Engineers India Ltd — Feb 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Revenue / Miss on Consultancy Margins **One-line:** The long-term thesis of EIL as a high-margin consultancy powerhouse is facing a "transition valley"—order book replenishment is lagging execution, and consultancy margins have dipped to 18% (vs. historical 25%+), making the stock increasingly dependent on the lumpy finalization of mega-petchem projects.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Miss (Margins)	Consultancy EBIT margin fell to 18% vs guidance of 25%+.	□
Earnings Quality	Moderate	PAT growth (4% YoY) is sluggish compared to 9M performance (45%).	□
Guidance Confidence	Neutral	Mgmt maintains □5,000 Cr+ order target but execution depends on "negotiations."	□
Management Credibility	Strong	High transparency on project delays (e.g., Coal Gasification, Adani).	□
Business Quality Signal	Deteriorating	Order book at □7,990 Cr is at a multi-quarter low (down from □9,079 Cr in Mar-23).	□
Key Q&A Exchange	Q# 1 (Order Intake)	Three mega projects under negotiation; success is binary for FY25 growth.	□
The Street's Primary Anxiety	Order Depletion	The "Book-to-Bill" is shrinking; analysts pressed on when the □5,000 Cr+ intake starts.	□
Capital Cycle Stage	Consolidation	Shifting focus to Infra/Energy Transition to offset slowing domestic refining capex.	□
Margin Trajectory	Deteriorating	Consultancy margins compressed due to lack of high-margin "change orders."	□
Pricing Power	Stable	Retains monopoly-like PMC status for PSU refinery/petchem.	□
FCF Conversion	Strong	Debt-free; cash balance remains high; dividend yield play intact.	□
Competitive Moat	Stable	Deep technical moat in complex petchem; high barriers in SAF/ Green Hydrogen.	□
Balance Sheet Strength	Strong	Zero debt; strong liquidity for potential JV investments.	□
Working Capital	Stable	Attrition rate is exceptionally low (<2%), protecting human capital moat.	□
Mgmt Guidance Track	Mixed	Reliable on technicals, but overly optimistic on petchem award timelines.	□
Key Red Flag	Margin Compression	18% Consultancy EBIT is a multi-year low; indicates competitive or mix pressure.	□
Management Tone	Cautious Optimism	Focused on "on the anvil" mega-contracts to rescue the order book.	□

Sentiment: □Neutral **Key Takeaways (Positives & Negatives):** * **Positives:** EIL is successfully pivoting into the "Infrastructure" and "Energy Transition" segments, with a □350 Cr Intelligence Bureau project and □8,149 Cr

ONGC SV station revamps. The low attrition rate (<2%) ensures technical capability is preserved during the transition. * **Negatives:** The "Consultancy" engine—the core of the valuation—is sputtering. EBIT margins dropped from 26% to 18% YoY this quarter, and the total order book has shrunk by ~12% since the start of the fiscal year. Reliance on lumpy "change orders" to boost margins makes quarterly earnings volatile. * **Street Concern:** Analysts are frustrated by the delay in "Mega Petchem" finalizations (Bina, Paradeep). Management's response suggests these are now FY25 stories, leaving a vacuum in the high-margin revenue pipeline for the next 1-2 quarters. * **Watchpoint:** Finalization of the Nigerian petchem contract and the SAF project at Panipat; these are critical to stabilizing the consultancy book.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT figures used as primary source. Concall used for commentary.*

Metric	Current Qtr (Q3)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (□Cr)	902.9	↑ 3%	↑ 10%	→	Revenue growth driven by Turnkey execution.
Revenue (Standalone)	856.4	↑ 3%	↑ 10%	→	Consultancy: □359 Cr
EBITDA (□Cr)	68.7	↓ 13%	↓ 15%	↓	Calculated: PBT (81.6) - Other Inc (25.8) + Dep (12.9).
EBITDA Margin %	8.0%	↓ 150 bps	↓ 250 bps	↓	Compression in high-margin Consultancy segment.
PAT (Standalone)	50.1	↑ 4%	↓ 30%	→	Sluggish bottom line due to lower segment margins.
Order Book (□Cr)	7,990.6	↓ 1%	↓ 2.4%	↓	Down from □8,188 Cr (Sep) and □9,079 Cr (Mar).
Order Inflows (□Cr)	637.1	↓ 72%	↓ 44%	↓	Massive drop from Q3LY (□2,304 Cr) and Q2 (□1,144 Cr).
Execution Rate (%)	10.4%	↑ 80 bps	↑ 100 bps	↑	Calculated on Q2 ending order book of □8,188 Cr.
Book-to-bill (x)	2.33x	↓ 5%	↓ 8%	↓	Visibility shrinking; now below 2.5 years.
Net Debt / (Cash)	(Cash Rich)	→	→	□	Debt-free; strong cash reserves maintained.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (%)	Trend	vs Co Avg	Key Development
Consultancy	359.1	↓ 0.3%	18%	↓	High	Margin miss vs 25% guidance; lack of change orders.
Turnkey	497.3	↑ 5.5%	5%	↑	Low	Margin improvement from 2-3% range; ONGC projects.

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Order Intake	₹5,000 Cr+ for FY24	Needs ~₹2,000 Cr in Q4. **Moderate Risk.**	Done ₹3,046 Cr in 9M.	Medium
Guidance	Revenue	₹3,500 Cr for FY24	Needs ₹1,058 Cr in Q4. **Highly Feasible.**	Done ₹2,442 Cr in 9M.	Low
Guidance	Margins	Consultancy: 20-25%	Needs 28%+ in Q4 to recover 9M avg. **High Risk.**	Dropped to 18% in Q3.	High
Strategy	New Energy	15-20% of Rev in 2-3 years	Needs ~₹500 Cr annual consultancy rev. **Feasible.**	Currently at 7-8% of revenue.	Low
Strategy	International	20-30% growth in intake	Dependent on Nigeria/Abu Dhabi awards.	Inflows currently lumpy.	Medium
Balance	Cash	Maintain dividend payout	Supported by ₹1,200 Cr+ cash.	Consistently high payout.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Mohit Kumar, ICICI Sec	Order Intake	Mgmt Outlook	"Consultancy order inflow has been pretty weak... how do you think about it in the next 10-12 months?"	Management identified three mega petrochemical complexes currently under negotiation (one overseas, two domestic) expected to materialize by March 31st. Success in these negotiations is critical to reversing the 12% decline in the order book since FY23 began.	Specific contract values.	3.0	Vague bu directiona
2	4.5	Mohit Kumar, ICICI Sec	Coal Gasification	Business Overview	"Are you seeing any tender which are coming for the consultancy?"	Management admitted that while there is significant "news" and MoUs, coal gasification projects are stuck in feasibility/ viability stages due to technology and pricing issues. This clarifies that coal gasification is an FY26/27 revenue story, not an immediate catalyst.	None	5.0	Clear anc quantifiec
3	4.0	Amit Anwani, PL Capital	Turnkey Margins	Financials	"What is the trajectory developing for the turnkey business margins?"	Management guided for 3-5% margins, noting the current 5% was driven by the commencement of high-value ONGC	None	4.0	Specific guidance

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						revamping projects. This suggests turnkey margins have likely peaked at the 5% ceiling for the near term.			
4	3.5	Amit Anwani, PL Capital	Infrastructure	Business Overview	"Will civil infra itself will become a vertical?"	Management confirmed a strategic shift toward "niche" infra like RBI data centers, Intelligence Bureau buildings, and airports, moving away from commoditized construction. This diversification increases the Addressable Market (TAM) beyond the saturated refinery segment.	Target share of total revenue.	3.0	Consiste strategy
5	5.0	Bhoomika Nair, DAM Capital	Consultancy Margins	Financials	"Consultancy, should we look at a steady, say, 25% to 30% range?"	Management walked back the 25-30% historical range, guiding instead for 20-25% due to the timing of "change orders" which were absent this quarter. This downgrade in margin expectations is a direct headwind to valuation multiples.	Reason for the 18% trough.	2.0	Hedged / Walk-bac
6	4.0		International	Mgmt Outlook	"Can you talk about	Management is strengthening	None	4.0	

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		Jonas Bhutta, Birla MF			initiatives [in the MENA region]?"	its Abu Dhabi office to target larger UAE projects and is planning a re-entry into the Saudi Arabian market next year. Geographic diversification is essential to offset the lumpiness of the Indian PSU capex cycle.			Direction with evidence
7	3.0	Raj Rishi, DCPL	Energy Transition	Business Overview	"What percentage of your revenues say in three years' time, can we expect from this energy transition?"	Management targets increasing energy transition (Biofuels, Green H2) from 7-8% currently to 15-20% within the next few years. This establishes the roadmap for EIL's survival in a post-fossil fuel engineering landscape.	None	4.0	Quantifie vision
8	3.5	Nikhil Abhyankar, ICICI Sec	Green Hydrogen	Business Overview	"Can we expect any order inflow next year from specifically green hydrogen?"	Management is working on a "green urea" project in Orissa for a private client, which is currently at the Board approval stage. This represents the first potential "mega" project in the green hydrogen/ ammonia space for EIL.	Client name/ identity.	3.0	Vague bu consister

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9	4.5	Akshat Singhal, Ind. Investor	Governance	Governance	"Has any actions been taken... on the responsible officers on account of these defaults [PFS Securities]?"	Management claimed no information regarding disciplinary actions on the ₹150 Cr provisioning for defaulted PF trust securities from FY18-21. This reveals a lingering transparency gap regarding legacy internal control failures.	Accountability details.	1.0	Evasive

PATTERN FLAGS & SENTIMENT * **The "Negotiation" Overhang:** Analysts repeatedly questioned the visibility of new orders. Management's posture was defensive, relying heavily on "negotiations" for three mega projects. If these do not sign by Q1FY25, the order book will enter a critical depletion phase. * **Margin Volatility:** The drop to 18% consultancy margins was the "elephant in the room." Management's explanation—lack of change orders—suggests that the core business has less "base-load" margin stability than previously assumed by the Street. * **Analyst Sentiment:** Skeptical but respectful. Analysts are satisfied with the Turnkey execution (5% margins) and the RFCL turnaround, but are highly concerned about the shrinking Consultancy book and the "walk-back" on 25%+ margins. Management's credibility in technical areas remains high, but their ability to predict PSU contract award timelines is being questioned.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Consultancy Margins	"Steady 25-28%"	"Expecting 20-25%"	300-500 bps structural reduction in guidance.	Lower sustainable PAT.
Order Finalization	High confidence in Q3 awards.	"In negotiations," "Expected next year."	Shift of mega-awards (Bina/Paradeep) from FY24 to FY25.	Near-term growth vacuum.
Coal Gasification	Significant upcoming vertical.	Stuck in feasibility; non-viable at current prices.	This vertical is not an immediate revenue driver.	Valuation premium for "New Tech" may erode.

5. WHAT CHANGED vs PRIOR QUARTER

(Compared to Q1 FY24 Prior Context)

What Changed	Prior Quarter (Q1FY24)	This Quarter (Q3FY24)	Direction
Consultancy EBIT Margin	25-27%	18%	↓ Deteriorating
Order Book	□8,102 Cr	□7,991 Cr	↓ Deteriorating
Turnkey EBIT Margin	2-3%	5%	↑ Improving
Coal Gasification	"Big opportunity"	"Non-viable / Stuck in feasibility"	↓ Deteriorating
Infra Segment	General PMC focus	Specific: Intelligence Bureau, RBI, Airports	↑ Improving
International Focus	Nigeria/Guyana	Strengthening Abu Dhabi; Planning Saudi entry	↑ Improving
9M PAT Growth	114% (Consol)	45% (Standalone)	↓ Normalizing

STOP HERE.