

Engineers India Limited

September 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank facilities – Non fund based – LT/ST – BG/LC	1,574 (enhanced from 1,524)	CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total	1,574 (Rs. One thousand five hundred seventy four crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of 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, its experienced and professionally qualified management along with the dominant position of the company in the field of C&E services with proven designing and engineering expertise. The rating continues to take into account EIL's strong financial flexibility and comfortable liquidity position characterized by a healthy cash and bank balance. The rating takes into cognizance the order book position (which despite moderation still provides healthy revenue visibility), its low counterparty risk due to its reputed clientele – domestic and overseas with the persistence of sector and client concentration risk. The rating also takes into account the softening of demand in the hydrocarbon sector and the hindrances in construction sector, which further deteriorated amidst Covid-19 lockdown, adversely impacting the financials of EIL.

Rating Sensitivities

Negative Factors

- Material reduction in sovereign ownership and/or control
- Significant decline in order book to below Rs. 7,500 cr
- Significant increase in investment leading to increase in overall gearing (adjusted for mobilization advances and investment in group co) to beyond 0.2x

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of the GOI

The GOI holds a majority stake of 51.5% in EIL as on June 30, 2020. 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 Company's Board has representations from the Gol as Nominee Directors.

Experienced and professionally qualified management

EIL has a strong management team and has a workforce of about 2800 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 Mr. Jagdish Chander Nakra, Chairman & Managing Director.

Long track record of operations in Consultancy and Engineering business

EIL has a long track record of over five decades and has carried out over 7,000 assignments of worth around USD 200 bn. The major projects carried out by EIL includes 82 petroleum refinery projects including 10 greenfield refineries, 10 mega petrochemical complexes, 50 pipeline projects, 213 offshore platforms including 40 process platforms, 44 oil and gas processing projects, 33 mining & metallurgy projects, 14 ports and storage and terminals, 10 fertilizer projects, 24 turnkey projects and 38 infrastructure projects including airports, highways, flyovers, bridges, water and sewer management, as well as energy- efficient intelligent buildings, strategic storage across 3 locations and power/ captive power projects.

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

EIL has been a leading domestic provider of C&E services in India, especially in hydrocarbon and petrochemical sector. 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 31 live patents for such process technologies and patents for another 27 technologies are awaited (till March 31, 2020). The company has erected 20 out of the 23 petroleum refineries in India and has also installed 10 out of the 11 mega-petrochemical complexes in the country and engineered 10 grassroot

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

refineries. Also 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.

Comfortable order book position, despite recent moderation

EIL's order book has progressively increased over the years with fluctuating order inflows in the past. Order inflow in C&E segment has steadied to around Rs. 1,600 cr on an annual basis over the past three years. The inflow fluctuation is primarily caused by turnkey orders in the past. In terms of composition, the high-margin C&E segment accounted for the majority of orders book by value, which, however, has progressively reduced. EIL has maintained the share of C&E segment at around 46% as on March 31, 2020 and June 30, 2020, due to lower inflow of turnkey orders. EIL's order book moderated to Rs. 9,555 cr as on March 31, 2020 (PY: Rs. 11,189 cr) with further reduction to Rs. 9,117 cr as on June 30, 2020. As a result, its order book-to-revenue has moderated to 2.98x in FY20 (PY: 4.58x), which, nonetheless, still provides comfortable revenue visibility.

Low counterparty risk due to its reputed clientele; however concentration risk persists

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 high 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 having a 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 14.2% of total order book as on March 31, 2020.

The top five unexecuted orders by value accounted for 81% of the order book as on March 31, 2020, which is high. Out of this, one order accounts for 42% of EIL's total order book, which exposes the company to client concentration risk. The order book also has moderate sector diversification in petroleum refining, petrochemicals, fertilizers, pipelines, oil & gas, terminals and storages, and urban development.

Strong financial flexibility

EIL's income from operations has increased 29.9% in FY20 to Rs. 3,453 cr, driven largely by a higher execution of turnkey projects (+49.6% to Rs. 1,638 cr in FY20). Over the years, the execution in turnkey projects by EIL has outpaced execution in the C&E segment (with 51% revenue share in FY20). The company's income has witnessed significant moderation in Q1FY21 (Rs. 517 cr, 35% decline compared to Q1FY20) due to the restricted operation during lockdown on account of Covid'19. Lower execution and under-recovery of overheads due to the pandemic-related restrictions are expected to moderate the revenues and profitability of EIL in FY21.

EIL continued to have strong profitability and return on capital metrics. The company's PBILDT margin was 20.96% in FY20 (PY: 21.89%) due to higher execution of lower-margin turnkey projects. The capital structure of EIL continues to be healthy with zero funded debt as on March 31, 2020. Its tangible net-worth stood at Rs. 2,343 cr as on March 31, 2020 (PY: Rs. 2,274 cr).

Liquidity: Strong

The liquidity position of EIL remains strong as reflected by its healthy cash and bank balances, short operating working capital cycle and comfortable current ratio. EIL had unencumbered cash/ bank balance and investments in liquid mutual funds of Rs. 2,773 cr as on March 31, 2020 (PY: Rs. 2,707 cr). Its average net operating cycle stood at 68 days in FY20 (PY: 90 days). EIL's current ratio stood comfortable at 1.49x on March 31, 2020 (PY: 1.56x). The company had no fund based working capital limit and hence Covid'19 moratorium is not applicable.

Key Rating Weaknesses

Inherent challenges in the construction and hydrocarbon industry

The construction sector is susceptible to inherent challenges like fluctuation in input prices, cost overruns in the delayed projects and additional working capital requirement arising from delays in realization from clients. 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. During the Covid-19 related lockdown, the restrictions on logistics and reverse migration of labour have further contributed further to the sector's woes.

The production of both natural gas and crude oil has declined in FY19 and FY20. The decline rate is expected to be more severe in FY21 due to lower consumption and moderation in global prices amidst Covid'19 pandemic. The Indian refineries, which usually operate above their nameplate capacity, is witnessing decline in output.

However, in the long run, initiatives and policy reforms undertaken by the GoI such as Atmanirbhar Bharat, Make In India, Bio-Fuels, Digital India, SMART City, AMRUT, Pradhanmantri Urja Ganga Yojana (Pipelines, CGD Networks, Fertilizer Plants), Sagarmala, Renewed focus on Infrastructure especially Ports & Airports, PCPIRs, Namami Gange, Affordable Housing, etc is expected to improve FDIs into the country. The energy demand is set to grow at an all-time high owing to rapid urbanization

and industrialization. The extent of diversification EIL creates in its order book along with its strong financial flexibility may help EIL to grow at a faster rate.

Analytical approach: Standalone; however rating also factors in the strong parentage of the company (Gol ownership)

Applicable Criteria

[Criteria for Rating Outlook and Credit Watch](#)

[Criteria for Short Term Instruments](#)

[CARE's Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

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

[Service Sector Companies](#)

[CARE's Methodology for Construction Sector](#)

[Consolidation and factoring linkages in rating](#)

About the Company

EIL, incorporated on March 15, 1965, is a CPSU with majority ownership of the Gol operating under the administrative control of Ministry of Petroleum and Natural Gas (MoPNG). EIL provides consultancy and engineering services (C&E; around 49% of total revenue in FY20) and undertakes turnkey contracts, which includes complete range of project services right from project conceptualization, planning, design, engineering, 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. As on June 30, 2020 EIL had an order book of Rs. 9,117 cr with C&E contributing to 46.4% of the order book.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,659	3,453
PBILDT	582	724
PAT	370	430
Overall gearing (times)	0.06	0.07
Interest coverage (times)	211.54	195.22

A: Audited; Overall gearing is adjusted for creditors against LC, mobilization advances and investments

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	1574.00	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	100.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (03-Oct-19)	1)CARE AAA; Stable / CARE A1+ (03-Oct-18)	1)CARE AAA; Stable / CARE A1+ (24-Nov-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1474.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (03-Oct-19)	1)CARE AAA; Stable / CARE A1+ (03-Oct-18)	1)CARE AAA; Stable / CARE A1+ (24-Nov-17)

Annexure 3: 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

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@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact:

Name: Sudhir Kumar

Contact No. : +91-11-45333232

Email ID: sudhir.kumar@careratings.com

Relationship Contact

Name: Swati Agrawal

Contact no. : +91-11-4533 3200

Email ID: swati.agrawal@careratings.com

About CARE Ratings:

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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**