Narnolia™

Engineers India Limited

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

Revenue below expectations,profitablity continue to be under pressure

RATING	NEUTRAL
CMP	110
Price Target	111
Potential Upside	1%

Rating Change	⟷
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	178/100
Mkt Capital (Rs Cr)	6983
Free float (%)	48%
Avg. Vol 1M (,000)	1287
No. of Shares (Cr)	63
Promoters Pledged %	0%

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Q3FY19 Results Update

- The Revenue during the quarter went up by 22% YoY to Rs.577 Cr which is below than our expectation of Rs.684 Cr. Revenue from the turnkey segment increased by 164% YoY while Consultancy revenue was down by 11% YoY.
- The EBITDA during the quarter was down by 30% and EBITDA margins during the quarter was down by 1204 bps on account of change in revenue mix. Revenue from consultancy and turnkey was in ratio of 60:40 compared to 78:22 in Q3FY18.
- The PAT during the quarter went down by 16.3% and the margins fell by 717 bps in line with EBITDA margin.
- During the quarter company received the order inflow worth Rs 91 Cr. The Order Book at the end of Q3FY19 stood at Rs 10787 Cr with Order mix of 43:57 in Consultancy and Turnkey segment respectively.
- The Consultancy book stood at ratio of 80:20 in domestic and overseas respectively.

View and Valuation

ENGINERSIN reported decent numbers for Q3FY19 but it was below our estimates due to lower revenue from turnkey business. Sluggish revenue growth continued from consultancy business on account of lower executable order book and it will likely to remain sluggish in next year as well. Rajasthan refinery project will start contributing in revenue only from FY21 onwards. 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. Profitability is also expected to remain under pressure on account of higher contribution from lower margin turnkey business.

We have reduced our FY20E EPS estimate by 6% considering slow progress of turnkey projects. We continue to value ENGINERSIN at 20x FY20E EPS and maintain our NEUTRAL stance on the stock.

Key Risks to our rating and target

- Order Inflow during Q4FY19 and FY20.
- Execution of Turnkey projects.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1541	1480	1824	2451	2819
EBITDA	208	314	427	362	370
EBIT	183	292	403	340	351
PAT	281	330	383	325	352
EPS (Rs)	8	5	6	5	6
EPS growth (%)	-11%	-41%	24%	-15%	8%
ROE (%)	12%	10%	12%	16%	13%
ROCE (%)	8%	6%	10%	17%	14%
P/B (X)	2.0	3.5	4.3	2.9	2.7
EV/EBITDA (x)	40.3	37.8	29.1	24.9	24.7
P/E (x)	20.6	29.8	26.0	21.4	19.7

3QFY19 Results

Below Expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	9MFY18	9MFY19	YoY %
Net Sales	473	510	573	681	577	22%	-15%	1,278	1,832	43.3%
Other Op.	-	-	-	-	-	-	-	-	-	-
Net Sales	473	510	573	681	577	22%	-15%	1,278	1,832	43.3%
Other Income	39	48	52	61	52	32%	-16%	132	165	25.8%
Total Income	513	558	626	743	629	23%	-15%	1,409	1,997	41.7%
COGS	80	164	236	331	230	188%	-31%	148	797	438.8%
Expenditure	339	452	487	590	482	42%	-18%	922	1,559	69.0%
EBITDA	135	58	86	91	95	-30%	4%	356	273	-23.3%
Depreciation	6	6	6	6	5	-10%	-7%	18	17	-8.3%
EBIT	129	52	81	86	90	-31%	4%	337	256	-24.1%
Interest	0	0	0	0	0	204%	-28%	0	1	305.6%
PBT	168	99	133	147	141	0%	0%	469	421	-10.2%
Tax	60	30	46	49	50	-16%	3%	160	146	-8.9%
PAT	108	69	87	98	91	-16%	-7%	309	275	-10.9%

Healthy Revenue growth,Below par Margin

Q3FY19 witnessed a decent revenue growth of 22% with turnkey segment rising 164% YoY to Rs 234 Cr. Though, the revenue from turnkey was below our expectation of Rs.394 Cr on account of lower material supply from client. While consultancy segment has reported revenue of Rs.343, down by 11% YoY due to lower executable order book. Revenue from Rajasthan projects will come only in FY21. The revenue mix during the quarter changed from 81:19 in Q3FY18 to 59:41 in Q3FY19 for Consultancy and turnkey respectively. As a result of it EBITDA margin was contracted by 1204 bps to 16.4% while EBITDA down to Rs.95 Cr from Rs.135 Cr in Q3FY18. The PAT during the quarter went down 16.3% from Rs 108 Cr in Q3FY18 to Rs 91 Cr in Q3FY19.Order inflow during the quarter stood at Rs 91 Cr while the Order Book stood at Rs 10787 Cr. The Order Book mix also witnessed a change with 55:45 in Q3FY18 to 43:57 for Consultancy and Turnkey respectively.

Healthy Order Pipeline

The Company currently has Order Book of 10787 Cr with Order mix of 43:57 for consultancy and turnkey segment. Large number of hydrocarbons projects are lined up which expects to materialize in coming quarters. Currently company is L1 in propylene unit project of HPCL and Panipat refinery expansion project of IOCL and management expect it will come in Q4FY19 or next year. Both the projects are on consultancy basis. Another project is Numaligrah refinery expansion in Assam from 3 MMTPA to 9 MMTPA at cost of 22500 Cr. The project for strategic oil reverse expansion plan of GoI is also in pipeline. Some projects which are into feasibility studies like green filed project of Kaveri refinery at Chennai, Bina refinery expansion and Mangalore refinery expansion projects are lined up but it will award in FY21. Company is also looking at some of the consultancy opportunities in oversea market. In fertilizers space company does not have any near visibility for projects, but is looking for some international assignment. The company is looking for some metallurgy projects from NAMCO next year. The management has guided Rs.1800-2000 Cr of order inflow for next year and most of it from consultancy .

Turnkey Segment to drive Revenue growth, Margins to remain under pressure

The ENGINERSIN has witnessed a change in revenue mix over past few quarters with Turnkey segment contributing 41% to the total revenue in Q3FY19 as compared to 22% in Q3FY18. The order book mix has also changed with turnkey segment contributing 57% to the order book. The execution of couple of large projects received during two years back is now on full swing and revenue growth is likely to drive going ahead. The Company has given 15% revenue growth guidance for FY20 with turnkey segment contributing maximum to the growth, further it expects consultancy revenue to remain sluggish at 5-7% for FY20. With the change in the revenue mix, profitability will under pressure going forward. Company has guided for EBITDA margin of 25-30% in consultancy and 5-6% in Turnkey segment for FY20.

Concall Highlights

- The Company has various hydrocarbon projects lined up which company expects to materialize going forward into Q4FY19 and FY20. The order inflow guidance for FY20 is Rs 1800-2000 Cr. The majority of the inflows are expected to be from consultancy segment.
- Some of the projects that company expects to be received next year are expansion of Kochi refinery other one is Panipat refinery expansion also company expects an green field project from international market in beginning of next year
- In fertilizers space company does not have any near visibility for projects, but is looking for some international assignment. The company is looking for some metallurgy projects from NAMCO next year.
- The overseas markets have not seen the revival as per companies' expectation, the revival has been slow and sluggish primarily because of cost cutting efforts taken up by the oil companies in Middle East also the companies are looking at different contracting module.
- The Company expects the Revenue from Turnkey projects to be in range of Rs 1100-1200 Cr for FY19.The consultancy revenue for FY19 is expected to be in same range as FY18.
- The Revenue growth for FY20 is expected to be at 15% with Turnkey segment being the major contributor. The Consultancy segment Revenue is expected to grow 5-7% in FY20.
- Company has maintained the EBITDA margin guidance both in consultancy (25-30%) and Turnkey (5-6%) for FY20.
- The company is looking to expand its employee base with mix of permanent employee and outsource employee which would give company more flexibility.
- The cash in hand at present is around Rs 2300 Cr. The other income is directly related to treasury operation. Company does not have any exposure to ILFS..

Revenue Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consultancy-Dom.	271	276	322	285	279	289	295	-8%	2%
Consultancy:- Int.	54	57	63	52	43	43	48	-25%	9%
Sub Total	**324**	**333**	**385**	**337**	**322**	**332**	**343**	**-11%**	**3%**
Turnkey	51	96	89	172	251	349	234	164%	-33%
Total	**375**	**429**	**473**	**510**	**573**	**681**	**577**	**22%**	**-15%**

Order Book

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consultancy-Dom.	2,638	3,463	3,307	3,620	2,934	3,866	3,694	12%	-4%
Consultancy:- Int.	1,131	1,347	1,223	1,094	927	1,028	923	-25%	-10%
Sub Total	**3,769**	**4,810**	**4,530**	**4,714**	**3,861**	**4,894**	**4,617**	**2%**	**-6%**
Turnkey	3,929	4,071	3,771	3,699	3,368	6,566	6,170	64%	-6%
Total	**7,698**	**8,881**	**8,301**	**8,413**	**7,229**	**11,460**	**10,787**	**30%**	**-6%**

ORDER INFLOW

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consultancy-Dom.	84	1,101	107	65	36	1,312	49	-54%	-96%
Consultancy:- Int.	15	272	7	9	47	85	29	293%	-66%
Sub Total	**99**	**1,373**	**114**	**74**	**83**	**1,397**	**78**	**-32%**	**-94%**
Turnkey	245	235	-	-	-	4,292	13	NA	NA
Total	**344**	**1,608**	**114**	**74**	**83**	**5,689**	**91**	**-20%**	**-98%**

EBIT MARGIN (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consultancy	28	32	37	27	28	29	30	(7.0)	1.0
Turnkey	8	51	12	7	6	5	6	(6.0)	1.0
Blended Margin	20	31	27	10	14	13	16	(11.2)	3.0

Exhibit: Order Book to Book to Bill

Healthy Order book provides strong revenue visibilities

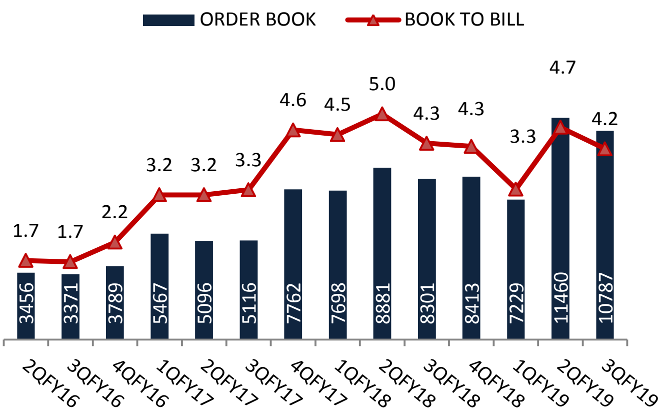


Exhibit: Order Book Mix (%)

With Rajasthan Refinery projects Turnkey dominate order book

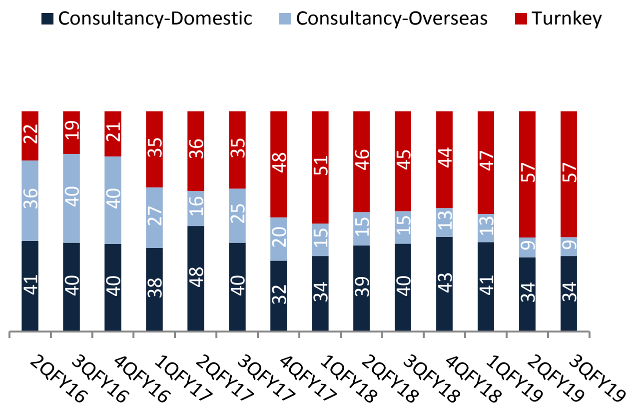


Exhibit: Revenue Mix (%)

With large projects under execution Turnkey led the Revenue growth

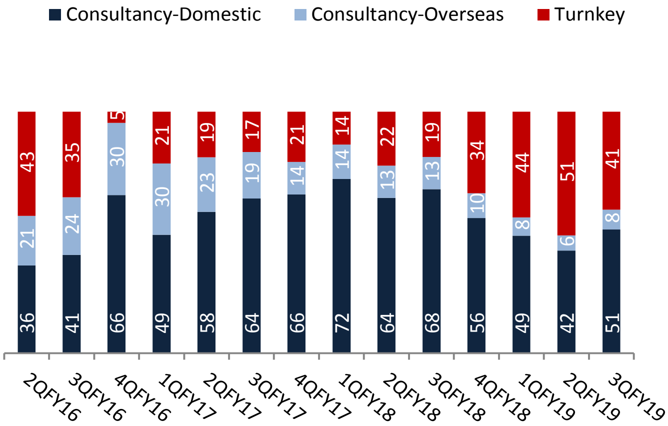


Exhibit: Turnkey Revenue and Revenue Growth (%)

With large refinery project revenue momentum is expected to remain strong

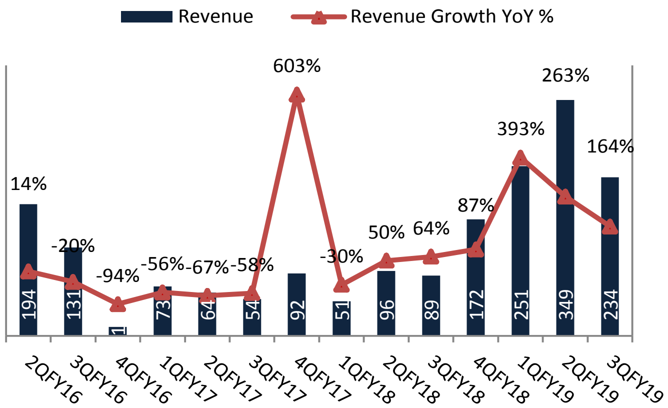


Exhibit: EBITDA and EBITDA M %

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

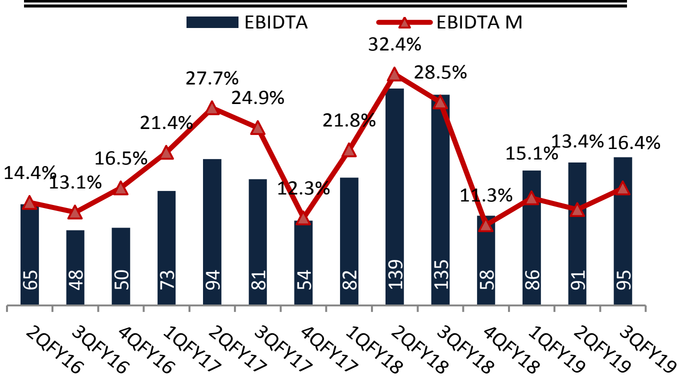
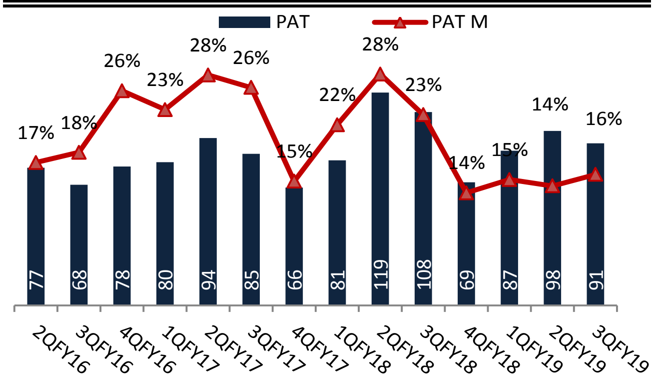


Exhibit: PAT and PAT M %



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**	**2,451**	**2,819**
Change (%)	*-32%*	*-27%*	*-6%*	*-12%*	*-4%*	*23%*	*34%*	*15%*
EBITDA	**597**	**386**	**232**	**208**	**314**	**427**	**362**	**370**
Change (%)	-17%	-35%	-40%	-10%	51%	36%	-15%	2%
Margin (%)	**24%**	**21%**	**13%**	**14%**	**21%**	**23%**	**15%**	**13%**
Depr & Amor.	11	15	20	25	23	24	20	19
EBIT	***586***	***371***	***212***	***183***	***292***	***403***	***340***	***351***
Int. & other fin. Cost	-	-	*0*	*0*	*3*	*1*	*1*	*1*
Other Income	*317*	*336*	*273*	*247*	*222*	*176*	*176*	*192*
EBT	**903**	**707**	**485**	**430**	**511**	**579**	**515**	**542**
Exp Item	-	-	-	-	-	-	-	-
Tax	**271**	**224**	**172**	**149**	**181**	**196**	**190**	**190**
Minority Int & P/L share of Ass.	-	-	-	(3)	(0)	(0)	-	-
Reported PAT	**632**	**483**	**313**	**278**	**330**	**383**	**325**	**352**
Adjusted PAT	***632***	***483***	***313***	***278***	***330***	***383***	***325***	***352***
Change (%)	-2%	-24%	-35%	-11%	19%	16%	-15%	8%
Margin(%)	*25%*	*26%*	*18%*	*18%*	*22%*	*21%*	*13%*	*12%*

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	2,116	2,215
Networth	2,295	2,522	2,708	2,822	2,845	2,341	2,432	2,531
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	2,432	2,531
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	755	868
Cash & Bank	1,891	1,812	2,478	2,661	2,358	2,537	2,346	2,618
Other Curr Assets	1,092	1,096	500	459	844	534	709	812
Curr Assets	3,328	3,263	3,400	3,498	3,601	3,634	3,811	4,300
Creditors	347	283	246	203	223	217	292	335
Provisons	475	443	394	349	456	467	627	722
Other Curr Liab	763	544	556	755	725	1,437	1,336	1,538
Curr Liabilities	1,585	1,270	1,252	1,315	1,526	2,145	2,280	2,620
Net Curr Assets	1,743	1,992	2,147	2,183	2,076	1,489	1,532	1,681
Total Assets	3,907	3,817	3,983	4,164	4,396	4,514	4,819	5,300

Financial Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	903	707	485	430	511	579	515	542
(inc)/Dec in Working Capital	(49)	(196)	(13)	68	86	314	(234)	124
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)	(190)	(190)
others	(237)	(226)	(259)	(221)	(209)	(35)	1	1
CF from Op. Activities	342	85	65	88	236	599	111	496
(inc)/Dec in FA & CWIP	*(80)*	*(82)*	*(63)*	*(31)*	*(45)*	*(29)*	*(7)*	*(11)*
Free Cashflow	*262*	*3*	*1*	*57*	*191*	*570*	*104*	*485*
(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*	*234*	*253*
others	*-*	*-*	*-*	*-*	*-*	*1*	*-*	*-*
CF from Fin. Activities	*(274)*	*(256)*	*(240)*	*(162)*	*(284)*	*(892)*	*(235)*	*(255)*
Inc(Dec) in Cash	*2*	*(4)*	*(1)*	*(4)*	*150*	*(129)*	*(271)*	*230*
Add: Opening Balance	*18*	*20*	*16*	*13*	*9*	*159*	*2,537*	*2,346*
Closing Balance	*20*	*16*	*15*	*9*	*159*	*30*	*2,266*	*2,576*

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	28%	19%	12%	10%	12%	16%	13%	14%
ROCE	26%	15%	8%	6%	10%	17%	14%	14%
Asset Turnover	0.65	0.48	0.44	0.37	0.34	0.40	0.51	0.53
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	318	306
P/E	8	16	21	21	30	26	21	20
Price / Book Value	2	3	2	2	3	4	3	3
EV/EBITDA	6	15	39	40	38	29	25	25
FCF per Share	8	0	0	2	3	9	2	8
Div Yield	3.9%	2.9%	2.6%	2.8%	2.9%	2.3%	2.8%	3.0%

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Disclosure of Interest Statement-

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

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

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