

# Engineers India

**Rs285**  
**OUTPERFORMER**

**Mkt Cap: Rs96bn; US\$2.1bn**

## RESULT NOTE

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**Result:** Q3FY11

**Comment:** In line with estimates – strong operating performance

### Key financials

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
2008	7,219	26.6	1,946	5.8	42.5	48.9
2009	15,310	112.1	3,446	10.2	74.8	28.0
2010	19,841	29.6	4,356	13.0	28.1	21.9
2011E	26,654	34.3	4,888	14.5	11.2	19.6
2012E	34,954	31.1	5,751	17.1	17.7	16.7

## Highlights of Q3FY11 results

- Engineers India (EIL) reported Q3FY11 earnings at Rs1.23bn (+10% yoy), in line with estimates.
- Revenues grew by 37% yoy to Rs6.77bn in Q3FY11 (above estimates of Rs6.42bn) led mainly by a 70% yoy jump in LSTK (lump sum turnkey contracts) revenues. LSTK revenues increased to Rs3.9bn, while revenues from the consultancy and engineering projects (CEP) segment increased by 9% yoy to Rs2.9bn.
- EBIT margins of the CEP segment increased by 110bps yoy to 46.7% during the quarter, while LSTK segment margins improved by 350bps yoy to 9.2%. However, overall EBITDA margins fell by 270bps yoy to 23.2%, marginally ahead of estimates of 23%. Consequently, EIL recorded a 23% yoy increase in EBITDA to Rs1.57bn (our estimates of Rs1.48bn).
- Other income fell by 23% yoy to Rs327mn as cash/investments reduced, following a large dividend payout in FY11 (1,060%).
- EIL has an order backlog of Rs82bn as on December 31 2010, implying an order intake of Rs20bn during the quarter. The current order backlog is 3.1x FY11E revenues.

## Segmental trend

(Rs m)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11
<b>Segmental revenues</b>								
Consultancy & Engineering Projects	2,272	2,538	2,642	3,101	10,553	2,675	2,724	2,869
LSTK	1,643	2,144	2,296	3,302	9,385	3,386	3,212	3,902
<b>Total</b>	<b>3,914</b>	<b>4,682</b>	<b>4,938</b>	<b>6,403</b>	<b>19,938</b>	<b>6,060</b>	<b>5,936</b>	<b>6,771</b>
<b>% yoy growth</b>								
Consultancy & Engineering Projects	39.4	39.4	9.4	30.3	28.0	17.8	7.3	8.6
LSTK	83.7	32.4	(20.0)	94.7	32.6	106.1	49.8	70.0
<b>Total</b>	<b>55.1</b>	<b>36.1</b>	<b>(6.6)</b>	<b>57.1</b>	<b>30.1</b>	<b>54.8</b>	<b>26.8</b>	<b>37.1</b>
<b>Segmental EBIT</b>								
Consultancy & Engineering Projects	925	810	1,204	1,303	4,242	1,190	1,264	1,340
LSTK	132	210	130	448	920	344	329	360
<b>EBIT margins (%)</b>								
Consultancy & Engineering Projects	40.7	31.9	45.6	42.0	40.2	44.5	46.4	46.7
LSTK	8.0	9.8	5.7	13.6	9.8	10.1	10.2	9.2

### □ Maintain Outperformer

We maintain our EIL estimates at an EPS of Rs14.5/share for FY11 and Rs17.1/share for FY12. EIL's robust order backlog provides visibility for strong revenue growth (33% CAGR) over the next two years. However, a higher proportion of LSTK contracts vs consultancy projects, is likely to compress margins by 320bps over FY10-12E, thereby driving earnings at 15% CAGR over FY10-12. We believe the strong revenue growth is likely to offset the sharp fall in margins and drive an improvement in return ratios over the next two years. At 16.7x FY12E earnings, we believe the stock is attractive in view of its superior return ratios, Rs56/share cash on the books and visibility of strong earnings growth. We maintain our Outperformer rating with a 12-month price target of Rs341/share.

## Standalone quarterly results

Rs mn	1QFY10	2QFY10	3QFY10	4QFY10	FY10	1QFY11	2QFY11	3QFY11	FY11E
<b>Net Sales</b>	<b>3,914</b>	<b>4,682</b>	<b>4,938</b>	<b>6,403</b>	<b>19,938</b>	<b>6,060</b>	<b>5,936</b>	<b>6,771</b>	<b>26,654</b>
Total Expenses	2,905	3,722	3,658	4,743	15,028	4,607	4,469	5,197	20,427
<b>EBITDA</b>	<b>1,010</b>	<b>960</b>	<b>1,280</b>	<b>1,661</b>	<b>4,910</b>	<b>1,454</b>	<b>1,467</b>	<b>1,574</b>	<b>6,226</b>
Other Income	445	594	424	373	1,837	290	349	327	1,340
Interest	-	2	-	11	13	0	0	0	10
Depreciation	26	32	30	42	129	28	33	42	150
<b>PBT</b>	<b>1,429</b>	<b>1,520</b>	<b>1,675</b>	<b>1,981</b>	<b>6,605</b>	<b>1,715</b>	<b>1,783</b>	<b>1,860</b>	<b>7,406</b>
Tax	487	467	564	731	2,249	570	584	633	2,379
<i>Tax Rate (%)</i>	<i>34.1</i>	<i>30.7</i>	<i>33.7</i>	<i>36.9</i>	<i>34.1</i>	<i>33.2</i>	<i>32.7</i>	<i>34.0</i>	<i>32.1</i>
<b>PAT</b>	<b>942</b>	<b>1,054</b>	<b>1,111</b>	<b>1,249</b>	<b>4,356</b>	<b>1,146</b>	<b>1,199</b>	<b>1,227</b>	<b>4,888</b>
Extra ordinary items	-	-	-	-	-	-	-	2	2
<b>Reported PAT</b>	<b>942</b>	<b>1,054</b>	<b>1,111</b>	<b>1,249</b>	<b>4,356</b>	<b>1,146</b>	<b>1,199</b>	<b>1,225</b>	<b>4,886</b>
<b>Growth (yoy, %)</b>									
<b>Net Sales</b>	<b>55.1</b>	<b>36.1</b>	<b>(6.6)</b>	<b>57.1</b>	<b>30.1</b>	<b>54.8</b>	<b>26.8</b>	<b>37.1</b>	<b>33.7</b>
Total Exp	38.8	32.8	(21.2)	76.4	22.9	58.6	20.1	42.1	35.9
<b>EBITDA</b>	<b>133.6</b>	<b>50.4</b>	<b>99.1</b>	<b>19.7</b>	<b>58.4</b>	<b>44.0</b>	<b>52.9</b>	<b>23.0</b>	<b>26.8</b>
Other Income	29.6	58.5	(1.8)	(65.0)	(17.1)	(34.9)	(41.3)	(22.9)	(27.1)
Interest	-	-	-	351.6	420.6	Na	(98.8)	na	(22.5)
Depreciation	28.1	27.6	9.8	16.0	19.4	7.7	4.2	39.8	16.1
PBT	89.2	53.9	59.8	(17.9)	26.9	20.0	17.3	11.0	12.1
<b>PAT</b>	<b>83.7</b>	<b>57.5</b>	<b>59.7</b>	<b>(21.8)</b>	<b>25.4</b>	<b>21.6</b>	<b>13.8</b>	<b>10.5</b>	<b>12.2</b>
PAT (Reported)	86.1	59.2	61.2	(21.3)	26.4	21.6	13.8	10.3	12.2
OPM (%)	25.8	20.5	25.9	25.9	24.6	24.0	24.7	23.2	23.4
NPM (%)	24.1	22.5	22.5	19.5	21.8	18.9	20.2	18.1	18.3
EPS (Rs)	2.8	3.1	3.3	3.7	12.9	3.4	3.6	3.6	14.5
PER (x)	25.5	22.8	21.6	19.2	22.0	21.0	20.0	19.6	19.6

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