

### **Engineers India Limited (EIL)**

- EIL, 90.4% owned by government, has reported very fantastic performance for Q3 FY 2009. Net Sales more than doubled to Rs. 528.5 crore (Rs. 177.5 crore) led by substantial jump in Lump Sum Turnkey (LSTK) turnover of Rs. 286.95 crore (Rs. 28.35 crore). Consultancy & Engineering business also reported sharp 62% jump in sales of Rs. 241.52 crore (Rs. 149.1 crore). OPM% however declined to 23.6% (27.4%) due to change in sales composition more in favor of lower margin LSTK business. Nevertheless, strong sales growth coupled with 150% spurt in other income of Rs. 43.2 crore (Rs. 28.8 crore) resulted in PBT (before extra ordinary items) more than doubling to Rs. 165.4 crore (Rs. 75.2 crore). However, after accounting for provision for gratuity liability of Rs. 60.56 crore restricted growth in PAT of Rs. 68.9 crore (Rs. 50.2 crore) at 137%.
  - For 9 months FY 2009, net sales zoomed to Rs. 1,124.9 crore (Rs. 494.9 crore). OPM% dropped to 20.6% (25%). PBT skyrocketed to Rs. 339.7 crore (Rs. 206.5 crore). Extra ordinary expenses of Rs. 60.56 crore dragged down growth in PAT of Rs. 185.7 crore (Rs. 137.9 crore) to 35%.
  - EIL provides complete range of project services right from conceptualization, designing, engineering to LSTK projects in diverse fields like petroleum refineries, pipelines, petrochemicals, oil & gas processing, offshore structures & platforms, fertilizers, metallurgy and power.
  - In FY 2008, company diversified into infrastructure consultancy area like Urban Development, Air-port development, Water Management, Railway Freight Corridor and Intelligent Buildings etc. During FY 2008, company received 3 project orders viz., Yamuna River clean up, Stadium for Common Wealth Game and Re-development of Cannaught-Delhi. Besides, EIL has achieved significant breakthrough in Airport sector where it has been appointed as Owner's Engineers for Delhi and Mumbai airports. This will provide reference when EIL go for smaller airport projects worth Rs.300 - 400 crore. As on September pending order book was ~ Rs.200 crore.
  - EIL's strength in hydrocarbon segment can be measured when company won the consultancy contract of Rs.800 crore of Bhatinda refinery JV between HPCL and Mittal against international bidding. EIL has also won Rs.400 crore consultancy order from International Market.
  - Company will be leveraging knowledge / designing / engineering base and project management skills in India & overseas thru :-
    - » **50:50 JV with Tata Projects** specialized in execution of large projects on LSTK basis, in the area power, hydrocarbon, fertilizers, power, infrastructure etc. sector in India and overseas.
    - » **30:70 JV with global leader Tecnimont-Italy** (Euro 2 billion) for executing EPC projects in UAE. While EIL will undertake engineering & project management work, Tecnimont would be responsible for construction.
- These JVs will further add great value to its core business by diversifying from major reliance on hydrocarbon industry and expanding geography.
- EIL has good business potential in hydrocarbon sector in India and overseas including for coal-to-liquid projects.
  - Company's order book has increased significantly to Rs. 8,000 crore from Rs. 5,000 crore as on September 2008 (Project Consultancy Rs. 3,000 crore and LSTK Rs. 5,000 crore) executable over 3-4 years. LSTK side EIL margin are well protected, as company is now going more for open-book orders, where input cost increases are passed thru.
  - EIL has surplus cash of ~ Rs. 1,500 crore, i.e. around Rs 268/- per share.
  - Company has received necessary approvals to develop ~ 33 acres of land in Gurgaon on the outskirts of New Delhi and is currently evaluating different options to maximize shareholders' value.

At CMP of Rs. 488/-, the share is available at 9 times FY 2009 estimated EPS of Rs. 54/- and at 7 times FY 2010 estimated EPS of Rs.70. In view of excellent future prospects, EIL is "an excellent investment at CMP from long term perspective"

**Disclosures:**

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