



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update@ Dalal & Broacha

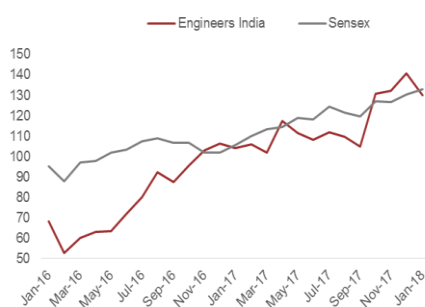
BUY

Current Price	175
Target Price	239
Upside/Downside	36%
52 Week Range	Rs.141/206

Key Share Data

Market Cap (Rs.bn)	123
Market Cap (US\$ mn)	1925
No of o/s shares (mn)	674
Face Value	5
Monthly	2,506,868
Avg.vol(BSE+NSE) Nos	
BSE Code	532178
NSE Code	ENGINERSIN
Bloomberg	ENGR IN

Price performance



Strong execution and margins: EIL reported overall sales of Rs4.73bn, up 45.7% YoY. Revenues from Consultancy & Engineering Projects segment were up 42% YoY to Rs3.8bn, while for Turnkey Projects were up ~64% YoY to Rs889mn largely due to two change orders and provision write-backs amounting to Rs1,070mn. EBITDA was up by 67% YoY to Rs1.35bn and EBITDA margins were up by 360bps YoY to 28.5% led by an 800bps improvement in the EBIT margins of Consultancy & Engineering Projects segment at 37.4%. Employee cost was up 21.7% due to the wage hike provision. PAT was up by 27.5% YoY to Rs1,084 mn.

Strong order book: Order book at the end of Q3FY18 was ~Rs83bn; order inflow stood at Rs20.6bn for 9MFY18 (FY17 inflow - Rs57bn). EIL received orders worth Rs265mn for pre-process activities of Rajasthan refinery project. Key domestic opportunity for the next two years include a) Rajasthan refinery b) Numaligarh Refinery (3MT to 9MT) c) Feasibility study for few petrochemical refineries in the South and d) New grass root refinery by CPCL 9MT in Nagapattinam. EIL believes order finalization for Maharashtra refinery could take time. The company is seeing some movement in Asian countries like Bangladesh and other neighbouring countries, whereas Middle East, which used to be a good bet for EIL, looks sluggish currently. EIL is looking at order inflows of Rs22-25bn in FY18 and ~Rs20-21bn in FY19.

International business outlook remains positive: The Dangote refinery in Nigeria (~20 MTPA) has been a landmark order for EIL, which will enable it to make a mark in international markets once it is completed. Competition in the international market is far stiffer and hence a large project like Dangote should enable EIL to build strong credentials for future orders in this region. With its engineering hub in Abu Dhabi, EIL is well positioned to actively participate in upcoming opportunities in MENA and African region.

% Shareholding

	Jun-17	Sept-17
Promoters	57.0	54.2
FII	6.7	7.2
DII	20.4	22.1
Others	15.9	16.5
Total	100.0	100.0

We reiterate the Buy rating on the stock with a TP of Rs 239

Given that EIL is attractively placed as a strong early cyclical play, with robust demand outlook & the surging oil & gas capex to drive a much longer and larger capex cycle. Most of these will be driven by domestic OMCs like HPCL-Barmer (Rajasthan), West Coast refinery, IOCL-Paradip petchem expansion, Numaligarh refinery, among others. EIL will continue to benefit from investments in downstream hydrocarbon and fertilisers. We assign target P/E of 27x on FY20 EPS and arrive at TP of Rs 239 (31% upside). We Initiate coverage with 'BUY'.

Key Financials

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY 17	14486	-4.1%	3928	27.1%	3834	41.2%	5.7	32.0	13.8	21.4
FY 18P	17865	23.3%	4047	22.7%	4049	5.6%	6.0	30.3	12.9	19.4
FY19P	25,134	41%	5,623	22.4%	5,159	27.4%	7.7	23.8	15.6	23.4
FY20P	32,601	39%	7,002	21.5%	5,987	16.0%	8.9	20.5	17.4	26.1



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Conference call takeaways

- Management sees Rs 23bn of order inflows in FY18 and that in case the HPCL Barmer order is awarded in 4Q, inflows could be materially higher than expected.
- FY19 guidance: Order inflows of Rs 20-21bn and revenue growth of 25% yoy, mainly driven by pickup in execution in the turnkey segment.
- EIL has expressed interest in acquiring PDIL, a consultancy company under the Ministry of Chemicals. This would entail a cash outflow of Rs 2.0-2.5bn and could open up large order opportunities in the fertiliser sector. In addition, PDIL being a schedule 'B' company has a lower wage bill compared to a schedule 'A' company like EIL.

Key Projects Bagged In International Geographies

Project	Geography	Contract Value (Rs Mn)	Award Date
Dangote	Nigeria	8,535	1QFY15
ORPIC (LIWA Plastics Project)	Oman	2,704	1QFY15
ADCO	Abu Dhabi	1,322	1QFY16
Bangladesh Petroleum Corporation	Bangladesh	1,165	1QFY17
BRASS	Nigeria	435	1QFY15
Sonangol	Angola	307 + 225	3QFY15/1QFY16

Source: Company, D&B research

Some of the potential orders can arise from the following Hydrocarbon expansion plans over FY17-19.

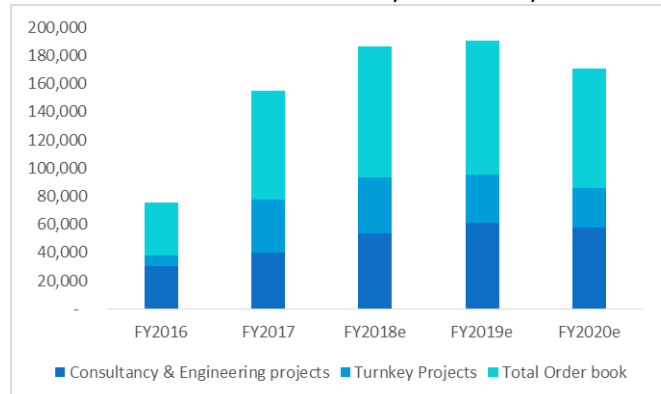
Project	Scope	Customer	Estimated cost Rs Bn
Bina refinery expansion	Expansion from 6 mn MT to 7.8 mn MT	BPCL	1 to 1.25
Bina refinery expansion	9 mn MT Grassroot expansion	BPCL	9 to 10
Kochi propylene derivatives	Propylene derivatives	BPCL	2.5 to 5
Bhatinda Expansion	a) Low cost initial expansion. B) Doubling of capacity. C) Petrochemical integration.	HPCL	4 to 4.5
Numaligarh Expansion		BPCL	na
Barmer Refinery	Greenfield refinery with petrochemical plant	HPCL	28.7
Barauni Refinery	Expansion by 6 mn MT and petrochemical integration	IOC	na
West Coast refinery	BPCL, HPCL, IOC	IOC	30



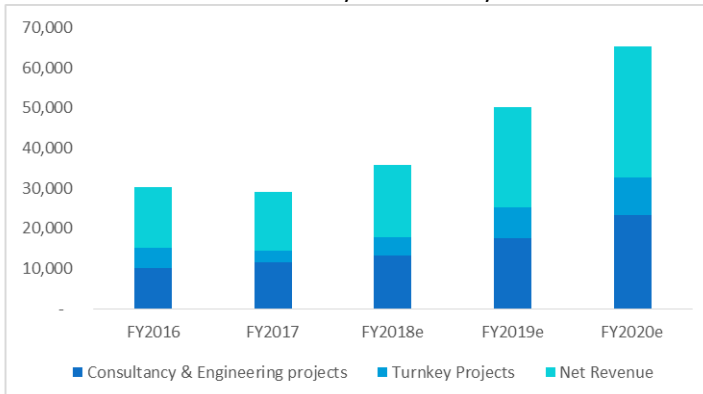
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Overall order book with consultancy Consultancy and Turnkey

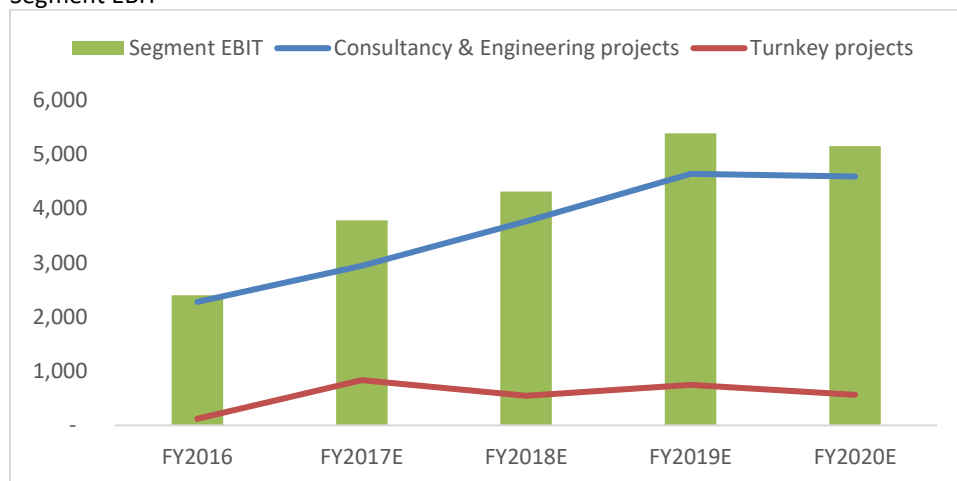


Net Revenues with Consultancy and Turnkey revenues



Source: Company, D&B

Segment EBIT



Source: Company, D&B



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Quarterly result Snapshot:

In Rs mn	3QFY18	3QFY17	YoY(%)	2QFY18	YoY(%)
Net Sales	4,734	3,250	46%	4,291	10%
<i>Change (% yoy)</i>	<i>45.7%</i>	<i>-11.8%</i>		<i>26.6%</i>	
	0%	0%		0%	
Sub contracting payment	(551)	(399)	38%	(138)	300%
<i>- % of sales</i>	<i>11.0%</i>	<i>12.3%</i>		<i>3.2%</i>	
Construction material	(248)	(121)	105%	(110)	125%
<i>- % of sales</i>	<i>3.6%</i>	<i>3.7%</i>		<i>2.6%</i>	
Material & Sub-contracting expenses	(800)	(520)	54%	(248)	222%
<i>- % of sales</i>	<i>16.9%</i>	<i>16.0%</i>		<i>5.8%</i>	
Gross profit	3,935	2,730	44%	4,043	-3%
<i>Gross margin (%)</i>	<i>83.1%</i>	<i>84.0%</i>		<i>94.2%</i>	
Employee Cost	(1,890)	(1,553)	22%	(1,888)	0%
<i>- % of sales</i>	<i>44.0%</i>	<i>47.8%</i>		<i>44.0%</i>	
Other expenses	(696)	(367)		(766)	
<i>- % of sales</i>	<i>16.0%</i>	<i>11.3%</i>		<i>17.8%</i>	
Total Expenditure	(3,386)	(2,441)	39%	(2,901)	17%
EBITDA	1,348	809	67%	1,390	-3%
<i>EBITDA margin (%)</i>	<i>28.5%</i>	<i>24.9%</i>	3.6%	<i>32.4%</i>	
<i>Change (% yoy)</i>	<i>66.7%</i>	<i>68.1%</i>		<i>48.3%</i>	
Depreciation	(59)	(59)	0%	(62)	-5%
EBIT	1,289	750	72%	1,328	-3%
<i>EBIT margin (%)</i>	<i>27.2%</i>	<i>23.1%</i>		<i>30.9%</i>	
<i>Change (% yoy)</i>	<i>71.9%</i>	<i>75.0%</i>		<i>50.1%</i>	
Interest	(1)	(1)		(7)	
Other Income	393	559	-30%	467	
PBT	1,682	1,308	29%	1,787	-6%
<i>PBT margin (%)</i>	<i>35.5%</i>	<i>40.2%</i>		<i>41.7%</i>	
<i>Change (% yoy)</i>	<i>28.5%</i>	<i>25.8%</i>		<i>23.6%</i>	
	-	-		-	
Current tax	(547)	(458)		(743)	
Deferred tax	(49)	-		142	
Other taxes	-	-		-	
Adjustments	(1)	-		-	
Total Taxes	(597)	(458)		(602)	
<i>Effective tax rate (%)</i>	<i>35.5%</i>	<i>35.0%</i>		<i>33.7%</i>	
Recurring PAT	1,084	850	28%	1,186	-9%
<i>Recurring PAT margin (%)</i>	<i>22.9%</i>	<i>26.1%</i>		<i>27.6%</i>	
<i>Change (% yoy)</i>	<i>27.5%</i>	<i>25.6%</i>		<i>26.4%</i>	



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Financials

Profit & Loss (Rs Mn)						Cash Flow Statement (Rs Mn)					
	FY16	FY17	FY18E	FY19E	FY20E		FY16	FY17	FY18E	FY19E	FY20E
Net Sales	15,110	14,486	17,865	25,134	32,601	Pre tax Profit	4198	5908	6089	7758	9002
Raw Materials	(5,804)	(2,269)	(3,394)	(7,540)	(11,410)	Add: Dep. & Amortization	249	225	240	264	282
Employee Cost	(5,906)	(6,533)	(6,847)	(7,185)	(7,544)	Total tax paid	(1238)	(2470)	(2040)	(2599)	(3016)
Other Expenses	(1,429)	(1,756)	(3,576)	(4,786)	(6,644)	Other Adjustments	(2478)	(2237)	(2282)	(2398)	(2282)
Cost of Sales	(13,138)	(10,558)	(13,818)	(19,511)	(25,598)	Cash Profit	731	1427	2007	3024	3987
Operating Profit	1,972	3,928	4,047	5,623	7,002	(Inc) / Dec in					
Depreciation	(249)	(225)	(240)	(264)	(282)	Sundry Debtors	628	(198)	(465)	(1748)	(1795)
PBIT	1,723	3,703	3,807	5,360	6,720	Inventories	(2)	(0)	0	0	0
Other Income	2,478	2,237	2,282	2,398	2,282	Loans & Advances	(1017)	565	(604)	(1097)	(1493)
Interest	(2)	(32)	0	0	0	Sundry Creditors	(147)	2093	1416	2597	2462
Prior period items						Change in Working Capital	(538)	2459	348	(248)	(826)
Profit Before Tax	4,198	5,908	6,089	7,758	9,002	CF from Operating Activities	193	3886	2355	2776	3160
Provision for Tax	(1,482)	(2,074)	(2,040)	(2,599)	(3,016)	CF from Investing Activities	3167	(3754)	3669	1898	1982
PAT	2,716	3,834	4,049	5,159	5,987	CF from Financing Activities	(934)	(3218)	(406)	(3411)	(4657)
						Cash Generated (Utilised)	2426	(3085)	5619	1263	486
						Cash at the start of year	23729	26158	23105	28723	29987
						Cash at the end of year	26158	23105	28723	29987	30473
Balance Sheet (Rs Mn)						Ratios					
	FY16	FY17	FY18E	FY19E	FY20E		FY16	FY17	FY18E	FY19E	FY20E
Equity Capital	1,685	3,369	3,369	3,369	3,369	OPM	13.0	27.1	22.7	22.4	21.5
Reserves	25,885	24,390	28,034	29,782	31,112	NPM	18.0	26.5	22.7	20.5	18.4
Net Worth	27,570	27,760	31,403	33,151	34,481	Tax Rate %	(35.3)	(35.1)	(33.5)	(33.5)	(33.5)
Long term borrowings	0	0	0	0	0	Growth Ratio (%)					
Short term borrowings	0	0	0	0	0	Net Sales	(11.8)	(4.1)	23.3	40.7	29.7
Total Debt	0	0	0	0	0	Operating Profit	(12.2)	99.2	3.0	38.9	24.5
Capital Employed	27,570	27,760	31,403	33,151	34,481	PAT	(14.8)	41.2	5.6	27.4	16.0
Gross Block	4,710	4,847	5,347	5,847	6,147	Per Share					
Accumulated Depreciation	1,923	2,148	2,388	2,651	2,934	Earning Per Share (EPS)	4.0	5.7	6.0	7.7	8.9
Net Block	2,788	2,699	2,959	3,195	3,213	Cash Earnings (CPS)	4.4	6.0	6.4	8.0	9.3
Capital WIP	244	557	557	557	557	Dividend	2.0	3.0	4.2	5.7	6.7
Total Fixed Assets	3,032	3,256	3,516	3,753	3,770	Book Value	40.9	41.2	46.6	49.2	51.2
Goodwill & Intangible						Free Cash flow	(0.2)	5.1	2.8	3.4	4.2
Investments	367	5,324	3,438	3,438	3,438	Valuation Ratios					
Other long term assets	4,563	3,846	4,450	5,547	7,040	P/E (x)	48.1	34.1	32.3	25.3	21.8
Long term liabilities	(158)	(134)	(367)	(374)	(338)	P/B (x)	4.7	4.7	4.2	3.9	3.8
Inventories	10	11	11	11	11	EV / Sales	6.9	7.4	5.7	4.0	3.1
Sundry debtors	3,633	3,831	4,295	6,043	7,838	EV / EBITDA	53.0	27.4	25.2	17.9	14.3
Cash & bank	26,158	23,105	28,723	29,987	30,473	Div. Yield (%)	1.0	1.5	2.2	3.0	3.4
Loans & advances and Othe	1,004	1,156	1,156	1,156	1,156	FCF Yield (%)	-0.1	2.7	1.4	1.7	2.2
Current Liabilities	(9,586)	(10,057)	(10,655)	(12,923)	(13,994)	Return Ratios (%)					
Provisions	(3,589)	(5,236)	(5,821)	(6,142)	(7,570)	ROE	9.9	13.8	12.9	15.6	17.4
Working Capital	17,630	12,810	17,709	18,131	17,914	ROCE*	15.2	21.4	19.4	23.4	26.1
Deffered Tax	2,137	2,657	2,657	2,657	2,657						
Misc. Expense	0	0	0	0	0						
Capital Deployed	27,570	27,760	31,403	33,151	34,481						

* includes recurring other income



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