July 05, 2019

Botil Oil Tools India Private Limited: Long Term Rating downgraded to [ICRA]BB(Negative) and withdrawn; short term rating downgraded to [ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Packing Credit-Short term	25.0	23.0	Downgraded from [ICRA]A3 to [ICRA]A4+
Non-fund based- short term	32.0	25.0	Downgraded from [ICRA]A3 to [ICRA]A4+
Term Loan- Long term	8.0	0.0	Downgraded from [ICRA]BBB-(Stable) to [ICRA]BB(Negative) and rating withdrawn
Total	**65.0**	**48.0**	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade factors in the deterioration in the financial performance characterised by significant contraction in revenues, large losses at operating level and increase in working capital intensity driven by rise in inventory days during FY2018 and FY2019. The scale of the company has been negatively impacted in last few years owing to subdued capital spending by Upstream oil and gas Exploration & Production (E&P) players globally. The revenues of the company were Rs 72.7 crore in FY2017 but declined to Rs 36.5 crore in FY2018 and further to Rs 29.1 crore (as per provisional results) in FY2019 due to weak order inflow. Owing to low revenues, the company has made operating losses of Rs 7.4 crore in FY2018 and Rs 9.9 crore in FY2019 as against operating profits of 23.2 crore in FY2017. Further, the company made net losses of Rs. 19.4 crore in FY2019 and Rs. 20.3 crore in FY2018 as against net profit of Rs 5.0 crore in FY2017. The coverage and capitalisation indicators have moderated in past few years owing to decline in revenue and profits. The working capital intensity of the company has also increased from 144% in FY2017 to 249% in FY2018 and 341% in FY2019 owing to stretched debtors and large inventories. To fund the losses the company has received funding support from promoters who infused unsecured loans of about Rs 8.5 crore in FY2018 and Rs 20.0 crore in FY2019. Nevertheless with crude oil prices recovering partially leading to increase in the capex budgets of E&P companies globally, the order book has improved with the current order book standing at about Rs 60 crore which gives revenue visibility for next 1 to 1.5 years.

The rating also factors in the long experience of the management in the oil and gas E&P industry and the company's established track record in the domestic oil tools industry, access to technology to manufacture oil drilling and production tools, and significant entry barriers in the form of a long product acceptance period.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Established track record of the company in the domestic oil tools industry: Botil has been manufacturing and supplying oil tools for the E&P industry since 1985. It's clientele among domestic players includes ONGC, OIL etc and it also supplies to many oil majors in the Middle East and Africa. The tools manufactured by the company are used in oil well preparation by E&P companies and need to meet high-quality standards owing to application area. The products manufactured by the company have been able to meet these stringent quality norms while keeping costs lower than global oil tool suppliers.

Long experience of the management in Exploration and Production (E&P) sector: The founder promoter, Mr. H. L. Khushalani, of Botil has considerable experience in the E&P sector including long stints in large oil PSUs. The promoter has also been actively engaged in the operations of Botil for over three decades.

Access to technology to manufacture oil drilling and production tools: Botil has access to technology from Baker Hughes (which was earlier a partner in Botil) and has also absorbed technologies from other oil tools manufacturers as well over the years. As a result, the company has been able to meet the stringent quality requirements of these tools as required by the E&P companies.

Long product acceptance period is an entry barrier for the short to medium term; Botil is the sole domestic producer of oil tools that it manufactures (barring few companies in certain products): Owing to application of oil tool products in oil well completion, the failure can result in loss of production to the companies. Thus, the products undergo various stages of testing and approvals with the E&P companies which is a time-consuming process. The long product acceptance period acts as a deterrent for new players to enter the industry as large capital investment is required before achieving approvals and as a result Botil continues to be the sole domestic supplier for several oil tool products in the country.

Credit challenges

Relatively small size of operations in comparison to global players: Botil's scale of operation is relatively small vis-à-vis other global players and the product profile offered is relatively smaller.

Business prospects are sensitive to decline in E&P capex by the global E&P players due to fluctuations in crude oil prices: Since the oil tools are primarily used in oil well preparation activities, the business prospects are linked to the E&P capex activity which in turn is related to the prevailing crude oil prices and the outlook for crude oil prices. Owing to decline in crude oil prices from June 2014 onwards, E&P activities have seen significant decline since CY2015 and CY2016, which negatively impacted Botil's revenues. However with the increasingly active role by OPEC+ to manage crude oil supply and inventories, international crude prices and capex of E&P companies globally have recovered which is expected to aid the business of Botil.

Moderation in capitalisation and coverage indicators: Coverage and capitalisation indicators have moderated in last couple of years as revenue and profitability has weakened given the weak operating environment and low order inflow. Give numbers here

Significantly high inventory requirements resulting in high working capital intensity: As Botil uses special grade steel for manufacture of products which takes nearly 4-6 months to be delivered, its inventory levels remain high. Additionally,
in recent years few clients have asked for deferment of the order delivery schedule while the company was ready with the
orders. This has resulted in material rise in inventory levels leading to increase in working capital intensity of the company
from 144% in FY2017 to 249% in FY2018 and 341% in FY2019.

Vulnerability of profitability to forex fluctuations because of lack of a formal hedging policy, although natural hedge exists to a an extent: The company does not undertake hedging of its exposure to foreign exchange risk. However, since about half of the raw material is imported it provides a natural hedge to an extent which is evident in the company not facing any major foreign exchange losses.

Liquidity Position:

Botil's liquidity is expected to remain tight owing to high working capital intensity. However, infusion of unsecured loans of about Rs 28.5 crore over FY2018 and FY2019 by the promoters have aided the liquidity of the company.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: NA
Consolidation / Standalone	Please comment if the rating is based on standalone financial statements of the issuer.

About the company

BOTIL Oil Tools India Private Limited (Botil) was set up as a joint venture company in 1985 with Mr. H.L. Khushalani and his family holding 60% stake and Baker Oil Tools, a subsidiary of Baker Hughes, acquiring the balance. Baker Hughes is a leading global oilfield services company. Botil commenced commercial production in 1989 with the technology obtained from Baker Hughes. In 1995, Baker Hughes sold its 40% stake in Botil to Hong Kong-based private equity investment company viz. White Horse Trading Limited. Botil is engaged in the manufacture of oil drilling and production tools such as bridge plugs, floating equipment, packers, liner hanger and flow control equipment. The company supplies these equipment to domestic oil and gas exploration and production companies such as ONGC and Oil India, as well as exports them to countries such as Algeria, Turkey, Syria, South East Asia, etc. The company's manufacturing facilities are located at Bilaspur, Gurgaon.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	72.7	36.5
PAT (Rs. crore)	5.0	-20.3
OPBDIT/OI (%)	31.9%	-20.4%
RoCE (%)	6.3%	-10.7%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDIT (times)	1.7	-5.5
Interest coverage (times)	4.4	-2.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	
					July 2019	March 2018	July 2017	October 2016	May 2016
1	Fund based	Short Term	23.0	-	[ICRA]A4+	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2+
2	Non-fund based	Short term	25.0	-	[ICRA]A4+	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2+
3	Term Loan	Long term	8.0	-	[ICRA]BB (Negative) and rating withdrawn	[ICRA]BBB- (Stable)	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	September 24, 2015	NA	-	8.00	[ICRA]BB(Negative) and rating withdrawn
-	Fund based short term	-	-	-	23.00	[ICRA]A4+
-	Non-fund based short term	-	-	-	25.00	[ICRA]A4+

Source: Botil Oil Tools India Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Mohit Lohia
+91 124-4545814
mohit.lohia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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Hyderabad	+ (91 40) 2373 5061/7251
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