Deep Industries Limited

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	138.62 (Enhanced from 70.79)	CARE A; Positive	Reaffirmed
Long-term / Short-term bank facilities	101.50 (Enhanced from 86.39)	CARE A; Positive / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Deep Industries Limited (DIL) continue to derive strength from its established position in the domestic oil and gas service business for providing various services, such as workover and drilling rigs, gas compression (GC) and gas dehydration (GD) and its strong clientele. The ratings also favourably factor in DIL's healthy profitability, comfortable capital structure and debt coverage indicators and its growing orderbook providing strong revenue visibility. The ratings continue to factor in the company's strong liquidity backed by healthy liquid investment and free cash and bank balance. The ratings also take cognisance of completion of acquisition of Dolphin Offshore Enterprises (India) Limited (DOEIL), which has track record of providing off-shore services, thus resulting in diversification of the company's revenue profile going forward.

The ratings, however, continue to remain constrained on account of DIL's moderate though growing scale of operations and competitive rig services business which is also susceptible to volatile day rates due to its linkages with crude oil prices. The ratings are also constrained by the inherent risk associated with the re-awarding of maturing contracts arising from client concentration and its elongated debtors' days.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the scale of operations marked with total operating income (TOI) of more than ₹400 crore along with profit before interest, lease, depreciation and tax (PBILDT) margins of more than 35% on a sustained basis.
- Maintaining healthy unencumbered cash and bank balance and liquid investments.

Negative factors

- Decline in scale of operations marked by TOI of less than ₹250 crore on a sustained basis.
- Reduction in its PBILDT margin to less than 30% on a sustained basis.
- Elongation in operating cycle beyond 180 days.
- Any large-size debt-funded capex leading to moderation in its overall gearing beyond 0.50x.
- Extension of any direct / indirect financial support for the exploration & production (E&P) activities in Deep Energy Resources Limited (DERL) or undertaking any such activity in DIL.

Analytical approach: Consolidated

Consolidated financials of DIL comprising DIL and its six subsidiaries. The details of the subsidiaries consolidated are shown in **Annexure-3**.

Outlook: Positive

The outlook on the long-term rating of DIL is 'Positive' on CARE Ratings Limited's (CARE Ratings') expectation of growth in its scale of operations on the back of its healthy orderbook, resulting in increased utilisation of its asset base and strong cash accruals; and further strengthening its liquidity position. The outlook may be revised to 'Stable' in case of lower-than-envisaged growth in its scale of operations and/or any major decline in the profitability.

Detailed description of the key rating drivers

Key strengths

Established position in gas compression and workover and drilling rigs-related services

DIL has a presence in the oil and gas service industry for more than three decades and has varied service offerings, including GCs, work-over rigs & drilling rigs and gas dehydration units (GDUs) in its portfolio. DIL has a leading position in providing these services on charter hire basis with a dominant domestic market share, particularly in the GC segment, along with a strong presence

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

in the workover and drilling rigs segment. DIL has strong asset base of rigs and gas compressors, majority of which are debt free, providing adequate financial and operational flexibility. Moreover, its asset base is relatively new with an average age of rigs and gas compressors of around 9 years and 12 years, respectively, reflecting balance useful life of around 15-20 years.

Diversified revenue stream and strong clientele
DIL has a diversified revenue stream which includes GC, work-over rigs & drilling rigs (all on-shore rigs) and GDUs. It also provides integrated project management services (IPMS). The company has ventured into overseas market for providing oil and gas services through its subsidiary, Deep International DMCC (DMCC), in the Middle East region and has also set-up a manufacturing unit of CNG Booster Compressors under another subsidiary, Raas Equipment Private Limited (REPL), to diversify its operations.
During FY23 (refers to the period from April 01 to March 31), on a standalone basis, DIL derived 50% of its TOI from GC (FY22: 34%), 40% from rigs (FY22: 41%), 5% from IPMS (FY22: 11%), and balance 4% from GDU (FY22: 4%).
Deployment of the asset base stood healthy at around 91% for rigs and 70% for GCs as on June 30, 2023, the major contributors of revenue. Although deployment stood low at 17% for GDUs, its contribution in TOI is also limited. CARE Ratings expects revenue share of high-margin GCs and rigs to remain healthy going forward on back of strong orderbook with the deployment of the balance GCs as per contracted date and planned addition of the new assets in these divisions.
Out of the six subsidiaries, REPL and DMCC have major operations wherein REPL reported TOI of ₹16.20 crore during FY23 (FY22: ₹19.11 crore). DMCC reported TOI of ₹49.76 crore during FY23 (FY22: ₹32.09 crore).
Oil and Natural Gas Corporation Limited (ONGC; rated 'CARE AAA; Stable / CARE A1+') has remained one of the key clients for DIL, with the latter having an established track record of regularly receiving orders across its business segments from ONGC. Apart from ONGC, DIL also has orders from other reputed clientele such as Gujarat State Petronet Limited (GSPL; rated 'CARE AA+; Stable/CARE A1+'), Sabarmati Gas Limited, Assam Gas Company Limited, and Vedanta Limited.

Completion of acquisition of DOEIL
During Q4FY23, DIL, through its subsidiary Deep Onshore Services Private Limited (DOSPL), completed the acquisition of DOEIL through National Company Law Tribunal route. DIL has appointed the key management personnels for the company, reconstituted its board of directors and re-listed it on the stock exchanges.
DOEIL was engaged in providing services, such as diving, underwater engineering and allied services to the offshore oil and gas industry in past and has a floating accommodation barge and other assets such as tugs and diving equipments. CARE Ratings notes that currently, refurbishment of the barge is under process with overall cost outlay of around ₹40 crore including term debt of ₹35.62 crore and is expected to commence operations in near term, adding to the revenue profile of DIL on a consolidated basis.

Growing order book providing strong revenue visibility
Over the years, orderbook of DIL has exhibited a growing trend. It increased from ₹815.11 crore as on September 30, 2022 to ₹1,159.12 crore as on June 30, 2023, on the back of significant order inflow in rigs and GC segments with majority of the orders from ONGC / ONGC-led consortium. The orderbook to TOI of 3.35x reflects strong revenue visibility.
As per the observations made by CARE Ratings, DIL is also engaged in providing services under the IPMS, wherein it is executing two contracts for reputed private sector clients.

Healthy profitability
On a consolidated basis, the PBILDT margin of DIL improved by 377 bps to 39.45% during FY23 (FY22: 35.68%) on the back of increase in the income from the high-margin GC segment. DIL had written-back certain liabilities amounting to ₹44.69 crore (considered as non-cash item) related to the acquisition, adjusted for which, its profit after tax (PAT) margin remained healthy at 23.29% during FY23 (FY22: 22.51%). Consequently, it earned healthy gross cash accruals (GCA) of ₹121.86 crore during FY23 as compared with ₹114.47 crore during FY22. The PBILDT margin continued to remain healthy at 42.44% during Q1FY24 (Q1FY23: 40.47%).
CARE Ratings expects the PBILDT margin to remain heathy going forward with higher share of high-margin GC segment along with diversification of the revenue profile.

Comfortable capital structure and debt coverage indicators
The overall gearing of DIL remained comfortable at 0.08x as on March 31, 2023, as compared with 0.04x as on March 31, 2022. DIL has low reliance on the external debt with total debt of ₹69.87 crore as on March 31, 2023, as compared with ₹31.79 crore as on March 31, 2022. The increase in the debt was due to new term loan availed for purchase of GCs during FY23.
With low debt levels and strong cash accruals, its debt coverage indicators also stood comfortable marked by PBILDT interest coverage and total debt to GCA (TDGCA) of 26.10x and 0.57x, respectively, during FY23, as compared with 24.07x and 0.28x, respectively, during FY22.

The total debt of DIL is expected to increase in the near term considering a planned capex of around ₹140 crore for the purchase of rigs and GCs apart from capex in DOEIL. However, with healthy profitability and comparatively low debt levels (including debt for capex), CARE Ratings expects DIL to maintain its comfortable capital structure and debt coverage indicators in the medium term.

Stable industry outlook

Government of India aims at reducing the country's dependence on the oil imports from around 84% at present to 50% by 2030. Thus, to increase the pace of activities in the exploration and production (E&P) segment, it has formulated revised licensing policy, viz., 'Hydrocarbon Exploration and Licensing Policy (HELP)' to replace New Exploration and Licensing Policy (NELP). HELP is focused on uniform licensing for all hydrocarbons, bidding on revenue sharing basis rather than profit sharing basis, which hitherto required estimation of costs, Open Acreage Licensing Policy' wherein a bidder may apply to the government seeking exploration of any block and pricing freedom for gas produced in high risk / high-pressure areas and reduced royalty rates to address issues, such as licensing requirements, cost finalisation and gas pricing, which presently beleaguer the E&P industry. The government also brought in policy to incentivise greater recovery from the hydrocarbon-producing assets through the expression of interest (EOI) Policy. These pro-active policy measures are likely to increase the pace of E&P activities, which might also augur well for oil and gas field service providers like DIL through additional business opportunities.

Key weaknesses

Growth in the scale of operations albeit it remained at moderate level

On a consolidated basis, TOI grew by 8% from ₹321.63 crore during FY22 to ₹346.05 crore during FY23 on the back of moderate growth of around 12% y-o-y on a standalone level along with steady growth at the subsidiary level.
Despite the growth in scale of operations, DIL continues to operate on a moderate base in the overall oil and gas service industry. For Q1FY24, DIL, on a consolidated basis, grew at a healthy rate 39% to ₹101.32 (Q1FY23: ₹73.15 crore) with increased deployment in the GC segment and steady order execution in the other segments.
Going forward, with a healthy order book, addition of new assets towards recently awarded orders and steady operations in subsidiaries including commencement of operations in DOEIL, CARE Ratings expects TOI to grow by around 15-20% in the near to medium term.

Presence in a competitive rig segment having susceptibility to volatile day rates along with concentrated clientele

Majority of DIL's orderbook is from ONGC / ONGC-led consortium which forms around 78% of order book as on June 30, 2023. On a standalone basis, the revenue from ONGC forms around 59% of net sales during FY23 as compared with 51% during FY22. This exposes it to the customer concentration risk. However, CARE Ratings notes that ONGC being one of India's most strategically important central public sector undertaking (PSU), mitigates the concentration risk to a certain extent. Furthermore, over the years, DIL has exhibited track record of securing new contracts and receiving re-award of existing contracts from ONGC.
DIL also remains exposed to the risk of re-award of the on-going contracts on their expiry, which is, however, inherent in the oil and gas service industry. Also, orders (new as well as re-awards) are received through competitive bidding; hence, it remains exposed to the competition in the industry, particularly in the workover rigs segment. Furthermore, the company also remains exposed to the risks associated with volatility in day rates of rigs at the time of the re-award of contracts, as day rates largely move in tandem with crude oil prices and hence are volatile in nature.

Elongated debtor days

DIL normally realises its debtors within 90-110 days period. Despite growth in the scale of operations, DIL's debtor level has exhibited moderation in the last three years ended as on March 31, 2023, with an improvement in the average debtor days from 147 days during FY22 (FY21: 263 days) to 129 days during FY23. However, it continued to remain sizeable. Going forward, CARE Ratings expects the overall debtors' days to remain in the range of 110-120 days.

Liquidity: Strong

DIL has strong liquidity characterised by strong cash accruals vis-à-vis low debt repayment obligations and healthy liquid investment and cash & bank balance.
DIL is expected to earn GCA of ₹120-140 crore as against debt repayment obligation of around ₹25 crore in FY24. It reported cash flow from operations of ₹88.11 crore during FY23, with liquidity (free liquid investment and cash and bank balance) of ₹67.94 crore as on March 31, 2023.
CARE Ratings notes that envisaged healthy cash accruals and liquidity would provide adequate headroom to DIL for meeting its capital expenditure needs. Average utilisation of its fund-based working capital limits stood low at around 15.45% for the last 12 months ended July 2023. Average utilisation of its non-fund-based working capital limits stood moderate at 66.89% during this

period. Current ratio and quick ratio improved, remaining strong at 3.16x and 2.75x, respectively, as on March 31, 2023, as compared with 4.03x and 3.49x, respectively, as on March 31, 2022.
Also, DIL had won the arbitration award with ONGC in relation to the termination of two gas dehydration contracts. During Q1FY24, it received 75% of the claim amount (around ₹80 crore) which has further augmented its liquidity. However, ONGC has filed appeal at the high court and the matter is *sub judice* with higher authorities.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Oil	Oil Equipment & Services

Promoted by Paras Savla and Rupesh Savla in 1991, Ahmedabad-based DIL (CIN: L14292GJ2006PLC049371) was earlier engaged in majorly two businesses, viz., first, exploration and production of (E&P) of oil, gas, coal bed methane (CBM) and marginal oil fields, and second, in providing services, such as gas compression, oil rigs (both work-over and drilling) and gas dehydration on charter hire basis.
In May 2018, DIL's Board of Directors proposed a scheme of demerger to segregate oil and gas services business into a separate company, i.e., Deep CH4 Limited (DCL) w.e.f. appointed date of April 01, 2017, and continue the E&P business with DIL. As per the scheme of demerger, entire assets and liabilities of erstwhile DIL were transferred to DCL (which was subsequently renamed to DIL) and DIL (which was subsequently renamed to Deep Energy Resources Limited) remained with the E&P division.
NCLT sanctioned the above-said scheme of demerger vide its order dated March 17, 2020, and the same was approved by registrar of companies (RoC) on August 04, 2020.
DIL has six subsidiaries, namely, DOSPL, REPL, Deep Onshore Drilling Services Private Limited (DODSPL), DMCC, DOEIL and DMPL.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (Published)
Total operating income	321.63	346.05	101.32
PBILDT	114.75	136.51	43.00
PAT	72.40	*125.30	31.02
Overall gearing (times)	0.04	0.08	N.A.
Interest coverage (times)	24.07	26.10	26.35

A: Audited P: Provisional; Note: 'the above results are latest financial results available'; *adjusted with the non-cash income of ₹44.69 crore; N.A.: Not Available

Brief Financials (₹ crore)-Standalone	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (Published)
Total operating income	271.57	305.89	89.67
PBILDT	104.50	121.01	36.57
PAT	69.34	78.31	23.61
Overall gearing (times)	0.04	0.08	N.A.
Interest coverage (times)	24.69	27.60	26.19

A: Audited P: Provisional; Note: 'the above results are latest financial results available'; N.A.: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of various instruments rated: Annexure-5

Lender details: Annexure-6

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-Cash credit	-	-	-	-	23.00	CARE A; Positive
Fund-based - LT-Term loan	-	-	-	June 2028	115.62	CARE A; Positive
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	101.50	CARE A; Positive / CARE A1

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 2023-2024	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
1	Fund-based - LT-Term loan	LT	115.62	CARE A; Positive	-	1)CARE A; Positive (27-Jan-23) 2)CARE A; Positive (05-Jan-23)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (01-Oct-20)
2	Fund-based - LT-Cash credit	LT	23.00	CARE A; Positive	-	1)CARE A; Positive (27-Jan-23) 2)CARE A; Positive (05-Jan-23)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (01-Oct-20)
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	101.50	CARE A; Positive / CARE A1	-	1)CARE A; Positive / CARE A1 (27-Jan-23) 2)CARE A; Positive / CARE A1 (05-Jan-23)	1)CARE A; Stable / CARE A1 (06-Dec-21)	1)CARE A; Stable / CARE A1 (01-Oct-20)
4	Non-fund-based - ST-Credit exposure limit	ST	-	-	-	-	1)Withdrawn (06-Dec-21)	1)CARE A1 (01-Oct-20)
5	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (06-Dec-21)	1)CARE A1

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
								(01-Oct-20)

*Long term/Short term.

Annexure-3: List of subsidiaries of DIL getting consolidated

Sr. No.	Name of the Entity	% holding by DIL as on March 31, 2023
1.	Deep International DMCC	100%
2.	Raas Equipment Private Limited	80%
3.	Deep Onshore Drilling Services Private Limited	74%
4.	Deep Onshore Service Private Limited	100%
5.	Dolphin Offshore Enterprises India Limited	94.98%
6.	Dolphin Mauritius Pte Ltd	100%

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-5: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-6: 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: +91-79-4026 5611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Nikita Goyal Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5621 E-mail: nikita.goyal@careedge.in Jignesh Trivedi Assistant Director **CARE Ratings Limited** E-mail: jignesh.trivedi@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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