Initiating Coverage

Jindal Drilling & Industries Ltd.

Smallcap (High Risk)

March 14, 2022

RETAILRESEARCH

Jindal Drilling & Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Offshore Drilling Solutions	Rs 218.05	Buy in the band of Rs 214-226 & add more on dips to Rs 187-190 band	Rs 245	Rs 283	2-3 quarters

HDFC Scrip Code	JINDRIEQNR
BSE Code	511034
NSE Code	JINDRILL
Bloomberg	JDDL IN
CMP March 11, 2022	218.05
Equity Capital (Rs cr)	14.49
Face Value (Rs)	5
Equity Share O/S (cr)	2.9
Market Cap (Rs cr)	631.9
Book Value (Rs)	387.0
Avg. 52 Wk Volumes	149641
52 Week High	221.4
52 Week Low	84.6

Share holding Pattern % (Dec 2021)	
Promoters	67.4
Institutions	0.3
Non Institutions	32.3
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. The company has two Joint Venture companies namely, Discovery Drilling Pte. Ltd (DDPL), Singapore and Virtue Drilling Pte. Limited (VDPL), Singapore; in which it owns 49% equity in both JVs. JDIL owns rigs or takes rigs on lease from group companies or third parties and provides drilling services to upstream companies in Mumbai Offshore (Bombay High) region. JDIL owns 2 out of the 5 Jack-up rigs (Jindal Supreme and Jindal Discovery 1). Jindal Star, Jindal Explorer and Jindal Virtue I are 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.

Valuation & Recommendation:

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 would be beneficial as the hire charges associated with the rig will now not be borne by the company. Acquisition of rigs against loans to the JV reflects better capital allocation management. Similar acquisition from its group company in near future would be EPS accretive and makes a case for re-rating of the stock. The company is focused on improving its cost efficiency and operating margins. The acquisition of two of their rigs in the last couple of years is an initiative in that direction. On the back of strong demand of oil & natural gas and its increase in prices; the charter rates under renewal contracts would see a sharp jump thereby improving its topline and bottomline. 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. Going forward, the management is confident of a 20-25% hikes in rig rates which will kick in once three contracts are renewed in FY23. Timely contract renewal of the Jack up rigs with ONGC and likely no disruption in operation due to the pandemic can help enhance the revenue and expand profit margins in the coming years. We expect revenue/EBITDA to grow at CAGR of 15.9%/40.5% over FY21-FY24E. **We think the base case fair value of the stock is Rs 245 (6.5x FY24E EPS) and the bull case fair value is Rs 283 (7.5x FY24E EPS) over the next 2-3 quarters. Investors can buy the stock in the band of Rs 214-226 (5.8x FY24E EPS) and add more on dips to Rs 187-190 band (5x FY24E EPS).**

Financial Summary

Particulars (Rs cr)	Q3FY22	Q3FY21	YoY-%	Q2FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	115.8	113.8	1.7	100.2	15.5	216.2	397.9	446.0	528.2	620.0
EBITDA	29.0	9.8	196.0	17.0	70.9	38.1	55.5	93.7	132.1	153.8
Depreciation	11.9	8.2	45.8	8.0	49.1	25.8	32.4	43.7	61.9	61.4
Other Income	11.2	1.7	560.4	8.2	36.4	33.6	8.1	33.4	31.7	34.1
Interest Cost	1.7	3.8	-56.4	1.7	0.6	12.6	14.3	8.3	10.7	13.2
Tax	2.8	-0.1	-2238.5	8.0	-65.2	7.2	7.7	18.9	23.0	28.5
PAT	23.8	-0.4	-6908.6	7.5	216.5	26.2	9.2	56.2	68.2	84.7
Adjusted PAT	34.4	-16.5	-309.3	3.6	859.1	-590.7	-5.9	78.5	86.7	109.5
EPS (Rs)	11.9	-5.7	-309.3	1.2	859.1	-203.8	-2.0	27.1	29.9	37.8
RoE-%						-38.2	-0.5	6.8	7.0	8.2
P/E (x)						NA	NA	8.0	7.3	5.8
EV/EBITDA (x)						26.9	15.8	8.6	5.7	4.6

(Source: Company, HDFC sec)

Q3FY22 Result Review:

Jindal Drilling & Industries Ltd reported a decent topline growth of Rs 115.8cr, up 1.7%/15.5% YoY/QoQ. The company would clock revenue at a similar run rate in Q4FY22 as previous couple of quarters as all the 5 rigs are operational. Its EBITDA stood at Rs. 29cr registering a growth of 70.9% on sequential basis. EBITDA margin improved as operating leverage kicked in; it stood at 25.1% as against 8.6% in Q3FY21 (while it was 16.9% in Q2FY22). Acquisition of Offshore Jack-up rig 'Jindal Supreme' from Venus Drilling Pte Ltd would improve its operational performance as hire charges relating to this rig would now not form a part of JDIL's operating expenses. Strong operational performance coupled with profits from JVs lifted its adjusted PAT. The company reported adjusted PAT of Rs 34.4cr as against Rs 3.6cr in Q2FY22 (reported net loss of Rs 16.5cr in Q3 last year).

Key Triggers:

Established business model supported by healthy relationship with ONGC:

JDIL has been in the business of oil rigs and drilling for over 30 years. 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. With focus on health and safety regulations, the company boasts of significantly higher commercial speed compared to most if its peers; making it right partner for upstream oil exploration company. The company has been able to complete the deployments in a timely manner and secure contract renewals at prevailing rig charter rates. All 5 Offshore rigs are under contract with ONGC and its track record makes a case for contract renewals.

Acquisition of Offshore oil rig; improve its profitability:

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 would be beneficial as the hire charges associated with the rig will now not be borne by the company. The transaction would involve no net cash outflow as it is funded from repayment of loans earlier extended to the joint venture company thereby improving its capital efficiencies. With this acquisition the company now owns 2 out of 5 operational rigs; rest is owned by its group companies. The company had purchased a jack-up rig 'Discovery-I' in March 2019. JDIL's management seems to be on right track with respect to its decision to acquire the rigs. The company has advanced large sums to its JVs (Discovery Drilling Pte Ltd & Virtue Drilling Pte Ltd) which earns nominal interest income. Acquisition of rigs against advances reflects better capital allocation management. Similar acquisition of other rigs from its group company in near future would be EPS accretive and make a case for re-rating of the stock.

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 could see a sharp jump thereby improving its topline and bottomline. Three (Discovery, Virtue, Star) out the five currently operational rigs are up for renewal in FY23. Substantial increase in charter rates would improve its operational performance. Healthy demand and expected increase in the charter rates give confidence about its revenue visibility for the next 2-3 years.

Potential increase in Rig rates in the coming years:

All the rigs of JDIL have different charter rates. Two of the Rigs (Discovery-1, Jindal star) have a rate of USD 25000-26000 per day. The other three (Explorer, Virtue and Star) are under the rate bracket of USD 40000-45000 per day. The management is expecting the rates to rise to USD 55000-57000 per day in the next 1-2 years. Jindal Explorer recently saw rate jump from USD 25000 per day to USD 38000 under the renewed contract. The current rig day rates range from USD 34600-39800 (based on ONGC's recent Jack up tender). There is now an expectation that in the next tender, rates will increase to at least USD 50,000 due to tighter supply from the contractors that usually participate in ONGC's tenders.

Strong Industry Tailwinds & Impressive Utilisation levels:
The Indian oil and gas market is expected to register decent growth over the next few years. Factors such as the increasing natural gas pipeline capacity and the increasing demand for petroleum products are expected to drive the Indian oil and gas market. The Indian Government has adopted several policies to fulfil the increasing demand. In February 2021, the government announced plans to invest approximate US$ 102.49 billion on Oil and Gas infrastructure in next five years. The industry is expected to attract US$ 25 billion investments in exploration and production by 2022. This is huge boast for the company as clients like ONGC are already brought in structural changes over the past four years that have played a crucial role in expanding their interest in offshore programs.

Industry's contracted jack up rigs saw improvement in its utilisation rate. Utilisation levels stands at an impressive 80-85%, compared to previous year's active utilization of 70-75%. Utilization by the end this year will be the highest since early 2015, as industry witnessed firm demand growth.

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 investments are larger than onshore projects and are highly sensitive to crude oil prices.

Client concentration risk in the rigs business: All five rigs of JDIL are 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. The company has plans to offer its services outside India and diversify its clientele, but no concrete steps have been taken towards this direction.

High exposure to JV companies: The company has also extended loans of Rs 260cr to its related parties as of March-end 2021. The JVs - Discovery Drilling Pte Ltd & Virtue Drilling Pte Ltd owns three rigs which are operated by JDIL. Interest on these advances is low as reflected in other income. Recent acquisition of Offshore oil rig from repayment of loans earlier extended to joint venture companies would reduce the exposure to its related parties and loans will come down to Rs 125cr post the Nov 21 transaction. Better capital resource management would improve its low RoCE levels. Also, in FY20, the company took a hit of Rs 590cr mainly due to impairment loss of its group company due to fall in rig prices post the sharp fall in crude oil prices. Operational profitability of JVs has not seen a steady ride. Large loss of JV would impact it bottomline.

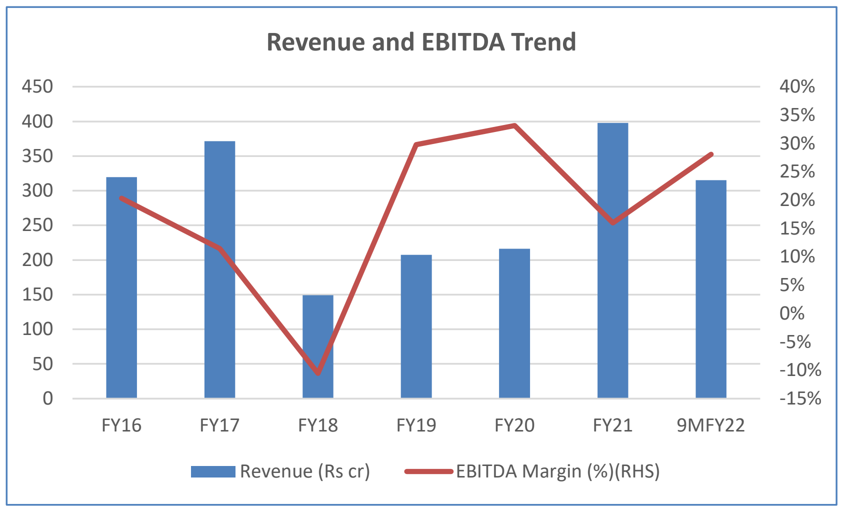
Risk of renewal: Although company has maintained healthy relationship with ONGC, there is always a risk of contract renewals.

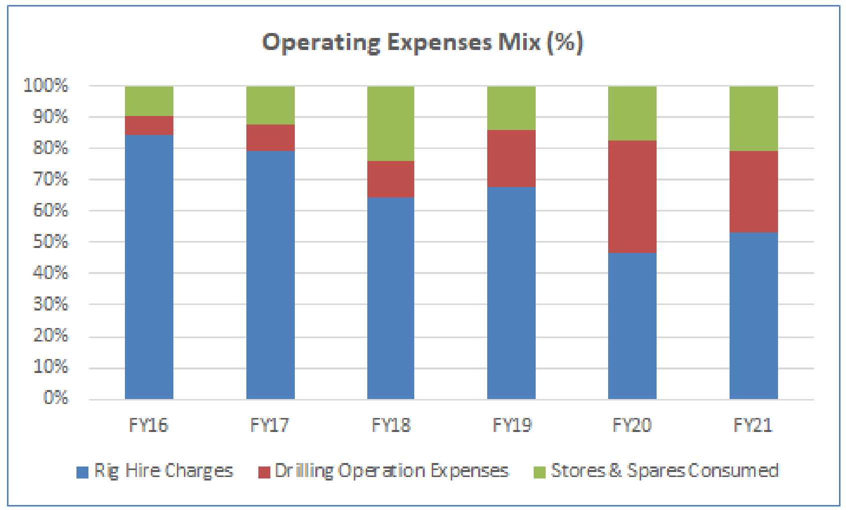
Adverse order by the SC regarding dispute with ONGC: In FY21, the company received Rs 160cr from ONGC after an interim order of the Supreme Court (SC) over a previous dispute between ONGC and JDIL. The company received the amount after furnishing a bank guarantee to the SC. As the matter is still pending with the SC, Rs 160cr appears as other liability in the company's financials. Any adverse final order by the SC in the matter, could impact its financials.

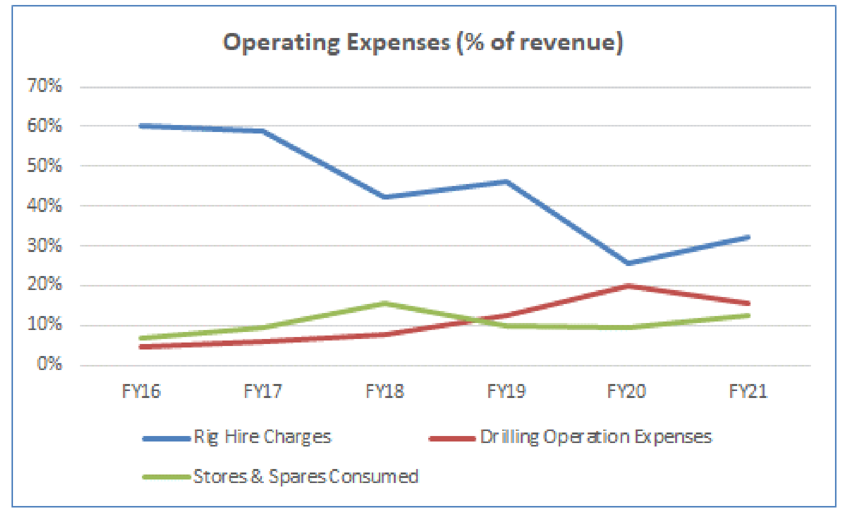
Low Dividend payout: JDIL has declared dividend of Rs.0.50 per share over the last 10 years irrespective of profits. It needs to review the payout policy to reward the shareholders from time to time.

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, Star 1 from a JV in which Jindal Pipes holds 70% stake, Virtue 1 from its 49:51 JV) apart from giving loans to JVs. The minority shareholders of JDIL will have to be convinced that their rights have been 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 50% of its net receivables.







(Source: Company, HDFC sec)

Quarterly Performance Trend:

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue (Rs cr)	90.34	85.27	86.43	113.8	112.36	99.32	100.23	115.79
EBITDA (Rs cr)	17.67	15.49	8.62	9.80	21.55	18.75	16.97	29.01
EBITDA Margin (%)	19.6%	18.2%	10.0%	8.6%	19.2%	18.9%	16.9%	25.1%
PBT (Rs cr)	19.83	5.81	-2.03	-0.48	13.62	13.16	15.52	26.61
PAT (Rs cr)	9.17	4.24	-1.52	-0.35	6.81	9.94	7.53	23.83
Adjusted PAT (Rs cr)	-546.8*	-9.92	-24.06	-16.45	44.56	7.25	3.59	34.43

(*impairment due to accumulated losses in Star Driling Pte Ltd, remaining after sale of Jack-up rig Jindal Explorer, Source: Company, HDFC sec)

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 or third parties 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 is operating 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. This offshore drilling is the process of extracting petroleum and natural gas by drilling a borehole in the seabed using a fixed or mobile Rig located off the coast, in open ocean and deepwater regions. It has achieved nearly a 100% efficiency standard across all its rigs. The company has since maintained a strong business relationship with ONGC and is confident on it continuing in the future. Jindal Drilling is also working along with alliance partners who are market leaders in their own services.

The company offers various other services, such as directional/horizontal drilling, measurement while drilling (MWD) services and mud logging services. Directional Drilling is the science of deviating a well bore along a planned course to a subsurface target whose location is a given lateral distance and direction from the vertical. It is typically applied where the reservoir is trapped in an inaccessible location. The MWD is a technology used to determine the position of the well by measuring the real time parameters, such as direction, inclination and tool face. Mud logging is the process of creating a record of geological and drilling data by carefully monitoring the drilling medium throughout the circulation system and testing the cuttings of rock brought to the surface through drilling medium; providing the drillers with necessary and key information that helps to improve drilling operations. It owns approximately 10 ready sets of MWD tools, over 80 steerable downhole mud motors, approximately 20 jars and about 90 non-magnetic drill collars. 93% of revenues of JDIL comes from Rigs hire while the balance from the other two segments.

Financials – Consolidated

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**216.2**	**397.9**	**446.0**	**528.2**	**620.0**
Growth (%)	**4.2**	**84.0**	**12.1**	**18.5**	**17.4**
Operating Expenses	178.1	342.4	352.3	396.2	466.2
EBITDA	**38.1**	**55.5**	**93.7**	**132.1**	**153.8**
Growth (%)	**382.1**	**45.6**	**68.8**	**41.0**	**16.4**
EBITDA Margin (%)	**17.6**	**13.9**	**21.0**	**25.0**	**24.8**
Depreciation	25.8	32.4	43.7	61.9	61.4
EBIT	**12.3**	**23.1**	**50.0**	**70.2**	**92.4**
Other Income	33.6	8.1	33.4	31.7	34.1
Interest expenses	12.6	14.3	8.3	10.7	13.2
PBT	**33.4**	**16.9**	**75.2**	**91.2**	**113.2**
Tax	7.2	7.7	18.9	23.0	28.5
RPAT	26.2	9.2	56.2	68.2	84.7
APAT	**-590.7**	**-5.9**	**78.5**	**86.7**	**109.5**
Growth (%)	**-966.1**	**-99.0**	**-1437.6**	**10.4**	**26.3**
EPS	-203.8	-2.0	27.1	29.9	37.8

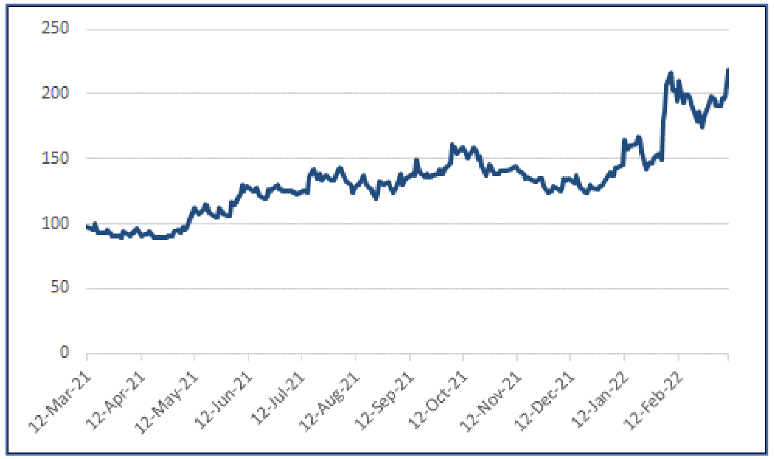
Balance Sheet

As at March (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	14.5	14.5	14.5	14.5	14.5
Reserves	1261.5	1107.1	1184.2	1269.4	1377.5
Shareholders' Funds	**1276.0**	**1121.6**	**1198.7**	**1283.9**	**1391.9**
Minority's Interest	0.0	0.0	0.0	0.0	0.0
Long Term Debt	216.5	180.1	140.1	100.1	80.1
Net Deferred Taxes	67.5	25.8	25.8	25.8	25.8
Long Term Provisions & Others	1.5	1.5	2.2	2.6	3.1
Total Source of Funds	**1561.5**	**1329.0**	**1366.7**	**1412.4**	**1500.9**
APPLICATION OF FUNDS					
Net Block & Goodwill	530.6	502.1	578.4	524.5	472.2
CWIP	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	952.9	769.2	659.2	646.3	618.5
Total Non-Current Assets	**1483.5**	**1271.3**	**1237.6**	**1170.9**	**1090.7**
Current Investments	0.5	0.5	0.5	50.5	150.5
Inventories	32.8	40.4	51.3	60.8	71.3
Trade Receivables	126.6	165.9	183.3	217.1	237.8
Cash & Equivalents	5.8	86.1	90.8	129.5	183.0
Other Current Assets	147.2	158.7	158.8	188.1	220.8
Total Current Assets	**312.9**	**451.7**	**484.7**	**646.0**	**863.4**
Short-Term Borrowings	182.8	149.7	119.7	149.7	179.7
Trade Payables	36.3	57.3	45.2	50.7	59.5
Other Current Liab & Provisions	15.9	187.0	190.6	204.1	214.0
Total Current Liabilities	**234.9**	**394.1**	**355.5**	**404.5**	**453.2**
Net Current Assets	78.0	57.6	129.1	241.5	410.2
Total Application of Funds	**1561.5**	**1329.0**	**1366.7**	**1412.4**	**1500.9**

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	-583.5	1.9	75.2	91.2	113.2
Non-operating & EO items	599.2	36.7	133.1	31.7	53.1
Interest Expenses	-1.9	6.8	8.3	10.7	13.2
Depreciation	25.8	32.4	43.7	61.9	61.4
Working Capital Change	17.2	115.6	-36.9	-53.7	-45.2
Tax Paid	-5.1	-2.1	-18.9	-23.0	-28.5
OPERATING CASH FLOW (a)	**51.7**	**191.2**	**204.3**	**118.8**	**167.2**
Capex	-502.6	-4.0	-120.0	-8.0	-9.0
Free Cash Flow	-450.9	187.1	84.3	110.8	158.2
Investments	0.4	-0.2	0.0	-50.0	-100.0
Non-operating income	230.2	-21.4	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**-271.9**	**-25.7**	**-120.0**	**-58.0**	**-109.0**
Debt Issuance / (Repaid)	236.2	-69.5	-70.0	-10.0	10.0
Interest Expenses	-12.6	-14.3	-8.3	-10.7	-13.2
FCFE	-227.3	103.4	6.1	90.1	155.0
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-1.5	-1.5	-1.4	-1.4	-1.4
Others	-0.3	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**221.9**	**-85.2**	**-79.7**	**-22.2**	**-4.7**
NET CASH FLOW (a+b+c)	**1.6**	**80.3**	**4.6**	**38.7**	**53.5**

One Year Price Chart



(Source: Company, HDFC sec)

Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY RATIOS (%)					
EBITDA Margin	17.6	13.9	21.0	25.0	24.8
EBIT Margin	21.3	7.8	18.7	19.3	20.4
APAT Margin	-273.2	-1.5	17.6	16.4	17.7
RoE	-38.2	-0.5	6.8	7.0	8.2
RoCE	2.5	2.0	5.7	6.8	7.9
Solvency Ratio (x)					
Debt/EBITDA	10.5	5.9	2.8	1.9	1.7
D/E	0.3	0.3	0.2	0.2	0.2
PER SHARE DATA (Rs)					
EPS	-203.8	-2.0	27.1	29.9	37.8
CEPS	-194.9	9.1	42.2	51.3	59.0
Dividend	0.5	0.5	0.5	0.5	0.5
BVPS	440.3	387.0	413.6	443.0	480.3
Turnover Ratios (days)					
Debtor days	191.4	134.2	142.9	138.3	133.9
Inventory days	34.4	33.6	37.5	38.7	38.9
Creditor days	51.6	42.9	41.9	33.1	32.4
VALUATION					
P/E (x)	NA	NA	8.0	7.3	5.8
P/BV (x)	0.5	0.6	0.5	0.5	0.5
EV/EBITDA (x)	26.9	15.8	8.6	5.7	4.6
EV/Revenues (x)	4.7	2.2	1.8	1.4	1.1
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
Dividend Payout (%)	NA	NA	1.8	1.7	1.3

(Source: Company, HDFC sec)

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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