Aakash Exploration Services Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	7.50	CARE BBB-; Stable	Assigned
Long-term / Short-term bank facilities	17.50	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Aakash Exploration Services Limited (AESL) derive strength from extensive experience of the promoters in oil & gas service industry, moderately diversified revenue stream, reputed customer base with lower counter party risk, comfortable capital structure and debt coverage indicators, and adequate liquidity.

However, the above rating strengths are constrained by moderate scale of operation and profitability and moderate orderbook. The ratings also remained constrained due to the inherent risk associated with the re-awarding of maturing contracts arising from client concentration and presence in the competitive oil & gas services industry having susceptibility to volatile day rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the total operating income (TOI) above ₹150 crore with profit before interest, lease, depreciation and tax (PBILDT) margin above 23% on a sustained basis.

Negative factors

- Decline in the TOI below ₹75 crore due to non-renewal of the existing contracts or inability to get new contract.
- Decline in the PBILDT margin below 14% on a sustained basis.
- Increase in the overall gearing above 1x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that AESL will continue to benefit from its established clientele base and extensive experience of the promoters in the industry. CARE Ratings also believes that AESL shall sustain its comfortable financial risk profile over the medium term.

Detailed description of key rating drivers:

Key strengths

Extensive experience of promoters in oil and gas services industry

AESL is promoted by Vipul Haria (MD and Chairman) and Hemang Haria (Director and CFO). Promoters of the company have been engaged in the oil and gas services industry for more than two decades which enabled them to develop a strong understanding of market dynamics and establish healthy relationships with its clientele. Board of director of AESL comprise six directors including three independent directors. Top management of the company is ably supported by a qualified team of professionals.

Moderately diversified revenue stream with reputed customers base having low counter-party risk

Asset base of AESL includes fifteen rigs, six mobile steaming units (MSU), nine mobile pumping units (MPU) and three sucker rod pumping (SRP) units. Asset utilisation remains healthy at 80% for rigs and 78% for other equipment as on March 31, 2024.

AESL has moderately diversified revenue streams with revenue from the rigs forming around 67% (FY23: 53%) of its TOI in FY24 and balance was from other services.

Over the years, AESL has been providing various services to a reputed clientele which includes ONGC Limited (rated 'CARE AAA; Stable/CARE A1+'), Oil India Limited (rated 'CARE AAA; Stable/CARE A1+'), Reliance Industries Limited (rated 'CARE AAA; Stable/CARE A1+'), and Vedanta Limited among others. Credit profile of its customers remained healthy, thereby reducing any counter-party credit risk.

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

Comfortable capital structure and debt coverage indicators

AESL has low debt level with total debt at ₹25.72 crore as on March 31, 2024. With the low debt level and moderate net-worth base of ₹58.52 crore, its capital structure remained comfortable marked by overall gearing of 0.44x as on March 31, 2024 (0.46x as on March 31, 2023).

With low debt levels and moderate profitability, AESL's debt coverage indicators also remained comfortable marked by PBILDT interest coverage and total debt to gross cash accruals (TDGCA) of 9.83x (FY23: 8.76x) and 1.81x (FY23: 2.01x) respectively, in FY24. With no major capex planned in near to medium term, CARE Ratings expects AESL to maintain is comfortable capital structure below unity.

Stable 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 AESL through additional business opportunities.

Key weaknesses

Moderate scale of operation and profitability

Over last six years ended FY24, TOI of AESL grew at a moderate compounded annual growth rate (CAGR) of around 12%. The growth in the scale of operation was supported by the steady increase in the asset base along with increased order execution and recurring revenue from the short-term contracts. Overall scale of operations remained moderate marked by TOI of ₹92.61 crore in FY24 (FY23: ₹93.85 crore).

PBILDT margin remained moderate in the range of 16-20% in last 2-3 years ended FY4. In FY24, PBILDT margin improved by 323 bps to 18.90% mainly on account of moderation in the fuel cost.

With the moderate PBILDT margin and comparatively low depreciation and interest cost, profit after tax (PAT) margin too remained moderate in the range of 6-8% in last 3-4 years ended FY24. AESL reported GCA of around ₹14.17 crore in FY24 as against ₹12.05 crore in FY23.

Moderate orderbook with customer concentration

As on March 31, 2024, AESL had total order book of ₹99.45 crore which is to be executed in next 2-2.5 years. Apart from above order book, company also generates revenue from the various short-term contracts (on call basis which is for less than one year). Maturity profile of the contracts is fairly spread thus providing the moderate revenue visibility. AESL's orderbook is concentrated towards rig segment which forms around 57% of its order book as on March 31, 2024, while balance is towards other services.

AESL's customer base remains concentrated with ONGC Limited forming the highest share of around 52% followed by Reliance Industries Limited at around 12% as on March 31, 2024. CARE Ratings notes that AESL has established track record of receiving orders (including new as well as re-award) on regular basis from the above-mentioned clients thus partly mitigating the risk.

Presence in a competitive rig segment having susceptibility to volatile day rates

There are a few players in the domestic market having a significant presence in the oil exploration and production (E&P) segment. Such players also have their own units engaged in the E&P-related services. These companies also float tenders for the particular oil/gas asset-related services, which are awarded-based technical and commercial criteria to the qualifying bidder. Hence, entities engaged in such services remain exposed to the competition in the industry, particularly in the rigs and its related business.

Additionally, the company also remains exposed to risks associated with volatility in daily rates of rigs, at time of re-award of the contracts which is also tender driven. The day rates depend upon the various factors including crude oil price and its outlook and demand-supply dynamics of the equipment among others. The contracts thus awarded are for fixed tenure and post the completion of the same, it gets re-auctioned which entails the contract re-award risk. Historically, AESL was successful in getting renewal/re-award for some of its contracts.

Liquidity: Adequate

The liquidity position of AESL is adequate with moderate gross cash accruals, moderate liquid investments and cash and bank balance against its debt repayment obligation. AESL is expected to achieve GCA of ₹13-14 crore against debt repayment obligation

of ₹7.61 crore in FY25. It has moderate liquid investment and cash and bank balance of ₹7.84 crore as on March 31, 2024. Cashflow from operations was ₹10.16 crore in FY24. Average fund-based working capital utilisation remained moderate at 70% for past twelve months ended April 2024.
Average receivable days was 78 during FY24 as against 71 days in FY23, whereas creditor days are around 15-20 days. Operating cycle of the company remained moderate at 61 days in FY24 (55 days in FY23).

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, gas & consumable fuels	Oil	Oil equipment & services

Ahmedabad (Gujarat) based, Aakash Exploration Services Limited (AESL) was initially incorporated as a partnership firm "Aakash Roadlines" in May 2006 for providing transportation and allied services. Later, in 2007, firm converted into a private limited company named 'Aakash Exploration Services Private Limited' and changed its business to oil & gas field services. Later, its constitution was changed to public limited company and got listed on NSE on April 27, 2018.
AESL provides oil & gas field services at production stage which comprise workover & drilling services, well & wellhead maintenance services, oil enhance recovery services, and oil & gas compression among others.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Ab.)
Total operating income	93.85	92.61
PBILDT	14.70	17.50
PAT	4.54	6.21
Overall gearing (times)	0.46	0.44
Interest coverage (times)	8.76	9.83

A: Audited; Ab.: Abridged; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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/ ST-Cash credit		-	-	-	7.50	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	10.00	CARE BBB-; Stable / CARE A3
Term loan-Long term		-	-	February 2026	7.50	CARE BBB-; Stable

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 2024-2025	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
1	Fund-based - LT/ ST-Cash credit	LT/ST	7.50	CARE BBB-; Stable / CARE A3	-	-	-	-
2	Term loan-Long term	LT	7.50	CARE BBB-; Stable	-	-	-	-
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	10.00	CARE BBB-; Stable / CARE A3	-	-	-	-

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of 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

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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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