

Joshi Technologies International Inc. India Projects

February 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	10.00	CARE A+; Stable	Assigned
Long-term / Short-term bank facilities	10.00	CARE A+; Stable / CARE A1+	Revised from CARE A+; Stable
Long-term / Short-term bank facilities	0.00	-	Withdrawn
Short-term bank facilities	0.00	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned the bank facilities of Joshi Technologies International Inc. – India Projects (JTIIP) continue to take into account the rich experience of its promoters in the oil and gas sector, good revenue visibility in the medium term upon the extension of its production sharing contract (PSC) for existing oil fields, moderate profitability, comfortable capital structure, strong debt coverage indicators and strong liquidity. The ratings further derive strength from the proposed escrow of its entire receivables from Indian Oil Corporation Limited (IOCL) as per the terms of sanction of the bank loan and absence of any oil exploration risk due to its presence in only oil field development and extraction activities.

The ratings, however, continue to be constrained by its moderate scale of operations, susceptibility of the profitability margins to the volatile crude oil prices and geographical concentration of its oil wells. The ratings are also constrained by the event-based risk associated with crystallisation of its disputed income tax liability; however, JTIIP has already deposited part of the captioned liabilities under protest. The ratings also take cognisance of the moderation in the crude oil production in last two-three years due to inherently depleting nature of the crude oil reserves, albeit JTIIP's is undertaking the drilling of three new wells, which along with the past track record of good operating efficiency and sound oil production practices is expected to support the volume in the medium term.

The above rating is assigned to the debt raised by the Indian project office of Joshi Technologies International Inc. USA (JTII), which satisfies the following conditions:

1. Assets being financed are located in India.
2. Debt is secured in nature.
3. Income from the project office is ring fenced (i.e., revenue generated from the oil field is escrowed and first utilised for debt servicing. As such, repatriation of project assets/cash is only after the satisfactory discharge of project debt servicing liabilities).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its scale of operations through greater geographical diversification of its oil & gas assets along with higher volume of production.
- Improvement in profit before interest, lease, depreciation and tax (PBILDT) margin to 35% on a sustained basis through continued cost-effective recovery of oil.
- Maintenance of its existing comfortable capital structure and debt coverage indicators.
- Favourable ruling by the apex court in the income tax liability case against the company resulting in significant cash inflow.

Negative factors

- Any significant decline in its sales volume and total operating income (TOI) leading to moderation in debt coverage indicators.
- Moderation in the operating profitability marked by PBILDT margins of less than 20% on a sustained basis.
- Adverse ruling by the apex court in the income tax liability case against the company resulting in significant cash outflow.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Standalone**Key strengths****Rich experience of the promoters and management in the oil and gas sector**

Dr Sadanand Joshi is widely known in the field of oil and gas as a pioneer of the horizontal drilling technology. Dr Joshi has been a consultant to over 200 oilfield projects in more than 35 countries for application of horizontal drilling technology. Mrs. Claudette Joshi, wife of Dr Joshi, is also a director of JTIIP. Both the directors operate out of USA. The promoters are ably supported by a team of experienced professionals in the functioning of the JTIIP. Vrunda Shastri currently heads operations of JTIIP.

Good operating efficiency due to sound oil production practices albeit moderation in the oil production in last 2-3 years

As on December 31, 2022, JTIIP had 39 producing wells, and had undertaken drilling of three new wells during FY19 (refers to the period April 1 to March 31). The production from these oil fields reached peak of around 915 barrels per day (bpd) during FY19, and since then, has exhibited declining trend on account of no new well drilling and inherently depleting nature of the oil fields. Earlier, JTIIP was planning to undertake drilling of three new wells (2 at Dhokla and 1 at Wavel) from April 2022; however, the same could not commence due to delay in the receipt of approvals from the concerned government authorities. As on December 31, 2022, JTIIP has received all necessary approval and has started drilling of two wells at Dholka and drilling at Wavel will start from March 2023. JTIIP has registered healthy average daily production in the past despite depleting fields on the back of increase in the producing wells and efficient production techniques, such as water flooding, single well treatment, fracturing, acidic treatment, etc., towards enhancement of oil recovery. JTIIP also produces gas (around 8-10% of TOI), which is sold to its associates at fixed price. JTIIP also owns one work-over rigs, which results in operational synergy. With its strong technical expertise, CARE Ratings Limited (CARE Ratings) expects JTIIP to partly recover its declining crude volume with commencement of the production from new oil wells.

Enhanced revenue visibility of its operations due to extension of PSC with moderate profitability

The Ministry of Petroleum and Natural Gas (MoPNG) approved the proposal of JTIIP for the extension of the PSC for its Dholka and Wavel oil fields in Gujarat till February 2028 under extant policy for the extension of PSC, which is expected to enhance revenue visibility of JTIIP. However, as per the amended PSC and the extant policy, sharing of higher 'profit petroleum', royalty and cess with the GoI has led to moderation in operating profitability in last two-three years. Profitability of JTIIP improved marked by PBILDT margin of 27.28% during FY22 as compared with 21.17% during FY21. Improvement in the PBILDT margin was due to lower expenses like well stimulation, oil field maintenance and technical consultancy charges. Profit after tax (PAT) margin was healthy at 15.86% during FY22 as compared with net losses during FY21. JTIIP had reported net loss of ₹25.71 crore during FY21 on the back of the deferred tax liability charges of ₹30.62 crore, as it had provided for higher depreciation for the earlier years. With growth at profit after tax (PAT) level, gross cash accruals (GCA) also grew and remained at ₹25.21 crore during FY22 as compared with ₹12.92 crore during FY21. For 9MFY23, JTIIP had reported PBILDT margin of 42.67%, however, the same would moderate in full year with some expenses being charged on annual basis. Going forward, CARE Ratings expects profitability margin to remain in range of 25% to 30%.

Comfortable capital structure and strong debt coverage indicators

JTIIP had nil debt as on March 31, 2022, and December 31, 2022, as compared with ₹12.87 crore as on March 31, 2021. Also, it has capital base of ₹165 crore as on March 31, 2022. JTIIP, post meeting its operational and financial obligation, repatriate funds to its parent, i.e., JTI. JTIIP has free cash and bank balance of ₹14.90 crore as on December 31, 2022, and has historically shown low reliance on debt with net debt free operations. Overall debt coverage indicators marked by PBILDT interest coverage, total debt to GCA (TDGCA) remained healthy on the back of low debt levels and moderate profit margins.

JTIIP has planned capex of around ₹41 crore (as compared with earlier estimates of around ₹30 crore) for drilling of three new wells, which will be funded through the term loan of ₹25 crore (already sanctioned) and balance from the internal accruals/cash and bank balance. Even after the availment of the new debt, CARE Ratings expects JTIIP to maintain its comfortable capital structure and healthy debt coverage indicators, with management stance on low reliance on the external debt and cushion available from the moderate cash accruals and availability of the free cash and bank balance.

Escrow of entire receivables from IOCL

As per the PSC, IOCL is the sole customer of JTIIP. Currently, JTIIP has nil debt. However, in past, the repayment of bank loans was done from the cash flow of the JTIIP which was secured by way of escrow of entire receivables of IOCL. As per the sanction term, there will be similar escrow mechanism in place for the fresh term debt availed by JTIIP for three wells.

Key weaknesses

Moderate scale of operation and with vulnerability of its profitability margins to volatile crude oil prices

JTIIP has moderate scale of operation marked by TOI of ₹134.53 crore during FY22 as compared with ₹89.21 crore during FY21. Increase in the TOI during FY22 was on the back of increase in the crude oil price leading to the improvement in the average sales realisation, by around 84% on y-o-y basis. For 9MFY23, JTIIP had reported TOI of ₹119.32 crore as compared with ₹93.10 crore during 9MFY22. Crude oil production declined by around 11% during 9MFY23 over 9MFY22. JTIIP's scale of operations continued to remain moderate as compared to other larger integrated industry players. Crude oil price is inherently volatile in nature and depends on the international demand-supply as well as global economic scenario and is also impacted by various geopolitical considerations amongst the key oil-producing countries. After a range-bound for the couple of years, crude price (brent) has fallen sharply since early March 2020. The fall was triggered on account of a supply glut in the market by Saudi Arabia and Russia, which was later aggravated on account of a decline in the demand for petroleum products due to COVID-19 pandemic-induced disruptions. However, oil prices have started recovering steadily from lows of March 2020 and touched an all-time high of around USD 140 per barrels in March 2022. Post that, crude prices have started declining owing to the inflationary scenario across the globe expecting the moderation in the economic growth. Crude oil prices are currently hovering at around USD 70-80 per barrel.

Geographical concentration of oil wells

As on December 31, 2022, JTIIP had 48 oil wells, of which 21 were originally drilled by ONGC and 27 were developed by JTIIP. Among these, 39 are producing wells (37 at Dholka oil field and 2 at Wavel oil field), two water injection wells, one suspended and six wells are dry or abandoned. Presence of maximum number of producing wells at a single location exposes JTIIP to event-based risk arising out of geographical concentration.

Large contingent liabilities

During FY08, the Income Tax (IT) authorities issued a show cause notice for the disallowance of the claim under the section 42 (claim of capital expenditure for drilling of wells) to JTIIP. Subsequently, JTIIP had contested this claim of the IT department in Hon'ble Delhi High Court (DHC). In May 2015, the DHC pronounced its judgement on the dispute and rejected JTIIP's claim. Subsequently, JTIIP had filed a special leave petition (SLP) with the Hon'ble Supreme Court of India (SC) for granting stay against the judgement of DHC. The SC vide its order dated May 14, 2015 rejected the petition filed regarding the said claim.

The amount of contingent liability was ₹70.69 crore as on March 31, 2021, which increased to ₹128.13 crore as on March 31, 2022. As against the order of the commissioner of the income tax, JTIIP had appealed in the dispute resolution panel (DRP). The same got disallowed and the liability along with the interest was added to the contingent liability as on March 31, 2022. For the said claim, CARE Ratings notes that, JTIIP has already paid ₹72.13 crore as advance tax as on March 31, 2022 (₹63.33 crore as on March 31, 2021).

On the other hand, JTIIP had filed a writ petition before the Hon'ble Gujarat High Court (GHC) against retrospective application of provision to section 80IB of the Income Tax Act 1961. However, IT department has filed the writ petition against the decision of the GHC with the SC and the matter is currently sub-judice. Future cash outflows in respect of the tax liabilities are determinable only on receipt of judgements/decisions pending at various forums authorities. Any adverse outcome of the pending income tax-related cases will be key rating monitorable.

Liquidity: Strong

JTIIP has strong liquidity marked supported by moderate cash accruals and very low fund-based working capital limit utilisation. JTIIP has nil term debt repayment for FY23. Average fund-based working capital utilisation remained very low at around 5% for past 12 months ended as on December 31, 2022, providing the adequate cushion for any exigencies. The liquidity of JTIIP is further underpinned from free cash and cash equivalents maintained every year even after repatriation of profits to the parent entity, i.e., JTII. JTIIP had free cash and bank balance of ₹14.90 crore as on December 31, 2022. Sanctioned new term loan of ₹25 crore, along with moderate cash generation from the operation and availability of the free cash and bank balance would be sufficient for JTIIP's present capex requirement of around ₹41 crore for drilling of three new wells.

JTIIP's current ratio and quick ratio stood at a healthy level of 3.67x and 3.05x, respectively, as on March 31, 2022. The overall operating cycle remained lean at 40 days during FY22 as compared with 49 days during FY21.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company

About JTII: JTII was incorporated by Dr Sadanand Joshi during 1988 in Tulsa, Oklahoma, USA. JTII provides consultation, software development and instruction seminars related to horizontal oil and gas well drilling technology. JTII also participates in oil and gas exploration, development and management activities in India, Colombia and the United States of America. International oil and gas companies are the principal customers of JTII in these areas.

About JTIIP: JTII is a foreign company under Indian laws and files income tax return in India as a foreign entity. The Indian operations of JTII are looked after by its project office, i.e., JTIIP, which maintains separate accounts. JTIIP is engaged in the development and production of crude oil and natural gas in India through onshore assets. Currently, JTIIP has participating interest in two oil fields: Dholka and Wavel near Ahmedabad in Gujarat comprising 39 producing oil wells through a production sharing contract (PSC) signed with Government of India (GoI). The initial term of the PSC was for a period of 18 years up to February 2013; which was subsequently extended for another five years, i.e., up to February 2018. The Ministry of Petroleum and Natural Gas has approved the proposal of extension of Production Sharing Contracts for Dholka and Wavel fields for 10 years, i.e., till February 2028 under the extant policy vide its letter dated November 7, 2017.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	89.21	134.53	119.32
PBILDT	18.89	36.70	50.92
PAT	-25.71	21.34	38.22
Overall gearing (times)	0.08	0.00	0.00
Interest coverage (times)	29.09	91.75	171.67

A: Audited: Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2026	10.00	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	10.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	10.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable (23-Mar-22)	1)CARE A+; Stable (23-Mar-21)	1)CARE A+; Stable (25-Mar-20)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (23-Mar-22)	1)CARE A+; Stable (23-Mar-21)	1)CARE A+; Stable (25-Mar-20)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A1+ (23-Mar-22)	-	-
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	-	-	-	1)CARE A+; Stable / CARE A1+ (23-Mar-22)	-	-
5	Fund-based - LT-Term Loan	LT	10.00	CARE A+; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed explanation								
A. Financial covenants									
I	JTIIP to maintain following: <table border="1"> <thead> <tr> <th>Covenant</th> <th>Threshold</th> </tr> </thead> <tbody> <tr> <td>Debt service coverage ratio</td> <td>>1.50</td> </tr> <tr> <td>Total outside liability / Tangible net-worth Total outside liabilities = total non-current liabilities + current maturity of long-term liability) Tangible net-worth = Equity share capital + other equity including other comprehensive income + unsecured subordinated loan from promoter/group company + deferred tax liabilities - deferred tax assets – revaluation reserves</td> <td><1.50</td> </tr> <tr> <td>Fixed asset coverage ratio</td> <td>>2.00</td> </tr> </tbody> </table>	Covenant	Threshold	Debt service coverage ratio	>1.50	Total outside liability / Tangible net-worth Total outside liabilities = total non-current liabilities + current maturity of long-term liability) Tangible net-worth = Equity share capital + other equity including other comprehensive income + unsecured subordinated loan from promoter/group company + deferred tax liabilities - deferred tax assets – revaluation reserves	<1.50	Fixed asset coverage ratio	>2.00
Covenant	Threshold								
Debt service coverage ratio	>1.50								
Total outside liability / Tangible net-worth Total outside liabilities = total non-current liabilities + current maturity of long-term liability) Tangible net-worth = Equity share capital + other equity including other comprehensive income + unsecured subordinated loan from promoter/group company + deferred tax liabilities - deferred tax assets – revaluation reserves	<1.50								
Fixed asset coverage ratio	>2.00								
B. Non-financial covenants									
	-								

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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