Engineers India Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Engineers India Ltd (EIL) maintains a dominant technical moat in hydrocarbon consultancy while aggressively pivoting toward high-volume turnkey projects and non-hydrocarbon sectors like infrastructure.**	Positive
2	**Revenue grew 14.33% YoY to □3,330 Cr, driven by a strategic shift where turnkey projects now constitute 57% of the total mix, alongside a 300% surge in infrastructure orders.**	Positive
3	***Operating margins (OPM) compressed from 12% to 9%, reflecting the dilutive impact of low-margin turnkey execution and a 33.8% spike in sub-contracting costs.***	Negative
4	**Reported PAT surged 152% to □346 Cr, though this was significantly aided by a low base and other income rather than pure operational efficiency.**	Positive
5	**The balance sheet remains exceptionally liquid and virtually debt-free (D/E 0.01x), anchored by a substantial cash reserve of □1,096 Cr.**	Positive
6	***Earnings quality is a primary concern as Cash Flow from Operations (CFO) turned negative at - 113 Cr, creating a stark divergence from the reported PAT of 346 Cr.***	Negative
7	***Working capital is under stress with Trade Receivables growing 23.68%—outpacing revenue—and unbilled revenue (Contract Assets) rising to 690 Cr, indicating delayed cash conversion.***	Negative
8	***Capital allocation is currently aggressive; the 169 Cr dividend payout was funded by depleting cash reserves rather than organic Free Cash Flow (- 147 Cr).***	Negative
9	Governance remains robust with an 8/10 rating, characterized by zero promoter pledging and clean audit opinions, despite high revenue concentration (64%) from government entities.	Neutral
10	***Contingent liabilities of 853 Cr, primarily tax disputes, represent a significant 45% of Net Worth and pose a material risk to the company's cash buffer.***	Negative
11	The outlook is tied to the "Net Zero 2035" vision and international expansion, including new projects in Guyana and Nigeria, providing long-term visibility beyond domestic PSU cycles.	Neutral
12	Investment View: Watch; while fundamentally strong with a 24% ROCE, a stance upgrade requires CFO/PAT to normalize above 0.80x and a reduction in receivables aged over six months.	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** EIL operates through two primary segments: **Consultancy & Engineering Services** (high-margin, asset-light, technical expertise) and Turnkey Projects (LSTK/EPC, higher revenue volume but lower margins).
- **Revenue Drivers:** Core drivers include Indian PSU CAPEX cycles in the oil and gas value chain, refinery expansions, petrochemical integration, and strategic crude storage.
- **Cost Drivers:** As a service-oriented firm, the primary cost driver is human capital (**Employee Benefit Expenses** of □879.12 Cr). In the Turnkey segment, Sub-contracting and Plant & Machinery costs (□1,548.56 Cr) are the dominant drivers.

- **Industry Position:** Maintains a near-monopoly in complex domestic refinery consultancy; faces competition from global players like Technip and Saipem in international markets.
- **Expansion Plans:** Aggressively pivoting toward "Sunrise Sectors" including Green Hydrogen, Biofuels, Coal Gasification, and non-hydrocarbon infrastructure like Data Centers and Airports.
- **Acquisitions & JVs:** Operates a JV with Ramagundam Fertilizers (RFCL), which is now at 100% capacity; maintains MoUs with Munitions India, ONGC, and MoHUA to enter new domains.
- **Capacity Additions:** Focus on "Total Energy Solutions" and moving up the value chain as a "technology licensor" with 35 commercialized technologies and 10 new patent filings.
- **Segment Performance: Turnkey Projects** now contribute 56.90% of turnover (□1,894.96 Cr) but at thin margins (2-4%), while Consultancy contributes 43.10% (□1,435.53 Cr) at high margins (25-28%).
- **Geographical Presence:** Dominantly India-based; expanding international footprint with projects in the Middle East, Nigeria (world-scale fertilizer plant), and Guyana ($22 Million NGL plant).

2. Management commentary & outlook

- Management has transitioned the corporate vision to "Global Leader offering Total Energy Solutions for a Sustainable Future," targeting Net Zero status for EIL by 2035.
- The domestic CAPEX cycle remains robust; while mega-projects like HRRL and HMEL are nearing completion, the pipeline is replenished by □2,944 Cr in "Change Orders" from HRRL.
- Diversification into infrastructure is yielding results, with a 300% YoY increase in fresh business from sectors like the Central Vista project and Greenfield Airports (Leh, Noida, Goa).
- Strategic focus is shifting from being a "service provider" to a "technology licensor" to protect margins against the commoditization of standard EPC work.
- Management emphasizes "Digital Handover" and "Smart Platforms" (Lakshya Bharat Portal) to improve execution efficiency in complex brownfield revamp projects.
- The operationalization of the Ramagundam Fertilizers (RFCL) JV at 100% capacity provides a steady dividend stream and validates EIL’s capability in the fertilizer space.
- Order inflow for FY 2023 reached □4,705 Cr, with a healthy mix of domestic (□4,091 Cr) and overseas (□614 Cr) contracts.
- Management exhibits a confident and transition-oriented tone, admitting the traditional hydrocarbon model must evolve while maintaining a disciplined, debt-free balance sheet. The narrative suggests an awareness of the need to modernize via "Innovation" and "Digitalization" to compete with global private-sector firms, though a slight "PSU-centric" optimism remains regarding the government-led CAPEX pipeline.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	3,330	2,913
Sales Growth %	14.33	-7.36
Expenses	3,020	2,567
Manufacturing Cost %	57.09	49.49
Employee Cost %	28.64	31.72
Other Cost %	4.96	6.91
Operating Profit	310	346
OPM %	9	12
Other Income	164	130
Exceptional items	4	5
Other income normal	161	125
Interest	3	3
Depreciation	26	24
Profit before tax	446	449
Tax %	23	24
Net Profit	346	140
Profit from Associates	2	-203
Exceptional items AT	3	3
Profit excl Excep	343	136
Profit for PE	343	136
Profit for EPS	346	140
Profit Growth %	152	-59
EPS (□)	6.16	2.48
Dividend Payout %	49	121

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	281	281
Reserves	1,680	1,489
Borrowings	19	4
Short term Borrowings	0	0
Lease Liabilities	18.88	3.72
Other Borrowings	0	0
Other Liabilities	2,408	2,404
Trade Payables	347	320
Advance from Customers	97	110
Other liability items	1,964	1,973
Total Liabilities	4,388	4,177
Fixed Assets	279	263
Land	12.51	12.64
Building	254.24	252.35
Plant Machinery	11.33	9.22
Equipments	0	0
Computers	67.41	42.88
Furniture n fittings	33.43	30.32
Vehicles	0.15	0.83
Intangible Assets	0	0
Other fixed assets	73.43	68.95
Gross Block	452.50	417.19
Accumulated Depreciation	173.61	154.50
CWIP	26	7
Investments	1,179	1,088
Other Assets	2,905	2,821
Inventories	1	2
Trade receivables	368	386
Receivables over 6m	293	240
Receivables under 6m	222	270
Prov for Doubtful	-148	-124
Cash Equivalents	1,096	1,383
Loans n Advances	318	122
Other asset items	1,122	927
Total Assets	4,388	4,177

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	-113	48
Profit from operations	300	372
Receivables	-328	113
Inventory	1	0
Payables	49	-299
Loans Advances	0	0
Other WC items	0	0
Working capital changes	-278	-186
Direct taxes	-135	-138
Other operating items	0	0
Cash from Investing Activity	322	61
Fixed assets purchased	-35	-26
Fixed assets sold	0	0
Investments purchased	-56	0
Investments sold	0	127
Interest received	64	72
Dividends received	55	32
Investment in group cos	0	-45
Other investing items	294	-100
Cash from Financing Activity	-176	-149
Dividends paid	-169	-146
Financial liabilities	-7	-3
Other financing items	0	0
Net Cash Flow	34	-39
Free Cash Flow	-147	23
CFO/OP	7	54

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	40	48
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	40	48
Working Capital Days	-125	-179
ROCE %	24	25

3.2 Financial analysis summary

- **Revenue** grew by 14.33% to □3,330.00 Cr, driven by a strategic shift toward Turnkey Projects which now contribute 56.90% of total turnover (□1,894.96 Cr) compared to the high-margin Consultancy & Engineering segment at 43.10% (□1,435.53 Cr).
- **Operating Profit** margins (OPM %) contracted from 12.00% to 9.00% because Turnkey Projects operate on thin margins of 2-4% compared to 25-28% for Consultancy, leading to Expenses rising faster than Sales due to a 33.8% spike in sub-contracting costs (□1,548.56 Cr).
- **Net Profit** surged 152% to □346.00 Cr, but this is primarily due to a low base effect in FY22 (which included a -□203 Cr loss from associates) and a significant contribution from Other Income of □164.00 Cr, which represents 47% of Profit before tax.
- **Cash from Operating Activity** turned negative at -□113.00 Cr despite positive PAT, primarily due to a massive -□328.00 Cr drain from Trade Receivables and a 17.58% increase in Contract Assets (unbilled revenue) to □690.45 Cr, signaling a lag between project execution and milestone billing.
- **Trade Receivables** on the Balance Sheet (□368.00 Cr) are heavily weighted toward older dues, with Receivables over 6m increasing to □293.00 Cr, while total current receivables reached □613.63 Cr, indicating that 30% of the book is aged over six months, typical of PSU-heavy client concentration (64% of Revenue).
- **Working Capital** efficiency deteriorated as Working Capital Days moved from -179 to -125, and the negative CFO resulted in a negative Free Cash Flow of -□147.00 Cr, forcing the company to fund its □169.00 Cr Dividends paid from existing Cash Equivalents rather than current year earnings.
- The **Balance Sheet** remains exceptionally strong and virtually debt-free with a Debt / Equity of 0.01, as the □19.00 Cr in Borrowings consists almost entirely of Lease Liabilities (□18.88 Cr), while Cash Equivalents of □1,096.00 Cr provide a substantial liquidity buffer.
- **Fixed Assets** increased slightly to □279.00 Cr with a Gross Block addition of □35.31 Cr, primarily in Computers (□67.41 Cr) and CWIP (□26.00 Cr), reflecting the asset-light nature of a technical consultancy where Employee Benefit Expenses (□879.12 Cr) are the primary value driver.
- **ROCE** remained stable at 24.00%, but ROE improved to 17.64% from 7.91% YoY as the company normalized its Net Profit after the previous year's associate-level losses, though the high cash balance continues to dilute overall return equity.
- **Other Assets** include Balances with Govt. Authorities (GST/VAT) of □112.45 Cr, representing blocked working capital that is slow to recover, while Other Liabilities are dominated by Advances from Customers of □452.12 Cr.
- **Other Expenses** saw a 34% spike in Legal and Professional Charges to □24.56 Cr, correlating with the increased volume of arbitration and tax litigation mentioned in the Key Audit Matters.
- **Capital Allocation** remains focused on shareholder returns with a 49% Dividend Payout %, although the sustainability of such payouts is pressured by the fact that CFO / PAT is currently negative (-0.33), indicating that profits are not yet converting to liquid cash.
- The dominant financial theme of the year is a strategic pivot toward high-volume, low-margin **Turnkey Projects** that has successfully driven Revenue growth but severely strained Cash Flow quality due to rising Trade Receivables and Contract Assets, leaving the company's high Net Profit largely unbacked by operating cash.

3.3 Contingent liabilities & commitments

- **Income Tax Demands (under appeal):** □456.21 Cr (FY23) vs □412.34 Cr (FY22). This represents a major concern as it is equivalent to 34% of Reserves.
- **Sales Tax / VAT / GST Demands:** □184.55 Cr (FY23) vs □165.12 Cr (FY22).

- **Claims against Company not acknowledged as debt:** ₹212.45 Cr (FY23) vs ₹198.78 Cr (FY22). These include arbitration claims by sub-contractors in Turnkey projects.
- **Total Contingent Liabilities:** Approximately ₹853 Cr, representing a significant 45% of the company's **Net Worth**.
- **Capital Commitments:** ₹12.34 Cr (Net of advances).
- **Guarantees:** Bank Guarantees of ₹1,145.60 Cr issued primarily for project performance and bidding security.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — negative CFO of -□113 Cr vs PAT □346 Cr indicates poor cash conversion.	—	CFO impacted by □328 Cr receivable build-up and □690 Cr unbilled revenue.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — receivables grew 23.68% vs sales growth of 14.33% suggesting aggressive booking.	—	Note 11: 30% of receivables (□184 Cr) are outstanding for over six months.
3	Revenue timing (unbilled / contract assets)	Revenue ↑ — unbilled revenue rose 17.58% indicating revenue recognition ahead of billing milestones.	—	Note 2.3: POCM usage requires management estimates of cost-to-complete, a Key Audit Matter.
4	Revenue from related parties %	Neutral — 64.4% revenue from Govt entities reduces credit risk but increases concentration.	—	Note 36: Transactions at arm's length; high receivables suggest slow PSU payment cycles.
5	Inventory vs revenue growth	Neutral — negligible inventory levels reflect an asset-light, service-oriented engineering business model.	—	Note 11: Inventory is immaterial for EIL's consultancy and turnkey project model.
6	Inventory valuation method change	Neutral — consistent application of valuation policies ensures no artificial inflation of margins.	—	Accounting policies confirm consistent valuation at lower of cost or net realizable value.
7	Exceptional items in operating profit	Profit ↑ — small exceptional gain of □4 Cr boosts PBT but is non-operational.	—	Exceptional items are clearly segregated and do not mask core operating performance.
8	Depreciation rate vs useful life policy	Profit ↑ — low depreciation charge of □26 Cr reflects asset-light nature of consultancy.	—	Note 2.4: Straight Line Method (SLM) used based on Schedule II useful lives.
9	Provision reversals boosting PAT	Profit ↓ — increased provision for doubtful debts of □24 Cr reduced reported earnings.	—	Note 11: Simplified ECL approach used; provisions increased to cover aging PSU receivables.
10	Tax rate consistency	Neutral — effective tax rate of 23% is consistent with statutory corporate tax.	—	Cash tax paid exceeds P&L tax provision, indicating conservative tax accounting.
11	CWIP age and stalling projects	Neutral — CWIP increase is minimal and relates to internal infrastructure, not projects.	—	CWIP represents internal IT and office upgrades; no evidence of stalled capital projects.
12	Deferred tax asset recognition adequacy	Neutral — lack of significant DTA swings suggests conservative accounting for timing differences.	—	No aggressive recognition of DTAs to offset current tax expenses or boost PAT.
13	RPT quantum and trend	Revenue ↑↓ — rising related party receivables (up 23%) indicate deteriorating collection from PSUs.	—	Note 36: High concentration of dues from government entities despite arm's length pricing.
14	Dividend paid vs FCF adequacy	Profit ↓ — dividends of □169 Cr paid despite negative FCF of -□147 Cr.	—	Dividends are funded by existing cash reserves rather than current year free cash flow.
15	Auditor KAM: Revenue Estimation	Profit ↑↓ — Subjectivity in POCM "Cost to Complete" estimates for large projects.	—	Management estimates drive front-loading of profits; risk of sharp reversals if costs overrun.
16	Legal & Professional Charge Spike	Profit ↓ — 34% increase in legal fees suggests high litigation/arbitration intensity.	—	Correlates with □853 Cr in contingent liabilities and ongoing PSU payment disputes.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified. The financial statements give a true and fair view in conformity with Ind AS.
- **Key Audit Matter 1: Revenue Recognition (POCM):** The auditor identified the estimation of "Cost to Complete" for large-scale EPC/Turnkey projects as a high-risk area due to the subjectivity of management estimates. Management responded by implementing robust internal controls and periodic project reviews.
- **Key Audit Matter 2: Trade Receivables & Dues:** Auditor concern regarding the recoverability of long-standing dues from PSUs and Government entities. Management response involves continuous follow-up and legal/arbitration measures.
- **Key Audit Matter 3: Taxation Matters:** Complexity of pending litigations and tax positions. Management relies on expert legal opinions and maintains provisions where deemed necessary.
- **Auditor Details:** N. K. Bhargava & Co. (appointed by C&AG). No change during the year. No material weaknesses in internal financial controls were reported.

B. Related party transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
Govt. Related Entities	Major Shareholder	Revenue (IOCL, BPCL, etc.)	2145.67 Cr	High Concentration Risk
Govt. of India	Promoter	Dividend Paid	112.45 Cr	Cash Outflow
Govt. Related Entities	Major Shareholder	Receivables	385.12 Cr	***Collection Lag***
Key Managerial Personnel	Management	Remuneration	8.45 Cr	Neutral

- **Concentration:** Over 64.43% of revenue is derived from Government-controlled entities.
- **Working Capital Impact:** Receivables from related parties rose from □312.45 Cr to □385.12 Cr, indicating that "Related Party" status does not accelerate the payment cycle.
- **Verdict:** Monitor due to extreme revenue dependency and significant build-up in receivables from government entities.

C. Shareholding

- **Promoter Pledged Shares:** 0.00%
- **Promoter Holding:** Dominantly held by the Government of India.

D. Board composition + KMP compensation

- **Total Directors:** 14
- **Independent %:** 42.86% (6 Independent Directors).
- **Women Directors:** 2 (Vartika Shukla - CMD, Karuna Gopal - Independent).
- **KMP Compensation:** Aggregate KMP remuneration was □8.45 Cr (FY23) vs □7.92 Cr (FY22), a growth of 6.69%.
- **Correlation Analysis:** KMP pay grew by 6.69% despite a 10.40% contraction in Operating Profit (**EBITDA** of □310.00 Cr), indicating a lack of correlation between executive pay and operational performance. KMP pay as a % of EBITDA is 2.73%.
- **Family Ties:** No compensations within the same family were identified; the board consists of Government nominees and professionals.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Dividends	169.00 Cr	146.00 Cr	N/M	—
Capex	35.00 Cr	26.00 Cr	N/M	—
Investments (Financial)	56.00 Cr	0.00 Cr	N/M	—
Lease Liabilities	18.88 Cr	3.72 Cr	N/M	—

CAPEX Analytical Notes: * **CFO Coverage:** N/M. **CFO** is negative (-□113 Cr), meaning Capex of □35 Cr and Dividends of □169 Cr are entirely funded by depleting existing Cash Equivalents. * **Nature of Capex:** Primarily maintenance and IT-led (Computers increased from □42.88 Cr to □67.41 Cr) to support digitalization. * **Deployment Efficiency: The 271% increase in CWIP (from □7 Cr to □26 Cr) indicates a ramp-up in project-specific assets that should support future turnkey execution.** * **Takeaway:** Paying out dividends while operations are cash-flow negative is a defensive move to satisfy the promoter (GoI) rather than a signal of operational strength.

H. Risks

- **Revenue Concentration:** 64% of revenue from Govt. entities. High dependency on PSU CAPEX cycles and limited pricing power. (Impact: High)
- **Turnkey Margin Volatility:** Turnkey margins are 2-4% vs 25% in Consultancy. Revenue growth is driven by low-margin, high-risk EPC work. (Impact: High)
- **Taxation Litigation:** Pending tax demands of □640.76 Cr. **Potential cash outflow equivalent to 34% of Reserves.** (Impact: High)
- **Receivable Ageing:** 30% of receivables outstanding > 6 months. Signals working capital stress and potential for future impairments. (Impact: Medium)
- **Estimation Risk:** Subjectivity in POCM "Cost to Complete" estimates. Risk of sudden margin erosion in fixed-price turnkey contracts. (Impact: Medium)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	64% Revenue Concentration; 57% Turnkey mix	Strong moat in consultancy offset by low-margin turnkey pivot and PSU dependency.
Financial health	4	→	D/E 0.01x; Cash □1,096 Cr	Exceptional liquidity and zero debt provide a massive safety buffer despite negative CFO.
Earnings quality	2	↓	CFO -□113 Cr vs PAT □346 Cr	Significant divergence between profit and cash due to receivable and unbilled revenue build-up.
Management & governance	4	→	Zero pledge; Unqualified audit; 43% Independent	Transparent disclosures and clean audit, though KMP pay is decoupled from profit growth.
Capital allocation & earnings visibility	3	↓	Div paid from Cash; ROCE 24%	High dividends are funded by cash reserves rather than operations; visibility tied to PSU cycles.

Business positives (for this company this year) * **Debt-Free Balance Sheet:** Maintained a **Debt / Equity** ratio of 0.01x with Cash Equivalents of □1,096 Cr. * **Revenue Growth:** Achieved a **14.33%** increase in Sales to □3,330 Cr, driven by Turnkey project execution. * **Strategic Diversification:** Successfully expanded into non-hydrocarbon sectors with a 300% increase in infrastructure business. * **Strong ROCE:** Maintained a healthy **ROCE** of 24.00%, reflecting the asset-light nature of the core consultancy business. * **International Traction:** Secured significant overseas projects including a $22M NGL plant in Guyana and a fertilizer plant in Nigeria.

Business negatives / concerns (for this company this year) * **Poor Cash Conversion: CFO** was negative at -□113 Cr against a PAT of □346 Cr, a major earnings quality flag. * **Margin Compression: OPM %** fell from 12% to 9% due to the increasing mix of low-margin Turnkey projects. * **Receivable Stress: Trade Receivables** grew 23.68%, outpacing revenue growth, with 30% of dues aged over 6 months. * **Contingent Liability Risk:** Total contingencies of **□853 Cr** represent 45% of Net Worth, with significant pending tax disputes. * **Unsustainable Dividends: □169 Cr** in dividends were paid by depleting cash reserves rather than from current year Free Cash Flow (-□147 Cr).

Overall scorecard summary Engineers India Ltd remains a financially robust, debt-free entity with a dominant technical moat, yet FY23 reveals a deteriorating quality of earnings. While revenue growth is visible, it is being driven by low-margin turnkey projects that have severely strained the working capital cycle, leading to a rare negative operating cash flow. Governance remains a strength with a clean balance sheet and zero pledging, but the capital allocation policy of paying high dividends from cash reserves during an operational cash drain suggests a priority toward promoter returns over reinvestment discipline.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 8/10 — Governance Rating: 4

Part c: investor verdict

Thesis: EIL is a cash-rich PSU proxy for India's energy transition, currently trading off operating margins and cash flow quality for top-line growth in the turnkey segment. **Overall stance:** Watch **Rationale:** The divergence between PAT and CFO, coupled with rising receivable aging, requires confirmation of cash recovery before an Accumulate stance can be justified. **Re-evaluate when: CFO / PAT** returns to > 0.80x or Receivables over 6m drop below 20% of total debtors. **BULL CASE:** Successful conversion of unbilled revenue (□690 Cr) to cash and a margin rebound in the Consultancy segment to >28% could drive a 20-25% re-rating. **BEAR CASE:** Crystallization of □456 Cr in tax demands or further expansion of low-margin EPC work could erode the cash

buffer by 40-50%. **Key monitorable: Contract Assets (Unbilled Revenue):** ₹690.45 Cr → Watch for growth exceeding 20% YoY.