



“Deep Industries Limited
Q2 FY ‘24 Earnings Conference Call”
November 03, 2023



**MANAGEMENT: MR. PARAS SAVLA – CHAIRMAN AND MANAGING
DIRECTOR – DEEP INDUSTRIES LIMITED
MR. ROHAN SHAH – DIRECTOR, FINANCE AND GROUP
CHIEF FINANCIAL OFFICER – DEEP INDUSTRIES
LIMITED**

MODERATOR: MR. NAMIT SHAH – S-ANCIAL

Moderator: Ladies and gentlemen, good morning, and welcome to Deep Industries Limited Q2 FY '24 Earnings Conference Call, hosted by S-Ancial Technologies Private Limited.

As a reminder all participant 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

We have on the call with us Mr. Paras Savla, Chairman and Managing Director; and Mr. Rohan Shah, Director of Finance and Group CFO. We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risks that the company faces.

May I now request Mr. Paras Savla to take us through the company's business outlook and financial highlights, subsequent to which we will open the floor for Q&A. Thank you, and over to you, sir.

Paras Savla: Good morning, everyone. Thank you all for joining Deep Industries Quarter 2 Half Year FY '24 Earnings Conference Call. I hope that you have got a chance to go through our financial results that have been uploaded on the website and stock exchanges.

We are delighted to report that first half of FY '24 has been marked by robust financial and operational achievements. Our strategic focus has yielded substantial growth in our financial and operational performance, surpassing the results of the corresponding period last year. It is my pleasure to shed light on some key highlights from this quarter.

Our order book has maintained a steady growth trajectory, reaching an impressive INR1,195 crores, marking a 47% year-on-year increase, notably this marks the 10th consecutive quarter of record growth in our order book. We are pleased to announce the recent acquisition of a significant contract worth INR108 crores from ONGC, entailing the charter hiring of high-pressure compressors over a period of three years.

Turning on attention to Dolphin Offshore, we have successfully completed a QIP of INR38.5 crores by allotting 842,000 shares at an issue price of INR458. The progress of the revival plan is proceeding as anticipated, instilling confidence that Dolphin Offshore will commence generating operational revenues in second half of FY '24. We have completed the integration process, while the refurbishment of major assets is in final stages, aligning with our predefined plan.

Furthermore, we are delighted to announce that the listing process for Dolphin has been finalized during this quarter. The acquisition of Dolphin Offshore positions Deep favorably, granting swift market access to offshore services that would have otherwise required significant time to attain the necessary qualification. This move also allows further diversification of Deep's business verticals and facilitates synergy benefits from existing client relationships.

On the national front, India's oil demand exhibited a notable 9% year-on-year increase amounting to 20.03 million metric tons or 5.3 million barrels a day in May, indicating a favorable economic momentum. With the Cabinet's approval of critical gas pricing reforms, the groundwork has been laid by us for a sustainable, affordable and secure energy future for Indian citizens. This reform is expected to incentivize investments in India E&P sector by ensuring that gas production from new wells of nomination fields will receive 20% higher prices.

We remain optimistic about the robust bidding pipeline for Deep, which is expected to remain strong in the foreseeable future.

With this, I would like to invite Mr. Rohan Shah, our CFO and Director Finance, to delve in the financial performance for the first quarter FY '24. Thank you, and over to you, Mr. Rohan.

Rohan Shah:

Thank you. Good morning, everyone. Thank you for your presence today. I'm honored to offer a concise overview of our company's second quarter financial performance. Subsequently, we will welcome your inquiries and insights. To ensure an equitable assessment, we will be assessing the figures through a year-over-year comparison.

Let us commence with the consolidated financial performance. I am happy to share that Deep has exhibited exceptional performance, surpassing the accomplishment of corresponding quarter from the prior year. The revenue receipts on consolidated basis from operations for the quarter has soared to INR101.32 crores, signifying an impressive 52% increase in comparison to the preceding year's quarter ended on 30th September '22. This achievement can be primarily attributed to our consistently expanding order book and our meticulous execution of orders, integrating the necessary operational efficiency.

Notably, the consolidated EBITDA for the quarter has surged to INR48.23 crores with an EBITDA margin of 43%, representing remarkable value escalation from the quarter concluded on 30th September, '22. Furthermore, the consolidated profit after tax for the quarter has ascended to INR29.52 crores, boosting a PAT margin of 27%.

Coming to our consolidated performance. I'm delighted to report that -- to our consolidated performance, our stand-alone performance has remained robust for this quarter. The revenue receipt on stand-alone basis from operations for the quarter had surged to INR91.02 crores, illustrating an impressive 50% increase in contrast to the prior year's quarter ending on 30th September '22.

The stand-alone EBITDA for the quarter has reached to INR41.88 crores with an EBITDA margin of 44%, focusing a commendable 44% absolute value surge compared to the quarter concluded on 30th September '22. Moreover, the stand-alone PAT for the quarter has risen to INR23.98 crores, accompanied by a PAT margin of almost 25%, significantly, a noteworthy 39% absolute value growth compared to the quarter concluded on 30th September '22.

To summarize, the quarter 2 FY '24 performance sets a promising tone for the first half of this fiscal year. I would like to draw your attention that in the published results, there is some typographical error in cash flow from investing activities have been observed in consolidated

cash flows, which we have revised now and have uploaded the corrected revised financial statements on stock exchanges.

With that, I conclude my remarks and invite any questions or discussion from the floor. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Congrats for a good set of numbers and continuous increase in the order book. Sir, my question is since our order book is increasing but our revenue is kind of stuck at this INR100 crores mark for the last three, four quarters. Can you comment on that, please? And can we expect a jump up because, I guess, monsoon will have some impact in this quarter?

Rohan Shah: Thank you. Yes, I agree to it that on face of it, it appears that our revenue is more or less in line with previous two quarters. But yes, the order book, which is growing consistently, will result into revenue only after six months to eight months of its mobilization. So yes, we are expecting some good amount of growth in coming quarters from Q3 onwards. And we are definitely guiding towards a good amount of growth going forward.

Ankur Kumar: Got it, sir. And sir, on margin side, do we expect like 40% odd, which we are generally maintaining that to sustain?

Rohan Shah: Yes, yes. So we have been able to secure margins over 40% in last more than 10 years now. And we would continue to maintain that. In addition, we are expecting some improvement as well.

Ankur Kumar: Got you, sir. And sir, on this INR1,195 crores order book, what is our acquisition time line?

Rohan Shah: So this order book is consisting of more than 40 different contracts and exhibition time line for each of them is different. But on an average basis, you can say it is around three years order book.

Ankur Kumar: Got it, sir. And sir, last question is on the Dolphin side. What kind of ramp-up and revenues can we expect in the second half as well as next year, sir?

Rohan Shah: So we are on time -- estimates of getting our one of major assets ready in class, and we expect that asset to come in operation by January '24. So we can expect some revenue in Q4 this financial year.

Numbers, it will be difficult to quantify as of now. But yes, FY '25, we'll expect for full year revenue of that particular asset, which can be around INR90 crores to INR100 crores a year.

Moderator: Thank you. The next question is from the line of Darshil from Crown Capital. Please go ahead.

Darshil: Just wanted to understand, sir, now that we've had two quarters done and maybe one month of the Q3 also. Do we feel that we can grow more than 20% because our revenues are -- have

been increasing? So what kind of guidance would you give for FY '24 and FY '25 in terms of our revenue?

Rohan Shah:

See, as I addressed before, in our order book, once it has been awarded, any particular contract, it takes almost six months to get into mobilization. On an average, this much time we need to give, and it is allowed as per contract as well. So order book growth will not immediately reflect into revenue. But yes, it will definitely reflect in revenue growth.

And as I said, we are expecting Q3 and Q4 to be definitely more in terms of revenue than in comparison with Q1 and Q2. And yes, we expect the amount of growth as we expected and as we are estimating we'll be able to achieve here.

Darshil:

Okay, sir. So -- for FY '25 because if we maintain this run rate of maybe INR100 crores a quarter plus the additional INR100 crores from Dolphin, so we can easily cross INR500 crores. So can we do with the new order book at INR600 crores? And is it possible? Is in the current range that we can estimate?

Rohan Shah:

Yes. So you can calculate in that and you can consider that. FY '25, we are definitely looking forward beyond INR500 crores for sure. And yes, so going forward, along with Dolphin's revenue and existing order book growth, which will start reflecting in our top lines, we can definitely look for the amount more anywhere more than INR500 crores, yes.

Darshil:

And sir, just my final question. So as we have growing, do we have any constraints in terms of funding capacity of capital that we might fail that -- that will not be a kind of a speed bump to our growth? And any macro environment that could risk any risk that you see in the next?

Rohan Shah:

No, I don't think so because we are fairly placed with our liquidity in hand, and our debt equity is also very minimal, and we are net debt-free. So we are all ready and we are all set up for any amount of growth which is coming to us. And we expect our order book to grow further based on our existing bidding pipeline. So I am not holding any kind of challenge in equity or funding those projects or growth.

Darshil:

Okay. So sir, order -- sir, just order is that -- I'm a little bit new to the industry. So order is -- people coming every regular quarter or maybe more towards the year end, the higher number of orders? And if the elections coming up, does that impact order flow?

Rohan Shah:

No. So in our case, order flow is continuous. It is not like in -- year-end it comes higher. It is not like that. So it is depending on the various requirements of various clients and it is more or less in consistent or continuous type of form. And since our services are indispensable for our clients, so it should not have any relation with election coming because the requirement will be there in any circumstances.

Moderator:

Thank you. The next question is from the line of Manan Shah from Moneybee Investment Advisor. Please go ahead.

- Manan Shah:** Congratulations on good set of numbers. My question was related to Dolphin. In the Dolphin balance sheet, we've shown roughly INR45 crores worth of assets as held for sale. So can you please tell us what this asset is that we are looking to sell?
- Rohan Shah:** Yes. So this particular asset is the barge which we are currently refurbishing and it is currently in books of Dolphin Offshore's Mauritius subsidiary, which we intend to shift it to other subsidiary either in Dubai or we may plan to shift it in GIFT City because currently this barge is in Mexico and it will be operational in Mexico region only. And there is no double tax avoidance treaty between Mauritius and Mexico. So we want to just change the jurisdiction from Mexico to somewhere else -- sorry, from Mauritius to somewhere else. And that is how this ship will be transferred from one subsidiary to another.
- Manan Shah:** Understood. So post this then -- I mean, post this transaction, then the taxability in Dolphin would be closer to 0? Or...
- Rohan Shah:** Yes. So it would be minimal, I would say. We are trying to get as low as possible tax regime. So we have not yet finalized the final destination. But yes, we are working on reducing it to near to 0.
- Manan Shah:** Understood. And the margins in Dolphin would be closer to 60%, 70%, right?
- Rohan Shah:** Yes, yes. From this particular asset and services, it would be in that range.
- Manan Shah:** Understood. Also, we were looking to spend around INR30 crores, INR35 crores for refurbishing this barge. So I do not see any sort of expense or cash flow out from Dolphin's books until the first half. And the point that we have raised around INR35 crores, INR38 crores that you mentioned. So what is the purpose of these funds?
- Rohan Shah:** Yes. So as you rightly mentioned, this fundraising will help in spending refurbishment activities for that particular barge. So this fundraise is primarily for that. And until now, whatever we have spent, we have arranged to send it from the loan, which our subsidiary has given to Dolphin. And eventually, it will be returned on raising this fund.
- Manan Shah:** Okay. Understood. My next question is for Deep. So any order wins or any updates on the two JVs that we had entered? So any progress over there?
- Rohan Shah:** So the first JV, which we did for higher capacity of drilling rigs. There, we have not yet qualified on those higher capacity drilling rigs. On the second JV with Euro Gas, our bids are still under evaluation, and we are expecting to have some outcome in coming months.
- Manan Shah:** Okay. The JV where we did not qualify, so was there any technical reason for which we did not qualify? You can elaborate a little bit on that?
- Rohan Shah:** Yes. So we had believed that with that particular JV, we would be qualifying for that 2,000 horsepower drilling rig. But somehow, in tender, there was some particular requirement, which even after that JV, we could not get it through. So we are working on it.
- Manan Shah:** Okay, understood. Any capex plans?

- Rohan Shah:** Yes. So currently, we are in process of acquiring two drilling rigs, for which capex is going on. So one rig, which is being deployed at ONGC Bokaro, the order we had received last quarter. And second rig will go with a client called Selan. So yes, that capex is going on. And the contract of Geleki, ONGC Geleki, gas compression services. There also, we are doing some capex.
- Manan Shah:** So these contracts will commence on quarter 3?
- Rohan Shah:** These two rig contracts will start generating revenue in Q4. And Geleki will also start in Q4 only. But yes, in Q3, one or two more contracts are coming into revenue.
- Manan Shah:** Okay. And my last question was, any update on the receivables of Dolphin Offshore?
- Rohan Shah:** In Dolphin Offshore, in one of the arbitration case, we have received in our favor, the award. And we are expecting some receipts to start coming against those receivables.
- Moderator:** Thank you. The next question is from the line of Rakesh Davera from 4R Investments. Please go ahead.
- Rakesh Davera:** First of all, congrats on a great set of numbers. And my first question is regarding the cash flow statement. I have observed that sale of investments are like around INR100 crores. Can you throw some light on that?
- Rohan Shah:** If you can repeat the question? Your voice is little low.
- Rakesh Davera:** My first question is regarding sale of investments related to cash flow. So it was about like INR100 crores. Can you elaborate on this?
- Rohan Shah:** No. So this is just shifting from investment to FD. So we have parked our receipts of arbitration award into fixed deposits. So it's just interchange of instrument.
- Rakesh Davera:** Okay. And are we able to maintain this EBITDA margin with the ongoing onshore also -- with the subsidiary onshore also?
- Rohan Shah:** Yes, yes. So in fact, in Dolphin Offshore, the margins are a little higher than what we are maintaining. So we are quite confident that we'll continue to maintain this type of margins.
- Rakesh Davera:** Recently we have raised this fund. So where we are utilizing it? Can you...
- Rohan Shah:** In Dolphin Offshore, as I just explained before, this fund raise will be used to refurbish that particular asset, the barge which is there in Dolphin Offshore. And we will be using this fund to get this asset in class.
- Rakesh Davera:** Okay. Previously, we have installed some capex also. What our capex plan for the FY '24?
- Rohan Shah:** In FY '24, in total, we would be doing capex of INR100 crores plus, of which we are buying two drilling rigs, and we are buying few gas processing packages.

- Rakesh Davera:** You should understand like this, if these joint ventures, are they successful? We recently acquired Breitling Drilling and also we are with two joint ventures, right? So what about that?
- Rohan Shah:** I think I have replied this question immediately prior to this, but still I'll repeat that. In case of Breitling Drilling, the bid is not successfully qualified. So we are working on it. And the other JV, which we had done with Euro Gas, there our bids are under evaluation, and we are expecting to come -- to receive outcome in coming months.
- Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.
- Alisha Mahawla:** Sir, first question is that is there any pipeline of what are order inflows can be for the rest of the year -- H2? H1 I think we've got inflows about INR300 crores, INR320 crores. Is it fair a guidance on what the inflows can be for the full year or H2?
- Rohan Shah:** Yes, our current bidding pipeline is exceptional, and it is around INR800 crores of order we have bid and -- the tenders we have submitted. And we expect good amount of conversion in coming months.
- Alisha Mahawla:** The large part of this bidding pipeline gets concluded in H2 only?
- Rohan Shah:** So it depends largely on the client side, the time lines. But yes, we expect majority of them should convert in H2 itself.
- Alisha Mahawla:** Okay. So based on a historical hit ratio, conversion ratio, can we expect order inflows in line with what we experienced in H1?
- Rohan Shah:** Yes, yes. We are quite bullish and quite confident that we should get some good amount of conversion. On percentage of successful conversion, I cannot comment because at the end of the day, it's an open tender. But yes, we are quite confident to have some good amount of conversion out of this.
- Alisha Mahawla:** Got it. Sir, my next question is on RAAS. If you can share what is the order book there currently? What is the outlook like? Or there was a delay in demand that we've been talking about? What is the scenario looking like currently?
- Rohan Shah:** I think, yes, order book in RAAS is somewhere around INR50 crores. And the execution is not as per our expectation. So we are facing some delay in demand due to GA holders are getting extensions in their own projects. So the demand, which we had anticipated of this booster compressor is not converting into the same speed which we had anticipated. But yes, we believe that going forward, it should start coming up.
- Alisha Mahawla:** Can we expect a large part of this amount to come in FY '25 based on the extensions and whatever figures you will be getting from the GAs?
- Rohan Shah:** Yes, we believe that in FY '25, it should come up.

- Alisha Mahawla:** Got it. And just a clarification. We currently have an order book of about INR1,190 crores. And so this will only need to do a capex of INR100 crores?
- Rohan Shah:** Yes.
- Alisha Mahawla:** That should take care for execution of this INR1,100 crores, INR1,200 crores order book?
- Rohan Shah:** Perfect.
- Alisha Mahawla:** And can you give the breakup of the order book between gas compression, drilling, gas dehydration, et cetera?
- Rohan Shah:** Yes. So out of this planned order book, the gas compression would be in range of 45%. Rigs are almost 39% and rest is with integrated project management and gas dehydration.
- Alisha Mahawla:** And what will be the contribution of ONGC in this INR1,100 crores order book? Because for the inflows of INR300 crores, INR320 crores, almost INR280 crores comes from the two large ONGC orders. So if you could just give us some split of the top one client, two clients, three clients, what is the contribution to this order book?
- Rohan Shah:** So largest would be ONGC, which would be in range of around 65%. Second largest would be Vedanta and Oil India.
- Moderator:** Thank you. The next question is from the line of Srini, who is an individual investor. Please go ahead.
- Srini:** I think most of the questions are answered. One question is regarding the order book. I think it's been -- sequentially, there's been not so much increase between Q1 and Q2. So would H2 would compensate for the order book growth?
- Paras Savla:** See, order books, the way it functions, it's not periodically in a way that it has to come around a month or so. So you have witnessed that in some quarters, the order book inflow would be tremendous. In some of the quarters, it may be a little low, but that is the part of business.
- But in overall scenario, we are expecting a huge amount of order book to get converted, looking to our past experiences of the conversions that are happening. Having an INR1,100 crores or INR1,200 crores kind of an order book has been anticipated with our company. And what we see further is that it's almost INR800 crores of pipeline order. And if these are getting converted in next six months, I think this would be adding a lot of value.
- So when we said that this -- the top lines or the revenues would increase significantly, that would be witnessed from third and the fourth quarter to a certain extent.
- Srini:** Okay. And congrats for the great quarter.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Paras Savla for closing comments.

Rohan Shah:

Thank you, everyone, for joining the quarter 2 conference call of Deep Industries Limited. It would be our pleasure to answer your any question or queries further. So if you have any further queries, you can directly reach upon to us or you can route your queries through our Investor Relationship advisers, S-Ancial. Thank you so much.

Moderator:

Thank you. On behalf of S-Ancial Technologies Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.