

13 August 2024

India | Equity Research | Q1FY25 results review

Engineers India
Capital Goods

Positive surprise in order inflow

Engineers India (EIL) reported a rather subdued quarter with a – 1) 25% decline in revenues; and 2) decline in EBITDA margin (aided by decline in consultancy margins) – resulting in a 52% decline in profit (PAT). Order inflow (OI) and the mix in OI turned out to be a pleasant surprise. EIL saw an OI of INR 48bn, comprising of INR 26bn of consultancy and INR 22bn of others. Note that consultancy is a more profitable business with healthy margins (22%, FY24). As a result, the consultancy order book (OB), at INR 55bn, improved 3.3x. EIL reiterated its guidance of INR 35bn of revenues and EBIT margin of 20% in consultancy (lower than its historical margin). We bake in 300bps of margin improvement in consultancy for FY26E. We retain **REDUCE** given expensive valuations and revise the TP to INR 200 (earlier INR 225).

A weak quarter...

Revenues for the quarter came in at INR 6.1bn, down 25% YoY due to LSTK project delays. EBITDA margin was 7.6% (down 90bps YoY) due to low consultancy segment margins, of 15%, against a 5-year average of more than 27% and 22% in FY24. Thus, PAT halved YoY to INR 0.5bn. EIL expects consultancy margins to touch 20% by year-end; LSTK margins to remain at the 5% mark.

...but order inflow on right track

OI for the quarter was an astounding INR 24bn. With another INR 24bn in orders booked in Jul'24, YTD OI stands at ~INR 48bn. This is against the INR 40–50bn guided at the end of FY24. EIL hopes to secure another INR 20–30bn in orders this year. The OB as on date stands at INR 110bn.

Guidance for FY25

Management has guided for INR 35bn in revenues for FY25. EIL cites – 1) closure of the delayed LSTK projects; 2) commencement of new LSTK projects in the periods Q4FY24 to Q2FY25; 3) a robust order backlog; 4) further order intake on account of strong market demand – as enabling factors towards the fruition of its FY25 guidance. Margins are expected to be in-line with FY24 due to increase in execution of consultancy projects.

Maintain REDUCE; with a revised TP of INR 200

Maintain **REDUCE** with a revised TP of **INR 200** (INR 225 earlier).

Financial Summary

| Y/E March (INR mn) | FY23A | FY24A | FY25E | FY26E |
|--------------------|--------|--------|--------|--------|
| Net Revenue | 33,301 | 32,809 | 36,637 | 41,864 |
| EBITDA | 3,084 | 2,971 | 4,218 | 5,192 |
| EBITDA Margin (%) | 9.3 | 9.1 | 11.5 | 12.4 |
| Net Profit | 3,463 | 4,453 | 4,318 | 5,397 |
| EPS (Rs) | 6.2 | 7.9 | 7.7 | 9.6 |
| EPS % Chg YoY | 0.4 | 4.6 | 19.9 | 25.0 |
| P/E (x) | 37.1 | 35.4 | 29.6 | 23.6 |
| EV/EBITDA (x) | 34.0 | 34.2 | 22.4 | 17.4 |
| RoCE (%) | 18.5 | 17.2 | 17.8 | 19.2 |
| RoE (%) | 18.6 | 21.1 | 17.8 | 19.2 |

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Market Data

| | |
|---------------------|----------|
| Market Cap (INR) | 128bn |
| Market Cap (USD) | 1,520mn |
| Bloomberg Code | ENGR IN |
| Reuters Code | ENGI.BO |
| 52-week Range (INR) | 304 /116 |
| Free Float (%) | 49.0 |
| ADTV-3M (mn) (USD) | 34.2 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|-------|------|------|
| Absolute | 2.3 | 12.7 | 50.4 |
| Relative to Sensex | (7.1) | 1.4 | 28.5 |

Previous Reports

31-05-2024: [Q4FY24 results review](#)

03-02-2024: [Q3FY24 results review](#)

Q1FY25 conference call highlights

Financial highlights

- Revenues for the quarter came in at INR 6.1bn, down 25% YoY.
- EBITDA came in at INR 841mn, down 32% YoY with margins at 7.6% (-90bps)
- PAT was INR 548mn, down 52% YoY.

Order pipeline for FY25

- YTD order received amounted to INR 48bn, against guidance of INR 40–50bn.
- EIL has further guided for INR 20–30bn incremental orders in FY25.
- OB as on date stands at INR 110bn (vs. INR 97bn at end-Q1FY25)
- Of these, 8–10% are orders from sunrise sectors, mainly pertaining to green areas like coal gasification.
- The international OB currently represents 17% of EIL's OB. Management is targeting 20–30%.

Management guidance – FY25

- Revenue for the year to be INR 35bn.
- Management has guided for total OI of INR 70–90bn.
- Margins from LSTK and consultancy projects to be 5% and 20%, respectively.
- Profits from RFCL are likely to amount to INR 1bn in FY25.

Outlook and valuation

With an OB of INR 78bn (2.4x TTM sales), and additional order booking of INR 18bn, growth visibility remains robust. Though some orders may get delayed in the near term, long-term prospects from refinery capacity expansion and EIL's foray into developing expertise in multiple new technologies, provide structural support to business outlook.

Accounting for high cash balance, we value its core business separately and add back the cash to factor in investments in the fertiliser and refinery businesses at 150% of the investment amount. We, thus, arrive at our target price of **INR 200**, valuing its core business at **20x FY26E core earnings**. The stock currently trades at 28x FY24 EPS, much higher than the past five-year average TTM multiple of ~15x. We, thus, retain our **REDUCE** rating.

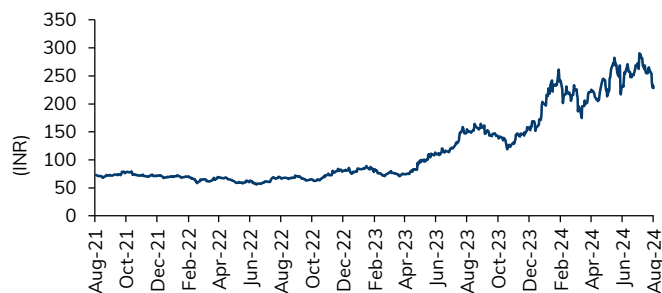
Key risks: 1) Higher-than-expected execution; 2) higher margins on account of increased consultancy revenue; and 3) outperformance of JVs.

Exhibit 1: Shareholding pattern

| % | Dec'23 | Mar'24 | Jun'24 |
|-------------------------|--------|--------|--------|
| Promoters | 51.3 | 51.3 | 51.3 |
| Institutional investors | 23.1 | 20.6 | 21.2 |
| MFs and others | 9.6 | 6.0 | 7.9 |
| FIs/Banks | 0.0 | 0.0 | 0.1 |
| Insurance | 5.8 | 7.5 | 5.9 |
| FIIIs | 7.7 | 7.1 | 7.3 |
| Others | 25.6 | 28.1 | 27.5 |

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|
| Net Sales | 33,301 | 32,809 | 36,637 | 41,864 |
| Operating Expenses | 30,218 | 29,838 | 32,419 | 36,673 |
| EBITDA | 3,084 | 2,971 | 4,218 | 5,192 |
| EBITDA Margin (%) | 9.3 | 9.1 | 11.5 | 12.4 |
| Depreciation & Amortization | 257 | 350 | 366 | 381 |
| EBIT | 2,827 | 2,621 | 3,852 | 4,811 |
| Interest expenditure | 15 | 30 | 12 | 12 |
| Other Non-operating Income | 1,644 | 2,192 | 1,971 | 2,466 |
| Recurring PBT | 4,455 | 4,782 | 5,811 | 7,264 |
| Profit / (Loss) from Associates | 20 | 851 | - | - |
| Less: Taxes | 1,013 | 1,180 | 1,493 | 1,867 |
| PAT | 3,442 | 3,602 | 4,318 | 5,397 |
| Less: Minority Interest | - | - | - | - |
| Extraordinaries (Net) | - | - | - | - |
| Net Income (Reported) | 3,463 | 4,453 | 4,318 | 5,397 |
| Net Income (Adjusted) | 3,463 | 4,453 | 4,318 | 5,397 |

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|
| Total Current Assets | 18,638 | 19,221 | 26,765 | 31,350 |
| of which cash & cash eqv. | 10,964 | 12,187 | 18,912 | 22,377 |
| Total Current Liabilities & Provisions | 10,930 | 12,088 | 13,767 | 14,474 |
| Net Current Assets | 7,708 | 7,133 | 12,998 | 16,875 |
| Investments | 11,786 | 13,885 | 14,385 | 14,885 |
| Net Fixed Assets | 2,789 | 2,976 | 2,224 | 2,043 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 259 | 359 | 359 | 359 |
| Total Intangible Assets | - | - | - | - |
| Other assets | 1,070 | 297 | 297 | 297 |
| Deferred Tax assests | 3,369 | 3,491 | 3,491 | 3,491 |
| Total Assets | 32,950 | 35,331 | 41,094 | 45,441 |
| Liabilities | | | | |
| Borrowings | - | - | - | - |
| Deferred Tax Liability | - | - | - | - |
| provisions | - | - | - | - |
| other Liabilities | 13,334 | 12,778 | 15,157 | 15,070 |
| Equity Share Capital | 2,810 | 2,810 | 2,810 | 2,810 |
| Reserves & Surplus | 16,805 | 19,743 | 23,127 | 27,561 |
| Total Net Worth | 19,615 | 22,553 | 25,938 | 30,371 |
| Minority Interest | - | - | - | - |
| Total Liabilities | 32,950 | 35,331 | 41,094 | 45,441 |

Source Company data, I-Sec research

Exhibit 5: Cashflow statement

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|----------------|--------------|--------------|--------------|
| Operating Cashflow | 1,915 | 2,938 | 3,384 | 4,433 |
| Working Capital Changes | (2,254) | 1,799 | 859 | (413) |
| Capital Commitments | 613 | 637 | (386) | 200 |
| Free Cashflow | 1,302 | 2,301 | 3,771 | 4,233 |
| Other investing cashflow | - | - | - | - |
| Cashflow from Investing Activities | 613 | 637 | (386) | 200 |
| Issue of Share Capital | - | - | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | - | - | - | - |
| Dividend paid | - | - | - | - |
| Others | (5,392) | (2,351) | 3,726 | (1,168) |
| Cash flow from Financing Activities | (5,392) | (2,351) | 3,726 | (1,168) |
| Chg. in Cash & Bank balance | (2,865) | 1,224 | 6,725 | 3,465 |
| Closing cash & balance | 10,964 | 12,187 | 18,912 | 22,377 |

Source Company data, I-Sec research

Exhibit 6: Key ratios

(Year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|-----------------------------|--------|--------|--------|--------|
| Per Share Data (INR) | | | | |
| Reported EPS | 6.1 | 6.4 | 7.7 | 9.6 |
| Adjusted EPS (Diluted) | 6.2 | 7.9 | 7.7 | 9.6 |
| Cash EPS | 6.6 | 8.5 | 8.3 | 10.3 |
| Dividend per share (DPS) | - | - | - | - |
| Book Value per share (BV) | 34.9 | 40.1 | 46.1 | 54.0 |
| Dividend Payout (%) | - | - | - | - |
| Growth (%) | | | | |
| Net Sales | 14.3 | (1.5) | 11.7 | 14.3 |
| EBITDA | (10.4) | (3.7) | 42.0 | 23.1 |
| EPS (INR) | 0.4 | 4.6 | 19.9 | 25.0 |
| Valuation Ratios (x) | | | | |
| P/E | 37.1 | 35.4 | 29.6 | 23.6 |
| P/CEPS | 34.3 | 26.6 | 27.3 | 22.1 |
| P/BV | 6.5 | 5.7 | 4.9 | 4.2 |
| EV / EBITDA | 34.0 | 34.2 | 22.4 | 17.4 |
| P / Sales | 3.8 | 3.9 | 3.5 | 3.0 |
| Dividend Yield (%) | - | - | - | - |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 100.0 | 100.0 | 100.0 | 100.0 |
| EBITDA Margins (%) | 9.3 | 9.1 | 11.5 | 12.4 |
| Effective Tax Rate (%) | 22.7 | 24.7 | 25.7 | 25.7 |
| Net Profit Margins (%) | 10.3 | 11.0 | 11.8 | 12.9 |
| NWC / Total Assets (%) | (9.9) | (14.3) | (14.4) | (12.1) |
| Net Debt / Equity (x) | (1.2) | (1.2) | (1.3) | (1.2) |
| Net Debt / EBITDA (x) | (7.4) | (8.8) | (7.9) | (7.2) |
| Profitability Ratios | | | | |
| RoCE (%) | 18.5 | 17.2 | 17.8 | 19.2 |
| RoE (%) | 18.6 | 21.1 | 17.8 | 19.2 |
| RoIC (%) | 18.5 | 17.2 | 17.8 | 19.2 |
| Fixed Asset Turnover (x) | 12.3 | 11.4 | 14.1 | 19.6 |
| Inventory Turnover Days | 0 | 0 | 0 | 0 |
| Receivables Days | 43 | 37 | 39 | 40 |
| Payables Days | 41 | 49 | 52 | 53 |

Source Company data, I-Sec research

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