'CareEdge BBB+/Stable' rating assigned to dollar borrowings of Falcon Oil & Gas B.V.

USD 500 million foreign currency borrowings	CareEdge BBB+/Stable

CareEdge Global Ratings has assigned a long-term foreign currency rating of **'CareEdge BBB+/Stable'** to foreign currency borrowings of Falcon Oil & Gas B.V. (Falcon).

Rationale

The rating reflects Falcon's strong parentage and expected support from ONGC Videsh Limited (OVL). CareEdge Global regards OVL as the primary supporting parent for analytical purposes, based on its position as Falcon's largest shareholder (40%) and lead consortium partner, along with its substantially closer strategic, managerial, operational, and financial ties with Falcon than those of the other shareholders. Support is evidenced by the corporate guarantee provided by OVL's parent, Oil and Natural Gas Corporation Limited (ONGC), covering Falcon's performance obligations under the concession arrangements. Falcon's operations also benefit from access to experienced technical and managerial personnel under the Technical and Administrative Support Agreement (TASA) with OVL and ONGC. CareEdge Global, therefore, expects OVL to take the lead in ensuring Falcon maintains timely access to funding and sufficient liquidity to meet its financial and operating commitments, including during periods of low oil prices or high capital expenditure (capex).

Falcon's standalone credit profile benefits from its 10% non-operated participating interest in Lower Zakum offshore oil concession in Abu Dhabi. The concession runs to 2058 and benefits from established infrastructure, low cost, a long production record, and an experienced operator. These characteristics support production and cash flow visibility relative to greenfield or higher-cost upstream assets.

However, these strengths are constrained by Falcon's direct exposure to crude oil prices, a substantial royalty and tax burden, and a sizeable capex programme. The proposed borrowings will fund capex and increase leverage from historically negligible levels. Under CareEdge Global's base case, debt-to-equity is expected to remain below 1.0x through FY30.

Outlook

The Stable outlook reflects CareEdge Global's expectation that OVL will maintain its credit risk profile, supported by its strategic importance to its parent, ONGC. Consequently, Falcon is expected to continue benefiting from stable access to financial and operational support from OVL.

Rating sensitivities

Upward factors

- Any upward revision in the credit risk profile of OVL

Downward factors

- Any downward revision in the credit risk profile of OVL
- Material dilution in shareholding or the support philosophy of OVL towards Falcon

Analytical approach

CareEdge Global has assessed Falcon under its corporate rating methodology and applied its group rating methodology to incorporate expected support from OVL. We have treated OVL as the primary parent for analytical purposes, notwithstanding its 40% ownership, because it is the largest shareholder and lead consortium partner, and has the closest strategic, managerial, operational, and financial ties with Falcon compared with other shareholders: IndOil Global B.V. (IOGBV), a wholly owned subsidiary of Indian Oil Corporation Limited (IOCL), and Bharat PetroResources Limited (BPRL), a wholly owned subsidiary of Bharat Petroleum Corporation Limited (BPCL), which are treated as strategically aligned co-shareholders and governance partners.

Key rating drivers

Strengths

Strong parentage and commitment of support by OVL

Falcon is the special purpose vehicle (SPV) through which an OVL-led Indian consortium holds a 10% participating interest in Lower Zakum. OVL owns 40% of Falcon, compared with 30% each held by IOGBV and BPRL, and acts as the lead partner. The investment advances OVL's mandate to acquire and manage overseas hydrocarbon interests and contributes to the India's reserve and production diversification. The asset also has strategic relevance in the context of India's high crude oil import dependence (85-90% of demand), which supports the sponsors' long-term investment rationale.

CareEdge Global's expectation of extraordinary support is specifically from OVL, which oversees Falcon's strategic direction, operations, administrative arrangements, treasury planning, and funding framework. ONGC's guarantee of Falcon's concession-related performance obligations further demonstrates the ONGC group's commitment to the asset, although it is not a debt-service guarantee for the borrowings.

Though the other shareholders are relevant to governance and strategic alignment, they are not involved in Falcon's day-to-day management to the same extent as OVL. Any weakening of OVL's leadership role, economic interest, support arrangements, or willingness to provide funding would, therefore, have a direct bearing on the rating.

Participating interest in a large, low-cost producing asset with long concession life

Falcon holds a 10% non-operated participating interest in Lower Zakum, one of Abu Dhabi's largest offshore producing oil fields. The field has produced for several decades and benefits from established processing, evacuation, and export infrastructure. Abu Dhabi National Oil Company's (ADNOC) operating experience and ongoing reservoir-management and production-enhancement programme reduce the execution risk relative to a greenfield upstream development.

The concession runs until 2058, providing more than three decades of remaining operating life. Lower Zakum currently produces about 0.4 million barrels per day, against a targeted plateau of 0.45 million barrels per day. Falcon's sales volumes were broadly stable at 14.2 million barrels in FY26, compared with 14.5 million barrels in FY25 and 13.8 million barrels in FY24. The long reserve life, stable production record, and brownfield nature of the investment support cash flow visibility, although production is subject to reservoir performance, natural decline, and execution of the operator-led capital programme.

The asset operates in Abu Dhabi's mature hydrocarbon regime, with a long-established concession framework and robust infrastructure. These factors materially reduce regulatory and operating risks relative to many international upstream jurisdictions. Still, Falcon is exposed to regional geopolitical risk and has limited influence over fiscal terms and work programmes because it is a minority, non-operating participant.

Strong historical cash generation and conservative leverage

Falcon reported revenue of USD 964 million and EBITDA of USD 677 million in FY26, compared with USD 1,125 million and USD 792 million, respectively, in FY25. The decline is due to lower crude realisations, while earnings before interest, tax, depreciation and amortisation (EBITDA) margin remained strong at about 70%, supported by low lifting costs and efficient field operations. The stability of margins through the price cycle is a key credit strength, although absolute earnings and cash flow are commodity price sensitive.

Gross cash accruals increased to USD 231 million in FY26 from USD 211 million in FY25 and USD 177 million in FY24. Falcon had no debt through FY25 and reported only USD 26 million debt as of March 31, 2026. Consequently, debt-to-EBITDA was 0.04x. Tangible net worth rose to USD 428 million from USD 333 million a year earlier, supported by retained earnings.

Leverage will increase as Falcon partly debt-funds its investment programme, but the expected debt build-up is modest. Under CareEdge Global's base case, debt-to-equity is projected to stay below 1.0x through FY30. The analysis is sensitive to lower oil prices, cost overruns, accelerated cash calls, and resumption of sizeable shareholder distributions during the investment cycle.

Weaknesses

Exposure to oil price volatility and energy transition risks

Evolving climate policy, technology, and consumption patterns may weaken oil demand and increase uncertainty around terminal values for long-life hydrocarbon assets. Lower Zakum's low-cost position, established infrastructure, and long production history provide some resilience, but do not eliminate transition risk or potential future carbon-compliance costs. Further, Falcon has no downstream diversification, which makes its standalone credit quality more volatile than that of diversified integrated oil and gas companies.

High taxation constraints retained cash flow

The Lower Zakum concession combines strong field-level operating economics with a substantial royalty and tax burden. The effective tax rate has remained around 82%, which materially reduces the conversion of EBITDA into net income and internally generated equity. The fiscal terms are established and well understood, which supports predictability, but the high government take limits retained earnings and financial flexibility compared with producers that operate under less onerous regimes. The effect is particularly relevant during periods of lower oil prices or high capex.

Liquidity

Falcon's liquidity is adequate, supported by recurring operating cash flow and the strategic importance of the Lower Zakum investment to its sponsors. However, liquidity headroom has tightened with increase in capex and cash balance has been substantially utilised.

Capex rose to USD 299 million in FY26 from USD 233 million in FY25 and USD 143 million in FY24. Cash and bank balance declined to near nil as of March 31, 2026, from USD 60 million a year earlier and USD 112 million as of March 31, 2024. The planned programme includes USD 1.8 billion for the next five years under the base case. Accordingly, timely access to committed funding and disciplined shareholder distributions are important liquidity considerations.

Environmental, social, and governance (ESG) considerations

Falcon is exposed to environmental, safety, and social risks inherent in offshore upstream operations, including emissions, spills, process safety, workforce safety, and regulatory compliance. These risks are mitigated by Lower Zakum's established infrastructure and operation by ADNOC Offshore under a mature health, safety, and environmental framework. Falcon, nevertheless, has limited direct operational control as a non-operating participant.

From a governance perspective, Falcon benefits from strong oversight by OVL and ONGC, with key decisions relating to strategy, funding, and capital allocation closely aligned with the sponsor group. Governance is further supported by experienced management, established control processes, and OVL's continued strategic commitment to the asset. The ONGC group targets net-zero Scope 1 and 2 emissions by 2038, and zero routine gas flaring by 2030.

Operating environment of United Arab Emirates (UAE)

The UAE's operating environment is underpinned by a highly diversified economy, with non-oil activities accounting for 82% of GDP in 2025, an investment led growth model, strong fiscal and external positions, and stable governance. With nominal GDP of USD 614 billion in 2025, the economy is expected to grow by 3.1% in 2026, despite the near-term impact of regional conflict and disruptions to trade and tourism. Strong infrastructure and logistics connectivity, a low tax environment, and continued development of tourism, real estate, financial services and other non-oil sectors have strengthened the country's position as a regional business and investment hub. The sovereign benefits from substantial fiscal buffers through sovereign wealth fund assets equivalent to 470% of GDP as of May 2026, particularly the sizeable assets of the Abu Dhabi Investment Authority (ADIA), at 195% of GDP, which provide a strong backstop to the public balance sheet. The UAE attracted FDI flows equivalent to 5.7% of GDP in 2025 and ranked 9th globally in the 2026 Kearney FDI Confidence Index, reflecting strong investor confidence in its economic outlook and business environment. More than 40 free zones offer 100% foreign ownership and full repatriation of capital and profits, while the 9% corporate tax rate remains relatively competitive internationally. Continued regulatory reforms, digitalisation and streamlined business processes are further supporting private sector participation and investment.

However, the operating environment remains exposed to geopolitical, real estate and execution risks. The escalation of regional conflicts can affect tourism, trade, logistics, capital flows and investor sentiment, while disruption to regional transport and energy routes could raise operating costs for businesses. Although the economy has become substantially more diversified, hydrocarbon activity and government related entities continue to play an important role, creating indirect exposure to oil price cycles and state investment priorities. Rapid expansion in the real estate sector also presents correction risks, particularly given its importance to investment and domestic activity. In addition, the significant presence of expatriate labour, alongside evolving Emiratisation requirements, leaves businesses reliant on continued access to foreign talent and flexible labour supply. These factors could increase operating costs and constrain business flexibility if regional tensions intensify or labour and regulatory requirements tighten.

About Falcon

Falcon is a Netherlands-incorporated SPV established to hold the participating interest of an Indian consortium in the Lower Zakum offshore oil concession in Abu Dhabi. OVL owns 40% and is the largest shareholder and lead consortium partner. IOGBV and BPRL each own 30% and participate in major decisions through the agreed governance framework.

Falcon holds a 10% participating interest in Lower Zakum, operated by ADNOC Offshore. The concession became effective in 2018 and runs until 2058. Operating through a branch in Abu Dhabi, Falcon relies on the operator and sponsor-group arrangements for much of its technical, commercial, and administrative support.

About OVL

OVL is ONGC's wholly owned overseas exploration and production subsidiary and its principal vehicle for acquiring and managing international hydrocarbon reserves and production assets. OVL has participating interests in 29 oil and gas assets across 14 countries. Its portfolio spans producing, development, exploration and pipeline assets, and supports ONGC's reserve replacement and geographic diversification.

Key financial metrics

Particulars	Unit	March 31, 2024	March 31, 2025	March 31, 2026
Revenue	USD million	1,132	1,125	964
EBITDA	USD million	794	792	677
PAT	USD million	66	74	62
Total debt	USD million	0	0	26
FFO-to-debt	%	-	-	885
Debt-to-EBITDA	times	-	-	0.04

Solicitation status

The rating is solicited. The management has provided information to and held meetings with the CareEdge Global analytical team for the rating.

Details of the instrument

Instrument	ISIN	Date of issuance	Coupon rate (%)	Maturity date	Issue size	Rating
Foreign Currency Borrowings	-	-	-	-	USD 500 million	CareEdge BBB+/Stable

Rating history

Instrument	Type	Rating	Date
Foreign Currency Borrowings	Long-Term Foreign Currency	CareEdge BBB+/Stable	August 28, 2026

Criteria applied
[CareEdge Global's Corporate Rating Methodology]

[CareEdge Global's Group Rating Methodology]

[CareEdge Global's Government Related Entity Rating Methodology]

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CIN-U66190GJ2024PLC151103