Engineers India Limited

December 07, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	1,774.00	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and 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 with addition of large turnkey orders in FY23 (refers to the period April 01 to March 31) and low counterparty risk due to its reputed clientele both domestic and overseas. The ratings also factor in the satisfactory financial performance during FY23 and H1FY24, robust financial position, strong financial flexibility and comfortable liquidity position characterized by a healthy cash and bank balance. CARE Ratings Ltd. (CARE Ratings) expect the strong financial profile to continue going forward with no major capital expenditure (capex)/investment planned and favourable industry outlook thereby likely to support the business growth.

EIL has participated in the rights issue of Numaligarh Refinery Limited (NRL) amounting to ₹138 crore which will be invested during FY24-25. EIL has already paid ₹35 crore in Q2FY24 from 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: Factors likely to lead to rating actions

Positive factors: Not Applicable

Negative factors

- 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

Analytical approach: Consolidated as there exists business, financial and management linkage with the subsidiaries. The ratings factor EIL's strategic importance to the GoI and its important role for the Indian oil & gas and petrochemicals sector. The list of companies consolidated is attached as Annexure 6.

Outlook: Stable

The stable outlook reflects expectation of continued dominant market position of the company, satisfactory order book position providing revenue visibility for medium term along with expectation of continued satisfactory profit margins and strong liquidity position.

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

Detailed description of the key rating drivers:

Key strengths

Majority ownership of the GoI: EIL is a Central Public Sector Enterprise (CPSE) with majority ownership (51.32% shareholding as on September 30, 2023) 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.

Experienced and professionally qualified management: EIL has a strong management team and has a workforce of 2,642 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 a research & development (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 34 live patents for such process technologies and patents for another 40 technologies are awaited (till March 31, 2023). More than five decades on landmark projects and a technical staff of 2,642 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, nonferrous metallurgy, ports, nuclear and LNG segment and underground caverns for storages.

Satisfactory orderbook position: EIL had an outstanding order book of ₹8,188 crore as on September 30, 2023 (₹8,431 crore as on September 30, 2022) which at gross billing level for FY23 provides revenue visibility for the two years. EIL added orders worth ₹4,708 crores during FY23 vis-à-vis average order addition of around ₹1600 crore during the period FY20-22. The increase in the order inflow is led by favourable industry outlook with large capex announcements in the hydrocarbon space. Similarly, EIL has also added orders worth ₹2,409 crore during H1FY24 with major orders from the turnkey segment (69% of the total order inflow in H1FY24). The orderbook continue to consist of orders mostly from oil majors with Hindustan Petroleum Corporation Limited (HPCL) and associates accounting for about 33% of the outstanding order book as on September 30, 2023.

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 public sector undertakings (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 C&E overseas orders accounted for 31% of outstanding C&E order book of ₹4,853 as on September 30, 2023.

Satisfactory financial performance during FY23 & H1FY24: EIL at consolidated level witnessed revenue growth of 15% from ₹2,918 crore in FY22 to ₹3,342 crore in FY23 on account of increase in revenue from turnkey segment. The consultancy segment has reported stable revenue in FY23 with 43% contribution to the total revenue. However, given low margins in the turnkey segment, the higher work execution has impacted the consolidated profit before interest lease depreciation and tax

(PBILDT) margin. The PBILDT margin thereby witnessed decline of 226 bps to 10.57% (from 12.82% in FY22); although continues to remain satisfactory. CARE Ratings expects the margins to continue to remain in similar range of FY22-23 going forward.
The performance of EIL continued to remain satisfactory during H1FY24 with similar revenue of ₹1,608 crore as reported in H1FY23. However, the PBILDT level & margin improved significantly by about 65% and 432 bps y-o-y respectively (to ₹176 crore and 10.95%) on account of additional revenue booking of ₹45 crore during Q2FY24 due to settlement with respect to liquidated damages for a project for which the cost was already accounted earlier. Furthermore, EIL has also received income of ₹56 crore in Q1FY24 on account of settlement of past claims in consultancy segment and dividend income of about ₹14 crore which has led to improvement in net profit by about 59% during H1FY24.

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 0.97x as on March 31, 2022 to 0.91x as on March 31, 2023.

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. The company receives payments for work done in an average of 2-3 months and the entire working capital requirement is funded through accruals and liquid funds available. EIL at consolidated level had free cash and bank balance of about ₹1,037 crore as on October 31, 2023 (₹1,125 crore as on March 31, 2023). Apart from the cash balance, the company has investments in mutual funds amounting ₹135 crore as on October 31, 2023 (₹145 crore as on March 31, 2023).

Favourable industry growth prospects: India is the second-largest refiner in Asia after China with refining capacity of 253.91 MMTPA as on October 31, 2023 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 which is expected to provide significant growth opportunities for engineering players like EIL. Also, India has announced a National Hydrogen Energy Mission (NHEM) and as per NHEM, the green hydrogen production capacity will reach at least 5 MMT per annum by 2030. EIL already has presence in green hydrogen segment and has been executing projects for major PSUs in India. With announcement of NHEM, more such projects are expected to come-up in the future.
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 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 continues to be concentrated with 94% of the total orders in the said segment. The order book is concentrated with the top five orders accounting for 48% of the order book as on September 30, 2023 (reduced from 65% of the order book as on September 30, 2022). Out of the same, one order contributes 24% 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 namely, Ramagundam Fertilizers and Chemicals Limited (RFCL) and Numaligarh Refineries Limited (NFL) wherein it holds 26% and 4.80% stake respectively as on March 31, 2023. There is no additional investment in RFCL and NRL during FY23. However, EIL has participated in the rights issue for 1.26 lakh equity shares in NRL to maintain its shareholding in

NRL at a price of ₹110 per share amounting to ₹138 crore. Out of ₹138 crore, EIL has already paid ₹35 crore towards first call of rights issue in Q2FY24 and the balance payment of ₹103 crore is also expected to be made during FY24-25 from the available cash & liquid investment with the company. As on March 31, 2023, EIL had total investment in subsidiary/JVs/associates of ₹1,259 crore and any higher-than-envisaged increase in the investment funding impacting the cash position of the company would be important from credit perspective.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:
EIL primarily operates in oil & gas segments which disrupts the economic resources while its operations are under progress resulting in environmental risk. To reduce the environmental risk, EIL is adopting strategies and developing less carbon intensive technological solutions and plans to achieve a Net Zero carbon emitting corporate by 2035. EIL has also been diversifying its portfolio in the energy efficient areas such as Green Hydrogen and Biofuels.
EIL has also taken several initiatives to create awareness to adopt sustainable practices at work with installation of EV charging infrastructure, solar electric system and water recovery systems from wastewater streams to optimize the water & electricity consumption and support the green power adoption.
The business profile of EIL also has social impact with large labour force involvement and hence, it has associated occupational risk. However, EIL has taken social upliftment programs like construction of classrooms & toilets, distribution of medical equipment to medical institutes, installation of rooftop solar grid for a charitable trust etc. to bringing a positive change in the society.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

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 - Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	2,917.91	3,341.57	1,608.08
PBILDT	374.37	353.30	176.03
PAT	139.52	346.27	217.81
Overall gearing (times)	0.00	0.03	0.03
Interest coverage (times)	138.11	117.45	112.12

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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 for the 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 2023-2024	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	100.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (03-Jan-23)	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)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1674.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (03-Jan-23)	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)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of subsidiaries/JVs consolidated

Name of companies	% of holding as on March 31, 2023
Subsidiaries	
1. Certification Engineers International Ltimited	100.00
Joint Ventures	
1. TEIL Projects Limited (under liquidation)	50.00
2. Ramagundam Fertilizers & Chemicals Limited	26.00
Associates	
1. LLC Bharat Energy Office	20.00
Joint Operations	
1. Oil and Gas Exploration and Production Block No. Cb-Onn-2010/11	23.53
2. Oil and Gas Exploration and Production Block No. Cb-Onn-2010/8	22.22

Note on the complexity levels of the rated instruments: 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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