

Deep Industries Limited

September 21, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	150.62 (reduced from 282.43)	CARE A- (Single A Minus) (Credit watch with negative implications)	Revised from CARE A (Single A) (Credit watch with negative implications)
Short term Bank Facilities	2.17	CARE A2+ (A Two Plus) (Credit watch with negative implications)	Revised from CARE A1 (A One) (Credit watch with negative implications)
Long term / Short term Bank Facilities	90.00	CARE A-/CARE A2+ (Single A Minus/ A Two Plus) (Credit watch with negative implications)	Revised from CARE A /CARE A1 (Single A / A One) (Credit watch with negative implications)
Total Facilities	242.79 (Rupees Two Hundred Forty Two Crore and Seventy Nine lakhs only)		

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Deep Industries Limited (DIL) take into account moderation in the company's revenue visibility with termination of two disputed gas dehydration unit (GDU) contracts by its major client - Oil and Natural Gas Corporation Ltd (ONGC; rated CARE AAA; Stable/CARE A1+).

The ratings continue to be under "Credit Watch with negative implications" in view of uncertainty associated with receipt of future orders from ONGC in light of pending clarity on DIL's rejoinder challenging the termination order; alongwith the proposed demerger of the company's services business segment into a separate company.

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 continue to derive strength from DIL's established position in the domestic gas compression services business alongwith its increasing operations in rigs and related services business, its healthy profitability and comfortable overall gearing and debt coverage indicators.

The ratings also derive comfort from geographical diversification in the company's revenue profile with recent commencement of operations in its Middle-East based subsidiary; alongwith prepayment of the entire outstanding term debt related to the terminated GDU contracts resulting in significant reduction in debt repayment obligations of the company in the medium term.

The ratings continue to remain constrained by DIL's moderate scale of operations with intense competition in the rigs service business and client concentration risk.

DIL's ability to increase its scale of operations through efficient deployment of its resources and ramp up the operations of its overseas venture, achieve substantial diversification in its client-base, sustain its profit margin amidst high competition and maintain its comfortable capital structure while efficiently managing any future investment requirement in its subsidiaries shall be the key rating sensitivities.

Furthermore, outcome of the proposed demerger and of the legal proceedings against the terminated GDU contracts, alongwith any probable suspension of future dealings by ONGC on the credit risk profile of DIL shall be a key monitorable.

Detailed description of the key rating drivers

Moderation in revenue visibility: Revenue from the two disputed GDU contracts awarded by ONGC, which had an outstanding value of over Rs.200 crore, was discontinued from end of June 2018; resulting in moderation in revenue visibility of DIL. DIL presently has orders of around Rs.440 crore on hand executable in near term. The company has prepaid the entire outstanding debt pertaining to these two GDUs; however uncertainty pertaining to receipt of future orders from ONGC persists in light of pending clarity on DIL's rejoinder challenging the termination order.

DIL has commenced overseas operations through its Middle-East based subsidiary with moderate orders of over Rs.80 crore; executable in near term. This has resulted in geographical diversification of the company's revenue stream; however establishment of track record of the overseas operations remains to be seen.

Key Rating Strengths

Established position in gas compression services with increasing operations in rigs and related service business: 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, and is increasing its presence in the rigs and related service business.

This apart, it has also ventured into the oil and gas exploration and production (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 comfortable capital structure: DIL's profitability remained healthy with a PBILDT margin of over 55% and PAT margin of over 25% in FY18 (similar levels in FY17) and a moderate 8% growth in its total operating income (TOI) to Rs.307 crore in FY18. During Q1FY19, DIL reported TOI of Rs.75 crore and PAT of Rs.18 crore.

DIL's capital structure remained comfortable with an improvement in its overall gearing to 0.29x as on June 30, 2018 from 0.51x as on March 31, 2018 on account of prepayment of the GDU related loans 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)' and Discovered Small Field' (DSF) policy, 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 remained moderate at around Rs.307 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 of rigs and its related business; as it holds a leadership position in the gas compression business.

Client concentration risk: DIL has commenced diversification of its clientele with procurement of orders from reputed E&P players such as Cairn India; however, majority of its present orders (including the integrated project management order for rigs and related services) are awarded by ONGC or ONGC-led consortium. This, in light with uncertainty of receipt of future orders from ONGC, exposes the company to risks associated with concentration of clientele and uncertainty of scale of operations.

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, Ahmedabad based 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 a leading domestic gas compression service provider. DIL has also ventured in to E&P business of oil, gas, coal bed methane (CBM) and marginal oil fields.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	286.17	306.93
PBILDT	164.57	168.72
PAT	75.19	76.02
Overall gearing (times)	0.71	0.51
Interest coverage (times)	7.39	14.58

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

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.

Analyst Contact:

Name: Ms Nikita Goyal

Tel: 079 – 4026 5670

Mobile: +91 98243 71174

Email: nikita.goyal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	115.62	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 A2+ (Under Credit watch with Negative Implications)
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.17	CARE A2+ (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	115.62	CARE A- (Under Credit watch with Negative Implications)	1)CARE A (Under Credit watch with Negative Implications) (04-Jun-18)	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 (Under Credit watch with Negative Implications) (04-Jun-18)	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 A2+ (Under Credit watch with Negative Implications)	1)CARE A / CARE A1 (Under Credit watch with Negative Implications) (04-Jun-18)	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 A2+ (Under Credit watch with Negative Implications)	1)CARE A1 (Under Credit watch with Negative Implications) (04-Jun-18)	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)

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**

32, Titanium, Prahaldnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691