Focus Energy Limited

April 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	16.00 (Reduced from 43.66)	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	54.89 (Reduced from 78.00)	CARE A3	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Focus Energy Limited (FEL) continue to derive strength from its participating interests in the RJ-ON/6 block - an operational gas block in Rajasthan, India, with availability of substantial gas reserves, financial flexibility derived from the continues support received from promoters and its group concerns and favourable industry outlook for domestic gas producers, which is backed by Government of India's (GoI) impetus on promoting environmentally cleaner fuels.

CARE Ratings Limited (CARE Ratings) takes cognisance of signing of an interim gas sales and purchase agreement (GSPA) valid till July 2025 with GAIL India Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+') for the supply of gas to Rajasthan Rajya Vidyut Utpadan Nigam Limited's (RRVUNL) gas-based power plant post the expiry of the long-term GSPA in September 2024. FEL is also proposing for entering a long-term agreement akin to the former long-term GSPA to offset the revenue risk. FEL's high calorific value gas is crucial for operations of the power plant operated by RRVUNL. Timely signing of the long-term GSPA remains critical from credit perspective.

Ratings also factor in comfortable leverage and debt coverage with repayment of large debt portion and term debt to be retired by July 2025. Liquidity in form of debt service reserve account (DSRA) and cash balance of ₹18 crore are adequate for the said repayments.

The rating strength is tempered due to risks related to unavailability of adequate evacuation arrangement resulting in reducing scale y-o-y and restricting the potential volume ramp up. The volume supplied has reduced from 0.80 million metric standard cubic metre per day (MMSCMD) in FY22 to 0.46 MMSCMD in FY24 with further reduction in the fiscal end FY25. Ratings are also constrained by the capital-intensive nature of business with continuous capex requirement, geological risk inherent in exploration & production (E&P) activities, regulatory risk, and pending receivable from the shoes export business.

CARE Ratings has withdrawn ratings for the long-term bank facilities (Bank overdraft) of FEL, as the facility has been closed and there is no amount outstanding against the same.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Availability of adequate evacuation infrastructure and ramp-up of volumes.
- Signing of additional GSPAs leading to diversification of customer base.
- Improvement in leverage marked by an overall gearing of less than 0.5x.

Negative factors

- Unable to renew the GSPA with GAIL for long term with a take or pay clause.
- Significantly lower-than-envisaged production of gas from the block impacting its cash accruals and debt coverage indicators.
- Large size debt-funded capex without commensurate increase in the volumes leading to deterioration in leverage and debt coverage indicators.
- Any shortfall in the need-based support from the promoters.

Analytical approach: Standalone

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

Outlook: Stable

The stable outlook reflects maintenance of steady performance backed by interim GSPA and continued maintenance of satisfactory debt coverage with low term debt and adequate liquidity.

Detailed description of key rating drivers:

Key strengths

Operational gas block and PSC with GoI for RJ-ON/6 gas block

FEL, with its affiliate companies iServices Investment Limited, Mauritius (iServices) and Newbury Oil Company Limited, Cyprus (Newbury), wholly owned subsidiaries of Indus Gas Limited (Indus, an affiliate of FEL) produces gas from gas fields in the RJ-ON/6 block in Rajasthan. Production sharing contract (PSC) for the block was signed on June 30, 1998, between GoI, Ministry of Petroleum and Natural Gas (MoPNG), FEL, and Oil and Natural gas Corporation Limited (ONGC; rated 'CARE AAA; Stable/ CARE A1+') (the licensee). Initially, FEL was holding 100% participative interest in the block. On October 04, 2006, FEL assigned 90% of its participating interest in RJ-ON/6 block to Services (65%) and Newbury (25%) while retaining a 10% share. ONGC is entitled to acquire a 30% participating interest in each discovered field in the block. If this option is exercised by ONGC in respect of all the discovered fields, the Indus and FEL ultimate participating interest in the block would be reduced to 70%, 63% of Indus and 7% of FEL. ONGC has exercised this option in respect of SGL field. FEL is the block's operator. Field development plans for the discovered gas fields in the block have been approved by the management committee of the block and the production is continuing.

Significant reserves position

FEL has made several gas discoveries in the RJ-ON/6 block. The current reserves are available with the company for ~15 more years, up till 2040. The presence of these reserves are expected to provide consistent income through extraction, sales, and exports, reducing dependency on external sources and mitigating market fluctuations. Therefore, setting up of adequate evacuation arrangements continues to be crucial.

GSPA with GAIL

Post the completion of the long-term GSPA with GAIL for 0.95 MMSCMD (initially 0.20 MMSCMD) in September 2024 for onward supply to RRVUNL's gas-based power plant, FEL (with Newbury and iServices) has signed an interim term sheet with GAIL in which is valid up till July 31, 2025. This interim term sheet, however, contains daily contracted quantity (DCQ) clause of only 0.20 MMSCMD and doesn't contain take or play clause unlike the former arrangement. CARE Ratings is given to understand that the company will be signing a long-term GSPA agreement before the expiry of the said interim term sheet. Since the presence of higher quantity along with take or pay clause provides medium-term revenue visibility to the company, therefore, timely renewal of the said agreement shall remain a key rating sensitivity from credit perspective.

Satisfactory debt coverage

The company's overall debt coverage metrics remained satisfactory, reflecting a favourable leverage position, with a substantial portion of bank debt repaid and the remaining scheduled to be retired by July 2025. This is aided with comfortable cash accrual generation and continued support from promoters and its group concerns. Overall gearing improved from 0.86x in FY23 to 0.75x in FY24 due to reduction in the rupee term loans. The gearing is largely contributed by redeemable preference shares and funds provided by promoters and group concerns, which are subordinate to bank facilities and form a significant portion of the total debt as on March 31, 2024. The company incurs capex for digging wells annually for maintaining similar volumes. These capex plans would be funded entirely through internal accruals. CARE Ratings observes, considering the internal accruals requirement for meeting capex, debt coverage indicators are expected to remain moderate.

Favourable industry scenario for domestic gas producers

To address environmental concerns, GoI has been actively promoting a shift toward cleaner energy sources, including gas. GoI aims to increase the share of gas in India's primary energy mix from 6% at present to ~15% by 2030, to make India a 'gas-based economy'. Over the past years, gas consumption has been continuously rising. Domestic gas consumption is at a nascent stage and offers healthy opportunities for further growth. India's demand for gas in expected to grow significantly in the coming years, driven by factors, such as economic growth, increasing city gas distribution network and thrust towards cleaner energy

sources. This provides an opportunity to domestic gas producers to increase their output and tap into this growing demand. Around 50% gas consumed in India is sourced through imports because of low domestic production.
India's gas consumption has increased from 141 MMSCMD in FY15 to 182 MMSCMD in FY24 (compounded annual growth rate [CAGR]: 2.82%). However, imports in the corresponding period increased from 51 MMSCMD to 76 MMSCMD (CAGR: 4.51%), with increased consumption, reliance on the imports increased in recent years. Increasing consumption of gas and high reliance in imports is expected to be favourable for the domestic gas producers in the medium-to-long run.

Key weaknesses

Modest scale of operation and reducing volumes
The total operating income (TOI) of the company declined by 19% in FY24 and stood at ₹57.48 crore compared to ₹70.65 crore in FY23, considering lower revenue from gas sales. The company's profit before interest, lease rentals, depreciation, and taxes (PBILDT) also decreased from ₹53.43 crore in FY23 to ₹44.38 crore in FY24. Moreover, the absence of sufficient evacuation infrastructure and turbine-related challenges has hindered the volume ramp-up, limiting the company's operational scale. The supplied volume declined from 0.80 MMSCMD in FY22 to 0.46 MMSCMD in FY24, with a further anticipated drop by the end of FY25, further heightening the risk of a significant reduction in the company's revenue.

Unavailability of adequate evacuation infrastructure
FEL is unable to increase the volumes / diversify its customer base considering unavailability of adequate evacuation infrastructure. Presently, the RJ-ON/6 block lacks connectivity with the national natural gas grid impeding its potential to cater to a diverse customer base. The supplies to RRVUNL's gas-based power plant are being made through a dedicated 90-KM pipeline laid by GAIL. Currently, FEL is exploring options to evacuate the produced gas including proposals of connecting the gas block with national carriers / setting up alternate pipeline. However, the plans are in a nascent stage. The connection with national grid / availability of additional evacuation infrastructure will enable FEL to achieve higher volumes and diversify its customer base.

Geological and execution risk inherent in E&P activities
In addition to being a highly capital-intensive activity, E&P business has long gestation period. The exploration activity involves high uncertainty with respect to estimation of reserves as it is a function of the quality of the available data engineering and geological interpretation. Overall, the E&P activities involve complex and muti-stage process, requiring significant investment, expertise and technological innovation. There are stages involved in an E&P activity and FEL is exposed to the geological risks in each of the stage, which might adversely impact its ability to extract the reserves. However, the risk is mitigated considering the long-standing operational track record of FEL and large amount of proved resources (p1) and prolific gas production in Indus basin.

Regulatory risk and project implementation risk
The Hydrocarbon Exploration and Licensing Policy (HELP), Open Acreage Licensing Policy (OALP), gas pricing reforms and giving push for development of gas transmission and distribution infrastructure. The oil and gas exploration sector is highly regulated sector and thus FEL is exposed to the regulatory risk related to timely extension of PSC beyond the contract period, timely approval of field development plan, approval related to creation of additional evacuation infrastructure for transport of gas to the end users, among others. However, considering the significant deficit of resources and thrust of the government on the gas sector, the stated risks are likely to have limited impact on FEL.
FEL is supplying gas through a dedicated pipeline to the RRVUNL's power plant and the current supply levels are relatively low. FEL (with Newbury and iServices) is exploring plans to set up further evacuation infrastructure to ramp up the volumes. To achieve the same, FEL will have to incur additional capex, exposing the company to project risk.

Liquidity: Adequate
Liquidity is adequate with the comfortable cash accrual generation with low debt servicing requirements and continued support from promoters and its group concerns. The company also generates 18% revenue from shoes exports which has experienced extended receivables and collection period extending to 183 days in FY24 (from 138 in FY23). However, the same is expected to be momentary with improvement likely by end of FY25.
Cash and cash equivalents of the company stood at ₹18 crore as on February 28, 2025, including a DSRA of ₹8.7 crore against an outstanding debt of ₹16 crore payable by July 2025.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

CareEdge RATINGS

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, gas & consumable fuels	Gas	Gas transmission/marketing

Incorporated in 1986, FEL is engaged in gas exploration and development in the RJ-ON/6 gas block in Rajasthan, India. Along with its affiliates, FEL is producing gas from the RJ-ON/6 block in Rajasthan. Currently, FEL has a 7% participating interest in the SGL field and 10% participating interest in the non-SGL fields. FEL is also the operator of the gas block. Indus, an affiliate of FEL, through its wholly-owned subsidiaries has participating interest of 63% in SGL field and 90% participating interest in the non-SGL fields. The block measures an area of 2,176 sq. km and lies onshore in a highly prospective mid Indus basin. The first discovery in the block was made in 2006 and the first commercial production commenced in 2010. The company has received approval from the DGH and government for integrated field development plan of SSG and SSF discoveries and for enhancement of the production from the SGL field. FEL is also engaged in shoe uppers / soles export.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	70.65	57.48	27.00
PBILDT	-16.80	1.10	21.00
PAT	0.85	0.57	NA
Overall gearing (times)	0.86	0.75	NA
Interest coverage (times)	-165.14	0.91	NA

A: Audited UA: Unaudited; NA: Not Available; 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Bank Overdraft	NA	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	NA	-	-	July 2025	16.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	NA	-	-	-	54.89	CARE A3

NA: Not applicable

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	16.00	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Apr-24)	-	1)CARE BBB-; Stable (31-Mar-23)	-
2	Fund-based - LT-Bank Overdraft	LT	-	-	1)CARE BBB-; Stable (04-Apr-24)	-	1)CARE BBB-; Stable (31-Mar-23)	-
3	Non-fund-based - ST-BG/LC	ST	54.89	CARE A3	1)CARE A3 (04-Apr-24)	-	1)CARE A3 (31-Mar-23)	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here]

Note on complexity levels of 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 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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