

August 9, 2023

Q1FY24 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	165		116	
Sales (Rs. m)	37,512	42,444	37,512	42,444
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,146	5,572	4,146	5,572
% Chng.	-	-	-	-
EPS (Rs.)	7.5	9.7	7.5	9.7
% Chng.	-	-	-	-

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 (%)	1.9	1.9	2.2	2.8
RoE (%)	7.9	18.6	20.4	23.3
RoCE (%)	18.2	15.1	18.4	22.2
EV/Sales (x)	2.5	2.2	2.0	1.7
EV/EBITDA (x)	21.0	24.2	17.7	12.9
PE (x)	62.3	25.1	20.5	15.9
P/BV (x)	4.9	4.4	4.0	3.5

Key Data

ENGI.BO | ENGR IN

52-W High / Low	Rs.161 / Rs.62
Sensex / Nifty	65,847 / 19,571
Market Cap	Rs.87bn / \$ 1,049m
Shares Outstanding	562m
3M Avg. Daily Value	Rs.1105.68m

Shareholding Pattern (%)

Promoter's	51.32
Foreign	7.70
Domestic Institution	18.46
Public & Others	22.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	27.0	85.9	132.8
Relative	25.9	71.3	108.1

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Healthy tender pipeline

Quick Pointers:

- Other income was higher (up 240% YoY to Rs926mn), due to interest income (Rs560mn) for settlement amount from one of the client.
- Order inflow in Q1FY24 came in at Rs12.7bn (vs Rs2.3bn in Q1FY23), driven by Turnkey segment.

Engineers India Ltd (EIL) reported mix quarterly performance with revenue been flat YoY and EBITDA margins expansion of 276bps YoY to 8.5%. Order pipeline remain healthy from projects such as BOREL- Refinery expansion, Private sector – Crude to Chemicals, Polymer projects etc. IOCL- Petrochemical facility in Gujarat. EIL has been focusing on new age verticals (revenue stood at ~Rs630mn in FY23) like Hydrogen, Biofuel, Biomass etc. EIL is focusing on increasing its presence in exports markets such as Middle East, Nigeria, Algeria and few countries in Africa. Management guided for revenue growth of ~10% with consultancy margins in range of ~25-27% for FY24. Order inflows to be ~Rs45bn for FY24.

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 like hydrogen and 4) lean balance sheet. The stock is currently trading at PE of 20.5x/15.9x FY24/25E. We maintain Accumulate rating on stock with revised TP of Rs165 (Rs116 earlier), valuing it at PE of 17x FY25E (12x earlier) factoring in healthy order pipeline from petrochemical segment and focus on diversification into newer verticals (Hydrogen, Biofuel, coal gasification etc).

Lower other expenses drive EBITDA margin: Standalone sales came in at Rs8.1bn, flat YoY (PLe ~Rs9.4). Turnkey, revenue grew 1.8% YoY to Rs4.6bn, while consultancy segment declined 1.4% YoY to Rs3.5bn. Consultancy accounted for 42.8% of total sales (43.6% in Q1FY23) and Turnkey projects contributed for 57.2% (56.4% in Q1FY23). Gross margin declined to 44% in Q1FY24 vs 44.5% in Q1FY23 factoring in business mix. EBITDA grew 48.9% YoY to Rs685mn (PLe ~Rs809mn), with EBITDA margin expanding 276bps YoY to 8.5% (PLe 8.6%), driven by lower other expenses (down 36.9% YoY to Rs556mn- due to provisions write back). Segment wise EBIT margins: Consultancy EBIT margin expanded to 25.6% in Q1FY24 vs 17.2% in Q1FY23, while Turnkey margin remained flat at 2%. Adj. PAT grew 125% YoY to Rs1.1bn, (PLe Rs842mn) driven by higher other income (up 240% YoY to Rs926mn).

Order book stands healthy at Rs81bn: Order inflow in Q1FY24 came in at Rs12.7bn (vs Rs2.3bn in Q1FY23), driven by order win in Turnkey segment (Rs8.2bn). Order book stands healthy at Rs81bn (2.5x TTM revenue), comprising of Consultancy (~61%) and Turnkey (~39%). Major order won in Turnkey segment includes Upgrading of The Institute of Petroleum Safety, Health and Environment Management (IPSHEM) facility at Goa (Rs3.3bn).

Exhibit 1: Standalone- Lower other expenses and higher other income boost PAT

Y/e March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	8,050	7,820	8,306	8,661	8,083	0.4	(6.7)	32,838	28,704	14.4
Total Revenues	8,050	7,820	8,306	8,661	8,083	0.4	(6.7)	32,838	28,704	14.4
Expenditure	7,589	7,400	7,841	7,819	7,398	(2.5)	(5.4)	29,862	25,352	17.8
<i>as % of sales</i>	<i>94.3</i>	<i>94.6</i>	<i>94.4</i>	<i>90.3</i>	<i>91.5</i>			<i>90.9</i>	<i>88.3</i>	
Consumption of RM	4,469	4,296	4,700	4,814	4,526	1.3	(6.0)	18,279	13,708	33.4
<i>as % of sales</i>	<i>55.5</i>	<i>54.9</i>	<i>56.6</i>	<i>55.6</i>	<i>56.0</i>			<i>55.7</i>	<i>47.8</i>	
Employee Cost	2,239	2,393	2,360	2,370	2,316	3.5	(2.2)	9,362	9,049	3.5
<i>as % of sales</i>	<i>27.8</i>	<i>30.6</i>	<i>28.4</i>	<i>27.4</i>	<i>28.7</i>			<i>28.5</i>	<i>31.5</i>	
Other expenditure	882	711	781	635	556	(36.9)	(12.5)	2,221	2,596	(14.4)
<i>as % of sales</i>	<i>11.0</i>	<i>9.1</i>	<i>9.4</i>	<i>7.3</i>	<i>6.9</i>			<i>6.8</i>	<i>9.0</i>	
EBITDA	460	420	465	843	685	48.9	(18.7)	2,976	3,352	(11.2)
Depreciation	51	66	66	70	74	45.6	6.6	252	232	8.7
EBIT	409	354	399	773	611	49.3	(20.9)	2,724	3,120	(12.7)
Other Income	272	669	257	493	926	240.0	88.0	1,691	1,367	23.7
Interest	1	5	4	4	11	726.1	173.4	14	8	69.9
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
PBT	680	1,018	652	1,261	1,526	124.3	21.0	4,400	4,478	(1.7)
Total Tax	175	167	175	462	390	122.3	(15.7)	979	1,034	(5.4)
Reported PAT	505	851	478	799	1,136	125.0	42.1	3,421	3,444	(0.7)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	505	851	478	799	1,136	125.0	42.1	3,421	3,444	(0.7)
Adjusted PAT	505	851	478	799	1,136	125.0	42.1	3,421	3,444	(0.7)
Adjusted EPS (diluted)	0.9	1.5	0.9	1.4	2.0	125.0	42.1	6.1	6.1	(0.7)
Margins (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY23	bps	bps	FY23	FY22	bps
EBIDTA	5.7	5.4	5.6	9.7	8.5	276	(125)	9.1	11.7	(261)
EBIT	5.1	4.5	4.8	8.9	7.6	247	(136)	8.3	10.9	(257)
EBT	8.5	13.0	7.9	14.6	18.9	1,042	431	13.4	15.6	(220)
PAT	12.5	21.8	11.5	18.5	28.1	1,556	965	20.8	24.0	(316)
Effective Tax rate	25.8	16.4	26.8	36.6	25.5	(23)	(1,109)	22.2	23.1	(85)

Source: Company, PL

Exhibit 2: Standalone- Turnkey revenue grew 1.8% YoY

Segmental	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue										
Consultancy	3,506	3,456	3,503	3,715	3,457	(1.4)	(6.9)	14,179	14,999	(5.5)
Turnkey Projects	4,544	4,364	4,804	4,947	4,627	1.8	(6.5)	18,658	14,129	32.1
Segmental EBIT										
Consultancy	605	670	690	1,866	885	46.4	(52.6)	3,831	4,085	(6.2)
<i>EBIT margin (%)</i>	<i>17.2</i>	<i>19.4</i>	<i>19.7</i>	<i>50.2</i>	<i>25.6</i>			<i>27.0</i>	<i>27.2</i>	
Turnkey Projects	92	136	91	202	95	3.2	(53.3)	521	357	46.1
<i>EBIT margin (%)</i>	<i>2.0</i>	<i>3.1</i>	<i>1.9</i>	<i>4.1</i>	<i>2.0</i>			<i>2.8</i>	<i>2.5</i>	

Source: Company, PL

Conference Call Highlights

- **Tender pipeline** remain healthy from projects such as BORL- Refinery expansion, Private sector – Crude to Chemicals, Polymer projects etc. IOCL- Petrochemical facility in Gujarat.
- **New Age Areas:** EIL has been focusing on new age verticals Hydrogen (initially starts with consultancy projects), Biofuel (executing one bamboo based refinery project), Coal Gasification, Defence, Airports etc. Revenue from new age areas stood at ~Rs630mn in FY23.
- **Exports:** Focus is on expanding overseas presence. Recently got order from Nigeria in Petrochem and targeting more orders there. Middle east got few projects and now focusing on increasing reach over there. Apart from this targeting new geographies like Algeria and Africa.
- **Technology Tie-ups:** EIL entered into technology tie up with Sunrise CSP group – Australia for to expand its capabilities in Solar Projects. Sunrise will provide its technology, while EIL will provides its EPC services.
- **Other income** was higher during the quarter due to interest income (Rs560mn) from settlement with one of the client in consultancy segment.
- **Other expenses** were lower due to provisions write back.
- **Ramagundam Fertilizer Project (RFCL)-** Profit for EIL stood at Rs225mn vs Rs139mn in Q1FY23.
- **Order inflows** came in at Rs12.7bn comprising of Turnkey (~65%) and Consultancy (~35%). Some orders are in advanced stage of awarding and will be announced post receiving orders.
 - Appointed as consultant for one of roof top solar project.
- Consultancy fees accounts for 2-3% of total project cost.
- **Off the total order book** of ~Rs810bn, exports accounts for ~Rs16bn.
- **Guidance:** Revenue to grow by~10% with consultancy margins in range of 25-27% for FY24.

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

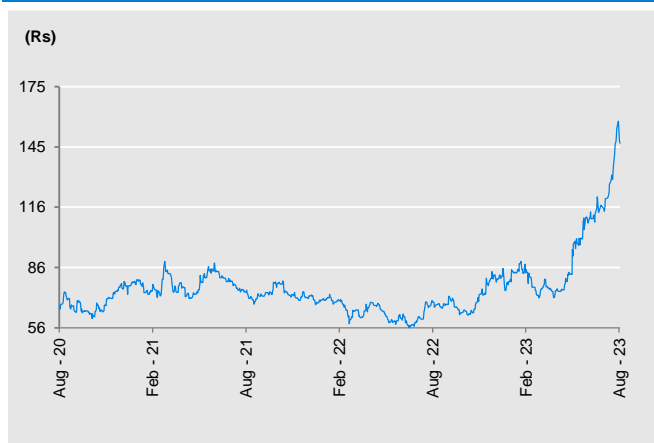
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	2.5	6.2	7.5	9.7
CEPS	2.9	6.6	8.0	10.3
BVPS	31.5	34.9	39.0	44.4
FCF	0.9	(2.0)	6.9	8.0
DPS	3.0	3.0	3.4	4.4
Return Ratio(%)				
RoCE	18.2	15.1	18.4	22.2
ROIC	82.5	34.4	40.7	47.6
RoE	7.9	18.6	20.4	23.3
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	8	2	9	9
Valuation(x)				
PER	62.3	25.1	20.5	15.9
P/B	4.9	4.4	4.0	3.5
P/CEPS	53.3	23.4	19.2	15.0
EV/EBITDA	21.0	24.2	17.7	12.9
EV/Sales	2.5	2.2	2.0	1.7
Dividend Yield (%)	1.9	1.9	2.2	2.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	7,820	8,306	8,661	8,083
YoY gr. (%)	20.7	21.9	7.5	0.4
Raw Material Expenses	4,296	4,700	4,814	4,526
Gross Profit	3,524	3,606	3,847	3,558
Margin (%)	45.1	43.4	44.4	44.0
EBITDA	420	465	843	685
YoY gr. (%)	(30.4)	(25.5)	(22.0)	48.9
Margin (%)	5.4	5.6	9.7	8.5
Depreciation / Depletion	66	66	70	74
EBIT	354	399	773	611
Margin (%)	4.5	4.8	8.9	7.6
Net Interest	5	4	4	11
Other Income	669	257	493	926
Profit before Tax	1,018	652	1,261	1,526
Margin (%)	13.0	7.9	14.6	18.9
Total Tax	167	175	462	390
Effective tax rate (%)	16.4	26.8	36.6	25.5
Profit after Tax	851	478	799	1,136
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	851	478	799	1,136
YoY gr. (%)	43.2	(29.8)	(36.7)	125.0
Margin (%)	10.9	5.8	9.2	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	851	478	799	1,136
YoY gr. (%)	43.2	(29.8)	(36.7)	125.0
Margin (%)	10.9	5.8	9.2	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	851	478	799	1,136
Avg. Shares O/s (m)	562	562	562	562
EPS (Rs)	1.5	0.9	1.4	2.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	116	120
2	30-May-23	Accumulate	116	111
3	11-Apr-23	BUY	85	74
4	04-Jan-23	BUY	89	80
5	04-Oct-22	BUY	89	65

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	4,400
2	Apar Industries	Accumulate	4,100	3,782
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,482	1,259
6	Cummins India	Hold	1,788	1,796
7	Engineers India	Accumulate	116	120
8	GE T&D India	Hold	184	216
9	Grindwell Norton	BUY	2,604	2,191
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	625	555
12	KEC International	Hold	645	658
13	Larsen & Toubro	BUY	2,955	2,560
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,018	3,731
16	Thermax	Hold	2,613	2,602
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	3,961	4,069

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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