

Initiating Coverage Engineers India Ltd.

22-October-2020





Industry	CMP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Consulting Services	Rs. 66.9	Buy at CMP and add on dips to 59.5	70.5	75.0	2 quarters

HDFC Scrip Code	ENGINDEQNR
BSE Code	532178
NSE Code	ENGINERSIN
Bloomberg	ENGR:IN
CMP 22 nd Oct, 2020	66.9
Equity Capital (Rs cr)	316
Face Value (Rs)	5
Equity Share O/S (cr)	63.2
Market Cap (Rs cr)	4230.7
Book Value (Rs)	37.1
Avg. 52 Wk Volumes	2167806.9
52 Week High	123.0
52 Week Low	49.9

Share holding Pattern % (30 th Sept, 20)	
Promoters	51.5
Institutions	27.4
Non Institutions	21.1
Total	100.0

Our Take:

Engineers India (EIL), a Navratna public sector enterprise, is one of the oldest companies in the Indian public sector. Over the years, the company has emerged as a market leader in the Indian hydrocarbons segment with expertise in design, engineering and project implementation. EIL has prestigious clientele which comprise both PSU and private firms such as BPCL, HPCL, IOCL, Vedanta etc. It has strong management team and a workforce of about 2800 experienced professionals and technical personnel. Besides, national oil companies in most of the Middle East countries are also its clients. The company has established an outstanding track record in design, engineering and execution of cross-country pipelines.

Weak crude prices in the last few years and consequent deferral of capex spending by its key customers has affected fortunes of the company. Total order book of the company in Q1FY21 were at its lowest (an overall ~20% dip YoY to Rs 9116.8cr; consultancy dropped by 12% YoY, and Turnkey declined by 26% YoY) compared to past few years. Further, order inflow is also expected to be at a humble Rs 1500cr during FY21 considering the uncertainties posed by COVID 19. Nevertheless, EIL's efforts in boosting its returns by adopting strategic measures such as dividend payouts and investments into profitable assets makes it an attractive bet for the longer term. Order book in the consultancy segment is expected to turnaround over FY20-22E. EIL has always maintained an excellent order book execution record which should add to its top-line.

Fuel price de-regulation and rules to implement BS6-compliant facilities coupled with expansion programs are helping EIL garner more revenues. Also, diversification across sectors, should help the company sail during these difficult times. EIL reported decent performance even during these trying times. This instills faith in the ability of the management.

Pick-up in activity is being seen where the company's HMEL site has already started 90% of its construction activities. Further, government policy reforms like Atmanirbhar Bharat, Make In India, Bio-Fuels, Digital India, SMART City, AMRUT, Pradhanmantri Urja Ganga Yojana (Pipelines, CGD Networks, Fertilizer Plants), Sagarmala, etc. with renewed focus on Infrastructure especially Ports & Airports, PCPIRs, Namami Gange, Affordable Housing, etc are expected to improve the orderbook and execution of the company.

Fundamental Research Analyst

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Valuations & Recommendation:

Large order book, pick-up in oil demand in both international and domestic areas, coupled with diversification efforts, bode well for the company. We expect EIL's Rev/EBITDA/PAT to grow by 16%/44%/31% in F22 over FY21. EIL has a very strong balance sheet with FY22E cash and cash equivalents worth Rs. 42.8 per share. The large order book, visibility of fresh order inflows, lean assets model and exciting return ratios mean that the stock has the potential to do well going forward. However, recent reports suggest that Oil India Ltd and Engineers India Ltd-led consortium have agreed to buy 48% stake in Numaligarh Refinery from BPCL. We therefore consider only 50% of cash per share in the calculation of SOTP Value. We assign a P/E multiple of 11x core FY22E EPS + 50% FY22E cash for base case fair value of Rs. 70.5, and a P/E multiple of 11.0xcore FY22E EPS +50% FY22E cash for bull case fair value of Rs. 75 over the next two quarters. We feel that investors can buy the stock at the CMP (10.2xcore FY22E EPS +50% FY22E cash) and add on dips to Rs.59.5 (8.5xcore FY22E EPS +50% FY22E cash).

Financial Summary (Standalone)-

Particulars (Rs cr)	Q1FY21	Q1FY20	YoY-%	Q4FY20	QoQ-%	FY19	FY20	FY21E	FY22E
Total Operating Income	467.8	734.9	-36.3%	853.8	-45.2%	2444.3	3203.1	2347.1	2935.9
EBITDA	81.1	138.8	-41.6%	110.3	-26.4%	366.0	443.0	307.5	411.0
Depreciation	6.0	5.7	4.3%	6.7	-11.3%	22.4	23.8	24.6	26.4
Other Income	45.6	58.3	-21.7%	68.5	-33.4%	225.1	258.0	223.0	234.9
Interest Cost	0.0	0.3	-84.6%	0.6	-92.1%	1.2	1.7	1.6	2.0
Tax	40.0	67.6	-40.9%	42.5	-5.9%	194.7	219.4	131.1	163.6
APAT	80.7	123.4	-34.6%	128.9	-37.4%	370.1	430.2	373.2	453.8
Diluted EPS (Rs)	1.3	2.0	-34.6%	2.0	-37.4%	5.9	6.8	5.9	7.2

Source: Company, HDFC sec Research

Recent Developments

EIL continues to secure order inflow that provides medium term visibility:

EIL's order book has progressed with a consistent order inflow in the C&E segment at Rs 1600cr over the past three years. The C&E segment is of high margin and accounted for 84% of the total business secured during Q1FY21, and the company expects Rs 1500cr of order inflow during FY21, mostly coming from the domestic market. Out of the overseas orders there are a few coming from UAE, one from Mongolia, and the other from Dangote, Nigeria. Orders worth Rs 81cr were secured during Q1FY21 with an order book position of Rs

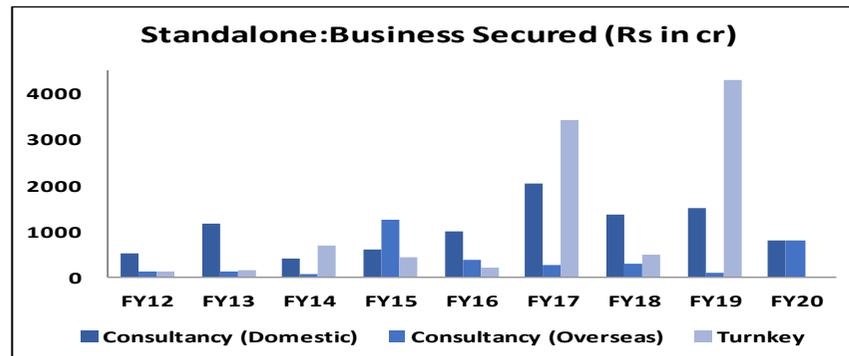


9116.8cr, out of which consultancy formed Rs 4231.4cr and Turnkey was Rs 4885.4cr. Currently, HPCL refinery in Vizag has been the main contributor in ordering, and is at an advanced stage of execution.

The management is expecting large orders from projects such as Numaligarh refinery expansion (NRL), some packages from Kaveri Basin, BPCL (Mumbai) expansion, GAIL, IOL, etc. On the international markets front- the company has offshore projects in UAE, Oman, Qatar and Bahrain and expects limited traction in ordering.

The contracts from GAIL India Limited, which includes the execution of propane dehydrogenation (PDH) and polypropylene (PP) (PDH/PP) project at Usar, in the state of Maharashtra (order value worth Rs 488cr), is among the prestigious orders, and the same is expected to materialize in Q2FY21E. Some projects like Indian Oil expansion from 15 to 25 mtpa is already committed to the company. Phase 1 activities are going on and the main project execution is expected somewhere in Q2FY22. Polypropylene project of BPCL refinery (Rs 200cr) is also on track, execution of which is also expected in Q4FY21.

Tender for Cauvery Basin Refinery (Rs 2500cr) has been floated that raises the possibility of Engineers India securing the same which is expected by Q2FY21, and a project from Barauni for a revamp less than Rs.100cr in under pipeline. The company will execute the project as an EPC project consultancy service for 500 kilotonnes per annum (KTA) PDH-PP Project. The project involves setting up of PDH and PP plant at Usar and pipeline from Usar to Uran along with storage facilities at Uran, which is scheduled to be completed within 48 months. According to the management, petrochemical expansion at HMEL, MRPL expansion (15 to 25 MMTPA), expansion for Bina Refineries (expected to go by the end of next year), strategic storage's for ISPRL and Paradip refinery expansion imparts visibility to the order book in near term.





Governmental support to spur the oil demand:

The Indian Government is looking to provide a package of measures to help domestic oil producers pull through the price crash and the uncertainty in the global oil market. The government is formulating a structure to give Indian upstream companies some relief in royalty and cess along with other reliefs. Expansion plans in various oil exploration companies are also going to help with improving demand scenario. The energy demand is set to grow at an all-time high owing to rapid urbanization and industrialization. In addition, gradual opening of the economy and unlocking processes being carried across the country, increased labour mobility, increased movement of freight, etc. are going to boost the oil demand across the country and world-wide.

As far as natural gas consumption is concerned the same is being observed to gradually pick up as the world's biggest lockdown starts to ease with the gradual resumption of economic and industrial activity. Imports are also set to pick up in the coming months with increased shipments at ports to receive liquefied natural gas. Further, various government programs like Atmanirbhar Bharat, Make In India, Bio-Fuels, Digital India, SMART City, AMRUT, Pradhanmantri Urja Ganga Yojana (Pipelines, CGD Networks, Fertilizer Plants), Sagarmala, Renewed focus on Infrastructure especially Ports & Airports, PCPIRs, Namami Gange, Affordable Housing etc, are going to provide a booster to the overall demand for engineering consultancy services.

Long term Triggers

Diversification in various sectors will minimize the segment concentration risk:

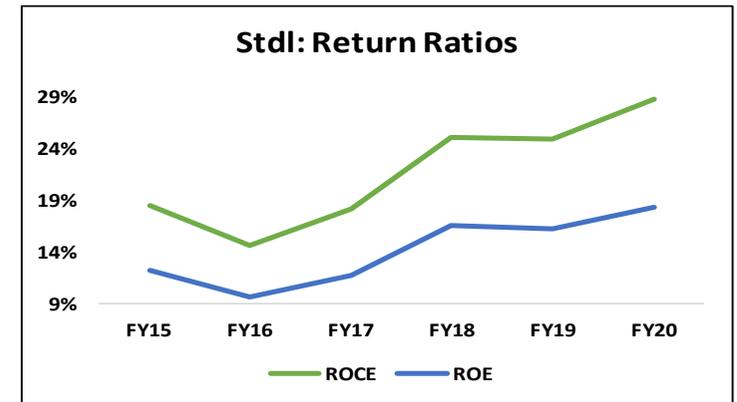
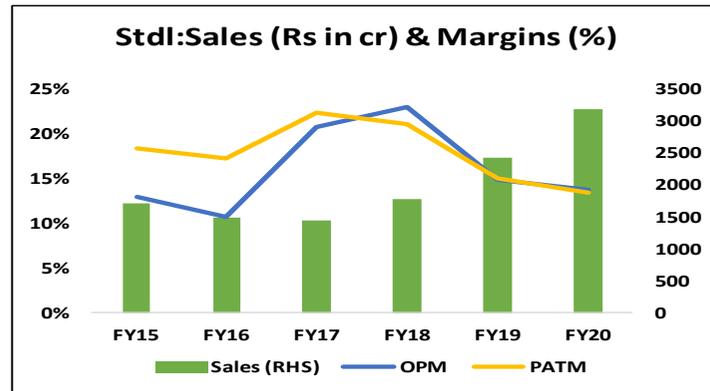
Apart from its presence in the Hydrocarbons & Petrochemicals segment, the company is exploring into other sectors where its scope of work includes a wide range of industries like- work in Upstream Oil and Gas; Petroleum Refining; Petrochemicals; Pipelines; Strategic Storages; Metallurgy; Infrastructure; Fertilizers; Water & Waste Management; Nuclear Power; Alternate Fuel. etc. Apart from its strong presence in the domestic market it has set its foot in other geographies like Middle East, Africa and South & Central Asia as well. With this the company is working in minimizing both segmental and geographical risk.

The company is leveraging its capabilities to tap significant business opportunities presented by the Fertilizer sector. As part of strategic investment in Fertilizer sector, EIL has taken 26% equity stakes in a JV Company M/s Ramagundam Fertilizers & Chemicals Limited (RFCL) along with (National Fertilisers Ltd) NFL and (Fertiliser Corporation of India) FCIL to revive the erstwhile Fertilizer plant of FCIL at Telangana. EIL is executing this project on EPCM Mode, pre-commissioning activities of which are in advance stage of completion and project is expected to be commissioned by Q3FY21.

Efforts are being made in entering the Nuclear power sector as well, wherein detailed Engineering Consultancy and Construction Supervision for setting-up Greenfield Nuclear Fuel Complex at Rawatbhata, Kota, Rajasthan is in progress. Next, under the Alternate Fuels segment, it is providing EPCM services for Assam Bio Refinery Project of M/s Assam Bio Refinery Pvt. Ltd, which is the first of its kind plant in India. Design, Engineering and Procurement activities for the project are in progress since FY20.

Strong Financials:

EIL has a strong financial flexibility and comfortable liquidity position characterized by a healthy cash and bank balance (). The company has maintained a zero debt balance on a standalone basis throughout five years (FY15-FY20), and increasing return ratios. The company wishes utilize its cash balance in paying out decent dividend owing to the large cash balance.



*Stdl-standalone

Long experienced and professionally qualified management with super execution record instills faith:

EIL has a long track record of over five decades and has carried out over 7,000 assignments of worth around USD 200 bn. EIL has a strong management team and has a workforce of about 2800 experienced professionals and technical personnel. The senior management (which includes the functional Directors) have more than three decades of vast experience in the various fields like projects, process design, technology, marketing, finance, legal and HR. Its long presence and established parentage has made it a better contender in bidding of domestic oil & gas PSUs and their JVs. EIL has been a leading domestic provider of C&E services in India, especially in hydrocarbon and



petrochemical sector. It has an R&D centre at Gurgaon and has developed more than 35 process technologies for the oil and gas processing, refineries and petrochemical industries.

EIL currently holds 31 live patents for such process technologies and patents for another 27 technologies are awaited (till March 31, 2020). It has till date erected 82 petroleum refinery projects including 10 greenfield refineries, and has also installed 10 out of the 11 mega-petrochemical complexes in the country and engineered 10 grass-root refineries, 50 pipeline projects, 213 offshore platforms including 40 process platforms, 44 oil and gas processing projects, 33 mining & metallurgy projects, 14 ports and storage and terminals, 10 fertilizer projects, 24 turnkey projects and 38 infrastructure projects including airports, highways, flyovers, bridges, water and sewer management, as well as energy- efficient intelligent buildings, strategic storage across 3 locations and power/captive power projects. The company has been operating in the C&E space for several decades due to which it has created a niche for itself. The company has erected 20 out of the 23 petroleum refineries in India, during FY20.

Over the years, the execution in turnkey projects by EIL has outpaced execution in the C&E segment (with 51% revenue share in FY20;) Management expects some headwinds during FY21, but, overall execution is to be less impacted. Execution of its key projects Dangote refinery projects and Mangolia refinery projects worth Rs 515cr are on track.

What could go wrong :

- The international consultancy business slipped in Q4FY20 and as well as Q1FY21 and it is likely to remain slow due to travel restrictions. Margins in the domestic turnkey business have slipped over the last few quarters. Last year, the company was operating at about 6% margin in the turkey business, which has halved to about 3% during Q4FY20, to 1.5% during Q1FY21 on a standalone Y-o-Y basis. This is a worry and is a drag on the overall profitability. Domestic turnkey business is also growing slowly, and new orders have been negligible.
- Lower order inflow, and an uncertain outlook for FY21.
- Increase in Technical Assistance/Sub-Contracts expenses as % of net sales, from the past six quarters is a matter of concern.
- Fluctuation In the order inflow caused by the turnkey orders is a structural concern.
- Natural gas and crude oil production has declined in FY19 & FY20 and is further expected to decline during FY21E. Although, demand is slowly picking up in petrol segment.



- Local restriction imposed by the local authorities due to the lockdown has caused delays (HPCL Barmer being pushed far) creating three month lag in execution.
- Client concentration risk, as out of the orders secured during Q1FY21, 42% is coming from one order.
- Slow international pick-up in demand leading to slower order from overseas. Second wave of corona, news of further lockdown in the UK region are doing the rounds, which can further worsen the foreign market scenario.
- Uncertainty with regards to deployment of cash might remain near term overhang on the stock price. Recent reports suggest that on government's directive, EIL in consortium with OIL India Limited has bid for buying out BPCL's stake of 48% in Numaligarh Refineries Ltd. EIL management may not have the full power to decide on the deployment of cash on the books of EIL.

About the company

Engineers India Limited (EIL) is an engineering consultancy, and engineering, procurement and construction (EPC) company in the hydrocarbons and petrochemicals industry. The company's segments are Consultancy & Engineering Projects, and Turnkey Projects. Its services include technologies, pre-Front End Engineering Design (FEED), project management, procurement services, construction services and specialized services. EIL focuses on various sectors, including fertilizer and liquefied natural gas (LNG), non-ferrous metallurgy, infrastructure, strategic crude oil storage, nuclear and solar energy, and exploration and production. It offers various technologies for petroleum refining, oil and gas processing, and aromatics. The Company's projects include Guru Gobind Singh Refinery Project, Bina Refinery Project, Panipat Naphtha Cracker Project, Dabhol Bangalore Pipeline Project, Phase II Expansion of Alumina Refinery and Deen Dayal Field Development Project.projects, such as apartments and townships; Commercial projects such as corporate office buildings and shopping malls.

Financials (Standalone)- Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	1787.6	2444.3	3203.1	2347.1	2935.9
Growth (%)		36.7%	31.0%	-26.7%	25.1%
Operating Expenses	1374.6	2078.3	2760.0	2039.6	2524.8
EBITDA	413.0	366.0	443.0	307.5	411.0
Growth (%)		-11.4%	21.0%	-30.6%	33.7%
EBITDA Margin (%)	0.2	15.0%	13.8%	13.1%	14.0%
Depreciation	23.8	22.4	23.8	24.6	26.4
EBIT	389.2	343.7	419.2	282.9	384.6
Other Income	179.5	225.1	258.0	223.0	234.9
Interest expenses	0.6	1.2	1.7	1.6	2.0
PBT	568.1	567.5	675.5	504.3	617.5
Tax	216.7	194.7	219.4	131.1	163.6
RPAT	377.9	370.1	430.2	373.2	453.8
Growth (%)		-2.1%	16.3%	-13.3%	21.6%
EPS	6.0	5.9	6.8	5.9	7.2

Balance Sheet

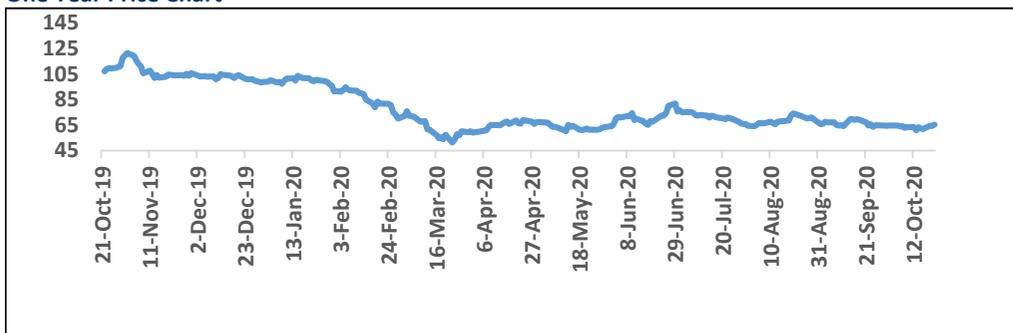
(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital - Equity	316.0	316.0	316.0	316.0	316.0
Reserves	1951.9	1959.9	2029.5	1978.0	1939.0
Total Share-holders Funds	2267.9	2275.8	2345.5	2294.0	2254.9
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Total Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	22.4	8.5	14.4	3.6	4.0
TOTAL SOURCES OF FUNDS	2290.3	2284.4	2359.9	2297.6	2258.9
APPLICATION OF FUNDS					
Fixed Assets	278.2	270.2	213.9	228.6	251.7
LT Loans & Advances	33.8	39.9	46.8	18.8	23.5
Other Non-Current Assets	562.3	626.3	802.4	868.8	941.7
Total Non-current Assets	874.3	936.4	1063.1	1116.2	1216.9
Inventories	1.1	6.9	6.6	0.7	1.0
Debtors	544.9	414.1	666.1	485.1	508.0
Other Current Assets	529.4	666.0	570.4	632.4	701.7
Cash & Equivalents	2480.6	2661.1	2722.5	2658.9	2631.3
Total Current Assets	3556.1	3748.1	3965.7	3777.2	3842.0
Creditors	218.0	247.6	279.7	207.3	237.9
Current Liabilities	1922.0	2152.6	2389.3	2388.5	2562.1
Total Current Liabilities	2140.1	2400.1	2668.9	2595.8	2800.0
Net Current Assets	1416.0	1348.0	1296.7	1181.4	1042.0
TOTAL APPLICATION OF FUNDS	2290.3	2284.4	2359.9	2297.6	2258.9

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
EBT	568.1	567.5	675.5	504.3	617.5
Depreciation	23.8	22.4	23.8	24.6	26.4
Interest & Others	-42.8	-172.0	-67.1	1.6	2.0
Change in working capital	313.4	343.0	-38.5	51.7	111.9
Tax expenses	-275.3	-216.1	-222.0	-131.1	-163.6
CF from Operating activities	587.2	544.7	371.7	451.1	594.1
Net Capex	-29.0	-32.2	-17.8	-39.2	-49.6
Purchase/sale of investments	41.1	-138.9	-416.7	-49.2	-77.2
Dividend & interest received	158.3	175.3	207.0	217.3	228.2
CF from Investing activities	170.5	4.2	-227.5	128.9	101.4
Borrowings/repayments	0.0	0.0	0.0	0.0	0.0
Interest Exp	-890.6	-360.5	-332.8	-424.6	-492.9
Dividends paid	0.0	0.0	0.0	-1.6	-2.0
CF from Financing activities	-890.6	-360.5	-332.8	-426.2	-494.9
Net Cash Flow	-132.9	188.4	-188.5	153.7	200.6

One Year Price Chart



Key Ratios

	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin	23.1%	15.0%	13.8%	13.1%	14.0%
EBIT Margin	21.8%	14.1%	13.1%	12.1%	13.1%
APAT Margin	21.1%	15.1%	13.4%	15.9%	15.5%
RoE	16.7%	16.3%	18.3%	16.3%	20.1%
RoCE	25.1%	25.0%	28.9%	22.1%	27.5%
Solvency Ratio					
Net Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA					
EPS	6.0	5.9	6.8	5.9	7.2
CEPS	6.4	6.2	7.2	6.3	7.6
Core EPS	3.8	3.6	4.5	3.3	4.5
Cash Per share	39.7	42.8	43.9	43.0	42.8
BVPS	35.9	36.0	37.1	36.3	35.7
DPS	4.0	4.0	5.2	5.6	6.5
Turnover Ratios (days)					
Debtors (days)	111.3	61.8	75.9	75.4	79.0
Inventory (days)	0.2	1.0	0.8	0.1	0.2
Payables (days)	44.5	37.0	31.9	32.2	37.0
VALUATION					
P/E (x)	11.2	11.4	9.8	11.3	9.3
P/BV (x)	1.9	1.9	1.8	1.8	1.9
EV/EBITDA (x)	4.2	4.3	3.4	5.1	3.9
EV/Revenues (x)	1.0	0.6	0.5	0.7	0.5
Dividend Yield	6.0%	6.0%	7.8%	8.4%	9.7%

Source: Company, HDFC sec Research



Disclosure:

I, **Debanjana Chatterjee (Msc in Economics) (PGDM in finance)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.