

December 28, 2023

Foresight Offshore Drilling Limited S.A: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating considers the favourable long-term outlook for oilfield services in India and the extensive experience of the promoters of more than three decades in the drilling business. ICRA also takes note of Foresight Offshore Drilling Limited S.A's (FODL/the company) existing contracts with Oil and Natural Gas Corporation Limited (ONGC, rated [ICRA]AAA(Stable)/A1+), Oil India Limited and Abu Dhabi National Oil Company (ADNOC), which provide revenue visibility for the next three years, i.e. CY2024 to CY2026.

The rating, however, remains constrained by the vulnerability of profitability to the cyclical nature of the oil and gas services business and the volatility in the day rates for rigs when the contracts come up for renewal. ICRA also notes the moderate non-fund-based exposure of FODL as on December 31, 2022, by way of performance guarantees to oil companies. The rating also considers the high competitive intensity in the drilling business, particularly for the ONGC, Oil India Limited and ADNOC contracts, which offer longer tenures, high payment security and stability of rates.

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 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 outlook for the oilfield services in India remains healthy, given the significant dependence of the country on imported crude oil and the significant capex plans of domestic E&P players, going forward.

Strong order book from ONGC, Oil India Limited and ADNOC provides near-term visibility on revenues and profits – FODL has been providing offshore drilling services to ONGC and has developed a strong relationship with the latter through years of association. The company now operates three rigs under a long-term contract with ONGC, which provides strong revenue

visibility over the course of CY2024 to CY2026. FODL's remaining rigs are 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 the 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 an uptime of +99% mitigate this risk to an extent.

High advances to Group companies - 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. However, the loans and advances extended by the company to its Group companies decreased to ~USD 116.2 million as on December 31, 2022 from ~USD 249.6 million as on December 31, 2021 due to a one-time adjustment of USD 120 million (Rs. 988 crore) in the form of non-cash dividends. The high level of advances to Group entities have moderated the company's financial risk profile and have resulted in subdued return on capital employed (RoCE) for FODL. 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.

Liquidity position: Adequate

The liquidity is adequate with unencumbered cash and bank balances of ~USD 3.5 million as on October 31, 2023 (~USD 7.9 million as on December 31, 2022). The company has interchangeable working capital limits of USD 5 million. While the cash accruals are expected to remain healthy (~USD 26 million in CY2023), the debt repayments would be ~USD 9.3 million in CY2023 and ~USD 8.9 million in CY2024. In the absence of any major debt-funded capex, the cash accruals are expected to remain sufficient to service the debt.

Rating sensitivities

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

Negative factors – A decline in the 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 the capital structure could be a negative for the rating. Any substantial increase in advances to Group companies, stretching the company's liquidity position, would also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 was 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 CY2022 audited financials, FODL reported a net profit of \$5.2 million on an OI of \$65.4 million against a net profit of \$9.3 million on an OI of \$63.8 million in CY2021.

Key financial indicators (audited)

FODL	CY2021	CY2022	10M CY2023*
Operating income	432.7	513.4	435.2
PAT	63.1	40.7	45.3
OPBDIT/OI	37.3%	39.5%	37.9%
PAT/OI	14.6%	7.9%	10.4%
Total outside liabilities/Tangible net worth (times)	0.53	0.85	0.70
Total debt/OPBDIT (times)	0.39	0.60	1.01
Interest coverage (times)	5.69	7.04	7.40

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

Current rating (FY2024)					Chronology of rating history for the past 3 years		
Instrument	Type	Amount rated (USD Million)	Amount outstanding as on Mar 31, 2023 (USD Million)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 28, 2023	Sep 22, 2022	Jun 07, 2021	-
1 Fund-based – Term loan	Long term	9.39	9.22	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-
2 Non-fund based limits	Long term	8.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-
3 Overdraft*	Long term	(5.00)	--	[ICRA]BBB+ (Stable)	[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: [Click Here](#)

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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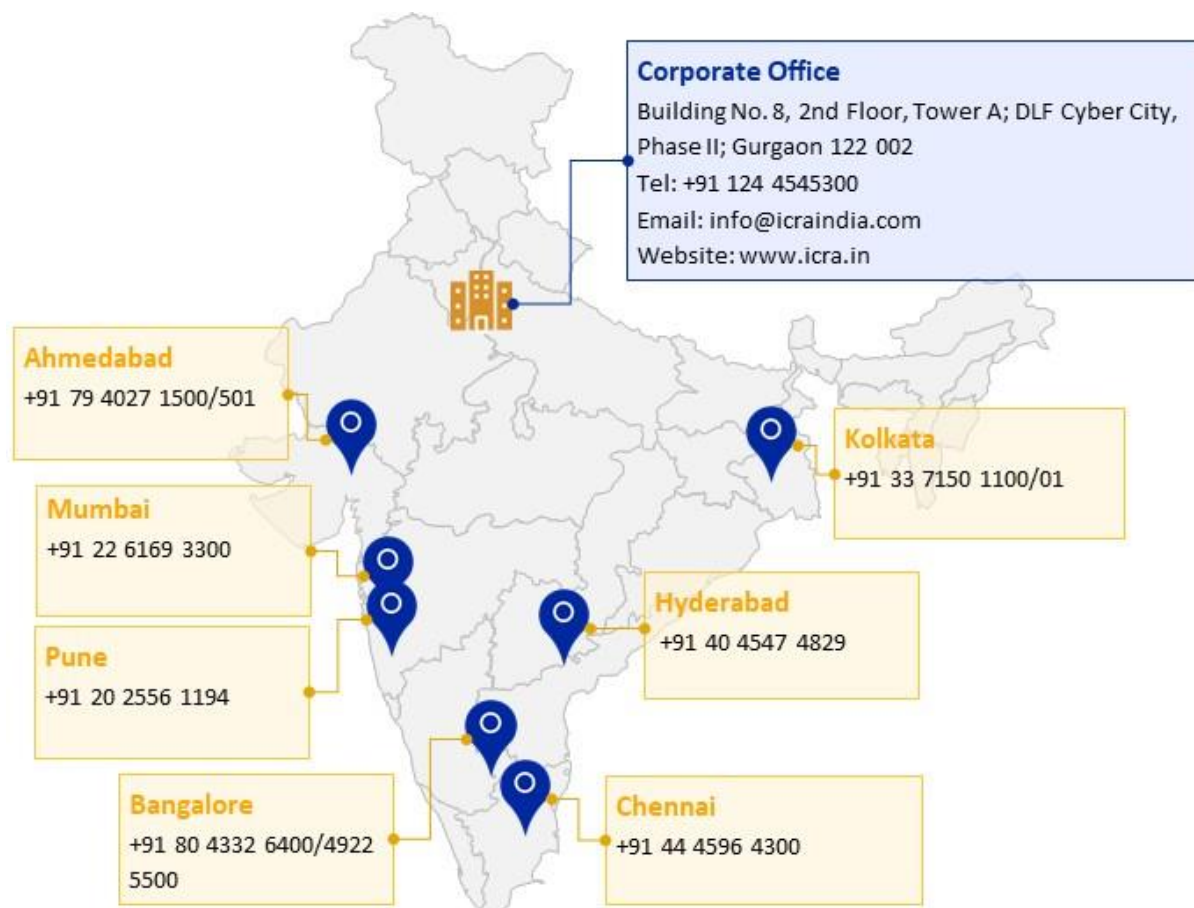


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