

FEBRUARY 24, 2012
BUY
MEDIUM RISK
PRICE Rs.252
TARGET Rs.312

ENGINEERING

SHARE HOLDING (%)

Promoters	80.4
FII	5.1
FI/MF	8.0
Body Corporate	1.7
Public & Others	4.8

STOCK DATA

Reuters Code	ENGI.BO
Bloomberg Code	ENGR IN

BSE Code	532178
NSE Symbol	ENGINEERSIN

Market Capitalization*	Rs. 84.9 bn US\$ 1.72 bn
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Shares Outstanding*	336.94 mn
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52 Weeks (H/L)	Rs.322 / 195
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Avg. Daily Volume (6m)	60,153 Shares
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Price Performance (%)		
1M	3M	6M
11	19	(4)

200 Days EMA: Rs. 255

*On fully diluted equity shares

 Part of  Bonanza


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Engineers India Ltd. (EIL) is a leading engineering consultancy and turnkey contracting company, which executes projects on conventional and lump-sum turnkey (LSTK) basis in refineries, petrochemicals, pipelines, offshore platforms, metallurgy, infrastructure, fertilizer etc. Over the years, it has developed an extensive track record of working with almost all the major players in hydrocarbon sector in India and has significant indigenous technology and engineering expertise. Leveraging its strong track record in India, EIL has also successfully expanded its business internationally with wide range of engineering consultancy services, particularly in the Middle East, North Africa and South East Asia.

Leading Consultancy and EPC Company in Indian Hydrocarbon Sector

EIL is one of Asia's leading engineering companies, providing engineering consultancy & turnkey project contracting services across hydrocarbon value chain. It is the only player in Indian hydrocarbon sector which provides complete 'Concept to Commissioning' services under one umbrella, through its range of services such as feasibility studies, project management, planning & scheduling, process design & construction management. EIL is having immense experience and long track record of executing several large projects, which include more than 49 projects in refinery, 7 in petrochemicals, 37 in pipelines, 240 offshore and onshore oil & gas projects, 26 in mining & metallurgy etc. It also has technical alliances with leading global players for the technologies used in various projects. Hence, with its strong technical capabilities and vast experience of executing large projects in past, the Company continues to be one of the leading service providers for most of the Public Sector Units (PSUs) in oil & gas sectors.

Increased Outlay for Hydrocarbon Sector in 12th Plan - A Big Opportunity for EIL

As per draft paper on 12th plan by planning commission, India's oil and gas requirements are expected to reach 204.8 mtoe & 87.2 mtoe respectively by FY17. India would need to invest to the tune of Rs. 2.8 trillion in the oil and gas sector during the 12th Plan period for expanding domestic and international infrastructure, be it in terms of refining capacity (302 MMTPA by 2017), pipelines (additional 15,500 km) and city gas distribution network (over 200 cities to be covered). Hence, investments in these segments will drive growth for consultancy & EPC players in hydrocarbon segment. EIL, being a premier engineering consultancy and EPC company with vast experience and long track record, is best placed to benefit from the capex of these segments. EIL expects business opportunities worth Rs. 1,550 bn in hydrocarbon sector (including Rs. 880 bn in refinery) during 12th Plan period.

Decent Order-Book Provides Growth Visibility

EIL's current order book position stands at Rs. 56 bn (1.6x its TTM Rev), while its YTD (Apr-Jan 2012) order inflows remained sluggish at about Rs. 7.0 bn as most of upcoming projects in hydrocarbon segments are in finalization stage and likely to be awarded from Q1FY13 onwards. Though EIL expects its FY12 order inflows to be muted at Rs. 15 bn, the ordering environment is expected to improve significantly from FY13 onwards as three major refinery orders from BPCL & HPCL are likely to be awarded in H1FY13. IOCL, India's largest refiner, is also expected to invest in capacity expansion for next 4-5 years, creating business opportunities for EIL. Hence, we expect EIL's order inflows to remain very strong for next 2-3 years as 62 MMTPA refining capacity is expected to be added during FY12-17 along with investment for expansion of pipeline and Oil & Gas exploration capacity. Going forward, with its current order book position & prospective order pipeline, the visibility of top-line growth for two years is very clear and EIL is expected to deliver Revenue CAGR of ~21% during FY11-14E.

Diversifying Portfolio by Entering into New Growth Segments

The Indian infrastructure sector provides attractive opportunities, given the expected USD 1-trillion investments in the next five years. Hence, leveraging its strong engineering consultancy and EPC capabilities, EIL is exploring opportunities in high growth area like renewable energy, nuclear power, infrastructure, city gas distribution and fertilizer. The work on developing entry-level strategies and acquisition of requisite skill sets in these potential areas has already been initiated. These sectors are expected to contribute significantly for the next 3-5 years and will diversify EIL's business portfolio.

Strong Balance sheet with Decent Growth Outlook

Considering its decent order book and strong growth expected in order inflows in next two years, we expect EIL's Consolidated Revenues to grow by 26.7%, 21.2% & 16% in FY12E, FY13E & FY14E, respectively. EIL also has strong balance sheet with negative working capital and high cash to tune of Rs. 21 bn (Rs.62 cash per share). The CMP of Rs.252 discounts its FY13E & FY14E consolidated EPS of Rs.21.5 & Rs.24 by 11.7x & 10.5x, respectively. We have valued EIL at 13x its FY14E earnings, which would be still ~ 15% discount to 5 years mean and re-instate coverage with target price of Rs.312.

KEY FINANCIALS (Consolidated)

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY11	28,482	5,313	15.8	20.6	16.0	53.6	35.7	5.7
FY12E	36,081	6,395	19.0	20.4	13.3	50.3	33.8	4.5
FY13E	43,725	7,231	21.5	13.1	11.7	46.1	30.6	3.6
FY14E	50,737	8,076	24.0	11.7	10.5	42.3	28.1	3.0

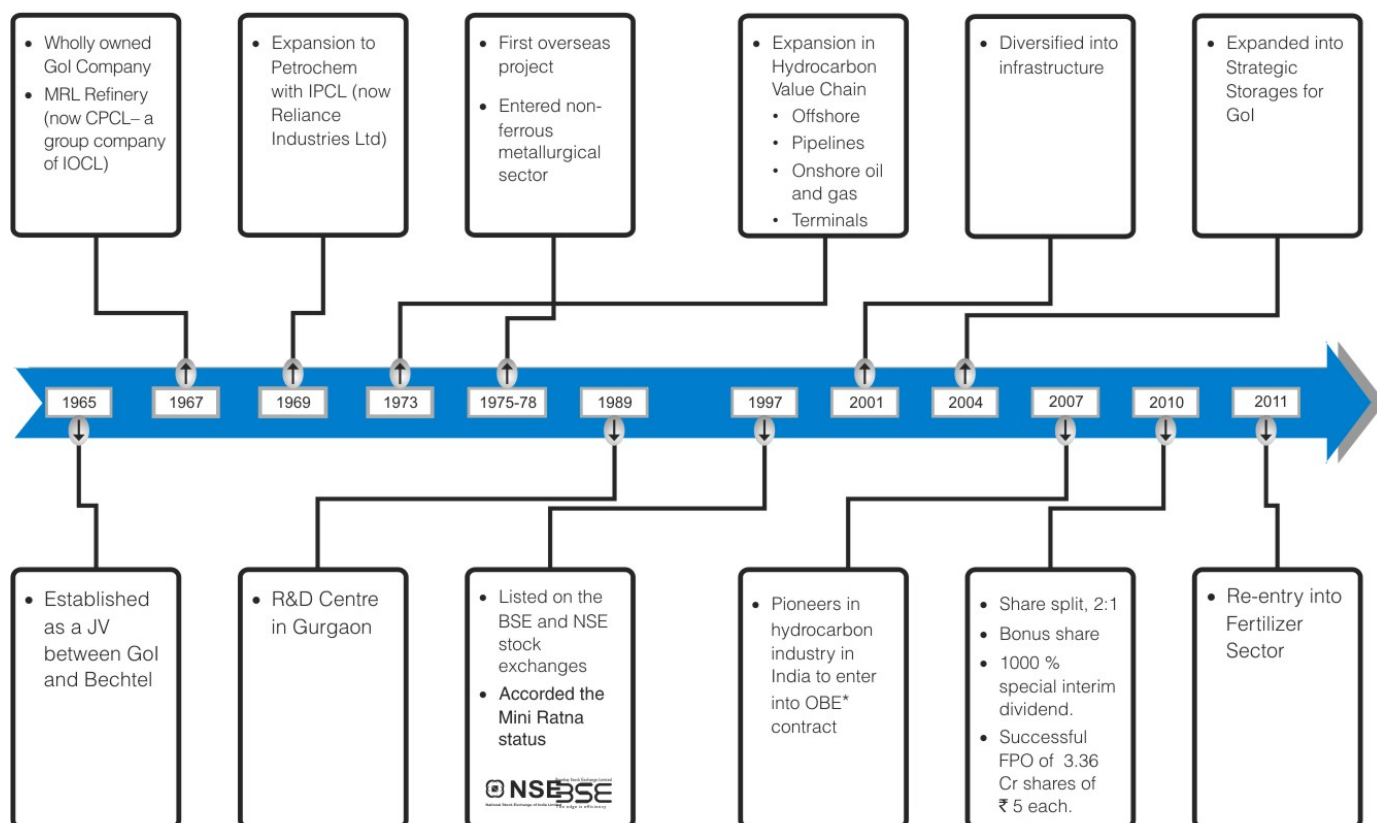
COMPANY BACKGROUND

Incorporated in 1965, EIL is a leading engineering consultancy company, principally focused on the oil & gas and petrochemicals industries in India and Overseas. It has also diversified into other sectors including non-ferrous mining, metallurgy, infrastructure, fertilizer, power (solar & nuclear), water & waste management etc. EIL currently has a highly skilled & professional employee base of 3,500 people of which 82% are with technical and professional qualifications. Being a technology driven organization, it has established a sophisticated R&D center in Gurgaon and has developed or obtained advanced technologies, which it licenses to customers in the oil & gas, and petrochemical industries.

Its business is aligned into two segments- the Consultancy segment and the Lumpsum Turnkey (LSTK) Projects segment. The Projects on which it provides engineering consultancy, project management and implementation services are included in the Consultancy, while Projects undertaken on a turnkey basis are included in LSTK Projects segment.

Key Milestones for EIL: With more than four decades of experience in the Hydrocarbon space, the company has achieved several milestones.

Evolution and Key Milestones

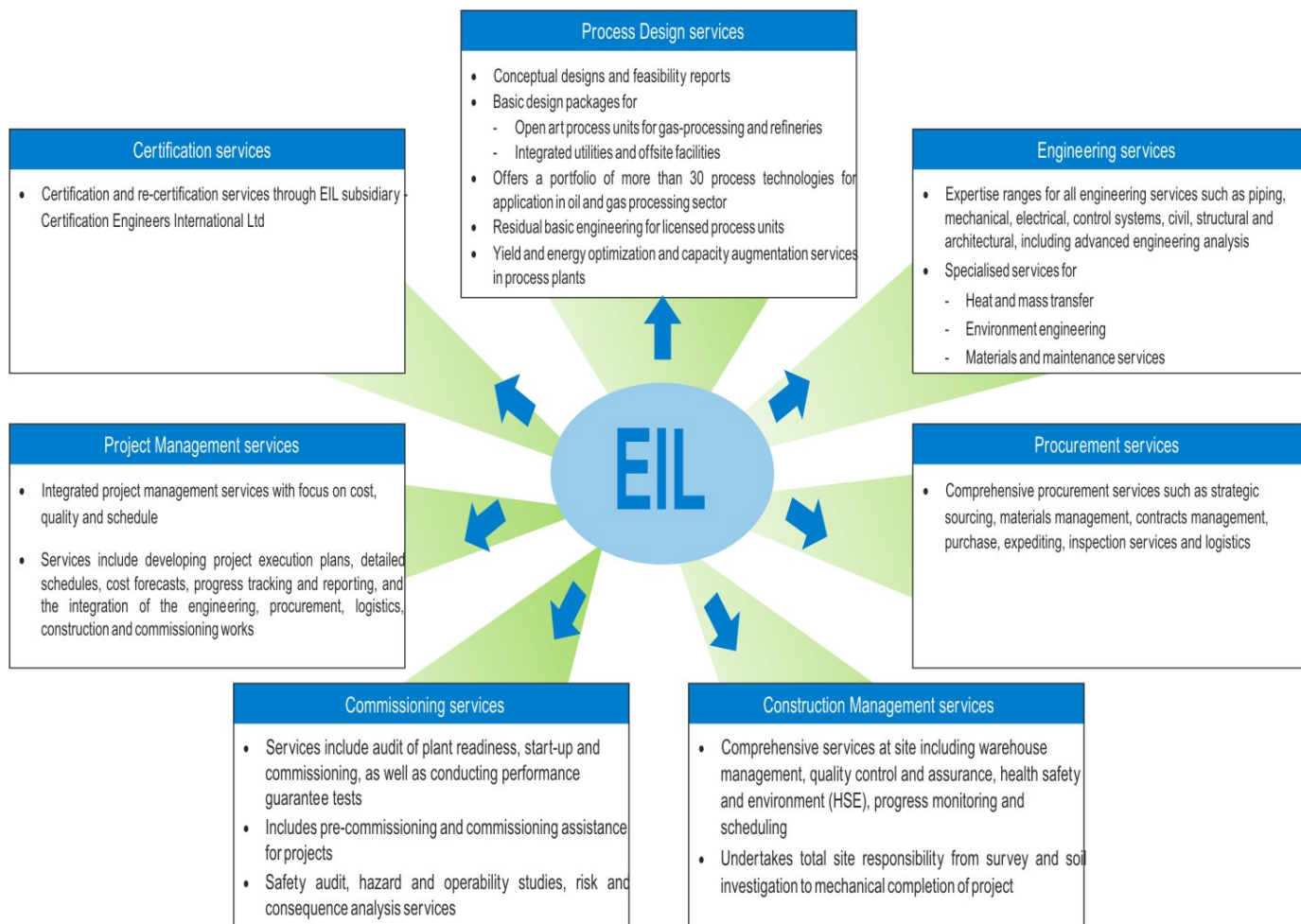


* OBE: Open Book Estimate

Source: EIL Annual Report

Service Offering: From Concept to Commissioning

Its services cover the entire spectrum of activities from concept to commissioning of a project, which includes preparation of project feasibility reports, technology selection, project management, process design, basic & detailed engineering, procurement, inspection, project audit, supply chain management, cost engineering, planning & scheduling, facilitation of statutory & regulatory approvals, construction management, and commissioning.



Source: EIL Annual Report

Overseas Presence

Leveraging its track record in India, EIL has successfully expanded its operations in overseas markets providing a wide range of engineering consultancy services on various international projects, particularly in the Middle East, North Africa and South East Asia. EIL has earned recognition for jobs executed in overseas countries such as West Asia, North Africa, Europe and South Asia including Algeria, Bahrain, Iran, Kuwait, Korea, Malaysia, Norway, Qatar, Saudi Arabia, Sri Lanka, UAE, Vietnam, etc. The company has established international offices in Abu Dhabi, London, Milan and Shanghai for its international operations.

INVESTMENT RATIONALE

Leading Consultancy and EPC Company in Indian Hydrocarbon Sector

EIL is one of Asia's leading engineering companies, providing engineering consultancy & turnkey project contracting services across hydrocarbon value chain. It is the only player in Indian hydrocarbon sector which provides complete 'Concept to Commissioning' services under one umbrella, through its range of services such as feasibility studies, project management, planning & scheduling, process design & construction management. Over the years, EIL has developed a strong track record of working on landmark projects with various Indian and global energy majors. It has provided a range of engineering consultancy and project implementation services on more than 49 refinery projects including nine Greenfield refinery projects, 7 petrochemical complexes, 35 oil & gas processing projects, 205 offshore platforms projects, 37 pipeline projects, 11 ports and storage and terminals projects, 8 fertilizer projects, and 26 mining & metallurgy projects. In the infrastructure space, it has provided a range of engineering consultancy services for more than 26 projects, including for airports, highways, flyovers, bridges, water & sewer management, as well as energy-efficient buildings. EIL has also completed 16 turnkey projects, including refinery & petrochemical projects and offshore platforms. Hence, with its strong technical capabilities and vast experience of executing large projects in past, the Company continues to be one of the leading service providers for most of the Public Sector Units (PSUs) in oil & gas sectors.

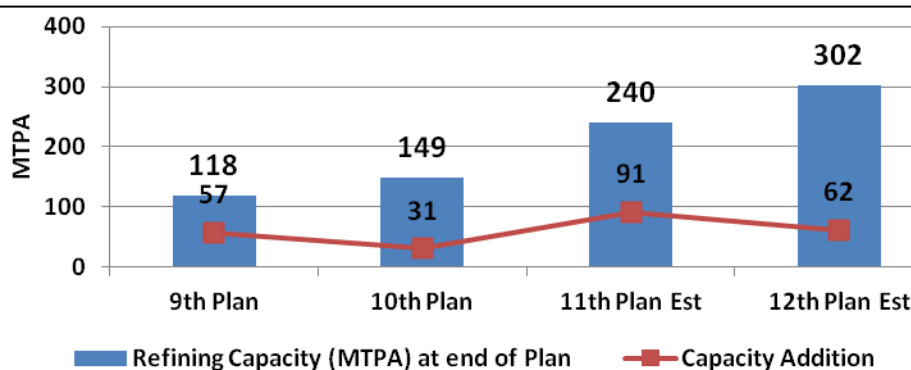
	Offshore Oil & Gas	Oil & Gas Transportation	Onshore Oil & Gas	Refineries	Petrochemicals	Storage, Ports & Terminals
Overview	<ul style="list-style-type: none"> Work for various engineering consultancy services on the Indian West Coast and East Coast 	<ul style="list-style-type: none"> Engineering consultancy services for more than 10,000 km of onshore and subsea pipeline projects in India and internationally 	<ul style="list-style-type: none"> Experience and engineering capabilities for the design of onshore facilities such as Group gathering stations, multistage separation, crude desalting and dehydration, heavy oil and sour oil processing 	<ul style="list-style-type: none"> Range of services from concept to commissioning of refinery projects ranging from single unit revamp projects to mega refinery or refinery cum petrochemicals complexes 	<ul style="list-style-type: none"> EILs experience in the field of petrochemicals covers the design and construction of major fully-integrated petrochemical complexes, as well as a large number of individual petrochemical units 	<ul style="list-style-type: none"> Engineering consultancy services on various coastal engineering projects, including geo-technical engineering, layout preparation for ports and shipyards and materials handling
Key highlights	<ul style="list-style-type: none"> Engineering consultancy services on more than 150 well platforms and 30 process platforms in India for ONGC Executed international projects in Qatar and Abu Dhabi Engaged in the offshore platform projects for the Deen Dayal Field Development Project of GSPC on Indian East Coast 	<ul style="list-style-type: none"> EIL was involved in the development of the HBJ pipeline – India's largest gas pipeline network Engineering consultancy services to GAIL on one of the world's longest LPG pipeline Developed strategic pipelines for HPCL, BPCL, BORL, IOCL and HMEL 	<ul style="list-style-type: none"> Developed gas processing complexes at Hazira and Uran and the C2/C3 and LPG recovery units at Auraiya Currently engaged in the onshore platform projects for the Deen Dayal Field Development Project of GSPC International projects executed in Algeria and Abu Dhabi 	<ul style="list-style-type: none"> EIL has worked on over 49 refinery projects in India Worked on 8 grassroot refinery projects from concept to commissioning Expertise in LP modelling for configuration studies and energy savings in refining process 	<ul style="list-style-type: none"> EIL has been involved in the establishment of seven out of the eight mega petrochemical complexes in India EPCM services for GAIL, NOCIL, Petrofils Limited, IOCL, IPCL (now RIL) and others 	<ul style="list-style-type: none"> Developed expertise for storage of crude oil in unlined underground caverns - security initiative for strategic crude oil storage as part of the Integrated Energy Policy of GoI

Over four decades of experience in the Hydrocarbon space with a presence across the entire value chain

Increased Outlay for Hydrocarbon Sector in 12th Plan - A Big Opportunity for EIL

As per draft paper of planning commission, India's oil and gas requirements are expected to increase at CAGR of 6.5% during 12th plan (FY12-17) to reach 204.8 mtoe (from 164.3 mtoe in FY11) & 87.2 mtoe (from 58 mtoe in FY11) respectively by FY17. Hence, India would need to invest to the tune of Rs. 2.8 trillion in the oil and gas sector during the 12th Plan period for expanding domestic and international infrastructure. During 12th plan, the refining capacity is expected to increase by 62 MMTPA to reach 302 MMTPA by FY17, while 15,500 km additional pipeline capacity is targeted to support oil and gas transportation. The city gas distribution network is also expected to increase to over 200 cities. Hence, investments in these segments will drive growth for consultancy & EPC players in hydrocarbon segment. EIL, being a premier engineering consultancy and EPC company with vast experience and long track record, is best placed to benefit from the capex of these segments.

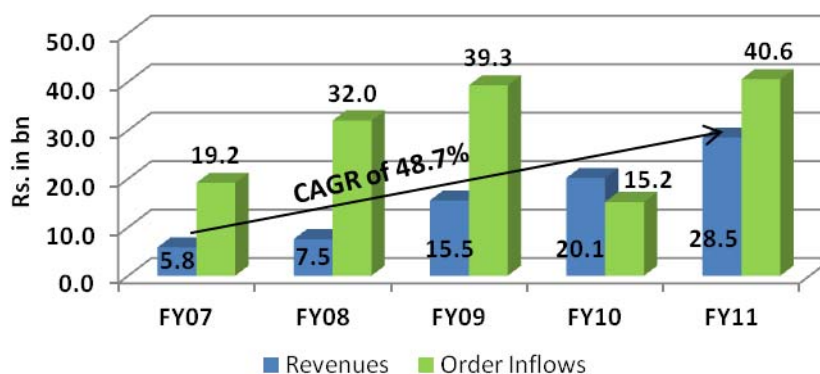
India's refining capacity addition during five year plans



Source: Draft paper of planning commission on 12th Plan

Generally, the companies in hydrocarbon segment finalize their capacity addition plan in advance and awarding of contracts picks up during initial 2-3 years of five year plans and consequently, the order inflows for EPC & consultancy services providers increase at a faster pace during these periods. During first two years of 11th plan (FY07-09), EIL also recorded a strong CAGR of 43.3% in its order inflow and 72% in its order book position. Hence, it delivered very strong CAGR of 48.7% in its Consolidated Revenues during FY07-11. As 12th plan begins from April 2012, EIL is expected to receive decent number of orders during next 2-3 years. EIL expects business opportunities worth Rs. 1,550 bn in hydrocarbon sector (including Rs. 880 bn in refinery) during 12th Plan period.

Revenue vs. Order inflows Growth



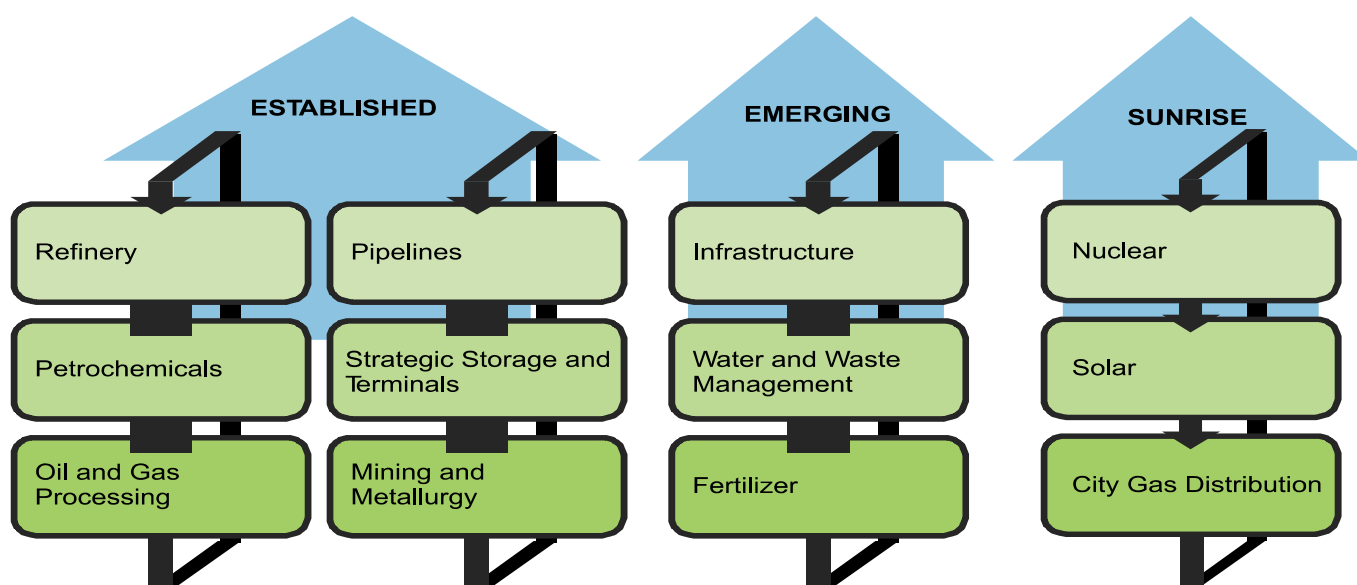
Diversifying Portfolio by Entering into New Growth Segments

The Indian infrastructure sector provides attractive opportunities, given USD 1-trillion investments expected in the next five years. Hence, leveraging its strong engineering consultancy & EPC capabilities, EIL is exploring opportunities in high growth area like renewable energy, nuclear power, infrastructure, city gas distribution and fertilizer. The work on developing entry-level strategies and acquisition of requisite skill sets in these potential areas has already been initiated. These sectors are expected to contribute significantly for next 3-5 years and will diversify EIL's business portfolio.

India's Infrastructure Investment

Figures in USD bn	10 th Plan	11 th Plan Estimate	12 th Plan Estimate
Investment Amount	218	514	1000
% of GDP	5.0	9.0	10.0

Diversifying the business Portfolio



Fertilizers: In Fertilizer sector, EIL has secured a major breakthrough with award of a major contract for setting up of Ammonia & Urea Facilities for Jaiprakash Industries Ltd. The new units are scheduled to complete in 33 months. The process design package will be provided by M/s KBR, USA for Ammonia and M/S TOYO, Japan, for Urea. EIL's scope consists of residual process engineering, detailed engineering for all Utilities and Offsites with overall project management services. EIL is also considering participation in revival of closed units of public sector gas-based fertilizer plants along-with strategic partners. EIL along with NFL is currently in process of revival of the Ramagundam fertilizer unit of FCI. EIL and NFL combine will take 51% stake in special purpose vehicle that will be formed for revival, while a partner for the rest is yet to be decided. EIL is expected to invest about Rs. 4 bn over next 3-4 years and also expected to get consultancy order.

Water & Waste Management: In this sector, EIL intends to focus on water desalination and treatment projects, urban water distribution projects, waste water collection & treatment, waste water disposal, and residue disposal projects. The industry size of this segment is about Rs. 80 bn. EIL will continue to target engineering consultancy and PMC opportunities as well as EPC projects. It is currently executing a project of Sewerage System, supplementary & Shahdara Drains for Delhi Jal Board (DJB).

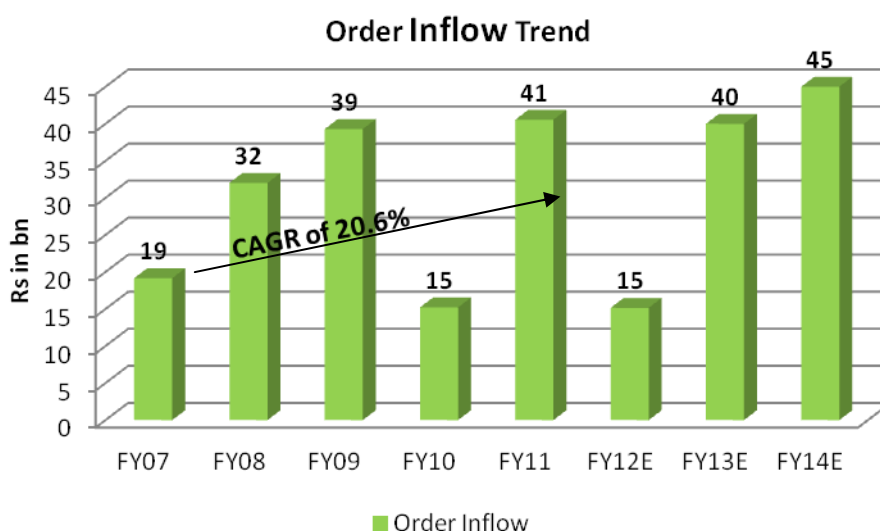
City Gas Distribution: The central government is targeting to expand India’s City Gas Distribution network in more than 200 cities by 2017 and 330 cities by 2025 from 100 cities covered at present. Given EIL’s track record of providing engineering consultancy and EPC services for urban infrastructure projects and cross-country hydrocarbon projects, the city gas distribution sector provides attractive opportunities. EIL intends to pursue strategic city gas distribution projects through equity investments to own and operate such networks. It has already signed MoU with GSPC in this area.

Nuclear Power: Currently, 20 Nuclear Power Reactors are operational in India with a total installed capacity of 4,780 MW, which is expected to increase to 20,000 MW by 2020. With a view to expand its operations in the Nuclear Sector, EIL has signed a Memorandum of Cooperation (MOC) with Nuclear Power Corporation of India Ltd. (NPCIL). Under this agreement, EIL will carry out the engineering, procurement, construction and project management for nuclear and balance of plant areas of nuclear power plants.

Renewable Energy: National Solar Mission plans for a capacity of 22,000 MW by 2022. As a part of EIL’s efforts to enter into renewable energy sector, it participated in the 1st phase of the National Solar Mission to bid for a 5 MW Solar Photovoltaic Power Project along with GAIL. EIL also provided Project Management & Consultancy services to GAIL for its bid of 50 MW Solar Thermal Project.

Decent Order-Book Position Provides Growth Visibility

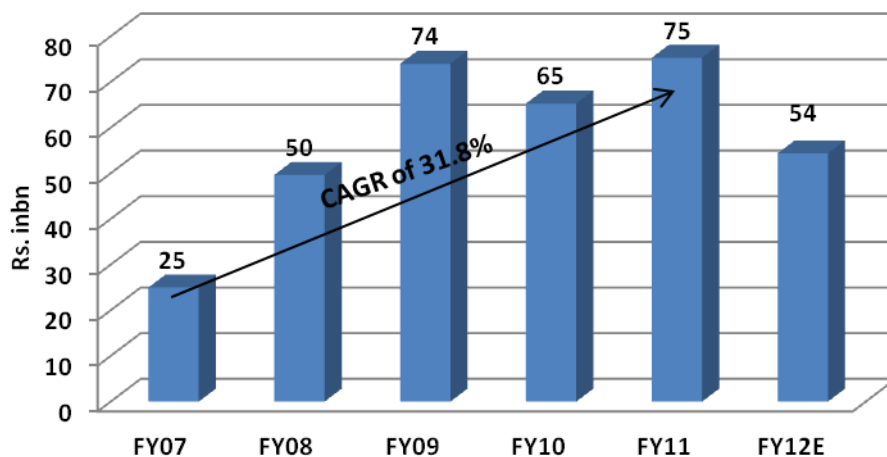
During FY07-11, the company has recorded a strong CAGR of 20.6% in its order inflow. However, its YTD (Apr-Jan 2012) order inflows remained sluggish at about Rs. 7.0 bn as most of upcoming projects in hydrocarbon segments are in finalization stage and likely to be awarded from Q1FY13 onwards. Though EIL expects its FY12 order inflows to be muted at Rs. 15 bn, the ordering environment is expected to improve significantly from FY13 onwards as three major refinery orders from BPCL & HPCL are likely to be awarded in H1FY13. IOCL, India’s largest refiner, is also expected to invest in capacity expansion for next 3-5 years, creating business opportunities for EIL. Hence, we expect EIL’s order inflows to remain very strong for next 2-3 years as 62 MMTPA refining capacity is expected to be added during FY12-17E along with investment for expansion of pipeline and Oil & Gas exploration capacity.



Source: Company, Sushil Finance Research Estimates

During FY07-11, the company has recorded a strong CAGR 31.8% in its order book position and its current order book stands at Rs. 56 bn (1.6x its TTM Rev). Going forward, with its current order book position & prospective order pipeline, the visibility of top-line growth for two years is very clear and also EIL is looking at increasing overseas business contribution to 25% from present 5% in the next 4-5 years. Hence, we believe it to deliver Revenue CAGR of ~21% during FY11-14E.

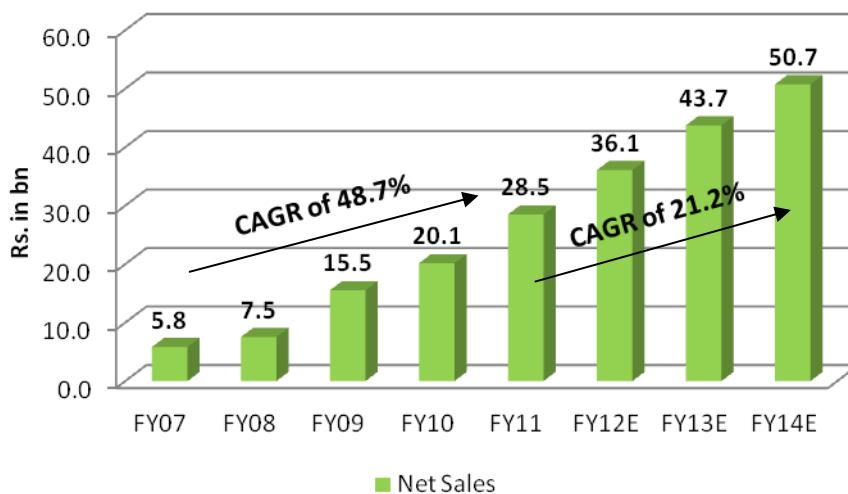
Order Book Position Trend



Source: Company, Sushil Finance Research Estimates

Decent Revenue Growth Outlook: EIL has delivered very decent growth during FY07-11 with Consolidated Revenues CAGR of 48.7%. We expect EIL's Consolidated Revenues to grow at CAGR of 21.2% during FY11-FY14E to reach Rs. 50.7 bn in FY14E from Rs. 28.5 bn in FY11.

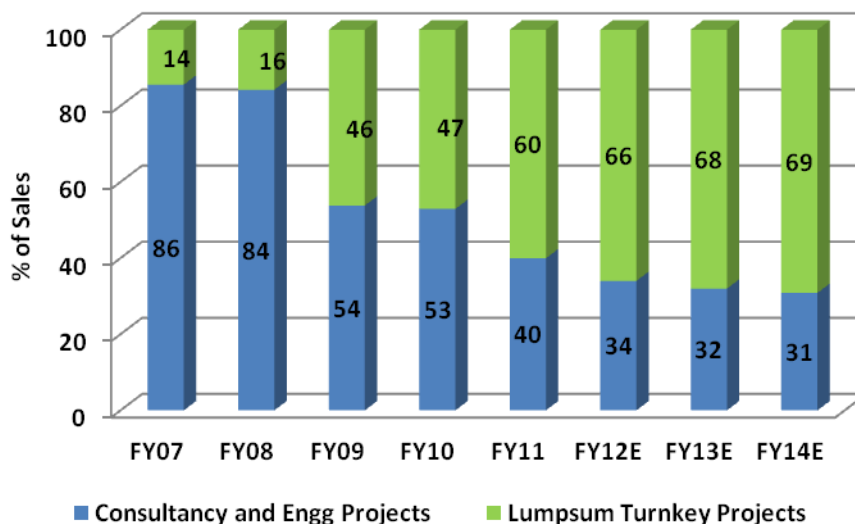
Revenues Trend



Source: Company, Sushil Finance Research Estimates

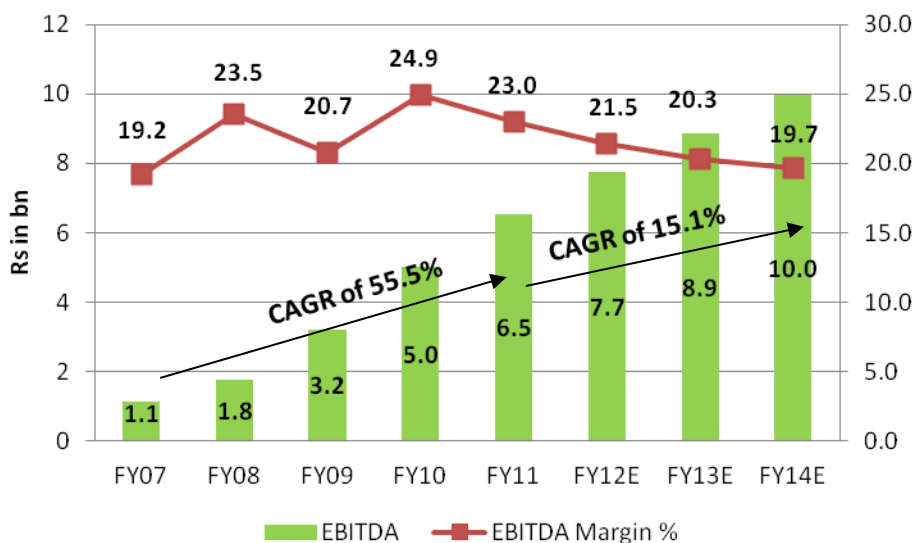
Though EIL's consultancy & Engineering Projects business has delivered a decent CAGR of ~23% during FY07-11, its Revenues share has come down from 86% in FY07 to 40% in FY11, mainly due to very strong CAGR of ~113% witnessed in its EPC business during the same period on faster execution of turnkey projects. We expect shift in its business mix more towards turnkey projects to continue going forward and Revenue share of its consultancy & Engineering Projects business is expected to stabilize between 30-35%.

Segment wise Revenue Contribution



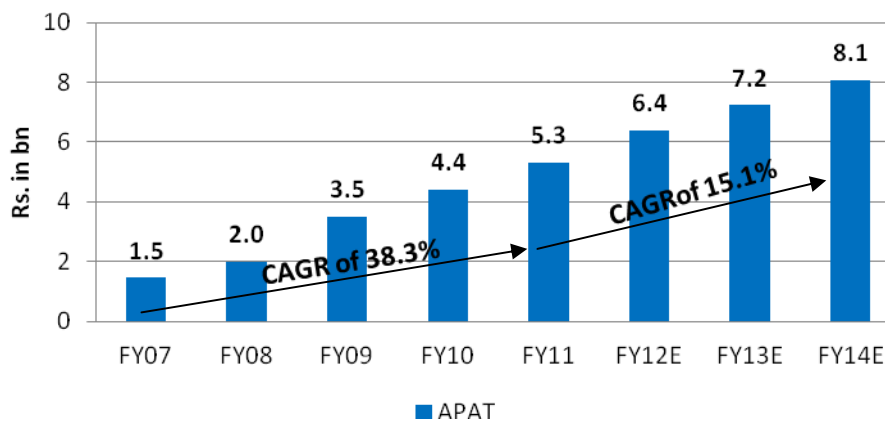
Source: Company, Sushil Finance Research Estimates

EBITDA Margins to remain stable at about 20% level: Its Consolidated EBITDA margins expanded from 19.2% in FY07 to 23% in FY11. Going forward, its Consolidated EBITDA margins are expected to stabilize at 20%, due to shift in business mix more towards turnkey projects.



Source: Company, Sushil Finance Research Estimates

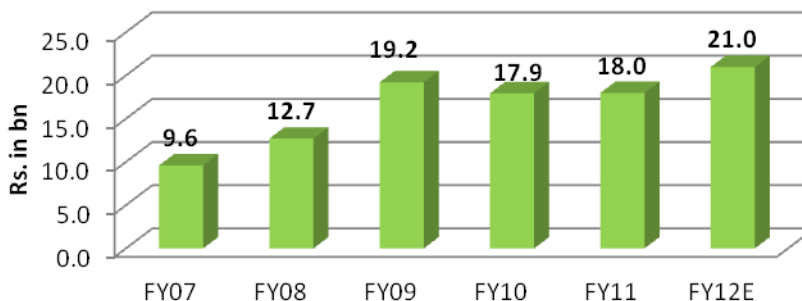
Decent Profit Growth: During the period FY07-FY11, its Consolidated APAT delivered a decent CAGR of 38.3%. We expect EIL's consolidated APAT to grow at CAGR of 15% during FY11-FY14E.



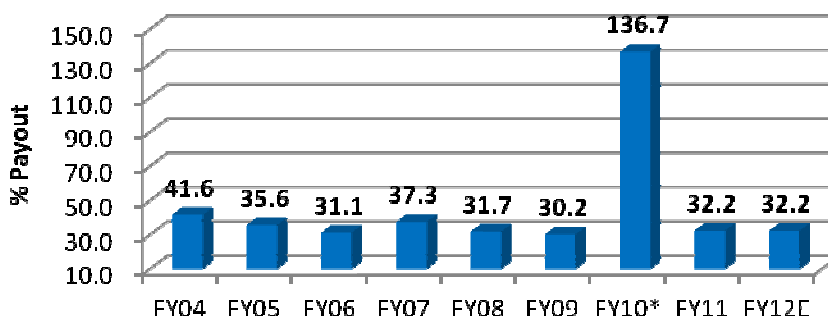
Source: Company, Sushil Finance Research Estimates

Strong Balance sheet: EIL has a strong balance sheet with high cash & cash equivalent to the tune of ~Rs. 21 bn (Rs. 62 cash/share) as on Dec'11. EIL has also been consistent in paying dividend, maintaining above 30% payout and It has also delivered very strong RoCE and RoE, which are currently at 50% & 34% respectively.

Cash Position Trend



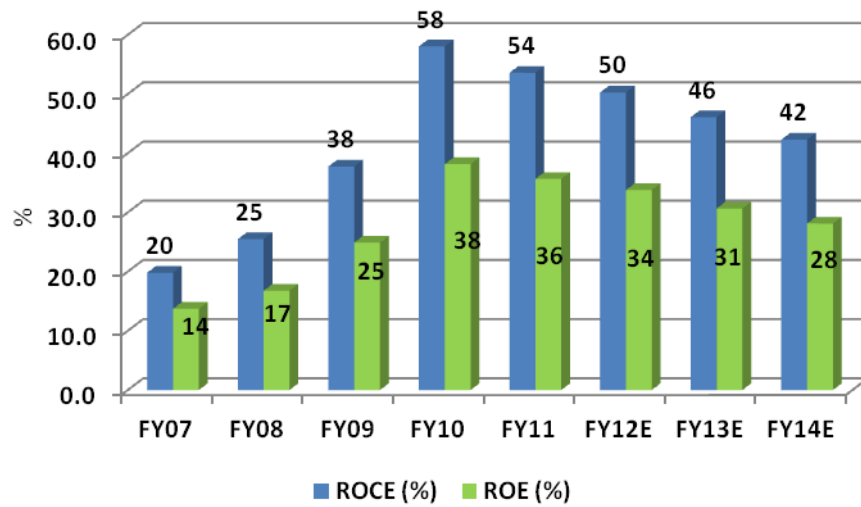
Consistent Dividend Payout



Source: Company, Sushil Finance Research Estimates

* During FY10, special dividend of Rs. 100 declared on equity share (Ex bonus & split)

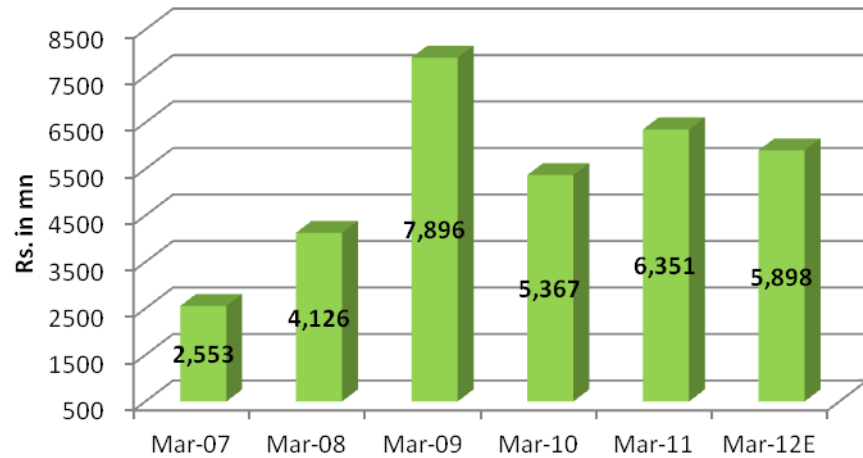
High Return Ratio



Source: Company, Sushil Finance Research Estimates

Strong Cash Flow from operating activity

Cash Flow from Operation



Source: Company, Sushil Finance Research Estimates

ONGOING PROJECTS

Petroleum Refining

- ▶ Petro FCC, Sulphur Block, Polypropylene Unit and SPM & Associated Facilities for Refinery Expansion and Upgradation Project (Phase-III) at Mangalore of MRPL
- ▶ Wax Project of Numaligarh Refineries Ltd. (NRL)

Petrochemicals

- ▶ Assam Gas Cracker Project at Lepetkata of Brahmaputra Cracker and Polymer Ltd. (BCPL)
- ▶ Petrochemical Complex Phase-II at Vijaipur of GAIL India Ltd.
- ▶ Phase- II at Pata of GAIL India Ltd.
- ▶ Dahej Petrochemical Complex of ONGC Petro additions Ltd. (OPaL)

Pipelines

- ▶ Brahmaputra Pipeline Project of Brahmaputra Cracker and Polymer Ltd. (BCPL)
- ▶ Dabhol-Bangalore Pipeline Project of GAIL India Ltd.
- ▶ Vijaipur – Kota Pipeline augmentation for GAIL India Ltd.
- ▶ Hazira – Dahej Naphtha Pipeline Project for ONGC
- ▶ Paradip South Jetty Pipeline Project of IOCL
- ▶ Compressor Stations at Kailaras & Chainsa of GAIL India Ltd.

Offshore Oil & Gas

Offshore Well Head platform, Process-cum-Living Quarter Platform, Subsea & Onshore Pipelines and miscellaneous infrastructure works for Deen Dayal Field Dev. Project of GSPC

Onshore Oil & Gas

- ▶ Onshore Gas Terminal at Kakinada for Deen Dayal Field Development Project of GSPC
- ▶ Western Onshore Redevelopment Project at Ahmedabad, Ankleshwar & Mehsana of ONGC

Metallurgy

- ▶ Expansion of Bauxite Mines and Alumina Refinery Project (Phase-II) at Damanjodi, Orissa of NALCO
- ▶ Expansion of Aluminium Smelter Project (Phase-II) at Angul, Orissa of NALCO
- ▶ 4th Stream Upgradation for Alumina Refinery Project at Damanjodi, Orissa of NALCO
- ▶ Aditya Aluminum Project at Sambalpur, Orissa of HINDALCO
- ▶ Mahan Aluminum Project at Singrauli, Madhya Pradesh of HINDALCO

Sub-Surface Projects

- ▶ Crude Oil Storage in underground rock caverns at Vizag, Mangalore and Padur for Indian Strategic Petroleum Reserves Ltd. (ISPRL)
- ▶ DFR Ph-II for Strategic Storage of Crude Oil at Rajkot, Padur, Bikaner & Chandikhol for Indian Strategic Petroleum Reserves Ltd. (ISPRL)

Infrastructure

- ▶ Mumbai Airport Upgradation Project of AAI /MIAL
- ▶ Laying of Interceptor Sewers for Yamuna at Delhi for Delhi Jal Board
- ▶ Construction of Data Centre building at Delhi & Bengaluru and construction of office building at Delhi for UIDAI

Turnkey Projects

- ▶ Petro FCC, Sulphur Block, Polypropylene Unit and SPM & Associated Facilities for Refinery Expansion and Upgradation Project (Phase-III) at Mangalore of MRPL
- ▶ Onshore Gas Terminal at Kakinada for Deen Dayal Field Development Project of GSPC
- ▶ Paradip South Jetty Pipeline Project of IOCL

Overseas Projects

- ▶ Rehabilitation & Adaptation of Algiers Refinery of NAFTEC Spa, Algeria
- ▶ Qusahwira Field Development Project of ADCO, Abu Dhabi
- ▶ Pipeline Projects for GASCO, Abu Dhabi
- ▶ Project Engineering Services for Bahrain National Gas Company
- ▶ Engineering Design Services for National Petroleum Construction Company

NEW PROJECTS

Petroleum Refinery Projects

- ▶ Licensor Selection and Process Study Report for FCC revamp at Gujarat Refinery of IOCL
- ▶ Study & Resultant Engineering for reduction of Sodium Residue to meet Coker Requirement in AU-IV at Gujarat Refinery of IOCL
- ▶ Feasibility Study for setting up of a Grass root Refinery for IOCL
- ▶ Construction of 4 numbers of Mounded Bullets at Kochi Refinery of BPCL EIA and RRA Study for Residue Upgradation & Distillate Yield Improvement with 11 MMTPA crude processing project at Mathura Refinery of IOCL.
- ▶ PP unit for Retaining Wall and Building works for MRPL.

Oil/Gas Field development Projects

- ▶ Consultancy Services for requalification/recertification of 50 nos. of offshore jackets of ONGC
- ▶ Technical Review of Bids for revamp of Galeki field of ONGC.

Pipeline Projects

- ▶ Horizontal Directional Drilling (HDD) of Ganga River in route of Auraiya – Jagdishpur Pipeline of GAIL India Ltd.

Metallurgy Projects

- ▶ Rectifier Group Replacement in Rectifier Station for Hindalco Industries Ltd.

Power Projects

- ▶ Power Block of 1x125 MW Concentrated Solar Thermal Power Project of Reliance Power (ADAG) for AREVA Solar Renewable Energies India Pvt. Ltd.

Turnkey Projects

- ▶ PP unit for Retaining Wall and Building works for MRPL

Overseas Projects

- ▶ Technical Consultancy Services for Project Lotus of ONGC Videsh Ltd.
- ▶ Consultancy Study for Fire Fighting Systems & Strategy at Ruwais Refinery of TAKREER, Abu Dhabi
- ▶ Replacement of 4 portable water tanks at Arzanah facilities of ZADCO, UAE
- ▶ Habshan Acid Gas Flare Recovery Project of GASCO, UAE

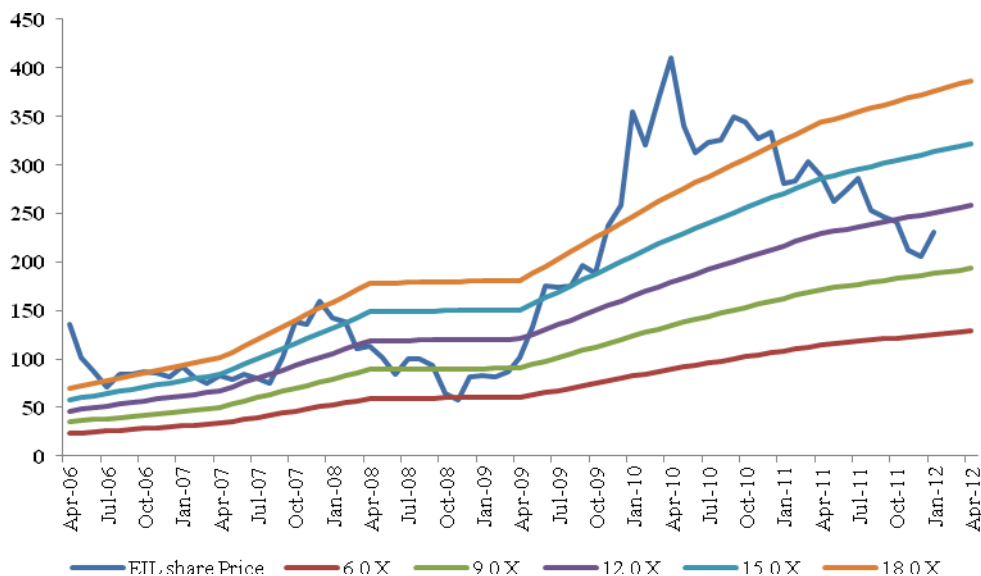
RISK AND CONCERNS:

- ▶ Higher dependency over hydrocarbon sector
- ▶ Delay in Govt. decision making on capex plan of PSUs
- ▶ Higher raw material cost
- ▶ Retaining and recruiting skilled manpower
- ▶ Inflation & Interest rate

OUTLOOK & VALUATION

Considering its decent order book and strong growth expected in order inflows in next two years, we expect EIL's Consolidated Revenues to grow at 21% CAGR during FY12-14E. EIL also has a strong balance sheet with negative working capital and high cash to tune of Rs. 21 bn. We expect EIL's Consolidated Revenues to grow by 26.7%, 21.2% & 16% in FY12E, FY13E & FY14E, respectively, while its Net Profits to grow by 20.4%, 13.1% & 11.7% in FY12E, FY13E & FY14E, respectively. The CMP of Rs.252 discounts its FY13E & FY14E consolidated EPS of Rs.21.5 & Rs.24 by 11.7x & 10.5x, respectively. Considering its decent growth prospects, strong balance sheet with high RoE (~34%) & RoCE (~50%), We have valued EIL at 13x its FY14E earnings, which would be still ~ 15% discount to 5 years mean and re-instate coverage with target price of Rs.312.

Historical PE band



PROFIT & LOSS (Consolidated)

Rs.mn

Y/E March	FY11	FY12E	FY13E	FY14E
Total Sales	28,482	36,081	43,725	50,737
Total Raw materials	14,603	19,908	24,980	29,399
COGS	14,603	19,908	24,980	29,399
Personnel Cost	5,241	5,930	6,803	7,792
Other Exp.	2,091	2,503	3,070	3,562
EBITDA	6,547	7,740	8,871	9,984
Depreciation	145	122	155	180
Interest Cost	15	0	0	0
Other Income	1,597	1,897	2,158	2,340
Exceptional Item	0	0	0	0
EBT (as reported)	7,984	9,514	10,874	12,144
Tax	2,671	3,119	3,643	4,068
PAT	5,313	6,395	7,231	8,076
Extraordinary Items	0	0	0	0
RPAT incl. Extra-ord.items	5,313	6,395	7,231	8,076
Adjusted PAT (APAT)	5,313	6,395	7,231	8,076

BALANCE SHEET (Consolidated)

Rs.mn

As on 31 st March	FY11	FY12E	FY13E	FY14E
Equity Share Capital	1,685	1,685	1,685	1,685
Application money	0	0	0	0
Reserves	13,214	17,244	21,913	27,032
Net worth	14,899	18,928	23,597	28,717
Total loans	0	0	0	0
Capital Employed	14,899	18,928	23,597	28,717
Net block	632	1,131	1,527	1,700
CWIP	219	160	150	150
Investments	5,128	5,128	5,128	5,128
Inventories	2,137	2,727	3,422	4,027
Sundry debtors	3,278	5,437	6,589	7,645
Cash and bank	17,981	20,983	25,699	31,785
Loans and advances	3,827	4,401	5,062	5,821
Total Current assets	27,225	33,548	40,771	49,279
Total Current liabilities	20,067	23,100	26,308	30,168
Net Current assets	7,158	10,448	14,463	19,110
Net Deferred tax liability	1,761	2,061	2,329	2,628
Total Assets	14,899	18,928	23,597	28,717

FINANCIAL RATIO (Consolidated)

Y/E March	FY11	FY12E	FY13E	FY14E
Growth (%)				
Net Sales	41.4	26.7	21.2	16.0
EBITDA	30.6	18.2	14.6	12.5
APAT	20.6	20.4	13.1	11.7
Profitability (%)				
EBITDA Margin (%)	23.0	21.5	20.3	19.7
Net Profit Margin (%)	18.7	17.7	16.5	15.9
ROCE (%)	53.6	50.3	46.1	42.3
ROE (%)	35.7	33.8	30.6	28.1
Per Share Data (Rs.)				
EPS	15.8	19.0	21.5	24.0
CEPS	15.2	18.5	21.1	23.6
BVPS	44.2	56.2	70.0	85.2
Valuation				
PER (x)	16.0	13.3	11.7	10.5
PEG (x)	0.8	0.7	0.9	0.9
P/BV (x)	5.7	4.5	3.6	3.0
EV/EBITDA (x)	11.1	9.0	7.4	6.1
EV/Net Sales (x)	2.5	1.9	1.5	1.2
Turnover				
Debtors Days	42	55	55	55
Creditors Days	256	180	170	170

CASH FLOW STATEMENT(Consolidated)

Rs.mn

Y/E March.	FY11	FY12E	FY13E	FY14E
Profit after tax & Extraordinary Items	5,313	6,395	7,231	8,076
Depreciation	106	92	116	135
Change in Deferred Tax Liability	(342)	(300)	(268)	(299)
Change in WC	1,274	(289)	701	1,439
Cash Flow from Operating	6,351	5,898	7,781	9,350
Change in Gross PP&E	(205)	(531)	(502)	(307)
Change In Investments	(4,153)	0	0	0
Change in Misc. Exp.	0	0	0	0
Cash Flow from Investing	(4,358)	(531)	(502)	(307)
Change in Debt	0	0	0	0
Change in Net Worth	(3,641)	(4,387)	(4,752)	(5,484)
Dividend	1,685	2,022	2,190	2,527
Cash Flow from Financing	(1,956)	(2,365)	(2,562)	(2,957)
Cash at the End of the Yr	17,981	20,983	25,699	31,785

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage's on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage's with an occasional Update, wherever possible.

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