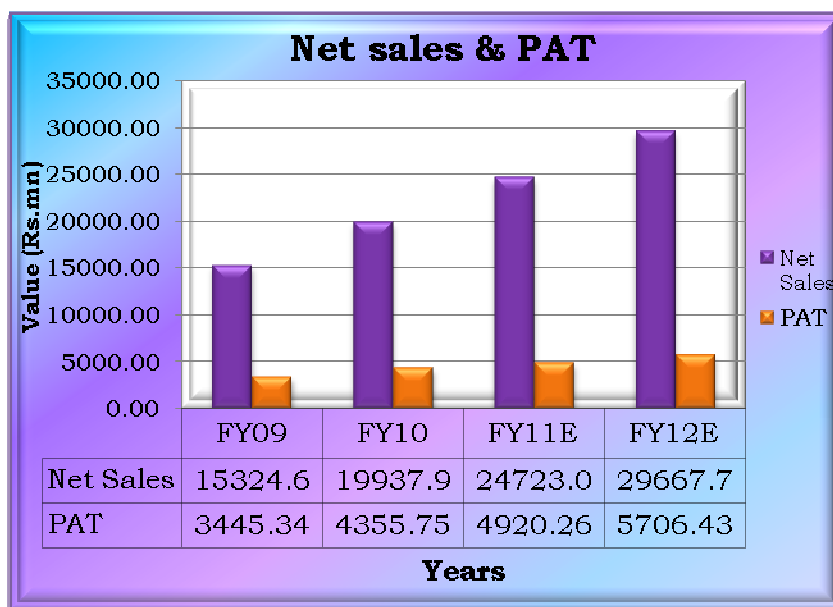
Key Ratio

Particulars	FY09 A	FY10 A	FY11 E	FY12 E
EBIDTA %	35%	34%	31%	30%
PAT %	22%	22%	20%	19%
P/E ratio (x)	5.33	4.22	22.41	19.32
ROE - %	26%	46%	29%	25%
ROCE - %	40%	69%	44%	38%
EV/EBIDITA (x)	14.84	2.72	14.39	15.52
Price/Book Value	1.72	1.65	6.41	4.82

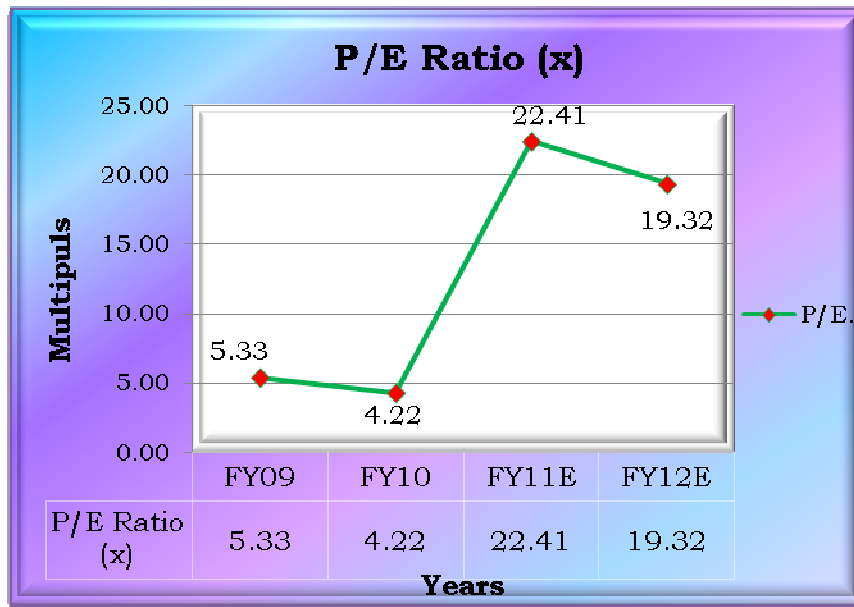
A-Actual E-Expected

Charts:

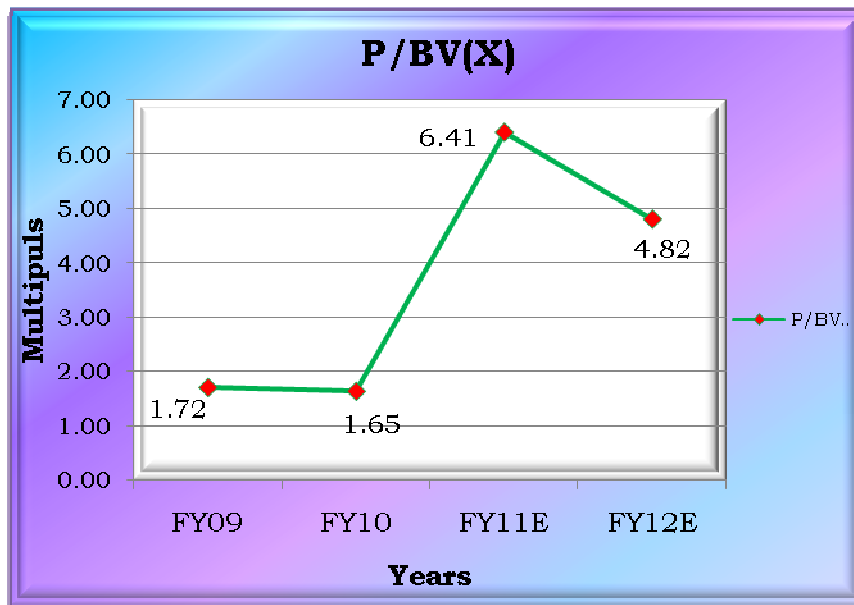
■ Net sales & PAT



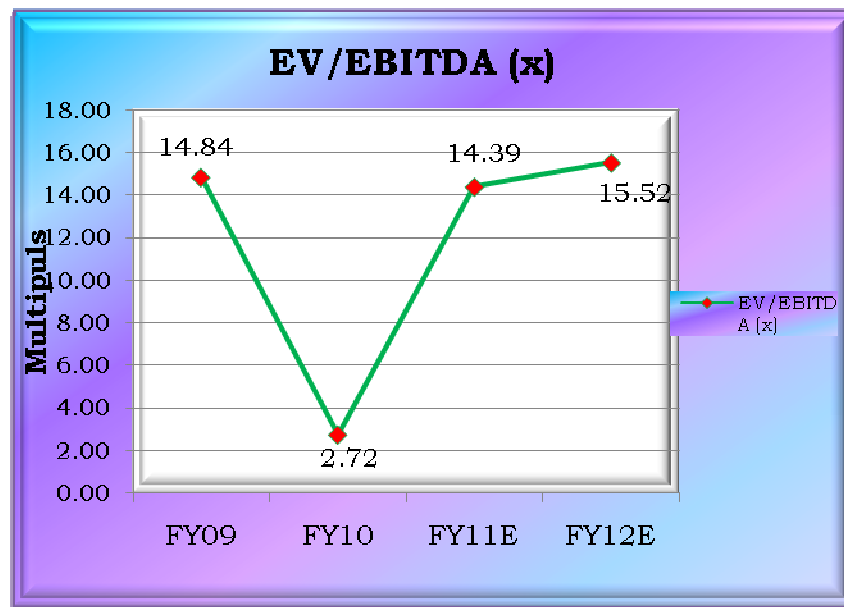
▣ P/E Ratio (x)



▣ P/BV (X)



■ EV/EBITDA(X)

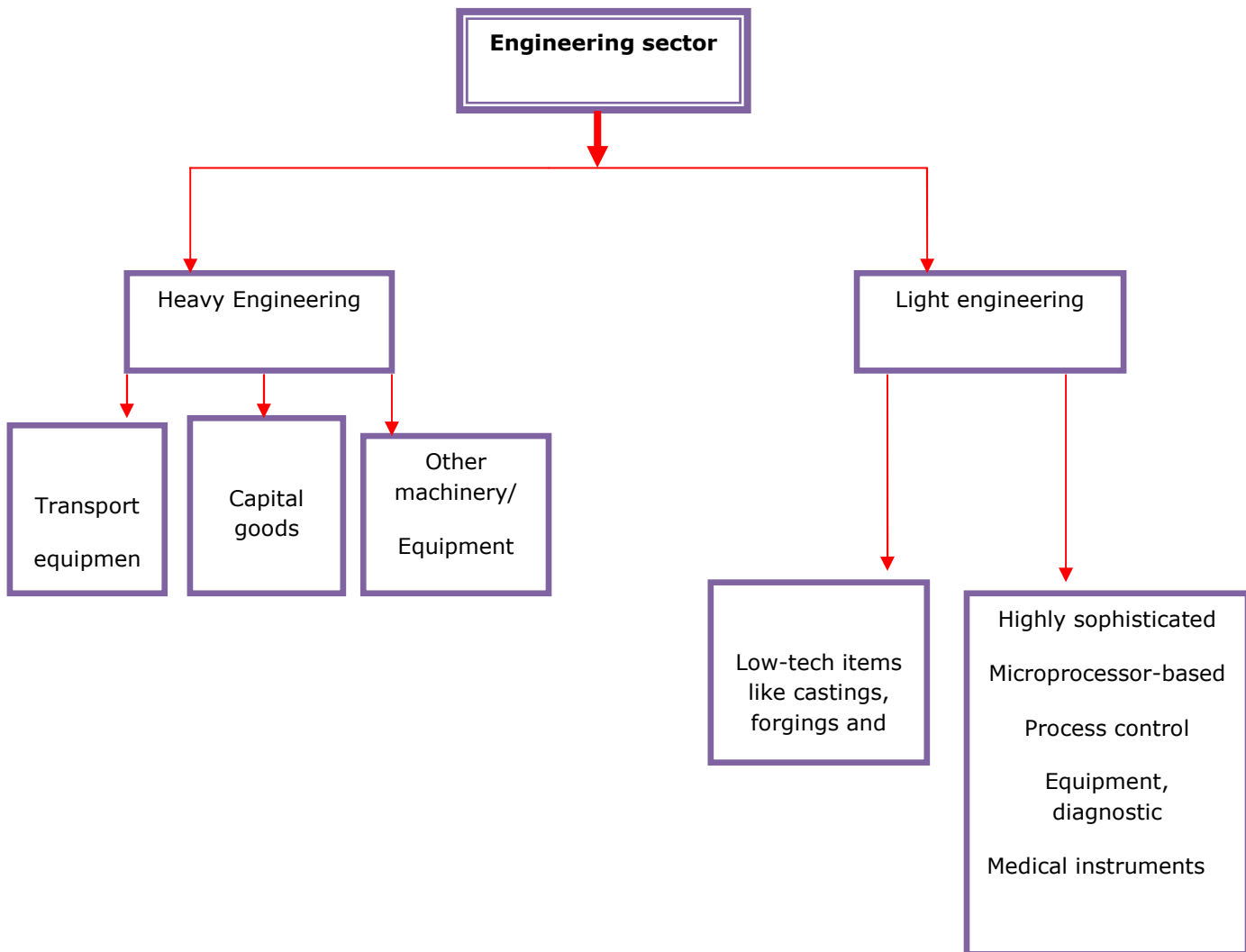


Outlook and Conclusion

- At the market price of Rs.327.25, the stock is trading at 22.41 x and 19.32 x for FY11E and FY12E respectively.
- On the basis of EV/EBDITA, the stock trades at 14.39 x for FY11E and 15.52 x for FY12E.
- Price to book value of the company is expected to be at 6.41 x for FY11E and 4.82 x for FY12E respectively.
- EPS of the company is expected to be at Rs.14.60 and Rs.16.94 for the earnings of FY11E and FY12E respectively.
- The company's net sales and net profit are expected to grow at a CAGR of 25% and 18% over FY09 to FY12E.
- We recommend **'BUY'** in this particular scrip with a target price of Rs.**386.00** for Medium to Long term investment.

Industry Overview

Engineering Sector: Market & Opportunities



India's engineering industry is highly competitive with a number of players in each segment. The engineering sector has been growing, driven by growth in end user industries and the new projects being taken up in the power, railways, infrastructure development, and private sector investments fields amongst others. The industry attracted FDI inflows of US\$ 1,196.7 million from August 1991-July 2006

India's exports of engineering goods are valued at US\$ 27 billion during 2006-07 which represents a 6 per cent growth over the exports for 2005-06 (US\$ 20 billion).

The engineering sector accounted for 14 per cent of the country's total exports. It is also noteworthy that 40 per cent of India's engineering export is from the small and medium enterprises (SME) sector. According to Engineering Exports Promotion Council (EEPC), engineering exports could touch US\$ 30 billion by 2008-09. In such a scenario, India, driven by the engineering sector, will emerge as a key global manufacturing hub

Industry demand is driven by investments in core sectors

The demand from this sector depends largely on GDP growth, which in turn is a function of expenditure in core segments like power, railways, and infrastructure development, private sector investments, and the speed at which projects are implemented. The power sector is the largest contributor to the revenues of engineering companies. Engineering majors like Bharat Heavy Electricals Limited (BHEL) and ABB Limited derive a significant chunk of their revenues (69 per cent and 60 per cent, respectively) through the supply of equipment to the power sector.

Infrastructure is another key area of operation. Larsen & Toubro Limited, for example, garners around 35 per cent of its sales from infrastructure activities like engineering, design and construction of industrial projects, social and physical projects like housing, hospitals, information technology (IT) parks, expressways, bridges, ports, and water/effluent treatment projects. The industrial segment contributes to around 30 per cent of the total revenues of the engineering sector. While India's engineering industry has capabilities in manufacturing the range of machinery required by the different user sectors, the rapid rise in demand has led to a large part of the machinery requirements being met through imports. This indicates the size of opportunity for investment in the engineering and capital goods sector in India. The engineering industry has attracted FDI inflows of US\$ 1,196.73 million from August 1991-July 2006.

Indian Engineering goods are gaining acceptance in overseas markets

India's exports of engineering goods are valued at US\$ 27 billion during 2006-07 which represents a 36 per cent growth over the exports for 2005-06 US\$ 20 billion). The engineering sector accounted for 14 per cent of the country's total exports. It is also noteworthy that 40 per cent of India's engineering export is from the small and

medium enterprises (SME) sector. A key driver for increased engineering exports is the trend towards shifting of global manufacturing bases to countries like India that offer lower costs and good engineering talent. This trend is expected to continue and boost exports of engineering goods from India over the next 5 years. According to Engineering Exports Promotion Council (EEPC), engineering exports could touch US\$ 30 billion by 2008-09. In such a scenario, India, driven by the engineering sector, will emerge as a key global manufacturing hub.

The nature of Indian engineering exports is also changing with time. India is fast moving from exporting low value goods to developing countries to more sophisticated goods targeted at developed countries. Capital goods account for 27 per cent of total engineering exports. Exports to European Union countries and North America accounted for 19 per cent and 17 per cent respectively, of total engineering exports in 2005-06. Engineering goods worth US\$ 3.34 billion were exported to USA alone in April – Feb 2006-07

Growing Demand

Capacity creation and transformation in sectors such as infrastructure, power, mining, oil & gas, refinery, steel, automotive, consumer durables are driving growth in the engineering industry. The framework below captures some of the key factors that are contributing to domestic and international demand for engineering goods from India. Restructuring of the state electricity boards in different states, growth of private sector players and focus on capacity creation have driven growth in the power sector.

Conclusion

The Engineering sector's future outlook is promising. Drivers like power projects, other infrastructure development activities, industrial growth and favorable policy regulations will drive growth in manufacturing. The Indian engineering industry has been witnessing significant level of capability enhancement over the years. As export markets open up, this will help India develop a strong presence in global engineering exports. Power sector contributes the largest to the engineering companies' revenues. Major players in this sector like ABB and BHEL derive 60 per cent and 69 per cent of their revenues from supplying equipments to the power sector. Going forward, with the Government clearing the blueprint for adding 100,000 MW in the tenth (2002-07)

and eleventh 2007-12) five-year plans, the potential are high for the engineering majors. Emerging trends such as outsourcing of engineering services can provide new opportunities for quantum growth. Engineering and design services such as new product designing, product improvement, maintenance and designing manufacturing systems are increasingly getting outsourced to countries like India and China. India's engineering sector has significant potential for future growth, in manufacturing as well as services.

With development in associated sectors like automotive, one of the largest evolving markets for engineering and industrial goods, and a well developed technical human resources pool, India is poised to make significant strides in all segments of engineering.

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For Further Details Contact:

3rd Floor, Sankalp, The Bureau, Dr.R.C.Marg, Chembur, Mumbai 400 071

Tel.: 022-2527 2510/2527 6077/25276089 Telefax: 022-25276089

E-mail: info@firstcallindiaequity.com

www.firstcallindiaequity.com