Press Release

Jagson International Limited

July 22, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 90.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs.90.00 crore bank facilities of Jagson International Ltd. (JIL). The outlook is **'Stable'**.

About Company

Incorporated as a private limited company in 1988, Jagson International Limited (JIL) is headquartered at New Delhi. Promoted by Mr. Jagdish Gupta as family owned business, JIL is a flagship company of the Jagson group of Companies. The company is among one of the first private sector companies to enter into the field of off-shore drilling for Oil and Gas exploration in India. JIL has successfully done offshore drilling in the Indian waters for more than a decade for ONGC. JIL has successfully drilled wells offshore, up to the depth of 25,000 feet and owns four rigs. Besides this company is also involved in Warehousing and storage at ports along with running Ropeway Ticketing Services at Jhaku Ropeway, Shimla.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Jagson International Limited (JIL) for arriving at ratings.

List of key rating drivers and their detailed description:

Strengths

- **Experienced promoters, reputed clientele and established business model**

JIL has establish presence since 1988 in the field of off-shore drilling for Oil and Gas exploration companies. The company is promoted by Mr. Jagdish Gupta is the founder of Jagson Group with business experience of more than 30 years in diversified businesses. He is supported by Ms. Ravinder Kaur Hora and Mr. Pradeep Gupta who has more than 2 decades of experience in diversified business. Jagson International Ltd. has been in the business of oil rigs and drilling for over 30 years. The vast experience of promoters and establish track record of operations has helped to establish long-standing relationships with India's leading upstream companies like ONGC. JIL has been able to complete the deployments in a timely manner and has been able to secure contracts renewals at prevailing rig charter rates.

The company has four oil rigs, out of which two are currently deployed with ONGC and the remaining is expected to be deployed on contract basis. JIL also earns revenue from warehousing and ropeway services. The operating income has increased to Rs. 147.73 crores in FY2021 (Provisional) against Rs. 60.46 crores in FY2020. The reason for the lower revenues in FY2020 is due to two of the four rigs being non-operational. The EBITDA margins have improved continuously during last three years to 51.36 per cent in FY2021 (Provisional) against 42.80 per cent in FY2020. The PAT margins have significantly improved to 18.51 per cent in FY2021 (Provisional) against 0.34 per cent in FY2020.

Acuité expects company to maintain stable business and financial risk profile going ahead on back of order in hand as well as to reap benefits from extensive experience of promoters.

- **Heathy financial risk profile**

  The financial risk profile of company stood moderate marked by healthy net worth, gearing and coverage indicators. The net worth of the company stood at Rs. 1,108.52 crore as on March 31, 2021 (Provisional) as against Rs. 1,073.91 crore as on March 31, 2020. The gearing stood at 0.05 times as on March 31, 2021 (Provisional), in similar range in previous years. TOL/TNW stood at 0.06 times as on March 31, 2021 (Provisional) as against 0.07 times as on March 31, 2020. Total debt of Rs. 50.81 crores as on March 31, 2021 (Provisional) consist of term loans of Rs.0.41 crores, other loans of Rs. 4.49 crores and short term debt of Rs. 45.91 crores. The interest coverage ratio stood at 11.32 times as on March 31, 2021 (Provisional) as against 5.78 times as on March 31, 2020. DSCR stood comfortable at 9.57 times as on March 31, 2021 (Provisional) as against 5.44 times in previous year. Debt/EBITDA stood low at 0.70 times as on March 31, 2021 (Provisional) as against 1.34 times as on March 31, 2020.

Weaknesses

- **Susceptibility of charter rates to inherent volatility in crude oil prices and exposure to group companies**

  The profitability and cash flow in the rigs business depend upon rig charter rates, which in turn, are influenced by offshore and deep-water expenditure by oil majors. Offshore and deepwater block investments, which are larger than those in onshore blocks, are highly sensitive to crude oil prices. With a slowdown in global oil and gas E&P capex as a result of sharp fall in crude prices, demand for offshore equipment has declined. Further, JIL has extended around Rs. 123.38 crores as on March 31, 2021 (Provisional) to related parties and subsidiaries in the form of loan, advances and investments. Also, company has higher reliance on working capital limits which stood almost fully utilized for last six month ending June, 2021 resulting in limited financial flexibility.

- **Highly competitive industry marked by tender based nature of business, execution risk and customer concentration risk**

  The company's performance is susceptible to the tender based nature of business, where the business depends on the ability to bid for contracts successfully. Risk become more pronounced as tendering is based on minimum amount of biding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management. Moreover, offshore field development is a complex activity that involves uncertainties from a wide range of sources, thus exposing the company to execution risk. Further, the company is exposed to customer concentration risk as ONGC is currently the sole customer. In the absence of long term contracts or a slowdown of the activity of the client, the company can face a situation of lack of orders resulting in non-deployment of the rigs.

Liquidity Position: Adequate

The net cash accruals stood between at Rs. 30.32 to Rs.58.50 crores as against repayment obligation of Rs.0.10-Rs.0.40 crores during last three years ending FY2021 (Provisional). The accruals are expected be within Rs. 32.50 to Rs.35.00 crores, as against repayment obligation of Rs.0.50 to Rs.1.50 crores for upcoming three years through FY22-2024. The NCA/TD stood at 0.06 times for FY2021 (Provisional) as against 0.07 times in FY2020. The current ratio stood at 4.13 times in FY2021 (Provisional) as against 3.43 times in FY2020. The company has higher reliance on working capital limits which stood almost fully utilized for last six month ending June, 2021 resulting in limited financial flexibility. The unencumbered cash and bank balance stood at Rs.8.77 crores as on March 31, 2021 (Provisional).

Rating Sensitivities

- Sustaining existing business and financial risk profile
- Deterioration in the working capital cycle leading to stress in the debt protection metrics or the liquidity position of the firm
- Maintaining adequate liquidity buffers and timely execution of projects

Outlook: Stable

Acuité believes that JIL will maintain a 'Stable' outlook over the medium term from itspromoters' industry experience and longstanding relationship with customers like ONGC. The outlook may be revised to 'Positive' in case of significant growth in its revenues, while improving its profitability and stabilizing its operations as well as improvement in working capital management. Conversely, theoutlook may be revised to 'Negative' in case the company registers significant decline in revenues or profitability margins, cash accruals, delay in execution of projects or if the financial risk profile deteriorates due to higher-than-expected increase in debt levels or working capital requirements resulting in deterioration in the overall capital structure.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	147.73	60.46
PAT	Rs. Cr.	27.35	0.21
PAT Margin	(%)	18.51	0.34
Total Debt/Tangible Net Worth	Times	0.05	0.05
PBDIT/Interest	Times	11.32	5.78

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Material Covenant

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities In Services Sector - https://www.acuite.in/view-rating-criteria-50.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	CouponRate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3 (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research:

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