

Engineers India Limited

December 14, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	1,774.00 (Enhanced from 1,574.00)	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	1,774.00 (Rs. One Thousand Seven Hundred Seventy-Four Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of EIL continues to derive strength from the majority ownership of the Government of India (GOI), its long track record of operations reflected by more than five decades of experience in consultancy and engineering (C&E) across various sectors and experienced and professionally qualified management along with the dominant position of the company in the field of C&E services in the oil & gas segment with proven designing and engineering expertise. The rating continues to take into account EIL's robust financial position, strong financial flexibility and comfortable liquidity position characterized by a healthy cash and bank balance despite the cash outflow on account of share buy-back undertaken and investments made in Numaligarh Refinery Limited (NRL). The rating takes into cognizance the moderate order book position providing healthy revenue visibility, low counterparty risk due to its reputed clientele – domestic and overseas with the persistence of sector and client concentration risk. The future growth prospects of the company are linked to capex undertaken in the oil & gas segment and revenue profile might get impacted in a scenario of lower-than-planned growth of the said segment. Hence 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 with majority ownership (51.32% holding as on September 30, 2021) of the Government of India (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 Central Public Sector Enterprises' (CPSE's) operations in the domestic as well as global markets. The development of infrastructure asset in the field of Oil & Gas, petrochemical is of national importance and hence EIL as 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.

Experienced and professionally qualified management

EIL has a strong management team and has a workforce of about 2,800 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 Ms. 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 entire oil and gas value chain. The company has an R&D centre at Gurgaon and has developed more than 35 process technologies for the oil and gas processing, refineries and petrochemical industries. EIL currently holds 36 live patents for such process technologies and patents for another 31 technologies are awaited (till March 31, 2021). More than five decades on landmark projects and a technical staff of around 2,814 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 further, 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 waste water management segment, fertilizer, non-ferrous metallurgy, ports, nuclear and LNG segment and underground caverns for storages.

Moderation in order book, although continues at satisfactory level

EIL had outstanding order book of Rs.8,029 crore as on September 30, 2021 which at gross billing level for FY21 provides revenue visibility for the next 2.5 years. The order book position has witnessed moderation over the past 3-4 years majorly due

¹Complete definition of the ratings assigned are available at <http://www.careedge.in> and other CARE publications

to reduction in orders from the turnkey project segment. Order inflow in C&E segment has steadied to around Rs.1,600 crore on an annual basis in the last three years. During H1FY22, EIL order inflow stood at Rs.1,450 crore (Rs.1,569 crore in FY21). In terms of composition, the high-margin C&E segment accounted for the majority of orders book by value which has bottomed out in FY20 and increased to 66% as on September 30, 2021. The orders are mostly from Oil majors with HPCL and associates accounting for 57% of the order book as on March 31, 2021.

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 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 13% of total order book as on March 31, 2021.

Moderation in profit level during FY21 with improvement in H1FY22

EIL reported satisfactory financial performance during F2Y1 with marginal reduction in revenue by about 5% (from Rs.3,453 crore in FY20 to Rs.3,291 crore in FY21) due to slowdown in work due to covid impact during Q1FY21. Furthermore, on an overall basis, interest income reduced in FY21 with lower interest rates and reduction in cash balance due to buy back and acquisition of NRL. Revenue reduction coupled with increased revenue booking on turnkey segment resulted in dip in margin from 20.96% in FY20 to 16.03% in FY21. The company had made investments in certain securities through its EIL Employee Provident Fund Trust (employee provident fund arm of EIL) which have defaulted in interest and principal repayments. Against amortised value of probable future principal defaults the company has provided provisions of Rs.155 crore in Q4FY21. As a result, PAT has declined from Rs.430 crore in FY20 to Rs.260 crore in FY21.

The performance remained satisfactory during H1FY22 with revenue growth of 14% on a y-o-y basis. PBILDT marginally remained almost similar with a margin dip from 16.07% in H1FY21 to 15.93% in H1FY22. During H1FY22, the company reported an income and PAT of Rs.1,434 crore and Rs.150 crore as against Rs.1,254 crore and Rs.141 crore in H1FY21.

Robust financial position and comfortable liquidity profile

EIL has a sound financial position with robust capital structure backed by significant network build up over the years and low debt level. During FY21, EIL completed share buy-back of around Rs. 587 crore which resulted in reduction in net worth from Rs.2,344 crore as on March 31, 2020 to Rs.1,699 crore as on March 31, 2021. Nevertheless, the capital structure continued to remain robust. The company does not have debt in the books except mobilization advances resulting in strong leverage position as represented by an overall gearing ratio of 0.08x as on March 31, 2021.

Liquidity: Strong

The liquidity position of EIL remains strong as reflected by its healthy cash and bank balances, short operating working capital cycle and NIL debt outstanding. It has an average operating cycle of 66 days in FY21 as against 57 days in FY20. 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 Rs.1,304 crore as on September 30, 2021 (Rs.1,254 crore as on March 31, 2021). Apart from the cash balance, the company has investments in mutual funds amounting Rs.98 crore as on September 30, 2021 (Rs.207 crore as on March 31, 2021).

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 from projects in the segment. 95% of the orders are from hydrocarbons, petro chemicals and fertilizers segment. The order book is concentrated with the top five orders accounting for 65% of the order book as on March 31, 2021. Out of this, one order accounts for 27% of EIL's total order book, which exposes the company to client concentration risk.

Increased exposure by way of investments

Over the years, the company has made investments in few of the companies from its existing cash and bank balances. EIL has investments in Ramagundam Fertilizers and Chemicals Limited (RFCL) wherein it holds 26% stake and addition funds of Rs. 44 crore was invested in RFCL during H1FY22. With RFCL becoming operational, further investments are not envisaged in RFCL. This apart, EIL has purchased a minority stake of 4.37% in Numaligarh Refinery Limited for a consideration of Rs.700 crore. The transaction was completed in March 2021 and has been entirely funded through existing cash balance. Put together, the total investment in associates stood at Rs.1,148 crore as on Mar.31, 2021. Increased investment funding impacting the cash position would be a key monitorable.

Inherent challenges in the construction and hydrocarbon industry

Majority of the order book of EIL's is from Central government PSUs. (Oil & Gas Majors). As the capex of these PSUs is indirectly driven by the central government policies, the performance of the company is dependent on central government spending. The sector is also directly impacted by economic slowdown and regulatory changes have adversely impacted the financial and liquidity profile of players in the industry.

Analytical approach:

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

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

About the Company

EIL, incorporated on March 15, 1965, is a CPSU with majority ownership of the GoI operating under the administrative control of Ministry of Petroleum and Natural Gas (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 (Rs. crore)	FY20(A)	FY21 (A)	H1FY22 (Provisional)
Total operating income	3,453	3,291	1,434
PBILDT	724	528	228
PAT	430	260	150
Overall gearing (times)	0.06	0.08	NA
Interest coverage (times)	195.22	92.12	465.57

A: Audited

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 Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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	Type	Current Ratings		Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	100.00	CARE AAA; Stable / CARE A1+	1)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)	1)CARE AAA; Stable / CARE A1+ (03-Oct-18)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1674.00	CARE AAA; Stable / CARE A1+	1)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)	1)CARE AAA; Stable / CARE A1+ (03-Oct-18)

* 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 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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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