

MARCH 14, 2019

	13-Mar	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,752	0.6	4.8	5.1
NIFTY Index	11,342	0.4	5.1	5.1
NSEBANK Index	28,884	1.5	7.4	7.7
NIFTY 500 Index	9,450	0.1	6.3	4.1
CNXMcap Index	17,733	(0.6)	9.0	1.1
BSESMCAP Index	14,875	(0.3)	11.5	2.6
World Indices				
Dow Jones	25,703	0.6	1.0	6.6
Nasdaq	7,643	0.7	2.9	10.6
FTSE	7,159	0.1	(0.5)	4.6
NIKKEI	21,290	(1.0)	1.4	0.3
Hangseng	21,290	(1.0)	1.4	0.3
Shanghai	28,807	(0.4)	1.4	10.5

Value traded (Rs cr)	13-Mar	% Chg Day
Cash BSE	3,147	(15.5)
Cash NSE	39,484	(4.2)
Derivatives	1,314,638	29.2

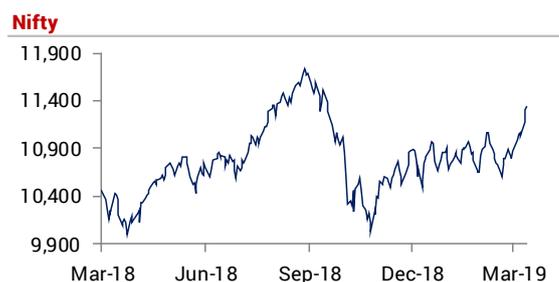
Net inflows (Rs cr)	12-Mar	MTD	YTD
FII	3,557	12,893	29,275
Mutual Fund	(483)	(842)	8,492

Nifty Gainers & Losers	Price	Chg	Vol
13-Mar	(Rs)	(%)	(mn)
Gainers			
Indusind Bank	1,636	4.3	7.4
Yes Bank	244	3.6	58.9
Bajaj Finance	2,828	2.7	1.6
Losers			
Zee Entertainment	471	(2.8)	6.6
Tata Motors	189	(2.7)	22.5
Axis bank	721	(1.6)	10.5

Advances / Declines (BSE)					
13-Mar	A	B	T	Total	% total
Advances	151	353	54	558	100
Declines	307	647	57	1,011	181
Unchanged	4	15	14	33	6

Commodity	13-Mar	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	67.7	0.3	4.9	12.4
Gold (US\$/OZ)	1,309.2	0.6	(0.5)	5.4
Silver (US\$/OZ)	15.5	0.1	(1.3)	5.8

Debt / Forex Market	13-Mar	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.4	7.3	7.4
Re/US\$	69.5	69.7	70.8	71.7



Source: Bloomberg

News Highlights

- ▶ Oil regulator PNGRB has approved a 37 per cent rise in tariff from April 1 for the pipeline that transports **Reliance Industries'** eastern offshore KG-D6 gas to customers. (Moneycontrol)
- ▶ Leading industrialist Rahul Bajaj will step down as the Chairman and Non-Executive Director of **Bajaj Finserv** from May 16 as part of succession planning. (Mint)
- ▶ Global rating agency Moody's assigned Baa2 rating to **Housing and Urban Development Corporation (Hudco)** and kept its outlook stable due low credit risk business model and support from the government. (Mint)
- ▶ **Jubilant Foodworks** promoter Jubilant Consumer Private Limited to sell 40 lakh shares at the floor price of Rs 1,272.6 apiece, aggregating to Rs 5.03 bn via secondary placement of shares. The floor price is at a discount of 4 percent as compared to current market price. (BQ)
- ▶ **Reliance Industries** said its U.S. unit halted all supplies of Diluent to Venezuela's PDVSA and has not increased any oil purchases from the Venezuelan company. The company also stated that it will continue dialogue with U.S. to ensure compliance. (BQ)
- ▶ **Star Cement** received Rs 1.15 bn of freight subsidy claims by the central government. The company also stated in its press release that it expects further subsidy of Rs 426 mn in a week. (BQ)
- ▶ **Alembic Pharma** said it will consider raising capital via NCDs worth Rs 1.50 bn on March 19 (BSE)
- ▶ **Sun Pharma** arm increased its stake in Russia-based PJSC Biosintez from 85 percent to 97 percent for \$3.2 million (BSE)
- ▶ The U.S. FDA classified inspection of **Lupin's** Mandeep facility as Official Action Indicated. The regulatory authority stated that the pharma company will be subjected to regulatory action and it may withhold approval of any pending applications in which the facility is listed. The company said this classification by the U.S. FDA will not have on disruption of supplies or existing revenues from this facility. (BQ)
- ▶ **Karur Vysya Bank** said it has raised Rs 4.87 bn through Basel-III compliant bonds to fund its growth plans. (BL)
- ▶ **Lemon Tree Hotels** signed a non-binding agreement to acquire 100 percent stake in Key Hotels. The current portfolio of the target company stands at owning/managing 21 hotels with 1,911 rooms in 19 cities. (BSE)

What's Inside

- ▶ **Company Update:** Engineers India Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, Tol: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

ENGINEERS INDIA LTD (EIL)

Stock Details

Market cap (Rs mn)	:	71343
52-wk Hi/Lo (Rs)	:	171 / 100
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	2,352,995
Shares o/s (mn)	:	632

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18E	FY19E	FY20E
Revenue	17,876	24,812	29,579
Growth (%)	23.4	38.8	19.2
EBITDA	4,131	3,888	5,139
EBITDA margin (%)	23.1	15.7	17.4
PAT	3,779	3,758	4,625
EPS	6.0	5.9	7.3
EPS Growth (%)	16.3	(0.6)	23.1
BV (Rs/share)	35.9	36.1	36.4
Dividend/share (Rs)	4.0	4.8	5.9
ROE (%)	15.0	16.5	20.2
ROCE (%)	15.3	15.9	21.2
P/E (x)	18.9	19.0	15.4
EV/EBITDA (x)	11.3	11.8	8.8
P/BV (x)	4.3	4.3	4.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	52.0	52.0	52.0
FII	6.5	4.4	4.3
DII	26.5	26.9	27.3
Others	15.0	16.6	16.4

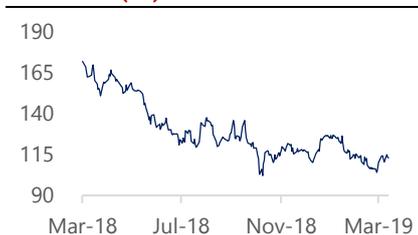
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Engineers India	1.5	(1.7)	(9.6)
Nifty	5.1	5.1	(0.2)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.113

TARGET RS.153

BUY

We interacted with the management of EIL to get perspective on the company's operations. Management sounded confident about the potential order flows in the domestic hydrocarbon space over the next two/three years.

Order inflows remained strong in 9MFY19; order backlog reported at the end of December 2018 stood at Rs 107.8 Bn imply four to five years of revenue visibility. EIL has recently been declared L1 in IOCL Panipat refinery (planned brownfield expansion 15 to 25 MMTPA).

Valuation & outlook

We believe that EIL stock is trading at cheap valuation at PER 14x FY20 core earnings (FY20E core EPS estimated at Rs.5.3). We value FY20 core earnings (excluding other income adjusted for tax) at PER 22x and maintain BUY with revised target price of Rs 153 (Rs 155 earlier).

Management meet update

We interacted with the management of EIL to get perspective on the overall business environment unfolding in the domestic and overseas business. Below are the key highlights of our interaction.

Domestic market expected to remain buoyant in the long term driven by the ambitious target set by Ministry of Petroleum and Natural Gas of expanding India's refining capacity to 440 MMTPA from 247 MMTPA currently by the year 2040. Our interaction with the industry players (including equipment manufacturing capital goods companies) suggest that demand from hydrocarbons has been gradually strengthening. Current demand-supply statistics implies that India might have to import refined oil in the next few years in case of delays in capacity de-bottlenecking in existing refineries and inclusion of greenfield capacities.

Management reiterated long term positive outlook on the domestic order inflows driven by 1/ brownfield expansion of refineries (including small refineries with capacity of less than 3 mmtpa) 2/ set up & integration of petrochemical plants with existing refineries and 3/ greenfield refinery expansion- including Maharashtra Refinery.

Management is optimistic about winning 1/ IOCL Panipat refinery (planned brownfield expansion 15 to 25 MMTPA, EIL already declared L1) and 2/ BPCL (polypropylene unit) orders in near term (Management refrain from commenting on order size as bidding process is still on).

Beside these orders, management highlighted that the company has also received in-principle approval for Numaligarg Refinery (Assam) expansion from 3 to 9 MMTPA. The order is expected to materialize in FY20. Tabled below-refinery wise brownfield expansion plan till 2022.

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The Capacity expansion planned by 2022

Name of the Company	Location of the Refinery	Increase in Capacity, MMTPA	Current Capacity MMTPA
IndianOil Corporation Limited (IOCL)	Barauni	3	6.0
	Guwahati	0.2	
	Bongaigaon	0.35	2.35
	Mathura	1.2	8.0
	Haldia (W.B)	0.5	7.5
	Koyali Refinery, Gujarat		13.7
	Panipat		15.0
	Paradip (Odisha)		15.0
Hindustan Petroleum Corporation Limited (HPCL)	Visakhapatnam	6.7	8.3
	Mumbai	2	7.6
CPCL	Nagapattinam (Cauvery Basin)	8	1.0
	Manali		10.5
Bina Refinery (BPCL, Oman Oil)	Bina	7.2	7.8
BPCL	Mumbai		12.0
	Kochi		15.5
NRL Refinery	Numaligarh Refinery (ASSAM)	9	3.0
MRPL	Mangalore Refinery	25	15.0
ONGC	Tatipaka Refinery (Andhra Pradesh)		0.07
HPCL-Mittal Energy Limited (HMEI), Guru Gobind Singh Refinery Green Field Refinery			11.3
HPCL Rajasthan Refinery Ltd (HRRL)*	Barmer, Rajasthan	9	

Source: Company, Kotak-PCG Research, MoPNG

Some of the potential orders can arise from the following Hydrocarbon expansion plans over FY19-21 (including Grassroot expansion).

Key orders expected in next two years

Project	Client	Scope	Estimated Consultancy Jobs Rs Bn
Bina refinery expansion	BPCL	Expansion from 7.8 mn MT to 15 mn MT	1 to 1.25
Kochi propylene derivatives	BPCL	Propylene derivatives	2.5 to 5
Bhatinda Expansion	HPCL	a) Doubling of capacity.	
		b) Petrochemical integration.	4 to 4.5
Numaligarh Expansion	BPCL	Brownfield expansion 3 to 9 MMTPA	4.8-5
Barauni Refinery	IOC	Expansion by 6 mn MT and petrochemical integration	na
Panipat Refinery expansion	IOC	8-10 mn MMTPA brownfield expansion	8 to 8.5
West Coast refinery	IOC	BPCL, HPCL, IOC	30
Mangalore brownfield expansion	MRPL	Brownfield expansion 15 to 25 MMTPA	8 to 8.5
Kakinada Petrochemical Complex	Haldia Petrochemicals Ltd	Refinery and Petrochemical Project	18

Source: Company, Kotak Securities – Private Client Research

On overseas business front, EIL stated that business from Middle East and Africa could improve with improved sentiment driven by recent increase in crude oil prices.

Acquisition of PDIL to bring synergy in the fertilizer business; management dismisses the threat of misuse of its cash reserves

EIL has recently made a bid for acquiring 100% stake in another public undertaking-PDIL Ltd. Currently PDIL is under the Ministry of Chemicals & Fertilizers. Founded in 1978, PDIL provides design engineering and consultancy services. It serves fertilizer and allied chemical industries, oil and gas sector, power and infrastructure sectors in India and internationally.

Without divulging the valuation details, EIL management has posed confidence in PDIL being value accretive in the long term. As per management, PDIL has an efficient employee base and EIL could enhance PDIL's reach into new geographies.

EIL other investments till date includes: 1/ Rs 3.4 Bn for 26% stake in Ramagundam Fertilizer plant (as of date Rs 2.4 Bn in already infused) 2/ Rs 600 mn in oil blocks (Rs 220 mn written off against this investment). Management stated that the company is not looking for major acquisitions in the near term and has reassured that the inorganic initiatives would be in line with company's core operations in-Hydrocarbons, Fertilizers, Water Management and Smart Cities.

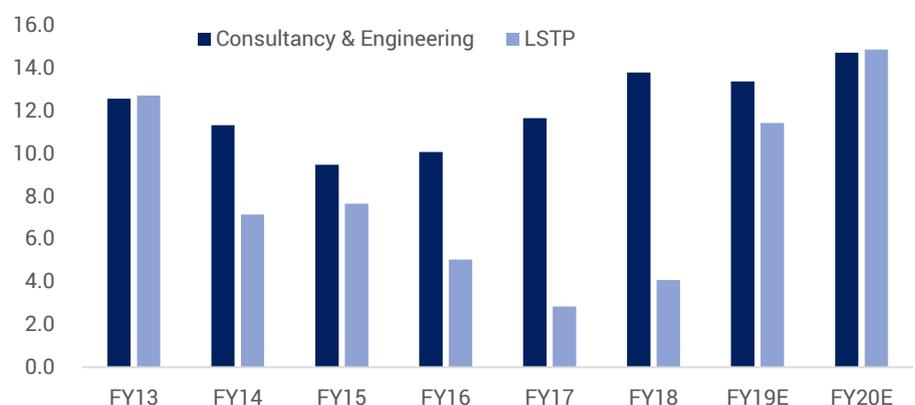
We believe that the street has been skeptical about company's cash reserves (amounting to c. Rs 25 Bn), getting diverted towards recapitalization of other government owned sick companies. Management, however has dismissed any such threat to its cash reserves and has maintained that the company shall maintain its dividend payout at current 80% level.

Revenues likely to grow on back of continued momentum in the capex by major Indian refineries

EIL's order book stood at over Rs 107.8 Bn, offering four years' visibility. Management believes that the pace of order booking should further improve in 2HFY20/FY21. In our estimates we build, revenue growth at 29% CAGR between FY 18-20 from Rs. 17.8 Bn in FY18 to Rs 29.5 Bn in FY20E.

Within the revenue streams, we expect PMC business to grow at 3.8% CAGR (we expect meaningful growth in PMC division beyond FY21 supported by execution of HPCL Balmer project) and Lumpsum turnkey project segment (LSTP) is expected to grow at 90% CAGR (on low base of FY18) between FY18-20.

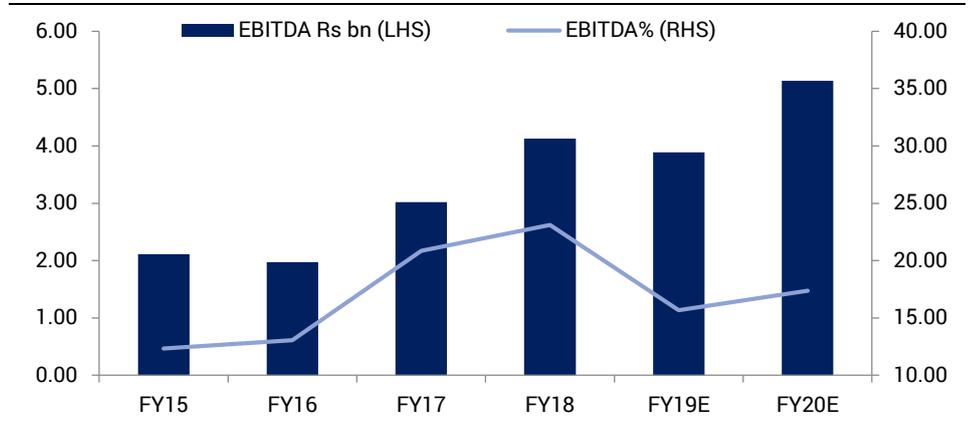
Segment revenue trend (Rs bn)



Source: Company, Kotak Securities – Private Client Research

We build EBITDA margin at 15.7% and 17.4% in FY19 and FY20 respectively driven by operating leverage. As per management, the major revenue/margin growth would follow in FY20/21 driven by pick up in execution of current order book in 2HFY20-FY21.

Operating margin trend



Source: Company, Kotak Securities – Private Client Research

Valuation and Recommendation

We believe that EIL stock is trading at cheap valuation at PER 14x FY20 core earnings. We value FY20 core earnings (excluding other income adjusted for tax) at PER 22x and maintain BUY with revised target price of Rs 153 (Rs 155 earlier).

Valuation Table

	Rs mn (FY20)
Core PAT	3,281
PER (x)	22
Net Cash	24,816
Target valuation	96,994
Target Valuation (Target Price) per share (Rs)	153

Source: Kotak-PCG Research

About the company

Engineers India Ltd (EIL) is a leading global engineering consultancy and EPC company. Established in 1965, EIL provides engineering consultancy and EPC services principally focused on the oil & gas and petrochemical industries. The Company has also diversified into sectors like infrastructure, water and waste management, solar & nuclear power and fertilizers to leverage its strong technical competencies and track record.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	14,486	17,876	24,812	29,579
% change yoy	(4.1)	23.4	38.8	19.2
EBITDA	3,022	4,131	3,888	5,139
% change yoy	53.3	36.7	(5.9)	32.2
Depreciation	225	238	232	236
EBIT	2,797	3,892	3,656	4,902
% change yoy	62.3	39.2	(6.1)	34.1
Net Interest	32	6	6	6
Other Income	2236	1795	1959	2006
Earnings Before Tax	5,001	5,682	5,609	6,903
% change yoy	16.5	13.6	(1.3)	23.1
Tax	1,751	1,902	1,851	2,278
as % of EBT	35.0	33.5	33.0	33.0
Extraordinary Income	0	0	0	0
Recurring PAT	3,250	3,779	3,758	4,625
% change yoy	10.0	16.3	(0.6)	23.1
EPS (Rs)	5.1	6.0	5.9	7.3
DPS (Rs)	3.2	4.0	4.8	5.9
CEPS	5.5	6.4	6.3	7.7

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBT	5,001	5,682	5,609	6,903
Depreciation	225	238	232	236
Current liabilities incl provisos	2,071	6,185	2,193	3,726
Increase in inventory	10	-	-	-
Increase in sundry Debtors	(67)	(1,619)	(805)	(1,202)
Increase in advances	14	4	(7)	(8)
Other Current Assets	(121)	(487)	(1,857)	(1,306)
Tax Paid	(1,751)	(1,902)	(1,851)	(2,278)
Other Adjustments	0	0	0	0
Net cash from operations	5,382	8,101	3,514	6,071
Purchase of fixed Assets	(55)	(212)	(382)	(386)
Net investments	(4,943)	2,967	1	(500)
Other investment activities	(655)	(285)	1272	(1)
Net cash from investing	(5,652)	2,469	891	(887)
Change in Borrowings	0	0	0	0
Dividend Paid	(2,438)	(3,048)	(3,626)	(4,462)
Issue of common equity	-	(6,500)	-	-
Net Cash from financing	(3,239)	(8,860)	(3,626)	(4,462)
Net Cash Flow	(3,509)	1,711	779	722
Cash at the end of year	23,105	24,816	25,595	26,317

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	23,105	24,816	25,595	26,317
Accounts receivable	3,831	5,449	6,254	7,456
Loans & advances	108	103	111	118
Other current assets	4,454	4,940	6,798	8,104
Current Assets	8,392	10,493	13,162	15,678
Net fixed assets	2,231	2,204	2,354	2,504
Investments	5,695	2,728	2,727	3,227
Other non-current assets	3763	4061	2790	2791
Total Assets	43,185	44,303	46,628	50,517
Debt	-	-	-	-
Equity & reserves	27,760	22,679	22,811	22,974
Other liabilities	211	224	224	224
Current Liabilities	15,216	21,400	23,594	27,320
Total Liabilities	43,186	44,303	46,629	50,518
BVPS	43.9	35.9	36.1	36.4

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	20.9	23.1	15.7	17.4
EBIT margin (%)	19.3	21.8	14.7	16.6
Net profit margin (%)	22.4	21.1	15.1	15.6
Adjusted EPS growth (%)	0.1	0.2	(0.0)	0.2
Receivables (days)	96.5	111.3	92.0	92.0
Sales / Net Fixed Assets (x)	5.5	6.5	8.8	10.3
Debt/ equity ratio	-	-	-	-
ROE (%)	11.6	15.0	16.5	20.2
ROCE (%)	9.9	15.3	15.9	21.2
EV/ Sales	3.3	2.6	1.8	1.5
EV/EBITDA	16.0	11.3	11.8	8.8
Price to earnings (P/E)	22.0	18.9	19.0	15.4
Price to book value (P/B)	3.5	4.3	4.3	4.2
Price to cash earnings	20.5	17.8	17.9	14.7

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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