

Index	Closing	Chg	Chg (%)
Sensex	16232.5	-221.2	-1.3%
Nifty	4888.1	-55.2	-1.1%
Auto	8487.8	-10.6	-0.1%
Bankex	10347.8	-502.9	-4.6%
Cap Goods	10822.7	79.8	0.7%
Cons Durables	6346.0	-15.4	-0.2%
FMCG	3900.2	-10.2	-0.3%
Healthcare	5844.9	-22.9	-0.4%
IT	5241.3	-33.9	-0.6%
Metal	10910.3	-85.3	-0.8%
Oil & Gas	8451.0	-43.4	-0.5%
Power	2101.1	-24.3	-1.1%
Realty	1736.0	-27.0	-1.5%
World Index	Closing	Chg	Chg (%)
Dow	11123.3	-30.6	-0.3%
Nasdaq	2506.8	26.1	1.1%
Hang Seng	17707.0	114.6	0.7%
Nikkei	8605.6	-94.7	-1.1%
FTSE 100	5268.2	139.7	2.7%
Brazil	52290.4	-1094.3	-2.0%
Russia	1293.3	-47.8	-3.6%
Mexico	33279.7	-406.4	-1.2%
Singapore Strait	2640.3	-34.9	-1.3%
* As on Friday 4 pm			
Top Gainers	Closing	Chg (₹)	Chg (%)
Sun TV Network Ltd.	232.2	261.5	15.5%
Educomp Solutions	238.4	254.8	13.8%
Reliance Power L	76.8	81.1	7.2%
IDFC	110.6	116.3	11.2%
Reliance Infrastruct	373.6	390.5	491.5%
* As on 7th Oct'11			
Top Losers	Closing	Chg (₹)	Chg (%)
Shipping Corpn.	83.0	69.0	11.6%
SKS Microfinance	246.0	212.3	81.9%
Adani Enterprises Lt	526.4	462.5	733.5%
Jain Irrigation	152.6	135.4	91.0%
Jubilant Foodworks L	793.5	704.9	412.3%
* As on 7th OCT'11			
Metal	Closing	Chg	Chg (%)
Gold (\$/oz)	1655.5	31.5	1.9%
Silver (\$/oz)	32.0	2.1	6.9%
Aluminium (\$/MT)*	2195.0	-19.3	-0.9%
Copper (\$/MT)*	7208.3	-2.0	0.0%
Lead (\$/MT)*	1943.8	-94.8	-4.6%
Zinc (\$/MT)*	1846.8	-56.8	-3.0%
* As on Thursday			
Date	DII (Cash)	FII (Cash)	FII (FO)
3-Oct-11	-233.0	-310.3	1327.8
4-Oct-11	-95.2	-782.4	972.0
5-Oct-11	NA	-966.1	-525.4
6-Oct-11	HD	HD	HD
7-Oct-11	NA	-969.3	-463.2
# NA - Not Available HD - Holiday			
ADR's	Closing	*Chg (\$)	Chg (%)
Infosys	52.7	0.9	1.7%
ICICI Bank	33.6	-3.2	-8.8%
HDFC Bank	30.0	-0.7	-2.2%
Tata Motors	15.8	-0.3	-1.8%
Wipro	9.3	-0.3	-3.1%
* As on Thursday			

SNAP SHOT

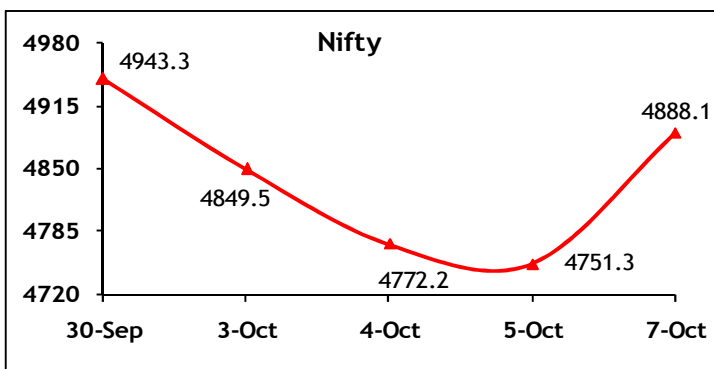
During the week ended 7th Oct'11, key benchmark indices surged, snapping a four-day losing streak, as Indian shares played a catch up with a rally in world stocks. World stocks had surged driven by continued hopes Europe will recapitalize its banks to tame euro-zone debt crisis.

India's food price index rose 9.41% and the fuel price index climbed 14.69% in the year to Sept 24th 2011. In the previous week, the fuel price index had risen by the same margin, while annual food inflation had stood at 9.13%. The primary articles index was up 10.84%, compared with an annual rise of 11.43% a week earlier.

The vital earnings season begins next week and Infosys kick-starts the 2Q12E earnings season on 12 Oct'11. Analysts expect Infosys to raise its earnings and revenue guidance in rupee terms for the FY12E following a steep decline in rupee against the dollar recently. A weak rupee boosts revenue of IT firms in rupee terms as the IT sector derives a lion's share of revenue from exports.

Telecom stocks will be focus next week as telecom minister Kapil Sibal will unveil a draft of the government's new national telecommunications policy on 10th Oct'11. The new telecom policy is being prepared at a time when there is confusion in the industry over issues on licensing, spectrum allocation, tariffs and pricing. The policy is expected to address rules on sharing and trading of bandwidth, mergers and acquisitions, and mobile virtual network operators. To ensure transparency, the draft telecommunications policy will be posted on the telecommunications department's website for public comments.

Data on industrial production for August 2011 due on 12 Oct'11 and that on wholesale price index for Sept'11 due on 14 Oct'11 could provide cues on the Reserve Bank of India's likely monetary policy stance at the half-yearly review of the monetary policy on 25 October 2011.



Global Economic Update

United States:

⇒ US Mortgage Bankers Association's index decreased by 4.3% for the week ended September 30, 2011 compared

GDR's	Closing	Chg (\$)	Chg (%)
RIL	30.7	-4.3	-12.2%
SBI	82.1	-6.6	-7.4%
L&T	28.8	-4.5	-13.6%
Banking Data			
	05-Jul-11	Chg	Chg (%)
	(₹ Cr)	(₹ Cr)	
Credit Growth	4014556	-71770	-1.8%
Deposit Growth	5417244	-71438	-1.3%
Economic Calendar			
Date	Economic Data	Previous	
UNITED STATES			
12-Oct	MBA Mortgage Applications	-4.30%	
13-Oct	Trade Balance	-\$44.8B	
13-Oct	Initial Jobless Claim	401K	
13-Oct	Continuing Claims	3700K	
14-Oct	Retail Sales Less Autos	0.10%	
UNITED KINGDOM			
11-Oct	Industrial Production (YoY)	-0.70%	
12-Oct	Jobless Claims Change	24.5K	
GERMANY			
10-Oct	Trade Balance	10.4B	
13-Oct	Consumer Price Index (YoY)	2.60%	
JAPAN			
12-Oct	Machine Orders YOY%	4.00%	
14-Oct	Japan Buying Foreign Stock	¥132.9B	

to prior week rise of 9.3%. The group's refinancing gauge was down by 5.2% and purchases index decreased by 0.8% for the same period.

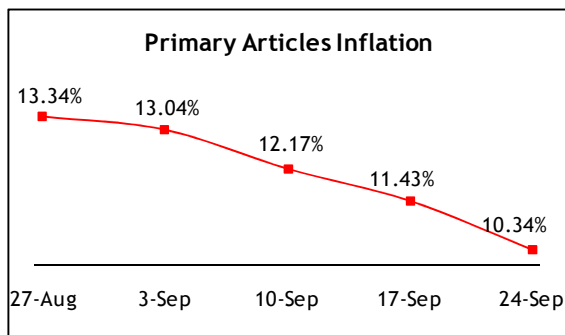
- ⇒ US vehicle sales stood at 13.04 million for the month of September against 12.10 million recorded in month of August a rise of 7.7% on MoM basis .
- ⇒ Initial Jobless Claims increased by 6,000 to 401,000 from earlier week revised figure of 395,000 for the week ended October 1, 2011.
- ⇒ Continuing Claims decreased by 52,000 to 3.700 million for week ended Sep 17, 2011 from earlier revised claims of 3.752 million of previous week.
- ⇒ US orders for capital equipment increased in August by the most in three months. Index climbed 0.9% the most since May.

U.K. & Europe:

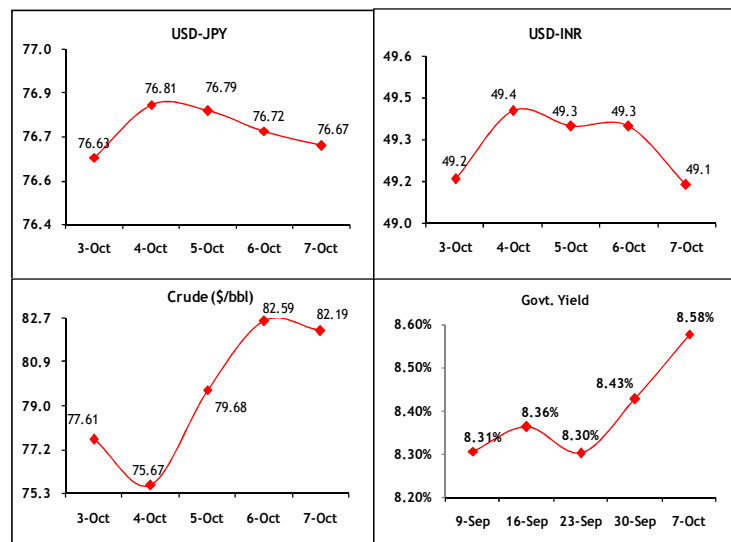
- ⇒ Bank of England (BOE) kept its target rate unchanged at 0.5% for the month of October.
- ⇒ Germany's Factory orders rose 3.90% on a YoY basis but dropped 1.40% on a MoM basis for the month of August.
- ⇒ Germany construction activity rose in the month of September. The Index rose to 50.5 compared to 49.8 in August.

Asia:

- ⇒ Japanese Investors were net buyers of foreign bonds and securities during the week ended Sep 30 having net purchase of 1065.5 billion Yen.
- ⇒ Japan Vehicle Sales rose 1.70% on a YoY Basis for the month of September against 25.50% drop in the month of August .



CURRENCY, CRUDE & G-SEC



ENGINEERS INDIA LTD (EIL)

CMP (07/10/11): ₹248.80 **Rec: BUY** **Target: ₹304.50** **Upside: 22.4%**

Eq. Capital (FV ₹5): ₹168.47 Crs
 Market Cap: ₹8,383 Crs
 Shareholding: Promoters- 80.4%, FII-6.26%, Public & Others-4.70%, FIs & MFs-8.34%
 52-w H/L: ₹366.80/242.90

COMPANY BACKGROUND

Engineers India Ltd (EIL) is a project implementation and engineering consultancy Company that provides complete range of engineering and technical services in the fields of Petroleum Refining, Petrochemicals, Pipelines, Onshore and Offshore Oil & Gas, Mining & Metallurgy, Power/Nuclear Power, Terminals & Storages and Infrastructure.

EIL has ample experience and has serviced more than 49 refinery projects, 7 petrochemical complexes, 35 oil and gas processing projects, 205 offshore platform projects, 37 pipeline projects, 11 ports and storage and terminals projects, 8 fertilizer projects and 26 mining and metallurgy projects etc.

EIL has been associated with almost all the refineries and petrochemical plants in the country, either by way of providing engineering consultancy or as EPC (engineering, procurement and construction) contractor.

BUSINESS SEGMENTS & REVENUE MIX

The company operates in 2 segments: (1) Consultancy & Engineering (2) Lumpsum Turnkey Projects (LSTK).

Segments - ₹ Crs	FY08	FY09	FY10	FY11
Consultancy & Engineering	84.2%	53.8%	52.9%	40.0%
Lumpsum Turnkey Projects	15.8%	46.2%	47.1%	60.0%

Source: Company, LMSPL Research

Projects on which company provides engineering consultancy, project management and implementation services are included in the **Consultancy and Engineering (C&E)** segment.

Projects that are undertaken on a turnkey basis are included in **Lumpsum Turnkey Projects (LTP)** segment.

INVESTMENT POSITIVES

→ Unique play on the technology and engineering segments in lucrative Hydrocarbon industry

EIL is a play on the technology and engineering segments in the Oil & Gas and other infrastructure industries. The company's presence in the lucrative hydrocarbon industry spanning commissioning of refinery and petrochemical units, consultancy services for offshore and onshore oil and gas and laying of pipelines have provided it a market leadership in the local arena. Besides, it has emerged as a sound competitor for overseas projects.

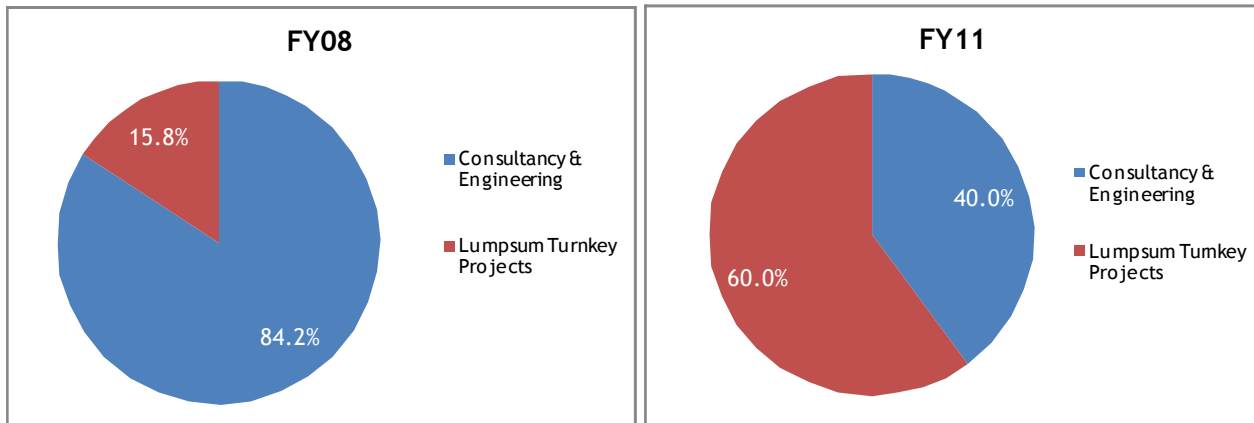
This has led to the company enjoying high EBITDA margins hovering over 20% (FY09:20.2%, FY10:24.6% and FY11: 22.7%); such profitability is uncommon in the infrastructure space. With hardly any peers with similar skill sets in the domestic arena, EIL can be expected to be a beneficiary of up-gradation and capacity additions in the refinery space.

→ Successful execution track record

The company has leveraged its track record in India to successfully expand its operations globally, and have provided an extensive range of engineering consultancy services on various international projects, particularly in the Middle East, North Africa and South East Asia. It has established strategic international offices in Abu Dhabi, London, Milan and Shanghai to expand its global operations.

→ Changing business mix provides a wider universe and larger opportunity

EIL is known to have lumpy revenues across quarters as a result of its consultancy division accounting for a chunk of revenues compared with LSTK projects. In FY08, Consultancy & Engineering division accounted for as much as 84.2% of the revenues. This has now shrunk to 40% in FY11. There are both benefits and disadvantages to such a change in mix.



For one, consultancy jobs offer high margins in the range of 30-40%, this explains why the company has so far enjoyed superior operating margins. This shift towards EPC would mean a reduction in profit margins. EBITDA margins for FY11, in fact, fell 2% to 22.7% over a year ago.

On the positive side, focus on EPC projects provides a wider universe and larger opportunity for EIL to participate in projects that it was only advising earlier. It has also helped the company to diversify in infrastructure and water and waste management projects.

→ LSTK dominates the order book at ~64%:

The current order book (30th June 2011) stood at ₹67 bn, out of which ~36% is of Consultancy & Engineering segment order and balance from LSTK. Predominantly the order book is in the Refining sector and Petrochemical sector.

The management has guided that for FY12E, the order book composition is going to remain around current level, 35-40% of Consultancy & Engineering.

→ Further Diversification of product portfolio:

EIL has plans to diversify into water and waste management, city gas distribution, thermal and nuclear power, gas-based fertiliser projects, coal-to-liquid projects and steel plants. However, company's primary focus is now on the hydrocarbon sector and waste-water management. At present, it is working on a ₹1,800 Crs project with Delhi Jal Board.

EIL is also looking towards an entry into gas-based fertilizer units. EIL is also working with Wipro Technologies to develop energy efficient and management products.

→ Management Guidance & Growth plans:

- ✓ Identifying new markets such as Middle East, Africa, South East Asia and Latin America.
- ✓ Again started focusing on Fertilizer plant projects (Re-Entry), working on JP Associates' brown Field Fertilizer plant at Kanpur. Another plant in East Coast.
- ✓ Nuclear Power projects (BoP/Consulting only) promises very good growth in future. Govt. targeting 63000 MW by 2032 from currently at 4800MW.
- ✓ No plans to entry into Roads / Bridges segment, only interested in areas where Technology is involved.

- ✓ Seeing good growth traction in Water Waste management projects (Working on projects in Ludhiana & Bhillai)
- ✓ City Gas Distribution segment is a low margin business and EIL will only involved in Designed engineering works as of now.
- ✓ Order Inflow in FY12E expected at ₹4500 Crs (execution cycle 2-3 years)
- ✓ The company expects the EPC/LSTK segment to see very good growth rate in coming years and expects modest growth in Consultancy segment.
- ✓ EIL is L1 for projects aggregating to ₹7 bn.
- ✓ Expects PAT margin in FY12E to be around 20% (vs 18.6% in FY11)

→ A Debt Free Company with Strong Cash Flows

EIL has ZERO debt on its Balance Sheet and thus enjoys debt-free status. Moreover it has extremely strong cash position with cash per share of ₹53 as on FY11. EIL has consistently shared earnings with shareholders via good dividend distribution and has been consistent since last 19 years (FY'93). In FY10, EIL has paid ₹595.25 Crs as dividend which amounts to a dividend per share of ₹106. In FY11, it paid ₹168.5 Crs as Dividend amounting to ₹10 per share. EIL does not intend to raise debt in the immediate future.

KEY RISKS:

- Dependence on government / government controlled enterprises for business
- In the hydrocarbon sector, EIL competes against major US, European, Japanese and Korean engineering and construction companies including their regional operating entities.

VALUATION

At the CMP ₹248.80, the scrip trades at 12.3x FY'2012E EPS of ₹20.30. We recommend BUY on the stock with a price target of ₹304.50, an upside of 22.4% from the current levels over a period of 12 months.

Profit & Loss A/c - Consolidated - ₹ Crs	FY09	FY10	FY11
Net Sales	1,532.5	1,993.8	2,823.3
<i>Y-o-Y</i>		30.1%	41.6%
Total Expenditure	1,222.5	1,502.8	2,183.3
Employee Expenses	386.9	486.9	518.2
Other Expenses	835.5	1,015.9	1,665.1
EBITDA	310.0	491.0	639.9
<i>Margin</i>	20.2%	24.6%	22.7%
Depreciation	10.8	12.9	14.3
EBIT	299.2	478.1	625.6
Interest	0.3	1.3	1.5
Other Income	221.5	183.7	160.4
PBT	520.5	660.5	784.5
Tax	193.9	249.7	296.1
Fringe Benefit Tax	2.9	-	-
Deferred Tax	(20.8)	(24.8)	(34.1)
PAT	344.5	435.6	522.5
<i>Margin</i>	22.5%	21.8%	18.5%
EPS (₹)	10.23	12.93	15.51

Source: Company

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