



<b>Report Date</b>	January 25, 2008
<b>Company Name</b>	<b>Engineers India Limited (EIL)</b>
<b>Recommendation</b>	<b>BUY</b>

<b>CMP – Rs. 902/-</b>	<b>Target Price – Rs. 1500/-</b>	<b>Mkt. Cap. Rs. 5,065.63 crore</b>
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### **Investment Rationale**

- EIL, 90.4% owned by Government of India and Asia's leading design & engineering company, reported commendable performance for Q3 FY 2008. Net Sales grew @ 35.3 % to Rs. 177.4 crore led by 32.7% higher sales of Consultancy business of Rs. 149.1 crore, LSTK sales doubled to Rs. 28.35 crore. OPM% improved to 27.4%. Further aided by 26.8% higher other income of Rs. 28.82 crore, PBT rose up 34% to Rs. 75.25 crore. After accounting for higher tax rate of 33.2% (29%), PAT was up by 26% to Rs. 50.25 crore.
- For 9 months of FY 2008, sales were up by 21.2% to Rs. 494.9 crore. OPM% enhanced smartly to 26.4%. Other income soared up by 50.9% to Rs. 83.6 crore. Consequently, PBT surged by 41.1% to Rs. 206.5 crore and PAT by 37.3% to Rs. 137.9 crore.
- Company provides engineering services to players in industries such as refining, petrochemicals, offshore oil & gas, pipelines, fertilisers, power, ports & terminals and metallurgy. Its business can be classified under 2 heads – Project Management Consultancy (PMC) and LSTK (Lump Sum Turnkey Contracts). Its capability in high-end engineering comes from its highly qualified manpower, unparalleled experience, and focus on research & development. Government ownership favors EIL as a preferred service provider for the oil and gas companies, most of which are controlled by government.
- Capex in Hydrocarbon sector in India is going to be humungous - be it refineries, petrochemicals, pipeline etc. Most of the refineries are in process of upgradation to distillate low quality crude, to protect their margins in an environment where end product prices are controlled. EIL is undisputable leader in refinery sector for PMC business. In FY 2008, company got the highest value (for 3 years completion) consultancy contract under EPCM of Rs. 800 crore from HPCL's Guru Gobind Singh refinery project at Bhatinda. In new orders, scope of work has increased as licensor, procurement, design & engineering, etc. EIL is rapidly gaining visibility even in Abu Dhabi, Oman, Algeria and such other companies (of Rs. 2,000 crore order received in H1 FY 2008, 20% from overseas market are for PMC mainly from such countries).
- Leveraging its design, engineering and project management expertise, company has diversified into infrastructure sector (Airports and Urban Development), which will be a major growth driver going forward. During FY 2007, EIL has achieved significant breakthrough in aviation sector where it has been appointed as Owner's Engineers for Delhi and Mumbai airports. It has also bagged a contract to renovate Connaught Place Central area in Delhi.
- In LSTK business, company is now well placed to qualify for large value bids in India. EIL will be leveraging knowledge / designing / engineering base and project management skills in India & overseas thru JVs – 30:70 with Technimont, Italy for UAE (this JV will fructify in FY 2009) and with Tata Projects (50:50) to undertake EPC work in India & abroad (except UAE) in areas of Oil & gas, fertilizers, power, infrastructure, etc. This would enable company to bid and execute LSTK assignments (exceeding US \$ 500 million) overseas thus paving the way for new exciting and challenging prospects.
- EIL has an order book of Rs 5,500 crore executable over 3 years, providing strong revenue visibility. Management thus believes that due to robust outlook, strong order book and mainly JV companies with Tata Project and Technimont, there will be a step-change in the operations of the company.

### **Valuation**

- At CMP, share is trading at 22.7 times FY 2008 expected EPS of Rs. 39.7 and 15.9 times FY 2009 expected EPS of Rs.56.7. In view of excellent future prospects, we recommend to "BUY" the share at CMP

### **Financial Summary**

**Rs. Crore**

	<b>FY 2008</b>	<b>FY 2007</b>	<b>%</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>%</b>	<b>2007 A</b>
<b>Rs. Crore</b>	<b>Q3</b>		<b>Change</b>	<b>9 months</b>		<b>Change</b>	<b>12 mths</b>
Net Sales	177.45	131.17	35.3%	494.93	408.38	21.2%	571.08
Total Expenses	128.79	95.74	34.5%	364.47	311.29	17.1%	408.03
EBITDA	48.66	35.43	37.3%	130.46	97.09	34.4%	163.05
<b>EBITDA (%)</b>	<b>27.4%</b>	<b>27.0%</b>		<b>26.4%</b>	<b>23.8%</b>		<b>28.6%</b>
Interest Expenses / (Income)	-	-	N.A.	-	-	N.A.	0.07
Depreciation	2.23	2.00	11.5%	7.56	6.19	22.1%	8.29
Other Income	28.82	22.73	26.8%	83.63	55.42	50.9%	82.27
P.B.T. before Extra Ordinary Items	75.25	56.16	34.0%	206.53	146.32	41.1%	236.96
Extra Ordinary Income / (Exp.)	-	-	N.A.	-	-	N.A.	(32.32)
P.B.T. after Extra Ordinary Items	75.25	56.16	34.0%	206.53	146.32	41.1%	204.64
Net Profit	50.25	39.88	26.0%	137.92	100.47	37.3%	142.99
Equity Capital (Rs 10/-)	56.16	56.16		56.16	56.16		56.16
EPS for the period (Rs)	8.95	7.10	26.0%	24.56	17.89	37.3%	29.48

## **Disclosures**

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