

October 10th, 2014

BSE Code: 532178 **NSE Code:** ENGINEERSIN **Reuters Code:** ENGI.NS **Bloomberg Code:** ENGR:IN

Engineers India (EIL) is a distinctive company in the listed engineering space with the core focus being the consultancy business in the hydrocarbon space. EIL is the leader in the domestic market and it has made its presence felt in the international market with its recent big ticket success in the MENA region. We are positive on the growth prospects of EIL backed healthy order book. Further, we believe that EIL will be the major beneficiary, given the recovery in domestic capex coupled with order wins in international segment. On the back of higher revenue visibility, we expect PAT to grow at ~12.7% CAGR between FY14-16E.

Investor's Rationale

Revenue to grow at a CAGR of ~12.9% over FY14-16E: EIL is the leader in the domestic hydrocarbon (refinery & petrochemicals) space with a 90% market share. The company is leveraging its domestic capability in the international hydrocarbon space and aims at garnering 25% of its business from the international markets on a sustainable basis. After two years of weak performance in FY13-FY14, we expect the company to come back on a growth path and deliver over 12% and ~24% net profit growth in FY15 and FY16E respectively mainly on the back of robust recovery in order intake led by pickup in order inflows from domestic and international markets.

Diversified revenue mix to augur well for the company- In FY14, the company reported an EBITDA margin of 20.9%, which we believe will improve further in FY15E and FY16E to ~22-24% as high-margin consultancy business will continue to account for 60-65% of the company's sales. EIL remains confident that with stable government at the centre, there will be a renewed focus on revival of investment climate both in energy and infrastructure sectors which can provide EIL with incremental growth opportunities. Going ahead, the diversified segments of renewable, water & waste management and fertilizers that have strong potential for future growth will continue to be the focus area for the company.

Strong order backlog to provide higher upside - EIL has a strong order book of ₹39 billion, equivalent to nearly four years of revenues. On robust order pipeline from domestic and international markets, the company's order book is expected to grow in the next 3-6 months. Further, we believe that the improvement in domestic capex activity in oil & gas refinery, petrochemicals and fertilizer space would improve the order inflows' visibility going forward. The company expects further improvement in order bookings in FY15, which would drive revenue growth in FY16. In addition, EIL is hopeful of strong traction in the overseas business, where it is participating in the bidding process of several contracts.

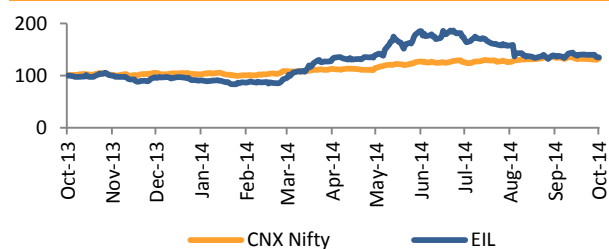
Market Data

Rating	BUY
CMP (₹)	233.6
Target (₹)	280
Potential Upside	~19.9%
Duration	Long Term
Face Value (₹)	5.0
52 week H/L (₹)	331.0/142.1
Adj. all time High (₹)	538
Decline from 52WH (%)	29.4
Rise from 52WL (%)	64.4
Beta	1.3
Mkt. Cap (₹bn)	78.7
Enterprise Value (₹bn)	60.6

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	25.3	18.5	21.2	26.5
EBITDA (₹bn)	6.0	3.9	4.7	6.4
Net Profit (₹bn)	6.3	4.8	5.6	6.9
EPS (₹)	18.8	14.3	16.6	20.5
P/E (x)	12.4	16.3	14.1	11.4
P/BV (x)	3.4	3.1	2.8	2.5
EV/EBITDA (x)	10.0	15.7	13.0	9.6
ROCE (%)	38.9	27.8	28.2	31.2
ROE (%)	27.5	19.1	19.9	21.8

One year Price Chart



Shareholding Pattern

	Jun'14	Mar'14	Diff.
Promoters	69.37	69.37	-
FII	8.55	8.46	0.09
DII	12.98	12.54	0.44
Others	9.1	9.63	(0.53)

EIL has an impressive record of executing over 5000 assignments consisting of 400 major projects valued over USD 200 billion. EIL has a significant track record across the entire oil & gas value chain, including 10 green-field refineries, 39 oil & gas processing plants, 40 offshore process platforms, 42 pipelines and 7 petrochemical complexes.

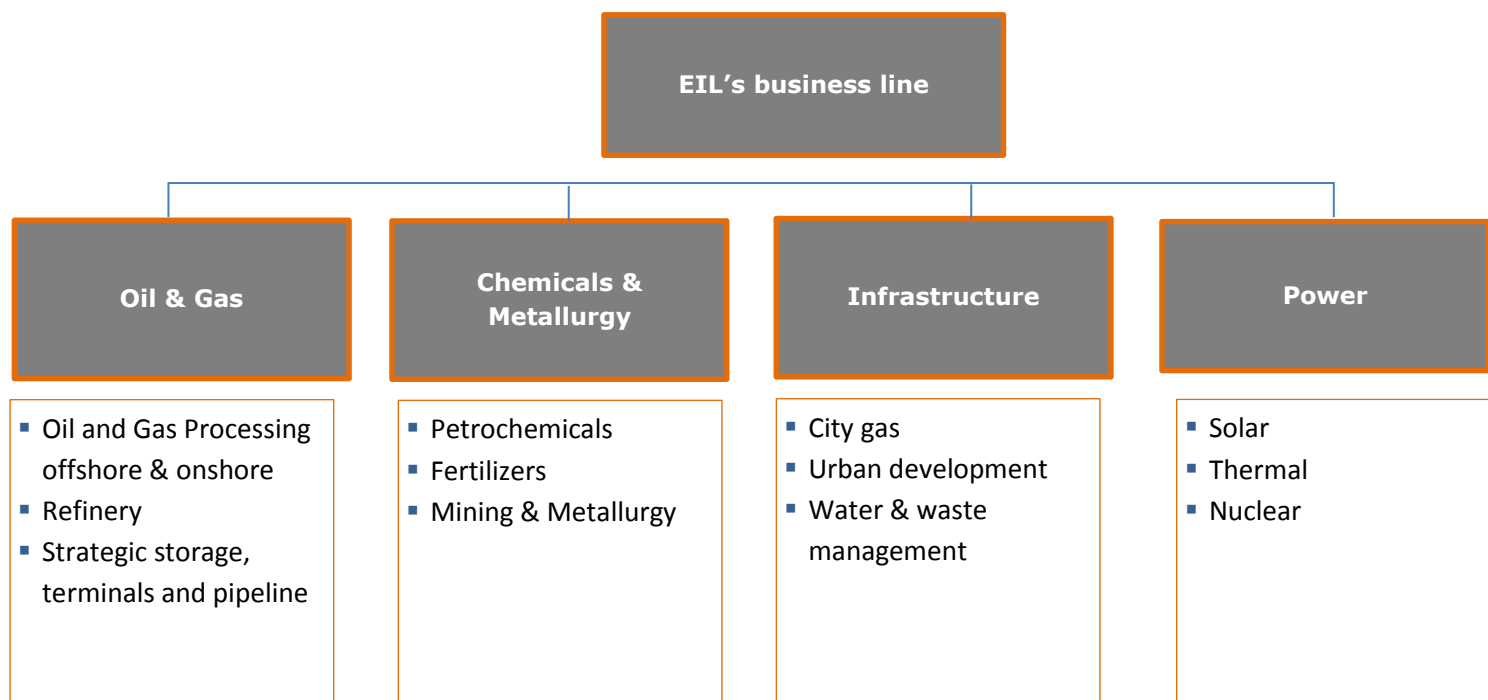
EIL, India's leading engineering consultancy and EPC Company

Established in 1965, Engineers India Ltd (EIL) is one of the leading design and engineering organizations in South Asia. EIL provides engineering consultancy and engineering, procurement and construction (EPC) services principally focused on the oil & gas and petrochemical industries. The Company has also diversified into sectors such as infrastructure, water, and waste management, solar & nuclear power and fertilizers to leverage its strong technical ability and track record.

At present, EIL is a 'Total Solution' engineering consultancy company providing design, engineering, procurement, construction and integrated project management services from 'Concept to Commissioning' stages with highest quality and safety standards. It also provides specialist services such as heat and mass transfer equipment designing, environmental engineering, specialist materials and maintenance and plant operations and safety services. EIL has successfully expanded its operations internationally, and has provided a wide range of engineering consultancy services on various international projects, including in the Middle East, North Africa, and South East Asia. EIL is also building strategic partnerships to augment its footprints in unexplored geographies.

EIL has a healthy balance sheet with zero debt and strong cash balance of ₹18.1 billion. EIL generated cash flow from operations to the tune of ₹852 million in FY14. On a YoY basis, cash flow from operation has declined primarily on account of fall in operating profits and higher contribution of other income. Despite decline in revenues and margin contraction, the company has been able to generate positive cash flows from operation, which we believe is highly commendable.

EIL's catering services to diversified sectors



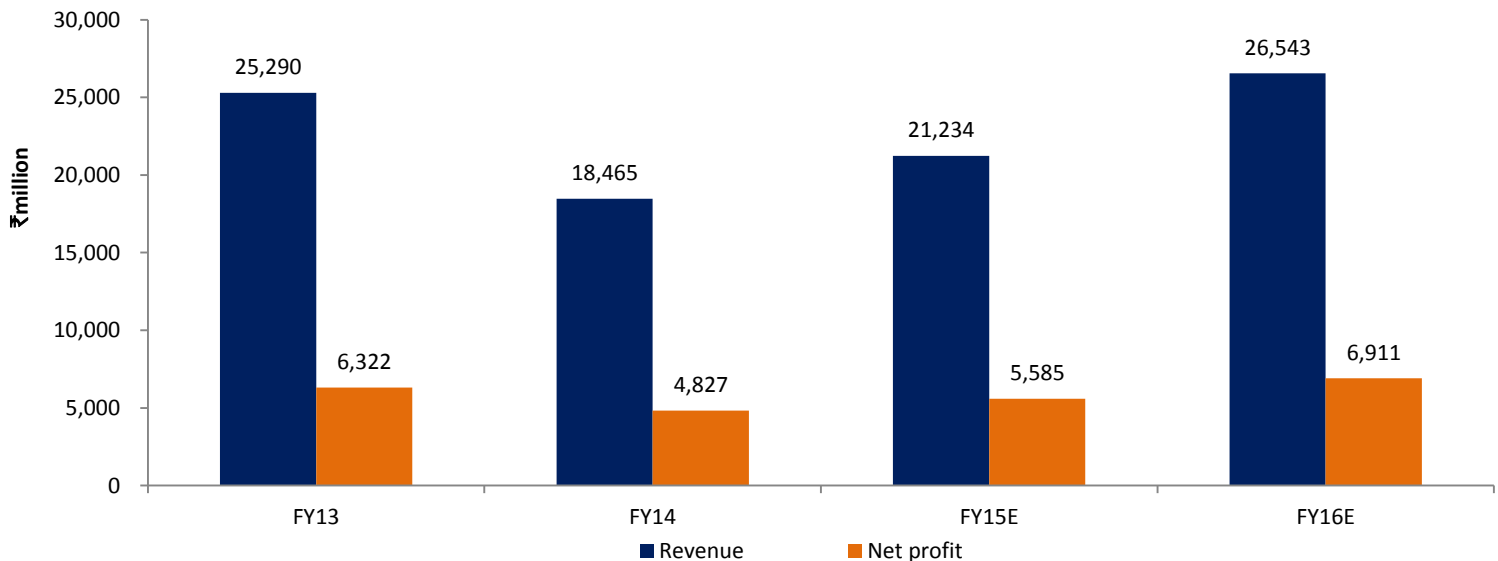
We expect the company to deliver better performance on the back of increase in order book driven mainly by consultancy segment. Backed by a healthy order book, we expect EIL to witness 15% and 25% revenue growth (YoY) in FY15E and FY16E, respectively.

Fragile Q1FY15 performance

EIL disappointed with its standalone Q1FY15 results on account of adverse product mix and lower operating profitability. Net sales for the quarter fell by 1.7% YoY to ₹4.3 billion. Decline in sales for the quarter was driven by a 20% YoY fall in revenue from the consultancy project business, while the Lumpsum Turnkey contract (LSTK) business witnessed 37% YoY revenue growth. Approximately 55% of revenue for the quarter was contributed by the consultancy business, while LSTK segment accounted for the balance 45%. International markets contributed 9% of Q1FY15 turnover, which is expected to increase further from FY15 onwards on account of strong build-up of international orders (33% of the current order book).

The biggest disappointment in the quarter was on the EBITDA margins front, which was eroded to 12.6% in Q1FY15 from 26.3% in Q1FY14, impacted mainly on account of increased share of low-margin LSTK segment (45% in Q1FY15 Vs 33% in Q1FY14), lower margins in the consultancy segment (24% in Q1FY15 vs 35% in Q1FY14) led by execution of small Brownfield orders with low margins and provision of ₹0.20 billion on cost escalation in certain LSTK contacts.

Revenue and net profit to grow at a CAGR of 12.9% and 12.7% over FY14-16E, respectively



We expect EIL's operating profit margins would see gradual improvement driven by increased revenue share from the consultancy orders, as it has 69% share in the present order book.

We believe that for the next 2-3 quarters, EIL's EBITDA margin will continue to remain under pressure till the company starts executing large-sized Greenfield refinery consultancy orders. However, we anticipate that the company's operating profit margins would see gradual improvement driven by increased revenue share from the consultancy orders, as it has 69% share in the present order book.

In addition to poor operating performance, net profit of the company declined by 37.8% YoY and 22.4% QoQ to ₹804 million, owing to 118% YoY increase in depreciation expenses (to ₹54 million), and YoY increase in effective tax rate from 29% to 32.2% in Q1FY15. Consequently, net profit margins (NPM) of the company declined to 18.5% in Q1FY15 from 29.2% a year ago and 20.9% in the previous quarter.

EIL's major order-book secured during Q1FY15

Project scope	Client	Contract value (₹mn)	Completion date
Domestic			
Delayed Coker Unit & allied facilities at Haldia	IOCL	687	Q4FY16
CRU revamp at Mumbai Refinery	BPCL	330	Q2FY16
Overseas			
400,000 BPSD Refinery and 600,000 TPA Polypropylene Plant at Lekki Free Trade Zone, Nigeria	Dangote	8,535	Q3FY17
LIWA Plastics Project, Oman	ORPIC	2,704	Q2FY18
Ammonia, Urea & Methanol Project , Nigeria	BRASS	435	Q1FY18

We expect EIL to be back on the growth path from FY15 onwards primarily driven by the order flow momentum in favour of its high margin consultancy business.

EIL is highly focused on sectors like Metallurgy, Fertilizers, Oil & gas pipelines, Power (conventional & renewable), Water & waste management to support its long term growth.

Strong order backlog provides strong revenue visibility & greater opportunity ahead

During FY14, the company secured order inflow of ₹11.55 billion, which includes ₹10.85 billion from domestic consultancy and turnkey business and ₹0.70 billion from overseas business. Major contribution in EIL's order inflows continues to be from Hydrocarbon and Petrochemical business. Recently, the company has bagged ₹800 million consultancy contract from Assam Petrochemicals for their proposed methanol Plant and Acetic Acid Plant at Namrup, Assam.

The major consulting orders secured in the Refining sector include Coke Chamber Replacement and Allied Modernization in Coker at Barauni Refinery of IOCL, Licensor Selection & initial project activities for Rajasthan Refinery and Detailed Feasibility Report (DFR) for Numaligarh Refinery Expansion Project and for Gujarat Refinery Expansion Project of IOCL.

With the majority of its order inflows received in FY14 from hydrocarbon sector, EIL is highly focused on sectors like Metallurgy, Fertilizers, Oil & gas pipelines, Power (conventional & renewable), Water & waste management to support its long term growth. EIL has received initial success (in terms of order flows) in these segments and hopes to leverage on the same to bag larger projects going ahead. Few orders in these segments include:

- Detailed engineering assignment for Indo-gulf Fertilizer for their revamp project of Ammonia and Urea plant at Jagdishpur. EIL has also received PMC contract for a large ammonia plant order from Indonesia as well.
- EIL is executing a 103.5 MW captive cogeneration plant for BPCL and a 125 MW Solar Thermal plant for Reliance. The company has installed solar PV systems on rooftops of three EIL owned buildings it plans to enter into an SPV with other Oil majors for setting up similar solar power projects in India.
- In the water segment, EIL successfully executed work of Sardar Sarovar Narmada Nigam Limited, Tertiary Treatment Reverse Osmosis Plant in Chennai for CMWSSB and Interceptor Sewer Project for the abatement of pollution in River Yamuna for Delhi Jal Board.

We believe that the new governments focus on water management and Ganga clearing project and EIL's previous experience (Yamuna cleaning) could help scale up order book in this segment. Thus, considering the strong order inflow growth, revival in the domestic hydro-carbon capex cycle and recent success in International markets (consulting space), we expect EIL's order inflows to grow at CAGR of 31.5% during FY14-17E.

Increased focus in overseas geographies to enhance revenue visibility

At present, EIL derives ~10-12% of revenues from international projects and expects it to remain steady going forward. Banking on its core expertise of project management services and the hydro carbon domain, the company strategized a foray into newer geographies to diversify risk.

Laying greater emphasis on overseas business

Sector	Country	Client
Oil & gas processing	UAE	NPCC, ADCO
Oil & gas processing	Vietnam	Petro-vietnam
Pipelines	UAE	GASCO, TAKREER, NPCC, ADNOC
LNG	Algeria	Sonatrach
Petrochemicals	UAE	BOROUGE, EQUATE
Petrochemicals	Malaysia	M/s Vinyl Chloride Malaysia) sdn. Bhd
Refinery	Algeria	Sonatrach (Formerly NAFTEC)
Refinery	Oman	Sohar
Refinery	Kuwait	KNPC
Refinery	Indonesia	WIKA
Refinery	Kenya	KPRL
Fertilizers	Nigeria	Indo Rama
Fertilizers	Bangladesh	BCIC
Fertilizers	Malaysia	Petronas Fertilizer (Kedah) Sdn. Bhd.
Non Ferrous	Bahrain	ALBA

We remain optimistic that EIL's increasing focus on overseas business majorly from Middle-East, Africa and South East Asia will enhance revenue visibility in FY16E.

EIL's order backlog remained healthy at ₹39 billion, which is about double its FY14 revenue, provides growth visibility of two to three years. The roll out of new clients with good business potential is also expected to boost the orders inflows.

In line with this strategy, EIL's intense focus on expanding its international business met with considerable success in FY14. EIL successfully expanded its footprints in new geographies like Indonesia, Turkey, Angola and Nigeria. The company sees upcoming business opportunities for large scale projects in Algeria, Oman and Bahrain. Importantly, EIL's efforts met considerable success after bagging an order worth USD 139 million of providing Project Management Consultant (PMC) services for a 20 MTPA Refinery and 600,000 TPA Polypropylene plant in Nigeria. In Oman, EIL has been awarded PMC contract of USD 43 million, for Liwa Plastics Project of M/s ORPIC. The same will also be booked in FY15E. In Bahrain, EIL has been pre-qualified by M/s BAPCO for providing PMC services for its refinery expansion project.

The company strengthened its credentials in the fertilizer sector by securing another prestigious PMC assignment this year for setting up a 1,900 TPD Ammonia Plant for M/s PAU (Indonesia). EIL has been successful in expanding its client base further with the addition of new clients in existing and diversified business segments.

The company's new overseas clients addition during FY14 were M/s PAU (Indonesia); M/s Gulf Petrochem (Sharjah), M/s Sonangol (Angola), M/s PIC Kuwait and TPAO (Turkey). In order to widen the spectrum of offerings/ opportunities and to reduce systematic risk associated with various industries and geographies, EIL envisaged a strategy of entering into joint ventures and forming strategic alliances with the suitable players in India and abroad. The company currently has nearly ten such alliances including three overseas JVs. The company continues to win orders in international geographies mainly Middle East and expects further momentum in FY15-FY16E.

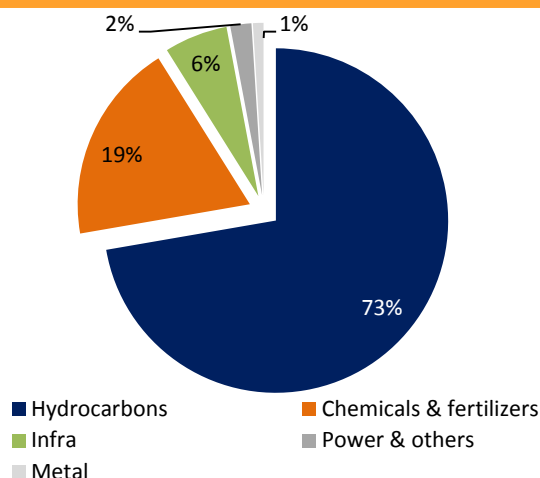
With the stable government at the centre, we believe the reform process should kick-start the capex in the hydrocarbon space.

Increasing capex in the domestic hydrocarbon space to provide huge opportunity

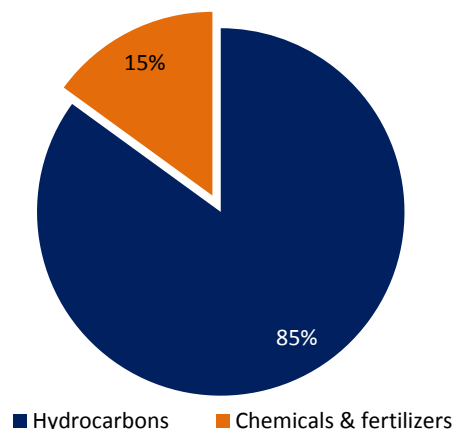
With a stable government at the centre, we expect capex in the hydrocarbon space to pick up post a lackluster performance over the last 2-3 years. Regulatory uncertainty on the pricing front and weak economics of the oil marketing companies (OMC)'s kept the industry under pressure. However with the stable government at the centre, we believe the reform process should kick-start the capex in the hydrocarbon space. The planning commission envisages an expansion in refining capacity (Greenfield + Brownfield) by ~90 MMTPA to 310 MMTPA. The XII five year plan envisages a capital expenditure of ₹4.1 trillion (USD 69 billion) for the petroleum and natural gas sector. Of these, upstream capex constitutes ₹2.8 trillion and ₹1.2 trillion has been allocated for the mid/downstream segment.

Additionally, investments in the hydrocarbon space in the MENA region are expected to be ~USD 50 billion over the next 5 years. **Being the leader in the Indian hydrocarbon markets (~90% market share), we expect EIL to benefit from the huge planned investments in the International markets.**

Consultancy segmental order-book break-up in Q1FY15



LSTK segmental order-book break-up in Q1FY15



Rupee appreciation and delays in execution of order book remains a major drag for the company

Appreciation in the Indian rupee value against the dollar could adversely impact the profitability of the company as its overseas business pie has increased significantly. A year back in 2013, the Indian rupee hit a record low of ₹68.8 against the US dollar. But since then, the rupee has turned out to be the best performer among emerging market currencies, appreciating 14% against the dollar. Since the beginning of 2014, the currency has been trading in the range of ₹60.50- 60.9 against the greenback.

Besides, we also remain cautious that any delay in order book execution will adversely affect the financial position of the company. We expect domestic order inflows to pick up in FY16E due to delay in order execution in FY15E. EIL is facing short-term pain due to delays in the addition of some key orders. The outlook for domestic inflows in FY15 is challenging considering delayed inflows of certain large-sized projects such as HPCL Barmer Refinery, which is now expected to fructify in FY16. However, from long-term growth perspective, we believe that EIL is well placed to gain from the impending revival in the domestic capex cycle in oil refinery, petrochemicals, and fertilizer sectors.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	1,685	1,685	1,685	1,685
Reserve and surplus	21,268	23,533	26,357	30,047
Net Worth	22,952	25,217	28,041	31,731
Other long term liability	38	19	21	23
Long-term provisions	231	225	203	183
Current Liability	15,852	12,707	12,629	12,547
Total Liabilities	39,073	38,168	40,893	44,484
Fixed assets	1,891	2,527	3,321	4,102
Deferred tax assets	2,373	2,320	2,320	2,320
Investments	1,021	127	133	145
Loans & adv	491	548	603	675
other asset	20	18	19	21
Current Assets	33,277	32,628	34,497	37,220
Total assets	39,073	38,168	40,893	44,484

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	23.6	20.9	22.0	24.1
EBIT Margin (%)	35.7	38.3	37.6	37.6
NPM (%)	22.2	22.1	22.6	22.8
ROCE (%)	38.9	27.8	28.2	31.2
ROE (%)	27.5	19.1	19.9	21.8
EPS (₹)	18.8	14.3	16.6	20.5
P/E (x)	12.4	16.3	14.1	11.4
BVPS(₹)	68.1	74.8	83.2	94.2
P/BVPS (x)	3.4	3.1	2.8	2.5
EV/Operating Income (x)	2.4	3.3	2.9	2.3
EV/EBITDA (x)	10.0	15.7	13.0	9.6

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Revenue	25,290	18,465	21,234	26,543
Expenses	19,318	14,606	16,563	20,146
EBITDA	5,973	3,859	4,672	6,397
Other Income	3,168	3,359	3,460	3,737
Depreciation	111	148	152	161
EBIT	9,029	7,070	7,979	9,972
Interest	0	0	0	0
Prior period adjustment	45	29	0	0
Profit Before Tax	8,985	7,041	7,979	9,972
Tax	2,663	2,214	2,394	3,061
Net Profit	6,322	4,827	5,585	6,911

Valuation and view

Holding a dominant position in the Indian hydrocarbon industry, we believe the growth opportunity for EIL is large, given the recent order wins from domestic and international markets. We believe that the conscious decision of EIL to diversify its markets beyond the horizons of the sub-continent has started paying dividends. Given its strong domain expertise in the hydrocarbon and petrochemical verticals, we expect that the company's experience with consultancy and turnkey assignments augurs well for winning large ticket orders in the global arena.

Considering the above aspects, we rate the stock as 'BUY' at a current CMP of ₹233.6, attractively placed at P/E of ~14.1x and ~11.4x, for FY15E and FY16E, respectively to arrive at a target price of ₹280, with a potential upside of ~20% for the coming 12 months.



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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