



“Deep Industries Limited Q3 Financial Year & Nine Months FY 2018 Earnings Conference Call”

February 09, 2018



MANAGEMENT:

**MR. PARAS SAVLA - CHAIRMAN AND MANAGING
DIRECTOR – DEEP INDUSTRIES LIMITED**

**MR. ROHAN SHAH – CHIEF FINANCIAL OFFICER –
DEEP INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the DEEP Industries Limited Q3 and Nine months FY2018 Earning Conference Call. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectation of the company as on date of this call. These statements are not guarantees for future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. Now I would like to hand the conference over to Mr. Paras Savla, MD. Thank you and over to you Mr. Savla!

Paras Savla: Good afternoon everyone. A very warm welcome to our Q3 and Nine Months FY2018 earning conference call. Along with me, I have Mr. Rohan Shah, our Chief Financial Officer and SGA our Investor Relationship Advisor. I hope everyone had an opportunity to look at our results. The presentation has been uploaded on the Stock Exchange and the company website.

The prospectus of the domestic oil and gas industry looks very bright due to the government's push to make India self reliant in terms of oil and gas production. India launched his first auction of exploration blocks in eight years by inviting bids for 55 blocks. Government received 57 Expression of Interest from various companies. Out of which two-third were on onshore blocks. The companies who will be awarded blocks under this auction shall be declared by end of May 2018. The fact that most of the bids were onshore blocks is positive for companies like us whose expertise will be required for exploration process. Further after successful first round of DSF auctions, government has planned for the second round in which approximately 61 fields with reserves of around 180 million tonnes of oil and all equivalent will be offered. Also above steps taken by the government will lead into a push in demand for the services offered by DEEP Industries and we being a industry leader in oil and gas services space are well-positioned to take advantage of the upcoming opportunities.

We had stated on our previous concall that we are considering exploring opportunities in the Middle East. We are happy to announce that we have incorporated a subsidiary company in the name of DEEP International DMCC in Dubai on January 7, 2018 and have setup office there in Dubai. We have started the process of hiring manpower there and getting our name registered as members with various potential clients based out of Middle East countries.

Work on our own block with ONGC and IOC and Prabha Energy is progressing well. We expect to start building in next two months' time. With respect to the ONGC issue, we have stated previously that matter is subjudice; however, we are very much confident for getting a favourable outcome. I shall now ask Mr Rohan Shah our CFO to share you the financial highlight during the quarter and nine months period FY 2018.

Rohan Shah:

Good afternoon. Revenue from operations for the quarter is Rs. 74.66 crores, which is a 6% growth on Year on Year basis. On nine-month basis, our revenue stood at Rs. 221.37 Crores with growth of 9% on year-on-year basis.

EBITDA for the quarter is Rs.38 Crores with margin of 50.4% on nine-month basis, our EBITDA stood at Rs.120 Crores with margin of 54.1%. Our finance cost for quarter was Rs.2.76 Crores, while for nine months is 8.01 Crores.

Net profit for the quarter stood at Rs. 18.38 Crores, which is a 4% increase year-on-year with PAT margin of 24%. For nine months, profits were Rs.57.43 crores with an increase of 12% Year on Year with PAT margin of 25%. For our revenue mix was 25%, 28% and 37% for Gas Compression, Rigs, and Gas Dehydration businesses respectively.

On nine months basis, our revenue mix was 38% from Gas Compression business, 37% from Gas Dehydration business and 25% from Rigs Services business respectively. Our order book at the end of current quarter stood at Rs.604 Crores with Gas Compression contributing 23%, Rigs division contributing 25% and Gas Dehydration 52%. We have adjusted the probable termination GD orders in the order book as the matter is subjudice with the High Court. Our net debt currently stands at Rs.161 Crores. In the quarter gone by we added repeat and new orders worth Rs.30 Crores. These orders were added in Gas Compression and Rigs segment. With this I now leave the floor open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. We take the first question from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar:

Thank you very much just wanted to understand a little bit more on the ONGC issue, so two things here that I am having a problem understanding the first is typically when you are issued a show cause notice you reply to the show cause notice to demonstrate that you know in your case you do have the qualifications required. Your reply to the show cause notice was basically to question the basis of the show cause notice after which they issued a termination letter. I am understanding from this that you are conceding the fact that the qualifications were in fact not proper and if so what are the likely consequences of this going to be. Can you also explain why you chose to take this route instead of simply

answering the question on its merits because typically if the government issues a notice even if you think there may be some maligned basis for the notice, you replied to the notice rather than questioning the basis. The second question is given this issue with the ONGC we recently got a high court judgment in our favor saying they cannot withhold payment rather they cannot force us to pay them until the matter is decided, but does it have implications on future business with ONGC and also with other PSUs, through the court case this matter is decided or through arbitration whatever it is, this is decided in ONGC's favor. Are we at potential risk of being blacklisted by other PSUs and would we face difficulty-getting work from them?

Paras Savla:

As far as the first issue about the show cause notice we are still maintaining our status. We had challenged all the grounds of the so-called show cause notice and the termination that is happening. We had at the time of tenderingsubmitted all the needed documents so it was nothing that came to surprise to ONGC. That is the sole basis of our fight and we to understand the reason of that termination and the same has been challenged in the High Court. So there is no reason for us to not get into the basics so as far as the notice goes, we still maintain our position that we have filed the same in the high court and we are expecting the outcome to come in very soon. Secondly, your question on what happens with the other PSUs orders. See, ONGC is a separate body in itself, it is a well-establishedand there had been number of examples that if there is some issue with one organisation as a PSU it cannot have any effect on any other PSU and in past there has been number of times where companies had difficulty with one of the PSU, but they continue to do business with them. Thirdly, the awards that we are getting, you know, we have been getting re-awards from the other PSU as well, so we do not foresee any such situation of other PSU getting in line and again the same is under challenge. So there is no position of not getting any business from other PSUs as of now.

Nagraj Chandrasekar: Thank you.

Moderator: Thank you. We take the next question is from the line of Sushil Bhojwani from Elara Capital. Over to you Sir!

Sushil Bhojwani: Sir, I just wanted to understand are we kind of slow on the order book position as of now because in the start of the year in fact again really in the last year we were pretty confident on getting the order book filled in with good orders. The second thing is, I also see the revenue and profitability run rate to be a bit slow. Is there a specific reason to this one and do we expect this to normalize in the coming quarters?

Paras Savla: If you would have recollect even in the last quarter we said that in the last two quarters, it is not about the industries, but the industry has overall seen a little slowdown. I would say not

slowed down in the terms you know the things are moving a little slow, but having said that there are tenders that we have already bid. The problem is the outcome has not come, so we are pursuing them for quite a bit long time, so it might happen you know when things fall in place, it may happen in a single month we may receive a huge order book at any point. So I do not foresee any other problem coming in, as far as the numbers go I think they are pretty much in line with what our projections were. As we said the last year we did a topline of around Rs.270 odd Crores, this year we are expecting the order book the top line to be crossing Rs.300 Crores. So as far as what our projections meant I think we are pretty much in line with it.

Sushil Bhojwani: Sir, is it possible to just give us a sense of what size of orders or total size of orders we expect to win ?

Paras Savla: See as we said we have already bid for projects in around 400 to 500 odd Crores, now the probability may look very high but to put some percentage would not be appropriate, so we are expecting a decent order coming in with the projects and order or the tenders that we have bid. So it is quite likely that very soon we will have those order books coming in.

Sushil Bhojwani: Sir, what are the segments in which we have kind of put in is it in dehydration, compression or rigs, how is it divided?

Paras Savla: It is a mix of all the three divisions. The drilling rig I believe it should be a little higher maybe around 60% of rig should be coming in from the work overhang in the rigs segment, the balance of which would be the combination of the dehydration and the gas compression projects.

Sushil Bhojwani: Alright Sir, for next year what is the expectation from here on, topline and how would we grow from here?

Paras Savla: As I said you know by the year closing we expect our topline to be in the ranges crossing around Rs.300 crores plus. So the year thereafter would definitely be in the similar lines probably with new orders also getting added. As we have already mentioned we expect our growth in the ranges of around 20% slab.

Sushil Bhojwani: Thank you.

Moderator: Thank you. We take the next question is from the line of Karan Rathod from Akash Ganga Investment. Please go ahead.

- Karan Rathod:** Sir this is regarding the ONGC legal matter, now, if I am not wrong, the hearing for our case has not happened from I think the December right?
- Paras Savla:** Correct.
- Karan Rathod:** So when can we expect the hearing to start and the matter to get disposed off?
- Paras Savla:** We are expecting the hearing of this case should happen anytime between two and three weeks from now at the most and outcome should come by then.
- Karan Rathod:** Sir when the hearing starts, how long it will take to get dispose off?
- Paras Savla:** I believe within three weeks we should have the disposal as well.
- Karan Rathod:** Any idea about out of court settlement we are pursuing?
- Paras Savla:** As of now we are not pursuing any outside the court settlement, we have challenged the grounds of termination done by ONGC and there is no possibility at least for now you know for any outside court settlement.
- Karan Rathod:** One thing about the Middle East subsidiary which you have started in this quarter, Sir what would be the potential revenue from the Middle East?
- Paras Savla:** It is very hard for us to give a projection what could be the potential outcome, but I can rather look into the market and space we are. We are confident that we would be able to get a very decent amount of business from those markets. So I will not be in a position given an outline about what could be the potential numbers but we are very positive and as I said we will continue to maintain at least 20% of growth year on year at least from Indian space and as well as from the Middle East, may be more even in the Middle East.
- Karan Rathod:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Harish Shroff, individual investor. Please go ahead.
- Harish Shroff:** I have couple of questions I wanted to ask. The first question is, how big is the Prabha Energy block opportunity in terms of revenue and what shall be the tenure and when EBITDA expected to start from?

Paras Savla: See, the activities of developing the block Prabha Energy has already started, we are under process of doing the land acquisitions, and we have already completed its tendering and all the other requirements. We are expecting that in the next two months our drilling campaign should start, we do not see foresee the revenue stream coming in at least for this financial year. If it has to happen, it would be early next year.

Harish Shroff: What shall be its tenure and when is it expected to start from so, in terms of tenure and you said it will start in two years right?

Paras Savla: Drilling would start in next two months and then post drilling we have to develop the area to setup the pipeline network do the completion job, create a GGSC so all that activities would run parallelly. So we are expecting the revenue to come in would be from the early next financial year.

Harish Shroff: Second questions, that our margins have dipped this time, so when do we see it normalizing going ahead?

Paras Savla: See our margins have dipped a little and that is because of the nature of the business, if you see we are running lot of equipments so that could be a possibility and some of the equipments would have undergone a breakdown and for that there would be a cost towards repair and maintenance, so that is very common, so if you see nine months, we have still continued to maintain around 54% EBITDA margin. So it could happen in a quarter it may dip down 1% or 2% or whatever then maybe in the corresponding quarter it may come up so but at large we still continue to maintain the developed EBITDA margins that we have been.

Harish Shroff: Thank you so much.

Moderator: Thank you. We take the next question from the line of Aniruddh Aggarwal from AAA Investment. Please go ahead.

Aniruddh Aggarwal: Thanks for the opportunity. The first question is actually let us say the worst happens and you are blacklisted by ONGC then what your plan would be?

Paras Savla: First of all, let me inform you that there is no reason for us to get blacklisted and assuming in case if that happens we would again challenge it at maximum possible level of judiciary system available in the country. Second answer, assuming if everything goes wrong, the sun does not come in for the next day in those conditions definitely we are working on many projects other than ONGC and as I said there are various plans of DSF that are happening, lots of new E&P players have come in. So day in and day out we are getting lots of enquires

from the new players, we are getting lot of enquiries from the players other than ONGC and over and above we have already set an office in Dubai, so all these put together we are confident that we should not be much affected because of such reasons.

Aniruddh Aggarwal: Thanks for that. Second question is actually on like how many more contracts do we expect will come up for bidding in Q4 and FY2019?

Paras Savla: Already there are lots of projects that have already come in, we have submitted our bids which are probably around the final stages of finalization. We expect may be in a month or so we should have lots of projects coming in and simultaneous there are also new enquiries being floated by all these E&P companies, so I believe in the last quarter there would be a decent amount of bids that we should be submitting.

Aniruddh Aggarwal: Market shares are in the similar ranges like as it was in the last year or we moving some market shares?

Paras Savla: Sorry.

Aniruddh Aggarwal: Are we moving market share in any segment?

Paras Savla: As far as our line of business goes we have continued and we have been maintaining market shares there is practically no impact on our market share. It is almost the same.

Aniruddh Aggarwal: Okay, because in the dehydration business I think we have not really been getting any new orders, we were expecting a lot of movement after the government made it a mandatory requirement so what had gone wrong there?

Paras Savla: It is not that the tenders would have come and the same would have not been awarded to us, it is something that has been definitely slow on the part of our client, so they have not been able to take up, but we see a new dehydration business coming in from one of the assets of ONGC very soon. There are number of plans that we have to execute. So there was a huge jump in all the requirements at a time and now for a period of year it is almost stagnant. Now we feel that more such projects are coming in for bidding, so the timing is something that is absolutely out of our hands.

Aniruddh Aggarwal: Just to clarify, I think you mentioned you are expecting dehydration order from ONGC if there is an unfavorable outcome in the compression side do you think that does not affect our prospect with ONGC in dehydration or rigs segment?

- Paras Savla:** I think the projects that we are continuing they still remain to continue and as I said we are expecting the order to come in by the end of this month. So once we have that it would bring about a lot of clarity between us and ONGC and we are very sure that in the way it goes we will continue to ramp up and keep on growing the way we were anticipating.
- Aniruddh Aggarwal:** So I think you mentioned that you are expecting about 20% growth in FY2019 revenue. Correct?
- Paras Savla:** Correct.
- Aniruddh Aggarwal:** What about EBITDA, so I think EBITDA is now around 50's. So what do you think is the sustainable range would be going forward?
- Paras Savla:** EBITDA is 50, as I said it was because of the particular quarter if you see nine months we still continue to have our EBITDAs at around 54%, so with 20% growth we believe as I said there are number of clients whom we are already working with. So all put together including ONGC and including all the new clients and all the E&P players we are expecting a 20% growth is a little conservative, but here it should be around that much.
- Aniruddh Aggarwal:** Okay. Thanks a lot. I will come back if I have more questions.
- Moderator:** Thank you. We take the next question from the line of Aakarsh Chaturvedi from Antique Stock Broking. Please go ahead.
- Aakarsh Chaturvedi:** Good afternoon. Thank you for taking my questions. Could you give an idea the amount of capex that we have completed this year and segment wise breakup?
- Paras Savla:** Current year till this time we had done capex of around Rs. 28 crores that capex was for gas compression contract for Cairn Energy. So other than that we did not have any major capex till now.
- Aakarsh Chaturvedi:** So we had guided for some capex that we would do with regards to the drilling rigs. I think one was 2000 HP and other was 1000 HP. Has the capex been done or is that expected to be done?
- Paras Savla:** Those tenders they have not got finalised yet, I believe these are pending for more than four or five months and one of the other reasons why it is there was a little slow down I believe that was because of GST so there was lot of ambiguity in between the clients in respect to the effect of GST, so they had also slowed down the process of tendering, now there is an ample clarity being coming up, now so all those tenders that we had submitted before four

months or so what we mentioned in last quarter are now getting up for the finalization. So we are still expecting both tenders to get finalized and then probably we will have clarity of how the awards will come in and what kind of capex would then be done.

- Aakarsh Chaturvedi:** Just to get an idea like how many rigs have we deployed at the moment?
- Paras Savla:** We have all our rigs deployed as of now. We have around 9 workover and 3 drilling rigs with us currently.
- Aakarsh Chaturvedi:** Just one thing, I missed out earlier on, your revenue breakup you said 35% on compression could you give the breakup for rest of the quarter 3Q.
- Rohan Shah:** For nine months, 38% from gas compression, 37% from gas dehydration, and 25% from rig business.
- Aakarsh Chaturvedi:** This is for nine months right and for the third quarter?
- Rohan Shah:** For quarter, 35%, 37%, and 28%.
- Aakarsh Chaturvedi:** So 37% is dehydration?
- Rohan Shah:** Correct.
- Aakarsh Chaturvedi:** Lastly Sir, could you also give us the EBITDA breakup?
- Rohan Shah:** EBITDA in terms of percentage?
- Aakarsh Chaturvedi:** Yes, for the quarter.
- Rohan Shah:** Quarter it is 50.4%, and for 9 months it is 54.1%.
- Aakarsh Chaturvedi:** No as in for compression, dehydration, and drilling?
- Rohan Shah:** For us it is entire services industry and division wise we do not have EBITDA as of now.
- Aakarsh Chaturvedi:** Okay and for lastly on your CBM block, is that progressing as per schedule? I mean, what is the outlook on that?
- Paras Savla:** The CBM block in our subsidiary, right?
- Aakarsh Chaturvedi:** Right.

- Rohan Shah:** It is progressing as per our timelines and I think as Mr. Savla had said we are in the process of developing it, we have already procured certain land and are in process of acquiring some more. We have awarded certain tenders for development job and probably in next two months we would be expecting to start the drilling job. So we have planned to drill more than 70 wells and that will take at least a year to complete this process.
- Aakarsh Chaturvedi:** Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Rohit Gupta, Individual Investor. Please go ahead.
- Rohit Gupta:** Sir can you share like you mentioned that you have already bid for some orders. Can you share the figure of like what is that order pipeline that you bid it for?
- Paras Savla:** The tenders that we have bidden is a combination of drilling rigs, work over rigs, compression and built integrated jobs as well. So all this put together the tender that we have submitted is at around Rs. 500 odd Crores.
- Rohit Gupta:** Sir you mentioned a figure of I think Rs.600 Crores the current order book, what is the breakup for that for like gas dehydration?
- Paras Savla:** Gas dehydration will be around 52% out of it
- Rohit Gupta:** That includes the three orders that we had from ONGC?
- Paras Savla:** Yes three orders only from ONGC.
- Rohit Gupta:** So is it part of that order book 52%?
- Paras Savla:** Yes. We have total three orders from ONGC for gas dehydration, so as of now in entire market five orders have been awarded of which three have been awarded to us and of the three, arbitration is on for two orders.
- Rohit Gupta:** Have you started executing on those two orders or what is the status of that?
- Paras Savla:** We are already executing and we are already having revenues from them since quite long. It is not a new tender it is already an ongoing tender.
- Rohit Gupta:** Got that. Thanks. That's all.

Moderator: Thank you. That seems to be the last question I now hand the floor over to Mr Paras Savla for his closing comments.

Paras Savla: Thank you all for participating in our Q3 and if you still have any questions please feel free to communicate to us through e-mail or call. We would be more than happy to address them. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of DEEP industries that concludes this conference. Thank you for joining us. You may now disconnect your lines now.