Engineers India Ltd — Aug 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat on PAT / Inline on Revenue **One-line:** The thesis has shifted from a pure engineering consultancy to a "Hybrid Energy Asset" play, where earnings are increasingly supported by maturing investments (RFCL/NRL) and other income settlements, offsetting the slower structural growth in core consultancy.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat	Consol PAT □138.93 Cr vs □64.81 Cr YoY (114% growth).	□
Earnings Quality	Low (Non-core driven)	PAT boost driven by a □56 Cr one-time settlement and high Other Income (□93 Cr).	□
Guidance Confidence	Neutral	Targeted 5-10% revenue growth is conservative; order inflow target of □4,000 Cr is in line.	□
Management Credibility	Strong	Delivered on RFCL turnaround; plant now at 100% capacity.	□
Business Quality Signal	Improving	Increasing traction in "Energy Transition" (Bio-refineries, Green Hydrogen).	□
Key Q&A Exchange	Q# 5 (Adani Project Status)	The polysilicon project is on hold; potential revenue headwind for LSTK segment.	□
The Street's Primary Anxiety	Consultancy Margin Sustainability	Fear of margin erosion due to competition; Mgmt reiterated 25%+ targets.	□
Capital Cycle Stage	Harvesting	RFCL is profitable; NRL expansion (~□28k Cr) is the next big consultancy driver.	□
Margin / Return Ratio Trajectory	Improving (Consolidated)	Driven by JV profit share of □22.49 Cr vs □13.85 Cr YoY.	□
Pricing Power	Stable	Maintains "Navratna" status; monopoly-like grip on PSU refinery PMC.	□
FCF Conversion & Quality	Strong	High cash balance (~□1,200 Cr); settlement income is cash-positive.	□
Competitive Moat Signals	Widening	Strategic Alliance in Solar CSP and Coal Gasification niche.	□
Balance Sheet Strength	Strong	Debt-free; □1,200 Cr cash; receiving □55 Cr annual dividend from NRL.	□
Working Capital Efficiency	Stable	Settlement of old claims (□71 Cr total) improves the collections profile.	□
Mgmt Guidance Track Record	Reliable	Historically conservative on revenue, accurate on segment margins.	□
Key Vulnerability / Red Flag	Order Book Stagnation	Total Order Book □8,102 Cr vs □9,079 Cr (Mar-23).	□
Management Tone	Confident and Technical	Focused on "leapfrogging" from lab to commercial scale in Biofuels.	□

Sentiment: □Positive **Key Takeaways (Positives & Negatives):** * **Positives:** Ramagundam Fertilizer (RFCL) has reached 100% capacity and is contributing meaningfully to the bottom line (□22.49 Cr share). The company is successfully diversifying into "New Age" areas like Green Hydrogen pipelines (Adani) and Bamboo-based refineries (Numaligarh), which now contribute 5-8% of consultancy revenue. * **Negatives:** Core Standalone Standalone revenue is flat YoY (□808 Cr vs □805 Cr). The Adani Polysilicon project being put "on hold" creates a vacuum in the high-value consultancy pipeline for private clients. * **Street Concern:** Analysts are focused on the "Breakout" of consultancy revenue. Management admitted they are hovering around the □1,500-1,600 Cr annual consultancy ceiling and need mega-refinery projects (like Ratnagiri or IOCL Paradeep) to break through. * **Watchpoint:** Monitoring the official signing of the Algeria petchem contract and the progress of the □28,000 Cr Numaligarh expansion (NRE) as primary FY24 growth triggers.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT primary source; Concall for commentary.

Metric	Current Qtr (Q1FY24)	YoY Change (vs Q1FY23)	QoQ Change	Trend	Mgmt Commentary
Total Income (□ Cr)	901 (incl Other)	↑ 9.5%	↓ 2%	→	Revenue growth muted; execution in line with targets.
Revenue (Standalone)	808	↑ 0.3%	↓ 12%	→	Driven by mix: Consultancy (□345 Cr) & Turnkey (□463 Cr).
EBITDA (□Cr)	119*	↑ 191%	↓ 15%	↑	*Derived from PBT-OtherInc+Dep; jump due to lower provisions vs LY.
EBITDA Margin %	14.7%	↑ 960 bps	↓ 50 bps	↑	Significant recovery after last year's doubtful debt provision.
PAT (Consolidated)	138.93	↑ 114%	↓ 27%	↑	Profit jump due to RFCL turnaround and □56 Cr settlement.
PAT (Standalone)	114	↑ 124%	↓ 28%	↑	Standalone EPS more than doubled to □2.02.
Order Book (□Cr)	8,102	↓ 8%	↓ 10%	↓	Mix: Consultancy □4,979 Cr (61%) / Turnkey □3,123 Cr (39%).
New Orders (□Cr)	1,265	↑ 640%	↓ 25%	↑	Secured □1,265 Cr in Q1; total visibility now □2,200 Cr YTD.
Execution Rate (%)	8.8%	↓ 100 bps	↓ 200 bps	→	Calculated on opening order book of □9,079 Cr.
Book-to-bill (x)	2.47x	↓ 15%	↓ 8%	→	Sufficient visibility for 2.5 years of execution.
Net Debt / (Cash)	(1,200)	→	→	→	Strong cash balance; no debt on books.
Dividend from NRL	Not in Q1	N/A	N/A	→	Expecting ~□5/share (□48 Cr total) in Q2.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (%)	Trend	vs Co Avg	Key Development
Consultancy	345	↓ 1.4%	25-27%	→	Higher	Settlement of □16 Cr recognized in segment profit.
Turnkey	463	↑ 1.7%	2-3%	↓	Dilutive	Low-margin segment; impacted by "on hold" Adani project.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	5% - 10% Growth (FY24)	Needs ~□850 Cr/qtr for the rest of FY24. **Highly Feasible.**	Delivered □3,283 Cr in FY23.	Low
Guidance	Margins	Consultancy: 25-28%	Needs to maintain current project mix. **Feasible.**	Maintained ~27% in FY23.	Low
Guidance	Order Inflow	□4,000 Cr+ (FY24)	Needs □2,735 Cr in next 9 months. **Feasible.**	Secured □4,707 Cr in FY23.	Medium
Strategy	Capital Allocation	60% Dividend Payout	Supported by cash-rich balance sheet.	Historically consistent.	Low
Strategy	Competitive Positioning	Green Hydrogen / Biofuels	Targeting 10% of rev from Energy Transition.	8% contribution in FY23.	Low
Macro	Industry Headwinds	Petchem/Refinery Expansion	GOI targets 450 MMTPA refinery capacity.	Capacity expansion is cyclic.	Medium
Balance	Debt / Leverage Target	Remain Debt-Free	No immediate large capex planned.	Debt-free for years.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Mohit Kumar, ICICI Sec	Order Pipeline	Management Outlook	"Are we seeing any traction in few of the refinery and Petcam consultancy projects?"	Management identified three mega-opportunities: ONGC crude-to-chemical, IOCL Paradeep petchem, and BORL petchem expansion. Successful conversion of even one of these would lead to a significant "breakout" in the consultancy order book.	Specific timelines for board approvals.	4.0	Directional with evidence
2	4.0	Raj Rishi, DCPL	New Energy	Business Overview	"Could you elaborate on your competencies to back projects in new age areas like green hydrogen?"	Management is moving from lab-scale (TRL-2) to commercial-scale (TRL-9) in bamboo-refineries and capturing carbon for ethanol with NTPC. These high-tech niche areas command higher entry barriers and better long-term consultancy pricing power.	None	5.0	Specific and technical
3	3.5	Dixit Doshi, Whitestone	Opportunity Size	Financials	"If INR 25,000 crores of petchem capex happens, then how much would be	Management clarified that the consultancy fee is typically 2-3% of project cost (□500-750 Cr per mega petchem	None	4.0	Quantified

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					opportunity for us?"	plant). This quantifies the revenue impact of the pipeline: three such plants could add □2,000 Cr+ to the consultancy book.			
4	3.0	Anik Mitra, Finarthaa	Hydrogen Orders	Financials	"What amount of order has been booked by Engineers India in this particular segment, hydrogen gas?"	EIL is executing green hydrogen assignments for GAIL and electrolyzer implementation for BORL. While currently small, EIL's familiarity with refinery hydrogen process-flows makes them the default consultant as OMCs transition to green hydrogen.	Specific order values for Hydrogen.	3.0	Consistent but vague
5	5.0	Bharat Jain, ICICI Sec	Adani Project	Business Overview	"What is the status of the Adani project, the polysilicon plant?"	Management confirmed the project is "put on hold" from the client's side. This is a significant negative signal for the LSTK segment growth in the short term, requiring the company to find a replacement private anchor client.	Expected restart date.	2.0	Hedged

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6	4.0	Pritesh Chheda, Lucky Inv	Capital Allocation	Capex and Allocation	"Would you continue to do these equity investments in these projects just like you did in Numaligarh?"	Management has no new equity investment proposals on the table but will evaluate "good opportunities" as they come. This suggests the high dividend payout (60%+) is safe as no major cash outflow for JVs is imminent.	Definitive policy on cash utilization.	3.0	Vague but consistent

PATTERN FLAGS & SENTIMENT * **The "Adani Overhang":** Analysts were anxious about the status of private sector projects (Polysilicon). Management's admission that the project is on hold confirms that EIL's short-term Turnkey growth remains heavily tethered to PSU capex and government policy. * **Breakout Frustration:** Multiple questions centered on when Consultancy revenue would finally move past the ₹1,500 Cr annual mark. Management's response was confident about the *pipeline* (ONGC/IOCL) but defensive on *timing*, which depends on client-side board approvals. * **Analyst Sentiment Verdict:** Analysts were **cautiously optimistic**. The sentiment improved versus last year because the RFCL "bleeding" has stopped, but skepticism remains regarding the "on-hold" private projects. Management's technical depth in Biofuels and Coal Gasification was a significant credibility booster.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|----------------------------|-------------------|-----------------|----------------| | Adani Project | Not mentioned in intro. | "Put on hold" | Significant delay in a major private sector LSTK/PMC job. | Revenue miss in Turnkey segment. | | Other Income | Total PAT growth 124% | Boosted by ₹56 Cr settlement | Core operational growth is much lower (~15%) when stripped of settlement. | Low-quality earnings beat. |

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5. WHAT CHANGED vs PRIOR QUARTER

(Compared to Q1 FY23 Prior Context)

What Changed	Prior Quarter (Q1FY23)	This Quarter (Q1FY24)	Direction
RFCL Profitability	□13.85 Cr Loss Share	□22.49 Cr Profit Share	↑ Improving
Earnings Driver	Core Operations	Other Income (Settlement)	↓ Deteriorating Quality
Consultancy Margin	Suppressed (11.6%)	Normalized (25-27%)	↑ Improving
Order Book Mix	54% Consultancy	61% Consultancy	↑ Improving (High Margin Mix)
Energy Transition	Early Stage	8% of Business Secured	↑ Improving
Buyback Outlook	Explicitly Ruled Out	Not discussed / No proposal	→ Stable
Dividend Yield	□48 Cr (NRL)	Expecting similar in Q2	→ Stable

Investment Implication Note: The "One-Off" nature of the settlement income (□56 Cr) masks the fact that core standalone revenues are essentially flat. However, the consolidation level (RFCL turning from a □14 Cr loss to a □22 Cr profit) represents a sustainable □36 Cr swing in quarterly profitability. The thesis remains intact: EIL is a debt-free cash cow yielding ~4-5% dividend, with a free "call option" on the Indian Green Hydrogen and Bio-refinery build-out. STOP HERE.