

Industry Eng. & Cons.
Bloomberg ENGR:IN
BSE CODE 532178

EBITDA Margin Compressed despite Strong Revenue Growth

RATING	ACCUMULATE
CMP	116
Price Target	130
Potential Upside	12%

Rating Change	↓
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	206/100
Mkt Capital (Rs Cr)	7383
Free float (%)	48%
Avg. Vol 1M (,000)	2948
No. of Shares	63
Promoters Pledged %	0%

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Key Highlights -

- ❑ The Company has received the big turnkey order from the HPCL for green filed Refinery project in Balamer worth Rs 4292 Cr and Rs.1321 Cr for consultancy work for the same project. Execution timeframe of the project is 4 years.
- ❑ Change in revenue mix towards lower margin turnkey projects has resulted into lower EBITDA margin. Revenue mix for the quarter for Consultancy and Turnkey is 49:51 compared to 78:22 in Q2FY18.
- ❑ Considering increasing revenue contribution from Turnkey projects we have estimated EBITDA margin in range of 11-14% going ahead.

2Q FY19 Results-

The company witnessed a modest quarter IN Q2FY19, On the revenue front company witnessed a growth of 58% YoY, with turnkey projects being the major contributor contributing about 51% to the revenue, The EBITDA went down from Rs 139 Cr in Q2Y18 to Rs 91 Cr in Q2FY19 with a 34.2% fall YoY, The reason being Ebitda margins went down on account of change in revenue mix. PAT during the quarter was Rs 98 Cr down from 119 Cr in Q2FY18. The order inflow during the quarter was Rs 5612 Cr boosted by a big turnkey project of Rs 4292 Cr. The Current order book stands at Rs 11460 Cr.

View and Valuation

Projects received a couple of years back has picked up the pace, which is evident by strong revenue growth in the turnkey segment and it is expected to remain strong. But as a result of it, EBITDA margin has compressed to 13-14% range from 23% (on an average). With a large project of HPCL Blamer refinery, Turnkey dominates the order book with 57% contribution and revenue growth is also expected to drive by Turnkey segment. EBITDA margin is expected to remain under pressure going ahead. We have incorporated strong order inflow in our estimates and increase our EPS estimates for FY19E/FY20E by 1/22%. **But considering compression in EBITDA margin we have reduced our target multiple and value stock at 20x FY20E (Earlier 25x) EPS and arrived at a target price of Rs.130. Hence, we change our rating from BUY to ACCUMULATE.**

Key Risks to our rating and target

- ❑ Delay in Project Approval
- ❑ Higher Revenue contribution from Consultancy

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1541	1480	1824	2693	3190
EBITDA	208	314	427	345	443
EBIT	183	292	403	324	424
PAT	281	330	383	328	413
EPS (Rs)	8	5	6	5	7
EPS growth (%)	-11%	-41%	24%	-14%	26%
ROE (%)	12%	10%	12%	16%	13%
ROCE (%)	8%	6%	10%	17%	13%
P/B (X)	2.0	3.5	4.3	3.0	2.9
EV/EBITDA (x)	40.3	37.8	29.1	28.0	22.3
P/E (x)	20.6	29.8	26.0	22.6	17.9

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2Q FY 19 Results
Mixed Result
EBITDA under Pressure

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>H1FY18</i>	<i>H1FY19</i>	<i>YoY %</i>
Net Sales	429	473	510	573	681	59%	19%	804	1,255	56.0%
Other Op.	-	-	-	-	-	-	-	-	-	-
Net Sales	429	473	510	573	681	59%	19%	804	1,255	56.0%
Other Income	47	39	48	52	61	32%	18%	92	114	23.1%
Total Income	476	513	558	626	743	56%	19%	897	1,368	52.6%
COGS	25	80	164	236	331			68	567	
Expenditure	290	339	452	487	590	103%	21%	584	1,077	84.5%
EBITDA	139	135	58	86	91	-34%	6%	221	178	-19.4%
Depreciation	6	6	6	6	6	-8%	4%	12	11	-7.7%
EBIT	133	129	52	81	86			209	167	
Interest	0	0	0	0	0	430%	80%	0	1	380.5%
PBT	179	168	99	133	147	0%	0%	301	280	
Tax	60	60	30	46	49	-18%	6%	100	95	-4.9%
PAT	119	108	69	87	98	-18%	13%	201	184	-8.1%

EBITDA margin compressed despite strong Revenue growth

The Q2FY19 was an mix quarter for the company registering an revenue growth of 58% YoY with the Turnkey projects coming to the forefront and contributing 51% to the revenue. Turnkey has reported revenue growth of 263% YoY as the Vizag and CPCL projects picked up pace in execution, while consultancy revenue remained flat YoY. The EBITDA margin during the quarter was under pressure and contracted by 1900 bps to 13% compared to 32% on account of change in revenue mix towards the turnkey projects which has lower EBITDA margin as compared to the Consultancy contracts. EBITDA was down by 34% YoY to Rs.91 Cr, whereas bottom line was down by just 18% YoY on account of higher other income. EIL has reported other income of Rs.61 cr v/s Rs.47 cr in Q2Fy18. The order inflow during the quarter stood at Rs 5612 Cr on account of big turnkey contract worth Rs 4292 Cr from HPCL Rajasthan Refinery Limited. The order book for the quarter stood at Rs 11460 with turnkey projects contributing 57% to the order book.

Strong revenue visibility in Turnkey projects

During the quarter Company has received big turnkey contract of Rs 4252 Cr from HPCL for green filed Balmer refinery project. With this order turnkey order book stands at Rs 6566 Cr, contributing 57% to the total order book. Company currently working on Vizag and CPCL projects and execution has picked up pace and revenue is expected to remain strong. Meanwhile, Rajasthan project will carry out design portion and then execution will speed up. So we expect strong momentum in revenue from next couple of years.

EBITDA margins is expected to remain under pressure

The company has witnessed a change in revenue mix in past few quarters with revenue mix changing from 70:30 to 50:50 between the Consultancy and Turnkey contracts. As result of this EBITDA margin has compressed from 23% on average to 13-14%. Currently Turnkey projects dominate the order with 57% contribution, which will result into higher revenue contribution from turnkey projects going ahead. We have estimated higher revenue share from turnkey and expect EBITDA margin in range of 11.5-14% going ahead.

Revenue Mix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Consultancy:- Overseas	291	271	276	322	285	279	289	5%	4%
Consultancy:- Overseas	60	54	57	63	52	43	43	-24%	0%
Sub Total	351	324	333	385	337	322	332	0%	3%
Turnkey	92	51	96	89	172	251	349	263%	39%
Total	443	375	429	473	510	573	681	59%	19%

Order Book

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Consultancy:- Overseas	2,493	2,638	3,463	3,307	3,620	2,934	4,698	36%	60%
Consultancy:- Overseas	1,528	1,131	1,347	1,223	1,094	927	196	-85%	-79%
Sub Total	4,021	3,769	4,810	4,530	4,714	3,861	4,894	2%	27%
Turnkey	3,741	3,929	4,071	3,771	3,699	3,368	6,566	61%	95%
Total	7,762	7,698	8,881	8,301	8,413	7,229	11,460	29%	59%

ORDER INFLOW

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Consultancy:- Overseas	979	84	1,101	107	65	36	1,312	19%	3553%
Consultancy:- Overseas	59	15	272	7	9	47	85	-69%	80%
Sub Total	1,038	99	1,373	114	74	83	1,397	2%	1579%
Turnkey	2,146	245	235	-	-	-	4,292	1726%	NA
Total	3,184	344	1,608	114	74	83	5,689	254%	6738%

EBIT MARGIN (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Consultancy	37	28	32	37	27	28	29	-9%	4%
Turnkey	35	8	51	12	7	6	5	-90%	-17%
Blended Margin	11	20	31	27	10	14	13	-60%	-11%

Exhibit: Order Book to Book to Bill

Healthy Order book provides strong revenue visibilities

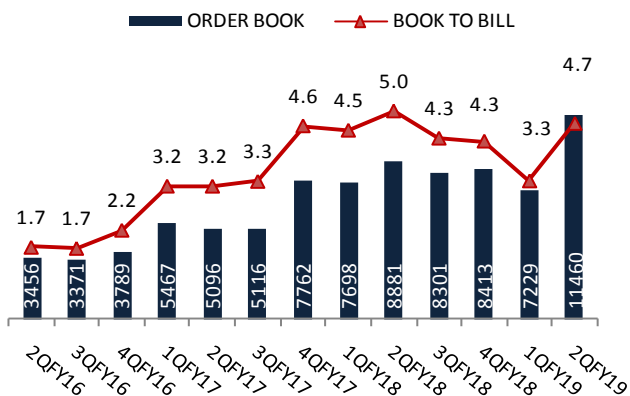


Exhibit: Order Book Mix (%)

With Rajasthan Refinery projects Turnkey dominate order book

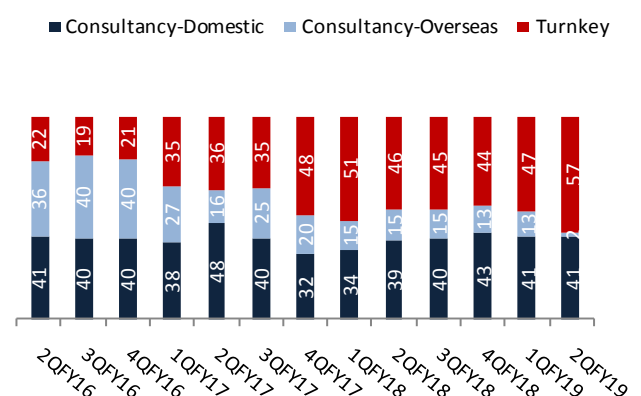


Exhibit: Revenue Mix (%)

With large projects under execution Turnkey led the Revenue growth

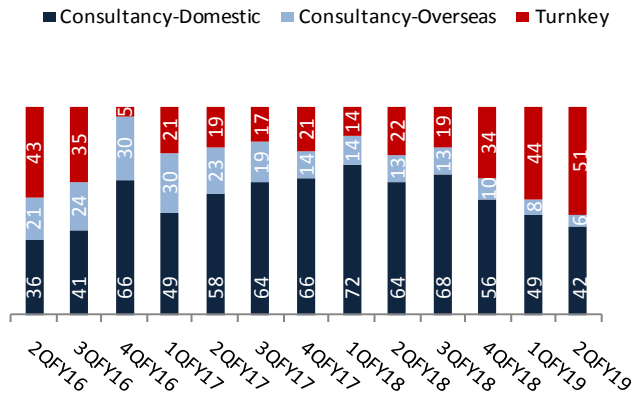


Exhibit: Turnkey Revenue and Revenue Growth (%)

With large refinery project revenue momentum is expected to remain strong

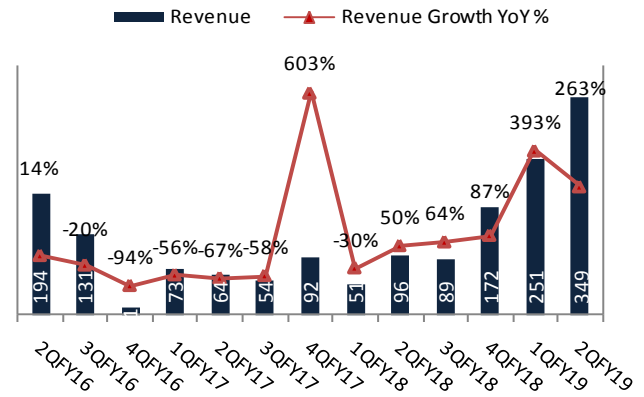


Exhibit: EBITDA and EBITDA M %

EBITDA M Compressed as result of increased contribution of Turnkey in Total Revenue

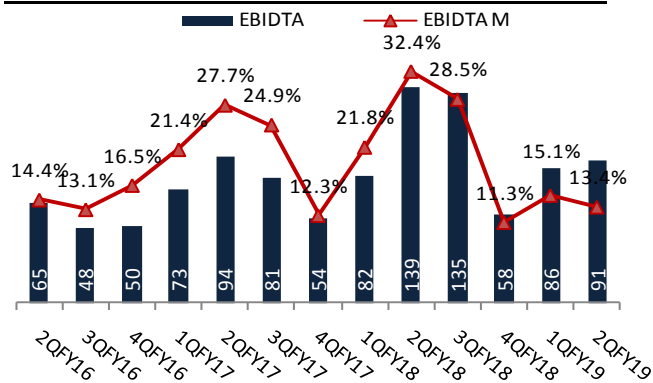
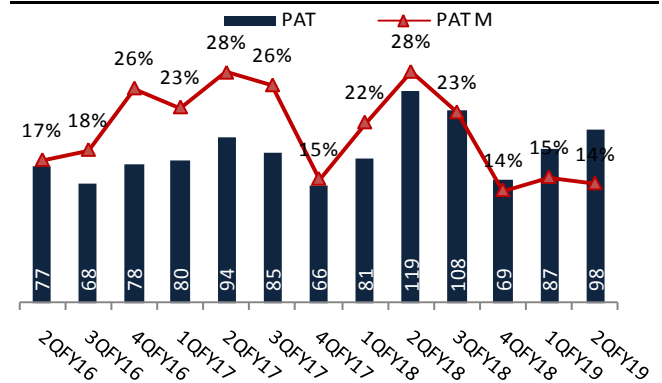


Exhibit: PAT and PAT M %



Financial Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2,529	1,846	1,741	1,541	1,480	1,824	2,693	3,190
Change (%)	-32%	-27%	-6%	-12%	-4%	23%	48%	18%
EBITDA	597	386	232	208	314	427	345	443
Change (%)	-17%	-35%	-40%	-10%	51%	36%	-19%	29%
Margin (%)	24%	21%	13%	14%	21%	23%	13%	14%
Depr & Amor.	11	15	20	25	23	24	20	19
EBIT	586	371	212	183	292	403	324	424
Int. & other fin. Cost	-	-	0	0	3	1	1	1
Other Income	317	336	273	247	222	176	188	213
EBT	903	707	485	430	511	579	511	636
Exp Item	-	-	-	-	-	-	-	-
Tax	271	224	172	149	181	196	183	223
Minority Int & P/L share of Ass.	-	-	-	(3)	(0)	(0)	-	-
Reported PAT	632	483	313	278	330	383	328	413
Adjusted PAT	632	483	313	278	330	383	328	413
Change (%)	-2%	-24%	-35%	-11%	19%	16%	-14%	26%
Margin(%)	25%	26%	18%	18%	22%	21%	12%	13%

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	168	168	168	168	337	316	316	316
Reserves	2,127	2,353	2,540	2,653	2,508	2,025	2,117	2,233
Networth	2,295	2,522	2,708	2,822	2,845	2,341	2,433	2,549
Debt	-	0	-	-	-	-	-	-
Other Non Cur Liab	27	24	23	28	25	27	27	27
Total Capital Employed	2,295	2,522	2,708	2,822	2,845	2,341	2,433	2,549
Net Fixed Assets (incl CWIP)	189	253	291	305	328	309	297	289
Non Cur Investments	102	13	4	23	152	217	357	357
Other Non Cur Asst	288	289	288	338	315	353	353	353
Non Curr Assets	580	554	584	667	795	879	1,007	999
Inventory	1	1	1	1	1	1	2	2
Debtors	344	354	420	376	399	562	829	983
Cash & Bank	1,891	1,812	2,478	2,661	2,358	2,537	2,451	2,845
Other Curr Assets	1,092	1,096	500	459	844	534	777	916
Curr Assets	3,328	3,263	3,400	3,498	3,601	3,634	4,059	4,745
Creditors	347	283	246	203	223	217	320	380
Provisions	475	443	394	349	456	467	689	817
Other Curr Liab	763	544	556	755	725	1,437	1,469	1,742
Curr Liabilities	1,585	1,270	1,252	1,315	1,526	2,145	2,503	2,963
Net Curr Assets	1,743	1,992	2,147	2,183	2,076	1,489	1,556	1,781
Total Assets	3,907	3,817	3,983	4,164	4,396	4,514	5,066	5,744

Financial Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	903	707	485	430	511	579	511	636
(inc)/Dec in Working Capital	(49)	(196)	(13)	68	86	314	(153)	168
Non Cash Op Exp	11	15	20	25	23	24	20	19
Int Paid (+)	-	(0)	(0)	(60)	(8)	(3)	-	-
Tax Paid	(282)	(213)	(161)	(153)	(166)	(280)	(183)	(223)
others	(237)	(226)	(259)	(221)	(209)	(35)	1	1
CF from Op. Activities	342	85	65	88	236	599	196	602
(inc)/Dec in FA & CWIP	(80)	(82)	(63)	(31)	(45)	(29)	(7)	(11)
Free Cashflow	262	3	1	57	191	570	189	590
(Pur)/Sale of Inv	26	(45)	662	122	(367)	356	-	-
others	(12)	294	(424)	(21)	610	(163)	(140)	-
CF from Inv. Activities	(66)	167	174	70	197	165	(147)	(11)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	-	-	1	-	-
Int. Paid	-	-	-	-	-	-	(1)	(1)
Div Paid (inc tax)	274	256	240	162	284	892	236	298
others	-	-	-	-	-	1	-	-
CF from Fin. Activities	(274)	(256)	(240)	(162)	(284)	(892)	(237)	(299)
Inc(Dec) in Cash	2	(4)	(1)	(4)	150	(129)	(189)	291
Add: Opening Balance	18	20	16	13	9	159	2,537	2,451
Closing Balance	20	16	15	9	159	30	2,349	2,742

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	28%	19%	12%	10%	12%	16%	13%	16%
ROCE	26%	15%	8%	6%	10%	17%	13%	17%
Asset Turnover	0.65	0.48	0.44	0.37	0.34	0.40	0.53	0.56
Debtor Days	50	70	88	89	98	112	112	112
Inv Days	0	0	0	0	0	0	0	0
Payable Days	50	56	52	48	55	43	43	43
Int Coverage	NA	Na	742	740	92	690	256	294
P/E	8	16	21	21	30	26	23	18
Price / Book Value	2	3	2	2	3	4	3	3
EV/EBITDA	6	15	39	40	38	29	28	22
FCF per Share	8	0	0	2	3	9	3	9
Div Yield	3.9%	2.9%	2.6%	2.8%	2.9%	2.3%	2.7%	3.4%

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Analyst's ownership of the stocks mentioned in the Report	NIL
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