

## Engineers India Limited

May 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	120.00	CARE AAA; Stable	Assigned
Long-term / Short-term bank facilities	1,774.00	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Engineers India Limited (EIL) continue to derive strength from the majority ownership of the Government of India (GoI) and long track record of operations reflected by more than five decades of experience in consultancy and engineering (C&E). Ratings also derive strength from experienced and professionally qualified management and the company's dominant position in the field of C&E services in the oil and gas segment with proven designing and engineering expertise. Ratings continue to consider EIL's satisfactory orderbook position with addition of large turnkey orders in FY23 (FY refers to April 01 to March 31) and 9MFY24 and low counterparty risk due to its reputed clientele both domestic and overseas. Ratings also factor in the satisfactory financial performance in FY23 and 9MFY24, robust financial position, strong financial flexibility, and comfortable liquidity position characterised by a healthy cash and bank balance. CARE Ratings Limited (CARE Ratings) expects 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 in FY24-25. EIL has already paid ₹35 crore in Q2FY24 from liquid funds and any further increase in investments resulting in significant depletion of cash reserves would be important.

The company's future growth prospects 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.
- Significantly declining order book thus adversely impacting the revenue visibility.
- Significantly depleting cash reserve of the company.

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

### Outlook: Stable

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

### Detailed description of the key rating drivers:

#### Key strengths

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Majority ownership of GoI**

EIL is a Central Public Sector Enterprise (CPSE) with majority ownership (51.32% shareholding as on March 31, 2024) 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 and global markets. The development of infrastructure asset in the field of oil and 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 appointments 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) has more than three decades of vast experience in various fields such as projects, process design, technology, marketing, finance, legal, and HR. The company's affairs are looked after by Vartika Shukla, Chairperson & Managing Director.

**Dominant position in 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. EIL had also installed 10 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 ₹7,991 crore as on December 31, 2023, which, at gross billing level for FY23, provides revenue visibility for the two years. EIL added orders worth ₹4,708 crore and ₹3,047 crore in FY23 and 9MFY24, respectively, against average order addition of around ₹1,600 crore in FY20-22. The increase in the order inflow is led by favourable industry outlook with large capex announcements in the hydrocarbon space. The orderbook continues 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, making 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, leading 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.

**Satisfactory financial performance in FY23 and 9MFY24**

EIL at consolidated level witnessed revenue growth of 15% from ₹2,918 crore in FY22 to ₹3,342 crore in FY23 considering 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.

EIL's performance continued to remain satisfactory in 9MFY24 with similar revenue of ₹2,476 crore as reported in 9MFY23. However, the PBILDT level and margin improved significantly by about 56% and 310 bps y-o-y, respectively (to ₹220 crore and 8.87%) considering additional revenue booking of ₹45 crore in Q2FY24 due to execution of high margin projects and settlement with respect to liquidated damages for a project for which the cost was already accounted earlier.

### **Robust financial position**

EIL has a sound financial position with robust capital structure backed by significant net worth build-up over the years and negligible debt level. EIL does not have external debt in the books except lease liabilities and mobilisation advances. The total outside liabilities to net worth (TOL/TNW) is also comfortable and has improved from 0.97x as on March 31, 2022 to 0.91x 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 energised 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 such as EIL. Also, India has announced a National Hydrogen Energy Mission (NHEM), and 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 emerge 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 and 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.

### **Liquidity: Strong**

EIL's liquidity position 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 had free cash and bank balance of about ₹1,234 crore as on May 15, 2024 (₹1,125 crore as on March 31, 2023) at consolidated level.

### **Key weaknesses**

#### **Concentrated order book**

Under the administrative control of MoPNG, EIL 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). Of the same, one order contributes 24% of EIL's total order book, exposing 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 NRL, wherein it holds 26% and 4.80% stake, respectively, as on March 31, 2023. There is no additional investment in RFCL and NRL in 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 in 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 company's cash position would be important from credit perspective.

**Assumptions/Covenants:** Not applicable

### Environment, social, and governance (ESG) risks:

EIL primarily operates in oil and 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 optimise the water & electricity consumption and support the green power adoption.

EIL's business profile also has social impact with large labour force involvement, and hence, it has associated occupational risk. However, EIL has taken social upliftment programmes such as construction of classrooms & toilets, distribution of medical equipment to medical institutes, and installation of rooftop solar grid for a charitable trust, among others, to bringing a positive change in the society.

### Applicable criteria

[Definition of Default](#)

[Consolidation](#)

[Factoring Linkages Government Support](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

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### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

Incorporated on March 15, 1965, EIL 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 conceptualisation, planning, design, engineering, procurement, construction and commissioning 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 such as

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)	9MFY24 (UA)
Total operating income	2,918	3,342	2,476
PBILDT	374	353	220
PAT	140	346	330
Overall gearing (times)	0.00	0.03	-
Interest coverage (times)	138.11	117.45	98.20

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

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	120.00	CARE AAA; Stable
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 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 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	100.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (07-Dec-23)	1)CARE AAA; Stable / CARE A1+ (03-Jan-23)	1)CARE AAA; Stable / CARE A1+ (14-Dec-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
								2)CARE AAA; Stable / CARE A1+ (06-Apr-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	1674.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (07-Dec-23)	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)
3	Fund-based - LT-Cash Credit	LT	120.00	CARE AAA; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

**Annexure-4: Complexity level of various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	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 all the entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Certification Engineers International Limited	Full	Subsidiary

**Note on complexity levels of 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.

## Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Rajashree Murkute Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6837 4474 E-mail: <a href="mailto:rajashree.murkute@careedge.in">rajashree.murkute@careedge.in</a></p> <p>Maulesh Desai Director <b>CARE Ratings Limited</b> Phone: +91-79-40265605 E-mail: <a href="mailto:maulesh.desai@careedge.in">maulesh.desai@careedge.in</a></p> <p>Puja Jalan Associate Director <b>CARE Ratings Limited</b> Phone: +91-40-4002 0131 E-mail: <a href="mailto:puja.jalan@careedge.in">puja.jalan@careedge.in</a></p>
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### About us:

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