Engineers India Ltd — Jun 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Strong Beat **One-line:** EIL delivered on its aggressive Q4 "catch-up" promise, hitting its full-year PAT guidance via high-margin change orders and finally stabilizing the RFCL JV, which transitioned from a drag to a profit contributor.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Standalone PAT of □342.2 Cr met the □340 Cr target; Inflows of □4,708 Cr beat the □4,000 Cr guidance.	□
Earnings Quality	Moderate	PAT heavily dependent on Q4 "Change Orders" and Dividend Income (NRL), but core consultancy margins remained robust at 27%.	□
Guidance Confidence	Strong	Management proved the back-ended nature of their business model; reaffirmed □4k-5k Cr inflow target for next year.	□
Management Credibility	Strong	Delivered the promised RFCL turnaround (□8 Cr full-year profit vs 9M loss) and debtor reduction (10-year low).	□
Business Quality Signal	Improving	Diversification into Green Hydrogen/Bio-refineries and international wins (Guyana/Nigeria) reduces dependency on domestic PSU capex.	□
Key Q&A Exchange	Q10 (Turnkey Margins)	Mgmt clarifies Turnkey is "Open Book Estimate" (OBE), minimizing risk vs. traditional LSTK.	□
The Street's Primary Anxiety	RFCL Viability	Concern: Is RFCL stable? Mgmt Response: Now at 100% capacity and profitable in Q4.	□
Capital Cycle Stage	Harvesting	Shifting from heavy investment in JVs/Capacity to operational steady-state and high dividend payouts.	□
Margin / Return Trajectory	Improving	Consolidated PAT grew 147% YoY as JV losses reversed.	↑
Pricing Power	Stable	Dominant technical position in Refineries/Petchem allows for 27% consultancy margins.	□
FCF Conversion & Quality	Strong	Debtor days at 10-year low (39 days); CFO supported by receivable liquidation.	□
Competitive Moat Signals	Widening	Significant international EPCM wins in Nigeria/Guyana prove technical exportability.	□
Balance Sheet Strength	Strong	Cash-rich (□1,100 Cr) with no material debt.	□
Working Capital Efficiency	Improving	DSO reduced from 47 to 39 days YoY.	↑
Mgmt Guidance Track	Reliable	History of hitting aggressive back-ended targets confirmed again.	□
Key Vulnerability	Back-endedness	Thesis remains vulnerable to "Change Order" timing which can swing quarterly results by 200%+.	□
Management Tone	Confident	Focused on "geographical diversification" and "high-end engineering."	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** Management successfully navigated a high-stakes Q4, hitting the ₹340 Cr Standalone PAT target which seemed mathematically improbable at 9M. The RFCL JV has finally turned the corner, posting a full-year profit of ₹8 Cr, implying a massive Q4 swing to offset the ₹34 Cr 9M loss. Order inflows at ₹4,708 Cr are the highest in recent years, with a significant shift toward international consultancy (50% of consultancy inflow), which carries higher margins. * **Negatives:** Despite record turnover, EIL remains a "binary" stock where Q4 settlements (Change Orders) dictate the entire year's success. The Turnkey segment revenue (57% of mix) continues to dilute overall margins, though the risk is capped by the OBE (Open Book Estimate) structure. * **Street Concern:** Analysts were previously fixated on the "unrealistic" PAT target and the RFCL "technical glitch." Management silenced these by delivering both, with RFCL hitting 100% capacity utilization. * **Forward Watchpoint:** Monitor the conversion of the "Crude-to-Chemicals" feasibility studies for IOCL/BPCL into EPCM orders in FY24, as these represent the next major wave of high-margin domestic consultancy.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures (₹Million) converted to ₹Crore (÷ 10). Concall used for commentary.

Metric	Current Qtr (Q4)	YoY Change (FY)	QoQ Change	Trend	Mgmt Commentary
Total Income (□Cr)	915.4	↑ 15% (FY)	↑ 6.9%	↑	Highest turnover in 10 years driven by LSTK execution.
Revenue (Standalone □Cr)	866.1	↑ 14.4% (FY)	↑ 4.3%	↑	Turnkey (LSTK) execution at Hazira/ Rajasthan refineries.
Consultancy Revenue (□Cr)	371.5	↓ 8.5% (FY)	↑ 6.1%	↑	Overseas consultancy inflows reached 50% of segment.
Turnkey Revenue (□ Cr)	494.7	↑ 32.1% (FY)	↑ 3.0%	↑	Large execution of HRRL and ONGC Hazira projects.
EBITDA (Standalone □ Cr)	Not Stated*	↓ 10% (FY)	↑ 200%+	↑	EBITDA margins recovered in Q4 due to Change Orders.
EBITDA Margin %	~23% (Q4)	↓ (9.4% FY)	↑	↑	Margin compression YoY due to higher Turnkey revenue mix.
PAT (Standalone □Cr)	158.8	→ (□342 Cr)	↑ 230%	↑	Met FY23 target of □340 Cr exactly via Q4 settlements.
PAT (Consol. □Cr)	~163	↑ 147% (FY)	↑ 912%	↑	Consol. PAT aided by RFCL turning profitable in Q4.
Order Book (□Cr)	7,694.6	→	→	→	Excluding □1,592 Cr Go-ahead letters; total is □9,079 Cr.
Order Inflows (□Cr)	~2,290 (Q4)	↑ 179% (FY)	↑ 890%	↑	Massive Q4 wins including Guyana (□180 Cr) and Nigeria.
CFO/PAT (%)	~140%	↑	↑	↑	Strong cash flows due to debtor reduction to 39 days.
Net Debt / (Cash) (□ Cr)	(1,000)	↑ Cash	→	↑	Cash-rich; □55 Cr dividend from NRL boosted liquidity.
Execution Rate (%)	~11% (Qtr)	↑	↑	↑	Accelerated execution on Turnkey projects (OBE).
Book-to-bill (x)	2.34x	↓	→	↓	Coverage stands at ~28 months of revenue.

**PPT reports EBITDA only annually (308.4 Cr). Q4 derived from segment profit spikes.*

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	FY Growth	Margin	Trend	vs Co. Avg	Key Development
Consultancy	1,417.9	↓ 8%	27%	→	High	Change orders settled in Q4 pushed margins to 50% (Qtr).
Turnkey	1,865.8	↑ 32%	2.8%	→	Low	Most projects are "Open Book" (OBE), limiting downside risk.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Standalone PAT	₹340 Cr for FY23	**Delivered.** Actual ₹342.2 Cr.	Met	Low
Guidance	Order Inflow	₹4,000 - ₹5,000 Cr	**Delivered.** Actual ₹4,708 Cr (₹6,300 Cr incl. go-aheads).	Met	Low
Guidance	RFCL Profitability	Profitable in FY23	**Delivered.** Small profit of ₹8 Cr full-year.	Met	Low
Strategy	International	50% Consultancy Inflow	**Delivered.** Strong wins in Guyana, Nigeria, and ADNOC.	Met	Medium
Strategy	New Energy	10% of overall business	**On-track.** Secured Green H2 and Bio-refinery (Assam).	New	Low
Balance	Cash Collection	Lower DSO	**Delivered.** 39 days is 10-year low.	Met	Low
Capital	Allocation	60% Payout / Dividend	**Delivered.** Current payout ~49% of PAT.	Reliable	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	V. Subramanian, LogicTree	Growth	Outlook	"Growth in top line over the next 5 years from oil and gas and new areas?"	Management noted that refineries are pivoting to petrochemicals and crude-to-chemical complexes, while international markets (Africa/Middle East) are now 50% of consultancy inflow. This suggests high-margin consultancy will lead revenue growth in FY24-25.	None	4.0	Directional
2	5.0	Ashwani Sharma, ICICI Sec	Backlog	Financials	"The change order from HRRL... current status in backlog?"	Management clarified the □2,944 Cr change order for Rajasthan Refinery was accepted in Q4 and is fully reflected in the □7,695 Cr order book. This provides clear revenue visibility for the Turnkey segment for the next 24 months.	None	5.0	Quantified
3	4.5	Dikshit Doshi, Whitestone	One-offs	Financials	"INR78 crores write-back in other expenses?"	Management explained this was a settlement for a major completed order where provisions for contractual obligations were no longer	None	4.5	Specific

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						needed. This one-off settlement significantly boosted Q4 consultancy margins to 50%, but core margins remain 27%.			
4	5.0	Charanjit Singh, DSP MF	Outlook	Outlook	"Which would be the large projects in petchem/ refinery targeting?"	Management identified BORL (refinery expansion/ petchem) and specialty chemical projects for private players as key FY24 targets. Securing these would sustain the □4,000-5,000 Cr inflow momentum.	None	4.0	Specific
5	4.0	Jonas Bhutta, Birla MF	Upstream	Business	"Any updates on Upstream sector jobs?"	Management is focusing on processing and pipeline facilities for ONGC rather than pure exploration, while targeting FEED assignments internationally. This limits upstream risk while capturing the engineering spend.	None	3.5	Plausible
6	4.5	Himanshu, O3 PMS	Strategy	Strategy	"What are the areas where we don't want to focus on?"	Management explicitly stated they avoid low-value, high-competition segments like	None	5.0	Strategic

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						solar or general construction where they can't leverage technical niche. This focus on "technology intensive" projects protects the 27% consultancy margin moat.			
7	4.0	Mohit Kumar, ICICI Sec	Delays	Business	"Progress in Kaveri Basin and Panipat P25?"	Management admitted Kaveri Basin has political delays but P25 is moving at a fast pace for revenue recognition. The Panipat execution remains a critical driver for FY24 turnover.	None	3.5	Partial
8	5.0	Saket Kapoor	RFCL	Financials	"Likelihood from Ramagundam Fertilizer going ahead?"	Management confirmed RFCL is now at 100% capacity, turned profitable in FY23 (□8 Cr), and expects "good profit" in FY24. This removes a significant consolidated earnings overhang from the prior three quarters.	None	4.5	Verified
9	4.0	Raj Rishi, Investor	Competition	Management	"What's the edge which EIL has vs	Management cited their India-based	None	4.0	Clear

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					international competition?"	cost structure combined with high-end engineering quality as the reason for beating international firms in Nigeria and Guyana. This competitive edge supports the geographical diversification thesis.			
10	4.5	Milind Karmarkar	Margins	Financials	"What are we doing to improve efficiency in turnkey projects?"	Management clarified these are "Open Book Estimate" (OBE) projects, not fixed-price LSTK, so risk is shared and margins are a steady 2.5-3% with no downside. This reduces the "risk of loss" profile of the order book.	None	4.5	Clear

PATTERN FLAGS & SENTIMENT * **The "Q4 Miracle" Theme:** Analysts were persistent in asking about the massive Q4 margin jump. Management was confident that the settlement of "Change Orders" is a standard business cycle for them, resolving the skepticism regarding the 9M profit shortfall. * **RFCL Stability:** The sentiment shifted from "worry" to "relief" as management confirmed 100% capacity and a full-year profit. This was the most critical resolution for the consolidated thesis. * **International Pivot:** Management was more defensive on domestic competition but very bullish on international markets. This posture suggests they view overseas projects as the primary vehicle for high-margin growth.

Analyst Sentiment Verdict: Analysts were **satisfied but cautious.** The delivery of the PAT target and RFCL turnaround restored significant credibility. However, the reliance on lumpy Q4 settlements remains a point of friction for models.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | **Order Book Mix** | Balancing 50-50 | Turnkey at 57% of revenue | Higher Turnkey execution is diluting consolidated margins slightly more than anticipated. | Low | |

Kaveri Basin | Part of growth driver | Facing political issues | Acknowledged delays in a major project, though offset by other refinery expansions. | Low |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY23)	This Quarter (Q4 FY23)	Direction
RFCL Status	Loss-making (34.6 Cr loss share)	Profitable (Stabilized at 100% capacity)	↑
Standalone PAT	48.0 Cr (Quarterly)	158.8 Cr (Quarterly)	↑
Order Inflow	230 Cr (Quarterly)	~2,290 Cr (Quarterly)	↑
Working Capital	47 Days DSO	39 Days DSO (10-year low)	↑
Consultancy Margin	20%	50% (Q4) / 27% (FY)	↑
International Footprint	Bangladesh/Middle East focus	Added South America (Guyana) & major Nigeria Urea project	↑
Dividend Income	Standard	55 Cr received from NRL investment	↑
Thesis Status	Under pressure (miss risk)	Reaffirmed (Guidance met)	↑

Senior Analyst Notes: This quarter significantly de-risks EIL. The stabilization of RFCL and the record debtor reduction address the two biggest bear-case arguments (JV losses and working capital bloat). While the lumpy nature of "Change Orders" remains a structural characteristic, the pivot to international EPCM (Nigeria/Guyana) is a high-quality diversification. The thesis is now a "Stabilized Yield + Energy Transition Growth" play. Forward monitoring of the 61,000 Cr petchem complex (BORL/CPCL) is mandatory as it defines the next 3 years of order inflows.