

## Engineers India Limited

October 03, 2019

### Ratings

Facilities/ Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long/ Short term Bank Facilities	1524.00 (enhanced from Rs.1415.26 crore)	<b>CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>1524.00</b> <b>(Rupees One Thousand Five Hundred Twenty Four crore only)</b>		

*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 rating continues to take into account EIL's Strong financial flexibility and comfortable liquidity position characterized by healthy cash and bank balance. The ratings also factor in EIL's diversified revenue base across sectors and reputed client base coupled with robust and diversified order book position.

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 will remain the key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Majority ownership of the GOI**

GOI holds the majority stake of 52.00% in EIL as on June 30, 2019. The company enjoys 'Navratna' status; a status aimed at facilitating expansion of Central Public Sector Enterprises operations in the domestic as well as global markets and also the board of the company is having representations from Government Nominee Directors.

##### **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, 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. Mr. Vipin Chander Bhandari, Director (HR), a Chartered Engineer and a member of the Institution of Engineers, is having more than 36 years of experience in the areas of Design and Engineering, Project Management and Human Resource Management. He spearheaded EIL's diversification into Power and renewable energy sectors. Mr. Lalit Kumar Vijh, Director (Technical), a Chemical Engineer from Punjab University, Chandigarh, is having 36 years of experience in the area of process design, technology development, and its commercialization, plant operation & process safety and other specialist design engineering services across the entire hydrocarbon value chain.

##### **Long track record of operations**

EIL has a long track record of over five decades and has carried out over 6,000 assignments of around USD 200 bn. The major projects carried out by EIL includes 80 petroleum refinery projects including 10 greenfield refineries, 11 mega petrochemical complexes, 48 pipeline projects, 213 offshore platforms including 40 process platforms, 43 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 till March, 2019.

##### **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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

holds 26 technology live patents for such process technologies and patents for another 22 technologies are awaited (till March, 2019). More than five decades on landmark projects and a technical staff of around 2800 employees give the company an edge in the hydrocarbon space. EIL has its footprints 20 out of 23 petroleum refineries in India and has also installed 10 out of the 11 mega petrochemical complexes in the country 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 various 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 FY19, EIL had bagged new orders of Rs. 5890.5 crore (Rs. 2140.5 crore in FY18 and Rs. 5708.1 crore in FY17) which includes Rs. 1494.2 crore of orders from domestic C&E services, Rs. 91.1 crore from overseas C&E services and Rs. 4305.2 crore from turnkey projects. Major contribution in order inflows from domestic domain is from Rajasthan Refinery Project of HPCL wherein the company has secured both Consultancy contract for the main process complex as well as Turnkey contract on Open Book Estimate (OBE) basis for Residual Utilities & Offsite (U&O) and associated works of amount Rs. 4305 crore. In the International domain, EIL has secured number of major assignments including Additional PMC/ EPCM Services for new units in Dangote Refinery, Nigeria, PMC Services for Hail Full Field Development Project of ADOC, Japan and Detailed engineering services for DM & Distillate Water inter-transfer system for L&M stations for Jebel Ali power station complex of DEWA, UAE, among others. Further, company had secured new business of Rs. 943.6 crore in Q1FY20 as against Rs. 83.2 crore in Q1FY19. The major inflows of new order is from overseas clients namely Mongol Refinery State Owned LLC of worth Rs. 514 crore and Rs. 215 crore of order from Dangote Oil refining Company limited. On the domestic side, company had secured major business from IOCL for capacity expansion of Panipat refinery of Rs. 31 crore, Rs. 56 crore from BPCL, Rs. 76 crore from HPCL Shapoorji Energy Private Limited and Rs. 21 crore from IOCL.

Thus, on account of new order received during FY19 and Q1FY20, EIL's outstanding order book increased from Rs. 7873.1 crore as on March 31, 2018 to Rs. 11188.7 crore as on March 31, 2019 and further to Rs. 11429.0 crore as on June 30, 2019. As on March 31, 2019, Outstanding Order Book of the company comprised of consultancy order of worth Rs. 3421 crore from domestic clients, Rs. 892 crore of consultancy order from overseas clients and Rs. 6876 crore of order from Turnkey business clients.

#### ***Strong financial flexibility***

The capital structure of EIL continues to be healthy with zero debt as on March 31, 2019. Tangible net-worth stood at Rs.2273.52 crore as on March 31, 2019 as against Rs.2262.00 crore as on March 31, 2018.

Total operating income of EIL has increased from Rs. 1969.81 crore in FY18 to Rs. 2658.81 crore in FY19, registering a healthy y-o-y growth of around 35% on account of increase in revenue from turnkey projects on account of better execution of projects. The revenue from turnkey projects had increased from Rs. 408.29 crore in FY18 to Rs. 1094.86 crore in FY19 and revenue from consultancy business remains almost stable and stood at Rs. 1349.46 crore in FY19 as against Rs. 1379.29 crore in FY18.

PBILDT margin of the company, however has moderated from 30.00% in FY18 to 21.89% in FY19 on account of increased focus of the company on turnkey projects in FY19 as compared to FY18, which is less profitable as compared to Consultancy segment and decline in the profitability of the company in turnkey business in FY19.

Further during, Q1FY20, EIL has reported total operating income of Rs. 793.13 crore as compared to total operating income of Rs. 625.52 crore in Q1FY19, registering q-o-q growth of around 27% on account of increase in the revenue from the consultancy business segment of the company from Rs. 322.32 crore in Q1FY19 to Rs. 444.55 crore in Q1FY20. PBILDT margins of the company increased from 22.15% in Q1FY19 to 24.93% in Q1FY20 due to increased revenue percentage from the higher profitability segment i.e. Consultancy Business 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 capital cycle. EIL had cash and bank balance to the amount of Rs. 2659.63 crore as on March 31, 2019 (Rs. 2395.48 crore as on March 31, 2018) and quoted liquid mutual fund investments of Rs. 46.06 crore (Rs. 25.02 crore as on March 31, 2018). Average working capital cycle of EIL stood at 32 days in FY19 as against 38 days in FY17.

#### **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 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 have adversely impacted the financial and liquidity profile of players in the industry.

However, plethora of initiatives has been undertaken by Government of India such as Make in India, Digital India, Smart City, AMRUT, Sagarmala etc. coupled with FDI influx into Defence sector for boosting the infrastructure development and to revive the investment cycle. The refining capacity of India is envisaged to surge to cater to its robust demand and also promote itself as an Export Hub. Projects pertaining to Energy Efficiency, Value addition with Integration of Natural Gas, displacement of Liquid fuels and Clean Fuels (BS-VI) projects have been undertaken in the country. The same has gradually resulted in increased order inflow and movement of orders in existing order book. Given the dominant position of EIL in the hydrocarbon space, the coming years are expected to offer a number of opportunities across the value chain to EIL. Going forward, companies with better financial flexibility like EIL would be able to grow at a faster rate by leveraging upon potential opportunities.

**Analytical approach:** Standalone; The ratings of EIL also factors in the strong parentage of the company (GoI Ownership)

#### **Applicable Criteria**

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

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

[Criteria for Short-term Instruments](#)

[CARE's Methodology for manufacturing companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

#### **About the Company**

Engineers India Limited (EIL; L74899DL1965GOI004352), incorporated on March 15, 1965, is a Central Public Sector Enterprise with majority ownership (52.00% holding as on June 30, 2019) 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 55% of total revenue in FY19) and undertakes lump sum turnkey contracts (LSTK; around 45% of total revenue in FY19) 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)	FY18 (A)	FY19 (A)
Total operating income	1969.80	2658.81
PBILDT	590.99	582.05
PAT	377.87	370.07
Overall gearing (times)	0.00	0.00
Interest coverage (times)	304.87	211.54

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

#### 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	-	-	-	1524.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1524.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (03-Oct-18)	1)CARE AAA; Stable / CARE A1+ (24-Nov-17)	1)CARE AAA / CARE A1+ (07-Oct-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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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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.

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