Deep Industries Limited

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	205.69 (Enhanced from 138.62)	CARE A+; Stable	Revised from CARE A; Positive
Long-term / Short-term bank facilities	101.50	CARE A+; Stable / CARE A1	Revised from CARE A; Positive / CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in long-term ratings assigned to bank facilities of Deep Industries Limited (DIL) considers sustained growth in the scale of operations while maintaining healthy profitability margins leading to healthy growth in the cash accruals during FY24 (refers to April 01 to March 31) and Q1FY25 (refers to April 01 to June 30). Additionally, efficient deployment of its large asset base and strong orderbook of ₹1,246 crore as on June 30, 2024, provides strong revenue visibility.

The ratings 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 its comfortable capital structure and debt coverage indicators and its strong liquidity in form of cash and liquid investments.

The ratings, however, continue to remain constrained on account of DIL's presence in the 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, exposure to group companies and elongated debtors' days.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by total operating income (TOI) of more than ₹1,000 crore while maintaining healthy profitability leading to return on capital employed (ROCE) above 15% on a sustained basis.

Negative factors

- Decline in its scale of operations marked by TOI of less than ₹400 crore or moderation in the revenue visibility on a sustained basis.
- Moderation of the total debt to profit before interest, lease rentals, depreciation and tax (PBILDT) beyond 1.50x on a sustained basis.
- Any large-size debt-funded capex of acquisition leading to adjusted overall gearing above 0.40x.
- Elongation of the operation cycle beyond 130 days on sustained basis.
- Any major unrelated business acquisition leading to significant moderation in the liquidity profile.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated financial statements of DIL including its subsidiaries due to common promoter group and strong operational and financial linkages among them. Details of the subsidiaries consolidated are shown in **Annexure-6.**

Outlook: Stable

CARE Ratings believes that DIL would continue to maintain its comfortable financial risk profile supported by low reliance on debt and strong liquidity while benefitting from established track record of operation and long association with reputed oil and gas exploration companies.

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

Detailed description of key rating drivers:

Key strengths

Established position in domestic oil and gas service business

DIL has a presence in the oil and gas service industry for over three decades and has varied service offerings, including GCs, work-over rigs and drilling rigs and gas dehydration units (GDUs) in its portfolio. It is leading provider of these services on charter hire basis to oil and gas exploration companies with a dominant domestic market share, particularly in the GC segment. DIL has strong asset base of rigs and gas compressors, majority 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 10 years and 13 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 and drilling rigs (all onshore rigs) and GDUs. It also provides integrated project management services (IPMS). The company ventured into overseas market for providing oil and gas services through its subsidiary, Deep International DMCC (DMCC), in the Middle East region and operates manufacturing unit of CNG Booster Compressors under another subsidiary, Raas Equipment Private Limited (REPL).

In FY24, on a standalone basis, DIL derived 46% of its TOI from GC (FY23: 50%), 42% from rigs (FY23: 40%), 9% from GDU (FY23: 4%), and balance 3% from IPMS (FY23: 5%).

Deployment of the asset base stood healthy at around 71% for rigs and 76% for GCs as on March 31, 2024, while balance assets are already tied-up with confirm orders to be deployed subsequently. Although deployment stood moderate at 64% 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, considering strong orderbook with scheduled deployment as per contracted date and planned addition of the new assets in these divisions.

DMCC and REPL, two major subsidiaries out of nine, have major operations where DMCC reported TOI of ₹33.91 crore in FY24 (FY23: ₹49.76 crore). REPL reported TOI of ₹8.00 crore in FY24 (FY23: ₹16.20 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 Oil India Limited (OIL; rated 'CARE AAA; Stable/CARE A1+'), Selan Exploration Technology Limited, Vedanta Limited and Petrofac Project and Services Private Limited.

During Q4FY23, DIL, through its subsidiary Deep Onshore Services Private Limited (DOSPL), completed the acquisition of Dolphin Offshore Enterprises (India) Limited (DOEIL) through National Company Law Tribunal route. Amongst its major assets, DOEIL has a floating accommodation barge and other assets such as tugs and diving equipment. CARE Ratings notes some time and cost overrun as compared to the initial estimate for refurbishment and commercialisation of the barge. Refurbishment is about to get completed and operations are expected to commence in H2FY25 and on a full year basis, the barge has revenue potential of around ₹80-100 crore with better operating profitability. Total cost of the refurbishment is expected at around ₹100 crore which is being funded through D:E mix of 1.63:1.

Healthy order book providing strong revenue visibility

Over the years, orderbook of DIL has exhibited a growing trend and stood healthy at ₹1,246 crore as on June 30, 2024. The orderbook to TOI of 2.91x reflects strong revenue visibility.

DIL is also engaged in providing services under the Integrated Project Management Services (IPMS), where it is executing few contracts for reputed public and private sector clients.

Growth in the scale of operation with healthy profitability

On a consolidated basis, TOI of DIL grew at a healthy rate of around 24% to ₹428.26 crore during FY24 on y-o-y basis backed by strong growth at the standalone level while performance of the subsidiaries largely remained stable. For Q1FY25, TOI grew by 22% to ₹123.26 (Q1FY24: ₹101.32 crore) on a consolidated basis with increased deployment of GCs 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 ~20% in the near to medium term.

On a consolidated basis, profitability of DIL continued to remain healthy marked by PBILDT margin of 38.98% in FY24 (FY23: 39.45%) with continued higher share of margin accretive GC segment. Though there was moderate increase in the depreciation and interest cost in FY24, its profit after tax (PAT) margin continued to remain healthy at 29.04% in FY24 (FY23: 23.29%). Consequently, it earned healthy gross cash accruals (GCA) of ₹150.85 crore in FY24; a y-o-y growth of around 24%. The PBILDT margin continued to remain healthy at 40.98% in Q1FY25 (Q1FY24: 42.44%) and are likely to sustain at present level considering management focus on margin accretive GC segment along with commencement of the operation under DOEIL.

Comfortable capital structure and debt coverage indicators
The overall gearing of DIL remained comfortable at 0.16x as on March 31, 2024, as compared to 0.08x as on March 31, 2023. DIL has low reliance on external debt with majority of its existing assets are debt free. It has low total debt of ₹159.45 crore as on March 31, 2024, as compared to ₹69.87 crore as on March 31, 2023. Increase in the debt was due to new term loan availed in FY24 primarily for the purchase of rigs and refurbishment of barge.
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 19.73x and 1.06x, respectively, during FY24, as compared with 26.10x and 0.57x, respectively, during FY23.
The total debt of DIL is expected to increase in the near term considering a planned capex of ~₹110 crore of which ~₹90 crore is for procuring three new rigs and balance for other capex. However, with healthy profitability, relatively 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 oil imports from around 84% at present to 50% by 2030. Thus, to increase the pace of activities in the exploration and production segment, it has formulated revised licensing policy, viz., 'Hydrocarbon Exploration and Licensing Policy (HELP)' which is focused on uniform licensing for all hydrocarbons. 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 also augurs well for oil and gas field service providers like DIL through additional business opportunities.

Key weaknesses

Presence in a competitive rig segment having susceptibility to volatile day rates along with concentrated clientele
Despite the growth in scale of operations, DIL continues to operate on a moderate base in the overall oil and gas service industry. Majority of its orderbook is from ONGC/ONGC-led consortium which forms around 74% of order book as on March 31, 2024. On a standalone basis, the revenue from ONGC forms around 49% of net sales in FY24 as compared to 59% in FY23. 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. 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 demand-supply dynamics of the assets thus remain volatile.

Exposure towards group companies
DIL extended ₹58.65 crore as loans and advances (L&A) to Prabha Energy Limited (PEL; erstwhile Prabha Energy Private Limited) which is a subsidiary of Deep Energy Resources Limited (DERL). These entities are owned and operated by the common promoter group.
L&A was extended by DIL as a part of the funding requirement of DERL towards its oil and gas exploration assets. While the same are interest bearing and expected to recover in medium term, no major additional increase is envisaged in the same going forward. Adjusting the same from the tangible net-worth of the DIL, its adjusted overall gearing stands at 0.17x as on March 31, 2024.
Additionally, DIL has evinced interest for the certain companies through NCLT bidding. As articulated by the management, the same is primarily for their assets and no major investment is envisaged from DIL towards this.

Elongated debtor days
DIL normally realises its debtors within 90-110 days period. Despite growth in the scale of operations in FY22 to FY24, DIL's debtor level (on absolute basis) largely remained at a similar level, leading to steady improvement in the average debtor days from 129 days in FY23 to 103 days in FY24. However, it continued to remain sizeable. Going forward, CARE Ratings expects overall debtors' days to remain at the present level.

Liquidity: Strong

DIL has strong liquidity characterised by strong cash accruals against low debt repayment obligations and healthy liquid investment and cash and bank balance.
DIL is expected to earn GCA of over ₹150 crore as against debt repayment obligation of around ₹48 crore in FY25. It reported healthy cash flow from operations of ₹180 crore in FY24, with healthy liquidity (free liquid investment and cash and bank balance) of ₹167.62 crore as on March 31, 2024.
Liquidity of DIL was further augmented by the receipt of around ₹80 crore of arbitration award from ONGC in Q1FY24. Though, ONGC appealed against this with the higher authority, the said amount is non-lied marked and free to be utilised by DIL.
CARE Ratings notes that envisaged healthy cash accruals and liquidity would provide adequate headroom to DIL for meeting its incremental capital expenditure. Average utilisation of its fund-based working capital limits stood low at around 19% for the last 12 months ended May 2024. Average utilisation of its non-fund-based working capital limits stood moderate at 59% in this period. Current ratio and quick ratio remaining strong at 2.27x and 2.05x, respectively, as on March 31, 2024, as compared to 3.16x and 2.75x, respectively, as on March 31, 2023.

Applicable criteria

Consolidation
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 and Consumable Fuels	Oil	Oil Equipment and Services

Promoted by Paras Savla and Rupesh Savla in 1991, Ahmedabad-based DIL (CIN: L14292GJ2006PLC049371) was earlier engaged in majorly two businesses, exploration and production of (E&P) of oil, gas, coal bed methane (CBM) and marginal oil fields, and 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.

Brief Financials (₹ crore)- Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	346.05	428.26	123.46
PBILDT	136.51	166.92	50.60
PAT	125.30	124.36	38.74
Overall gearing (times)	0.08	0.16	N.A.
Interest coverage (times)	26.10	19.73	20.08

A: Audited UA: Un-audited; Note: 'these are latest available financial results'; N.A.: Not Available

Brief Financials (₹ crore)- Standalone	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	305.89	383.18	111.73
PBILDT	121.01	151.52	45.06
PAT	78.31	104.25	30.38
Overall gearing (times)	0.08	0.16	N.A.
Interest coverage (times)	27.60	22.24	13.49

A: Audited; UA: Un-audited; Note: 'these are latest available financial results'; 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-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	-	-	-	-	33.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	June 2028	172.69	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	101.50	CARE A+; Stable / CARE A1

Annexure-2: Rating history for 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-Term Loan	LT	172.69	CARE A+; Stable	-	1)CARE A; Positive (06-Oct-23)	1)CARE A; Positive (27-Jan-23) 2)CARE A; Positive (05-Jan-23)	1)CARE A; Stable (06-Dec-21)
2	Fund-based - LT-Cash Credit	LT	33.00	CARE A+; Stable	-	1)CARE A; Positive (06-Oct-23)	1)CARE A; Positive (27-Jan-23) 2)CARE A; Positive (05-Jan-23)	1)CARE A; Stable (06-Dec-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	101.50	CARE A+; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (06-Oct-23)	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)
4	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	-	-	1)Withdrawn (06-Dec-21)

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
5	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (06-Dec-21)

LT: Long term; ST: Short 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 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-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Deep Onshore Services Private Limited (DOSPL)	Full	Wholly owned subsidiary of DIL
2	Deep International DMCC (DIDMCC)	Full	Wholly owned subsidiary of DIL
3	SAAR International FZ LLC	Full	Wholly owned subsidiary of DIL
4	RAAS Equipment Private Limited (REPL)	Full	Subsidiary of DIL
5	Deep Onshore Drilling Services Private Limited (DODSPL)	Full	Subsidiary of DIL
6	Breitling Drilling Services Private Limited (BDSPL)	Full	Subsidiary of DIL
7	Dolphin Offshore Enterprise India Limited (DOEIL)	Full	Step-down subsidiary of DIL
8	Dolphin Offshore Enterprise (Mauritius) India Limited (DOEMIL)	Full	Step-down subsidiary of DIL
9	Beluga International DMCC (BIDMCC)	Full	Step-down subsidiary of DIL

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

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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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