

## Jindal Drilling & Industries Ltd

September 04, 2018

### Ratings

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank facilities	20	CARE BBB+; Stable (Triple B Plus; Outlook Stable)	Revised from CARE A-; Negative (Single A Minus; Outlook Negative)
Short-term Bank facilities	100	CARE A3+ (Single A Three Plus)	Revised from CARE A2+ (A Two Plus)
<b>Total</b>	<b>120</b> <b>(Rupees One Hundred and Twenty Crore only)</b>		

### Detailed Rationale & Key Rating Drivers

The revision in the ratings of Jindal Drilling & Industries Ltd (JDIL) takes into account JDIL's subdued operating performance during FY18 on account of moderation in scale of operations and profitability coupled with low revenue visibility owing to revision in rig hire charges. . The ratings revision also factors in JDIL's large exposure to overseas group entities along with corporate guarantee extended by JDIL to Discovery Drilling Pte Ltd during FY18. The ratings also take cognizance of JDIL's settlement of contingent claims relating with Noble Edholt Jackup Rig during FY18. The ratings, however, derive strength from strong parentage of JDIL, being part of D.P. Jindal group, JDIL's proven track record of in the drilling business and moderate financial risk profile .

Going forward, JDIL's ability to increase its scale of operations through efficient deployment of its resources while improving its profit margins amid increasing competition would be the key rating sensitivities. Further, the implications of corporate guarantee extended to its group concern on the financial risk profile of JDIL is also the key monitorable.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Subdued FY18 performance coupled with low revenue visibility-** In FY18, the company's total operating income declined y-o-y by ~52% to Rs.184.59 crore due to limited revenue stream and delay in deployment of one of the rigs which got deployed in FY19 (May 10, 2018) in place of Q4FY18. This led to revenue from only one rig during FY18 coupled with no new directional drilling contract awarded/renewed during the period. Further, owing to onetime expense of ~Rs. 56 crore, the company had reported operating loss (PBILDT) of Rs.24.87 crore during FY18.

Further, the company's solvency position has moderated as exhibited by adjusted overall gearing (factoring for corporate guarantee provided to Discovery Drilling Pte Ltd) of 0.97x as on March 31, 2018 (standalone overall gearing of 0.08x as on March 31, 2018).

**Exposure to group companies along with Corporate Guarantee extended to Discovery Drilling Pte Ltd-** JDIL has significant exposure in overseas group entities to the tune of Rs.572.38 crore as on March 31, 2018 in the form of equity investments of Rs.186.62 crore (PY: Rs.186.62 crore) and non-current loans and advances of Rs.385.76 crore (PY: Rs.398.22 crore). Also, In FY18, the JDIL has provided corporate guarantee of ~Rs.194 crore (\$30 mn) to the bank loan availed by Discovery Drilling Pte Ltd .

#### Key Rating Strengths

**Experienced promoters-** JDIL is part of the D P Jindal Group. Found in 1952, the group has interests in steel, pipes, power, etc. Mr. Jindal has vast experience in engineering and exploration and is presently the Chairman of Jindal Pipes Limited, Maharashtra Seamless Limited and Jindal Drilling & Industries Limited.

**Long track record of operations -**JDIL has more than three decades of experience in offshore drilling and allied services. The quality and efficient service rendered by the company has made it establish the long-standing relationship with India's leading upstream companies.

**Industry scenario and prospects-** The US Brent crude prices have been witnessing a declining trend since September 2014. The rates dropped by 52% from \$108 per barrel in March 2014 to around \$56.70 per barrel in March 2018. The historic speed and scale of decline in crude prices led to decline in operating margins of the upstream players, and thus cutting of their capex budgets. Lower demand resulted in fall in the daily rig rates for drilling companies. But the sector

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

remains important with GoI's goal of strengthening energy security and various initiatives taken by the Indian Government like revising of licensing policy t, 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 JDIL.

**Analytical approach:** Standalone

#### Applicable Criteria

- [Criteria on assigning Outlook to Credit Ratings](#)
- [CARE's Policy on Default Recognition](#)
- [Rating Methodology-Service Sector Companies](#)
- [Criteria for Short Term Instruments](#)
- [Financial ratios – Non-Financial Sector](#)

#### About the Company

Jindal Drilling & Industries Limited (JDIL), part of the Dharam Pal Jindal Group (DP Jindal Group), is a leading Indian company in offshore drilling and allied services including directional drilling and mud logging. Founded in 1952, the D P Jindal group also has interests in steel, pipes, power, etc. JDIL takes rigs on lease from group companies or third parties and provides drilling services to upstream companies in Mumbai Offshore (Bombay High) region. The company also provides mud-logging and directional drilling services to onshore sites. Also, in Q1FY19 the company has reported operating income of Rs.70.80 crore with PBILDT of Rs.19.62 crore and PAT of Rs.9.93 crore.

(Rs. crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	389.45	184.59
PBILDT	34.14	(24.87)
PAT	16.97	(15.47)
Overall gearing (times)	0.09	0.08
Interest coverage (times)	3.58	(8.49)

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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-Cash Credit	-	-	-	20.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	100.00	CARE A3+

**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-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE A-; Negative (13-Sep-17)	1)CARE A (31-May-16)	-
2.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A3+	-	1)CARE A2+ (13-Sep-17)	1)CARE A1 (31-May-16)	-

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