DEEP Industries Limited
Oil & Gas Field Services

05th January, 2023

To,
Corporate Relations Department
BSE Limited
2nd Floor, P.J. Towers,
Dalal Street,
Mumbai – 400 001
SCRIP CODE : 543288

To,
Corporate Relations Department
National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C/1, G-Block,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051.
SYMBOL : DEEPINDS

Dear Sir/ Madam,

Sub: Intimation under Regulation 30 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ["the SEBI (LODR) Regulations, 2015"]- Credit Rating

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (LODR), Regulations, 2015, this is to inform you that CARE Ratings Limited ("Credit Rating Agency") has assigned/revised the ratings of bank facilities of Deep Industries Limited, as under-

Facilities	**Amount (Rs. Crore)**	**Rating**	**Rating Action**
Long Term Bank Facilities	26.79	CARE A; Positive (Single A, Outlook: Positive)	Reaffirmed; Outlook revised from stable
Long Term/ Short Term Bank Facilities	56.89	CARE A; Positive / CARE A1 (Single A; Outlook: Positive/A One)	Reaffirmed; Outlook revised from stable
Total Facilities	83.68 (Rupees Eight Three Crores Sixty Eight Lakhs only)		

Press Release dated January 04, 2023, issued by CARE in this behalf is attached herewith. Kindly take this on record.

Kindly take the above on record.

Thanking you,
Yours faithfully,

For, Deep Industries Limited
(Formerly known as Deep CH4 Limited)

SHILPA SHARMA Digitally signed by SHILPA SHARMA Date: 2023.01.05 16:44:36 +05'30'

Shilpa Sharma
Company Secretary and Compliance Officer
M. No: A34516

Encl: A/a

Annexure-1

Deep Industries Limited

Press Release

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	26.79	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long-term/Short-term bank facilities	56.89	CARE A; Positive/CARE A1 (Single A; Outlook: Positive/A One)	Reaffirmed; Outlook revised from Stable
Total facilities	83.68 (₹ Eighty-three crore and sixty-eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Deep Industries Limited (DIL) continue to derive strength from its established position in the domestic oil and gas service business for providing various services, such as workover and drilling rigs, gas compression (GC) and gas dehydration units (GDUs) and its strong clientele. The ratings also factor in DIL's comfortable capital structure and debt coverage indicators, its strong liquidity backed by healthy liquid investment and cash and bank balance and stable industry outlook. The ratings also take cognisance of the moderation in its healthy profitability margins during FY22 (refers to the period from April 01 to March 31) and H1FY23 (refers to the period from April 01 to September 30) and growth in its orderbook position to a healthy level.
The ratings are, however, constrained on account of DIL's moderate scale of operations, intense competition in the rigs service business, which is also susceptible to volatile day rates due to its linkages with crude oil prices, inherent risk associated with the re-awarding of maturing contracts arising from client concentration and its elongated debtors' days.

Rating sensitivities

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

- Growth in the scale of operations marked by total operating income (TOI) of more than ₹400 crore along with profit before interest, lease, depreciation and tax (PBILDT) margins of more than 35% on a sustained basis.
- Faster realisation of its debtors with average collection period less than 90 days while maintaining healthy cash and bank balance and liquid investments.
- Greater share of income from gas compression and gas dehydration works along with greater customer diversification.

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

- Decline in its scale of operations marked by TOI of less than ₹250 crore on a sustained basis.
- Reduction in its PBILDT margin to less than 30% on a sustained basis.
- Elongation in its operating cycle beyond 180 days.
- Any large-size debt-funded capex leading to moderation in its overall gearing beyond 0.50x.
- Extension of any direct / indirect financial support for the exploration & production (E & P) activities in Deep Energy Resources Ltd. (DERL) or undertaking any such activity in the company itself.

Outlook: Positive

The outlook on the long-term rating of DIL has been revised from 'Stable' to 'Positive' on expectation of the growth in the scale of operation on the back of healthy orderbook resulting in increased utilisation of its asset base leading to strong cash accrual and further strengthening of its liquidity position. The outlook may be revised to 'Stable' in case of lower-than-envisaged growth in its scale of operations and/or decline in profitability.

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[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Detailed description of the key rating drivers

Key rating strengths

Established position in gas compression and workover and drilling rigs-related services business: DIL has been serving the oil and gas service industry for more than two decades and has varied service offerings including GCs, work-over rigs & drilling rigs and GDUs in its portfolio. DIL has a leading position in providing these services on charter hire basis with a dominant domestic market share particularly in the GC segment and has strong presence in the workover and drilling rigs-related service business. DIL has strong asset base of rigs and gas compressor, majority of which are almost debt free providing it the flexibility to target higher day rate contracts. Also, DIL's asset base is relatively newer with average age of rigs and gas compressor was around 8 years and 12 years, respectively, whereas useful life is around 25-30 years. DIL has also ventured into overseas market for providing oil and gas services through its subsidiary, Deep International DMCC (Deep DMCC) in the Middle-East and has also set-up manufacturing unit of CNG Booster Compressors under its subsidiary, Raas Equipment Private Limited (REPL), to diversify its operations.

Diversified revenue stream coupled with strong clientele: Till FY18, DIL earned majority of its income from the GDUs and GC service. However, since then DIL has diversified its revenue stream by venturing into providing integrated project management services (IPMS) and then into CNG booster pumps under REPL. During FY22, DIL, on a standalone basis, derived 41% of its TOI from Workover and drilling rigs (FY21: 54%), 34% from gas compression (FY21: 30%), 21% from integrated project management service (IPMS; FY21:11%) and balance 4% from GDU (FY21: 5%) reflecting its diversified revenue stream. Out of its four subsidiaries, REPL and Deep DMCC has major operation. REPL, engaged in the manufacturing of the CNG booster compressor, reported TOI of ₹19.11 crore during FY22 (FY21: ₹7.19 crore). Deep DMCC, engaged in the gas service business and equipment trading, reported TOI of ₹32.09 crore during FY22 (FY21: ₹9.21 crore).
Going forward, revenue share of the rigs is expected to remain stable on the back of strong order-book position, while gas compressor segment is expected to increase as DIL has planned addition of eight GCs in its fleet in FY23 with increased order flows. DIL has been also re-awarded contracts in the GDU segment. Oil and Natural Gas Corporation Limited (ONGC; rated 'CARE AAA; Stable / CARE A1+') has remained one of the key clients for DIL over the years with long track record of regularly receiving various orders across its business segments. Apart from ONGC, DIL has orders from various reputed clientele like Gujarat State Petronet Limited (GSPL; rated 'CARE AA+; Stable/CARE A1+'), Sabarmati Gas Limited, Assam Gas Company Limited and Vedanta Limited among others.
Apart from above, DIL is acquiring Dolphin Offshore Enterprises (India) Limited (Dolphin), a company undergoing insolvency resolution process under the Insolvency and Bankruptcy Code, which is engaged into providing services, such as diving, underwater engineering and allied services to the offshore oil and gas industry, to further increase its service offering. The resolution plan is approved by committee of creditors (COC) and National Company Law Tribunal, Mumbai (NCLT). The total investment envisaged in Dolphin is around ₹30-35 crore over a period of next 1-2 years.

Healthy profitability albeit it moderated during FY22 and H1FY23: On a consolidated basis, the PBILDT margin had moderated by 587 bps in FY22; however, it continued to remain healthy at 35.68% (FY21: 41.55%). Profit after tax (PAT) margin also remained healthy at 22.51% during FY22 (FY21: 33.41%). Moderation in the PBILDT margin during FY22 was due to higher repair and maintenance charges along with increase in the fuel cost, which was not completely passed to the customers due to fixed price contracts along-with higher repair and maintenance expenses during FY22. DIL earned healthy gross cash accruals (GCA) of ₹114.47 crore during FY22 as compared with ₹77.51 crore during FY21. CARE Ratings expects the PBILDT margin of DIL, on a standalone level, to remain heathy at around 38%-40%, while on a consolidated level, at 35%-37% with increased deployment of asset base in GC the segment.
For H1FY23, DIL reported TOI of ₹139.82 crore (H1FY22: ₹162.28 crore) with PBILDT margin of 34.93% (H1FY22: 35.18%). The TOI declined during H1FY23, on a y-o-y basis, due to maturing of some of the old contracts and transitioning to new one.

Comfortable capital structure and debt coverage indicators: The overall gearing of DIL remained comfortable at 0.04x as on March 31, 2022, as compared with 0.06x as on March 31, 2021. DIL has low reliance on the external debt with total debt of ₹31.79 crore as on March 31, 2022, as compared with ₹40.89 crore as on March 31, 2021. With healthy profitability and plough back of profit, its tangible net worth also improved and remained strong at ₹745.36 crore as on March 31, 2022 (excluding goodwill created on account of demerger). The total debt increased to ₹70.25 crore as on September 30, 2022, due to availment of the new term loan (₹45 crore) mainly for the purchase of new GCs. DIL operates in the capital-intensive industry, however, majority of its assets are debt free. With low debt levels and strong cash accruals, its debt coverage indicators also stood comfortable marked by PBILDT interest coverage and total debt to GCA (TDGCA) of 24.07x and 0.28x, respectively, during FY22 as compared with 8.61x and 0.53x, respectively, during FY21. Going forward, with no large-sized debt-funded capex plan, CARE Ratings expects DIL to further strengthen its comfortable capital structure and debt coverage indicators.

Growth in its orderbook position to a healthy level: The total orderbook of DIL grew from ₹374.90 crore as on September 30, 2021 to ₹815.11 crore as on September 30, 2022, with significant growth in order flow in GC and IMPS segment. The orderbook to its consolidated TOI of 2.53x reflects adequate future revenue visibility. Although the majority of DIL's orderbook is concentrated from ONGC / ONGC-led consortium, the same has moderated with addition of new clients in GC segment and diversification of the business in REPL (subsidiary) during current year. During FY22, DIL had executed one project from consortium led by ONGC, Indian Oil Corporation Limited (IOCL) and Prabha Energy Private Limited (PEPL in the ratio of 55:20:25 for providing IPMS in one of the E&P project. It has also received new orders to be executed under IPMS segment leading to further strengthening of its order book.

Stable industry outlook: Government of India aims at reducing the country's dependence on oil imports from around 84% at present to 50% by 2030. Thus, to increase the pace of activities in the exploration and production (E&P) segment, it has formulated revised licensing policy, viz. 'Hydrocarbon Exploration and Licensing Policy (HELP)' to replace New Exploration and Licensing Policy (NELP). HELP is focused on uniform licensing for all hydrocarbons, bidding on revenue sharing basis rather than profit sharing basis, which hitherto required estimation of costs, Open Acreage Licensing Policy' wherein a bidder may apply to the government seeking exploration of any block and pricing freedom for gas produced in high risk / high pressure areas and reduced royalty rates to address issues, such as licensing requirements, cost finalisation and gas pricing, which presently beleaguer the E&P industry. The government also brought in policy to incentivise greater recovery from the hydrocarbon-producing assets through the expression of interest (EOI) Policy. These pro-active policy measures are likely to increase the pace of E&P activities, which might also augur well for oil and gas field service providers like DIL through additional business opportunities.

Key rating weaknesses

Growth in scale of operation albeit it remained at moderate level: On a consolidated basis, TOI grew by 66% from ₹193.94 crore during FY21 to ₹321.63 crore during FY22 on the back of strong growth at standalone level along with steady growth at the subsidiary level. TOI, on a standalone basis, grew by around 52% on during FY22 y-o-y basis on the back of healthy growth in the GC as well as IMPS segment along with steady orders execution in the rigs and GDU segment. Despite the growth in the scale of operation, DIL operates at moderate base in the overall oil and gas service industry. For H1FY23, DIL achieved TOI of ₹139.82 crore as compared with ₹162.28 crore during H1FY22. The TOI declined during H1FY23 on y-o-y basis due to movement of assets from old (mature) contract to new contract.
TOI of DIL, on a standalone basis, grew by around 52% on during FY22 y-o-y basis on the back of healthy growth in the GC as well as IMPS segment along with steady orders execution in the rigs and GDU segment. Going forward, healthy order book position and scheduled deployment of its un-utilised assets from Q3FY23 onwards along with steady growth at the subsidiary level is expected to drive growth in the scale of operation of DIL.

Client concentration along with high competition in rig segment having susceptibility to volatile day rates: Majority of the DIL's orderbook is concentrated from the orders of the ONGC / ONGC-led consortium. However, with addition of new clients and diversification of the business in REPL (subsidiary), the concentration has reduced to 61% as on September 30, 2022, as compared with 81% as on June 30, 2020. On a standalone basis, the revenue from ONGC forms around 51% of net sales during FY22 as compared with 68% during FY21, which exposes it to the customer concentration risk. However, ONGC being one of the India's most strategically important central public sector undertaking (PSU) mitigates the risk to a certain extent. Furthermore, over the years, DIL has exhibited successful track record of securing new contracts and receiving re-award of its existing contracts from ONGC.
DIL's orders (new as well as re-awards) are received through bidding process; hence, it remains exposed to competition in the industry, particularly in the workover rigs segment. The company also remains exposed to the risk of re-award of the on-going contracts on their expiry which is, however, inherent in the oil and gas industry. Furthermore, the company also remains exposed to the risks associated with volatility in day rates of rigs at the time of the re-award of the contracts as day rates largely move in tandem with crude oil prices and hence are volatile in nature.

Elongated debtor days: DIL normally realises its debtors within 90-110 days period. Its debtor level remained elongated as on March 31, 2021, due to demerger of its business and subsequent changes in the name of the company along with COVID-19 pandemic, which impacted payment from its customers. Despite growth in the scale of operation during FY22 on y-o-y basis, DIL's debtor level (absolute basis) remained largely at same level as on March 31, 2021, leading to the significant improvement in the debtor days. Overall operating cycle though shortened, remained elongated at 157 days during FY22 as compared with 259 days during FY21. Going forward, CARE Ratings expects the overall debtors' days to remain in the range of 110-120 days.

Liquidity: Strong

DIL has strong liquidity characterised by strong cash accruals vis-à-vis its very low debt repayment obligations and healthy liquid investment and cash & bank balance. DIL is expected to earn gross cash accruals (GCA) of ₹110-120 crore as against debt repayment obligation of around ₹12 crore during FY23. The cash flow from operations remained healthy at ₹75.70 crore during FY22. DIL's liquidity was further supported by liquid investment and free cash and bank balance of ₹68.46 crore as on March 31, 2022 and ₹67.56 crore as on September 30, 2022 (excluding margin money). Healthy envisaged cash accruals and liquid investment would provide adequate headroom to DIL for the future expansion and meeting its funding requirement for the acquisition of Dolphin. Average utilisation of its fund-based working capital limits stood low at around 7.59% for the last 12 months ended November 2022. Average utilisation of its non-fund-based working capital limits stood moderate at 60.22% during the last 12 months ended November 2022. Current ratio and quick ratio improved and remained strong at 4.03x and 3.49x, respectively, as on March 31, 2022, as compared with 3.26x and 2.71x, respectively, as on March 31, 2021.

During Q1FY23, DIL had won the arbitration award with ONGC in relation to the termination of the dehydration contract by ONCG. Tribunal has also directed ONGC to pay compensation of approximately ₹108 crore, which is being challenged by ONGC at higher authority. The receipt of the amount is expected to further augment its liquidity position and is a key credit monitorable.

Analytical approach: Consolidated.

Consolidated financials of DIL comprising DIL and its four subsidiaries. The details of subsidiaries consolidated are shown in **Annexure-3**.

Applicable criteria:

[Policy on default recognition](#)
[Consolidation](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Service Sector Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company

Promoted by Paras Savla and Rupesh Savla in 1991, Ahmedabad-based DIL (CIN: L14292GJ2006PLC049371) was engaged in majorly two businesses, viz., firstly E&P of oil, gas, coal bed methane (CBM) and marginal oil fields and secondly in providing services, such as gas compression, oil rigs (both work-over and drilling) and gas dehydration on charter hire basis. In May 2018, DIL's Board of Directors proposed a scheme of demerger wherein it was proposed to segregate oil and gas services business (Services business) into a separate company, i.e., Deep CH4 Limited (DCL) w.e.f. appointed date of April 01, 2017 and keeping oil and gas exploration business (E&P business) with DIL. As per the scheme of demerger, entire assets and liabilities of erstwhile DIL had been transferred to DCL (which subsequently renamed to DIL) and DIL (which subsequently renamed to DERL). NCLT sanctioned the above-said scheme of demerger vide its order dated March 17, 2020, and the same was approved by registrar of companies (RoC) on August 04, 2020, leading to conclusion of scheme of demerger. DIL has four subsidiaries, namely, Deep Onshore Service Private Limited (DOSPL), Raas Equipment Private Limited (REPL), Deep Onshore Drilling Services Private Limited (DODSPL) and Deep International DMCC (DMCC).

Brief Financials (₹ crore)- Consolidated	FY21 (A)	FY22 (A)	H1FY23 (Published)
Total operating income	193.94	321.63	139.82
PBILDT	80.58	114.75	48.84
PAT	64.80	72.40	36.08
Overall gearing (times)	0.06	0.04	0.09
Interest coverage (times)	8.61	24.07	38.64

A: Audited

Brief Financials (₹ crore)- Standalone	FY21 (A)	FY22 (A)	H1FY23 (Published)
Total operating income	178.68	271.57	120.70
PBILDT	78.18	104.50	44.54

Brief Financials (₹ crore)- Standalone	FY21 (A)	FY22 (A)	H1FY23 (Published)
PAT	63.16	69.34	32.65
Overall gearing (times)	0.06	0.04	0.07
Interest coverage (times)	8.47	24.69	53.99

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

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instrument facilities is given in Annexure-4

Complexity level of various instruments rated for this company: Annexure- 5

Annexure-1: Details of instrument/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	15.00	CARE A; Positive
Fund-based - LT-Term loan	-	-	-	December 2025	11.79	CARE A; Positive
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	56.89	CARE A; Positive / CARE A1

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	11.79	CARE A; Positive	-	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (01-Oct-20)	-
2	Fund-based - LT-Cash credit	LT	15.00	CARE A; Positive	-	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (01-Oct-20)	-
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	56.89	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (06-Dec-21)	1)CARE A; Stable / CARE A1 (01-Oct-20)	-

* Long term / Short term

Annexure-3: List of subsidiaries of DIL getting consolidated

Sr. No.	Name of the Entity	% holding by DIL as on March 31 2022
1.	Deep International DMCC	100%
2.	Raas Equipment Private Limited	80%
3.	Deep Onshore Drilling Services Private Limited	74%
4.	Deep Onshore Service Private Limited	100%

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	
I	**DIL to maintain following:**

Covenant	Threshold
Current ratio	>1.30x
Total outside liability to tangible net-worth	<1.50x
Debt service coverage ratio	>1.20x
Adjusted tangible net-worth	>₹609.98 crore

Name of the Instrument	Detailed explanation
B. Non-financial covenants	
	-

Annexure-5: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-6: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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