

Engineers India Limited

January 03, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	1,774.00	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total Facilities	1,774.00 (₹ One Thousand Seven Hundred Seventy-Four Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Engineers India Limited (EIL) continue to derive strength from the majority ownership of the Government of India (GoI), long track record of operations reflected by more than five decades of experience in consultancy and engineering (C&E), experienced and professionally qualified management and dominant position of the company in the field of C&E services in the oil & gas segment with proven designing and engineering expertise. The ratings continue to take into account EIL's satisfactory orderbook position despite slight moderation, low counterparty risk due to its reputed clientele both domestic and overseas. The ratings also factor in the satisfactory financial performance during FY22 (refers to the period April 01 to March 31) & H1FY23, robust financial position, strong financial flexibility and comfortable liquidity position characterized by a healthy cash and bank balance.

The company has made investment in Ramagundam Fertilizers and Chemicals Limited (RFCL) and Numaligarh Refinery Limited (NRL) through liquid funds and any further increase in investments resulting in any significant depletion of cash reserves would be important.

The future growth prospects of the company are linked to capital expenditure plans in the oil & gas segment and revenue profile might get impacted in a scenario of lower-than-planned growth of the said segment. Hence, the ability to diversify the order book would be important.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Material reduction in sovereign ownership and/or control
- Significant decline in order book thus adversely impacting the revenue visibility
- Significant depletion of cash reserve of the company

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of the GoI:

EIL is a Central Public Sector Enterprise (CPSE) with majority ownership (51.32% shareholding as on September 30, 2022) of GoI operating under the administrative control of Ministry of Petroleum and Natural Gas (MoPNG). The company enjoys 'Navratna' status; a status aimed at facilitating expansion of CPSE's operations in the domestic as well as global markets. The development of infrastructure asset in the field of oil & gas and petrochemicals is of national importance and hence, EIL as an engineering partner has an important functional role. The company's board has representations from the GoI as Nominee Directors. The appointment of directors, both executive and non-executive are made by GoI.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Experienced and professionally qualified management:

EIL has a strong management team and has a workforce of about 2,700 experienced professionals and technical personnel. The senior management (which includes the functional Directors) have more than three decades of vast experience in the various fields like projects, process design, technology, marketing, finance, legal and HR. The affairs of the company are looked after by Vartika Shukla, Chairperson & Managing Director.

Dominant position in the field of C&E services with proven designing and engineering expertise:

EIL has more than five decades of experience in C&E services across various sectors especially in hydrocarbon space with significant track record across the entire oil and gas value chain. The company has an R&D centre at Gurgaon and has developed more than 40 process technologies for the oil and gas processing, refineries and petrochemical industries. EIL currently holds 33 live patents for such process technologies and patents for another 35 technologies are awaited (till March 31, 2022). More than five decades on landmark projects and a technical staff of around 2,700 employees gives the company an edge in the hydrocarbon space; as evidenced that 20 out of 23 petroleum refineries in India have EIL footprints and furthermore, EIL had installed 10 out of the 11 mega petrochemical complexes in India and engineered 10 grass root refineries. Over the years, the company has strategically diversified its operations in strategic crude oil storage, waste and wastewater management segment, fertilizer, non-ferrous metallurgy, ports, nuclear and LNG segment and underground caverns for storages.

Satisfactory orderbook position:

EIL had an outstanding order book of ₹8,431 crore as on September 30, 2022 (₹8,029 crore as on September 30, 2021) which at gross billing level for FY22 provides revenue visibility for the next three years. The order book position has witnessed moderation over the past 3-4 years majorly due to reduction in orders from the turnkey project segment. However, the order inflow in C&E segment has steadied to around ₹1,600 crore on an annual basis in the last three years. As on November 09, 2022, EIL order inflow stood at ₹886 crore for the current fiscal with major orders from the high-margin C&E segment. The orders are mostly from oil majors with Hindustan Petroleum Corporation Limited (HPCL) and associates accounting for 51% of the outstanding order book as on September 30, 2022.

Low counterparty risk due to its reputed clientele:

Several decades of operating in the C&E space and its parentage provides EIL with substantial technical credentials, which makes it better placed for qualifying for future bids of domestic oil & gas PSUs and their joint ventures (JVs). These beneficiaries have sound financial risk profile and hence, have a comfortable and more predictable payment pattern, which leads to acceptable level of receivables for EIL. Apart from significant presence across India, EIL has leveraged its strong track record in the Indian hydrocarbon sector to successfully expand its international operations to provide C&E services. Its overseas order book accounted for 9% of outstanding order book as on September 30, 2022.

Satisfactory financial performance during FY22:

The financials performance of EIL have been satisfactory despite moderated revenue and PBILDT margin. The performance continued to remain satisfactory during H1FY23 with revenue growth of about 15% y-o-y. While the PBILDT margin has declined, the same is expected to normalize for the entire fiscal with revenue booking from change in scope of project and contribution from higher-margin C&E services. On an overall basis, the company earned upwards of 24% margin from the C&E segment which is likely to normalize at levels of around 18-20%.

Robust financial position:

EIL has a sound financial position with robust capital structure backed by significant networth build-up over the years and negligible debt level. EIL does not have external debt in the books except lease liabilities and mobilization advances. The total outside liabilities to networth (TOL/TNW) is also comfortable and has improved from 1.06x as on March 31, 2021 to 0.88x as on March 31, 2022.

Liquidity: Strong

The liquidity position of EIL continues to be strong as reflected by its healthy cash and bank balances, short operating cycle and nil external debt. EIL had an average operating cycle of 46 days in FY22 vis-à-vis 58 days in FY21. The company receives payments for work done in an average of 3-3.5 months and the entire working capital requirement is funded through accruals and liquid funds available. EIL had free cash and bank balance of ₹1,097 crore as on September 30, 2022 (₹1,297 crore as on March 31, 2022). Apart from the cash balance, the company has investments in mutual funds amounting ₹36 crore as on September 30, 2022 (₹85 crore as on March 31, 2022).

Favourable industry growth prospects:

India is the second-largest refiner in Asia after China with refining capacity of 248.9 MMTPA as on November 30, 2022 and is emerging as a refinery hub. The hydrocarbon sector of the country has been energized with announcements of new mega projects and capex plans from major oil marketing companies. The Ministry of Petroleum and Natural Gas has announced increase in the exploration area for oil and natural gas to approximately 310,000 square miles by 2025 and to 620,000 square miles by 2030 which is expected to provide significant growth opportunities for engineering players like EIL. Also, there is an increasing interest in establishing the green hydrogen projects with National Green Hydrogen Energy Mission announcement, wherein EIL already has a presence. There also exists demand-supply mismatch in refinery pipelines thereby resulting in need for expansion of India's pipeline network.

Currently, India's per capita energy consumption is lower than the world average and India's energy demand as a percentage of global energy demand is expected to rise from 6% in 2017 to 11% in 2040, thereby providing significant growth potential in the Indian energy sector. With such potential, the oil & gas industry will play a critical role in fuelling the energy demand for the growing economy and will account for more than 35% of India's primary energy consumption till 2030 which will provide robust growth opportunities for EIL, given its large presence in the segment.

Key rating weaknesses**Concentrated order book:**

EIL, under the administrative control of MoPNG majorly undertakes engineering work for the oil and gas segment and hence, the order book is concentrated with 94% of the total orders in the said segment. The order book is concentrated with the top five orders accounting for 65% of the order book as on September 30, 2022. Out of the same, one order contributes 36% of EIL's total order book, which exposes the company to client concentration risk.

Increased exposure by way of investments:

Over the years, EIL has made investments in few companies from its existing cash and bank balances. EIL has investments in Ramagundam Fertilizers and Chemicals Limited (RFCL) and had made addition investment of Rs.43.83 crore during FY22 proportionate to its share in JV and its stake in RFCL stands at 26.76% as on March 31, 2022. With RFCL becoming operational, no further investment/equity support from EIL is envisaged in RFCL. This apart, EIL also acquired minority stake of 4.37% in Numaligarh Refinery Limited (NRL) for a consideration of Rs.700 crore in FY21 (funded entirely through existing cash balance) and EIL received dividend income of about Rs.35 crore during Q2FY23 from NRL. All put together, the total investment in associates stood at Rs.1,237 crore as on March 31, 2022. Any increased investment funding impacting the cash position would be a key monitorable.

Analytical approach: Standalone financials along with factoring the strong parentage of the company with GoI Ownership

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Policy on default recognition](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

[Factoring Linkages Government Support](#)

[Short Term Instruments](#)

[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)

About the company

EIL, incorporated on March 15, 1965, is a CPSU with majority ownership of the GoI operating under the administrative control of MoPNG. EIL provides consultancy and engineering services and undertakes turnkey contracts, which includes complete range of project services right from project conceptualization, planning, design, engineering, procurement, construction and commissioning as per client's requirement and specifications and providing post-execution services for maintenance and monitoring the operation of plant in various industries including petroleum refining, petrochemicals, pipelines, oil & gas, terminals & storages, mining & metallurgy and infrastructure. Over the years, EIL has also extended consultancy and engineering services to sectors like water and waste management, city gas distribution, power - thermal, solar, nuclear, gas-based fertilizer projects, coal-to-liquid (CTL) and steel.

Brief Financials:

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (Prov.)
Total operating income	3,105	2,876	1,587
PBILDT	341	345	103
PAT	259	344	136
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	93.31	130.83	173.50

A: Audited, Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ST-BG/LC	-	-	-	-	100.00	CARE AAA; Stable/CARE A1+
Non-fund-based - LT/ST-BG/LC	-	-	-	-	1674.00	CARE AAA; Stable/CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ST-BG/LC	LT/ST*	100.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (14-Dec-21) 2)CARE AAA; Stable / CARE A1+ (06-Apr-21)	1)CARE AAA; Stable / CARE A1+ (08-Sep-20)	1)CARE AAA; Stable / CARE A1+ (03-Oct-19)
2	Non-fund-based - LT/ST-BG/LC	LT/ST*	1674.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (14-Dec-21) 2)CARE AAA; Stable / CARE A1+ (06-Apr-21)	1)CARE AAA; Stable / CARE A1+ (08-Sep-20)	1)CARE AAA; Stable / CARE A1+ (03-Oct-19)

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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