

Industry  
Bloomberg  
BSE CODE

Eng. & Cons.  
ENGR IN  
532178

RATING	HOLD
CMP	95
Price Target	107
Potential Upside	13%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	128/90
Mkt Capital (Rs Cr)	5971
Free float (%)	48%
Avg. Vol 1M (,000)	809
No. of Shares (Crs)	63
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	2476	3126	3327
EBITDA	376	430	380
EBIT	344	407	358
PAT	363	414	452
EPS (Rs)	6	7	7
EPS gr (%)	-6%	15%	9%
ROE (%)	16%	15%	17%
ROCE (%)	17%	15%	17%
P/B (X)	3.1	2.5	2.4
EV/EBITDA (x)	25.5	19.7	22.8
P/E (x)	20.3	14.4	13.2

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## Contraction in Operating Margin despite Robust Revenue Growth

### 3QFY20 Result Update

- EIL posted strong revenue growth of 55% YoY to Rs 899 Cr driven by 124% YoY growth in Turnkey business.
- Execution of CPCL BS IV project and HPCL Vizag refinery project has led to robust growth of 124% YoY to Rs 526 Cr.
- Domestic Consultancy revenue was down by 6% YoY to Rs 278 Cr on account of completion of some large projects. While, the oversea business has reported revenue growth of 83% YoY to Rs 87 Cr on back of Dangote refinery project.
- Blended operating margin compressed by 640 bps to 10% and down by 5.3% YoY. Though, the PAT was up by 24% YoY on account of higher other income and lower tax.
- During the quarter company has reported order inflow of Rs 361 Cr and Rs 1471 Cr on the 9MFY20 basis. Major order was the Pipeline order from the NRL.

### Execution pick up led to Robust Revenue Growth

EIL has posted robust revenue growth of 55% YoY mainly led by the Turnkey segments. CPCL and HPCL Vizag projects are in advanced stage of execution and revenue from both the projects are at its peak. CPCL is likely to complete in FY21 and Vizag will be over in FY22. Tendering activity on HPCL Barmer project is likely to complete in next 6-8 months and construction activity will pick by the end of the FY21 and will be at its peak in FY22. While domestic Consultancy business was down due to completion of certain projects and revenue from HPCL constancy project will start contributing in revenue from FY21 in meaningful manner. Oversea projects like Dangote Refinery and Magolia refinery project has started contributing in revenue couple of quarters back and will maintain its pace.

### Higher Provisioning and execution of lower margin project impacted the Margin

Despite the strong growth blended operating margin has contracted by 640 bps on account of change in revenue mix (higher contribution from Turnkey), higher provision for the contractual obligation and lower margin on the some projects. Provision was higher as some of the projects are in advance stage of completion and as per the accounting company has to provides some provisions which will write back after the end of performance guarantee test run. HPCL projects (Vizag and Barmer) are on the utility and offside basis which has lower margin compared to projects on the process plant basis. Process plant basis projects are more complex in nature compared to utility & Offside package and command premium margin.

### View and Valuation

Revenue was driven by the some of the big orders in Turnkey business which is at advanced stage of execution, though the margin was impacted due to the some provisions and execution of lower margin business. **Going ahead we believe that the execution momentum is likely to remain positive based on the robust order book and we have accounted lower margin in are estimates and reduce our EPS of FY21E by 13%. However, we remain positive on the stock considering the future perspective of the business and maintained our HOLD rating on the stock with revised target price of Rs 107 (at 15x FY21E EPS).**

## Strong Execution

### 3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY%	QoQ%	9MFY19	9MFY20	YoY%
Net Sales	577	613	735	730	899	56%	23%	1,832	2,364	29.1%
Other Op. Income	-	-	-	-	-	-	-	-	-	-
Net Sales	577	613	735	730	899	56%	23%	1,832	2,364	29.1%
Other Income	52	60	58	63	67	29%	5%	165	188	13.7%
Total Income	629	672	793	794	966	54%	22%	1,997	2,553	27.8%
COGS	230	265	284	332	499	117%	50%	797	1,115	39.8%
Expenditure	482	519	595	621	809	68%	30%	1,559	2,026	30.0%
EBITDA	95	93	139	109	90	-5%	-18%	273	338	24.1%
Depreciation	5	6	6	6	6	6%	-3%	17	17	3.8%
EBIT	90	88	134	103	84	-6%	-19%	256	321	25.4%
Interest	0	0	0	0	0	69%	15%	1	1	46.0%
PBT	141	147	192	166	150	7%	-10%	421	508	20.8%
Tax	50	52	68	100	38	-25%	-62%	146	205	40.8%
PAT	91	95	124	67	112	24%	69%	275	303	10.2%

### Concall Highlights

#### • Overall

- Revenue performance was driven by the Dangote refinery project, CPCL BS-IV project and other domestic projects.
- Margin was down due to some provision related to contractual obligation and bad debt.
- Management expects Rs 400-500 Cr of turnkey revenue in the Q4FY20.
- Revenue growth in FY21 will be 5-7%.
- HPCL Vizag refinery project cost has increased from Rs1834 Cr to Rs 3030 Cr. Company has already received variation order of Rs 650 Cr and for the balance portion discussion is under way with client and likely to receive in short time.
- CPCL will be completed in the FY21 and HPCL Vizag will be complete in 2021-22.
- Tax rate will be lower than the 25.2% in FY20.
- Margin will be 25-30% in Consultancy segment and 4% in Turnkey segment.

#### • Order Pipeline

- NRL refinery expansion projects is likely to delayed as the ownership of the NRL will change and new PSU owner might have the assets in the similar area. So the investment decision will take time. Currently majority stake is held by the BPCL.
- IOCL has some projects on cards like expansion of Panipat , Baurani, Gujarat and Paradeep refinery along with the CPCL expansion plant. IOCL will be phasing out the investment and will not take up the all the expansion at one time.
- HMEL expansion of Petchem, Kaveri Basin refinery, Panipat expansion is likely to come up in FY21.
- In near term 2-3 projects are in pipeline like GAIL Petchem, one fertilizer plant. Based on these projects management expects order inflow of Rs 1800 Cr of in FY20 (Rs 1471 Cr in 9MFY20).

#### • Progress on HPCL Barmer Refinery

- Major EPC projects are in process of awarding and likely to tender out all the projects in next 6-8 months period. Current progress on the tendering is 15-18%.
- Construction is likely to pick up after 1 and half year after the projects gets awarded. Execution at project site is slowly picking up and will improve in 2021.
- Turnkey margin on the HPCL Barmer project is 4% as the project is more like utility and offside (low portion of the engineering) compared to CPCL project which is Petro FCC and FRU package which is more complex in nature. Hence margins are premium on complex projects and lower on the normal projects.

## Revenue Mix

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Consultancy-Dom.	279	289	295	307	302	290	278	-6%	-4%
Consultancy:- Int.	43	43	48	46	142	64	87	83%	36%
<b>Sub Total</b>	<b>322</b>	<b>332</b>	<b>343</b>	<b>352</b>	<b>445</b>	<b>354</b>	<b>365</b>	<b>7%</b>	<b>3%</b>
Turnkey	251	349	234	260	290	370	526	124%	42%
<b>Total</b>	<b>573</b>	<b>681</b>	<b>577</b>	<b>613</b>	<b>735</b>	<b>724</b>	<b>891</b>	<b>54%</b>	<b>23%</b>

## Order Book

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Consultancy-Dom.	2,934	3,866	3,694	3,967	4,204	4,022	3,222	-13%	-20%
Consultancy:- Int.	927	1,028	923	345	628	655	1,381	50%	111%
<b>Sub Total</b>	<b>3,861</b>	<b>4,894</b>	<b>4,617</b>	<b>4,312</b>	<b>4,832</b>	<b>4,677</b>	<b>4,603</b>	<b>0%</b>	<b>-2%</b>
Turnkey	3,368	6,566	6,170	6,876	6,597	6,082	5,561	-10%	-9%
<b>Total</b>	<b>7,229</b>	<b>11,460</b>	<b>10,787</b>	<b>11,189</b>	<b>11,429</b>	<b>10,759</b>	<b>10,164</b>	<b>-6%</b>	<b>-6%</b>

## Order Inflow

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Consultancy-Dom.	36	1,312	49	98	195	151	328	573%	118%
Consultancy:- Int.	47	9	29	6	749	16	33	13%	104%
<b>Sub Total</b>	<b>83</b>	<b>1,320</b>	<b>78</b>	<b>104</b>	<b>944</b>	<b>167</b>	<b>361</b>	<b>364%</b>	<b>116%</b>
Turnkey	-	4,292	13	-	-	-	-	NA	NA
<b>Total</b>	<b>83</b>	<b>5,612</b>	<b>91</b>	<b>104</b>	<b>944</b>	<b>167</b>	<b>361</b>	<b>297%</b>	<b>116%</b>

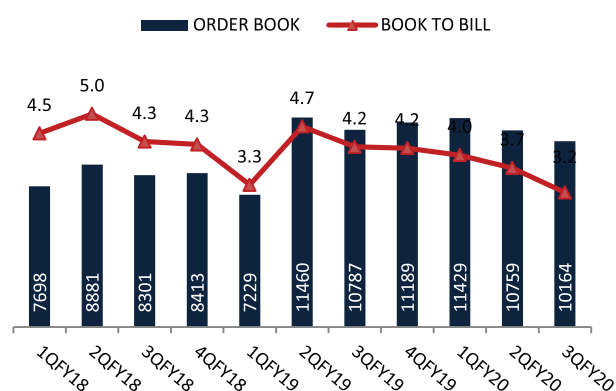
## Ebit Margin (%)

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Consultancy	28	29	30	29	39	27	25	(500.0)	(200)
Turnkey	6	5	6	6	3	8	3	(300.0)	(500)
<b>Blended Margin</b>	<b>14</b>	<b>13</b>	<b>16</b>	<b>14</b>	<b>25</b>	<b>17</b>	<b>9</b>	<b>(655.8)</b>	<b>(482)</b>

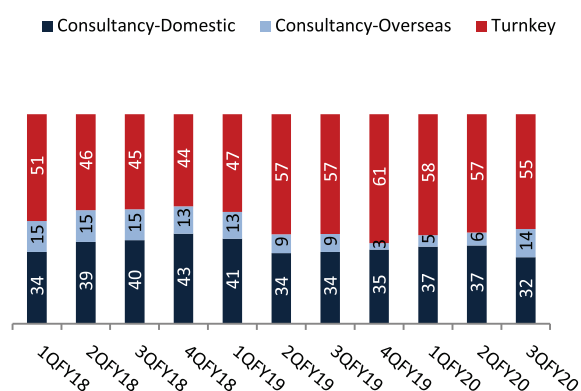
## Exhibit: Order Book to Book to Bill

Healthy Order book provides strong revenue visibilities



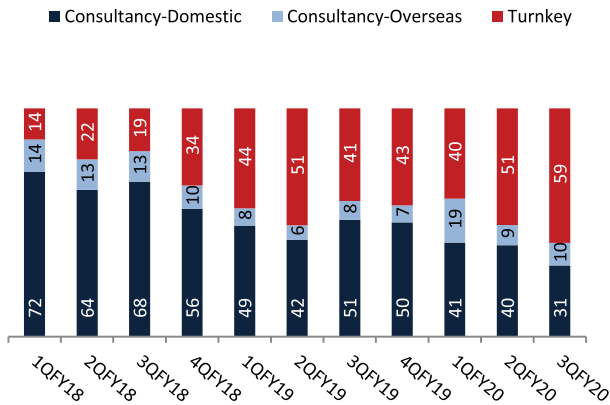
## Exhibit: Order Book Mix (%)

With Rajasthan Refinery projects Turnkey dominate order book



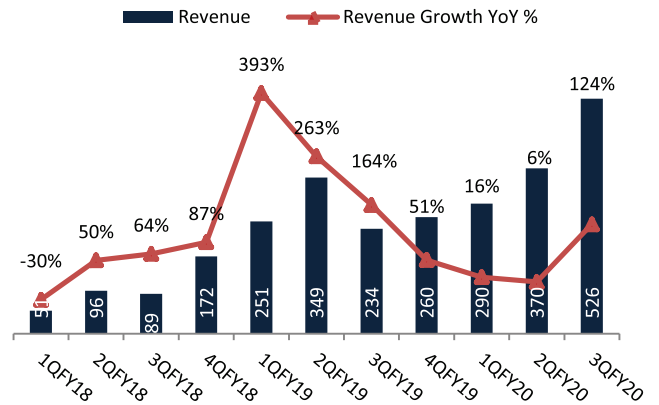
## Exhibit: Revenue Mix (%)

With large projects under execution Turnkey led the Revenue growth



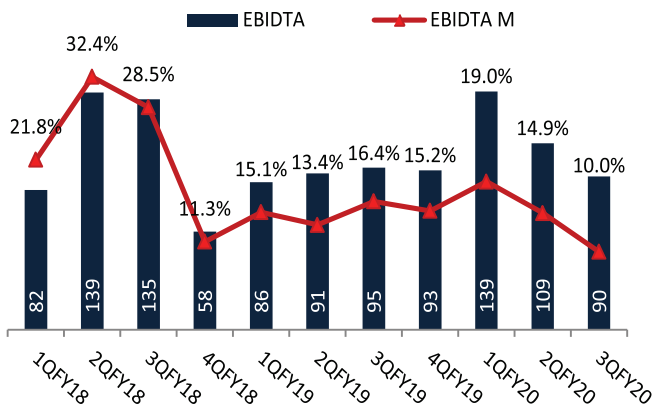
## Exhibit: Turnkey Revenue and Revenue Growth (%)

With large refinery project revenue momentum is expected to remain strong

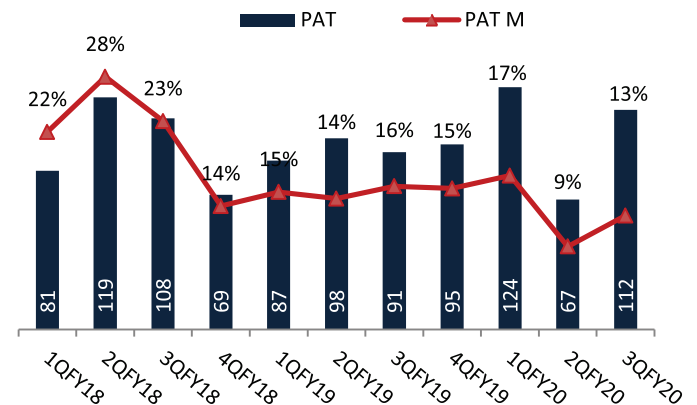


## Exhibit: EBITDA and EBITDA M %

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



## Exhibit: PAT and PAT M %



## Financial Details

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,846</b>	<b>1,741</b>	<b>1,541</b>	<b>1,480</b>	<b>1,824</b>	<b>2,476</b>	<b>3,126</b>	<b>3,327</b>
Change (%)	-27%	-6%	-12%	-4%	23%	36%	26%	6%
<b>EBITDA</b>	<b>386</b>	<b>232</b>	<b>208</b>	<b>314</b>	<b>427</b>	<b>376</b>	<b>430</b>	<b>380</b>
Change (%)	-35%	-40%	-10%	51%	36%	-12%	15%	-12%
<b>Margin (%)</b>	<b>21%</b>	<b>13%</b>	<b>14%</b>	<b>21%</b>	<b>23%</b>	<b>15%</b>	<b>14%</b>	<b>11%</b>
Depr & Amor.	15	20	25	23	24	22	24	22
<b>EBIT</b>	<b>371</b>	<b>212</b>	<b>183</b>	<b>292</b>	<b>403</b>	<b>344</b>	<b>407</b>	<b>358</b>
Int. & other fin. Cost	-	0	0	3	1	1	2	2
Other Income	336	273	247	222	176	222	252	248
<b>EBT</b>	<b>707</b>	<b>485</b>	<b>430</b>	<b>511</b>	<b>579</b>	<b>565</b>	<b>657</b>	<b>604</b>
Exp Item	-	-	-	-	-	-	-	-
<b>Tax</b>	<b>224</b>	<b>172</b>	<b>149</b>	<b>181</b>	<b>196</b>	<b>201</b>	<b>243</b>	<b>152</b>
Minority Int & P/L share of Ass.	-	-	(3)	(0)	(0)	(3)	-	-
<b>Reported PAT</b>	<b>483</b>	<b>313</b>	<b>278</b>	<b>330</b>	<b>383</b>	<b>360</b>	<b>414</b>	<b>452</b>
<b>Adjusted PAT</b>	<b>483</b>	<b>313</b>	<b>278</b>	<b>330</b>	<b>383</b>	<b>360</b>	<b>414</b>	<b>452</b>
Change (%)	-24%	-35%	-11%	19%	16%	-6%	15%	9%
Margin(%)	26%	18%	18%	22%	21%	15%	13%	14%

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	168	168	168	337	316	316	316	316
Reserves	2,353	2,540	2,653	2,508	2,025	2,031	2,098	2,143
Networth	2,522	2,708	2,822	2,845	2,341	2,347	2,414	2,459
Debt	0	-	-	-	-	-	-	-
Other Non Cur Liab	24	23	28	25	27	13	13	13
Total Capital Employed	2,522	2,708	2,822	2,845	2,341	2,347	2,414	2,459
Net Fixed Assets (incl CWIP)	253	291	305	328	309	300	313	311
Non Cur Investments	13	4	23	152	217	269	390	390
Other Non Cur Asst	289	288	338	315	353	370	370	370
Non Curr Assets	554	584	667	795	879	939	1,073	1,072
Inventory	1	1	1	1	1	7	9	9
Debtors	354	420	376	399	562	427	600	638
Cash & Bank	1,812	2,478	2,661	2,358	2,537	2,716	2,963	3,094
Other Curr Assets	1,096	500	459	844	534	675	816	871
Curr Assets	3,263	3,400	3,498	3,601	3,634	3,825	4,387	4,612
Creditors	283	246	203	223	217	245	309	329
Provisions	443	394	349	456	467	476	602	640
Other Curr Liab	544	556	755	725	1,437	1,679	2,121	2,241
Curr Liabilities	1,270	1,252	1,315	1,526	2,145	2,403	3,034	3,212
Net Curr Assets	1,992	2,147	2,183	2,076	1,489	1,422	1,353	1,400
<b>Total Assets</b>	<b>3,817</b>	<b>3,983</b>	<b>4,164</b>	<b>4,396</b>	<b>4,514</b>	<b>4,763</b>	<b>5,461</b>	<b>5,684</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	19%	12%	10%	12%	16%	15%	17%	18%
ROCE	15%	8%	6%	10%	17%	15%	17%	15%
Asset Turnover	0.48	0.44	0.37	0.34	0.40	0.52	0.57	0.59
Debtor Days	70	88	89	98	112	63	70	70
Inv Days	0	0	0	0	0	1	1	1
Payable Days	56	52	48	55	43	36	36	36
Int Coverage	Na	742	740	92	690	279	259	205
P/E	16	21	21	30	26	20	14	13
Price / Book Value	3	2	2	3	4	3	2	2
EV/EBITDA	15	39	40	38	29	26	20	23
FCF per Share	0	0	2	3	9	8	11	9
Div Yield	2.9%	2.6%	2.8%	2.9%	2.3%	5.0%	4.9%	6.8%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	707	485	430	511	579	574	657	604
(inc)/Dec in Working Capital	(196)	(13)	68	86	314	343	316	84
Non Cash Op Exp	15	20	25	23	24	22	24	22
Int Paid (+)	(0)	(0)	(60)	(8)	(3)	(0)	-	-
Tax Paid	(213)	(161)	(153)	(166)	(280)	(222)	(243)	(152)
others	(226)	(259)	(221)	(209)	(35)	(169)	2	2
CF from Op. Activities	85	65	88	236	599	549	755	560
(inc)/Dec in FA & CWIP	(82)	(63)	(31)	(45)	(29)	(32)	(37)	(20)
Free Cashflow	3	1	57	191	570	517	718	540
(Pur)/Sale of Inv	(45)	662	122	(367)	356	(24)	-	-
others	294	(424)	(21)	610	(163)	52	(121)	-
CF from Inv. Activities	167	174	70	197	165	(4)	(158)	(20)
inc/(dec) in NW	-	-	-	-	-	-	0	-
inc/(dec) in Debt	-	-	-	-	1	-	-	-
Int. Paid	-	-	-	-	-	-	(2)	(2)
Div Paid (inc tax)	256	240	162	284	892	362	348	407
others	-	-	-	-	1	-	-	-
CF from Fin. Activities	(256)	(240)	(162)	(284)	(892)	(362)	(350)	(408)
Inc(Dec) in Cash	(4)	(1)	(4)	150	(129)	183	248	131
Add: Opening Balance	20	16	13	9	159	30	2,716	2,963
Closing Balance	16	15	9	159	30	214	2,963	3,094

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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