

Strong growth available at attractive valuations...

About the stock: Engineers India (EIL), established in 1965, is an Indian public sector Navratna company, primarily present into engineering consultancy and turnkey segments. In engineering consultancy, company's core focus area currently is oil & gas sector which mainly includes refinery and petrochemicals. In turnkey segment, company takes EPC (Engineering, Procurement & Construction) contracts. The company also secures consultancy orders from international markets such as Middle East, Africa, South Asia & Central Asia

- In FY23, company's consolidated revenue stood at ₹ 3,330 crore (+14.3% YoY) with net profit of ₹ 346 crore (+148% YoY). Engineering consultancy contributed ~43% to total revenues in FY23 while turnkey segment contributed ~57%

Investment Rationale:

- Healthy order book provides strong revenue visibility:** EIL's current order backlog stood at ~₹ 8,102 crore as of Q1FY24 end (~3x FY23 revenues) already provides strong revenue visibility. The total order inflows at ~₹ 4,707 crore in FY23 and ₹ 1,265 crore was mainly driven by oil & gas segment with balance from chemicals, fertilizers, metals, power and infra. Oil & gas segment, where the company has solid track record of executing many projects, continues to be the core focus area and expected to drive order inflows in medium-term led by strong traction visible through tenders floated in refinery, petrochemical segments. Company expects FY24E order inflows of at-least FY23 numbers with high possibility of exceeding that level and Q1FY24 inflows reiterates the confidence in terms of securing orders for FY24E.
- Higher Share of consultancy segment augurs well for margins and profitability:** Consultancy segment, which contributes ~43% to total revenues and has much better EBIT margins (~27% vs. ~3% in turnkey segment), expected to witness significant recovery led by execution of existing contracts and healthy orders pipeline in domestic & international markets. Given strong order inflows in consultancy segment in FY23 and 61% of order backlog coming from this higher margin segment, we expect margins of the company to improve from 9.3% in FY23 to 11.7% in FY25E. Increase execution and improvement in margins will lead to PAT CAGR of 23% over FY23-FY25E. Apart from the existing core areas, company is looking for newer growth segments like green hydrogen, ammonia, bio-fuels, coal gasification, defence etc in margin-accretive consultancy segment. These new segments provide huge orders opportunity for EIL over the next 3-5 years. Moreover, focus is also on gaining orders from international markets (which contribute ~50% to the total consultancy orders).

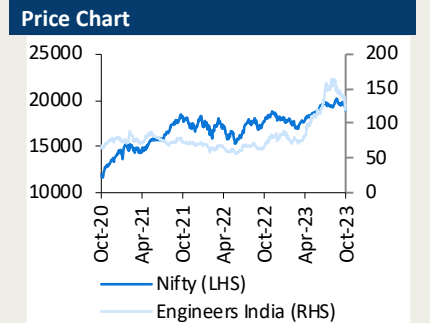
Rating and Target Price

- With strong order inflows in FY23-Q1FY24, better segment mix, focus on new export markets we believe company's financial performance to improve significantly over FY23-25E as compared to FY20-23. Revenue and PAT are expected to register 15.5% and 23.1% CAGR over FY23-FY25E, respectively.
- Valuation at 13.6x P/E on FY25E looks attractive considering the multiple tailwinds. We assign **BUY** rating and value EIL at ₹ 160 i.e., **17x P/E on FY25E EPS of ₹ 9.3**



Particulars	Amount
Market Capitalization	₹ 7118 crore
Total Debt (FY23)	₹ 0 crore
Cash and Inv. (FY23)	₹ 1096 crore
EV (FY21)	₹ 6022 crore
52 week H/L (₹)	167 / 68
Equity capital (FY23)	₹ 281 crore
Face value	₹ 5

Shareholding pattern				
(in %)	Dec-22	Mar-23	Jun-23	Sep-23
Promote	51.3	51.3	51.3	51.3
FII	7.8	7.9	7.9	7.9
DII	14.1	15.8	18.5	17.2
Others	26.8	25.0	22.3	23.6



- ### Key risks
- Key Risks:** (i) dependence on govt orders (ii) slowdown in capex (iii) delays in execution

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenue	3,237	3,144	2,913	3,330	1.0	3,846	4,446	15.5
EBITDA	453	350	344	308	(12.0)	398	520	29.9
EBITDA Margin (%)	14.0	11.1	11.8	9.3		10.4	11.7	
Net Profit	424	249	140	346	(6.5)	414	525	23.1
EPS (₹)	7.5	4.4	2.5	6.2		7.4	9.3	
P/E (x)	16.8	19.7	51.2	20.6		17.3	13.6	
EV/EBITDA (x)	8.6	15.3	15.9	18.6		12.6	8.4	
RoCE (%)	20.5	22.8	22.2	23.8		21.5	22.9	
RoE (%)	17.6	20.7	7.9	17.7		18.7	20.4	

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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