



Research



## RESEARCH :: COMPANY :: EIL LIMITED

14<sup>th</sup> January 2010

### Long Term Buy

Approx price	= Rs1610
Target price	= Rs2400
Estimated EPS	= 92
Projected PE	= 25-30
Investment period	= 12 months
Potential Upside	= 49%

### STOCK INFO (TTM Basis)

Sector	Capital Goods
Market cap (Rs.Cr)	8730.91
Face value	Rs10
Book value	Rs 244.9
EPS	76.09
Cash EPS	78.24
Dividend	185
Sales Growth	76.6%
RONW	31.07%
Debt to equity	-
52 week H/L	1790/411
Avg. Daily Vol (2wk)	9095
Chairman	AK Purwaha
Incorporation	1965
Listed At	NSE/BSE
Equity capital	56.16cr
Promoter Holding	90.4%
FII's/MF Holding	2.02/4.43 %

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Engineers India Ltd is a premier engineering consultancy & turnkey contracting organization executing projects on conventional & lump sum turnkey basis in the fields of refineries, petrochemicals, pipelines, offshore, metallurgy, infrastructure, fertilizer etc. With PSU tag attached to its expertise in Engineering & Turnkey contracting, EIL is a big pie chucker in government spending on infrastructure.

### COMPANY PROFILE

The company's principal activity is to provide engineering and related technical services for petroleum refineries and other industrial projects. It has diversified into other fields such as Pipelines, petrochemicals, oil & gas processing, offshore, metallurgy and power.

The company has two main line of business: Consultancy and Engineering Projects and Lump sum Turnkey projects:

### Revenue Mix of Engineers India Ltd

Particulars	FY2008-09		FY2007-08	
	(Rs. crores)	% contribution	(Rs. crores)	% contribution
<b>SEGMENTS</b>				
Consultancy & Engineering	824.55	53.81	621.44	84.23
Turnkey Projects	707.91	46.19	116.31	15.77
<b>Total Operating Revenue</b>	<b>1532.46</b>	<b>100</b>	<b>737.75</b>	<b>100.00</b>

Consultancy and Engineering business contributes 54% to the total revenue of the company, while its Turnkey business contributes 46% to the total revenue of the company.

### Key Highlights:

Rich cash balance of Rs.1894cr, makes the company attractive among its peers in the industry.

Engineers India Limited is Asia's leading company in Engineering consultancy and executing EPC contracts on Turnkey basis.

For the Financial Year 2009, the company has recorded 107% growth in its revenue, highest ever in the history of the company.

**QUARTERLY ANALYSIS:**

	30-Sep-09	30-Sep-08	Var% YOY	30-Jun-09	Var% QOQ
<b>Net Sales</b>	468.2	344	36.1	391.44	19.61
<b>Other Income</b>	59.41	37.47	58.6	44.53	33.42
<b>Total Income</b>	527.61	381.47	38.31	435.97	21.02
<b>Less: Expenditure</b>	372.24	280.21	32.84	290.48	28.15
<b>PBIDT</b>	155.37	101.26	53.44	145.49	6.79
<b>Less: Interest</b>	0.17	0	-	0	-
<b>Less: Depreciation</b>	3.15	2.47	27.53	2.61	20.69
<b>PBT</b>	152.05	98.79	53.91	142.88	6.42
<b>Less: Tax</b>	46.68	32.61	43.15	48.66	-4.07
<b>Net Profit</b>	105.37	66.18	59.22	94.22	11.83
<b>EPS</b>	18.78	11.78	59.42	16.78	11.92

During the quarter ended 30<sup>th</sup> Sep, 2009 total revenue of the company increased by 38.31% to Rs 527.61cr as against Rs 381.47cr during the corresponding quarter last year. Increase in revenue can be attributed to both its segments- Engineering Consultancy and Turnkey Projects.

Operating profit of the company increased by 53.44% on y-o-y basis to Rs 155.37 during Q2 FY10 as against Rs 101.26 during Q2 FY09. OPM increased by 374bps at 33.18% during Q2 FY10 against 29.44% in the corresponding quarter last year. Operating profit was higher as raw material as a % of sales fell by 450bps to 25.4% as against 29.9%.

Net profit was up by 59% on y-o-y basis at Rs 105.37 during Q2FY10 as against Rs 66.18cr during Q2FY09, majorly due to higher operating profit. The depreciation was higher by 27.5% at Rs 3.15cr during Q2FY10 as against Rs 2.47cr same quarter last year. Tax for the quarter stood at Rs 55.34cr up by 40% as against Rs 39.43cr for the same quarter last year. However incidence of tax for the quarter was low by 370bps at 29.8% as against 33.5% in the corresponding quarter last year.

**PROJECTS IN PROGRESS**

**PETROLEUM REFINING**

- ✓ 6 MMTPA grass roots Bina Refinery of Bharat Oman Refinery Ltd.: The refinery is expected to be commissioned during last quarter of FY10.
- ✓ Capacity-Expansion-cum-Modernization Project Phase-II of Kochi Refinery of BPCL: Capacity expansion is expected to be completed in third quarter of 2009 and the new processing units which are meant to meet Euro IV requirements along with the requisite offsite and utility works are expected to be completed by fourth quarter of FY10.
- ✓ Diesel Hydro- treater Project of Bongaigaon Refinery of Indian Oil Corporation: Additional unit is meant to produce diesel meeting Euro IV standards. The project is expected to be completed during last quarter of FY10.
- ✓ The biggest project being handled by EIL in petroleum refining sector, till now, both in terms of EIL fee as well as in terms of Plant & Machinery cost: 9 MMTPA grass roots Guru Gobind Singh Refinery Project of HPCL Mittal Energy Ltd. At Bathinda: The project is making steady progress and is ahead of schedule. It is likely to be completed in 39 months against the schedule of 42 months.

- ✓ Capacity- expansion- cum-Value Addition of Mangalore Refinery of MRPL. This is yet another major job for EIL in terms of fee. The project involves capacity expansion from 9.6 MMTPA to 15 MMTPA, product quality improvement to Euro IV specifications as well as Production of high value products. The project is being implemented through a hybrid mode with some units on conventional, some on LSTK and some on Open Book Estimate (OBE) mode. It is noteworthy that apart from overall responsibility of Project Management, EIL has also been entrusted with the responsibility of implementing two units with approximate Plant and Machinery cost of Rs. 2000 crores on OBE mode. The project is making steady and satisfactory progress and the outlook is promising for its timely completion.
- ✓ Diesel Quality Up gradation of Numaligarh Refinery: This project is meant to produce diesel to Euro IV specifications and is expected to be completed during first quarter of FY11.

### **PETROCHEMICALS**

- ✓ Panipat Naphtha Cracker Project is a grass roots petrochemical project being executed by IOCL using EIL services for Project Management. Once completed, it will mainly produce HOPE, LLDPE, MEG and PR. The project is making steady progress and is expected to be completed during third quarter of Financial Year 2010.
- ✓ Dahej Petrochemical Complex is another grass roots petrochemical project being put up by ONGC Petro additions Ltd. EIL. The project is being executed through multiple LSTK Packages. The Plant is scheduled to be completed by 2012.

### **PIPELINES**

- ✓ 24" x 935 km Vadinar-Bina Pipeline for crude oil transportation.
- ✓ 48" x 498 km Vijaipur-Dadri Gas Pipeline Project of GAIL.
- ✓ 18" x 260 km of Bina-Kota Pipeline for petroleum product transportation.
- ✓ 30V28" x 1012 km Mundra- Bathinda Crude Oil Pipeline of HPCL - Mittal Pipelines Ltd. (HMPL) for crude oil transportation.
- ✓ 30V24" x 300 km NGL Pipeline of GASCO Abu Dhabi.

### **STRATEGIC STORAGES**

- ✓ As an energy security measure, the Government of India has approved setting up of underground strategic crude oil storages in the country at three locations namely Visakhapatnam, Mangalore and Padur.
- ✓ The work at Visakhapatnam is in progress and is expected to be completed by mid 2011.
- ✓ Work at Mangalore is expected to start shortly and is expected to be completed by 2012.
- ✓ Work at Padur is expected to start by end of the year.

### **METALLURGY**

During 2008-09, EIL was awarded the following two major engineering consultancy jobs:

- ✓ 0.36 MMTPA Smelter at Sambalpur, Orissa of HINDALCO.
- ✓ 0.36 MMTPA Smelter at Singrauli, MP of HINDALCO.

These projects are expected to be completed within 33 months from the receipt of first installment from the process licensor.

## **INFRASTRUCTURE**

Currently, EIL is working on following major projects:

- ✓ Delhi and Mumbai Airport Up gradation Projects as Independent Consultants for validation/implementation of OMDA Agreement.
- ✓ PMC services for Interceptor Sewer Project for abatement of Yamuna River pollution.
- ✓ PMC services for development of Rugby Stadium and Multipurpose Hall for Common Wealth Games in North Campus of Delhi University.
- ✓ PMC services for redevelopment of Connaught Place.
- ✓ PMC Services on Deposit Concept for Development of Institutional Buildings at North & South Campus of Delhi University.
- ✓ PMC Services for Setting up of Rajiv Gandhi Institute of Petroleum Technology (RGIPT) at Rai Bareilly, U.R
- ✓ General Technology Consultant to MCD for Solid Waste Management.

## **ENGINEERING**

Engineering Division continued to provide engineering services to various projects being executed by EIL within and outside India. Some of the major activities initiated during the year include:

- ✓ Design and engineering for strategic storage of crude oil in underground rock caverns at Mangalore & Padur.
- ✓ Procurement engineering for 42 MW (ISO rating) Rich Gas Turbine Driven Compressor for Brahmaputra Cracker Project at Assam, the largest of- its kind ever engineered by EIL.
- ✓ Procurement engineering for world's largest polypropylene extruder for GGSR Project of HMEL having 17 MW, variable frequency driven synchronous motor.
- ✓ Implementation of state-of-the-art Field Bus Based Systems in all current projects.
- ✓ Implementation of Onshore Control Centers for Mumbai Offshore Platforms, in record time for ONGC enabling safe shutdown of a platform from three onshore locations.
- ✓ Implementation of web-based electronic Document Management System (eDMS) for GGSR Project for document archiving, transfer and structured Knowledge Management (KM).
- ✓ Design of thick expansion joints in fixed tube sheet heat exchangers using finite element analysis based on new TEMA guidelines for Numaligarh Refinery and GGSR Project.
- ✓ Optimization of design of skirt of the coke drums using 3 dimensional finite element analysis for Guwahati Refinery.

## **TURNKEY PROJECTS**

EIL is executing turnkey projects either on LSTK mode or on the recently introduced new concept of "OpenBook Estimate". Following jobs continued to make satisfactory progress during the year:

- ✓ LLDPE-HDPE (Swing Unit) which is a part of Panipat Naphtha Cracker Project of IOCL on LSTK basis. Efforts are being made to achieve completion within schedule.
- ✓ Euro-IV Project of CPCL being executed on OBE basis is progressing as per schedule and is likely to be completed within contractual commitments.
- ✓ During 2008-09, MRPL awarded PFCCU and SRU Block of Phase III Project on OBE basis to EIL. The scope includes supply of Licensed Process Packages for SRU Block. The front-end activities and procurement related activities of the Project are progressing well and substantial progress has been achieved within a period of first four months.

**ANNUAL FINANCIALS: Engineers India Limited (Rs Crores)**

	2008-09	2007-08	2006-07	2005-06	2004-05
<b>Net Sales</b>	1532.46	737.75	571.08	790.48	913.06
<b>Other income</b>	221.52	135.57	107.78	66.66	54.7
<b>Total Income</b>	1753.98	873.32	678.86	857.14	967.76
<b>Less: Expenditure</b>	1222.67	569	465.92	647.85	791.89
<b>PBIDT</b>	531.31	304.32	212.94	209.29	175.87
<b>Less: Interest</b>	0	0	0	0	0
<b>PBDT</b>	531.31	304.32	212.94	209.29	175.87
<b>Less: Depreciation</b>	10.84	10.43	8.3	9.52	9.21
<b>PBT</b>	520.47	293.89	204.64	199.77	166.66
<b>Less: Tax</b>	175.93	99.28	61.65	61.14	54.02
<b>Net Profit</b>	344.54	194.61	142.99	138.63	112.64
<b>Exceptional Items</b>	0	0	0	0	0
<b>Deferred Revenue Expenses</b>	0	0	0	0	0
<b>Cash Accruals</b>	355.38	205.04	151.29	148.15	121.85

For FY09, Net sales of the company doubled amounting to Rs 1532.46cr as against Rs 737.75cr last year. Both businesses of the company contributed significantly to the growth in revenue. Revenue from Engineering consultancy stood at Rs 824.55cr as compared Rs 621.44cr during last year, while its Turnkey projects division contributed Rs 707.91cr as against Rs 116.31cr. Operating profit of company saw an increase of 74.59% primarily because its low margin business (Lump sum Turnkey Business) increased from 15.77% to 46 % during FY09. Net profit of the company stands at Rs 344.54cr, an increase of 77 %, as against Rs 194.61cr in FY08.

**BALANCE SHEET: Engineers India Limited (Rs Crores)**

	2009	2008	2007	2006	2005
<b>Net Worth</b>	1375.34	1152.05	1031.51	950.34	862.92
<b>Loans- Term</b>	0	0	0	0	0
<b>Loans - Working Capital</b>	0	0	0	0	0
<b>Deferred Tax Liability</b>	-116.7	-95.92	-82.43	-54.85	-33.18
<b>Total</b>	<b>1258.64</b>	<b>1056.13</b>	<b>949.08</b>	<b>895.49</b>	<b>829.74</b>
<b>Net Block Including WIP</b>	60.77	50.36	39.68	40.01	41.49
<b>Investments</b>	153.7	146.81	137.36	138.28	137.25
<b>Net Working Capital</b>	1043.98	858.56	771.35	710.18	633.94
<b>Deferred Revenue Expenses</b>	0.19	0.4	0.69	7.02	17.06
<b>Total</b>	<b>1258.64</b>	<b>1056.13</b>	<b>949.08</b>	<b>895.49</b>	<b>829.74</b>

### Peer Comparison:

Particulars	Engineers India Ltd	L & T	Punj Llyod	Thermax	Rel Ind Infra
<b>Market Cap</b>	8730.91	100583.9	7135.75	7622.62	1432.01
<b>Sales</b>	1795.65	34313.46	7557.72	2902.21	63.87
<b>PBIDT</b>	653.55	6823.87	772.19	424.74	36.79
<b>Net Profit</b>	427.32	2977.63	265	265.88	22.78
<b>PBIDTM (%)</b>	36.40	19.89	10.22	14.64	57.60
<b>PATM (%)</b>	23.80	8.68	3.51	9.16	35.67
<b>EPS</b>	76.09	49.61	7.98	22.31	15.09
<b>P/E</b>	20.43	33.78	26.93	28.68	62.85
<b>EV/PBIDT</b>	17.1	27.99	12.83	19.58	49.24

Figures on TTM Basis

Engineers India Ltd is maintaining healthy Operating and Net profit margins, as compared to its peers in the industry. However delay in execution of projects is a cause of concern for the company.

### Future Outlook

Particulars	FY09	FY10E*	FY11E
<b>Net Sales</b>	1,532.46	2089.68	2612.1
<b>Other Income</b>	221.52	195.89	235.9
<b>PBIDT</b>	531.31	724.49	922.07
<b>Interest</b>	0	0.17	0
<b>Depreciation</b>	10.84	12.06	13.02
<b>PBT</b>	520.47	712.26	909.05
<b>Tax</b>	175.93	240.74	307.26
<b>PAT</b>	344.54	471.52	601.79
<b>EPS</b>	61.35	83.96	107.16
<b>CEPS</b>	63.28	86.11	109.48

At the current price of Rs 1610 the stock is available at 26.24x of its FY09 earnings, 19.17x of its FY10E earnings and 15.02x of its FY11E earning.

With robust order book and strong financial base of the company, margins are likely to improve further.

## ANALYSIS & REPORT

### Why to invest in shares of Engineers India Limited?

#### SECTOR:

Increased government spending on development of Infrastructure, non- hydrocarbon energy, refinery and oil & gas sectors is likely to provide boost to the sector. This should insure strong order flow for capital goods and engineering companies in future.

The demand for the sector depends on GDP growth, which in turn depends on expenditure in core sector like power, railways etc. With growth of Indian economy and easing liquidity situation in the country, capital goods & engineering companies are expected to pick up pace with economy.

India is being preferred by global manufacturing companies as an outsourcing destination due to its lower labour cost and better engineering and designing capabilities.

## **COMPANY:**

### **Diversification**

With expertise in executing engineering and turnkey projects, EIL is looking to diversify into various others fields in Nuclear and Solar Power, and water management.

### **Overseas Foot hold**

EIL has continued to maintain its international presence; the company has increased its focus on Brazil, Oman, Qatar and UAE due to excellent business opportunities available in these countries.

## **FUNDAMENTALS:**

### **Zero Debt:**

**Engineers India limited is a debt free company; it had a rich cash balance of Rs 1894cr as on 31st March 2009.**

### **Operating margins**

Operating margins of the company are higher than its peers. Company's major competency lies in engineering consultancy, in which it is maintaining a healthy EBITDA margin of above 35%, a leader in the industry.

### **Order Book:**

The company's order book currently stands at 8000cr, which will be executed by next 36-40 months. Earnings visibility is good for next 3-4 years. With increased focus of government on infrastructure, order book of the company is expected to increase further.

Notes: Figures and graph sourced from [www.bseindia.com](http://www.bseindia.com) , capital market and annual report (2008-09).

END

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