

Dynamic Drilling and Services Private Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1.00 (Reduced from 3.00)	CARE BBB; Stable	Revised from CARE BBB-; Stable
Short Term Bank Facilities	140.00 (Enhanced from 30.00)	CARE A3+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Dynamic Drilling and Services Private Limited (DDSPL) factors in strong revenue visibility on the back of successful commencement of Divine rig (under long term contract with ONGC) on March 22, 2024 at a relatively higher charter day rate on the back of high crude prices and uptick in oil exploration activities which is expected to contribute annual revenue ~Rs.290.00 crore for FY25-FY26 (refers to the period from April 01, 2024 to March 31, 2026) and signing up of contract with Dolphin rig (expected to contribute annual revenue of ~Rs.69 crore in FY25 and ~Rs.121.00 crore in FY26), comfortable financial risk profile marked by low overall gearing, and adequate liquidity position of the company as reflected by healthy cash and bank balance and mutual funds investments coupled with nil utilization of working capital borrowings. The ratings continue to derive strength from experienced promoter and management with long track record of operations in the industry, established relationship with Oil and Natural Gas Corporation Limited (ONGC) coupled with low counter party risk. However, these ratings strengths are partially offset by client concentration risk and exposure in the form of loans and advances in group entity namely Marine Investments Limited.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations with PBILDT margin above 15% respectively.
- Improved revenue visibility backed by new contracts.

Negative factors

- Inability of company to get new contracts for new rigs and lower than envisaged operational performance.
- Delayed recovery of funds extended as loans and advances to non-related entities as envisaged leading to weak liquidity.
- Increase in overall gearing above 0.50x

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that DDSPL will continue to benefit from its established relationship with ONGC. CARE Ratings also believes that the DDSPL shall sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Strong revenue visibility: The Company is currently operating two rigs for ONGC (rated CARE AAA (Stable) /A1+) in the latter's Western offshore and eastern offshore fields. Victory rig which has been under operations since November, 2021 at rig hire charges of 37,523 dollars per day while Divine rig which has just began its operations on March 22, 2024 at rig hire charges of 96,218 dollars per day with a contract value and tenor of 100 million dollars (~Rs.830 crore) and 3 years respectively. Further, company has signed agreement with Dolphin for providing drilling services which is expected to generate revenue of ~Rs.69.00 crore and ~Rs.121.00 crore in FY25 and FY26 respectively.

Improvement in scale of operations in FY23 coupled with low profitability margins: During FY23 (refers to the period from April 01, 2022 to March 31 2023), the total operating income of the company was almost 7 times that reported in FY22 (refers to the period from April 01, 2021 to March 31 2022) to the tune of Rs.380.87 crore (PY: Rs.51.13 crore) owing to trading income of Rs.260.50 crore in FY23 (PY: Nil) (from trading of metals such as zinc, steel, and copper etc.) and improvement in revenue from drilling business to Rs.118.54 crore in FY23 (PY: Rs.50.50 crore) owing to full year of operations for the rig. During FY22, one of the rigs which was operated by the company was damaged in May 2021 due to cyclone (Tauktae) and another rig, the contract for which expired in April 17, 2021 was redeployed from November 2021, adversely impacting operational cash flows of the company. The company reported PBILDT margin of 2.48% in FY23 (PY: Net operating loss of Rs.16.59 crore) largely on account of increase in scale of operations leading to decline in fixed overheads as a percentage of total operating income. The

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

same led to company reporting PAT margin of 3.19% in FY23 (Net loss of Rs.11.48 crore). During 9MFY24, the total operating income of the company grew by ~20% to Rs.188.91 crore (PY: Rs.156.97 crore). During 9MFY24, the PBILDT margin of the company improved to 4.99% (2.48% in FY23) primarily owing to revival of losses after damage to rig Valiant during FY22 coupled with increase in the number of rigs deployed in FY24 along with improvement in operating day rates of rigs. Further, the PAT margin of the company stood higher than PBILDT margin at 5.92% in 9MFY24, owing to non-operating income of Rs.7.47 crore comprising of interest income and gain on mutual fund investments.

Experienced Promoters and management: DDSPL is a subsidiary of Jaguar Overseas Limited which is a global project engineering company engaged in turnkey Engineering, Procurement and Construction (E-P-C) projects as well as supply project. The operations of the company are supported by a qualified team of professionals. Earlier, the operations of the company were managed by Mr. S. M. Malhotra and Mr. Aniruddha Pattnaik who are no longer associated with the company. Operations of the company now are being looked after by Mr. Satyaprakash C Soni, Vice President (Projects) having a career spanning over four decades with ONGC and worked as Executive Director and was managing offshore Drilling Operations. Mr. Soni is also supported by Mr. Vivek Verma (Vice Projects Operations) having domestic and International experience of working with ONGC, Reliance, Adani group, Foresight Drilling, SMS (Abu Dhabi). He has over 30 years of experience in rig operation, management and QHSE of Offshore rigs, Jack-up and Floaters. Mr. G.D. Sharma (Chief General Manager, Contracts and Business Development) is having over 29 years of experience in Contracts and Business Development. He held various positions in Jindal Drilling for over 12 years with domain knowledge in Insurance.

Established relationship with ONGC coupled with low counterparty risk: DDSPL has been providing offshore drilling services to ONGC (rated CARE AAA (Stable)/A1+) and has developed strong relationship with them through years of association as a partner in its drilling programs. The company is currently operating 2 rigs under long term contract with ONGC (Contract ending March, 2027). The contract with ONGC is long tenure and ONGC being one of the India's most strategically important central Maharatna Public Sector Undertaking, thus company has low counterparty risk.

Comfortable financial risk profile: The company had nil debt as on March 31, 2023 coupled with healthy net-worth base of Rs.206.93 crore as on March 31, 2023. Debt coverage indicators of the company also remained healthy as reflected by PBILDT interest coverage of 8.54x in FY23. Further, company has issued Stand letter of credit to the tune of Rs.100.00 crore to term loan availed by group company namely Marine Investments Limited with a tenor of 3 years and 30 days.

Key weaknesses

Client concentration risk: DDSPL provides offshore drilling services to ONGC; India's leading E&P player leading to high client concentration risk. All of the company's current contracts are with ONGC. As the company participates in tenders floated by ONGC, it is dependent on the orders/new works available from ONGC.

Exposure in the form loans and advances to group company Marine Investments Limited: As on December 31, 2023, DDSPL has strategically invested ~Rs.128.40 crore in Marine Investments Limited (Rs.20.55 crore in the form of equity for 10% shareholding in Marine Investments Limited, and Rs.107.85 crore as loans (Rs.45.34 crore at interest rate of 8% per annum, and Rs.62.50 crore at interest rate of 13% per annum). Timely recovery of these funds would remain a key monitorable.

Industry outlook: Government of India aims at reducing the country's dependence on 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 DDSPL through additional business opportunities.

Liquidity: Adequate: Liquidity remains adequate as indicated by current ratio of 7.27x as on Mar. 31, 2023 (PY: 7.81x). Further, the working capital utilization remained at nil for the 12 months ending January 31, 2024. The operating cycle of the company remained negative on account of back-to-back arrangements with customers and rig owners in terms of scope of work, payment terms etc. The company had free cash & bank balance along with mutual fund investments quoted at market value to the tune of Rs.20.50 crore and Rs.12.20 crore respectively as on December 31, 2023. The company is not planning to incur any major capex in the near to medium future.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

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About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Oil	Oil Exploration & Production

The company is an ISO 9001, 14001 & 18001 Certified and operates on an asset-light model and charter rigs from rig owning companies in order to provide drilling services to upstream companies. The company takes rigs on hire charges from group companies or 3rd parties and provides drilling services to upstream companies. It makes back to back arrangements with customers and rig owners in terms of scope of work, payment terms etc. DDSPL is currently operating two rigs under long term contract with ONGC.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	51.13	380.87	188.91
PBILDT	-16.59	9.46	9.43
PAT	-11.48	12.14	11.19
Overall gearing (times)	0.00	0.00	0.12
Interest coverage (times)	-37.10	8.54	6.01

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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-3

Complexity level of 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-Cash Credit		-	-	-	1.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	140.00	CARE A3+

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	Non-fund-based - ST-Bank Guarantee	ST	140.00	CARE A3+	-	1)CARE A3 (22-Mar-23)	1)CARE A3+ (23-Mar-22)	1)CARE A3+ (28-Jan-21)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (22-Mar-23)	1)CARE BBB; Negative (23-Mar-22)	1)CARE BBB; Negative (28-Jan-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender detailsTo 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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