

Current	Previous
CMP : Rs.221	
Reco : HOLD	Reco : BUY
Target : Rs.247	Target : Rs.289

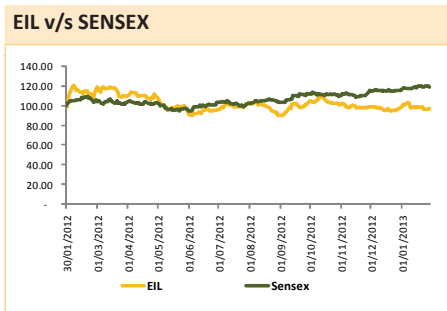
STOCK INFO	
BSE	532178
NSE	ENGINEERSIN
Bloomberg	ENGR IN
Reuters	ENGI BO
Sector	Consulting Services
Face Value (Rs)	5
Equity Capital (Rs mn)	1,685
Mkt Cap (Rs mn)	75,844
52w H/L (Rs)	288.5/206.3
3m Avg Daily Vol. in mn (BSE + NSE)	185,281

SHAREHOLDING PATTERN	%
<i>(as on 31st Dec. 2012)</i>	
Promoters	80.4
FIIs	4.8
DII's	7.7
Public & Others	7.1

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
EIL	-1	-5	-4
SENSEX	3	8	19

Source: Capitaline, IndiaNivesh Research



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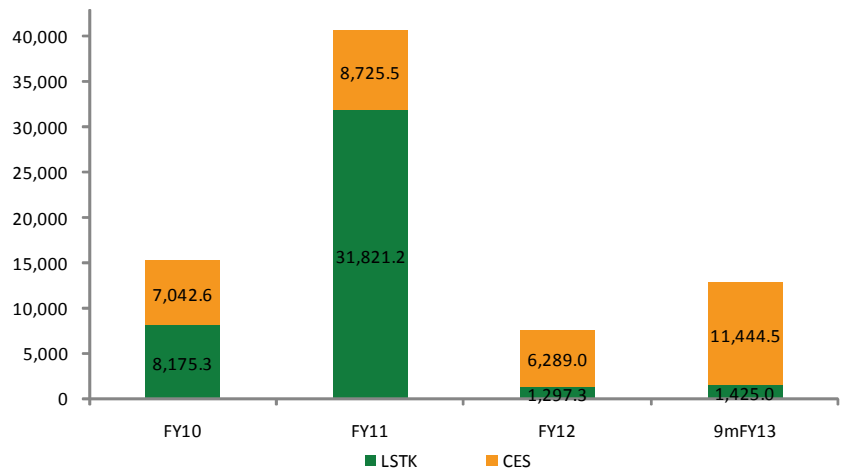
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- Engineers India reported a bad set of numbers. The reported top-line of the company was at Rs 6.0 bn way below our expectations of Rs 7.4 bn. Reported top-line declined by 23.7% on year-over-year basis (32.8% & 10.4% fall in Turnkey & Consultancy business, respectively).
- At the EBITDA front, company reported an EBITDA of Rs 1.3 bn against our expectations of Rs 1.9 bn. On other hand, reported EBITDA margins of the company were at 21.7% (vs. 23.0% a year ago & 25.3% in previous quarter).
- 32.8% fall in year-over-year Turnkey business top-line led to 44.1% fall in the year-over-year sub-contracting charges (to Rs 871.8 mn). Increased contribution of Consultancy business (47.9% in Q3FY13 vs. 40.8% in Q3FY12) coupled with marginal cool-down in raw material prices, translated to 25.3% year-over-year fall in construction materials (to Rs 1.9 bn).
- If we look at Q3FY13 segment-wise EBIT margins, both, Consultancy & Turnkey business on a year-over-year basis, witnessed margin compression scenario. Unadjusted EBIT margins of Consultancy business declined from 45.0% a year ago to 41.5% in Q3FY13. Further, Turnkey business witnessed 261 bps unadjusted EBIT margin compression on a year-over-year basis to 7.6%.
- EIL reported a PAT of Rs 1.3 bn, below our expectations of Rs 1.7 bn. Despite EBITDA margin compression, PAT margins expanded on a year-over-year basis by 279 bps to 21.9%. PAT margin expansion has been on a/c of (1) 50.6% surge in other income (to Rs 669.3 mn), (2) 12.8% decline in tax expenses (to Rs 632.9 mn).

Update on Order Book

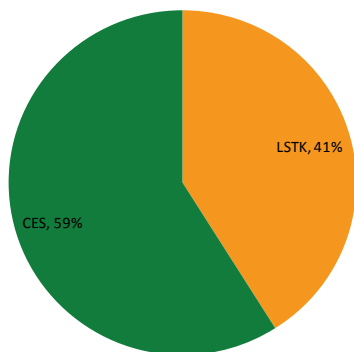
During the quarter EIL reported Rs 544 mn of Order Inflows (OI's). In the first nine months of FY13E, EIL has reported OI to the tune of Rs 12.8 bn. With 1 more quarter to go in FY13E, EIL would have a daunting task of reporting OI's in the range of Rs 17.2-22.2 bn to attain its FY13E OI guidance of Rs 30-35 bn. In our opinion the company will miss-out on the guidance if no quick decision is taken by various govt. agencies, through which it gets orders.

Order Inflow wins (Rs in mn)



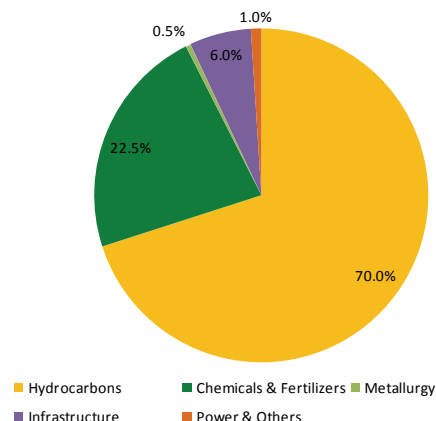
Source: Company Filings; IndiaNivesh Research

Order Book Split (at Q3FY13-end)



Source: Company Filings; IndiaNivesh Research

Order Book split Vertical-wise (Q3FY13-end)



Source: Company Filings; IndiaNivesh Research

After adjusting for revenues booked during the quarter, Order Book at Q3FY13-end stands at Rs 38.7 bn (thereby giving revenue visibility for next 5-7 quarters).

In Q4FY13 EIL reported EPCM related order worth Rs 440 mn from OIL for their Naharkatiya- Barauni pipeline crude oil pipeline project. This project is expected to be executed in 24 months.

Estimates revised downwards

Given the declining order book levels of EIL, which reduces revenue visibility, we have revised downwards our top-line and bottom-line estimates for both FY13E and FY14E.

Assumptions Changed

Particulars	Old		New		Change (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenues	38,029.7	43,194.4	33,778.1	35,178.7	-11.2%	-18.6%
EBITDA	7,967.2	9,973.6	7,076.5	8,122.8	-11.2%	-18.6%
PAT	6,749.8	8,121.5	6,175.8	6,925.4	-8.5%	-14.7%

Source: IndiaNivesh Estimates

Outlook & Valuation

At CMP of Rs 221, EIL is trading at FY13E and FY14E, P/E multiple of 12.2x and 10.2x, respectively. Historically in the last 3 years, EIL has traded at 1-year forward P/E band of 15.2x.

In the last 6 months, EIL has delivered negative 5% returns, mainly on concerns on slow-down in order book of the company. Yesterday’s announcement of Cabinet Committee on Infrastructure (CCI) where they are likely to review ~47 projects (some of them held by ONGC, RIL, Cairn), indicates that Government has realized the severe slow-down in the capex cycle and the need to revive investment cycle in the Hydro-Carbons space.

Even though EIL has participated in bids worth ~Rs 2 bn (most of them Turnkey projects), and another Rs ~Rs 15 bn worth of projects under negotiation, we sense that projects are getting deferred as of now. With reform announcements here to stay, increased activity in the Hydro-Carbons vertical and given the strong market position of EIL in this vertical, we are confident that for any revival in this space, EIL would be the biggest beneficiary.

After taking into account declining order book levels, revised estimates, we have reduced our FY14E price target from Rs 289 to Rs 247, indicating 12.0x multiple. Given the limited 11.6% upside potential in the stock from current levels, we revised downwards our rating by one notch to HOLD.

Standalone Financials

(Rs in mn.)	Q3FY13	Q2FY13	Q3FY12	q-o-q ch	y-o-y ch
Net Income from operations	6,047.7	6,677.3	7,925.0	-9.4%	-23.7%
Sub-Contract payment	871.8	1,152.4	1,560.1	-24.3%	-44.1%
Construction Material	1,924.4	1,641.0	2,575.4	17.3%	-25.3%
Employee Cost	1,443.9	1,549.4	1,366.7	-6.8%	5.6%
Other expenditure	496.6	647.0	600.3	-23.2%	-17.3%
Total Operating Expenses	4,736.6	4,989.7	6,102.6	-5.1%	-22.4%
EBITDA	1,311.1	1,687.6	1,822.4	-22.3%	-28.1%
EBITDA Margin (%)	21.7%	25.3%	23.0%		
Depreciation & Amortisation	24.2	34.7	28.1	-30.3%	-14.0%
Other Income	669.3	709.9	444.3	-5.7%	50.6%
Profit before Int. & tax	1,956.2	2,362.8	2,238.6	-17.2%	-12.6%
Interest & Finance charges	0.0	1.2	0.0	n/a	n/a
Profit before tax	1,956.2	2,361.6	2,238.6	-17.2%	-12.6%
Tax Expense	632.9	749.1	726.0	-15.5%	-12.8%
Profit After tax	1,323.3	1,612.5	1,512.6	-17.9%	-12.5%
Effective Tax Rate (%)	32.4%	31.7%	32.4%		
PAT Margins (%)	21.9%	24.1%	19.1%		
EPS- Diluted	3.93	4.78	4.49		

Source: Company Filings; IndiaNivesh Research

Annexure: YTD Key Order Inflows

Sl. No.	Qtr Order Inflow	Client	Sch. Comp.	Con. Val.
1	Q1FY13 Panipat Naptha Cracker Complex	IOCL	Q4FY15	1,425
2	Q2FY13 Mallavaram-Bhopal-Bhilwara-Vijaipur Pipeline	GITL	Q4FY15	707
3	Q2FY13 Refinery Expansion project Stage II, Kochi	BPCL	Q4FY16	7,200
4	Q2FY13 Nuclear Fuel Complex at Rawatbhata, Kota	NFC	Q2FY18	419
5	Q2FY13 Main Buildings of Central University, Bhatinda	CUP	Q2FY18	180
6	Q3FY13 Facilities project at Mangala Processing Terminal	CAIRN	Q1FY15	295
7	Q4FY13 Upgrading Pumpstations/ Terminals of Naharkatiya-Barauni Crude Oil Pipeline	OIL	Q2FY17	445
8	Q4FY13 Canal Pipeline & Pump station works at Sardar Sarovar Narmada Ltd.	SSNL	Q4FY14	245
9	Q3FY13 5 pipelines of GASCO-UAE	GASCO	Q3FY15	249
				11,165

Note: Rs in mn, Source: Company, IndiaNivesh Research

Consolidated Financial statements

Income statement

Y E March (Rs m)	2010A	2011A	2012A	2013E	2014E
Net sales	20,139.9	28,481.9	37,234.4	33,778.1	35,178.7
Growth %		41.4%	30.7%	-9.3%	4.1%
Purchase of traded Goods	0.0	0.0	0.0	0.0	0.0
Employee cost	4,911.7	5,240.6	5,478.4	5,134.3	5,206.4
Other Operating Expenses	10,213.1	16,694.0	24,598.7	21,567.3	21,849.5
Total Operating Expenses	15,124.8	21,934.6	30,077.1	26,701.6	27,055.9
EBITDA	5,015.1	6,547.3	7,157.3	7,076.5	8,122.8
Growth %		30.6%	9.3%	-1.1%	14.8%
EBITDA Margin %	24.9%	23.0%	19.2%	21.0%	23.1%
Depreciation	131.0	145.1	196.9	202.7	211.1
EBIT	6,713.8	7,998.7	9,282.8	9,303.8	10,431.7
EBIT Margin %	33.3%	28.1%	24.9%	27.5%	29.7%
Other Income	1,829.7	1,596.5	2,322.4	2,430.0	2,520.0
Interest	12.9	14.7	11.6	16.9	17.6
PBT	6,700.9	7,984.0	9,271.2	9,287.0	10,414.1
Tax	2,296.2	2,671.2	2,832.5	3,111.1	3,488.7
Effective tax rate %	34.3%	33.5%	30.6%	33.5%	33.5%
Extraordinary items	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	4,404.7	5,312.9	6,438.7	6,175.8	6,925.4
Growth%		20.6%	21.2%	-4.1%	12.1%
PAT margin %	21.9%	18.7%	17.3%	18.3%	19.7%

Source: IndiaNivesh Research

Balance sheet

Y E March (Rs m)	2010A	2011A	2012A	2013E	2014E
Share Capital	561.6	1,684.7	1,684.7	1,684.7	1,684.7
Reserves & Surplus	10,980.6	13,214.0	17,303.1	19,895.3	23,330.7
Net Worth	11,542.2	14,898.7	18,987.8	21,580.0	25,015.3
Total Liabilities	11,542.2	14,898.7	18,987.8	21,580.0	25,015.3
Gross Block	1,864.3	1,969.3	2,579.7	3,579.7	4,579.7
Accumulated Depreciation	1,230.8	1,336.9	1,498.8	1,663.5	1,835.6
Net Block	633.6	632.4	1,080.9	1,916.2	2,744.1
Capital WIP	118.5	219.4	0.0	0.0	0.0
Deferred Tax Asset	1,419.2	1,761.2	2,149.6	2,149.6	2,149.6
Investments	974.9	5,127.9	6,285.1	10,485.1	14,685.1
Current Assets	25,626.4	27,224.5	28,520.6	27,202.2	24,980.3
Inventories	9.7	8.7	8.3	9.4	9.8
Sundry Debtors	3,258.8	3,278.5	3,157.9	3,002.5	2,736.1
Cash & Bank Balance	17,944.8	17,981.3	16,870.2	17,560.0	15,534.9
Loans & advances	1,853.6	2,575.2	2,437.1	2,064.2	1,954.4
Other Current assets	2,559.5	3,380.8	6,047.2	4,566.1	4,745.1
Current Liabilities & provisions	17,230.9	20,066.8	19,048.4	20,173.1	19,543.7
Current Liabilities	14,036.5	15,452.4	13,492.9	14,543.4	13,680.6
Provisions	3,194.4	4,614.3	5,555.4	5,629.7	5,863.1
Net Current Assets	8,395.5	7,157.7	9,472.2	7,029.1	5,436.5
Other Assets	0.6	0.1	0.0	0.0	0.0
Total assets	11,542.2	14,898.7	18,987.7	21,579.9	25,015.3

Source: IndiaNivesh Research

Cash Flow

Y E March (Rs m)	2010A	2011A	2012A	2013E	2014E
PBT	6,709.1	8,042.4	9,282.8	9,303.8	10,431.7
Depreciation	131.0	149.3	196.9	202.7	211.1
Interest on dep/ adv.	(1,531.2)	(1,264.9)	(1,857.9)	(1,944.0)	(2,016.0)
Other non cash charges	(195.1)	(20.1)	358.4	(30.0)	(30.0)
Changes in working capital	867.0	333.1	(5,554.3)	3,382.9	(432.5)
Tax	2,383.3	2,710.0	2,444.1	3,110.4	3,487.4
Prior period adj.	(8.2)	(58.4)	0.0	0.0	0.0
Cash flow from operations	3,589.4	4,471.3	(18.2)	7,805.0	4,676.9
Capital expenditure	(183.9)	(152.3)	(610.4)	(1,000.0)	(1,000.0)
Free Cash Flow	3,773.2	4,623.6	592.1	8,805.0	5,676.9
Inc/Dec. in Investments	540.0	(4,154.0)	(1,157.2)	(4,200.0)	(4,200.0)
Cash flow from investments	2,070.4	(3,087.6)	339.8	(3,226.0)	(3,154.0)
Equity capital raised	0.0	0.0	0.0	0.0	0.0
Dividend paid (incl tax)	(6,929.6)	(1,347.3)	(2,365.3)	(2,956.6)	(3,547.9)
Cash flow from Financing	(6,929.6)	(1,347.3)	(2,365.3)	(2,956.6)	(3,547.9)
Net change in cash	(1,269.8)	36.5	(2,043.7)	1,622.3	(2,025.0)
Cash at the beginning of the year	19,214.7	17,944.8	17,981.3	15,937.6	17,560.0
Cash at the end of the year	17,944.8	17,981.3	15,937.6	17,560.0	15,534.9

Source: IndiaNivesh Research

Key ratios

Y E March	2010A	2011A	2012A	2013E	2014E
EPS (Rs)	13.4	15.8	19.1	18.3	20.5
Cash EPS (Rs)	10.7	13.3	(0.1)	23.2	13.9
DPS (Rs)	17.7	5.0	6.0	7.5	9.0
BVPS	34.3	44.2	56.4	64.0	74.2
ROCE	44.3%	44.3%	37.7%	32.8%	32.5%
ROE	39.0%	35.7%	33.9%	28.6%	27.7%
RoIC	-21.4%	22.5%	21.5%	14.9%	13.5%
EBITDA Margin %	25.4%	24.6%	19.2%	20.9%	23.1%
Net Margin %	22.4%	19.8%	17.3%	18.3%	19.7%
PER (x)	16.5x	14.0x	11.6x	12.1x	10.8x
P/BV (x)	6.5x	5.0x	3.9x	3.5x	3.0x
P/CEPS (x)	20.7x	16.7x	n/a	9.5x	15.9x
EV/EBITDA (x)	10.9x	7.8x	7.2x	6.6x	5.4x
Dividend Yield %	8.0%	2.3%	2.7%	3.4%	4.1%
M-Cap/Sales (x)	3.7x	2.8x	2.0x	2.2x	2.1x
Net Debt/Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Net Debt/EBITDA (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Source: IndiaNivesh Research

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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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