# Engineers India Ltd — Nov 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 long-term thesis remains intact as a high-yield, debt-free engineering proxy for India's energy transition, with the current quarter showing a significant acceleration in order inflows (□2,409 Cr) despite stagnant "core" revenue and one-off margin distortions.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance / Prior Quarter | PAT Beat / Rev Inline | H1 PAT up 59% YoY (□216 Cr) despite flat revenue (□1,586 Cr). | □ |
| Earnings Quality | Low (Accounting driven) | Profit boost includes a □45 Cr Liquidity Damage (LD) settlement. | □ |
| Guidance Confidence | Strong | Management targets 10% Revenue/PAT growth; H1 progress is on track. | □ |
| Management Credibility | Strong | Successfully navigating the transition to "New Energy" (NTPC MOA). | □ |
| Business Quality Signal | Improving | Order Inflow run-rate has doubled vs Q1; Consultancy mix remains high (59%). | □ |
| Key Q&A Exchange | Q# 1 (LD Adjustment) | Mgmt clarified Turnkey margin would be 1.3% (vs 12% reported) sans LD reversal. | □ |
| The Street's Primary Anxiety | Stagnant Revenue | Concerns over 3-year flat turnover; Mgmt expects 10% breakout in FY24. | □ |
| Capital Cycle Stage | Harvesting / Reinvesting | Harvesting RFCL dividends; Reinvesting in NRL expansion (□1,380 Cr equity). | □ |
| Margin / Return Ratio Trajectory | Distorted (One-off) | Reported Turnkey margins of 12% are unsustainable; normalized is 2-3%. | □ |
| Pricing Power | Stable | Retains PSU monopoly in complex refinery PMC/EPCM. | □ |
| FCF Conversion & Quality | Strong | High cash balance; LD settlement is cash-neutral but improves H1 EPS. | □ |
| Competitive Moat Signals | Widening | Strategic alliances in Solar CSP and Biofuels (Sunrise Australia). | □ |
| Balance Sheet Strength | Strong | Debt-free with significant other income (□139 Cr in H1). | □ |
| Working Capital Efficiency | Improving | Settlement of long-standing change orders/LDs improves balance sheet hygiene. | □ |
| Mgmt Guidance Track Record | Reliable | Consistent delivery on segment margin targets (25%+ Consultancy). | □ |
| Key Vulnerability / Red Flag | Technology Ownership | EIL does not own core Decarbonization tech; relies on "Strategic Alliances." | □ |
| Management Tone | Confident | Bullish on international expansion (Nigeria/Algeria) and Energy transition. | □ |

**Sentiment: □Positive**

**Key Takeaways (Positives & Negatives):** * **Positives: Order Inflow Momentum:** EIL secured ₹2,409 Cr in Q2 alone (H1 Total: ₹3,674 Cr), reaching ~78% of the full-year FY23 total in just six months. **Strategic Diversification:** The MOA with NTPC for green initiatives and entry into niche segments like Data Centers and International Horticulture provides a hedge against the cyclicality of Oil & Gas. **Financial Fortress:** A debt-free balance sheet with ₹139 Cr in Other Income provides significant downside protection and supports a high dividend payout ratio. * **Negatives: Low-Quality Beat:** The H1 profit surge was heavily aided by a ₹45 Cr Liquidity Damage (LD) settlement/change order; stripping this out reveals a weak 1.3% margin in the Turnkey segment. **Revenue Stagnation:** Total Standalone Revenue for H1 is essentially flat YoY at ₹1,586 Cr, highlighting the challenge of moving past the ₹3,200 Cr annual revenue ceiling. * **Street Concern:** Analysts are frustrated with the multi-year revenue plateau. Management's response suggests that the current order book and upcoming mega-projects (IOCL/ONGC/Petronet) will drive a 10% breakout this fiscal. * **Watchpoint:** Monitoring the conversion of the ₹40,000–50,000 Cr project pipeline (Project Cost) into EIL Consultancy fees (typically 2-3%) over the next 12 months.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary and context.

| Metric | Current Qtr (Q2FY24) | YoY Change (H1 vs H1) | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Total Income (₹ Cr) | 851* | ↑ 9.5% | ↓ 5.5% | → | H1 Total Income: ₹1,725 Cr (incl Other Income). Flat standalone revenue. |
| Revenue (Standalone) | 777 | → (0.0%) | ↓ 3.8% | → | Volume-driven stagnation; pricing in consultancy remains firm. |
| EBITDA (₹Cr) | 102* | ↑ 110% | ↓ 14.3% | ↑ | Normalized for LD adjustment, EBITDA growth is more modest. |
| EBITDA Margin % | 13.1%* | ↑ 680 bps | ↓ 160 bps | ↑ | Jump due to lower doubtful debt provisions vs the prior year period. |
| PAT (Standalone) | 102* | ↑ 59% | ↓ 10.5% | ↑ | H1 PAT: ₹216 Cr vs ₹136 Cr. Driven by Other Income + LD settlement. |
| ROCE (%) | Not Stated | N/A | N/A | → | Traditionally high due to asset-light consultancy model. |
| Cash Flow (OCF) | Not Stated | N/A | N/A | → | H1 cash balance remains robust (est. ₹1,200 Cr+). |
| Net Debt / (Cash) | (Cash) | → | → | → | Debt-free status maintained. |
| Order Book (₹Cr) | 8,188 | ↓ 3% | ↑ 1.1% | → | Consultancy: ₹4,853 Cr (59%) / Turnkey: ₹3,335 Cr (41%). |
| Order Inflow (₹ Cr) | 2,409 | ↑ 340%* | ↑ 90% | ↑ | Massive acceleration in Q2 (₹2,409 Cr) vs Q1 (₹1,265 Cr). |
| Execution Rate (%) | 9.5% | → | → | → | Calculated on opening order book for the quarter. |
| Book-to-bill (x) | 2.58x | → | ↑ | ↑ | Improved visibility due to strong Q2 inflows. |

**Estimated based on H1 Standalone figures ( 1,586 Cr) minus Q1 Standalone ( 808 Cr). EBITDA/PAT for Q2 derived similarly.*

### 2B. SEGMENT BREAKDOWN

| Segment | Revenue (₹ Cr) | YoY Growth (H1) | Margin | Trend | vs Co Avg | Key Development |
|---|---|---|---|---|---|---|
| Consultancy | 361 | ↓ 1.4% | 25-27% | → | Higher | Margins remain intact; timing of change orders impacts Qtr results. |
| Turnkey | 416 | ↑ 1.7% | 12% (3% adj) | ↓ | Dilutive | Reported 12% margin due to ₹45 Cr LD reversal; base is 1.3%. |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | Revenue | 10% Growth (FY24) | Needs ~₹2,025 Cr in H2. **Highly Feasible** given order book. | FY23 was flat (0.3% growth). | Low |
| Guidance | Margins | 25-28% (Consultancy) | Current H1 is at ~26%. **Feasible.** | Consistently delivered 25%+. | Low |
| Guidance | Order Inflow | ₹4,700 Cr+ (FY24) | Needs only ₹1,026 Cr in H2. **Likely Beat.** | Delivered ₹4,707 Cr in FY23. | Low |
| Strategy | Capital Allocation | 60% Payout / NRL Equity | ₹1,380 Cr equity for NRL over expansion period. **Feasible.** | Historically high dividend payer. | Low |
| Strategy | New Energy | 10% Rev from Green/Bio | Current "New Age" projects scaling (Nigeria/NTPC). | H1 traction is high. | Medium |
| Macro | Industry Headwinds | PSU Capex Timing | Dependent on OMC board approvals (IOCL/ONGC). | Cyclical delays are common. | High |

## 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 | Amit Anwani, PL | LD Adjustments | Financials | "After adjusting the liquidity damage settlement, what would have been our margins for this quarter?" | Management confirmed a □45 Cr adjustment to price and profit; this implies the Turnkey segment's core margin was a razor-thin 1.3%. This reveals that high reported margins are currently dependent on one-time accounting reversals rather than operational efficiency. | None | 5.0 | Clear and quantified |
| 2 | 4.0 | Kunal Seth, B&K | Overseas Focus | Business Overview | "If you can just talk about any initiatives outside India in the international markets...?" | Management highlighted re-entry into Algeria and strengthening presence in Nigeria, Guyana, and South America to achieve a domestic-to-overseas ratio closer to 1:1. Success here would de-risk EIL from the domestic PSU capex cycle and potentially improve consultancy realizations. | Specific timelines for 50:50 ratio. | 3.5 | Directional |
| 3 | 3.5 | | Decarbonization | Business Overview | "Where do you see the most | Management is targeting non-ferrous | | 3.0 | Consistent |

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|---|---|---|---|---|---|---|---|---|---|
| | | Kunal Seth, B&K | | | opportunity outside oil and gas... and your role in Green Hydrogen?" | metallurgy (smelters), biofuels, and green hydrogen, having recently signed an MOA with NTPC for all green initiatives. These "niche" segments are high-margin but currently suffer from low technology ownership, requiring partnerships like the one with Sunrise CSP. | Exact financial contribution. | | |
| 4 | 4.5 | Sunil Kothari, Unique | Growth Trajectory | Management Outlook | "Our revenue is almost in a range and profitability is also not improving. Where are the opportunities to change our trajectory?" | Management predicted a 10% increase in turnover and PAT for the current year, supported by a "handsome order book" and a pipeline of projects nearing maturity. Investors should watch for the "breakout" in H2 revenues to validate this 10% growth thesis. | None | 4.0 | Directional |
| 5 | 3.5 | | Coal Gasification | Business Overview | "Are you seeing some | Management noted they | | 3.0 | Vague but honest |

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|---|---|---|---|---|---|---|---|---|---|
| | | Mohit Kumar, ICICI | | | traction in those projects (Coal India/ NLC)?" | are engaged with NLC on Lignite-to-Methanol/ Diesel, but Coal India projects are stuck in the "feasibility stage" due to limited global technology providers (mostly Chinese). This suggests the multi-trillion coal gasification theme is a long-term play with significant geopolitical/ tech hurdles in the short term. | Specific tender dates. | | |
| 6 | 4.0 | Bhoomika Nair, DAM | International Scale | Business Overview | "How large are the order sizes... is it G2G or competitive?" | Management clarified that international work is mostly competitive private bidding (Dangote, Nigeria LNG, etc.) with order sizes ranging from ₹180 Cr (Guyana) to ₹480 Cr (Nigeria). These are sizable for the Consultancy segment and suggest EIL's brand is | None | 5.0 | Specific |

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|---|---|---|---|---|---|---|---|---|---|
| | | | | | | strong enough to win without government-backed "nomination" routes. | | | |
| 7 | 3.0 | P. Jha, Investor | NRL Investment | Capex and Allocation | "What is our expectation in terms of returns on our investment in Numaligarh Refinery?" | Management confirmed receiving ₹54 Cr in dividends last year on a ₹700 Cr investment (~7.7% yield) and will contribute ₹1,380 Cr more for expansion. This investment acts as a "synthetic hedge" for EIL, providing both consultancy revenue and high-yield dividend income. | None | 5.0 | Specific |

## PATTERN FLAGS & SENTIMENT

- **The "Plateau" Anxiety:** Multiple analysts (Sunil Kothari, Shirom Kapur) hammered management on why revenues have been flat for 3-5 years. Management was defensive but firm, pointing to the ₹8,188 Cr order book and the 10% growth target as the "breakout" point. The concern remains live as H1 revenue was exactly flat YoY; the market is waiting for the H2 execution spike.
- **The Accounting "Noise":** The ₹45 Cr LD adjustment was a recurring theme. While management successfully explained it as a "common phenomenon" of change orders in construction, it created skepticism regarding the underlying profitability of the Turnkey segment.
- **Analyst Sentiment Verdict:** Analysts were **cautiously optimistic**. While they appreciate the dividend yield and debt-free status, there is a clear "show me the growth" sentiment. Management's credibility remains high due to their technical depth, but the "Adani project on hold" (from Q1) and the stagnant H1 revenue keep a lid on a major re-rating.

## GUIDANCE GAPS REVEALED IN Q&A

| Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis |
|---|---|---|---|---|
| Turnkey Margins | Guidance is 3%. | Q2 Margin was 12%. | 12% is an anomaly; adjusted margin is 1.3%. | Earnings volatility; low-quality beat. |
| Revenue Growth | Targeting 10% growth. | H1 Revenue is 0% growth. | H2 must deliver 100% of the growth; massive execution load. | High risk of a revenue miss if PSU projects delay. |

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed | Prior Quarter (Q1FY24) | This Quarter (Q2FY24) | Direction |
|---|---|---|---|
| **Order Inflow Run-rate** | □1,265 Cr (Slow) | □2,409 Cr (Aggressive) | ↑ Improving |
| **Turnkey Profitability** | Normal (2-3%) | Distorted (12%) | ↓ Deteriorating Quality |
| **Revenue Growth** | 0.3% YoY | 0.0% YoY (H1) | → Stable (Stagnant) |
| **New Energy Strategy** | Early Pilot Phase | Formal MOA with NTPC | ↑ Improving Moat |
| **International Footprint** | Nigeria/Guyana focus | Re-entry into Algeria | ↑ Improving |
| **Management Tone** | Cautiously Technical | Confident on 10% Growth | ↑ Improving Confidence |

STOP HERE.