Quippo Oil & Gas Infrastructure Limited

February 23, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]@**	**Rating Action**
Long Term Bank Facilities	55.00	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE BB+ (CE) [Double B Plus (Credit Enhancement)] and removed from Credit watch with Negative Implications; Stable outlook assigned**
Long Term / Short Term Bank Facilities	65.00	**CARE BB; Stable/ CARE A4+ (Double B; Outlook: Stable/A Four Plus)**	**Revised from CARE BB+ (CE) / CARE A4+ (CE) [Double B Plus (Credit Enhancement)/A Four Plus (Credit Enhancement)] and removed from Credit watch with Negative Implications; Stable outlook assigned**
Total Bank Facilities	**120.00 (Rs. One Hundred Twenty Crore Only)**		

Details of facilities in Annexure-1

@the ratings were earlier backed by credit enhancement in the form of unconditional and irrevocable guarantee of Srei Equipment Finance Ltd

Unsupported Rating [2]	**Withdrawn**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers

The aforesaid ratings for the bank facilities of Quippo Oil & Gas Infrastructure Limited (QOGIL) were earlier based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Srei Equipment Finance Ltd (SEFL, rated CARE BB+/CARE A4+; Credit Watch with Negative Implications) for the entire debt servicing obligation (i.e. payment of interest and/or other charges and principal repayment) during the full tenure of the facility.

The credit risk profile of SEFL has witnessed significant deterioration with stress on liquidity in the current year due to impact of Covid-19 on collections. It has also been approached by a large proportion of its borrowers for restructuring. SEFL only has the option of restructuring as per RBI guidelines in its assets and not in its liabilities.

SEFL has approached National Company Law Tribunal (NCLT) with Schemes of Arrangement in October'2020 and December'2020 to restructure its liabilities (including transferred from Srei Infrastructure Finance Limited) and the meeting of the Committee of Creditors as directed by NCLT is yet to happen.

Following the asset-liability mismatch and the fact that the cash flows of SEFL are currently being controlled by lender banks (as mentioned in the Scheme of Arrangement filed by SEFL), no comfort is now drawn from credit enhancement provided by SEFL in the form of corporate guarantee for the rated credit facilities of QOGIL. Accordingly, rating has been assigned on standalone assessment of QOGIL. CARE had earlier assigned unsupported rating of 'CARE BB/CARE A4+' to QOGIL.

The ratings assigned to QOGIL continue to remain constrained by the low profitability, though improved in FY20 (refers to the period April 1 to March 31), leveraged capital structure with moderate debt coverage indicators, high working capital intensity of operations and risk associated with tender based nature of operations.

The ratings also take into account the decrease in total operating income with subdued net profitability in 9MFY21 primarily on account of higher inter location movements of deployed rigs and impact of Covid-19 on operations of the company.

The ratings, however, draw strength from asset light model with increase in rigs deployed and reputed clientele of the company.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Further, the ratings also take note of QOGIL approaching SEFL for One-time Restructuring (OTR) on debt availed from SEFL and the application for the same is under consideration of SEFL.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability to deploy rigs on continuous basis resulting in revenue of above Rs.400 crore on a sustained basis
- Sustaining the operating margin and substantial improvement in net profitability
- Reduction in overall gearing below 2.00x on sustained basis

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Rejection of OTR request by SEFL
- Impact on revenue and profitability due to De-hiring or increased inter-location movements of rigs
- Further increase in overall gearing

Detailed description of the key rating drivers

Key Rating Weaknesses

Low profitability

The total operating income of the company increased from Rs.283.87 crore in FY19 to Rs.366.09 crore in FY20 primarily due to increase in rental income with higher deployment of rigs. With increase in operating income, PBILDT margin also improved from 8.75% in FY19 to 14.70% in FY20. The capital charges continued to remain high and further increased during the year. Accordingly, despite substantial improvement in operating profitability, the PBT only increased from Rs.1.73 crore in FY19 to Rs.6.55 crore in FY20. Furthermore, with impact of deferred tax the net profit was lower at Rs.1.10 crore in FY20 vis-à-vis Rs.3.22 crore in FY19. Consequently, the PAT margin of the company continued to remain low.

The company incurred net loss of Rs.0.35 crore on total operating income of Rs.212.82 crore in 9MFY21 vis-à-vis net loss of Rs.2.25 crore on total operating income of Rs.260.00 crore in 9MFY20. The operating income was lower during 9MFY21 due to inter location movement of rigs and also due to impact of Covid-19 on operations. However, company reported GCA of Rs.12.19 crore in FY21 (Rs.3.36 crore in 9MFY20).

Leveraged capital structure with moderate debt coverage indicators

The total debt increased from Rs.350.22 crore as on March 31, 2019 to Rs.416.36 crore as on March 31, 2020 primarily due to increase in working capital requirements with increased scale of operations. However, the loans of Rs.182.75 crore from SEFL have been treated as subordinated to bank borrowings as per terms of sanction. Accordingly, the adjusted total debt decreased to Rs.233.61 crore as on March 31, 2020. The networth also improved and stood at Rs.99.48 crore as on March 31, 2020. Overall gearing though improved continued to remain high at 2.35x as on March 31, 2020.

The adjusted total debt was relatively stable and overall gearing stood at 2.44x as on as on December 31, 2020. The debt coverage indicators of the company also remained moderate with interest coverage of 1.34x in FY20.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature and operating cycle further increased from 72 days in FY19 to 125 days in FY20. The increase was primarily due to increase in average collection period and average inventory period from 86 days and 47 days in FY19 respectively to 126 days and 60 days in FY20 respectively. The company also had net claims receivables of around Rs.36 crore under arbitration. In case of non-recovery of the same, the financial risk profile of the company will be impacted.

Tender based business and risk of non-renewal of contracts

The company is exposed to the risk of tender based business and non-renewal of contracts as the average contract period for deployment of rigs is three years.

Key Rating Strengths

Asset light model and increase in rigs deployed

The company operates on the in-chartering model, i.e., it acquires all the rigs on lease instead of owning them. This helps mitigate the financial risk associated with asset ownership in case of non-deployments.

The company started the operations with 2 on-shore rigs in 2005 and has expanded its fleet to 13 on-shore rigs as of December'20. Over the span of 15 years, the company has drilled more than 200 wells in India and overseas.

Reputed clientele

QOGIL has reputed clientele base to which it provides rigs rental services. The rigs are contracted for an average tenure of 3 years. The company based on deployed rigs as on November 30, 2020, has revenue visibility of around Rs.597 crore till FY24.

Liquidity: Stretched

The liquidity profile of the company is marked by low cash accruals and negligible free cash & cash equivalents as on March 31, 2020. The fund based working capital limit was 78% utilized and non-fund based limit was almost fully utilized as on December 31, 2020. The liquidity is primarily supported from long tenure loans from SEFL. The company has applied for OTR to SEFL which is under consideration of SEFL.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Financial Ratios - Non Financial Sector
Liquidity Analysis of Non-financial Sector Entities

About the Company

QOGIL, which began operations in 2005, is in the business of renting of infrastructure equipment servicing the construction, oil & gas, telecom and energy sectors. QOGIL is an Onshore Rig Service provider. QOGIL's primary focus is on providing drilling rigs equipped with the latest technology, equipment, and world class crew. Most of the rigs are equipped with top drives to undertake highly specialized drilling operations in technically challenging environment.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	283.87	366.09
PBILDT	24.84	53.83
PAT	3.22	1.10
Overall gearing (times)	NM	2.35
Interest coverage (times)	1.02	1.34

A: Audited, NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

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

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	55.00	CARE BB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	65.00	CARE BB; Stable / CARE A4+
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	55.00	CARE BB; Stable	1)CARE BB+ (CE) (CWN) (15-Dec-20) 2)CARE BBB+ (CE) (CWD) (17-Nov-20) 3)CARE BBB+ (CE); Stable (04-Sep-20)	1)CARE A (CE) (CWN) (06-Mar-20) 2)CARE A- (CE) (CWN) (19-Aug-19)	1)CARE A+ (SO) (CWD) (11-Mar-19) 2)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)
2.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE A- (CE) (CWN) (19-Aug-19)	1)CARE A+ (SO) (CWD) (11-Mar-19) 2)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	65.00	CARE BB; Stable / CARE A4+	1)CARE BB+ (CE) / CARE A4+ (CE) (CWN) (15-Dec-20) 2)CARE BBB+ (CE) / CARE A3+ (CE) (CWD) (17-Nov-20) 3)CARE BBB+ (CE); Stable / CARE A3+ (CE) (04-Sep-20)	1)CARE A (CE) / CARE A2+ (CE) (CWN) (06-Mar-20) 2)CARE A- (CE) (CWN) / CARE A2+ (CE) (CWN) (19-Aug-19)	1)CARE A+ (SO) / CARE A1+ (SO) (CWD) (11-Mar-19) 2)CARE A+ (SO) / CARE A1+ (SO) (06-Jul-18)	-
4.	Un Supported Rating-Un Supported Rating	LT/ST	-	-	1)CARE BB / CARE A4+	1)CARE BB / CARE A4+	-	-

	(LT/ST)				(15-Dec-20) 2)CARE BB / CARE A4+ (17-Nov-20) 3)CARE BB / CARE A4+ (04-Sep-20)	(06-Mar-20)		

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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