

Pick of the week



Engineers India Ltd.

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 106

Target Price

₹ 140

Potential Upside

32.07%

Investment Argument

- Q2FY20 result – EIL reported modest growth of 6% y-o-y in revenue. EBITDA margins expanded by 140 bps resulting in healthy growth of 13.3% at PBT level. PAT declined on a y-o-y basis as the company opted for concessional rate of tax and hence provided for deferred tax assets during the quarter.
- Management has guided for revenue growth of 15% for FY20. The company is targeting to secure orders worth Rs 18 bn in FY20. It has already won orders worth Rs 11 bn in H1FY20. Further, the company has secured two pipeline orders in October 2019.
- The Company is optimistic that with planned capex expenditure of all the Oil & Gas majors in the hydrocarbon sector, the coming years would offer a number of opportunities across the value chain especially in the midstream and downstream segment with integrated refinery and petrochemical complexes as well as standalone petrochemical plants.
- We have revised EPS to Rs 6.9 (Rs 7.7 earlier) and Rs 8.4 (Rs 9.2 earlier) for FY20E and FY21E, respectively.
- EIL is trading at PE of 14.0x and 9.9x on FY20E and FY21E core earnings respectively, which is attractive in our view. We value FY21E core earnings of Rs. 6.0 per share (excluding other income adjusted for tax) at PER of 15x and add back cash per share of Rs. 50.3 per share in FY21E. Thus we arrive at a target price of Rs. 140.