

Execution pick-up led by turnkey segment...

Engineers India's (EIL) standalone revenues for Q4FY21 came in at ₹ 1116.7 crore, up 30.8% YoY, 33.5% QoQ. Consultancy and turnkey (LSTK) segment contributed 36% and 64%, respectively. For Q4FY21, consultancy revenue was up 0.8% to ₹ 404.7 crore YoY, 13% QoQ. Turnkey revenue grew 57.5% YoY, 48.8% QoQ to ₹ 712 crore owing to better execution. Absolute EBITDA came in at ₹ 164 crore, up 47.7% YoY. Overall EBITDA margin came in at 14.7%, expanding 170 bps, YoY mainly on account of better margins in the turnkey segment amid higher revenue recognition. Consultancy and turnkey segments reported EBIT margins of 27.5% (vs. 34.2% in Q4FY20) and 5.6% (vs. 2.9% in Q4FY20), respectively. EBITDA margin for FY21 came in at 10.9%, declining 290 bps YoY. Adjusted PAT (ex-exceptional item) came in at ₹ 139.1 crore, up 7.2% YoY, partly impacted by lower other income. It reported exceptional item worth ₹ 155 crore as provision towards defaults of the investment made by EIL Employee PF trust.

Decent order intake in FY21, driven by consultancy orders...

For Q4FY21, EIL's order inflows came in decent at ₹ 705 crore (₹ 146 crore in Q4FY20), all on the consultancy side with large EPCM order worth ₹ 616 crore for Panipat refinery. Order book as on FY21 was at ₹ 7981.9 crore (vs. ₹ 9555.4 crore as on FY20) comprising 57% from consultancy and 43% from turnkey segment. For FY21, order inflows came in at ₹ 1569 crore (vs. ₹ 1617 crore in FY20), almost all in the consultancy segment.

Decent order pipeline for next two years amid challenges...

For FY22E, EIL expects order inflows to the tune of ~₹ 1600-1700 crore as it is favourably placed and expects one order from CPCL (Cauvery basin) expansion project, BPCL-related umbrella order few smaller orders from NRL expansion, etc. Additionally, projects like MRPL (₹ 700 crore), HMEL cracker plant expansion (~₹ 600 crore), Paradip refinery project (₹ 1000 crore opportunity) may come in FY22E, FY23E. Overall, planned capex is expected to continue in the next two years in the oil & gas sector amid economic challenges.

Valuation & Outlook

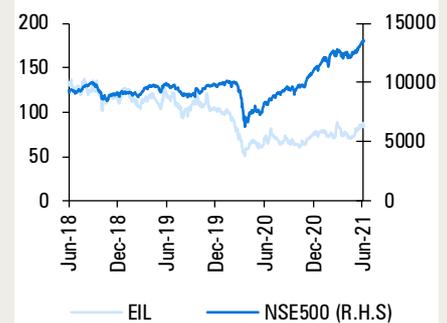
Going forward, we expect revenue, EBITDA to grow at CAGR of 4.9%, 19% CAGR, respectively, in FY20-23E with gradually increasing contribution from the consultancy segment over the next two to three years. EIL's balance sheet continues to remain healthy with zero debt and cash balance of ~₹ 1500 crore despite investment of ~₹ 700 crore in NRL and ~₹ 650 crore towards share buyback. We value core business at 10x P/E on FY23E EPS of ₹ 8.0 and investments at book value multiple with revised target price of ₹ 95/ share (earlier ₹ 83). We maintain **HOLD** rating.



Particulars

Particular	Amount
Market Capitalization	₹ 4721 Crore
Total Debt (FY21)	₹ 1.2 Crore
Cash and Inv. (FY21)	₹ 1260 crore
EV (FY21)	₹ 3463 Crore
52 week H/L (₹)	94 / 60
Equity capital (FY20)	₹ 316 Crore
Face value	₹ 5

Price Performance



Key risks to our call

- Investments in fertilisers and refinery industry may provide some diversifications benefits and favourable risk-reward in long term
- Any slowdown in oil & gas industry capex would adversely affect order inflows and revenue visibility in future

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	FY21-23E
Net Sales	2,444	3,203	3,105	3,198	3,415	
Revenue	2,444	3,203	3,105	3,198	3,415	4.9
EBITDA	366	443	338	365	478	19.0
Net Profit	370	430	260	356	451.5	31.9
EPS (₹)	6.6	7.7	4.6	6.3	8.0	
P/E (x)	12.8	11.0	12.6	13.2	10.5	
Price / Book (x)	2.1	2.0	2.8	2.4	2.2	
EV/EBITDA (x)	7.2	4.5	10.3	9.0	6.5	
RoCE (%)	21.1	22.6	26.0	19.5	22.0	
RoE (%)	16.3	18.3	22.0	18.4	21.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	1,116.7	853.8	30.8	836.7	33.5	Better execution in turnkey segment supported topline growth.
Construction Mtl costs	295.4	92.5	219.3	108.5	172.1	
Employees Expenses	220.0	225.0	-2.2	217.0	1.4	
Other Expenses	732.6	517.8	41.5	544.7	34.5	
Total Expenditure	952.7	742.8	28.3	761.7	25.1	
EBITDA	164.0	111.0	47.7	75.1	118.5	
EBITDA margins (%)	14.7	13.0	168 bps	9.0	572 bps	Better margins owing to higher revenue recognition, change in business mix.
Interest	2.4	0.6		0.4		
Depreciation	7.1	6.7	4.9	5.1	38.7	
Tax	13.1	42.5	-69.2	29.4	-55.5	
Other Income	44.0	68.5	-35.8	48.0	-8.3	
PAT	30.6	129.7	-76.4	88.2	-65.4	

Key Metrics	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Revenue Segmentation					
Con. & Engg. Projects	404.7	401.7	0.8	358.3	13.0
<i>As a % of Sales</i>	<i>36.2</i>	<i>47.0</i>		<i>42.8</i>	
Turnkey Projects	712.0	452.2	57.5	478.5	48.8
<i>As a % of Sales</i>	<i>63.8</i>	<i>53.0</i>		<i>57.2</i>	
Segmental EBIT					
Con. & Engg. Projects	156.4	137.3	13.8	91.0	71.8
<i>As a % of EBIT</i>	<i>79.6</i>	<i>91.3</i>		<i>93.3</i>	
Turnkey Projects	40.0	13.0	207.3	6.5	515.4
<i>As a % of EBIT</i>	<i>20.4</i>	<i>8.7</i>		<i>6.7</i>	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20		FY21		FY22E		FY23E	
(₹ Crore)	Actual	Actual	Old	New	% Change		Introduced	
Revenue	3,203.1	3,104.7	3,182.0	3,197.5	0.5	-	3,414.7	Revised estimates considering execution pace amid challenges
EBITDA	443.1	337.8	472.0	364.5	-22.8	-	478.1	
EBITDA Margin (%)	13.8	10.9	14.8	11.4	-343 bps	-	14.0	
PAT	430.3	259.5	478.3	356.4	-25.5	-	451.5	
EPS (₹)	7.7	4.6	8.5	6.3	-25.5	-	8.0	

Source: Company, ICICI Direct Research

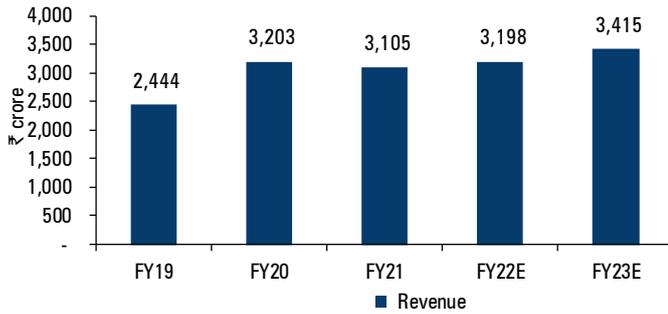
Exhibit 3: SOTP Valuation

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value(₹)
Base Business	P/E	10.0x	4,515	80
Investment in RFCL	Equity Invested	0.7x	314	6
Investment in NRL	Equity Invested	0.7x	490	9
Investment in NELP	Equity Invested	0.7x	70	1
Total			5,319	96

Source: Company, ICICI Direct Research

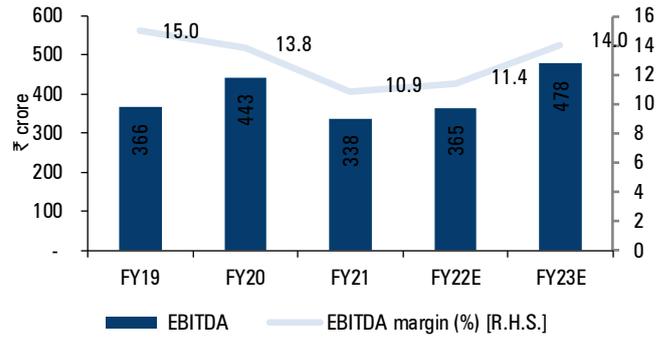
Financial story in charts

Exhibit 4: Trend in revenues...



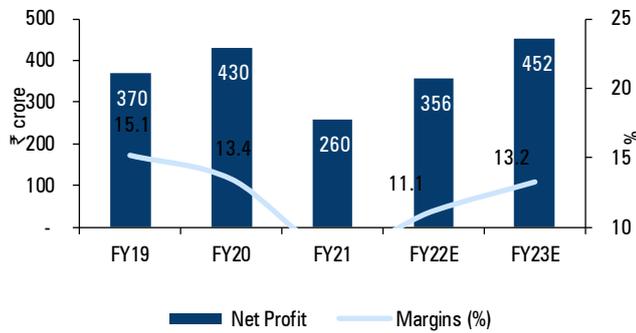
Source: ICICI Direct Research, Company

Exhibit 5: EBITDA and EBITDA margin (%) trend....



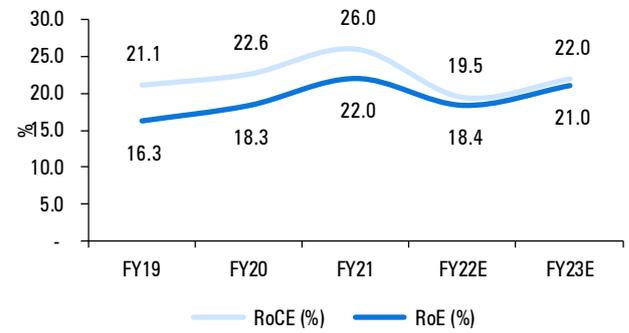
Source: ICICI Direct Research, Company

Exhibit 6: PAT and PAT margin (%) trend....



Source: Company, ICICI Direct Research

Exhibit 7: RoE and RoCE trend....



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	3,203	3,105	3,198	3,415
Other operating income	-	-	-	-
Revenue	3,203	3,105	3,198	3,415
% Growth	87.0	(3.1)	3.0	6.8
Other income	258	195	140	155
Total	3,461	3,300	3,338	3,570
Total Raw Material Costs	-	-	-	-
Employee Expenses	844	858	878	932
Other expenses	1,916	1,909	1,955	2,004
Total Operating Expenditure	2,760	2,767	2,833	2,937
Operating Profit (EBITDA)	443	338	365	478
% Growth	106.7	(23.8)	7.9	31.1
Interest	2	4	3	3
PBDT	699	529	502	630
Depreciation	24	23	25	27
PBT before Exceptional Items	676	506	476	603
Total Tax	245	91	120	152
PAT before MI	430	260	356	452
Minority Interest	-	-	-	-
PAT	430	260	356	452
% Growth	39.7	(39.7)	37.3	26.7
EPS	7.7	4.6	6.3	8.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Profit after Tax	430.3	259.5	356.4	451.5
Depreciation	23.8	23.4	25.3	26.6
Interest	1.7	3.7	3.0	3.0
Cash Flow before WC change:	455.8	286.6	384.6	481.2
Changes in inventory	0.3	4.8	(2.7)	(1.8)
Changes in debtors	(252.0)	147.7	(89.6)	(37.4)
Changes in loans & Advances	(1.2)	(1.6)	0.9	(1.0)
Changes in other current asse	(3.9)	(157.1)	(3.2)	(3.9)
Net Increase in Current Asset	(156.2)	(14.1)	(94.7)	(44.2)
Changes in creditors	32.1	133.8	(102.6)	(17.5)
Changes in provisions	115.7	171.0	(29.2)	8.6
Net Increase in Current Liabili	268.8	(0.1)	129.2	86.3
Net CF from Operating ac	568.5	272.5	419.1	523.3
Changes in deferred tax asset	27.5	(64.2)	-	-
(Purchase)/Sale of Fixed Asse	(1.0)	(9.5)	(50.0)	(65.0)
Net CF from Investing act	(147.4)	(822.4)	(100.0)	(115.0)
Dividend and Dividend Tax	(330.1)	(202.7)	(193.1)	(244.6)
Net CF from Financing Ac	(359.6)	(913.1)	(119.5)	(249.4)
Net Cash flow	61.5	(1,463.0)	199.6	158.9
Opening Cash/Cash Equivalent	2,661.1	2,722.6	1,259.6	1,459.2
Closing Cash/ Cash Equiv:	2,722.6	1,259.6	1,459.2	1,618.1

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Equity Capital	316.0	281.0	281.0	281.0
Reserve and Surplus	2,029	1,420	1,660	1,865
Total Shareholders funds	2,345	1,701	1,941	2,146
Minority Interest	-	-	-	-
Other Non Current Liabilities	7.7	7.1	7.1	7.1
Total Debt	6.7	1.2	1.2	1.2
Total Liabilities	2,360	1,709	1,949	2,154
Gross Block	487.3	498.5	504.9	569.9
Acc: Depreciation	215.6	239.0	264.3	290.9
Net Block	271.7	259.5	240.6	279.0
Capital WIP	3.1	1.4	45.0	45.0
Total Fixed Assets	274.8	260.9	285.6	324.0
Non Current Assets	280.4	345.5	345.5	345.5
Inventory	6.6	1.9	4.6	6.4
Debtors	666.1	518.4	608.1	645.5
Loans and Advances	14.3	15.9	15.0	16.1
Other Current Assets	506.1	514.0	514.0	514.0
Cash	2,722.6	1,259.6	1,459.2	1,618.1
Total Current Assets	3,965.7	2,516.8	2,811.1	3,014.1
Current Liabilities	279.7	413.5	310.9	293.4
Provisions	591.8	762.9	733.7	742.3
Net Current Assets	1,296.8	(152.1)	13.0	129.8
Total Assets	2,360	1,709	1,949	2,154

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS	7.7	4.6	6.3	8.0
Cash per Share	48.4	22.4	26.0	28.8
BV	41.7	30.3	34.5	38.2
Dividend per share	4.9	3.0	2.9	3.6
Dvidend payout ratio	0.6	0.6	0.5	0.5
Operating Ratios				
EBITDA Margin	13.8	10.9	11.4	14.0
PAT Margin	13.4	8.4	11.1	13.2
Return Ratios				
RoE	18.3	22.0	18.4	21.0
RoCE	22.6	26.0	19.5	22.0
Valuation Ratios				
EV / EBITDA	5.9	12.0	10.6	7.7
P/E	11.0	12.6	13.2	10.5
EV / Net Sales	0.7	1.2	1.2	1.0
Sales / Equity	1.5	1.9	1.7	1.7
Market Cap / Sales	1.5	1.6	1.6	1.5
Price to Book Value	2.0	2.8	2.4	2.2
Turnover Ratios				
Asset turnover	7.1	6.6	6.6	6.3
Debtors Turnover Ratio	6.4	5.6	5.9	5.7
Creditors Turnover Ratio	13.1	9.5	9.2	11.8
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.6	0.5	0.6	0.6
Quick Ratio	0.6	0.5	0.6	0.6

Source: Company, ICICI Direct Research

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