

# Engineers India

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR72**

**TP: INR95 (+33%)**

**Buy**

## Revenue misses our estimate; order inflows robust

### Sustenance of order inflows key to future outlook

Bloomberg	ENGR IN
Equity Shares (m)	674
M.Cap.(INRb)/(USDb)	40.2 / 0.5
52-Week Range (INR)	94 / 68
1, 6, 12 Rel. Per (%)	0/-28/-35
12M Avg Val (INR M)	281

### Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	31.0	33.7	34.6
EBITDA	3.4	3.8	4.5
PAT	3.4	3.8	4.4
EBITDA (%)	10.9	11.3	13.1
EPS (INR)	5.4	6.1	7.0
EPS Gr. (%)	(20.1)	12.0	14.6
BV/Sh. (INR)	25.2	25.9	26.8

### Ratios

Net D/E	(1.5)	(1.6)	(1.6)
RoE (%)	20.2	22.0	24.5
RoCE (%)	25.3	27.4	30.2
Payout (%)	87.7	87.7	87.7

### Valuations

P/E (x)	13.2	11.8	10.3
P/BV (x)	2.9	2.8	2.7
EV/EBITDA (x)	8.3	7.2	6.1
Div Yield (%)	4.9	7.2	8.2
FCF Yield (%)	3.7	11.4	11.7

### Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	51.3	51.3	51.5
DII	12.8	14.4	23.0
FII	6.0	6.3	4.4
Others	29.9	27.9	21.1

FII Includes depository receipts

- ENGR's 2QFY22 revenue was 12% below our estimate, with the miss led by lower than expected revenue in the Consultancy segment. Operating profit came in line with our estimate, with a favorable revenue mix (54% share of Consultancy segment revenue) leading to higher than estimated EBITDA margin at 9.3% (est. 8.2%). Lower than expected other income led to adjusted PAT 15% below our estimates.
- Order inflows in 2Q/1HFY22 stood at INR11.7b/INR14.5b (+96%/+115% YoY), and ~30% higher v/s 1HFY20 levels, thereby indicating a revival in ordering activity in its key end-market of Oil and Gas. While Oil and Gas continues to remain a key end-market for ENGR, the management is exploring other end-markets where its expertise can be implemented (Biofuels).
- Order book declined by 11% YoY to INR80.3b, with an order book-to-revenue ratio at 2.8x – the lowest in the last four years. Owing to superior execution and lower than expected order inflows, a depleting order book remains a concern, though it is not alarming at this stage. We maintain our **Buy** rating with a TP of INR95/share (11x FY24 EPS).

### Execution disappoints; profitability below our estimates

- 2QFY22 snapshot:** Revenue stood at INR6.5b, down 5% YoY and 12% below our estimate. **Two-year revenue CAGR stood at -5%.** Lower operating leverage led to a 22% YoY decline in EBITDA to INR603m. **EBITDA margin declined by 200bp YoY to 9.3%.**
- Other income stood at INR284m (below our estimate of INR400m). PBT stood at INR832m, down 33% YoY and 11% below our estimate. The effective tax rate stood at 28.5% (v/s 25.3% YoY). **Adjusted PAT stood at INR595m, down 36% YoY and 15% below our estimate.**
- Segmental snapshot | Consultancy:** Revenue stood flat YoY at INR3.5b in 2QFY22. PBIT declined by 150bp YoY to 25.5%. Order inflow stood at INR11.7b. **Turnkey:** Revenue fell 12% YoY to INR3b in 2QFY22. PBIT increased by 60bp YoY to 2.5%.

### Segment-wise order inflow and order book position

- All orders bagged in 2QFY22 were in the Consultancy segment, with domestic/overseas orders of INR11.6b/INR48m. Order inflows in 1HFY22 stood at INR14.5b, up 30% v/s 1HFY20 levels.
- The order book for the Consultancy segment rose 20% YoY to INR53b, while that for the Turnkey segment declined by 40% to INR27.3b. Overseas orders constituted 12% of the total order book (INR9.6b).

### Highlights from the management commentary:

- In the non-Oil and Gas space within the Consultancy segment, its decision to undertake new projects won't solely be dependent on margin, but will be strategically evaluated on a case-to-case basis.
- ENGR aims to win ~INR18b worth of orders in 2HFY22.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Valuation and view**

We maintain our earnings estimate and forecast a revenue/EBITDA/PAT CAGR of -6%/14%/11% over FY21-24E. We expect a reversal in revenue mix in favor of the Consultancy segment to aid profitability over FY22-24E. We maintain our Buy rating with a TP of INR95 per share, assigning INR71 to its core business (11x FY24E core EPS) and INR24 for cash on its books.

**Quarterly performance**

(INR m)

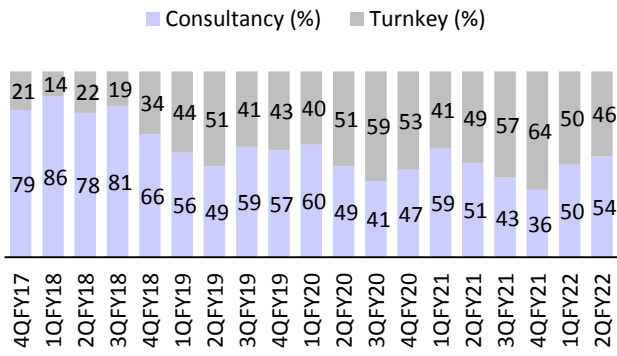
Y/E March	FY21				FY22				FY21	FY22E	MOSLe 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
<b>Net Sales</b>	<b>4,678</b>	<b>6,834</b>	<b>8,367</b>	<b>11,167</b>	<b>7,349</b>	<b>6,479</b>	<b>9,143</b>	<b>10,733</b>	<b>31,047</b>	<b>33,703</b>	<b>7,363</b>	<b>-12</b>
YoY Change (%)	(36.3)	(5.6)	(6.1)	30.8	57.1	(5.2)	9.3	(3.9)	(3.1)	8.6	7.7	
Total Expenditure	4,464	6,062	7,617	9,527	6,306	5,875	7,938	9,781	27,669	29,900	6,761	
<b>EBITDA</b>	<b>214</b>	<b>773</b>	<b>751</b>	<b>1,640</b>	<b>1,043</b>	<b>603</b>	<b>1,205</b>	<b>951</b>	<b>3,377</b>	<b>3,803</b>	<b>602</b>	<b>0</b>
Margin (%)	4.6	11.3	9.0	14.7	14.2	9.3	13.2	8.9	10.9	11.3	8.2	
Depreciation	53	60	51	71	49	53	60	79	234	241	60	
Interest	4	5	4	24	3	2	8	24	37	37	6	
Other Income	497	533	480	440	225	284	400	710	1,949	1,618	400	
Extraordinary expense/income	-	-	-	(1,240)	-	-	-	-	(1,240)	-	-	
<b>PBT</b>	<b>653</b>	<b>1,241</b>	<b>1,176</b>	<b>1,986</b>	<b>1,217</b>	<b>832</b>	<b>1,537</b>	<b>1,558</b>	<b>5,055</b>	<b>5,144</b>	<b>936</b>	<b>-11</b>
Tax	172	314	294	441	311	238	387	360	1,221	1,295	236	
Rate (%)	26.4	25.3	25.0	22.2	25.5	28.5	25.2	23.1	24.1	25.2	25.2	
<b>Reported PAT</b>	<b>481</b>	<b>927</b>	<b>882</b>	<b>305</b>	<b>906</b>	<b>595</b>	<b>1,150</b>	<b>1,198</b>	<b>2,595</b>	<b>3,849</b>	<b>700</b>	<b>-15</b>
<b>Adj. PAT</b>	<b>481</b>	<b>927</b>	<b>882</b>	<b>1,545</b>	<b>906</b>	<b>595</b>	<b>1,150</b>	<b>1,198</b>	<b>3,835</b>	<b>3,849</b>	<b>700</b>	<b>-15</b>
YoY Change (%)	(61.3)	36.8	(18.8)	19.1	88.4	(35.8)	30.4	(22.4)	(10.9)	0.4	(24.4)	
Margin (%)	10.3	13.6	10.5	13.8	12.3	9.2	12.6	11.2	12.4	11.4	9.5	

**Exhibit 1: Segmental performance (INR m)**

	FY21				FY22	
	1Q	2Q	3Q	4Q	1Q	2Q
Consultancy and Engineering projects	2,751	3,452	3,583	4,047	3,658	3,514
Turnkey projects	1,927	3,382	4,785	7,120	3,691	2,965
<b>Total</b>	<b>4,678</b>	<b>6,834</b>	<b>8,367</b>	<b>11,167</b>	<b>7,349</b>	<b>6,479</b>
<b>YoY growth (%)</b>						
Consultancy and Engineering projects	-38%	-2%	-2%	1%	33%	2%
Turnkey projects	-34%	-9%	-9%	57%	92%	-12%
<b>Total</b>	<b>-36%</b>	<b>-6%</b>	<b>-6%</b>	<b>31%</b>	<b>57%</b>	<b>-5%</b>
<b>Segmental EBIT</b>						
Consultancy and Engineering projects	393	933	910	1,564	1,100	895
Turnkey projects	30	63	65	400	116	74
<b>Total</b>	<b>161</b>	<b>713</b>	<b>700</b>	<b>20</b>	<b>995</b>	<b>551</b>
<b>EBIT Margin (%)</b>						
Consultancy and Engineering projects	14.3%	27.0%	25.4%	38.6%	30.1%	25.5%
Turnkey projects	1.5%	1.9%	1.4%	5.6%	3.2%	2.5%
<b>Total</b>	<b>3%</b>	<b>10%</b>	<b>8%</b>	<b>0%</b>	<b>14%</b>	<b>9%</b>

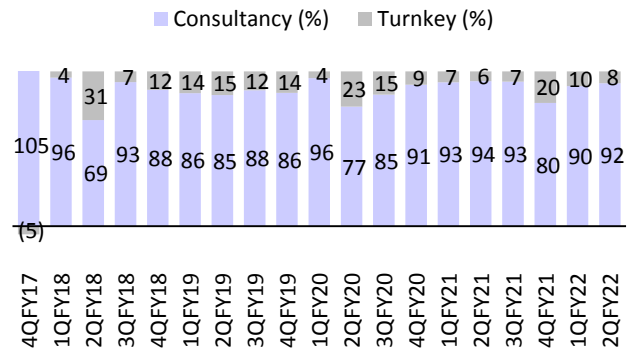
Source: MOFSL, Company

**Exhibit 2: Revenue mix trend**



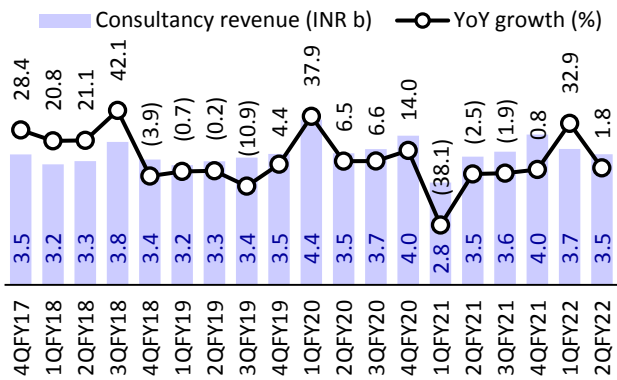
Source: MOFSL, Company

**Exhibit 3: EBIT mix trend**



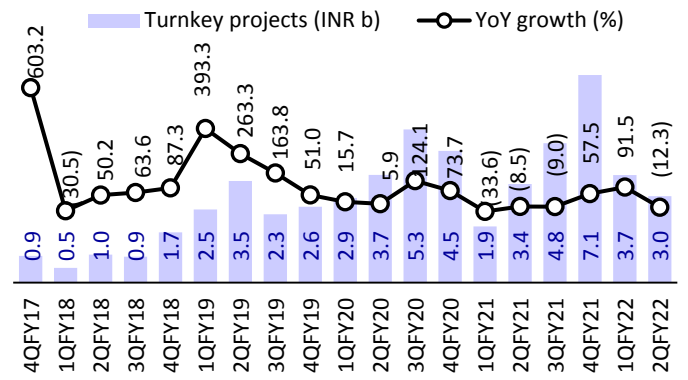
Source: MOFSL, Company

**Exhibit 4: Consultancy revenue stood flat YoY**



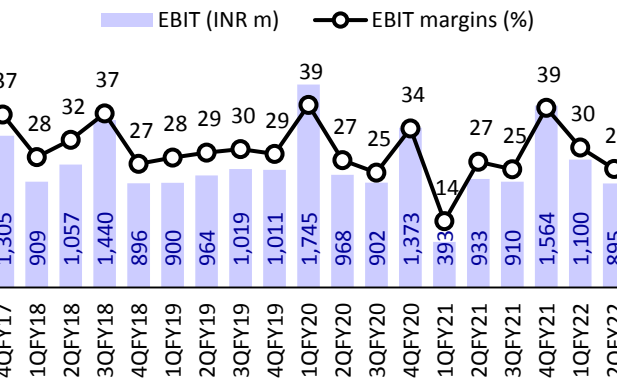
Source: MOFSL, Company

**Exhibit 5: Turnkey revenue decreases by 12% YoY**



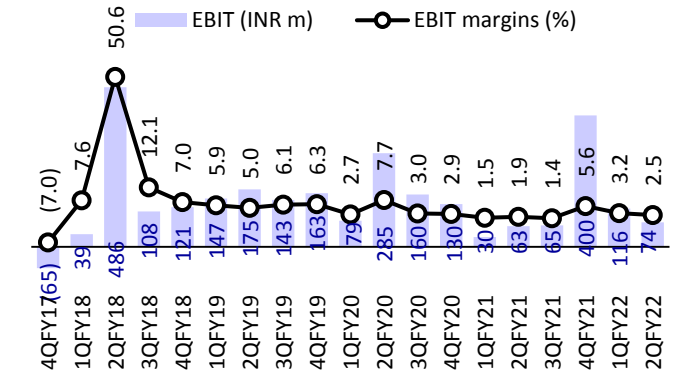
Source: MOFSL, Company

**Exhibit 6: Consultancy margin falls by 200bp YoY**

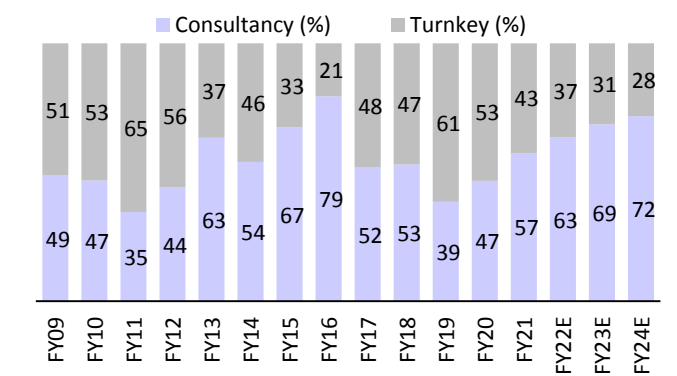


Source: MOFSL, Company

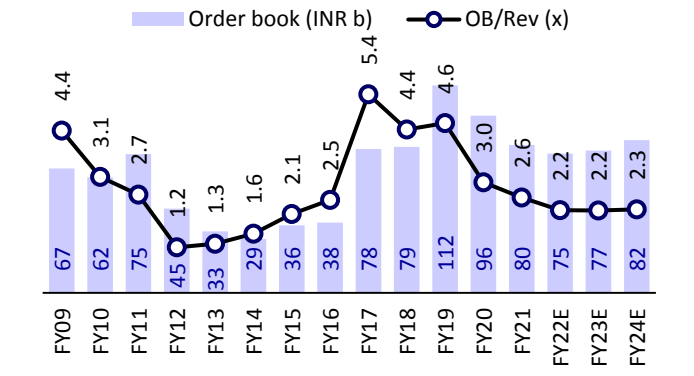
**Exhibit 7: Turnkey margin expand 60bp YoY**



Source: MOFSL, Company

**Exhibit 8: Expect order book to turn in favor of the Consultancy segment over FY21-24E**

Source: MOFSL, Company

**Exhibit 9: Expect order book-to-revenue ratio to remain rangebound ~2.3x over FY21-24E**

Source: MOFSL, Company

## Valuation and view

- Leadership in the Hydrocarbon segment:** ENGR is a market leader in the Hydrocarbon segment. It provides Consultancy and Turnkey solutions. The strong cash flow position of OMCs after the diesel price deregulation, the necessity to upgrade to BS-VI compliant facilities, and the need to build additional capacities (as existing facilities are operating at 100% utilization) augurs well for the company.
- Strong order book, but new order inflows is key to a re-rating:** Order book declined by 11% YoY to INR80.3b in 1HFY22, with an order book-to-revenue ratio at 2.8x – the lowest in the last four years. Despite superior execution and lower than expected order inflows, a depleting order book remains a concern, though it is not alarming at this stage. The order book for the Consultancy segment increased 20% YoY to ~INR53b, while the same for the Turnkey segment declined by 40% to INR27.3b. The current order book-to-revenue ratio, at 2.8x, could fuel revenue growth in the near term. However, a revival in new order outlook is key to a re-rating.
- Maintain Buy:** We maintain our earnings estimate and forecast a revenue/EBITDA/PAT CAGR of -6%/14%/11% over FY21-24E. We expect a reversal in revenue mix in favor of the Consultancy segment to aid profitability over FY22-24E. We maintain our Buy rating with a TP of INR95 per share, assigning INR71 to its core business (11x FY24E core EPS) and INR24 for cash on its books.

## Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Revenue</b>	<b>17,876</b>	<b>24,443</b>	<b>32,031</b>	<b>31,047</b>	<b>33,703</b>	<b>34,587</b>	<b>36,572</b>
Change (%)	23.4	36.7	31.0	-3.1	8.6	2.6	5.7
Raw Materials	3,119	10,625	15,576	16,631	17,500	16,248	16,114
Staff Cost	7,571	7,571	8,444	8,583	9,734	11,039	12,518
Other Expenses	2,795	2,588	3,581	2,456	2,666	2,767	2,926
<b>EBITDA</b>	<b>4,390</b>	<b>3,660</b>	<b>4,430</b>	<b>3,377</b>	<b>3,803</b>	<b>4,534</b>	<b>5,013</b>
As a percentage of Total Revenue	24.6	15.0	13.8	10.9	11.3	13.1	13.7
Depreciation	238	224	238	234	241	248	258
Interest	6	12	17	37	37	37	37
Other income	1,795	2,251	2,580	1,949	1,618	1,643	1,645
Extraordinary items	-260	0	0	-1,240	0	0	0
<b>PBT</b>	<b>5,681</b>	<b>5,675</b>	<b>6,755</b>	<b>3,816</b>	<b>5,144</b>	<b>5,893</b>	<b>6,365</b>
Tax	1,902	1,974	2,453	1,221	1,295	1,483	1,602
Rate (%)	33.5	34.8	36.3	32.0	25.2	25.2	25.2
<b>Reported PAT</b>	<b>3,779</b>	<b>3,701</b>	<b>4,302</b>	<b>2,595</b>	<b>3,849</b>	<b>4,409</b>	<b>4,763</b>
<b>Adjusted PAT</b>	<b>4,039</b>	<b>3,701</b>	<b>4,302</b>	<b>3,438</b>	<b>3,849</b>	<b>4,409</b>	<b>4,763</b>
Change (%)	10.0	-8.4	16.3	-20.1	12.0	14.6	8.0

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	3,160	3,160	3,160	2,810	2,810	2,810	2,810
Reserves	19,519	19,599	20,295	14,200	14,673	15,216	15,802
<b>Net Worth</b>	<b>22,679</b>	<b>22,758</b>	<b>23,455</b>	<b>17,010</b>	<b>17,484</b>	<b>18,026</b>	<b>18,612</b>
Loans	0	0	0	0	0	0	0
Deferred Tax Liability	-3,029	-2,969	-2,695	-3,336	-3,336	-3,336	-3,336
<b>Capital Employed</b>	<b>19,650</b>	<b>19,789</b>	<b>20,760</b>	<b>13,674</b>	<b>14,147</b>	<b>14,690</b>	<b>15,276</b>
Gross Fixed Assets	3,547	3,564	3,726	3,823	3,935	4,048	4,248
Less: Depreciation	711	925	1,131	1,333	1,574	1,821	2,079
<b>Net Fixed Assets</b>	<b>2,836</b>	<b>2,639</b>	<b>2,594</b>	<b>2,490</b>	<b>2,362</b>	<b>2,227</b>	<b>2,169</b>
Capital WIP	234	337	21	11	11	11	11
Investments	2,440	3,200	4,768	13,550	14,423	15,296	16,169
<b>Curr. Assets</b>	<b>35,764</b>	<b>37,699</b>	<b>40,210</b>	<b>24,395</b>	<b>25,759</b>	<b>26,108</b>	<b>27,099</b>
Inventory	11	69	66	19	20	21	22
Debtors	5,449	4,141	6,661	5,184	5,628	5,776	6,107
Cash and Bank Balance	24,806	26,611	27,225	12,585	12,939	12,951	13,188
Loans and Other Assets	5,498	6,878	6,257	6,607	7,172	7,360	7,782
<b>Current Liab. and Prov.</b>	<b>21,624</b>	<b>24,086</b>	<b>26,834</b>	<b>26,772</b>	<b>28,407</b>	<b>28,951</b>	<b>30,173</b>
Current Liabilities	16,885	19,294	20,883	19,109	20,745	21,288	22,510
Provisions	4,739	4,792	5,951	7,663	7,663	7,663	7,663
<b>Net Current Assets</b>	<b>14,140</b>	<b>13,613</b>	<b>13,376</b>	<b>-2,377</b>	<b>-2,648</b>	<b>-2,844</b>	<b>-3,073</b>
<b>Application of Funds</b>	<b>19,650</b>	<b>19,789</b>	<b>20,760</b>	<b>13,674</b>	<b>14,147</b>	<b>14,690</b>	<b>15,276</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
<b>Adj. EPS</b>	<b>6.4</b>	<b>5.9</b>	<b>6.8</b>	<b>5.6</b>	<b>7.5</b>	<b>7.6</b>	<b>7.6</b>
Cash EPS	6.3	5.8	6.7	5.6	7.4	7.5	7.5
Book Value	33.7	33.8	34.8	35.5	36.3	37.2	37.2
DPS	4.0	5.0	5.2	4.3	5.7	5.7	5.7
Payout (incl. Div. Tax.)	77.6	99.0	87.7	87.7	87.7	87.7	87.7
<b>Valuation (x)</b>							
P/E	11.3	12.3	10.6	13.2	11.8	10.3	9.6
Cash P/E	11.3	12.4	10.7	13.2	11.9	10.4	9.7
Price/Book Value	2.1	2.1	2.1	2.9	2.8	2.7	2.6
EV/Sales	1.2	0.8	0.6	0.9	0.8	0.8	0.7
EV/EBITDA	4.7	5.2	4.1	8.3	7.2	6.1	5.4
Dividend Yield (%)	5.6	6.9	7.2	4.9	7.2	8.2	8.9
<b>Profitability Ratios (%)</b>							
RoE	17.8	16.3	18.3	20.2	22.0	24.5	25.6
RoCE	20.1	18.7	20.8	25.3	27.4	30.2	31.4
<b>Turnover Ratios</b>							
Debtors (Days)	111	62	76	61	61	61	61
Creditor (Days)	345	288	238	225	225	225	225
Asset Turnover (x)	0.9	1.2	1.5	2.3	2.4	2.4	2.4
<b>Leverage Ratio</b>							
Net Debt/Equity (x)	(1.2)	(1.3)	(1.4)	(1.5)	(1.6)	(1.6)	(1.6)

### Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
							<b>(INR m)</b>
<b>PBT before EO Items</b>	<b>5,941</b>	<b>5,675</b>	<b>6,755</b>	<b>3,816</b>	<b>5,144</b>	<b>5,893</b>	<b>6,365</b>
Depreciation	238	224	238	234	241	248	258
Interest and other	0	12	17	37	0	0	0
Direct Taxes Paid	-2,274	-2,161	-2,220	-1,621	-1,295	-1,483	-1,602
(Inc.)/Dec. in WC	4,083	3,430	-385	-657	625	208	467
<b>CF from Operations</b>	<b>7,989</b>	<b>5,447</b>	<b>3,717</b>	<b>1,598</b>	<b>4,715</b>	<b>4,865</b>	<b>5,487</b>
(Inc.)/Dec. in FA	-290	-322	-175	-113	-113	-113	-200
<b>Free Cash Flow</b>	<b>7,699</b>	<b>5,126</b>	<b>3,542</b>	<b>1,485</b>	<b>4,602</b>	<b>4,752</b>	<b>5,287</b>
(Pur.)/Sale of Investments	0	-760	-1,542	-8,730	-873	-873	-873
<b>CF from Investments</b>	<b>-290</b>	<b>671</b>	<b>356</b>	<b>-6,977</b>	<b>-986</b>	<b>-986</b>	<b>-1,073</b>
(Inc.)/Dec. in Net Worth	-5,929	0	0	-7,265	0	0	0
(Inc.)/Dec. in Debt	0	0	0	0	0	0	0
Interest Paid	0	-709	-158	-252	0	0	0
Dividend Paid	-2,931	-3,605	-3,301	-1,744	-3,376	-3,867	-4,177
<b>CF from Fin. Activity</b>	<b>-8,860</b>	<b>-4,314</b>	<b>-3,459</b>	<b>-9,261</b>	<b>-3,376</b>	<b>-3,867</b>	<b>-4,177</b>
<b>Inc./Dec. in Cash</b>	<b>-1,161</b>	<b>1,804</b>	<b>615</b>	<b>-14,640</b>	<b>353</b>	<b>12</b>	<b>237</b>
Add: Beginning Balance	23,105	24,806	26,610	27,225	12,585	12,939	12,951
<b>Closing Balance</b>	<b>24,806</b>	<b>26,610</b>	<b>27,225</b>	<b>12,585</b>	<b>12,939</b>	<b>12,951</b>	<b>13,188</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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