

Press Release

Jagson International Limited

October 10, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	-	ACUITE A3+ Upgraded
Bank Loan Ratings	45.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded long-term rating from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BBB** (read as **ACUITE triple B**)' and short-term rating from '**ACUITE A3**' (read as **ACUITE A three**) to '**ACUITE A3+**' (read as **ACUITE A three plus**) on Rs.90.0 crore of bank facilities of **Jagson International Limited (JIL)**. The outlook is '**Stable**'.

Rationale for upgrade

The upgrade in ratings take into continuous increase in total operating income along with increase in profitability level and margin resulting in comfortable financial risk profile. Further, upgrade in ratings also factor in improvement in operating performance of the company. The company continues to factor in experienced management with established track record. The above ratings are, however underpinned by elongated gross current asset days and exposure to group companies in the form of investments and loans and advances.

About the Company

New Delhi based, Jagson International Limited (JIL) was incorporated in 1988 as a private limited company by Mr Jagdish Gupta. It's a family-owned business. JIL is the flagship company of the Jagson group of Companies. JIL is one of the first private sector companies to enter the field of offshore drilling for Oil and Gas exploration. Besides this JIL is also involved in warehousing and storage at ports. JIL has successfully done offshore drilling in the Indian waters for more than a decade. ONGC has been awarding various contracts to JIL for offshore drilling and is currently the sole customer for JIL, against stiff global competition. JIL has successfully drilled wells offshore, up to the depth of 25,000 feet.

Analytical Approach

Acuite has considered standalone business and financial risk profile of Jagson International Limited

Key Rating Drivers

Strengths

Experienced promoters, reputed clientele and established business model

JIL has established 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 established 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.

Improvement in financial performance in FY22 (Prov.)

The total operating income of the company increased from Rs. 147.24 crore in FY21 to Rs.162.53 crore in FY22 (Prov.). The company had derived incremental revenue from the deployment of 3rd rig in Oman (Dubai). In line with increase in revenue, the operating profit also increased from Rs.62.37 crore in FY21 to Rs.79.93 crore in FY22 (Prov.). The EBITDA margin also improved significantly to 49.18% in FY22 from 42.36% in FY21. The net profit as per provisional financials remained at Rs.44.34 crore in FY22 vis-à-vis Rs.19.71 crore in FY21. The tax and tonnage reserve has not been charged in provisional financials. Hence, the PAT appears inflated. As per discussion with management the expected PAT is Rs.26.60 crore. Similarly, the PAT margin is expected to remain at 16.36% as against 27.28% (on inclusion of tax rate and tonnage reserves).

The revenue profile of the company majorly comprises of revenue from offshore drilling for oil and gas exploration companies, letting out of warehouse and ropeway services. The company has four oil rigs namely; Deepsea Matdrill, Deepsea Fortune, Deepsea Fossil and Deepsea Treasure. The company has deployed two rigs for ONGC and 3rd rig in Oman. The total operating income of the company is expected to increase led by revision of existing contract for two rigs at increased rate.

Comfortable financial risk profile

The capital structure as represented by debt – equity ratio continues to remain below unity. The debt profile majorly comprises of working capital borrowings with sanctioned limit of Rs. 45.0 crore, followed by negligible term debt. The interest coverage ratio increased from 9.50 times in FY21 to 15.91 times in FY22, led by increase in operating profit. Similarly, debt-EBITDA also improved to 0.61 times in FY22 as against 0.77 times in FY21. The net cash accruals to total debt continues to remain at similar level; above unity. Further, total outstanding liability to tangible net worth also remained at similar level.

The company is not planning to avail any additional term debt. Hence, with improvement in financial performance, financial risk profile is expected to improve going ahead.

Weaknesses

Elongated gross current asset days

The gross current asset days albeit improved, continues to remain at higher level at 386 days in FY22 (Prov.) as against 431 days in FY21. The inventory days remained at higher level at 472-274 days during FY21-22. Nevertheless, the outstanding balance of current assets continued to remain at similar level during FY21-22. The debtors' days elongated marginally to 74 days in FY22 vis-à-vis 69 days in FY21. The major clientele of the company comprises of ONGC for which two oil rigs have been deployed. The average working capital utilisation remained almost full.

Exposure to group companies

The company has exposure in the form of loans and advances, that has been extended to group company; Mahima Production Limited (motion picture company) has also increased from Rs.104.11 crore in FY21 to Rs.134.45 crore in FY22. As per discussion with management, the loans are extended at interest free. Nevertheless, the tangible net worth of the company remained healthy at Rs. 1143.96 crore as on March 31, 2022 (Prov.). Acuite believes that any significant write off can impact the tangible net worth of the company.

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. Any slowdown in global oil and gas E&P capex as a result of sharp fall in crude prices, could impact the demand for offshore equipment.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- >Significant increase in total operating income.
- >Any significant increase in exposure towards group companies
- >Any elongation in gross current asset days.

Material covenants

None

Liquidity Position: Adequate

The liquidity profile of the company continues to remain strong with net cash accruals of more than Rs. 50.0 crore during FY21-22 as against debt repayment of Rs.0.17 crore. The company maintains outstanding cash and bank balance of Rs.4.19 crore as on March 31, 2022 as against Rs.6.78 crore as on March 31, 2021. The company also maintains investment in the form of liquid funds to the tune of Rs.52.87 crore as on March 31, 2022.

Outlook: Stable

Acuite believes that the outlook on JBPL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant cost or time overrun in its proposed capex leading to deterioration of its revenue stream.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	162.53	147.24
PAT	Rs. Cr.	44.34	19.71
PAT Margin	(%)	27.28	13.38
Total Debt/Tangible Net Worth	Times	0.04	0.04
PBDIT/Interest	Times	15.91	9.50

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jul 2021	Cash Credit	Long Term	30.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	35.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ Upgraded (from ACUITE A3)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ Upgraded (from ACUITE A3)
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ Upgraded (from ACUITE A3)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in J. Subhadra Senior Analyst-Rating Operations Tel: 022-49294065 j.subhadra@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.