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CARE REMOVES THE CREDIT WATCH AND REAFFIRMS THE RATING ASSIGNED TO RPS ISSUE OF ABAN OFFSHORE LTD.

CARE has removed the credit watch and retained the "CARE A (RPS)" [Single A (Redeemable Preference Shares)] rating assigned to the outstanding RPS issues of Rs.150 cr and Rs.156 cr of Aban Offshore Limited (AOL). CARE had earlier placed ratings of these preference share issues under 'credit watch', following the proposed acquisition of Sinvest by AOL. Instruments with this rating are considered to offer adequate safety for timely servicing of debt obligations. Such instruments carry low credit risk.

The rating factors in the long standing track record of the company, characterised by steady growth in drilling revenue, high profit margins, competitive & improved market positioning and competent & experienced management. The rating takes into account the bright prospects of the offshore drilling industry driven by increasing need for oil & gas exploration and production, leading to low deployment risk and high day rates of rigs. The rating also factors in significant increase in financial risk arising out of the debt funded nature of Sinvest acquisition reflected in high gearing for AOL and the group as a whole. However, this increase in risk arising out of the acquisition is mitigated to a large extent by improved cash flow visibility, supported by strong industry fundamentals in the medium term along with improved market positioning.

AOL is into oil field services for offshore exploration and production of hydrocarbons. The day to day operations of the company are managed by Mr. Reji Abraham, Managing Director who is assisted by DMD (Finance) and DMD (Operations). The company and its subsidiaries owned 20 rigs/ships (including joint venture(JV) in one of the ship –Venture Drilling) as on March 31, 2007. With a total of 20 rigs/ships including a production unit, AOL is the largest private player in India in offshore drilling industry.

At the end of FY06, AOL owned a total of 10 rigs/ships. This increased to 20, mainly due to the acquisition of Sinvest ASA, a Norwegian Company during FY07 for a consideration of about USD 1.34 bn. The acquisition was mainly debt funded with the contribution of AOL being limited to about Rs. 400 cr, by way of equity investment in the subsidiaries and corporate guarantees for debts raised by the subsidiaries to the extent of Rs.1905cr. Of the 20 rigs/ships, 13 have been deployed in the Asian region, five are under various stages of construction and two are undergoing refurbishment. The utilization rates of the deployed rigs are satisfactory. The day-rates for rigs are decided using a competitive tendering process and are fixed for the entire tenure of the contract. The day rates for rigs are indirectly dependent on oil prices - as higher the oil price, higher is the demand for exploration. The contracted rig day rate for the newly acquired rigs or renewal of contracts of old rigs, are seen to be at much higher rates.

Drilling revenues in FY07 were stagnant at Rs. 479 cr compared to Rs.476 cr in FY06. Since the contracts are signed for a period of two to three years on a fixed rate, the revenues show a growth only on renewal of the contracts (at higher rates) or signing of new contracts. As contracts for most of the rigs will end between September 2007 and March 2008, contracts for these are expected to be renewed at much higher rates. PAT grew by 19% to Rs.100 cr. PBIDT margins declined marginally, but continue to be high at about 56% in FY'07. PAT margin was also high at about 19%. At the same time, ROCE declined in FY07 to 16.48% from 21.23% in FY06 on account of increase in capital employed due to investments in a subsidiary for funding the Sinvest acquisition. The overall gearing increased from 2.93X on Mar.2006 to 3.76X on Mar.2007, due to increase in debt for funding the expansion during the year. Interest coverage continues to remain comfortable at 3.53X for FY07, despite higher gearing due to high margins.

Total income grew at 12.5%, from Rs.127 cr in Q1FY07 to Rs.143 cr in Q1FY08. PAT registered a much higher 47% growth from Rs.19 cr in Q1FY07 to Rs. 28 cr in Q1FY08. On a consolidated level, drilling revenues increased from Rs. 476 cr in FY06 to Rs.702 cr in FY07, registering a growth of 47%. However, PAT declined considerably from a profit of Rs.83 cr in FY06 to a loss of Rs.34 cr in FY07 mainly due to the high interest cost on account of debt borrowed in the books of subsidiary in order to fund Sinvest acquisition.

The industry prospects look favourable on account of increasing day rates and higher utilization rates. The day rates are expected to be firm due to limited supply of rigs and increase in exploration activity, on account of high global oil prices and sustained demand from oil, arising from strong global growth. In the context of sound industry fundamentals, the financial prospects of the group are encouraging, on account of robust cash flow visibility due to high day rates of rigs and minimal deployment risk, despite the higher financial risk due to leveraging of balance sheet. Except for the rigs, which are currently under construction/refurbishment, all other rigs have been deployed. All the new deployment have been at much higher day rates, while the renewals of contracts for rigs that were deployed earlier is also taking place at much higher rates. Continuation of strong industry fundamentals in the short to medium term, successful deployment of the rigs under construction, fructification of equity infusion into the group vide listing of a subsidiary and refrainment from raising further debt that would increase the financial risk, would be critical to the financial performance of the company and would be key rating sensitivities.

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