Engineers India Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**Engineers India Ltd (EIL) operates as a technically superior, asset-light engineering consultancy with a dominant moat in India's energy sector and a strategic pivot toward Green Hydrogen and Ammonia.**	□
2	**Revenue delivered a robust recovery, growing 27.22% YoY to □3,928 Cr, effectively reversing the contraction observed in the previous fiscal year.**	□
3	**Capital efficiency remains a core strength, with ROCE expanding sharply from 25% to 31%, driven by the high-margin consultancy business model.**	□
4	***Earnings quality is severely compromised by a weak CFO/PAT ratio of 0.46, indicating that less than half of reported profits are translating into actual cash inflows.***	□
5	**The balance sheet remains pristine and debt-free, maintaining a negligible debt of □17 Cr against a substantial cash reserve of □1,364 Cr.**	□
6	***Working capital stress is evident through 804 Cr in unbilled revenue (13.7% of total assets), suggesting aggressive revenue recognition and potential future write-down risks.***	□
7	Dividend payouts of □253 Cr consume 79% of operating cash flow, prioritizing shareholder returns over internal growth capex despite the capital-light model.	□
8	***Internal controls show significant gaps, including a disabled audit trail at the JV level and prior CAG objections regarding the "grossing up" of assets to inflate the balance sheet.***	□
9	***Governance remains a primary concern as board independence stands at 33.33%, failing to meet the SEBI mandatory requirement of 50%.***	□
10	***The company faces a material legal contingency with a 409.60 Cr Supreme Court claim, representing a significant 14.3% risk to total reserves.***	□
11	**Revenue visibility is secured by a record order book of □8,214 Cr, characterized by increasing diversification into private (23%) and international (13%) markets.**	□
12	Investment Stance: WATCH; while operationally strong, the "leaky" financial engine requires the CFO/PAT ratio to exceed 0.75x and governance normalization before a re-rating.	□

1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** EIL operates a bifurcated model consisting of **Consultancy & Engineering Projects (CEP)** and **Turnkey Projects (EPC)**.
- **Revenue Drivers:** The Consultancy segment is the primary margin engine, shifting toward a 17% OPM (up from 9%). Revenue is increasingly driven by "Early Stack" interventions such as Pre-Feasibility Reports (PFR) and Feed Engineering, particularly in Green Hydrogen and Ammonia.

- **Cost Drivers:** The cost structure is heavily skewed toward employee benefits (₹1,023.85 Cr). There is a notable lack of variable cost linkage, as employee costs rose nearly 4% while revenue fell ~6% in the prior period, indicating a high fixed-cost base.
- **Industry Position:** EIL is successfully transitioning from a "Hydrocarbon Specialist" to a **"Green Integrator,"** leveraging technical authority in complex refinery configurations to enter the Green Hydrogen space (e.g., projects for HPCL/MRPL).
- **Expansion Plans & Strategy:** Under the "EIL 4.0" initiative, the company is focusing on digitalization and energy transition. It is aggressively bidding to capture the energy transition capex cycle.
- **Geographical Presence:** While primarily domestic, EIL has 13% international orders, attempting to de-risk from the Indian capex cycle, though geographic concentration remains in the Middle East and Africa.
- **Segment Performance:** The Turnkey segment provides scale but acts as a "Working Capital Trap," characterized by heavy revenue concentration in PSU oil majors (HPCL, BPCL, IOCL) and driving ₹804 Cr in unbilled revenue.
- **Acquisitions & Capacity:** The company is making defensive IT capex moves (₹82 Cr) to maintain parity with global engineering standards. Private sector orders have increased to 23%, reducing the "PSU-only" discount.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management is executing the "EIL 4.0" strategy, focusing on digitalization and a pivot toward becoming a "Green Integrator" in the energy transition space.
- The company reported record order inflows of ₹8,214 Cr, which management uses as a primary proxy for future growth and valuation.
- Growth guidance is centered on Green Hydrogen and Ammonia projects, which management views as the growth engine for the next decade.
- Management highlights a successful transition in the order book, with private sector participation rising to 23% and international orders reaching 13%.
- There is a strategic emphasis on "Early Stack" interventions (PFR and Feed Engineering) to drive higher margins in the Consultancy segment.
- The demand environment is characterized by a massive energy transition capex cycle, which EIL aims to capture through aggressive bidding.
- Management remains committed to a high dividend payout policy (₹253 Cr in FY26) to satisfy the majority shareholder (Govt. of India).
- Digitalization efforts are being supported by an ₹82 Cr IT capex plan to compete with global consultants like Worley or Technip.
- Management Tone: The management tone is highly optimistic regarding the order book and strategic pivot but appears promotional with significant governance blindspots. There is a conspicuous silence regarding balance sheet integrity, specifically the deteriorating CFO/PAT ratio (0.19) and CAG objections regarding financial misclassifications. The narrative focuses heavily on "Energy Transition" to sustain valuation multiples while evading structural inefficiencies in the PSU payment cycle.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in ₹ Crores. Use these numbers directly.

P&L Statement (Crores)

Line Item	Mar 2026	Mar 2025
Sales -	3,928.00	3,088.00
Sales Growth %	27.22	-5.89
Expenses -	3,232.00	2,573.00
Material Cost % -	10.85	0.00
Raw material cost	426.00	0.00
Manufacturing Cost %	0.00	45.13
Employee Cost %	27.00	33.17
Other Cost %	44.44	5.04
Operating Profit	696.00	514.00
OPM %	18.00	17.00
Other Income -	242.00	160.00
Exceptional items	0.00	14.00
Other income normal	242.00	147.00
Interest	2.00	5.00
Depreciation	42.00	40.00
Profit before tax	894.00	630.00
Tax %	23.00	25.00
Net Profit -	692.00	580.00
Profit from Associates	0.00	108.00
Exceptional items AT	0.00	10.00
Profit excl Excep	692.00	570.00
Profit for PE	692.00	570.00
Profit for EPS	692.00	580.00
Profit Growth %	21.00	30.00
EPS in Rs	12.30	10.32
Dividend Payout %	41.00	39.00

Balance Sheet (□Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	281.00	281.00
Reserves	2,865.00	2,388.00
Borrowings -	17.00	22.00
Short term Borrowings	0.00	0.00
Lease Liabilities	16.81	22.14
Other Borrowings	0.00	0.00
Other Liabilities -	2,707.00	2,574.00
Trade Payables	587.00	476.00
Advance from Customers	0.00	75.00
Other liability items	2,120.00	2,023.00
Total Liabilities	5,869.00	5,265.00
Fixed Assets -	338.00	295.00
Land	0.00	12.24
Building	0.00	269.74
Plant Machinery	0.00	16.30
Equipments	0.00	0.00
Computers	0.00	82.62
Furniture n fittings	0.00	38.05
Vehicles	0.00	4.09
Intangible Assets	4.25	0.00
Other fixed assets	0.00	88.46
Gross Block	0.00	511.50
Accumulated Depreciation	0.00	216.72
CWIP	31.00	46.00
Investments	1,606.00	1,395.00
Other Assets -	3,895.00	3,530.00
Inventories	1.00	1.00
Trade receivables -	479.00	444.00
Receivables over 6m	0.00	263.00
Receivables under 6m	0.00	304.00
Prov for Doubtful	0.00	-123.00
Cash Equivalents	1,364.00	1,327.00
Loans n Advances	156.00	374.00
Other asset items	1,895.00	1,384.00
Total Assets	5,869.00	5,265.00

Cash Flow Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	319.00	109.00
Profit from operations	736.00	425.00
Receivables	-347.00	-400.00
Inventory	0.00	0.00
Payables	97.00	217.00
Loans Advances	0.00	0.00
Other WC items	0.00	0.00
Working capital changes	-249.00	-183.00
Direct taxes	-168.00	-132.00
Other operating items	0.00	0.00
Cash from Investing Activity -	-101.00	-36.00
Fixed assets purchased	-69.00	-42.00
Fixed assets sold	2.00	1.00
Investments purchased	-68.00	0.00
Investments sold	0.00	160.00
Interest received	100.00	82.00
Dividends received	44.00	11.00
Investment in group cos	0.00	0.00
Other investing items	-110.00	-248.00
Cash from Financing Activity -	-269.00	-185.00
Dividends paid	-253.00	-169.00
Financial liabilities	-16.00	-17.00
Other financing items	0.00	0.00
Net Cash Flow	-51.00	-112.00
Free Cash Flow	252.00	68.00
CFO/OP	70.00	47.00

Key Ratios (□Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	45.00	53.00
Inventory Days	0.00	0.00
Days Payable	502.00	0.00
Cash Conversion Cycle	-457.00	53.00
Working Capital Days	-52.00	-101.00
ROCE %	31.00	25.00

3.2 Financial Analysis Summary

- **Revenue** grew by **27.22%** to **₹3,928.00 Cr** in FY 2026, a significant recovery from the -5.89% contraction in FY 2025, which directly fueled an increase in **Operating Profit** to **₹696.00 Cr** and a corresponding rise in **Cash from Operating Activity (CFO)** to **₹319.00 Cr** (up from ₹109.00 Cr).
- **Other Income** rose to **₹242.00 Cr** from ₹160.00 Cr, primarily driven by **Interest received** of **₹100.00 Cr** and **Dividends received** of **₹44.00 Cr**, which significantly boosted **Profit before tax** to **₹894.00 Cr**.
- The company maintains a highly under-leveraged **Balance Sheet** where **Total Debt** stands at a minimal **₹17.00 Cr** (primarily **Lease Liabilities**), resulting in negligible **Finance Costs** of only **₹2.00 Cr**.
- **Trade Receivables** increased to **₹479.00 Cr**, yet **Debtor Days** improved to **45.00 days** from 53.00 days; however, the **Cash Flow Statement** shows a **₹347.00 Cr** outflow for "Receivables," signaling that a massive portion of this is actually **Unbilled Revenue/Contract Assets** (Contract Assets/Unbilled Revenue stands at **₹804 Cr**).
- The company exhibits a negative **Cash Conversion Cycle** of **-457.00 days**, driven by exceptionally high **Days Payable** of **502.00 days** and **Trade Payables** of **₹587.00 Cr**, allowing the firm to maintain a massive **Cash Equivalents** balance of **₹1,364.00 Cr**.
- **Fixed Assets (Net Block)** increased to **₹338.00 Cr** supported by **Capex** of **₹69.00 Cr**, while **CWIP** decreased to **₹31.00 Cr**, signaling the successful commissioning of ongoing projects.
- **Free Cash Flow (FCF)** surged to **₹252.00 Cr**, providing headroom for **Dividends paid** of **₹253.00 Cr** (a **41.00% Payout**), though the combined burden of dividends and capex (₹322 Cr) slightly exceeds the **CFO** of **₹319 Cr**.
- **ROCE** saw a sharp improvement to **31.00%** from 25.00%, reflecting superior capital efficiency as **Net Profit (PAT)** grew by **21.00%** to **₹692.00 Cr** on a stagnant **Equity Capital** of **₹281.00 Cr**.
- **Other asset items** surged by **₹511.00 Cr** to **₹1,895.00 Cr**, representing **32.28%** of total assets; this suggests a third of the balance sheet is comprised of non-standard, potentially illiquid contract-related assets which may cause future liquidity stress.
- **Employee Benefit Expenses** of **₹1,023.85 Cr** remain a significant fixed cost drag, representing **27.00%** of sales, though this is an improvement from 33.17% in the prior year.
- The dominant financial theme of the year is a strong **Revenue** and **ROCE** recovery masked by poor earnings quality, where aggressive **Revenue** recognition (Unbilled Revenue) and high dividend payouts are stretching the **CFO** to its absolute limit.

3.3 Contingent Liabilities & Commitments

- **Litigation:** Persistent Supreme Court litigation regarding a 2016 contract termination involving a **₹409.60 Cr claim**. No provision has been created, representing a risk to **14.30% of Reserves**.
- **Tax Disputes:** Significant judgment is required for ongoing commercial claims and tax disputes (specific quantum not disclosed in notes).
- **CAG Objections:** Prior year flags included "Grossing Up" of the balance sheet (**₹42.37 Cr**) and misclassification of employee loans (**₹58.30 Cr**) in the Cash Flow Statement.
- **Capital Commitments:** Primarily related to the **₹82 Cr** IT/Digital transformation capex and ongoing maintenance.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — low cash conversion as working capital absorbs □249 Cr of operating cash	□	PAT □692 Cr vs CFO □319 Cr; CFO/OP ratio at 70%	Working capital changes of -□249 Cr impacted cash flow
2	Receivables & channel-stuffing signal	Neutral — receivables growth of 7.8% lags sales growth of 27.2%, suggesting efficient collections	□	Receivables □479 Cr vs □444 Cr; Sales grew 27.22%	Debtor days improved from 53 to 45 days
3	Revenue timing (unbilled / contract assets)	Neutral — lack of disclosure on contract assets prevents assessment of aggressive revenue recognition	□	Advance from customers dropped to □0 from □75 Cr	Revenue recognition policy not disclosed in AR
4	Revenue from related parties %	Neutral — related party transaction quantum not disclosed, limiting visibility on earnings quality	□	RPT data not disclosed in provided Worker 3 notes	RPT note not disclosed in AR
5	Inventory vs revenue growth	Neutral — negligible inventory levels (□1 Cr) reflect service-heavy consultancy model	□	Inventory constant at □1 Cr; Sales increased to □3,928 Cr	Inventory days reported as 0.00 in ratio table
6	Inventory valuation method change	Neutral — no change in valuation method reported; inventory is immaterial at □1 Cr	□	Inventory remains at □1 Cr; no policy change noted	Accounting policy note not disclosed in AR
7	Exceptional items in operating profit	Profit ↑ — absence of exceptional losses in FY26 improves quality of operating profit	□	Exceptional items at □0 in FY26 vs □14 Cr in FY25	Exceptional items AT was □10 Cr in FY25
8	Depreciation rate vs useful life policy	Neutral — depreciation expense increased slightly to □42 Cr, consistent with fixed asset growth	□	Depreciation □42 Cr (FY26) vs □40 Cr (FY25); Assets □338 Cr	Fixed assets note not disclosed in AR
9	Provision reversals boosting PAT	Profit ↑ — reversal or lack of new provisions for doubtful debts supports PAT	□	Provision for doubtful debts shows □0 in FY26 vs -□123 Cr in FY25	Provisions note not disclosed in AR
10	Tax rate consistency	Profit ↑ — effective tax rate dropped to 23% while cash tax lags P&L tax	□	Tax rate 23% vs 25%; Direct taxes paid □168 Cr	Deferred tax details not disclosed in AR
11	CWIP age and stalling projects	Neutral — reduction in CWIP suggests successful capitalization of projects into fixed assets	□	CWIP decreased from □46 Cr to □31 Cr	CWIP details not disclosed in AR
12	Deferred tax asset recognition adequacy	Neutral — insufficient data to evaluate DTA/DTL adequacy due to lack of tax notes	□	DTA/DTL figures not disclosed in provided balance sheet	Deferred tax from notes not disclosed in AR
13	RPT quantum and trend	Neutral — related party transaction trend cannot be established without specific note disclosure	□	RPT data not disclosed in provided Worker 3 notes	RPT data not disclosed in AR
14	Dividend paid vs FCF adequacy	Neutral — dividend payout of □253 Cr is fully funded by Free Cash Flow of □252 Cr	□	Dividends paid □253 Cr; Free Cash Flow □252 Cr	Dividend payout ratio increased to 41% from 39%
15	Auditor KAM: Revenue Recognition	Profit ↑↓ — Complexity in POCM estimates allows for potential earnings manipulation	□	Management relies on technical estimates for project completion	POCM involves significant management subjectivity

#	Check	Impact	Status	Evidence	Notes Detail
16	Unbilled Revenue Quality	Profit ↑ — Revenue recognized but not yet certified/billed to clients	□	**□804 Cr unbilled revenue**; □347 Cr receivable outflow in CFO	Potential for massive write-downs if certifications fail
17	Audit Trail Integrity	Neutral — Audit trail reported as disabled at JV level (RFCL)	□	p. 356 of AR	Risk of undetected financial manipulation at JV level
18	CAG Financial Flags	Profit ↑↓ — Previous objections to "Grossing Up" and loan misclassifications	□	□42.37 Cr grossing up; □58.30 Cr loan misclassification	Indicates systemic weaknesses in reporting integrity

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters - **Audit opinion type:** Unqualified. - **KAM 1: Revenue Recognition (POCM):** Auditor concern centers on the complexity of estimating "forecast contract revenue and costs." Management relies on technical estimates for project completion, which are susceptible to manipulation to meet earnings targets. - **KAM 2: Contingent Liabilities & Taxation:** Significant judgment required for commercial claims and tax disputes. - **Emphasis of Matter:** Persistent Supreme Court litigation regarding a 2016 contract termination involving a **□409.60 Cr claim**. No provision has been created, representing a risk to 14.30% of Reserves. - **CAG Objections:** Flagged "Grossing Up" of the balance sheet (□42.37 Cr) and misclassification of employee loans (□58.30 Cr) in the Cash Flow Statement. These indicate systemic weaknesses in financial reporting integrity.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | |:---|:---|:---|:---|:---| | ***EIL Employees*** | Employees | Loans Outstanding | 156.00 Cr | ***Cash Leakage; 48.90% of CFO*** | | **EIL Directors** | KMP | Loans Outstanding | 0.30 Cr | Neutral | | ***PF Trust*** | Post-Employment | Impairment Reversal | 69.88 Cr | ***Accounting Volatility*** |

- **RPT Risk Checks:** % of Revenue: 3.97% □| % of CFO: 48.90% □(High proportion of cash flow locked in employee loans).
- **Red Flag Filters:** ***Loans to Employees:*** □156.00 Cr outstanding. The CAG previously flagged reporting deficiencies in these balances. ***Audit Trail:*** Reported as disabled at the JV level (RFCL).

C. Shareholding | Shareholder | Mar 2026 (%) | Mar 2025 (%) | |:---|---:|---:| | **Promoter (Govt. of India)** | 51.32 | 51.32 | | **FII** | 7.79 | 7.79 | | **DII** | 18.05 | 18.05 | | **Public** | 22.84 | 22.84 | - **Promoter Pledges:** 0.00%.

D. Board Composition + KMP Compensation - **Total Directors:** 12 | **Independent %:** 33.33% (4/12) — ***Non-compliant*** □(SEBI requires 50%). - **Women Directors:** 2 (Vartika Shukla, Karuna Gopal). - **KMP Compensation:** Individual KMP remuneration not disclosed. Total employee costs represent 27.00% of Sales (□1,060.56 Cr). While revenue grew 27.22%, employee costs as a % of sales dropped from 33.17%, suggesting better operating leverage.

F. Capital Allocation & Capex | Action | FY Current (□Cr) | FY Prior (□Cr) | % of CFO | Signal | |:---|:---|:---|:---|:---| | ***Dividends Paid*** | 253.00 Cr | 169.00 Cr | 79.31% | □| | **Capex (Fixed Assets)** | 69.00 Cr | 42.00 Cr | 21.63% | **Positive** | | **Interest Received** | 100.00 Cr | 82.00 Cr | 31.35% | **Positive** | | ***Working Capital Inv.*** | 249.00 Cr | 183.00 Cr | 78.06% | ***Concern*** |

CAPEX Analytical Notes: - **CFO Coverage of Capex:** 4.62x. CFO (**□319 Cr**) comfortably covers Capex (**□69 Cr**). - **Nature of Capex:** Primarily maintenance and IT-related (digital transformation) rather than heavy industrial capacity expansion. - **Deployment Efficiency:** Revenue grew 27.22% following IT/Digital investment, indicating positive correlation. - **Key Takeaways:** The combined burden of Dividends (**□253 Cr**) and Capex (**□69 Cr**) totals

□322 Cr, slightly exceeding the CFO of □319 Cr. The company is using interest income to fund its dividend policy.

H. Risks - ***Litigation:*** Supreme Court case regarding 2016 contract termination. **□409.60 Cr potential outflow; 14.3% of Reserves.** (Severity: □High) - ***Unbilled Revenue:*** Revenue recognized but not yet certified. **Potential for massive write-downs.** (Severity: □High) - ***Receivable Aging:*** **□42.05 Cr** in undisputed dues > 3 years. Drag on liquidity. (Severity: □Medium) - ***Governance Gap:*** Board independence at 33.33% vs 50% required. Risk of SEBI penalties. (Severity: □Medium) - ***Audit Integrity:*** Audit trail disabled at JV level (RFCL). Risk of undetected manipulation. (Severity: □Medium)

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	4	→	27.2% Rev growth; 23% Private orders	Strong technical moat and successful pivot to Green Energy.
Financial Health	4	↑	D/E < 0.1x; ROCE 31%; Cash □1,364 Cr	Debt-free balance sheet with massive cash reserves.
Earnings Quality	2	↓	CFO/PAT 0.46; Unbilled Rev □804 Cr	High unbilled revenue and CAG flags on "grossing up" assets.
Management & Governance	2	↓	33% Board Independence; Audit trail disabled	Non-compliant board structure and internal control gaps.
Capital Allocation & Earnings Visibility	3	→	Div Payout 41%; Order Book □8,214 Cr	High dividends consume CFO; strong order book but execution risks.

BUSINESS POSITIVES (for this company this year) * □**Revenue Rebound:** Delivered 27.22% revenue growth to □3,928 Cr, reversing the prior year's contraction. * □**Superior Capital Efficiency:** ROCE improved sharply to 31.00% from 25.00% due to the asset-light consultancy model. * □**Strong Order Inflow:** Achieved record order inflows of □8,214 Cr, providing strong revenue visibility. * □**Strategic Diversification:** Successfully increased private sector order share to 23% and international orders to 13%. * □**Debt-Free Status:** Maintained a pristine balance sheet with only □17 Cr in total debt against □1,364 Cr in cash.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Poor Cash Conversion:** CFO/PAT ratio remains weak at 0.46 (□319 Cr CFO vs □692 Cr PAT), driven by working capital stress. * □**Unbilled Revenue Risk:** □804 Cr in unbilled revenue and a □347 Cr receivable outflow in CFO suggest aggressive revenue recognition. * □**Governance Non-compliance:** Board independence stands at 33.33%, failing the SEBI requirement of 50%. * □**Significant Litigation:** A □409.60 Cr Supreme Court claim threatens 14.3% of the company's reserves. * □**Internal Control Flags:** Audit trail disabled at the JV level and prior CAG objections regarding financial misclassification.

OVERALL SCORECARD SUMMARY Engineers India Ltd presents a dichotomy of strong operational recovery and weak financial/governance integrity. While the company boasts a debt-free balance sheet, 31% ROCE, and a robust order book pivot toward Green Energy, its earnings quality is severely compromised by aggressive revenue recognition and poor cash conversion. Governance is a primary concern, marked by a non-compliant board structure and internal control gaps flagged by the CAG. The business is on a **stable but high-risk trajectory**, where technical prowess is offset by the structural inefficiencies and reporting risks inherent in its PSU-dominated model.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified opinion issued.
2	Promoter pledge = 0?	□	0.00% pledge.
3	KMP pay < 5% of PAT?	□	Aggregate KMP pay not disclosed but total employee cost leverage improved.
4	RPT quantum < 5% of revenue?	□	RPT at 3.97% of revenue.
5	Board > 50% independent?	□	Only 33.33% independent (4/12).
6	At least 1 woman director?	□	2 women directors (Vartika Shukla, Karuna Gopal).
7	No statutory dues outstanding?	□	No major defaults reported.
8	No fraud reported?	□	No fraud reported in FY26.
9	Audit trail enabled?	□	Disabled at JV level (RFCL).
10	Frequent Auditor change	□	No frequent changes noted.
Final line: "Total: 7.5/10 □— Governance Rating: 2"			

Part C: Investor Verdict

THESIS: EIL is a technically superior, debt-free engineering proxy for India's energy transition, currently hampered by PSU-payment cycles and governance gaps.

OVERALL STANCE: WATCH

RATIONALE: Strong order book and ROCE are offset by a massive □804 Cr unbilled revenue position and a non-compliant board. RE-EVALUATE WHEN: CFO/PAT ratio exceeds 0.75x for two consecutive quarters. BULL CASE: Successful conversion of Green Hydrogen orders into cash, driving FCF to >□500 Cr and a valuation re-rating. BEAR CASE: Supreme Court rules against EIL in the □409.60 Cr litigation, coupled with a major write-down of unbilled revenue. KEY MONITORABLE: Unbilled Revenue as % of Total Assets: 13.7% → Watch threshold: >20%.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Revenue Trajectory	-5.89% contraction; revenue at ₹3,088 Cr.	+27.22% growth; revenue at ₹3,928 Cr.	The company has successfully pivoted from a contractionary phase to aggressive top-line growth driven by the "EIL 4.0" green energy initiative.
Cash Conversion (CFO/PAT)	0.19; critical divergence between profit and cash.	0.46; moderate improvement but still below historical norms.	While cash conversion has improved, more than half of the reported profits remain non-cash, indicating continued working capital friction.
Capital Allocation (Dividends)	₹169 Cr payout; exceeded Free Cash Flow (₹68 Cr).	₹253 Cr payout; matches Free Cash Flow (₹252 Cr).	Management has increased the absolute dividend payout to satisfy the promoter, effectively exhausting all free cash flow generated during the year.
Working Capital (Unbilled Revenue)	₹804 Cr (26% of Sales); high estimation risk.	₹804 Cr (20% of Sales); absolute value remains stagnant.	The stagnation of unbilled revenue at high absolute levels suggests a persistent struggle to convert contract assets into billable milestones despite higher activity.
Management Tone	Defensive; focused on maintaining the moat during a downturn.	Highly Optimistic; promotional focus on "Green Integrator" pivot.	The narrative has shifted toward a futuristic energy transition story to distract from ongoing governance non-compliance and balance sheet integrity issues.
Operating Leverage	Employee costs at 33.17% of sales; margins pressured.	Employee costs at 27.00% of sales; margins expanding.	Stronger top-line growth has finally allowed the company to sweat its high fixed-cost base, leading to a sharp improvement in ROCE.

7.2 Persistent Patterns

- **Governance Non-compliance:** The board remains structurally non-compliant with only **33.33% independent directors** across both periods, failing the 50% regulatory requirement.
- **Pristine Solvency Profile:** The company maintains a **virtually debt-free balance sheet (D/E < 0.01x) with cash reserves consistently exceeding ₹1,300 Cr**, providing a massive valuation floor.
- **Structural Litigation Overhang:** The **₹409.60 Cr Supreme Court claim** remains a permanent, unprovisioned threat representing approximately **14-17% of total reserves**.
- **Internal Control Deficiencies:** Recurring audit flags—ranging from **CAG objections on "grossing up" assets to disabled audit trails at the JV level**—point to systemic weaknesses in financial reporting integrity.
- **Asset-Light Operational Model:** Capex remains strictly defensive and focused on IT/digitalization, maintaining a **high ROCE profile (25-31%)** regardless of top-line volatility.
- **PSU Ecosystem Dependency:** The business remains structurally tethered to the PSU oil major ecosystem, which dictates the **chronic receivable stress and long-dated payment cycles** seen in the cash flow statements.
- **Subjective Revenue Recognition:** The use of the Percentage of Completion Method (POCM) remains a perennial Key Audit Matter, highlighting **sustained management discretion in estimating project costs and profit timing.**

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