

May 29, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	116		85	
Sales (Rs. m)	37,512	42,444	36,918	42,280
% Chng.	1.6	0.4		
EBITDA (Rs. m)	4,146	5,572	4,820	6,438
% Chng.	(14.0)	(13.5)		
EPS (Rs.)	7.5	9.7	8.5	10.9
% Chng.	(11.1)	(11.3)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	29,128	33,301	37,512	42,444
EBITDA (Rs. m)	3,441	3,084	4,146	5,572
Margin (%)	11.8	9.3	11.1	13.1
PAT (Rs. m)	1,395	3,463	4,232	5,453
EPS (Rs.)	2.5	6.2	7.5	9.7
Gr. (%)	(61.5)	148.2	22.2	28.9
DPS (Rs.)	3.0	3.0	3.4	4.4
Yield (%)	2.7	2.7	3.1	3.9
RoE (%)	7.9	18.6	20.4	23.3
RoCE (%)	18.2	15.1	18.4	22.2
EV/Sales (x)	1.6	1.5	1.3	1.1
EV/EBITDA (x)	13.8	16.2	11.7	8.4
PE (x)	44.6	18.0	14.7	11.4
P/BV (x)	3.5	3.2	2.8	2.5

Key Data

ENGI.BO | ENGR IN

52-W High / Low	Rs.113 / Rs.56
Sensex / Nifty	62,846 / 18,599
Market Cap	Rs.62bn/ \$ 753m
Shares Outstanding	562m
3M Avg. Daily Value	Rs.739.26m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	8.62
Domestic Institution	23.30
Public & Others	16.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	33.7	34.8	85.4
Relative	30.0	34.4	61.9

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Healthy order prospects, improves outlook

Quick Pointers:

- FY23 order inflow came in at Rs47bn; also received go-ahead letters for additional orders worth ~Rs16bn (yet to be accounted).
- EBITDA margins contracted 367bps YoY to 9.7%, mainly due to higher contribution from Turnkey segment (57.1% in Q4FY23 vs 53% in Q4FY22).

Engineers India Ltd (EIL) reported decent revenue growth of 7.5% YoY to Rs8.6bn. Adj. EBITDA margins contracted 367bps YoY to 9.7%. Order inflow came in at Rs47bn in FY23. Management targets FY24 order inflows to be in same range (~Rs45-50bn), given healthy order pipeline from projects such as IOCL- Petrochemical facility in Gujarat, BORL- Refinery expansion, Private sector – Crude to Chemicals, Polymer projects etc. EIL has been focusing on new verticals like Hydrogen, Biofuel etc. and is strengthening its exports market presence in Middle East, Africa and South America. Furthermore, for FY24 the company targets to maintain Consultancy EBIT margin of 27% and Turnkey at ~3-4%.

EIL's long term growth prospects remain intact given 1) healthy order book, 2) strong project pipeline (mainly from Petrochem orders), 3) diversification into newer verticals and 4) lean balance sheet. We expect Revenue/PAT CAGR of 12.9%/25.5% from FY23 to FY25E. The stock is currently trading at PE of 14.7x/11.4x FY24/25E. We roll forward to FY25E and downgrade to 'Accumulate' from 'BUY' on stock with revised TP of Rs116 (Rs85 earlier), valuing it at PE of 12x FY25E (10x FY24E earlier), factoring in healthy order pipeline from petrochemical segment and focus on diversification into newer verticals (Hydrogen, Biofuel, coal gasification etc).

Turnkey segment drives revenue growth of 7.5% YoY: Standalone sales grew 7.5%YoY to Rs8.6bn, (PL estimate ~Rs9.7bn) owing to growth in turnkey up 15.9% YoY to Rs4.9bn, while consultancy segment declined ~2% YoY to Rs3.7bn. Consultancy accounted for 42.9% of total sales (47% in Q4FY22) and Turnkey projects contributed for 57.1% (53% in Q4FY22). Gross margin declined to 44.4% in Q4FY23 vs 47.8% in Q4FY22 factoring in business mix. During the quarter company reported write back of contractual obligation worth Rs787.8mn, towards settlement with client in consultancy segment. Adjusting to this, EBITDA declined 22% YoY to Rs843mn (PL estimate of ~Rs735mn), with EBITDA margin contracted 367bps YoY to 9.7% (PL estimate 7.6%). Adj. PAT declined 36.7% YoY to Rs799mn (PL estimate of Rs668mn).

Order book stands at Rs76.9bn: Order inflows for Q4FY23 came in at Rs39bn, driven by strong order win in Turnkey segment (Rs32bn). Company has also received a go-ahead letter for additional orders worth Rs15.9bn. Order book stands healthy at Rs76.5bn (2.3x FY23 revenue). Major order won in Turnkey segment includes 1) Change Order: Execution of Residual Utilities and Offsites (RUO) for Rajasthan Refinery Limited (RRP) and 2) Change Order: BS-VI Auto Fuels Projects at CPCL, Manali Refinery.

Exhibit 1: Revenue mix resulted in lower EBITDA margins (contracted 367bps YoY)

Y/e March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	8,060	8,050	7,820	8,306	8,661	7.5	4.3	32,838	28,704	14.4
Total Revenues	8,060	8,050	7,820	8,306	8,661	7.5	4.3	32,838	28,704	14.4
Expenditure	6,981	7,589	7,400	7,841	7,819	12.0	(0.3)	29,862	25,352	17.8
<i>as % of sales</i>	<i>86.6</i>	<i>94.3</i>	<i>94.6</i>	<i>94.4</i>	<i>90.3</i>			<i>90.9</i>	<i>88.3</i>	
Consumption of RM	4,210	4,469	4,296	4,700	4,814	14.4	2.4	18,279	13,708	33.4
<i>as % of sales</i>	<i>52.2</i>	<i>55.5</i>	<i>54.9</i>	<i>56.6</i>	<i>55.6</i>			<i>55.7</i>	<i>47.8</i>	
Employee Cost	2,181	2,239	2,393	2,360	2,370	8.7	0.4	9,362	9,049	3.5
<i>as % of sales</i>	<i>27.1</i>	<i>27.8</i>	<i>30.6</i>	<i>28.4</i>	<i>27.4</i>			<i>28.5</i>	<i>31.5</i>	
Other expenditure	590	882	711	781	635	7.6	(18.7)	2,221	2,596	(14.4)
<i>as % of sales</i>	<i>7.3</i>	<i>11.0</i>	<i>9.1</i>	<i>9.4</i>	<i>7.3</i>			<i>6.8</i>	<i>9.0</i>	
EBITDA	1,080	460	420	465	843	(22.0)	81.1	2,976	3,352	(11.2)
Depreciation	52	51	66	66	70	33.7	5.9	252	232	8.7
EBIT	1,028	409	354	399	773	(24.8)	93.5	2,724	3,120	(12.7)
Other Income	477	272	669	257	493	3.3	91.5	1,691	1,367	23.7
Interest	1	1	5	4	4	207.9	(3.9)	14	8	69.9
Extra ordinary items	-	-	-	-	-			-	-	
PBT	1,503	680	1,018	652	1,261	(16.1)	93.4	4,400	4,478	(1.7)
Total Tax	241	175	167	175	462	92.0	164.6	979	1,034	(5.4)
Reported PAT	1,263	505	851	478	799	(36.7)	67.3	3,421	3,444	(0.7)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	1,263	505	851	478	799	(36.7)	67.3	3,421	3,444	(0.7)
Adjusted PAT	1,263	505	851	478	799	(36.7)	67.3	3,421	3,444	(0.7)
Adjusted EPS (diluted)	2.2	0.9	1.5	0.9	1.4	(36.7)	67.3	6.1	6.1	(0.7)
Margins (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	bps	bps	FY23	FY22	bps
EBIDTA	13.4	5.7	5.4	5.6	9.7	(367)	413	9.1	11.7	(261)
EBIT	12.8	5.1	4.5	4.8	8.9	(383)	411	8.3	10.9	(257)
EBT	18.7	8.5	13.0	7.9	14.6	(409)	671	13.4	15.6	(220)
PAT	31.3	12.5	21.8	11.5	18.5	(1,287)	696	20.8	24.0	(316)
Effective Tax rate	16.0	25.8	16.4	26.8	36.6	2,062	986	22.2	23.1	(85)

Source: Company, PL (Note - Standalone numbers)

Exhibit 2: Trunk segment revenue grew 15.9% YoY to Rs4.9bn

Y/e March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue										
Consultancy	3,791	3,506	3,456	3,503	3,715	(2.0)	6.1	14,179	14,999	(5.5)
Turnkey Projects	4,270	4,544	4,364	4,804	4,947	15.9	3.0	18,658	14,129	32.1
EBIT										
Consultancy	1,229	605	670	690	1,866	51.9	170.5	3,831	4,085	(6.2)
<i>EBIT margin (%)</i>	<i>32.4</i>	<i>17.2</i>	<i>19.4</i>	<i>19.7</i>	<i>50.2</i>			<i>27.0</i>	<i>27.2</i>	
Turnkey Projects	97	92	136	91	202	108.0	123.1	521	357	46.1
<i>EBIT margin (%)</i>	<i>2.3</i>	<i>2.0</i>	<i>3.1</i>	<i>1.9</i>	<i>4.1</i>			<i>2.8</i>	<i>2.5</i>	

Source: Company, PL

Conference Call Highlights

- **EIL will continue to focus on O&G sector**, with increasing opportunity from petrochemical projects lined up in next 3-4 years. Tender pipeline includes IOCL - Petrochemical facility in Gujarat, BORL - Refinery expansion, private players order for crude to chemical projects etc.
- **Diversification:** EIL is working towards new growth areas such as green hydrogen (electrolyzers, hydrogen plant from brown to green hydrogen), Biofuel (1st bamboo based refinery order), Coal Gasification, defence, infra segment (data centers, Airports bullet train) etc in consultancy segment.
- **Exports market:** Increased focus on exports market. Strengthening its presence in Middle East with increasing manpower to target more projects. Also targeting other geographies such as South America and Africa.
- **During FY23 company received dividend of Rs624mn**, including dividend of ~Rs550mn from Numaligarh Refinery Ltd. (NRL).
- **Order inflows came in at Rs47bn in FY23.** Also company has additional Go-ahead letters of orders worth Rs15.9bn received from Clients till FY23.
 - Turnkey accounted for 57% of total order inflows in FY23 and management targets to maintain at same level in FY24.
 - Bagged change orders worth Rs32bn in Q4FY23 in turnkey segment.
- **Guidance:** Targets to maintain Consultancy EBIT margin of 27% and Turnkey margins of ~3-4% for FY24. Management targets to maintain order inflow momentum at same level as FY23.
- Other expenses reported were negative at ~Rs153mn due to write back of contractual obligation, for one of the project in consultancy segment worth ~Rs788mn in Q4FY23. Provision pending as on date stands at Rs5bn and management expects reversal of this over a period of time with projects completion.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	29,128	33,301	37,512	42,444
YoY gr. (%)	(7.4)	14.3	12.6	13.1
Cost of Goods Sold	13,768	18,360	19,131	20,755
Gross Profit	15,360	14,941	18,381	21,689
Margin (%)	52.7	44.9	49.0	51.1
Employee Cost	9,237	9,535	10,202	11,427
Other Expenses	999	424	1,500	1,698
EBITDA	3,441	3,084	4,146	5,572
YoY gr. (%)	(1.6)	(10.4)	34.4	34.4
Margin (%)	11.8	9.3	11.1	13.1
Depreciation and Amortization	236	257	290	323
EBIT	3,205	2,827	3,856	5,250
Margin (%)	11.0	8.5	10.3	12.4
Net Interest	10	15	14	16
Other Income	1,299	1,644	1,801	2,037
Profit Before Tax	4,495	4,455	5,642	7,271
Margin (%)	15.4	13.4	15.0	17.1
Total Tax	1,066	1,013	1,411	1,818
Effective tax rate (%)	23.7	22.7	25.0	25.0
Profit after tax	3,429	3,442	4,232	5,453
Minority interest	-	-	-	-
Share Profit from Associate	(2,034)	20	-	-
Adjusted PAT	1,395	3,463	4,232	5,453
YoY gr. (%)	(61.5)	148.2	22.2	28.9
Margin (%)	4.8	10.4	11.3	12.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,395	3,463	4,232	5,453
YoY gr. (%)	(43.9)	148.2	22.2	28.9
Margin (%)	4.8	10.4	11.3	12.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,395	3,463	4,232	5,453
Equity Shares O/s (m)	562	562	562	562
EPS (Rs)	2.5	6.2	7.5	9.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	3,490	3,914	4,414	4,914
Tangibles	3,490	3,914	4,414	4,914
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,195	1,452	1,742	2,065
Tangibles	1,195	1,452	1,742	2,065
Intangibles	-	-	-	-
Net fixed assets	2,295	2,462	2,672	2,849
Tangibles	2,295	2,462	2,672	2,849
Intangibles	-	-	-	-
Capital Work In Progress	85	282	282	282
Goodwill	-	-	-	-
Non-Current Investments	10,970	11,688	11,461	11,527
Net Deferred tax assets	3,401	3,369	3,369	3,369
Other Non-Current Assets	713	1,070	1,313	1,698
Current Assets				
Investments	852	1,454	2,756	4,220
Inventories	23	12	51	58
Trade receivables	3,860	3,676	4,933	5,349
Cash & Bank Balance	13,828	10,964	11,108	11,147
Other Current Assets	1,824	3,987	4,501	5,306
Total Assets	38,373	40,510	44,142	48,166
Equity				
Equity Share Capital	2,810	2,810	2,810	2,810
Other Equity	14,890	16,805	19,132	22,132
Total Networkth	17,700	19,615	21,943	24,942
Non-Current Liabilities				
Long Term borrowings	37	189	189	189
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,205	3,466	4,111	4,419
Other current liabilities	20,832	20,610	21,269	21,986
Total Equity & Liabilities	38,373	40,510	44,142	48,166

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,495	4,455	5,642	7,271
Add. Depreciation	236	257	290	323
Add. Interest	10	15	14	16
Less Financial Other Income	1,299	1,644	1,801	2,037
Add. Other	(1,018)	(1,724)	-	-
Op. profit before WC changes	3,723	3,003	5,946	7,610
Net Changes-WC	(1,857)	(2,783)	(671)	(1,319)
Direct tax	(1,382)	(1,347)	(1,411)	(1,818)
Net cash from Op. activities	483	(1,127)	3,865	4,473
Capital expenditures	(255)	(345)	(500)	(500)
Interest / Dividend Income	722	641	-	-
Others	145	2,925	(1,302)	(1,464)
Net Cash from Inv. activities	613	3,221	(1,802)	(1,964)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,461)	(1,686)	(1,904)	(2,454)
Interest paid	-	-	(14)	(16)
Others	(27)	(71)	-	-
Net cash from Fin. activities	(1,488)	(1,757)	(1,919)	(2,470)
Net change in cash	(392)	337	145	39
Free Cash Flow	483	(1,127)	3,865	4,473

Source: Company Data, PL Research

Key Financial Metrics

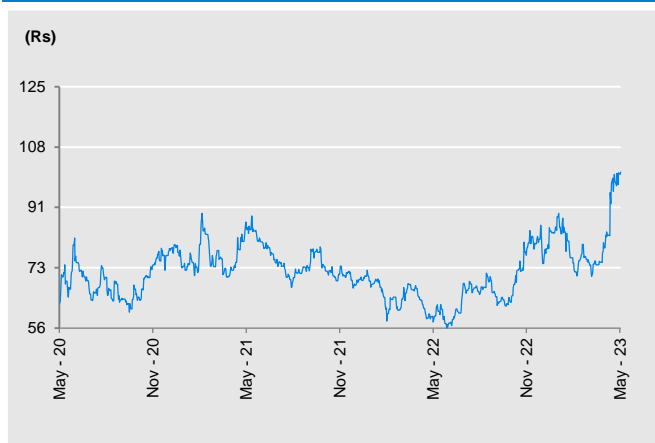
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	2.5	6.2	7.5	9.7
CEPS	2.9	6.6	8.0	10.3
BVPS	31.5	34.9	39.0	44.4
FCF	0.9	(2.0)	6.9	8.0
DPS	3.0	3.0	3.4	4.4
Return Ratio(%)				
RoCE	18.2	15.1	18.4	22.2
ROIC	82.5	34.4	40.7	47.6
RoE	7.9	18.6	20.4	23.3
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	8	2	9	9
Valuation(x)				
PER	44.6	18.0	14.7	11.4
P/B	3.5	3.2	2.8	2.5
P/CEPS	38.1	16.7	13.8	10.8
EV/EBITDA	13.8	16.2	11.7	8.4
EV/Sales	1.6	1.5	1.3	1.1
Dividend Yield (%)	2.7	2.7	3.1	3.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	8,050	7,820	8,306	8,661
YoY gr. (%)	9.5	20.7	21.9	7.5
Raw Material Expenses	4,469	4,296	4,700	4,814
Gross Profit	3,581	3,524	3,606	3,847
Margin (%)	44.5	45.1	43.4	44.4
EBITDA	460	420	465	843
YoY gr. (%)	(55.9)	(30.4)	(25.5)	(22.0)
Margin (%)	5.7	5.4	5.6	9.7
Depreciation / Depletion	51	66	66	70
EBIT	409	354	399	773
Margin (%)	5.1	4.5	4.8	8.9
Net Interest	1	5	4	4
Other Income	272	669	257	493
Profit before Tax	680	1,018	652	1,261
Margin (%)	8.5	13.0	7.9	14.6
Total Tax	175	167	175	462
Effective tax rate (%)	25.8	16.4	26.8	36.6
Profit after Tax	505	851	478	799
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	505	851	478	799
YoY gr. (%)	(44.3)	43.2	(29.8)	(36.7)
Margin (%)	6.3	10.9	5.8	9.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	505	851	478	799
YoY gr. (%)	(44.3)	43.2	(29.8)	(36.7)
Margin (%)	6.3	10.9	5.8	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	505	851	478	799
Avg. Shares O/s (m)	562	562	562	562
EPS (Rs)	0.9	1.5	0.9	1.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	85	74
2	04-Jan-23	BUY	89	80
3	04-Oct-22	BUY	89	65
4	05-Jul-22	BUY	89	60

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	BUY	3,832	3,056
3	Bharat Electronics	BUY	125	109
4	BHEL	Reduce	67	79
5	Cummins India	Accumulate	1,750	1,649
6	Engineers India	BUY	85	74
7	GE T&D India	Hold	184	188
8	Harsha Engineers International	Accumulate	475	436
9	Kalpataru Power Transmission	BUY	625	527
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,615	2,364
12	Praj Industries	BUY	475	374
13	Siemens	Accumulate	4,018	3,723
14	Thermax	BUY	2,613	2,280
15	Triveni Turbine	Accumulate	416	398
16	Voltamp Transformers	Hold	3,961	3,871

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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