

Engineers India Limited

November 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long/ Short term Bank Facilities	1415.61 (reduced from Rs.1615.26 crore)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total	1415.61 (Rupees One Thousand Four Hundred Fifteen crore and Sixty One lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 EIL's 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 and increased focus of the company on higher profitability segments. 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 with negligible debt and comfortable liquidity position backed by large cash and bank balance and short average working capital cycle further strengthens the ratings of EIL.

Going forward, management of the risk inherent in the construction industry and the ability of the company to sustain its scale of operations and profitability margins would remain 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 54.17% in EIL. The company enjoys 'Navratna' status; a status aimed at facilitating expansion of Central Public Sector Enterprises operations both in the domestic and global markets.

Long track record of operations

EIL has a long track record of over five decades and has carried out over 5,000 assignments with 400 major projects. The projects carried out by EIL includes 73 petroleum refinery projects including 10 greenfield refineries, 11 mega petrochemical complexes, 46 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 LSTK projects and several infrastructure projects including airports, highways, flyovers, bridges, water and sewer management, as well as energy- efficient intelligent buildings.

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 and especially in hydrocarbon space. The company has developed over 30 process technologies for the Oil and Gas processing, Refineries and Petrochemical industries. EIL currently holds 26 technology patents including 18 live patents for such process technologies and patents

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

for another 24 technologies are awaited. More than five decades of experience and a technical staff of over 2900 engineers give the company an edge in the hydrocarbon space.

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 over the years has expanded its operations internationally to provide C&E services. EIL has an extensive track record of working with various international energy majors in countries like Algeria, Kuwait, Qatar, UAE, Venezuela, Kenya, Bahrain, Oman, Mauritius and Saudi Arabia. In FY17, EIL has also made entry into Iran market.

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.

Increased focus of the company on better profitability segments:

Total operating income of EIL has sequentially declined by around 7% y-o-y, over the past 3 years, from Rs.1918.78 crore in FY15 to Rs. 1747.70 crore in FY16 and further to Rs. 1660.34 crore in FY 17. The same was on account of decline in income from LSTK projects from Rs. 503.56 crore in FY16 to Rs. 283.58 crore in FY17. However, during the past years the company has increased its focus on the services, i.e. Consultancy and Engineering services (C&E), with better margins. The share of the C&E services in total sales of the company has increased from 55.51% in FY15 to 66.67% in FY16 and further to 80.43% in FY17. The revenue from the C&E services is also increasing from Rs 954 crore in FY15 to Rs. 1165 crore in FY17 at a CAGR of 10.6%. The increased focus of the company on higher profitability segments has resulted in increase in overall PBILDT Margin of the company from 22.14% in FY15 to 31.45% in FY17.

Robust and diversified order book position

During FY17, EIL bagged new orders of Rs.5708 crore (Rs. 1596 crore in FY16) which includes Rs.2031.9 (PY: Rs. 990.00) crore of orders from domestic C&E services, Rs. 264.40 crore (PY: Rs. 386.00 crore) from overseas C&E services and Rs. 3411.80 crore (PY: Rs. 220.00 crore) from LSTK projects. EIL's order book position increased from Rs. 3788.70 crore as on March 31, 2016 to Rs.7761.90 crore as on March 31, 2017. The new project has been secured in the area of BS-VI projects of IOCL, HMEL, MRPL and BPCL.

Further, during Q1 FY18, EIL has secured new orders to the amount of Rs.343.80 crore (Rs.2058.40 crore in Q1 FY17) which includes Rs.84.10 crore (Rs. 703.50 crore in Q1 FY17) of orders from domestic C&E services, Rs.15.00 crore (Rs. 133.90 crore in Q1 FY17) of orders from overseas C&E services and Rs.244.70 crore (Rs.1221.00 crore in Q1 FY17) from LSTK projects. Further, EIL has an outstanding order book position of Rs. 7698.0 crore as on June 30, 2017.

Strong financial flexibility with zero debt

The capital structure of EIL continues to be healthy with zero debt as on March 31, 2017. Tangible net-worth of the company stood at Rs.2768.54 crore as on March 31, 2017 as against Rs.2754.86 crore as on March 31, 2016. PBILDT margins of the company increased in FY17 on account of increased focus of the company on better profitability segments (i.e. C&E services).

Further during H1FY18, EIL has reported total operating income of Rs.804.46 crore as compared to total operating income of Rs. 680.70 crore in H1FY17, registering y-o-y growth of around 18%. The growth in total operating is on account of new orders received in FY17 and increased execution performance of the company.

Comfortable liquidity position backed by large cash and bank balance

The liquidity position of EIL remains comfortable as reflected by its healthy cash and bank balances, short operating cycle and comfortable current ratio. EIL had free cash and bank balance to the amount of Rs.2135.62 crore as on March 31, 2017 (Rs.2563.85 crore as on March 31, 2016). Average working capital cycle of EIL reduced from 34 days in FY16 to 29 days in FY17. Current ratio stood at 2.12x (PY: 2.53x) as on March 31, 2017.

Key Rating Weaknesses

Inherent challenges in the construction industry

Construction sector is inherent to challenges like fluctuation in input prices, cost overruns in the delayed projects, additional working capital requirement arising from delay in realization from clients and several regulatory related risks. However, the government has been emphasizing special focus on the revival of the investment cycle and various steps have been announced for boosting infrastructure development, including relaxing of FDI norms, faster decision-making in stuck projects and fund allocation for large government schemes like smart cities, Housing for All by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). This focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run.

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 (54.17%) of the Government of India (GoI) operating under the administrative control of Ministry of Petroleum and Natural Gas (MoPNG).

EIL provides consultancy and engineering services (C&E; around 80% of total revenue in FY17) and undertakes lump sum turnkey contracts (LSTK; around 20% of total revenue in FY17) 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. In recent 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)	FY16 (A)	FY17 (A)
Total operating income	1747.70	1660.34
PBILDT	438.42	522.25
PAT	273.94	301.81
Overall gearing (times)	0.00	0.00
Interest coverage (times)	226.07	101.45

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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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.

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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	-	-	-	1365.61	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ST-BG/LC	LT/ST	50.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA / CARE A1+ (07-Oct-16)	1)CARE AAA / CARE A1+ (27-Oct-15)	1)CARE A1+ (14-Oct-14)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	1365.61	CARE AAA; Stable / CARE A1+	-	1)CARE AAA / CARE A1+ (07-Oct-16)	1)CARE AAA / CARE A1+ (27-Oct-15)	1)CARE AAA / CARE A1+ (14-Oct-14)

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