Engineers India Limited

December 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	120.00	CARE AAA; Stable	Reaffirmed
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 over five decades of experience in Consultancy and Engineering (C&E) segment. The 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 factor in EIL's strong orderbook position supported by large order addition in FY24 (FY refers to April 01 to March 31) and H1FY25 at ₹3,406 crore and ₹5,137 crore, respectively. Additionally, low counterparty risk due to its reputed clientele both domestic and overseas, continues to uplift the credit profile. Ratings also factor the satisfactory financial performance in FY24 and H1FY25, robust financial position, strong financial flexibility, and comfortable liquidity position characterised by a healthy cash and bank balance. CARE Ratings Limited (CARE Ratings) takes cognisance of the moderation in profitability due to lower operating margin realised in the consultancy segment. CARE Ratings expects the strong financial profile to continue going forward with no debt repayments or sizable capital expenditure (capex)/investment planned and favourable industry outlook supporting the business growth. However, material increase in investments resulting in significant depletion of cash reserves would be a key monitorable.

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 majority 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

CARE Ratings has followed a consolidated view of EIL as there exists business, financial, and management linkages with the subsidiaries. Ratings also factor EIL's strategic importance to the GoI and its significant 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.

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

Detailed description of key rating drivers:

Key strengths

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 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 2,658 experienced professionals and technical personnel. The senior management (which includes the functional directors) has over three decades of experience in various fields such as projects, process design, technology, marketing, finance, legal, and HR. The company's affairs are looked after by Ms. Vartika Shukla, Chairperson & Managing Director.

Dominant position in C&E services with proven designing and engineering expertise
EIL has over 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 over 40 process technologies for the oil and gas processing, refineries, and petrochemical industries. EIL currently holds 47 live patents for such process technologies and patents for another 36 technologies are awaited (till March 31, 2024). Over five decades on landmark projects and a technical staff of 2,658 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 orderbook of ₹11,155 crore as on September 30, 2024, compared to ₹8,188 crore on September 30, 2023, which translates to 3.40x the total operating income (TOI) for FY24 providing a strong revenue visibility. The company's order book comprised ~₹6,500 crore worth of works in the consultancy segment and the balance ₹4,659 crore from the Turnkey segment as on September 30, 2024. During FY24 and H1FY25, EIL recorded an order inflow amounting to ₹3,406 crore (Turnkey: ₹2,112 crore, Consultancy: ₹1,294 crore) and ₹5,137 crore (Turnkey: ₹ 2,274 crore, Consultancy: ₹2,863 crore), respectively.
Key clientele includes Bharat Petroleum Corporation Ltd. (BPCL) and Oil and Natural Gas Corporation (ONGC), from which orders amount to ₹1,521 crore.

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 FY24 and H1FY25
EIL at consolidated level reported an operating revenue of ₹3,284 crore in FY24 (PY: ₹3,340 crore), the slight moderation of 1.7% in the revenue has been due to key turnkey projects nearing completion while the newly awarded being in a nascent stage. The consultancy segment has reported a stable revenue in FY24 with 45% (PY:43%) contribution to the total revenue. While contribution of the consultancy segment remained stable, its segmental profitability moderated in FY24, which translated to overall moderation in the consolidated profile before interest, lease rentals, depreciation and taxes (PBILDT). The PBILDT margin witnessed decline of 112 bps to 9.46% (from 10.58% in FY23); although continues to remain satisfactory.
In H1FY25, TOI reported was ₹1,313 crore (H1FY24: ₹1,608 crore) with the consultancy segment dominating the revenue profile at 58% of the TOI. As a result, PBILDT margin has further dipped at 8.64%. CARE Ratings expects the margin to be range bound between 8% to 10% in the near term, the turnkey projects awarded in the past fiscal are expected to pick up pace in billing from Q4FY25 onward and are expected to form the majority revenue thereafter.

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) stood at 0.95x as on March 31, 2024 (PY: 1.12x).

Favourable industry growth prospects

India's refining capacity has increased from a modest 62 MMTPA in 1998 to 248.91 MMTPA as on November 15, 2024, making India the second-largest refiner in Asia after China 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. Oil and Natural Gas Corporation (ONGC) is incurring an investment of US $4 billion in exploration from 2022 to 2025. Similarly, the Ministry of Petroleum and Natural Gas announced it will increase the exploration area for oil and natural gas to ~310,000 square miles by 2025 and to 620,000 square miles by 2030. Also, India's state refiners are looking to invest $27 billion to increase refining capacity by 20% by 2025.
There also exists demand-supply mismatch in refinery pipelines 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, 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 over 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 at standalone level had cash & liquid funds (in the form of FD and mutual fund) of ₹1,182 crore as on September 30, 2024.

Key weaknesses

Concentrated order book

Under the administrative control of MoPNG, EIL majorly undertakes engineering work for the hydrocarbons and petrochemicals segment, and hence, the order book continues to be concentrated with 95% of the total orders in the said segment. Presently, the strong outlook of the sector is providing visibility of the orders. However, in the long term, diversification of the orderbook towards other segments remains crucial for EIL to improve its competitive standing as a project management and consultancy (PMC) segment.

Increased exposure by way of investments

Over the years, EIL has made investments in few companies from its existing cash and bank balances, Ramagundam Fertilizers and Chemicals Limited (RFCL) and NRL, wherein it holds 26% and 4.80% stake, respectively, as on March 31, 2024. While, there is no additional investment in RFCL since FY23, EIL had 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 ₹69.15 crore towards call of rights issue March 31, 2024, and the balance payment is also expected to be made in FY25 from the available cash and liquid investment with the company.
As on March 31, 2024, EIL had total investment in subsidiary/JVs/associates of ₹1,376 crore and higher-than-envisaged increase in the investment funding impacting the company's liquidity 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

Consolidation
Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 conceptualisation, 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 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, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	3,340	3,284	1,313
PBILDT	353	311	113
PAT	346	445	191
Overall gearing (times)	0.03	0.03	NA
Interest coverage (times)	108.88	54.76	74.85

A: Audited, UA: Unaudited; NA: Not available, 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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+ (23-May-24)	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)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	1674.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (23-May-24)	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	1)CARE AAA; Stable (23-May-24)	-	-	-

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

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

Annexure-4: Complexity level of 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 entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Certification Engineers International Limited	Full	Subsidiary of EIL
2	TEIL Projects Limited (under liquidation)	Proportionate	Joint Venture of EIL
3	Ramagundam Fertilizers & Chemicals Ltd.	Proportionate	Joint Venture of EIL
4	Oil And Gas Exploration and Production Block No. Cb-Onn-2010/11	Proportionate	Joint Operations of EIL
5	Oil And Gas Exploration and Production Block No. Cb-Onn-2010/8	Proportionate	Joint Operations of EIL

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

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About us:

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