Stock Update

Jindal Drilling & Industries Ltd.

Dec 30, 2022

RETAILRESEARCH

Jindal Drilling & Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Offshore Drilling Solutions	Rs 285.5	Buy in the band of Rs 284-290 & add more on dips to Rs 257-263 band	Rs 320	Rs 360	2-3 quarters

HDFC Scrip Code	JINDRIEQNR
BSE Code	511034
NSE Code	JINDRILL
Bloomberg	JDDL IN
CMP Dec 29, 2022	285.5
Equity Capital (Rs cr)	14.49
Face Value (Rs)	5
Equity Share O/S (cr)	2.9
Market Cap (Rs cr)	827.4
Book Value (Rs)	438.6
Avg. 52 Wk Volumes	165402
52 Week High	350.5
52 Week Low	126.9

Share holding Pattern % (Sep 2022)	
Promoters	67.4
Institutions	0.5
Non Institutions	32.1
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Jindal Drilling & Industries Limited (JDIL), a part of the D.P. Jindal Group, is a leading company in offshore drilling in India's Oil & Gas sector for over 30 years. The company's principal operating segments are Offshore Drilling, Horizontal & Directional drilling and Mud Logging services. JDIL operates 5 Jack up Rigs, 6 Directional Drilling sets (on average basis) and 22 Mud Logging units. JDIL owns rigs or takes rigs on lease from group companies and provides drilling services to upstream companies in Mumbai Offshore (Bombay High) region. JDIL owns 2 out of the 5 Jack-up rigs (Jindal Discovery 1 and Jindal Supreme). Jindal Star, Jindal Explorer and Jindal Virtue I are all owned by the group companies. The company has managed to establish longstanding relationship with India's leading oil exploration company (ONGC). The company has been able to win contracts/renewals in the past on consistent basis. Its many years of operational experience and excellence on the back of its accomplished staff and crew has helped in achieving nearly 100% efficiency standard across its rigs.

We had issued initiating coverage report on the stock on Mar 14, 2022; and both the targets were achieved within our investment horizon. On the back of significant increase in rig charter rates providing revenue visibility, better operating leverage and low valuations; we are issuing a stock update note.

Valuation & Recommendation:

JDIL enters into charter hire agreement with ONGC, which is normally renewed every three years. On the back of strong demand of oil & natural gas and increase in oil/gas prices; the charter rates under renewal contracts saw a sharp jump thereby improving visibility of its topline and bottomline. Some of ONGC's last rig hiring contracts were priced at about USD 45,000-48,000 a day; up almost 40-55% from previous contract rates. Three (Discovery, Virtue, Star) out the five currently operational rigs have been awarded contract under the new charter rates which will be operational by H1FY24. Substantial increase in charter rates would improve its operational performance. Acquisition of Jindal Supreme rig in Nov 2021 has been beneficial, as the hire charges associated with the rig will now not be borne by the company. JDIL's management seems to be on right track with respect to its decision to acquire the rigs. Similar acquisition of other rigs from its group companies in near future would be EPS accretive and make a case for further re-rating of the stock. Also significant upward revision in charter rates under the new contract would go a long way in improving its margins; as the associated costs of rig hire charges and operational costs (employee cost, stores & spares, refurbishment) would see nominal rise compared to charter rates; thereby further improving its operating profitability. The company is also looking for international business expansions and exploring new contracts for jack-up rigs, directional Drilling and Mud logging units outside India. We expect revenue/EBITDA/PAT to grow at CAGR of 33.6%/50%/67.7% over FY22-FY25E. **We think the base case fair value of the stock is Rs 320 (4x Sep'24E EPS) and the bull case fair value**

is Rs 360 (4.5x Sep'24E EPS) over the next 2-3 quarters. Investors can buy the stock in the band of Rs 284-290 (3.6x Sep'24E EPS) and add more on dips to Rs 257-263 band (3.25x Sep'24E EPS).

Financial Summary

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY-%	Q1FY23	QoQ-%	FY21	FY22	FY23E	FY24E	FY25E
Total Operating Income	138.0	100.2	37.6	132.7	3.9	397.9	419.9	479.2	649.8	1,001.2
EBITDA	47.5	17.0	180.1	44.2	7.6	55.5	106.1	142.3	206.3	356.9
PAT	35.8	7.5	374.8	32.6	9.6	9.2	64.7	95.3	152.9	294.1
Adjusted PAT	31.7	3.6	784.1	30.1	5.4	-5.9	64.5	88.1	159.4	304.1
Diluted EPS (Rs)	11.0	1.2	784.1	10.4	5.4	-2.0	22.3	30.4	55.0	104.9
RoE-%						-0.5	5.6	7.1	11.7	19.2
P/E (x)						NA	12.8	9.4	5.2	2.7
EV/EBITDA (x)						19.3	9.0	6.3	4.2	2.3

(Source: Company, HDFC sec)

Q2FY23 Result Review:

Jindal Drilling & Industries Ltd reported robust topline growth of 37.6%/3.9% YoY/QoQ to Rs 138cr. Its EBITDA stood at Rs. 47.5cr registering a growth of 7.6% on sequential basis. EBITDA margins improved from 16.9% in Q2FY22 to 34.5% in Q2FY23, as the company did not incurred hire charges of Jindal Supreme post its acquisition in Nov'21. Strong operational performance coupled with higher rig charter rates would continue to improve its margins going forward. The company reported adjusted PAT of Rs 31.7cr (up 5.4% QoQ) as against Rs 3.6cr in Q2FY22.

Key Triggers:

Sharp increase in rig charter rates:

India's offshore oil drilling rig market is likely to see significant turnaround after many years of depressed rates as a tightening global rig market helps fleet owners quote day rates that are 40-45% higher than the current contract prices - based on the recent tender issued by Oil and Natural Gas Corporation Ltd. The rig charter rates have seen dramatic increase in the last one year; in line with global crude oil prices. Some of ONGC's last rig hiring contracts were priced at about USD 45,000-48,000 a day, which was higher than the day rate of mid USD 20,000 finalised two years back. Jindal Drilling operates five jack-up rigs, which are due for renewal in 2022 and early 2023. Bids for tenders for redeployment of jackup rigs with ONGC took place at time when oil prices were scaling high than current levels.

Rig 'Jindal Explorer' successfully completed its first contract with ONGC in November 2021 and was awarded new contract with ONGC for second term in FY22. Rigs 'Jindal Star','Discovery-I', 'Virtue-I' have received renewed 3-year contract with ONGC in FY23. Two of the Rigs

(Discovery-I, Explorer) which were contracted at rig charter rate of USD 25000-26000 per day, saw a significant jump on renewal of contract (Discovery-I at USD 46,908; Explorer at USD ~38000-39000). Similarly, Jindal 'Star' was contracted at USD 42750 per day for three years under the new contract, which was earlier hired at charter rate of USD 27000-28000 USD per day. Recently, ONGC awarded contract for deployment of Jack-up Rig "Virtue-I" on charter hire contract for a period of three years at EDR of USD 77,963.78 per day.

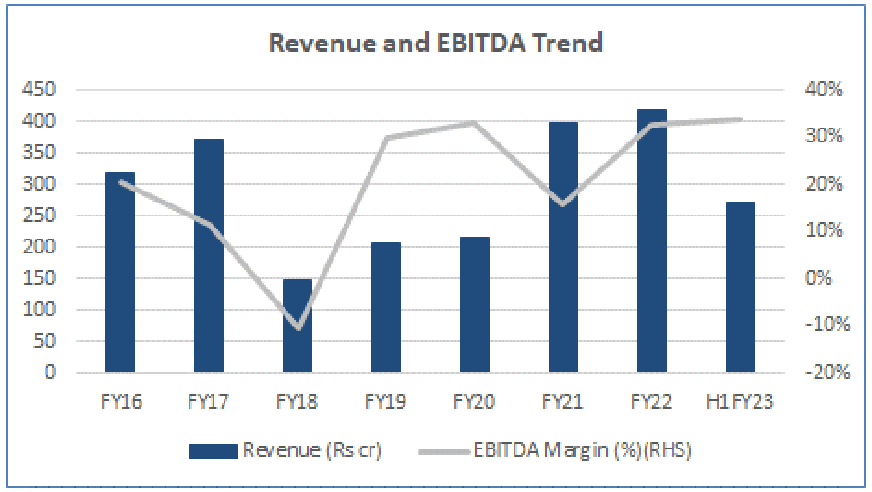
Recently the 12 jack-up oil drilling rig tender - the largest floated by ONGC; fetched offers for 10 rigs, an indication of shrinking supply of rigs in the market as crude prices remain at a level that makes it profitable to drill. Drilling companies are in a stronger position to demand higher rates to rent their equipment after several lean years led to a wave of mergers and pushed them to scrap older rigs, leaving fewer available now that demand is rebounding. As mentioned in the ONGC analyst meet in May 2022, crude oil production is set to increase by 11% and natural gas by around 25% by 2024-25. ONGC said it is also implementing the fourth phase of the redevelopment of the Mumbai High oil and gas fields, which will increase the recovery factor from the five-decade-old mature fields.

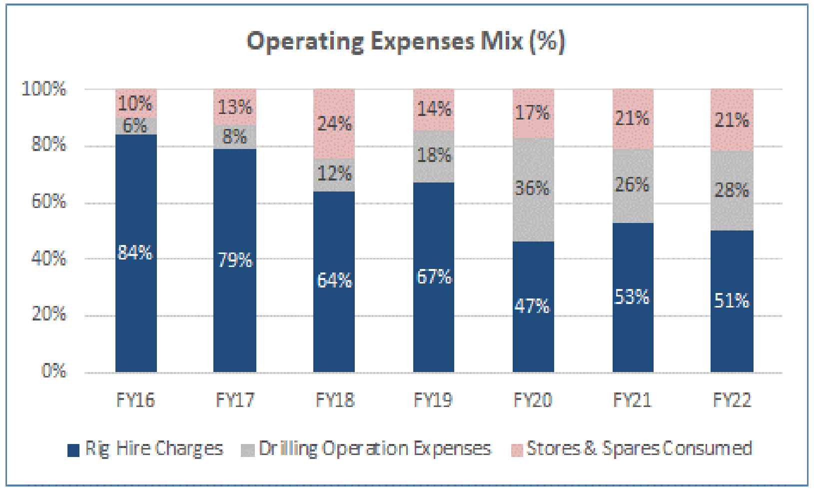
Healthy revenue visibility:
JDIL enters into charter hire agreement with ONGC, which is normally renewed every three years. On the back of strong demand of oil & natural gas and its increase in oil prices; the charter rates under renewal contract has seen a sharp jump thereby improving its topline and bottomline. Three (Discovery, Virtue, Star) out the five currently operational rigs have been awarded contract under the new charter rates which will be operational by H1FY24. Substantial increase in charter rates would improve its operational performance. Recent contract renewal at higher charter rates (up 40-55% from old contracts) coupled with high efficiency standards gives confidence about its revenue visibility for the next 2-3 years. The company owns two of the five rigs; rest are owned by group companies and are currently sub-contracted to JDIL. Company's longstanding relationship with ONGC and low risk of re-deployment provides long term visibility.

Improvement in operating performance on account of acquisition of Rig and higher charter rates:
JDIL reported revenue of Rs 270.7cr in H1FY23, up 35.6% YoY. Operating profitability improved to Rs 91.7cr from 35.7cr in H1FY22. EBITDA margins improved substantially to ~34% in H1FY23 from 18% in H1FY22, as the company did not incur rig hire charges for Rig 'Supreme'. JDIL, in Nov 2021, acquired an Offshore Jack-up rig 'Jindal Supreme', from Venus Drilling Pte. Ltd for USD 16.75 million. Acquisition of rig has been beneficial as the hire charges associated with the rig will now not be borne by the company. With this acquisition the company now owns 2 out of 5 operational rigs; rest is owned by its group companies. JDIL's management seems to be on right track with respect to its decision to acquire the rigs. Similar acquisition of other rigs from its group company in near future would be EPS accretive and make a case for further re-rating of the stock. Also significant upward revision in charter rates under the new contract would go a long way in improving its margins; as the associated costs of rig hire charges and operational costs (employee cost, stores & spares, refurbishment) would see nominal rise compared to charter rates; thereby further improving its operating profitability.

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue (Rs cr)	85	86	114	112	99	100	116	105	133	138
EBITDA (Rs cr)	15	9	10	22	19	17	29	41	44	48
EBITDA Margin (%)	18%	10%	9%	19%	19%	17%	25%	40%	33%	34%
PBT (Rs cr)	6	-2	0	14	13	16	27	31	44	48
PAT (Rs cr)	4	-2	0	7	10	8	24	23	33	36
Adjusted PAT (Rs cr)	-10	-24	-16	45	7	4	34	19	30	32
APAT Margin (%)	-12%	-28%	-14%	40%	7%	4%	30%	18%	23%	23%

(Source: Company, HDFC sec)





(Source: Company, HDFC sec)

Concerns:

Susceptible to volatility in crude oil prices: The company's performance depends upon rig hire charges, which are influenced by offshore expenditure by oil exploration companies. These offshore investments are larger than onshore projects and are highly sensitive to crude oil prices. The company has secured three-year contract with ONGC for redeployment of 4 rigs recently; which protects against change in crude oil prices.

Client concentration risk in the rigs business: All five rigs of JDIL under contract are with one client which is ONGC. The company has had a long-standing business relation with the oil major and currently is the only client for JDIL's offshore drilling business. Although company has maintained healthy relationship with ONGC, there is always a risk of contracts not being renewed. The company has plans to offer its services outside India and diversify its clientele, but no concrete steps have been taken so far towards this direction.

High exposure to JV companies: The company has extended loans of Rs 125cr to its related parties as of March'22. Acquisition of Offshore oil rig from repayment of loans earlier extended to joint venture companies have reduced the exposure to its related parties and loans from Rs 260cr as at Mar'21. Better capital resource management would improve its low RoCE levels. Although the exposure to JVs has witnessing declining trend, the amount still is substantial.

Adverse ruling regarding dispute with ONGC: In FY21, the company received Rs 160cr from ONGC after an interim order of the Supreme Court (SC) over a previous dispute between ONGC and JDIL. The company received the amount after furnishing a bank guarantee to the SC. As the matter is still pending with the SC, Rs 160cr appears as other liability in the company's financials. Also, ONGC deducted USD 1.7 million on account of delay in deployment of a Jack up rig. JDIL made representation to ONGC to waive off these charges as the delay was on account of covid-19. The company is in process to take legal action and has not made any provisions for the same. Any adverse final order in the matter, could impact its financials.

Inter group transactions raise doubt about the protection of minority interests in JDIL: JDIL has taken oil rigs on hire from group companies ('Explorer' from Maharashtra Seamless Ltd., 'Star' from a JV in which Jindal Pipes (unlisted group company) holds 70% stake, 'Virtue I' from its 49:51 JV (JV partner being promoter group entities) apart from giving loans to JVs. The minority shareholders of JDIL will have to be convinced that their rights have been and will be sufficiently protected in this intra group transactions.

Forex fluctuations: The revenue of JDIL is denominated in USD while the expenses are partly in USD and partly in INR. This raises the risk of forex fluctuations from quarter to quarter. JDIL hedges a greater part of its net receivables.

Increase in competition: Rise in rig charter rates could reactivate various cold stacked and previously idle jackups resulting in pressure on rig charter rates.

About the company:

Jindal Drilling & Industries Limited (JDIL) is part of the D P Jindal Group. JDIL has more than three decades of experience in offshore drilling and allied services including directional drilling and mud logging. JDIL owns rigs or takes rigs on lease from group companies and provides drilling services to upstream companies in Mumbai Offshore (Bombay High) region. The quality and efficient service rendered by the company has made it establish the long-standing relationship with India's leading upstream oil exploration company (ONGC). Currently, JDIL operates 5 jack-up rigs namely; Explorer, Discovery I, Star, Virtue I and Supreme. JDIL has entered into charter hire agreement with ONGC for all these rigs. It has achieved nearly a 100% efficiency standard across all its rigs. The company has since maintained a strong business relationship with ONGC. The company also offers various other services, such as directional/horizontal drilling, measurement while drilling (MWD) services and mud logging services. Around 95% of revenues comes from offshore drilling while the balance from the other segments.

Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	**397.9**	**419.9**	**479.2**	**649.8**	**1001.2**
Growth (%)	**84.0**	**5.5**	**14.1**	**35.6**	**54.1**
Operating Expenses	342.4	313.8	336.9	443.5	644.2
EBITDA	**55.5**	**106.1**	**142.3**	**206.3**	**356.9**
Growth (%)	**45.6**	**91.2**	**34.2**	**45.0**	**73.0**
EBITDA Margin (%)	**13.9**	**25.3**	**29.7**	**31.8**	**35.7**
Depreciation	32.4	43.4	65.1	67.2	68.8
EBIT	**23.1**	**62.7**	**77.3**	**139.2**	**288.1**
Other Income	8.1	32.0	57.5	71.5	110.1
Interest expenses	14.3	7.9	7.4	6.2	5.0
PBT	**16.9**	**86.8**	**127.4**	**204.4**	**393.2**
Tax	7.7	22.1	32.1	51.5	99.1
RPAT	9.2	64.7	95.3	152.9	294.1
APAT	**-5.9**	**64.5**	**88.1**	**159.4**	**304.1**
Growth (%)	**-99.0**	**-1198.3**	**36.7**	**80.9**	**90.8**
EPS	-2.0	22.3	30.4	55.0	104.9

Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	14.5	14.5	14.5	14.5	14.5
Reserves	1107.1	1179.7	1266.3	1422.8	1722.6
Shareholders' Funds	**1121.6**	**1194.1**	**1280.8**	**1437.3**	**1737.1**
Minority's Interest	0.0	0.0	0.0	0.0	0.0
Long Term Debt	180.1	148.4	108.4	53.4	28.4
Net Deferred Taxes	25.8	51.1	81.1	81.1	81.1
Long Term Provisions & Others	1.5	0.9	2.4	3.2	5.0
Total Source of Funds	**1329.0**	**1394.6**	**1472.7**	**1575.1**	**1851.7**
APPLICATION OF FUNDS					
Net Block & Goodwill	502.1	650.7	610.6	573.4	534.6
CWIP	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	769.2	646.8	667.3	655.1	627.9
Total Non-Current Assets	**1271.3**	**1297.5**	**1277.9**	**1228.5**	**1162.5**
Current Investments	0.5	19.6	39.6	124.6	349.6
Inventories	40.4	40.4	55.1	74.8	115.2
Trade Receivables	165.9	154.6	197.0	249.3	384.0
Cash & Equivalents	86.1	96.8	126.4	126.3	123.3
Other Current Assets	158.7	82.1	105.0	142.4	219.4
Total Current Assets	**451.7**	**393.4**	**523.1**	**717.3**	**1191.5**
Short-Term Borrowings	149.7	71.9	91.9	101.9	101.9
Trade Payables	57.3	35.8	44.6	53.4	82.3
Other Current Liab & Provisions	187.0	188.6	191.7	215.4	318.2
Total Current Liabilities	**394.1**	**296.3**	**328.3**	**370.7**	**502.4**
Net Current Assets	57.6	97.1	194.9	346.6	689.1
Total Application of Funds	**1329.0**	**1394.6**	**1472.7**	**1575.1**	**1851.7**

Jindal Drilling & Industries Ltd.

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	1.9	86.6	127.4	204.4	393.2
Non-operating & EO items	36.7	-17.0	3.8	19.5	39.0
Interest Expenses	6.8	-3.7	7.4	6.2	5.0
Depreciation	32.4	43.4	65.1	67.2	68.8
Working Capital Change	115.6	80.3	-68.1	-76.8	-120.6
Tax Paid	-2.1	6.2	-32.1	-51.5	-99.1
OPERATING CASH FLOW (a)	**191.2**	**195.7**	**103.5**	**169.0**	**286.4**
Capex	-4.0	-192.2	-25.0	-30.0	-30.0
Free Cash Flow	187.1	3.5	78.5	139.0	256.4
Investments	-0.2	-19.1	-20.0	-85.0	-225.0
Non-operating income	-21.4	144.9	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**-25.7**	**-66.4**	**-45.0**	**-115.0**	**-255.0**
Debt Issuance / (Repaid)	-69.5	-109.4	-20.0	-45.0	-25.0
Interest Expenses	-14.3	-7.9	-7.4	-6.2	-5.0
FCFE	103.4	-113.8	51.1	87.8	226.4
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-1.5	-1.5	-1.4	-2.9	-4.3
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-85.2**	**-118.7**	**-28.8**	**-54.1**	**-34.3**
NET CASH FLOW (a+b+c)	**80.3**	**10.6**	**29.7**	**-0.1**	**-3.0**

One Year Price Chart:

(Source: Company, HDFC sec)

Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY RATIOS (%)					
EBITDA Margin	13.9	25.3	29.7	31.8	35.7
EBIT Margin	7.8	22.5	28.1	32.4	39.8
APAT Margin	-1.5	15.4	18.4	24.5	30.4
RoE	-0.5	5.6	7.1	11.7	19.2
RoCE	2.0	6.6	9.3	13.7	23.0
Solvency Ratio (x)					
Debt/EBITDA	5.9	2.1	1.4	0.8	0.4
D/E	0.3	0.2	0.2	0.1	0.1
PER SHARE DATA (Rs)					
EPS	-2.0	22.2	30.4	55.0	104.9
CEPS	9.1	37.2	52.9	78.2	128.7
Dividend	0.5	0.5	0.5	1.0	1.5
BVPS	387.0	412.0	441.9	495.9	599.4
Turnover Ratios (days)					
Debtor days	134	139	134	125	115
Inventory days	34	35	36	36	35
Creditors days	43	40	31	28	25
VALUATION					
P/E (x)	NA	12.8	9.4	5.2	2.7
P/BV (x)	0.7	0.7	0.6	0.6	0.5
EV/EBITDA (x)	19.3	9.0	6.3	4.2	2.3
EV/Revenues (x)	2.7	2.3	1.9	1.3	0.8
Dividend Yield (%)	0.2	0.2	0.2	0.4	0.5
Dividend Payout (%)	NA	2.2	1.6	1.8	1.4

(Source: Company, HDFC sec)

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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