Management's Reply on Comments of the Comptroller and Auditor General of India under Section 143(6)(b) of the Companies Act, 2013 on the Standalone Financial Statements of Engineers India Limited for the year ended 31 March 2025

Comments of the Comptroller and Auditor General of India	Management's Reply
A. Comments on Financial position	
1. Balance Sheet as at 31 March 2025	
Assets - Current Assets	
Financial Assets- Trade Receivables (Note-14): ₹ 42,085.67 lakh	
The above includes ₹4,205.07 lakh which has been classified as 'Undisputed Trade Receivables-considered good' and is outstanding for a period more than three years. Corresponding to Trade Receivable, the Contract Liability of ₹4,205.07 lakh as income received in advance has been recognized in the financial statements. The amount of ₹4,205.07 lakh was invoiced by EIL in 2016-17 but no income was recognized for the subject job, pending signing of the contract by the client and uncertainty of realization of the amount due to political disturbance in the country Angola. The Company has classified this amount as 'Undisputed Trade Receivables-considered good' in the financial statements. This classification is not justified considering the fact that this amount is pending from a client from 2016-17 and hence cannot be considered good. As per ECL provisioning methodology adopted by the Company, 100% of the amount of Trade receivables which are due for payment for more than three years are credit impaired. However, no provision has been made in respect of this Trade Receivable of ₹4205.07 lakh outstanding for more than three years old which is non-compliance with Ind AS 109. This has resulted in overstatement of 'Trade Receivables' and understatement of 'Provisions' by ₹4,205.07 lakh. As per para 46 of Ind AS 115, "When a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation". The invoicing of the foreign party indicates that the performance obligation has likely been met, and the trade receivables represents an unconditional right to consideration. Therefore, revenue should be recognized, and the creation of a contract liability is inappropriate unless there is an obligation to provide additional goods or services in the future as contract liability is in general an income received in advance. By recognizing a contract liability instead of revenue, the company has understated its revenue and misstated its financial position, which is not in compliance with Ind AS 115.	As per para 9 of Ind AS 115, an entity shall account for a contract with a customer only when all the following criteria are met: a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations; b) the entity can identify each party's rights regarding the goods or services to be transferred. c) the entity can identify the payment terms for the goods or services to be transferred; d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and e) it is probable that the entity will **collect the consideration** to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession. As per para 108 of Ind AS 115, a receivable is an entity's right to consideration that is unconditional. The right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. As per Para 106 of Ind AS 115, if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional, before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). EIL was engaged to undertake the KBR Phase-1 FEED Revalidation Study and Licensor's selection study as per the client's (Sonangol, E.P.) letter dated 23rd March 2016. Following negotiations, EIL finalized the detailed contract which was sent to the client for its acceptance on 27th April 2016. However, due to political disturbances in their country, it could not be signed.

Comments of the Comptroller and Auditor General of India	Management's Reply
Also, the foreign exchange gain of ₹1,187.26 lakh arising from the revaluation of trade receivables as at the year-end for the year 2024-25 has been classified as a part of Trade Receivables and a provision for ECL has also been created on the same. Thus, differential treatment of principal amount outstanding and foreign exchange gain has been done by the Company. As a result, the financial statements misrepresent the nature of Trade Receivables, ECL provision and the foreign exchange gain. Also, no disclosure in this regard has been given by the company in the Notes to Financial Statements.	In the meantime, based on the engagement letter, EIL rendered certain services to Client (Sonangol, E.P.) and to claim its legal right against the services rendered, EIL raised an Invoice of ₹4,237.84 lakhs in June 2016. Based on the guidance given as per Ind AS 115, an entity shall recognize revenue only when all of the specified criteria are satisfied, including collection of consideration is probable. However, due to political disturbance in the country, there was an uncertainty of realization of amount due from customer. Further, as per the accounting Policy of the Company for the year ended 31 March 2017, no revenue/income shall be recognized if there is an uncertainty of realization of the amount due from customers. Therefore, no revenue/income shall be recognized by EIL for the subject job. However, the expenditure incurred on the Job ₹122.59 lakhs was accounted for as Work in progress. Further since the amount was not realized, the provision of impairment for amount recognized as work in progress of ₹122.59 lakhs was also made in the books of accounts in the financial year 2016-17. Based on the invoice raised, EIL has recognized trade receivables of ₹4,237.84 lakhs as it has an unconditional right to consideration and to keep intact its legal rights to claim the consideration. **Further, as per para 106 of Ind AS 115, corresponding contract liability of ₹ 4,237.84 lakhs was recognized by EIL in the financial statements for the year ended 31 March 2017.** As per para 23 of Ind AS 21, At the end of each reporting period: a) foreign currency monetary items shall be translated using the closing rate. b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Further, as per para 5.5.3 of Ind AS 109, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Based on the guidance given as per Ind AS 21, EIL has recognized a foreign exchange gain of ₹1,187.26 lakh arising from the translation of trade receivables for the year ended 31st March 2025 and created a provision for impairment loss of the same amount as there is an uncertainty of its realization.

Comments of the Comptroller and Auditor General of India	Management's Reply
	However, no provision for impairment loss has been recognized in respect of the trade receivables, as EIL has not recognized the revenue on account of uncertainty of realization and corresponding credit with respect to trade receivable has been recognized as contract liability in the financial statement. In the event the client denies payment for the said invoice, the corresponding **contract liability and trade receivable would be reversed** to the extent of the unpaid amount, resulting in **no impact on profit or loss**. With respect to the Outstanding balances against the Invoices raised in June 2016, EIL made rigorous follow up with the Client through embassy of India in Angola. Due to these efforts, Client vide email dated 30th April 2025, agreed to release the outstanding balance in one of the jobs subject to signing of some change orders. Therefore, EIL has classified this amount as undisputed trade receivables-considered good. To comply with the requirement of Ind AS-21 and Ind AS-109, EIL translated its foreign trade receivables as per table below and corresponding loss allowance to the extent no liability was provided in the books of account as Contract liability.

Particular	Amount (₹ in Lakhs)
Trade Receivable as per Invoice raised	4,237.84
Translated as per Ind AS -21	1,187.26
Total Trade Receivable as on 31.03.2025- A	5,425.10
Contract Liability Provided -B	4,237.84
Balance amount provided as ECL- (A-B)	1,187.84

It may also be noted that said practice is being following consistently since long.

In view of above, there is no overstatement of trade receivables & understatement of revenue and misstatement of financial position.

Comments of the Comptroller and Auditor General of India	Management's Reply
B. Comments on Statement of Cash Flows	
2. Statement of Cash Flows	
Cash Flow from Operating Activities: ₹ 9,168.43 lakh The above includes ₹2,294.03 lakh being the amount of rental income from Investment property that the Company has earned during the year 2024-25. The rental income accrued to the Company is related to Investment Property, which is not the core or ancillary business activity of EIL. The Company has also accounted for the rental income in 'Other Income'. Thus, the rental income should have been classified as Cash Flow from Investing Activities by eliminating/adjusting it from Cash Flow from Operating Activities. However, no such adjustments as regards the rental income has been made to the Profit before tax to arrive at the Cash Flow from Operating Activities. Incorrect classification of rental income in the Statement of Cash Flows has resulted in overstatement of Cash Flows from Operating Activities and understatement of Cash Flows from Investing Activities by ₹ 1,262 lakh (on cash basis).	As per Ind AS 7, cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. The Company's investment properties primarily comprise buildings that were originally constructed or acquired for use in the normal course of its operations. At present, certain properties have been identified as not being in active operational use and are temporarily leased out to generate additional income. As these properties were acquired for operational/business use by EIL and their classification as investment property is temporary in nature and as such the rental income earned therefrom (which is ancillary to the main business of the Company) is appropriately accounted for as part of **cash flows from operating activities**. This treatment aligns with the original intent and operational classification of the assets. It is also pertinent to note that this accounting treatment has been consistently applied over time. Accordingly, there is no **overstatement of cash flows from operating activities**, nor any **understatement of cash flows from investing activities** arising from such classification.
3. Statement of Cash Flows	
Cash Flow from Operating Activities: ₹ 9168.43 lakh The above includes ₹5,830.56 lakh towards loan extended to the employees by the company during 2024-25. Granting loans to employees is not a principal/ancillary business of EIL, and accordingly, the company has been accounting for interest income on the loans granted to employees as 'Other Income' in the Statement of Profit and Loss. Such interest income has been included in the Cash Flow from Investing Activities by adjusting the same from Cash Flow from Operating Activities. However, the principal portion of the employee loan of ₹ 5,830.56 lakh extended during the year 2024-25 has not been included as an outflow in the Cash Flow from Investing Activities. Also, the employee loan received back in cash during the year amounting to ₹ 2,947.97 lakh has not been shown as inflow in the Cash Flow from Investing Activities. Thus, differential treatment has been given by the Company to the principal and interest portion of employee loan. This has resulted in overstatement of Cash Flow from Investing Activities and understatement of Operating Activities by ₹2,882.59 lakh (net) (₹5,830.56 lakh - ₹2,947.97 lakh) due to outflow of cash on account of grant of loan and inflow of cash on account of repayment of loan by employees.	As per Para 14(d) of Ind AS 7, cash flow from operating activities includes cash payments to and on behalf of employees. Further, as per para 31 of Ind AS 7, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. As per the Company's welfare policy, EIL has extended loans to the employees in the ordinary course of business as per employment terms and these loans are being repaid by the employees by way of deduction from their salaries as per rules of the company and as such form part of the operating activities. Therefore, EIL has classified cash payments from/to employees as cash flow/used from operating activities which is in accordance with para 14(d) of Ind AS 7. Additionally, interest received on extended loans has been presented under cash flow from Investing activities which is in accordance with para 31 of Ind AS 7. It is also pertinent to note that this classification approach is line with the para 14 (d) and para 31 of Ind AS -7 which has been **consistently followed by EIL over the years.** In view of the above, there is neither any overstatement of Cash Flows from Investing Activities nor any understatement of Cash Flows from Operating Activities.

Comments of the Comptroller and Auditor General of India	Statutory Auditor's Reply
C. Comments on Auditor's report	
4. Independent Auditor's report **Annexure-A to Independent Auditor's report** While reporting on "Other Legal and Regulatory Requirements", the Independent Auditor has reported that "The Company has maintained proper records showing full particulars, including quantitative details and situation of Property, Plant and equipment and relevant details of right of use asset." It has also been reported that "The Company has maintained proper records showing full particulars of Intangible Assets". As per the Guidance Note on CARO 2020, in case of companies required to comply with Ind AS, the investment property (as defined under Ind AS 40, Investment Property) and non-current assets held for sale (as defined under Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations) have to be considered by the auditor for reporting under this clause. No disclosure in this regard has been made by the Statutory Auditor for Investment Property and Non-current assets held for sale in the Independent Auditor's Report.	Reporting under CARO 2020 Clause 3(i)(a)(A) – Property, Plant and Equipment (PPE) As per Clause 3(i)(a)(A) of CARO 2020, the auditor is required to report whether: "the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment." The extract of above clause of CARO issued by Ministry of Corporate affairs is enclosed as per Annexure-A. This clause specifically mandates reporting only in respect of Property, Plant and Equipment (PPE). As per the Guidance Note on CARO 2020, the auditor has to consider reporting on investment property and non-current assets held for sale. We have duly considered the maintenance of records of Investment property and Non current assets held for sale while reporting them as part of PPE as per requirements of CARO 2020 and guidance note.
5. Independent Auditor's Report **Annexure A to Independent Auditor's Report** In the Annexure A to the Independent Auditor's Report, the Statutory Auditor has reported that an amount of ₹5830.56 lakh has been granted by the Company to its employees during the year 2024-25 and balances outstanding as at the balance sheet date with respect to them is ₹ 14329.30 lakh. As per Paragraph 3 (iii)(a)(B) of the Guidance Note on CARO 2020 (Revised 2022), format given in Para 50 (g) and the format used by the Statutory Auditor, amount granted as loan along with the amount outstanding as at the Balance Sheet date **in respect of the above cases** has to be disclosed. Thus, the outstanding balance as at the year-end should not be more than the aggregated amount granted during the year. Statutory Auditor has reported in the Auditor's Report loans amount of ₹5,830.56 lakh provided during the year to entities classified as "Others" (i.e., entities other than subsidiaries, joint ventures, and associates) and the balance outstanding as at the balance sheet date in respect of such loans stands at ₹14,329.30 lakh at cumulative basis. Thus, the reporting made by the Statutory Auditor in the Auditor's Report is not in line with the provisions contained in the Guidance Note on CARO 2020 and is deficient to that extent.	Clause 3(iii)(a)(B) of CARO 2020 requires the auditor to report: "the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates." The extract of above clause of CARO issued by Ministry of Corporate affairs is enclosed as per Annexure-A. The above clause requires the reporting of the balance outstanding at the balance sheet date **in respect of the categories mentioned other than subsidiaries, joint ventures, and associates, such nature of loans or advances and guarantees or security**. Accordingly, we have reported the closing balance outstanding in respect of employee loans which is tallied with balance outstanding in financial statements of company. The above reporting pattern has been consistently followed by other auditors while reporting in audit reports of public sector undertakings.

Comments of the Comptroller and Auditor General of India	Management's Reply
6. Notes to the Standalone Financial Statements **Ratios (Note-68)** As per Schedule-III of Companies Act 2013 (amended in March 2021), certain ratios are required to be disclosed in the notes to the Financial Statements and the items included in numerator and denominator for computing the ratios to be elucidated. Further, an explanation has to be provided for any change in the ratio by more than 25% as compared to the preceding year. The company has disclosed four ratios viz. Net Capital Turnover Ratio, Net Profit Ratio, Debt Equity Ratio and Trade Payable Turnover Ratio in Note 68. Instead of disclosing the reasons for variance in the ratios wherein changes in the ratio were more than 25% as compared to the preceding year, the company has merely elaborated the elements of Numerator and Denominator considered for the ratio calculation and not the actual reasons behind the change in the ratio. Thus, the reasons for variance given by the management in respect of these ratios are deficient and has resulted in non-compliance of provisions of Revised Schedule -III.	As per Schedule III of the Companies Act, 2013, certain ratios are required to be disclosed in the notes to the Financial Statements and the items included in numerator and denominator for computing the ratios to be elucidated. Further, an explanation has to be provided for any change in the ratio by more than 25% as compared to the preceding year. This disclosure requires the company to provide analytical ratios with an explanation of the items included in numerator and denominator for computing these ratios. An illustrative format for this disclosure is given in Schedule III. Reasons for decrease in Net Capital ratio is due to decrease in revenue under turnkey segments which is already disclosed in Note-46 (Disaggregate Revenue) and Note-50 (Segment Reporting) in Notes to the financial statement for the year ended 31st March 2025. The reason for the increase in Net profit ratio is due to increase in profit which primarily on account of impact of variation consideration accounted and settlement of performance obligation with the Client in Consultancy and Engineering Project Segment which was duly disclosed in Note-51 and Note-54 (A) in Notes to the Financial statement for the year ended 31st March 2025. Further, the reasons for change in Debt Equity ratio and Trade payable turnover ratio are also sufficiently disclosed in note no. 68 itself. In view of the above, there is no deficiency with respect to reason for variance nor non-compliance of provision of Revised Schedule -III.

For and on behalf of the Board of Directors

Vartika Shukla
Chairman & Managing Director
DIN: 08777885

Place: New Delhi
Date: 26.08.2025