

Engineers India Limited

October 03, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Remarks
Long/ Short term Bank Facilities	1415.26 (reduced from Rs.1415.61 crore)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total	1415.26 (Rupees One Thousand Four Hundred Fifteen crore and Twenty Six lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of 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), its long track record of operations reflected by more than five decades of experience in consultancy and engineering (C&E) across various sectors, 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 ratings also factor in EIL's diversified revenue base across sectors and reputed client base of the company coupled with robust and diversified order book position. Strong financial flexibility and comfortable liquidity position backed by large cash and bank balance further strengthens the ratings of EIL.

Going forward, the ability of EIL to manage the risk inherent in the construction industry and to sustain its scale of operations and profitability margins while maintaining its liquidity position would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of the GOI

GOI holds the majority stake of 52.02% in EIL as on June 30, 2018. The company enjoys 'Navratna' status; a status aimed at facilitating expansion of Central Public Sector Enterprises operations both in the domestic and global markets.

Experienced and professionally qualified management

The company has a strong management team and has workforce of about 2800 experienced professionals and technical personnel. The affairs of the company are looked after by Mr. Jagdish Chander Nakra, Chairman & Managing Director and Director (Projects & Finance), a Mechanical Engineering Graduate from Punjab Engineering College, Chandigarh and Post-Graduate Diploma in Management Studies from Jamnalal Bajaj Institute of Management Studies, Mumbai. He is having experience of around 36 years in the fields of Projects, Construction & Marketing. He served in various capacities in Marketing and Project Divisions. He has led the Marketing teams to generate business for EIL in India and abroad as Project Management teams and has also led Project teams for implementation of major projects.

Long track record of operations

EIL has a long track record of over five decades and has carried out over 5,000 assignments of worth around USD 200 bn. The major projects carried out by EIL includes 75 petroleum refinery projects including 10 greenfield refineries, 11 mega petrochemical complexes, 47 pipeline projects, 213 offshore platforms including 40 process platforms, 43 oil and gas processing projects, 32 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 till March, 2018.

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

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 R&D center at Gurgaon and has developed more than 30 process technologies for the Oil and Gas processing, Refineries and Petrochemical industries. EIL currently holds 25 technology live patents for such process technologies and patents for another 23 technologies are awaited. More than five decades on landmark projects and a technical staff of around 2800 employees give the company an edge in the hydrocarbon space as an evidence 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. Also over the years 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.

Diversified revenue base

EIL is having revenue sources across diversified sectors viz Petroleum Refining, Petrochemicals, Fertilizers, Pipelines, Oil & Gas, Terminals & Storages, Mining & Metallurgy and Infrastructure. EIL has also diversified its revenue base to the following emerging sectors viz. Water & Waste Management, City Gas Distribution, Power-Thermal, Solar, Nuclear, Gas-based Fertilizer Projects, Coal to Liquid (CTL) and Steel.

Apart from having 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. Over the years, the Company has emerged as a global player with the execution of a number of prestigious assignments for international energy majors in Middle East, Africa and South East Asia. EIL has an extensive track record of working with various international energy majors in countries like Algeria, Kuwait, Qatar, UAE, Venezuela, Kenya, Bahrain, Iran, Oman, Mauritius and Saudi Arabia.

Reputed clientele

EIL has a reputed and long list of clientele across the sectors in India like Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited, Oil and Natural Gas Corporation, GAIL, National Fertilizers Limited, Airport Authority of India (AAI), Delhi Jal Board (DJB) and Nuclear Power Corporation of India Ltd.

EIL also has an extensive list of international clientele which includes SONATRACH, Kuwait Aviation Fuelling Company, Dangote, Indo Rama, Brass Fertilizers, National Petroleum Construction Company, Abu Dhabi Company for Onshore Oil Operations (ADCO), Abu Dhabi Gas Industries Ltd (GASCO), BOROUGE, Oman Refineries & Petrochemicals Company, Bangladesh Petroleum Corporation, Bangladesh Chemical Industries Corporation (BCIC), Aluminium Bahrain (ALBA) and Kenya Petroleum Refineries Ltd.

Robust and diversified order book position

During FY18, EIL had bagged new orders of Rs. 2140.5 crore (Rs. 5708.1 crore in FY17 and Rs. 1596.0 crore in FY16) which includes Rs. 1357.2 crore of orders from domestic C&E services, Rs. 303.6 crore from overseas C&E services and Rs. 479.7 crore from turnkey projects. Major contribution in order inflows for Consultancy segment was from Guru Gobind Singh Polymer Addition project of HMEL and in Turnkey segment from brown-field expansion projects of ONGC. Thus, EIL's order book position increased from Rs. 7761.90 crore as on March 31, 2017 to Rs.7873.10 crore as on March 31, 2018.

Also, during Q1FY19, EIL has secured new orders to the amount of Rs. 83.20 crore. Further, EIL has an outstanding order book position of Rs. 7229.0 crore as on June 30, 2018.

Strong financial flexibility

The capital structure of EIL continues to be healthy with zero debt as on March 31, 2018. Tangible net-worth stood at Rs.2262.00 crore as on March 31, 2018 as against Rs.2768.54 crore as on March 31, 2017. Moderation in tangible networth of the company is on account of buy back of shares and distribution of healthy dividends during FY18.

Total operating income of EIL has increased from Rs. 1660.34 crore in FY17 to Rs. 1969.80 crore in FY18, registering a healthy y-o-y growth of 18.64%. The revenue from C&E services has increased from Rs. 1165.07 crore in FY17 to Rs. 1379.29 crore in FY18 and revenue from turnkey projects has increased from Rs. 283.58 crore in FY17 to Rs. 403.29 crore in FY18. During FY18, EIL has completed several critical projects including Expansion Project of HMEL at GGSRL Bhatinda for Revamp of VGO/ HDT, Sulphur Block including Oxygen Unit, Associated Offsite & Utilities, Tail Gas Treatment Unit (TGTU) at BPCL Mumbai Refinery for additional recovery (more than 99.9%) of Sulphur from acid gases and Pre-project activities of Vizag Refinery Modernization Project, HPCL in the refinery segment.

PBILDT margin moderated slightly from 31.45% in FY17 to 30.00% in FY18 on account of increased focus of the company on turnkey projects in FY18 as compared to FY17. Revenue from turnkey business comprised 22.84% of total sales of EIL in FY18 as against 19.58% in FY17.

Further during, Q1FY19, EIL has reported total operating income of Rs. 625.52 crore as compared to total operating income of Rs. 420.98 crore in Q1FY18, registering q-o-q growth of around 49% on account of increase in the revenue from

the turnkey business segment of the company from Rs. 50.88 crore in Q1FY18 to Rs. 251.00 crore in Q1FY19. PBILDT margins of the company declined from 30.26% in Q1FY18 to 22.15% in Q1FY19 due to increased revenue from the less profitability segment i.e. Turnkey Segment with constant revenue from consultancy and engineering segment.

Comfortable liquidity position backed by large cash and bank balance

The liquidity position of EIL remains comfortable as reflected by its healthy cash & bank balances and short operating working capital cycle. EIL had cash and bank balance to the amount of Rs. 2395.48 crore as on March 31, 2018 (Rs. 2185.93 crore as on March 31, 2017). Average working capital cycle of EIL stood at 38 days in FY18 as against 29 days in FY17.

Key Rating Weaknesses

Inherent challenges in the construction industry

Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role, which contributes significantly to India's Gross Domestic Product (GDP) around 8%.

Construction sector is inherent to challenges like fluctuation in input prices, cost overruns in the delayed projects and additional working capital requirement arising from delay in realization from clients. The sector is also marred by various other challenges on account of economic slowdown and regulatory changes has adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry.

Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Analytical approach:

Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Engineers India Limited (EIL; L74899DL1965GOI004352), incorporated on March 15, 1965, is a Central Public Sector Enterprise with majority ownership of the Government of India (GOI, 52.02% as on June 30, 2018) operating under the administrative control of Ministry of Petroleum and Natural Gas (MoPNG).

EIL provides consultancy and engineering services (C&E; around 77% of total revenue in FY18) and undertakes lump sum turnkey contracts (LSTK; around 23% of total revenue in FY18) 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.

With corporate office in New Delhi, EIL also operates from its four regional engineering offices in Mumbai, Kolkata, Chennai and Vadodara and has inspection offices at all major manufacturing locations of the country. The company's overseas presence is marked by an engineering office in Abu Dhabi, which caters to the business needs in UAE/Middle-East region. Additionally, there are offices in London, Milan and Shanghai to coordinate the activities of international procurement and marketing.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1660.34	1969.80
PBILDT	522.25	590.99
PAT	301.81	382.47
Overall gearing (times)	0.00	0.00
Interest coverage (times)	101.45	304.87

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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	-	-	-	50.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ST-BG/LC	-	-	-	1365.26	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (24-Nov-17)	1)CARE AAA / CARE A1+ (07-Oct-16)	1)CARE AAA / CARE A1+ (27-Oct-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1365.26	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (24-Nov-17)	1)CARE AAA / CARE A1+ (07-Oct-16)	1)CARE AAA / CARE A1+ (27-Oct-15)

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