

August 13, 2024

Q1FY25 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		HOLD	
Target Price	250		264	
Sales (Rs. m)	35,359	44,483	38,477	46,086
% Chng.	(8.1)	(3.5)		
EBITDA (Rs. m)	4,051	5,760	4,523	6,141
% Chng.	(10.4)	(6.2)		
EPS (Rs.)	7.5	10.3	8.7	10.9
% Chng.	(14.0)	(5.7)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	33,301	32,809	35,359	44,483
EBITDA (Rs. m)	3,083	2,971	4,051	5,760
Margin (%)	9.3	9.1	11.5	12.9
PAT (Rs. m)	3,463	4,034	4,204	5,770
EPS (Rs.)	6.2	7.2	7.5	10.3
Gr. (%)	148.2	16.5	4.2	37.3
DPS (Rs.)	3.0	3.0	3.4	4.6
Yield (%)	1.3	1.3	1.5	2.0
RoE (%)	18.6	19.1	17.7	21.8
RoCE (%)	15.1	12.3	15.3	20.0
EV/Sales (x)	3.5	3.5	3.2	2.5
EV/EBITDA (x)	37.4	38.5	28.0	19.2
PE (x)	36.9	31.6	30.4	22.1
P/BV (x)	6.5	5.7	5.1	4.6

Key Data

ENGL.BO | ENGR IN

52-W High / Low	Rs.304 / Rs.116
Sensex / Nifty	79,649 / 24,347
Market Cap	Rs.128bn/ \$ 1,520m
Shares Outstanding	562m
3M Avg. Daily Value	Rs.2868.08m

Shareholding Pattern (%)

Promoter's	51.32
Foreign	7.26
Domestic Institution	13.89
Public & Others	27.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(21.1)	12.7	50.4
Relative	(20.3)	0.6	23.3

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Muted quarter; strong intake provides visibility

Quick Pointers:

- Q1FY25 order book stands at Rs96.6bn (3.1x TTM revenue).
- YTD order intake is Rs47.8bn, with an additional Rs20-30bn expected in FY25.

We revise our FY25/26E EPS estimates by -14.0%/-5.7% factoring in lower execution and lower margin profile for the consultancy business, but upgrade the rating to 'Accumulate' from 'Hold' with a revised SoTP-based TP of Rs250 (Rs264 earlier) given the recent correction in stock price. Engineers India' (EIL) revenue fell by 23.8% YoY and EBITDA margin declined by 50bps YoY to 8.2%. EIL has met its FY25 order intake guidance with YTD intake of Rs47.8bn, and expects additional intake of Rs20-30bn. The domestic market is expected to see growth driven by an increase in petchem & refinery projects. Energy transition presents significant opportunities for EIL in Green Hydrogen, Green Ammonia, and Solar CSP with management targeting a 10-12% contribution from green businesses. Additionally, sustained momentum from the Middle East and Africa is contributing to a more favorable export mix in the company's revenue.

We believe EIL's long-term growth prospects remain intact given 1) healthy order book & project pipeline, 2) growing export business, 3) opportunities in decarbonization & energy transition, and 4) lean balance sheet. The stock is trading at a P/E of 30.4x/22.1x on core FY25/26E EPS. We value the core business at a P/E of 25x FY26E (26x FY26E earlier). Upgrade to 'Accumulate'.

Higher employee cost and other expenses led to EBITDA margin decline:

Consolidated revenue fell 23.8% YoY to Rs6.2bn (PLe: Rs8.6bn) led by a 42.9% YoY decline in Turnkey segment to Rs2.6bn. Meanwhile, Consultancy segment revenue rose 1.2% YoY to Rs3.6bn. Gross margin increased by 1,365bps YoY to 58.0% (PLe: 45.9%) owing to better revenue mix. EBITDA fell 28.2% YoY to Rs510mn (PLe: Rs778mn) and EBITDA margin declined to 8.2% (PLe: 9.0%) vs 8.7% in Q1FY24 primarily due to higher employee costs (up 998bps as % of sales) & higher other expenses (up 417bps YoY as % of sales). EBIT margin in Consultancy segment sharply fell by 970bps YoY to 15.9%, while Turnkey EBIT margin improved to 8.0% (vs 2.0% in Q1FY24). Adj. PBT fell 21.1% YoY to Rs793mn (PLe: Rs1.3bn). Adj. PAT (ex. JVs/Associates) fell 21.3% YoY to Rs589mn (PLe: Rs954mn) due to weak operating performance and higher depreciation expense (up 30.6% YoY) while other income remained flat at Rs389mn (other income of Q1FY24 included one-off of Rs556mn). Adj. PAT (incl. JVs/Associates) fell 6% YoY to Rs916mn as JVs/Associates profit came in at Rs327mn vs Rs225mn in Q1FY24.

EIL met FY25 order intake guidance with YTD intake of Rs47.8bn: Order inflow came in at Rs23.8bn in Q1FY25 and Rs47.8bn in FY25YTD (meeting FY25 guidance of Rs45-50bn). Order book at the end of Q1FY25 stood at Rs96.6bn (3.1x TTM revenue) with mix of Consultancy/Turnkey at 57%/43% (vs 61%/39% in Q1FY24) and Domestic/Exports at 71%/29% (vs 61%/38% in Q1FY24).

Exhibit 1: Weak execution and higher operating expenses led to 28.2% YoY decline in EBITDA to Rs510mn

Y/e March (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY gr. (%)	QoQ gr. (%)	FY25E	FY24	YoY gr. (%)
Revenue	8,183	7,898	8,676	8,051	6,238	(23.8)	(22.5)	35,359	32,809	7.8
Total Revenues	8,183	7,898	8,676	8,051	6,238	(23.8)	(22.5)	35,359	32,809	7.8
Expenditure	7,473	6,913	8,176	7,277	5,728	(23.3)	(21.3)	31,307	29,838	4.9
<i>as % of sales</i>	<i>91.3</i>	<i>87.5</i>	<i>94.2</i>	<i>90.4</i>	<i>91.8</i>			<i>88.5</i>	<i>90.9</i>	
Consumption of RM	4,550	3,679	4,812	3,923	2,617	(42.5)	(33.3)	17,326	16,963	2.1
<i>as % of sales</i>	<i>55.6</i>	<i>46.6</i>	<i>55.5</i>	<i>48.7</i>	<i>42.0</i>			<i>49.0</i>	<i>51.7</i>	
Employee Cost	2,357	2,448	2,600	2,449	2,420	2.6	(1.2)	10,446	9,854	6.0
<i>as % of sales</i>	<i>28.8</i>	<i>31.0</i>	<i>30.0</i>	<i>30.4</i>	<i>38.8</i>			<i>29.5</i>	<i>30.0</i>	
Other expenditure	565	786	764	905	691	22.3	(23.6)	3,536	3,020	17.1
<i>as % of sales</i>	<i>6.9</i>	<i>10.0</i>	<i>8.8</i>	<i>11.2</i>	<i>11.1</i>			<i>10.0</i>	<i>9.2</i>	
EBITDA	710	985	501	775	510	(28.2)	(34.1)	4,051	2,971	36.4
Depreciation	75	83	85	107	98	30.6	(8.2)	363	350	3.6
EBIT	635	902	416	667	412	(35.1)	(38.3)	3,689	2,621	40.8
Other Income	381	438	305	511	389	2.0	(24.0)	1,945	1,636	18.9
Interest	12	4	7	8	8	(32.5)	(4.1)	28	30	(7.1)
Extra ordinary items	556	-	-	-	-	-	-	-	556	-
PBT	1,560	1,336	714	1,171	793	(49.2)	(32.3)	5,605	4,782	17.2
Total Tax	397	322	187	275	203	(48.8)	(26.0)	1,401	1,180	18.7
PAT before JVs/Assoc.	1,164	1,014	527	896	589	(49.4)	(34.2)	4,204	3,602	16.7
Adj. PAT before JVs/Assoc.	749	1,014	527	896	589	(21.3)	(34.2)	4,204	3,183	32.1
Profit/(loss) from JV's/Assoc.	225	260	106	259	327	-	-	-	851	-
Adj. PAT	974	1,275	633	1,155	916	(6.0)	(20.7)	4,204	4,034	4.2
Adj. EPS	1.7	2.3	1.1	2.1	1.6	(6.0)	(20.7)	7.5	7.2	4.2
Margins (%)						YoY bps	QoQ bps			YoY bps
Gross	44.4	53.4	44.5	51.3	58.0	1,365	677	51.0	48.3	(270)
EBITDA	8.7	12.5	5.8	9.6	8.2	(50)	(144)	11.5	9.1	(240)
EBIT	7.8	11.4	4.8	8.3	6.6	(116)	(169)	10.4	8.0	(244)
EBT	19.1	16.9	8.2	14.5	12.7	(636)	(183)	15.9	14.6	(128)
PAT	11.9	16.1	7.3	14.3	14.7	277	33	11.9	12.3	41
Effective Tax rate	25.4	24.1	26.2	23.5	25.6	22	218	25.0	24.7	(32)

Source: Company, PL

Exhibit 2: Low execution in Turnkey segment drove revenue decline, while Consultancy margin fell 970bps YoY

Segmental	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY gr. (%)	QoQ gr. (%)	FY25E	FY24	YoY gr. (%)
Revenue										
Consultancy	3,556	3,737	3,704	4,033	3,597	1.2	(10.8)	18,862	15,030	25.5
Turnkey Projects	4,627	4,161	4,973	4,018	2,641	(42.9)	(34.3)	16,497	17,779	(7.2)
Segmental EBIT										
Consultancy	911	863	679	966	573	(37.1)	(40.7)	4,338	3,419	26.9
Turnkey Projects	95	492	237	200	212	123.9	5.7	907	1,024	(11.4)
Segmental EBIT Margin						YoY bps	QoQ bps			YoY bps
Consultancy	25.6	23.1	18.3	24.0	15.9	(970)	(804)	23.0	22.8	25
Turnkey Projects	2.0	11.8	4.8	5.0	8.0	597	303	5.5	5.8	(26)

Source: Company, PL

Exhibit 3: SOTP

	FY25	FY26	FY26 EPS	Multiple (x)	Basis (x)	Value / Share
EIL Consol PAT (ex-JVs/Associates)	4,204	5,770				
Less: Post-Tax Dividend Income from JVs	338	456				
EIL Core PAT	3,866	5,314	9.5			
Core PAT - Consultancy	3,198	4,334	7.7	25	PE	193
Core PAT - LSTK	669	981	1.7	10	PE	17
Equity Investments						
Numaligarh Refinery		9,046		2.0	PB	32
Ramagundam Fertilizer Project		2,663		1.5	PB	7
Total Value per Share						250

Source: Company, PL

Conference Call Highlights

- YTD order intake is Rs47.8bn**, with Rs23.8bn secured in Q1FY25. Company received two orders in Q2FY25 including a Rs14bn Consultancy order from BPCL's Bina Refinery and a Rs10bn Turnkey order from ONGC. Including these, current order book stands strong at ~Rs110bn.
- Guidance:** ~Rs35bn revenue in FY25 with sustainable margins of ~20% in Consultancy segment and ~5% in Turnkey segment. Additionally, management aims to secure further orders worth Rs20-30bn in FY25 in addition to YTD order intake. PAT is expected to remain steady YoY.
- Turnkey Segment:** Revenue declined 42.9% YoY as major ongoing contracts were on the verge of closure. EIL has commenced new projects in the past two quarters, with a few more set to start in the coming quarters, resulting in higher expected revenue in Turnkey segment in H2FY25. Management believes ~5% EBIT margin (ex. change orders) in Turnkey segment is sustainable.
- Consultancy Segment** revenue share is expected to remain 50%-60% in FY25. Despite cyclical margins in project business, management believes ~20% EBIT margin is sustainable. Current order book position provides healthy revenue visibility for the segment.
- Green businesses account for 8-10% of the revenue**, with EIL targeting to improve the share to 10-12%. The company is seeing increasing opportunities in Green Hydrogen, Green Ammonia, and Green Urea.
 - Green Hydrogen:** EIL is currently meeting various clients and are involved in various feasibility studies. Recently, company carried out a feasibility study for private client who are in the middle of acquiring board approvals. If approved, it could be major project for the company.
 - Solar:** In solar space, many projects are available however, company is focusing on concentrated solar power (CSP) projects as it has potential to create niche offering for the company.
 - Compressed Bio-Gas:** Currently EIL is not focusing on CBG projects as it does not require technology or engineering intensive services.

- **International Business:** The outlook for the company's international business remains robust. Orders from Nigeria are anticipated by the end of the current financial year, with additional contracts expected in the consultancy segment from the Middle East. Company is strategically focusing on the UAE, aiming to establish it as the engineering hub in the Middle East. Meanwhile, the African market continues to develop, with the management taking a selective approach to order booking, prioritizing well-established clients.
- **Joint Ventures:**
 - **Ramagundam Fertilizer Project** is operating at 90% capacity utilization which is expected to reach 100% in FY25. EIL's equity share of 26% yielded ~Rs0.3bn from total PAT of Rs1.3bn.
 - **Numaligarh Refinery** plant expansion to 9 MMTPA is nearing commissioning. Revenue from expanded capacity will also be reflected on the company's books in the coming quarters.
 - Company expects flat YoY dividend from NRL at ~Rs300mn.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	33,301	32,809	35,359	44,483
YoY gr. (%)	14.3	(1.5)	7.8	25.8
Cost of Goods Sold	18,360	16,963	17,326	22,419
Gross Profit	14,941	15,845	18,033	22,064
Margin (%)	44.9	48.3	51.0	49.6
Employee Cost	9,535	9,854	10,446	11,699
Other Expenses	2,323	3,020	3,536	4,604
EBITDA	3,083	2,971	4,051	5,760
YoY gr. (%)	(10.4)	(3.6)	36.4	42.2
Margin (%)	9.3	9.1	11.5	12.9
Depreciation and Amortization	257	350	363	398
EBIT	2,826	2,621	3,689	5,362
Margin (%)	8.5	8.0	10.4	12.1
Net Interest	15	30	28	27
Other Income	1,644	1,636	1,945	2,358
Profit Before Tax	4,455	4,782	5,605	7,693
Margin (%)	13.4	14.6	15.9	17.3
Total Tax	1,013	1,180	1,401	1,923
Effective tax rate (%)	22.7	24.7	25.0	25.0
Profit after tax	3,442	3,602	4,204	5,770
Minority interest	-	-	-	-
Share Profit from Associate	20	851	-	-
Adjusted PAT	3,463	4,034	4,204	5,770
YoY gr. (%)	148.2	16.5	4.2	37.3
Margin (%)	10.4	12.3	11.9	13.0
Extra Ord. Income / (Exp)	-	419	-	-
Reported PAT	3,463	4,453	4,204	5,770
YoY gr. (%)	148.2	28.6	(5.6)	37.3
Margin (%)	10.4	13.6	11.9	13.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,463	4,453	4,204	5,770
Equity Shares O/s (m)	562	562	562	562
EPS (Rs)	6.2	7.2	7.5	10.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	3,874	4,382	4,882	5,382
Tangibles	3,874	4,382	4,882	5,382
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,412	1,762	2,125	2,523
Tangibles	1,412	1,762	2,125	2,523
Intangibles	-	-	-	-
Net fixed assets	2,462	2,621	2,758	2,860
Tangibles	2,462	2,621	2,758	2,860
Intangibles	-	-	-	-
Capital Work In Progress	282	408	408	408
Goodwill	-	-	-	-
Non-Current Investments	11,688	13,651	13,621	13,734
Net Deferred tax assets	3,369	3,491	3,491	3,491
Other Non-Current Assets	1,070	297	884	1,112
Current Assets				
Investments	1,454	1,526	1,831	2,903
Inventories	12	6	10	12
Trade receivables	3,676	3,356	4,166	5,119
Cash & Bank Balance	10,964	12,187	12,846	14,360
Other Current Assets	3,987	3,671	4,066	4,671
Total Assets	40,510	43,927	46,441	51,406
Equity				
Equity Share Capital	2,810	2,810	2,810	2,810
Other Equity	16,805	19,743	22,055	25,228
Total Networkth	19,615	22,553	24,865	28,039
Non-Current Liabilities				
Long Term borrowings	189	330	330	330
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,466	4,437	3,875	4,509
Other current liabilities	20,610	20,099	20,862	22,019
Total Equity & Liabilities	40,510	43,927	46,441	51,406

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	4,455	4,782	5,605	7,693
Add. Depreciation	257	350	363	398
Add. Interest	15	30	28	27
Less Financial Other Income	1,644	1,636	1,945	2,358
Add. Other	(1,724)	(2,132)	-	-
Op. profit before WC changes	3,003	3,031	5,996	8,118
Net Changes-WC	(2,783)	(255)	(1,211)	(485)
Direct tax	(1,347)	(556)	(1,401)	(1,923)
Net cash from Op. activities	(1,127)	2,220	3,383	5,710
Capital expenditures	(345)	(339)	(500)	(500)
Interest / Dividend Income	641	1,377	-	-
Others	2,925	413	(305)	(1,072)
Net Cash from Inv. activities	3,221	1,450	(805)	(1,572)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,686)	(1,686)	(1,892)	(2,596)
Interest paid	-	-	(28)	(27)
Others	(71)	(112)	-	-
Net cash from Fin. activities	(1,757)	(1,798)	(1,920)	(2,623)
Net change in cash	337	1,872	658	1,515
Free Cash Flow	(1,127)	2,220	3,383	5,710

Source: Company Data, PL Research

Key Financial Metrics

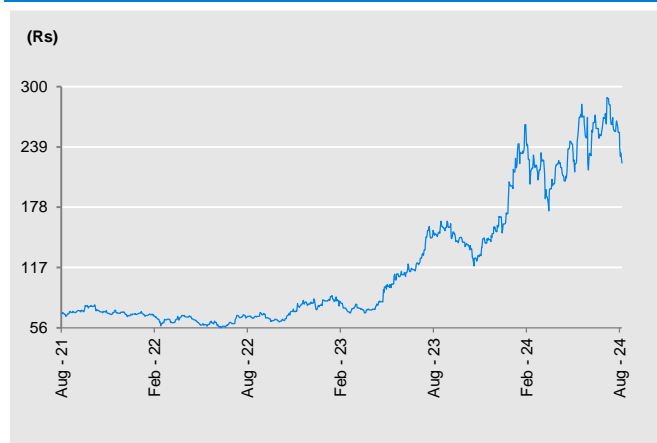
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	6.2	7.2	7.5	10.3
CEPS	6.6	7.8	8.1	11.0
BVPS	34.9	40.1	44.2	49.9
FCF	(2.0)	3.9	6.0	10.2
DPS	3.0	3.0	3.4	4.6
Return Ratio(%)				
RoCE	15.1	12.3	15.3	20.0
ROIC	34.4	25.9	29.5	42.2
RoE	18.6	19.1	17.7	21.8
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	2	(12)	3	5
Valuation(x)				
PER	36.9	31.6	30.4	22.1
P/B	6.5	5.7	5.1	4.6
P/CEPS	34.3	29.1	28.0	20.7
EV/EBITDA	37.4	38.5	28.0	19.2
EV/Sales	3.5	3.5	3.2	2.5
Dividend Yield (%)	1.3	1.3	1.5	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	7,898	8,676	8,051	6,238
YoY gr. (%)	(0.4)	3.0	(8.5)	(23.8)
Raw Material Expenses	3,679	4,812	3,923	2,617
Gross Profit	4,220	3,864	4,129	3,621
Margin (%)	53.4	44.5	51.3	58.0
EBITDA	985	501	775	510
YoY gr. (%)	119.7	0.6	(53.6)	(28.2)
Margin (%)	12.5	5.8	9.6	8.2
Depreciation / Depletion	83	85	107	98
EBIT	902	416	667	412
Margin (%)	11.4	4.8	8.3	6.6
Net Interest	4	7	8	8
Other Income	438	305	511	389
Profit before Tax	1,336	714	1,171	793
Margin (%)	16.9	8.2	14.5	12.7
Total Tax	322	187	275	203
Effective tax rate (%)	24.1	26.2	23.5	25.6
Profit after Tax	1,014	527	896	589
Minority interest	-	-	-	-
Share Profit from Associates	260	106	259	327
Adjusted PAT	1,275	633	1,155	916
YoY gr. (%)	69.6	293.1	(39.3)	9.9
Margin (%)	16.1	7.3	14.3	14.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,275	633	1,155	916
YoY gr. (%)	69.6	293.1	(39.3)	9.9
Margin (%)	16.1	7.3	14.3	14.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,275	633	1,155	916
Avg. Shares O/s (m)	562	562	562	562
EPS (Rs)	2.3	1.1	2.1	1.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Hold	264	268
2	30-May-24	Hold	264	251
3	12-Apr-24	Hold	257	223
4	06-Feb-24	Hold	257	244
5	09-Jan-24	BUY	166	199
6	13-Nov-23	BUY	166	145
7	05-Oct-23	Accumulate	165	143

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,833	7,972
2	Apar Industries	Accumulate	10,399	9,110
3	BEML	Accumulate	4,484	3,914
4	Bharat Electronics	Accumulate	341	321
5	BHEL	Reduce	264	309
6	Carborundum Universal	Hold	1,650	1,719
7	Cummins India	Accumulate	4,081	3,749
8	Engineers India	Hold	264	268
9	GE T&D India	Hold	1,601	1,585
10	Grindwell Norton	Accumulate	2,749	2,650
11	Harsha Engineers International	Hold	565	571
12	Hindustan Aeronautics	Hold	4,515	5,552
13	Kalpataru Projects International	Accumulate	1,413	1,327
14	KEC International	Hold	880	874
15	Larsen & Toubro	BUY	4,130	3,519
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,362	6,890
18	Thermax	Reduce	4,237	4,984
19	Triveni Turbine	BUY	719	619
20	Voltamp Transformers	Accumulate	14,922	14,174

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

ANALYST CERTIFICATION

(Indian Clients)

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