Result Update

India Research

Engineers India Ltd.(EIL)

DOLAT CAPITAL

CMP: Rs 2136

Engineering / Unrated

EIL reported a strong YoY growth of 61% in the net profit for Q3FY10 in spite of ~7% YoY decline in the net revenue. The revenue de-growth was on account of ~20% YoY drop in the LSTK revenue which led to a drop in its share in the total revenue to 46.49%. The strong net profit growth was attributed to a whopping YoY EBIT margin expansion of 2106 bps to ~45.5% for the PMC business which has contributed 53.51% to the revenue for the quarter. The margin spurt was on account of improved productivity and has boosted the overall margins of the company. With healthy order book position of over Rs 68 billion (4.4x FY09 revenue), the company is all set to grow in the hydrocarbons space with Consultancy (PMC) still being its forte. We have revised the fair price to Rs 1088 per share (PMC-Rs 673 + LSTK-Rs 78+ Cash per share of FY09 – Rs 337) from Rs 1022 by assigning respective earning multiples to revised segmental Core EPS of FY11E (PMC 15x and LSTK 9x) and adding cash per share. We believe that the recent run up in the stock price is attributable to the announcement of divestment, special dividend and stock split.

Q3FY10 Result

Particulars - (Rs Mn)	Q3FY10	Q3FY09	Y-o-Y %	9MFY10	9MFY09	Y-o-Y %
Net Sales (Incl. Operating Income)	4938.3	5284.7	-6.6	13534.6	11249.1	20.3
Other Income	424.5	432.1	-1.8	1463.8	1150.3	27.3
Total Income	**5362.7**	**5716.8**	**-6.2**	**14998.5**	**12399.4**	**21.0**
Total Expenditure	**3658.0**	**4641.6**	**-21.2**	**10285.1**	**9535.9**	**7.9**
EBIDTA (Excl.OI)	**1280.3**	**643.1**	**99.1**	**3249.5**	**1713.2**	**89.7**
EBIDTA (Incl.OI)	**1704.7**	**1075.2**	**58.6**	**4713.4**	**2863.6**	**64.6**
Interest	0.0	0.0		1.7	0.0	
Depreciation	29.8	27.1	9.8	87.5	72.2	21.0
Tax	564.3	359.0	57.2	1517.7	934.2	62.5
Net Profit	**1110.6**	**689.1**	**61.2**	**3106.5**	**1857.1**	**67.3**
OPM %	25.9	12.2		24.0	15.2	
NPM %	22.5	13.0		23.0	16.5	

Result Analysis

- Engineers India (EIL) has posted ~7% YoY de-growth in the top line due to ~20% YoY drop in the LSTK revenue which accounted for ~46% of the total revenue for Q3FY10 However, the Consultancy (PMC) segment recorded a top line growth of 9% YoY and contributed ~54% to the revenue.
- The highlight and the surprising factor of the result is the margin expansion on EBIDTA level by 1375 bps mainly driven by the EBIT margin expansion in its PMC segment by 2106 bps. This segment has posted EBIT margin of ~46% as against ~25% in same period last fiscal. A YoY drop of 40% in material cost also contributed positively in expanding EBIDTA margin. EIL has reported a 25% YoY reduction in the employee cost for the quarter. This was due to higher base effect as there was one time provision of ~Rs 606 mn pursuant to proposed revision of ceiling on gratuity was made during Dec 08 quarter.
- This is the second quarter in the current fiscal where PMC segment reported EBIT margin in excess of 40%.
- Expanded EBIDTA margin and flat tax rate (~34%) coupled with marginal growth of ~10% in depreciation helped EIL to post 61% jump in the net profit with margin expansion by 945 bps to ~22%.
- EIL has for the first time introduced an interesting note to its accounts on LSTK business. It says that the margins for this segment do not accrue uniformly during the year. Hence, financial performance of the segment can be discerned only on the basis of the figures for the full year. We believe that the EBIT margin going forward will remain volatile on quarterly basis and expected to stabilize ~7.5% on annual basis.

Other Highlights

- **Order Book (OB) position:** EIL Rs 68 billion of OB (4.4x FY09 revenue) outstanding as of December 09. Of this pie, LSTK is 55% and is entirely from the hydrocarbon sector and the rest is from PMC segment. Out of this PMC OB, 6%-10% each is from the Infrastructure and Metallurgy sectors. Average execution period for the Order book is 36 -40 months.

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4 February 2010

- **Capital expenditure:** The Company plans to incur Rs 1.5 billion of capex for the construction of office buildings at Chennai and Mumbai over a period of next couple of years.
- **Interim Dividend:** EIL has declared interim dividend of Rs 6 per share.
- **Divestment, Special dividend and stock split:** Govt. of India (GOI) has already announced a special dividend of 1000%, 2:1 bonus issue and stock split in face value of Rs 5 per share from Rs 10 per share. GOI has decided to reduce its share in the company from ~90% to 80% through FPO in July 2010. The total outgo on account of special dividend would be Rs 6570 mn for all shareholders. GOI's share in the dividend including dividend distribution tax estimated at Rs 6031 mn. We estimate the total equity capital will be expanded to Rs 1684.7 mn from current Rs 561.6 mn post split and bonus issue.

Estimate Revision

Particulars	Revised		Old		% change	
Rs in Mn	**FY10E**	**FY11E**	**FY10E**	**FY11E**	**FY10E**	**FY11E**
Net Sales	19,232	24,692	21,066	30,669	-8.71	-19.49
EBIDTA	4,870	5,785	4,200	4,200	15.96	37.74
PAT	4,164	4,825	3,736	3,736	11.43	29.15
EPS	74.1	85.9	66.5	66.5	11.43	29.15
OPM (%)	25.3	23.4	17.1	16.3		
NPM (%)	21.6	19.5	15.4	12.8		
Segmental EBIT margins						
Consultancy (%)	39	37	30.8	30.8		
LSTK (%)	7	7.5	6	6		

Valuation

We have revised the fair price to Rs 1088 per share (PMC-Rs 673 + LSTK-Rs 78+ Cash per share of FY09 – Rs 337) from Rs 1022 by assigning respective earning multiples to revised segmental Core EPS of FY11E (PMC 15x and LSTK 9x) and adding cash per share.

Financials

Year	Net Sales	% growth	EBIDTA	OPM %	PAT	% Growth	EPS (Rs)	PER (x)	EV/EBIDTA (x)	RoANW (%)	RoACE (%)
FY08	7378	29.2	1727	23.4	1946	36.1	34.7	61.6	62.2	17.8	29.7
FY09	15325	107.7	3119	20.4	3445	77.0	61.4	34.8	32.4	27.3	45.2
FY10E	19232	25.5	4870	25.3	4164	20.8	74.1	28.8	20.3	27.0	44.7
FY11E	24692	28.4	5785	23.4	4825	15.9	85.9	24.9	16.4	25.2	41.3

Figure in Rs mn

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The ratings are based on the absolute upside of our target price from the current price.

Upside	Ratings
> 25 %	Buy
15% - 25%	Accumulate
0% - 15%	Reduce
< 0 %	Sell

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