

May 29, 2012

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	Accumulate
Rating	
Price	Rs228
Target Price	Rs246
Implied Upside	7.9%
Sensex	16,439
Nifty	4,990

(Prices as on May 29, 2012)

Trading data

Market Cap. (Rs bn)	78.3
Shares o/s (m)	336.9
3M Avg. Daily value (Rs m)	52.7

Major shareholders

Promoters	80.40%
Foreign	5.23%
Domestic Inst.	7.95%
Public & Other	6.42%

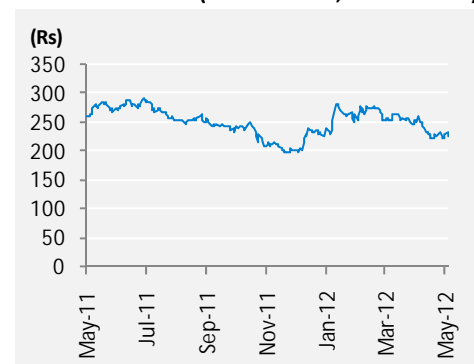
Stock Performance

(%)	1M	6M	12M
Absolute	(12.4)	4.4	(12.4)
Relative	(8.4)	1.7	(2.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	15.9	19.7	-19.4
2014	16.4	24.0	-31.8

Price Performance (RIC: ENGI.BO, BB: ENGR IN)



Source: Bloomberg

■ **FY12 earnings grow by 25%, backed by higher OI:** Engineers India (EIL) posted a robust top-line growth of 29% at Rs12.2bn in Q4FY12 which was higher than our estimate of Rs10bn. Sales composition continues to be skewed towards Lump Sum Turnkey Projects (LSTK). These projects had a share of 73.5% in total sales as compared to 68% in Q4FY11 and have grown by 40% YoY. Similarly, LSTK revenue growth of 47% for FY12 led to a 31% growth in sales. Other Income has increased by 44% YoY (on account of maturity of FMPs) which aided a 25% YoY PAT growth at Rs1.9bn in Q4FY12. PAT for FY12 grew by 25% YoY, whereas, EBITDA grew by 9.9%.

■ **Overall margins take a dip:** EBITDA margins in Q4FY12 were drastically down by 555bps YoY to 14.6% on account of increased share of LSTK projects. Similarly, for FY12, it dipped to 19%, down 355bps YoY. Consultancy EBIT decreased by 100bps YoY to 42.3% and LSTK margins dropped by 170bps YoY to 9.8%.

■ **Order book update:** The current order book stands at around Rs46bn (down from Rs57bn in Q3FY12) and the order inflow for Q4FY12 stood at Rs500m. Order inflow was weak at Rs7.5bn. Cash and Equivalents stand close to Rs16.4bn.

■ **Valuations:** A weak order inflow would impact the growth in FY13-14. We have, thus, reduced our estimates and TP. The stock is currently trading at Rs14.2 FY14E EPS with a positive bias in case the order inflow scenario improves. We maintain '**Accumulate**' on the stock.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	28,233	36,988	35,412	38,953
Growth (%)	40.2	31.0	(4.3)	10.0
EBITDA (Rs m)	6,433	7,032	6,120	6,441
PAT (Rs m)	5,085	6,365	5,346	5,518
EPS (Rs)	15.1	18.9	15.9	16.4
Growth (%)	14.4	25.2	(16.0)	3.2
Net DPS (Rs)	5.8	8.5	7.1	7.4

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	22.8	19.0	17.3	16.5
RoE (%)	39.2	38.7	26.9	24.1
RoCE (%)	39.2	38.7	26.8	24.1
EV / sales (x)	2.1	1.6	1.6	1.4
EV / EBITDA (x)	9.2	8.6	9.1	8.4
PE (x)	15.1	12.0	14.3	13.9
P / BV (x)	5.3	4.2	3.6	3.1
Net dividend yield (%)	2.5	3.7	3.1	3.2

Source: Company Data; PL Research

Exhibit 1: Q4FY12 Result Overview (Rs m)

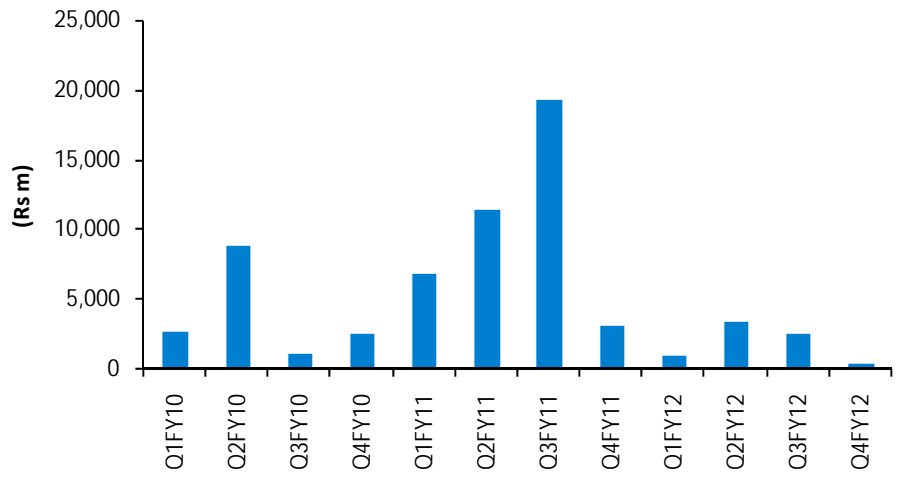
Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Net Sales	12,253	9,465	29.5	7,925	36,988	28,233	31.0
Expenditure							
Consumption of Raw Materials	5,859	2,927	100.2	2,575	15,165	8,119	86.8
<i>% of Net Sales</i>	<i>47.8</i>	<i>30.9</i>		<i>32.5</i>	<i>41.0</i>	<i>28.8</i>	
Subcontracting expenses	2,331	2,478	(5.9)	1,558	6,720	6,467	3.9
<i>% of Net Sales</i>	<i>19.0</i>	<i>26.2</i>		<i>19.7</i>	<i>18.2</i>	<i>22.9</i>	
Personnel Cost	1,324	1,580	(16.2)	1,369	5,417	5,182	4.5
<i>% of Net Sales</i>	<i>10.8</i>	<i>16.7</i>		<i>17.3</i>	<i>14.6</i>	<i>18.4</i>	
Other Expenditure	954	576	65.7	600	2,654	2,066	28.5
<i>% of Net Sales</i>	<i>7.8</i>	<i>6.1</i>		<i>7.6</i>	<i>7.2</i>	<i>7.3</i>	
Total Expenditure	10,469	7,561	38.5	6,102	29,956	21,834	37.2
EBIDTA	1,784	1,905	(6.3)	1,823	7,032	6,399	9.9
<i>Margin (%)</i>	<i>14.6</i>	<i>20.1</i>	<i>(555.9)</i>	<i>23.0</i>	<i>19.0</i>	<i>22.7</i>	<i>(365.4)</i>
Depreciation	108	40	167.6	28	194	143	36.0
EBIT	1,677	1,864	(10.1)	1,794	6,838	6,256	9.3
Interest	12	15	(20.4)	-	12	15	(20.5)
Other Income	920	638	44.2	444	2,322	1,604	44.8
PBT	2,585	2,488	3.9	2,239	9,148	7,845	16.6
Tax	682	832	(18.1)	726	2,783	2,620	6.2
<i>Tax Rate (%)</i>	<i>26.4</i>	<i>33.4</i>		<i>32.4</i>	<i>30.4</i>	<i>33.4</i>	
Recurring PAT	1,903	1,656	14.9	1,513	6,365	5,225	21.8
Adjusted PAT	1,903	1,515	25.6	1,513	6,363	5,085	25.1

Source: Company Data, PL Research

Exhibit 2: Operating Metrics (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Revenues							
Consultancy	3,211	3,012	6.6	3,233	12,073	11,279	7.0
<i>% to Total</i>	<i>26.2</i>	<i>31.8</i>		<i>40.8</i>	<i>32.6</i>	<i>40.0</i>	
LSTK	9,042	6,454	40.1	4,692	24,915	16,953	47.0
<i>% to Total</i>	<i>73.8</i>	<i>68.2</i>		<i>59.2</i>	<i>67.4</i>	<i>60.0</i>	
Total	12,253	9,465	29.5	7,925	36,988	28,233	31.0
EBIT	2,184	1,997	9.4	1,937	7,561	6,823	
Consultancy	1,302	1,072	21.5	1,455	5,109	4,866	5.0
<i>Margin (%)</i>	<i>40.6</i>	<i>35.6</i>		<i>45.0</i>	<i>42.3</i>	<i>43.1</i>	
LSTK	882	925	(4.6)	481	2,452	1,957	25.3
<i>Margin (%)</i>	<i>9.8</i>	<i>14.3</i>		<i>10.3</i>	<i>9.8</i>	<i>11.5</i>	

Source: Company Data, PL Research

Exhibit 3: Order Inflow

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	28,233	36,988	35,412	38,953
Raw Material Expenses	8,119	11,252	29,292	32,512
Gross Profit	20,114	25,736	6,120	6,441
Employee Cost	5,182	7,000	—	—
Other Expenses	8,499	11,704	—	—
EBITDA	6,433	7,032	6,120	6,441
Depr. & Amortization	145	194	220	280
Net Interest	15	12	—	—
Other Income	1,604	2,322	2,200	2,200
Profit before Tax	7,877	9,148	8,100	8,361
Total Tax	2,651	2,783	2,754	2,843
Profit after Tax	5,225	6,365	5,346	5,518
Ex-Od items / Min. Int.	140	—	—	—
Adj. PAT	5,085	6,365	5,346	5,518
Avg. Shares O/S (m)	336.9	336.9	336.9	336.9
EPS (Rs.)	15.1	18.9	15.9	16.4

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	12,019	8,678	10,497	11,484
C/F from Investing	(4,213)	(1,470)	850	(2,300)
C/F from Financing	(8,117)	(8,422)	(6,891)	(7,443)
Inc. / Dec. in Cash	(311)	(1,215)	4,456	1,741
Opening Cash	17,945	17,646	16,431	20,887
Closing Cash	17,646	16,431	20,887	22,628
FCFF	6,544	2,868	3,989	4,554
FCFE	6,544	2,919	3,938	4,554

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	40.2	31.0	(4.3)	10.0
EBITDA (%)	28.4	9.3	(13.0)	5.2
PAT (%)	14.4	25.2	(16.0)	3.2
EPS (%)	14.4	25.2	(16.0)	3.2
Profitability				
EBITDA Margin (%)	22.8	19.0	17.3	16.5
PAT Margin (%)	18.0	17.2	15.1	14.2
RoCE (%)	39.2	38.7	26.8	24.1
RoE (%)	39.2	38.7	26.9	24.1

Balance Sheet

Net Debt : Equity	(1.2)	(0.9)	(1.0)	(0.9)
Net Wrkng Cap. (days)	(652)	(405)	(168)	(167)

Valuation

PER (x)	15.1	12.0	14.3	13.9
P / B (x)	5.3	4.2	3.6	3.1
EV / EBITDA (x)	9.2	8.6	9.1	8.4
EV / Sales (x)	2.1	1.6	1.6	1.4

Earnings Quality

Eff. Tax Rate	33.7	30.4	34.0	34.0
Other Inc / PBT	20.4	25.4	27.2	26.3
Eff. Depr. Rate (%)	7.5	8.9	6.9	5.4
FCFE / PAT	128.7	45.9	73.7	82.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	14,421	18,440	21,381	24,416
Total Debt	—	51	—	—
Other Liabilities	—	—	—	—
Total Liabilities	14,421	18,492	21,381	24,416
Net Fixed Assets	820	1,046	1,896	3,746
Goodwill	—	—	—	—
Investments	5,124	6,350	4,500	4,800
Net Current Assets	6,720	8,953	13,985	14,970
<i>Cash & Equivalents</i>	<i>17,646</i>	<i>16,431</i>	<i>20,887</i>	<i>22,628</i>
<i>Other Current Assets</i>	<i>9,097</i>	<i>11,470</i>	<i>18,214</i>	<i>21,485</i>
<i>Current Liabilities</i>	<i>20,023</i>	<i>18,949</i>	<i>25,116</i>	<i>29,143</i>
Other Assets	1,756	2,143	1,000	900
Total Assets	14,420	18,490	21,381	24,416

Quarterly Financials (Rs m)

Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Net Revenue	8,536	8,274	7,925	12,253
EBITDA	1,797	1,628	1,823	1,784
<i>% of revenue</i>	<i>21.1</i>	<i>19.7</i>	<i>23.0</i>	<i>14.6</i>
Depr. & Amortization	30	29	28	108
Net Interest	—	—	—	12
Other Income	418	540	444	920
Profit before Tax	2,185	2,139	2,239	2,585
Total Tax	705	672	726	682
Profit after Tax	1,481	1,467	1,513	1,903
Adj. PAT	1,481	1,467	1,513	1,903

Key Operating Metrics

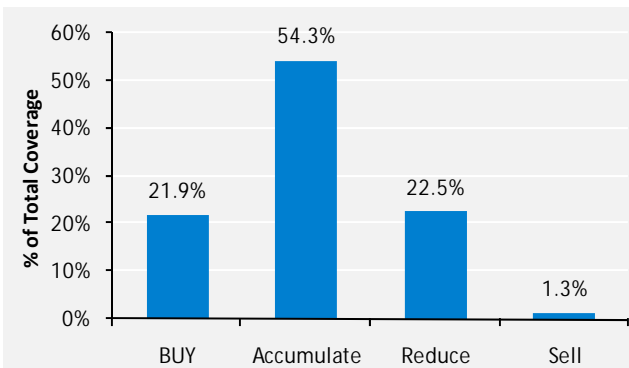
Y/e March	2011	2012	2013E	2014E
Consultancy (Rs m)	11,279	12,073	12,394	13,634
LSTK (Rs m)	16,953	24,915	23,018	25,320
Blended EBITDA Marg. (%)	22.8	19.0	17.3	16.5
Order Book (Rs bn)	71.0	46.0	25.3	—
Other Inc. / PAT (%)	30.7	36.5	41.2	39.9
Order intake (Rs bn)	44.0	7.5	9.8	13.7
Capex (Rs bn)	0.1	0.2	1.0	2.0
NCA/Sales (%)	24	24	39	38

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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