September 22, 2022

Foresight Offshore Drilling Limited S.A: Rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (USD Million)	Current Rated Amount (USD Million)	Rating Action
Long-term: Fund-based – Term loan	7.39	9.39	[ICRA]BBB+ (Stable), downgraded from [ICRA]A-(Stable)
Long-term: Non fund-based limits	10.00	8.00	[ICRA]BBB+ (Stable), downgraded from [ICRA]A-(Stable)
Long-term: Interchangeable limits – Overdraft	-	(5.00)	[ICRA]BBB+ (Stable), downgraded from [ICRA]A-(Stable)
Total	**17.39**	**17.39**	

**Instrument details are provided in Annexure-I*

Rationale

The rating downgrade considers the moderation in profitability in recent years, although there was some improvement in CY2021 and the sharp increase in the advances extended to Group entities, moderating the financial risk profile of Foresight Offshore Drilling Limited S.A (FODL or the company). Further, the advances to the Group entities are expected to remain high and increase further, going forward, although the outflows are expected to be restricted to the surplus funds available after the repayment of debt obligations through an escrow account monitored by the lenders.

The rating also remains constrained by the vulnerability of profitability to the cyclical nature of the oil and gas services business. The company's operations remain exposed to the demand scenario when the rig contracts come up for renewal. ICRA also notes the moderate non-fund-based exposure of FODL as on December 31, 2021, by way of performance guarantees to oil companies. The rating also considers the high competitive intensity in the drilling business, particularly for ONGC, Oil India Limited and ADNOC contracts which offer longer tenures, high payment security and stability of rates.

The rating, however, considers the favourable long-term outlook for oilfield services in India as well as the extensive experience of the promoters of more than three decades in the drilling business. ICRA also takes note of FODL's existing contracts with ONGC, Oil India Limited and Abu Dhabi National Oil Company (ADNOC).

The Stable outlook on the rating reflects ICRA's opinion that FODL's credit profile will continue to benefit from the experience of its promoters in the drilling business and the asset light model, limiting the leverage levels.

Key rating drivers and their description

Credit strengths

Promoters' extensive experience in drilling business - FODL was founded in 1989 and belongs to the Foresight Group which has well-diversified businesses across the drilling, shipping, infrastructure and ports segments. The Group is also present in the footwear retail chain through a joint venture with Pavers, England, and operates the Fine Dining-Tandoor chain of restaurants. Further, FODL's promoters have a vast experience of more than three decades in the oil and gas services sector.

Favourable long-term demand outlook for oilfield services in India – The offshore rig market demand was affected due to the decline in oil prices and lockdown-related restrictions amid the pandemic. However, given the high import dependence for crude oil and the capex plans of upstream oil & gas companies, the long-term demand for oilfield services remains healthy.

Strong order book from ONGC, Oil India Limited and ADNOC provides visibility of revenues and profits in near term – FODL has been providing offshore drilling services to ONGC and has developed a strong relationship with the latter through years of association. The company is currently operating three rigs under a long-term contract with ONGC which provides strong revenue visibility. FODL's remaining rigs are also operating under contracts with Abu Dhabi National Oil Company (ADNOC) and Oil India Limited.

Credit challenges

Profitability vulnerable to cyclical nature of oil and gas services business – The profitability and cash flow in the rigs business depend on rig charter rates, which in turn, are influenced by offshore expenditure by upstream companies. Offshore block investments, which are larger than onshore blocks, are highly sensitive to crude oil prices.

High competitive intensity - The company's operations remain exposed to high competition in the drilling business, particularly for the ONGC contracts which offer longer tenures, high payment security and stability of rates. However, the company's established relations with major oil companies and the healthy operational performance of its rigs with uptime of +99% mitigate this risk, to an extent.

High advances to Group companies - The company has extended loans and advances to its Group companies, which increased to ~USD 243.0 million as on December 31, 2021 from ~USD 209.6 million as on December 31, 2019. As FODL is the flagship company of the Foresight Group's drilling business, the loans and advances to other Group companies are expected to increase and remain high, going forward, too. The significant increase in advances to Group entities have moderated the company's financial risk profile and have resulted in subdued return on capital employed (RoCE) for FODL (~6% as on December 31, 2021). ICRA notes that any additional outflow of funds is expected to be restricted to the surplus funds available after the repayment of debt obligations through an escrow account monitored by the lenders. ICRA will be monitoring the recovery of advances and any significant write-offs remain a sensitivity factor.

Liquidity position: Adequate

The liquidity position is adequate, aided by expected cash accruals and supported by unencumbered cash and bank balances of ~USD 2.4 million as on August 31, 2022 (~USD 5.3 million as on December 31, 2021). The company has debt repayment obligations of ~USD 6.9 million in CY2022 and ~USD 7.6 million in CY2023, mainly for loans availed for refurbishment of rigs, against expected annual cash accruals of at least ~USD 40 million over the next two years.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a sustained improvement in the scale of operations coupled with improved profitability and a comfortable working capital cycle. A substantial moderation in advances to Group entities, leading to an improvement in liquidity profile, will also support an upgrade.

Negative factors – A decline in scale and operating margins resulting in significantly lower-than-expected accruals will affect the rating. Further, a stretch in the working capital cycle or a large debt-funded capital expenditure weakening capital structure could also be a negative for the rating. Any substantial increase in advances to Group companies, stretching the company's liquidity position, would exert negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Oilfield Services Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Foresight Offshore Drilling Ltd. S.A (FODL) is the flagship company within the offshore drilling division of the Foresight Group. FODL wad registered with the Public Registry, Republic of Panama, on April 3, 2002. The company is primarily engaged in the operation of offshore drilling rigs. FODL charter hires drilling rigs for oil and gas extraction, manages drilling operations and provides other services. The drilling fleet comprises three premium, one standard jack-up rigs and one land rig. As on date, three rigs are contracted by ONGC, one land rig is contracted by Oil India Limited and the remaining one rig is contracted by Adnoc, U.A.E.

As per CY2021 provisional financials, FODL reported a net profit of USD 9.8 million on an OI of USD 63.6 million, against a net profit of USD 8.3 million on an OI of USD 46.4 million in CY2020.

Key financial indicators (audited)

FODL	CY2020	CY2021*
Operating income	344.3	431.3
PAT	61.6	66.3
OPBDIT/OI	21.5%	30.5%
PAT/OI	17.9%	15.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.4	0.4
Interest coverage (times)	1.8	4.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (USD Million)	Amount outstanding as on August 31, 2021 (USD Million)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 22, 2022	Jun 07, 2021	-	-
1	**Fund-based – Term loan**	Long term	9.39	9.39	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-	-
2	**Non-Fund based limits**	Long term	8.00	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-	-
3	**Overdraft***	Long term	(5.00)	-	[ICRA]BBB+ (Stable)	-	-	-

**interchangeable with non-fund based limits (LC) of USD 5 Million.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Non Fund based	Very Simple
Long-term – Interchangeable limits - Overdraft	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (USD Million)	Current Rating and Outlook
NA	**Term Loan**	CY2020	NA	CY2023	9.39	[ICRA]BBB+ (Stable)
NA	**Non-Fund Based Limits**	NA	NA	NA	8.00	[ICRA]BBB+ (Stable)
NA	**Overdraft limit**	NA	NA	NA	(5.00)	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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