Deep Industries Limited

June 04, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	282.43	**CARE A (Single A) (Credit watch with negative implications)**	**Ratings placed on credit watch with negative implications**
Short term Bank Facilities	2.17	**CARE A1 (A One) (Credit watch with negative implications)**	**Ratings placed on credit watch with negative implications**
Long Term / Short Term Bank Facilities	90.00	**CARE A/CARE A1 (Single A / A One) (Credit watch with negative implications)**	**Ratings placed on credit watch with negative implications**
Total Facilities	**374.60 (Rupees Three Hundred Seventy Four Crore and Sixty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Deep Industries Limited (DIL) on "Credit Watch with negative implications" in view of pending clarity on termination of two major revenue contributing gas dehydration unit (GDU) contracts of the company leading to lack of clarity on revenue visibility; alongwith the proposed demerger of the company's Services business segment into a separate company and possible impact of the aforesaid event on the credit profile of DIL.

DIL has proposed demerger of its oil & gas services business and Exploration & Production (E&P) business into two separate entities. Furthermore, clarity on termination of two major revenue contributing GDU contracts by its major client - Oil and Natural Gas Corporation Ltd (ONGC; rated CARE AAA; Stable/CARE A1+) and subsequently DIL's rejoinder challenging the termination order is yet to emerge; and its impact on future orders from ONGC remains to be seen. CARE will take a view on the ratings of the company once the exact implications of the above events on the credit risk profile of the company are clear.

The ratings for the bank facilities of DIL continue to derive strength from its established position in the domestic gas compression services business alongwith its growing presence in the related business segments such as rigs and GDUs, healthy profitability, moderate revenue visibility and comfortable overall gearing and debt coverage indicators.

The ratings are, however, constrained due to DIL's moderate scale of operations in a niche segment, client concentration risk its high debt repayment obligations in the medium term and its exposure to intense competition in the rigs service business.

DIL's ability to further increase its scale of operations through efficient deployment of its resources, diversify its client-base, sustain its profit margin amid increasing competition and further improve its capital structure shall be the key rating sensitivities.

Furthermore, outcome of the proposed demerger and of the legal proceedings against the termination orders for GDUs, alongwith any probable suspension of future dealings by ONGC on the credit risk profile of DIL shall also be a key monitorable.

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

Detailed description of the key rating drivers

Key Rating Strengths

Established position in gas compression services along with increasing operations of rigs and gas dehydration units

DIL has been serving the oil and gas industry since past two decades and has varied service offerings including gas compression, work-over rigs and drilling rigs, and gas dehydration units in its portfolio. It has a leading position in providing third party gas compressing services with a dominant domestic market share. The company provides comprehensive services which include supply of equipment, installation, commissioning and operation and maintenance of gas engines and compressors. DIL's clientele includes established public and private sector companies including ONGC. This apart, it has also made ventured into the oil and gas E&P business; which is albeit at nascent stage of development.

The company has proposed a demerger of the oil and gas service business and E&P business; the implications of which on the credit risk profile of the company shall remain a key monitorable.

Healthy profitability and moderate revenue visibility

During FY18, the PBILDT and PAT margin remained healthy at around 55% (57% in FY17) and 25% (26% in FY17) respectively, with 8% growth in the total operating income in FY18 to Rs.307 crore. The order book stood at Rs.686 crore as on April 01, 2018 (2.23x of its total operating income for FY18); reflecting moderate revenue visibility over the medium term.

Low overall gearing and comfortable debt coverage indicators

DIL's overall gearing witnessed improvement as on March 31, 2018 to 0.51X (0.72x as on March 31, 2017) on account of scheduled loan repayments as well as healthy accretions of profits to reserves. The debt coverage indicators also remained comfortable during FY18.

Revised hydrocarbon licensing and exploration policy to expedite E&P activities

DIL's growth prospects are linked to the growth in the E&P industry and extent of outsourcing by the E&P players. The revised licensing policy formulated by government, viz. 'Hydrocarbon Exploration and Licensing Policy (HELP)' to address issues such as licensing requirements, cost finalization and gas pricing which presently beleaguer the E&P industry, is likely to increase the pace of E&P activities and thus likely to bring additional business opportunities for oil and gas field service providers like DIL.

Key Rating Weaknesses

Moderate scale of operations with high competition in rigs business segment

The scale of operations of DIL remains moderate, at Rs.307.18 crore in FY18. The company's orders are availed through tendering; hence it remains exposed to competition in the industry, particularly in the niche segment viz. rigs service business, as it holds a leadership position in the gas compression business.

High debt repayment obligations in the medium term

DIL owns the equipment used for execution of its orders and hence the company has high debt repayment obligations in the medium term owing to debt-funded expansion of its equipment. Nevertheless, new equipment purchased are largely long-term in nature, providing assured revenue visibility for a considerable period of time.

Pending clarity on receipt of termination order from ONGC for two GDU contracts

In July 2017, DIL received termination order for two operational GDU contracts awarded by ONGC. As per the order, the termination shall be effective post 300 days from July 31, 2017, i.e. around May 2018 end. However, presently the GDU contracts are operational.

DIL has challenged the aforementioned termination order and has filed a writ petition before the Hon'ble High Court of Judicature at Hyderabad. Against this petition, ONGC has filed their reply and against ONGC's reply, DIL has submitted its rejoinder with Hon'ble High Court of Hyderabad. The outcome of the legal proceedings against the termination orders for GDUs and impact of suspension of future dealings by ONGC on the credit risk profile of DIL shall be a key monitorable.

Analytical approach: Standalone

Applicable Criteria
[Criteria for placing ratings on Credit Watch](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[CARE's methodology for manufacturing companies](#)
[Financial ratios - Non- Financial Sector](#)

About the company
Promoted by Mr Paras Savla and Mr Rupesh Savla in 1991, DIL is engaged in providing services such as gas compression, air compression, rigs (both work-over and drilling) and gas dehydration in the oil and gas industry. It is an established and leading domestic gas compression service provider. DIL has also ventured in to exploration and production (E&P) business of oil, gas, CBM and marginal oil fields.
DIL owns the equipment fleet installed at client's site and it presently comprises of 56 natural gas compressors ranging from 150 horsepower (HP) to 1,500 HP, two air compressors, twelve rigs (nine work-over rigs and three drilling) and eleven gas dehydration units (GDUs; nine operational); servicing reputed public and private sector E&P companies.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	285.58	307.18
PBILDT	163.81	167.64
PAT	74.02	76.02
Overall gearing (times)	0.72	0.51
Interest coverage (times)	7.38	14.49

A: Audited

Status of non-cooperation with previous CRA:
CRISIL vide its press release dated February 28, 2018 has migrated the ratings of DIL to 'Non-cooperation category; based on best available information; as DIL has not provided the required information to CRISIL for carrying out a review of its ratings.

Any other information:
Not Applicable

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/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-Term Loan	-	-	Sep 2021	247.43	CARE A (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE A (Under Credit watch with Negative Implications)
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	90.00	CARE A / CARE A1 (Under Credit watch with Negative Implications)
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.17	CARE A1 (Under Credit watch with Negative Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	247.43	CARE A (Under Credit watch with Negative Implications)	-	1)CARE A; Negative (05-Jan-18) 2)CARE A; Stable (07-Jul-17)	1)CARE A; Stable (11-Jan-17)	1)CARE A- (29-Mar-16) 2)CARE A- (13-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	35.00	CARE A (Under Credit watch with Negative Implications)	-	1)CARE A; Negative (05-Jan-18) 2)CARE A; Stable (07-Jul-17)	1)CARE A; Stable (11-Jan-17)	1)CARE A- (29-Mar-16) 2)CARE A- (13-Oct-15)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	90.00	CARE A / CARE A1 (Under Credit watch with Negative Implications)	-	1)CARE A; Negative / CARE A1 (05-Jan-18) 2)CARE A; Stable / CARE A1 (07-Jul-17)	1)CARE A; Stable / CARE A1 (11-Jan-17)	1)CARE A- / CARE A2+ (29-Mar-16) 2)CARE A- / CARE A2+ (13-Oct-15)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	2.17	CARE A1 (Under Credit watch with Negative Implications)	-	1)CARE A1 (05-Jan-18) 2)CARE A1 (07-Jul-17)	1)CARE A1 (11-Jan-17)	1)CARE A2+ (29-Mar-16) 2)CARE A2+ (13-Oct-15)

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