



“Deep Industries Limited
Q4 FY '23 Earnings Conference Call”
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MODERATOR: **MS. SANA KAPOOR – GO INDIA ADVISORS**

Moderator: Good morning, ladies and gentlemen. Welcome to the Q4 FY23 earnings conference call for Deep Industries Limited hosted by Go India Advisors. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Sana Kapoor from Go India Advisors. Thank you and over to you ma'am.

Sana Kapoor: Thank you Lizaan. Good morning everybody. Welcome to the Deep Industries earnings call to discuss the Q4 and FY23 results. We have on the call 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 for joining Deep Industries' Q4 and FY23 earnings conference call. I hope that you have got a chance to go through our earnings presentation that has been uploaded on the website and stock exchanges. FY23 has been a great year for us from both financial, as well as operational aspects. Deep has achieved higher revenues, profits and order book in line with our stated guidance.

Before Mr. Rohan discusses the financial performance, let me throw some light on the strategic updates of the company. I am pleased to announce that our order book has exceeded INR1,000 crores order book, reaching INR1,078 crores at the close of FY23. This represents a Y-o-Y increase of 71% and a Q-o-Q increase of 10%. Deep recently secured an order worth INR106 crores from ONGC for the hire of mobile drilling rig over a period of three years. As you are aware, Deep is a leader in natural gas compression market, commanding a market share of approximately 75%.

In addition to this, we have a strategic presence in natural gas, dehydration, work over and drilling rigs, integrated project management and manufacturing of CNG booster compressors. The Indian government's goal to raise the proportion of natural gas in the country's primary energy mix from -- 10.5% to 15% by 2030, coupled with supportive policy changes, such as reforms in domestic gas pricing guidelines, bodes well for our company. These developments will stimulate the demand and supply of natural gas, creating a need of natural gas processing, in which our company plays a significant role. Hence, Deep Industries is poised to benefit from the gas pricing policy changes and the potential surge in natural gas consumption.

Furthermore, we are optimistic about the strong bidding pipeline and anticipate substantial conversions in the near future. During FY23, we completed the acquisition of Dolphin Offshore through IBC route and have initiated the implementation of revival strategy. This

acquisition will grant Deep with quick market access to offshore services, which otherwise would have taken two to three years to achieve the required classification. This will also lead to the diversification of the business verticals of Deep and synergy benefits from existing client relationships. With the overall revival plan in place, the integration process has commenced with the appointment of key managerial personnel and the board, taking control of assets and establishment of offices.

Refurbishment of the major assets has begun and the operational activities are projected to commence in about next six months approximately. We expect Dolphin Offshore to start contributing to the operational revenues by second half of FY24. Deep focuses on superior wealth creation for its shareholders and thus I am happy to share that the board has recommended a final dividend of INR1.85 per equity. Face value of the share is INR5. Deep has also executed a stock split of 1 to 2 ratio during the financial year.

With this, I would like to hand over the call to Mr. Rohan Shah, our CFO and Director of Finance, to take us through Q4 and FY23 financial performance. Thank you.

Rohan Shah:

Thank you Paras Sir. Good morning everyone. I will now present a brief overview of our quarterly and annual financial performance after which we will open the floor for question and answer. For fair comparison we will be comparing numbers on year-on-year basis. Starting with consolidated financial performance, on annual basis, I am happy to share that Deep has achieved record high annual financial performance. Deep has achieved highest ever revenue of INR341 crores, which is up by 6% compared to last year. Additionally, Deep has accomplished record breaking profits this year, with EBITDA soaring by 19% to INR142 crores and PAT reaching an impressive INR125 crores.

PAT adjusted for exceptional item is INR81 crores, which has increased by 11%. This year in Q4, we had an exceptional item of INR44 crores consisting of net gains from writing back of operational liabilities and writing off of receivables of Dolphin Offshore post its acquisition. EBITDA and adjusted PAT margins are strong at 40% and 23% for the year. I am happy to share that Deep has maintained its status of being zero net debt company, with healthy balance sheet and very strong liquidity position. Presently, Deep has total gross liquidity of INR90 crores that places Deep in comfortable position to capture next phase of growth.

On quarterly basis, revenue has increased by 23% to INR103 crores, whereas EBITDA and adjusted PAT has increased to INR47 crores and INR28 crores, up by 54% and 61% respectively. EBITDA and adjusted PAT margins for the quarter has improved from Q4 FY22 and are strong at 43% and 25% respectively.

Coming to standalone performance, on annual basis, revenue has increased by 11% to INR301 crores. EBITDA and PAT also showed an increasing trend and were up by 18% and 13% respectively. On quarterly basis also, Deep showed a rising trend in terms of revenue, EBITDA and PAT, which were up by 15%, 32% and 32% respectively. Overall FY23 has been a strong year and we expect to deliver great performance for the years to come.

We can now open the floor for questions and answers. Thank you.

- Moderator:** The first question is on the line of Surya Narayan from Sunidhi Securities. Please go ahead.
- Surya Narayan:** Paras Bhai, thank you for giving me the opportunity. Just If you can throw some light on the segmentalized revenue break-up for last year and how do you expect these segments to grow in FY24? And on the revenue side, the revenue visibility is there. What kind of CAGR in the revenue we can expect? And plus, what is the need to go for the stock split? We are not facing liquidity issues, so what are the reasons for going for the stock split?
- Rohan Shah:** With regards to the revenue split, I will answer that. Out of the total of INR301 crores on a standalone basis, our revenue from the gas compression division is almost 43%. From the rigs division, it is around 40%. From the gas dehydration unit, it is around 5% and balance is from integrated project management and other small services.
- With regards to growth coming up in the next financial year, since we have a good amount of order book in place and almost sure kind of revenue for the next 2 to 2.5 years, we expect to grow around 20% on a conservative basis on CAGR. That is what we expect for years to come. With regards to the stock split, it was basically just to increase the liquidity in the market and to allow small investors to participate in our stock, that was the only reason. I think there was no other reason for the stock split.
- Surya Narayan:** With regards to the integrated project management, we were actually hoping for a bigger pie. What is happening in that segment Sir?
- Rohan Shah:** So in integrated project management, we have successfully completed our first project and we are doing some small integrated projects with Oil India and Selan as well. With ONGC, we have bid for another integrated project. We are expecting to have some good outcome in that as well.
- Surya Narayan:** With oil and gas prices remaining benign, going forward, beyond this INR1000 crores of order, are we expecting the budget from the upstream players to increase? Generally, we tend to be very cautious on that front if oil prices remain benign or soft. What is your call?
- Rohan Shah:** See we have been in the domestic market for the last 30 years now. We have seen that foreign players are not that aggressive in coming into India because of various reasons. And Crude oil prices being benign, I think since we are into pure services business, our business has not much impact of crude or gas prices because at the end of the day our services are indispensable kind of services. Whatever the price would be, our services would be required by every producer and transporters.
- Surya Narayan:** Any callers on the goodwill amortization front going forward any timeline regarding that?
- Rohan Shah:** With regards to goodwill, since we follow IndAS, we will have to do impairment testing on every year end. And If that impairment testing report suggests to impair the goodwill, we will have to impair. This year, the impairment testing is not suggesting any impairment on goodwill. So We would continue to have this goodwill on our books. So That testing will be done on every year end as required by IndAS. So we cannot comment on that.

- Surya Narayan:** But Will you be appointing any external agencies to check whether the impairment is fair or not?
- Rohan Shah:** Yes, Yes we will have to hire some registered valuers, the outside agency only, who will give their report on impairment by testing various routes of impairment testing. And On their conclusion, they will give their report. So, it is of course outside agency.
- Surya Narayan:** Okay, I will come in the queue Sir. Thank you.
- Moderator:** Thank You. The next question is on the line of Manan Shah from Moneybee Investment Advisors. Please go ahead.
- Manan Shah:** Yes, hi. Thanks for the opportunity and congratulations for a good set of numbers. Can you highlight what contracts are expected to commence in the upcoming quarters and whether this would be towards the gas dehydration, compression or rigging?
- Rohan Shah:** Yes, hi Manan bhai, thank you. So, yes, in current quarter, we are executing some gas compression contracts, which are under mobilization stage. So, I believe there are three gas compression contracts which are getting added by this current quarter and will start coming into revenue.
- Manan Shah:** Okay, so and any capex that we are projecting for the upcoming year?
- Rohan Shah:** Yes, so we are expecting to have immediate capex of 1,000 horsepower drilling rig, which we are anticipating to get an order probably in next one or two months. And based on that order, we may acquire one new 1000 horsepower drilling rig.
- Manan Shah:** Can you quantify this capex?
- Rohan Shah:** That would be in range of around 45 crores.
- Manan Shah:** Okay, understood. My next question was, so I understand that we've written off a large part of operating liabilities of Dolphin. However, receivables still continue at almost upwards of INR140 crores in Dolphin. So, I mean, how confident are we about recovering these receivables or from whom are these receivables or if you can just throw some sense on this?
- Rohan Shah:** Sure. So, based on the NCLT order, we are not supposed to discharge any operating liabilities other than what we have agreed in resolution plan. So, after paying off the liability as per resolution plan, we have written back all other liabilities in our books. With regards to receivables, we have written off sizable receivables, which were not recoverable at all. And the receivables which we believe we can recover, that we have kept on our books as receivables. Out of INR140 crores, almost INR40 crores are receivable of their overseas subsidiary, where active arbitration is going on and award is in our favor as well. So, we expect to have receipts out of that receivable. And with regards to Indian receivables, the majority of them are from ONGC and few of them are from other contracts as well, other clients, where we are quite positive to recover them.

- Manan Shah:** Okay, understood. And you can also comment on the order that we had won against ONGC, any updates, when are we expecting this to come?
- Rohan Shah:** Sorry, which order?
- Manan Shah:** We've won this case, right? At Deep Industries against ONGC, where you are expecting INR104 crores. The arbitration one.
- Rohan Shah:** Yes, of that arbitration award, we have received 75% of the award amount. And we expect to receive balance on completion of the formalities because client has approached the higher legal forum in High Court. Once that case will be awarded in favor, balance amount will be received.
- Manan Shah:** So, this 75% which you've received, we've parked this money in some liquid debt or something?
- Rohan Shah:** Yes, we have parked as of now into bank FDs and liquid funds.
- Manan Shah:** Okay. My next question was on again on the Dolphin side. So, I believe we would we require to do some sort of refurbishment for the assets. So, what is that number that you're projecting to spend in this year and how is the same will be funded?
- Rohan Shah:** Yes, so refurbishment process has already been started. And since it is a refurbishment of an equipment which was idle for more than three years, as of now, clear estimate is not with us. But Yes, it would not be that great amount and we expect to fund it either through our accounts or we may go for loan as well.
- Manan Shah:** Okay, but we would start bidding for this, I mean, applying for bids only post refurbishment or we've already started applying for the bids for this asset?
- Rohan Shah:** No, so we have already started getting expressions from various clients and the response is excellent because the asset which we are having, I think it is one of the rare asset and there are only six to seven such assets in entire world. So, we are quite bullish on getting business on that asset.
- Manan Shah:** And the contracts over here are largely long-term in nature, I mean, two, three years or longer?
- Rohan Shah:** Yes, Yes, sometimes it may be longer than two, three years as well. But Yes, it depends on what price and what amount we agree.
- Manan Shah:** Sure, understood. Thanks, I'll get back in the queue.
- Rohan Shah:** Thank you.
- Moderator:** The next question is from the line of Karan Dubey from Anubhuti Advisors LLP. Please go ahead.

- Karan Dubey:** Thank you so much for taking my question. Just wanted an update as to how much revenue are you expecting to get in from second half of '24 from the Dolphin Offshore? And also what will be the margins for the same?
- Rohan Shah:** See, that depends on how early we put that asset into operation. So, as of now, it is difficult to comment on how much revenue we can book out of Dolphin. But we are expecting to get in from Dolphin. But we are quite bullish. Even if we get revenue of, say, five, six months, then it would be more than INR30 crores, INR35 crores.
- Karan Dubey:** Okay. And margins, if we get...
- Rohan Shah:** Business would be almost same as our business margin. There can be some higher margins as well. But conservatively, we are expecting 40%, 45% EBITDA.
- Karan Dubey:** Okay. And my next question is, is there -- what are your thoughts on the natural gas dehydration? Can you throw some color on it? And are we seeing any progress over there?
- Paras Savla:** So, natural gas dehydration has, as we had already been saying that it has got a good prospect. And there is a lot amount of pipeline already laid and there is a lot of pipeline being laid. So, it is a clear-cut requirement from PNGRB that any new line, whenever the gas is to be injected, it has to be dehydrated. So, on that front, I think that prospects are still there. But, this process is on. So, there is a lot of process to be done before that. There are some pipelines, which are being under installation and all. And there are certain unknown tender in process. This momentum can happen at any point in time. We believe it's a great business and highly prospective.
- Karan Dubey:** As of now, how much it does contribute in your revenue?
- Rohan Shah:** As of now, it is contributing around 5%.
- Karan Dubey:** Okay, okay. Thank you so much. That is it for my side.
- Rohan Shah:** Thanks.
- Moderator:** The next question is from the line of Yogesh from Arihant Capital Markets Limited. Please go ahead.
- Yogesh:** Thank you, sir. Am I audible?
- Rohan Shah:** Yes.
- Yogesh:** Sorry, sir. I actually joined a little late. So, it might be a repetitive question. So, how do you see the growth of the IPM segment? And what would be your outlook for growth on an overall basis for revenue and profitability in FY '25 for the company?
- Rohan Shah:** So, under IPM, we have successfully completed our first project with ONGC. And currently, we are operating on integrated project management projects of Oil India and Selan. And we have bid a few more projects under IPM with ONGC as well, with Vedanta as well. So, we

expect a good amount of conversion going forward. And we are quite bullish on this particular business.

Yogesh: And, sir, what would be your outlook for FY '24 in terms of revenue growth and profitability?

Rohan Shah: On revenue growth, conservatively, we are expecting 20% CAGR. And profitability, we would continue to maintain our existing percentage.

Yogesh: Sure, sir. And finally, sir, on the debt profile, what would be the debt trajectory going forward? And is there any threshold on taking debt for the company?

Rohan Shah: So, currently, we are net debt free. And we always believe to keep our debt at very minimal level. In our history, we have never crossed debt equity as one. And our recent decision is to keep debt as 0.5 of equity to the maximum...

Yogesh: Thank you, sir. That's very helpful. Thank you.

Moderator: The next question is from the line of Mayur Liman from Profitmart Securities. Please go ahead.

Mayur Liman: Thank you for the opportunity and congratulations on the great set of numbers. Sir, I just want to ask the capital utilization of gas compressor has increased, I wanted to know the exact status of how many compressor we have as of now? And how are we seeing this segment to grow going forward as we are already a leader in this segment?

Rohan Shah: Thank you. Yes, with regards to gas compression division, our capex utilization has improved. And with new projects of gas compressor coming in, we are doing capex also to acquire new compressor packages as well. So going forward, gas compression division, we expect to grow quite a good way and it should continue to contribute more than 40% in our overall revenue.

Mayur Liman: Okay. And my second question is, what is the bidding pipeline, if you can let me know the sum number for that? And also, what do we expect our order book to be one year from now?

Rohan Shah: See, order book conversion is not in our control. It always depends on award of contract based on your bids. But, yes, the way we have seen FY '23 to grow, so demand in our industry is excellent for our type of services and we expect to grow order book in this current financial year as well. So, yes, we are quite bullish. Our bidding pipeline is as good as around INR800 crores, and of which we are expecting some good amount of conversion in current year as well.

Mayur Liman: Okay. Thank you so much, sir. That's all from my side.

Rohan Shah: Thank you.

Moderator: The next question is from the line of Parin Gala from SageOne. Please go ahead.

Parin Gala: Yes, sir. Good morning. Sir, I am relatively new to the company. So pardon if some of my questions sound silly. Sir, I understand that majority of your business comes from ONGC

because of gas compression and all that. And you've been doing this for a very, very long time with them. In such a scenario, sir, why does any kind of a contractual dispute or something that arises with your primary client, and then you have to go for arbitration and things like that? I mean, when it's well-defined in the contract, why do these disputes come up?

Paras Savla: See, in the matters of contracts, worldwide if you see, there are always disputes, which are on the either side. And normally, these kind of disputes are largely based on the interpretation. This is not something that disputes can never happen. In every single contract, whenever the execution happens, there is certain amount of non-alignment of the client and the service provider. So this is not something very new, which is happening to this business. This is very, very common and not in India. I believe it is across the globe. These arbitrations are definitely all the resolutions or the disputes resolution are something, which are intently kept so that such disputes are being resolved.

Parin Gala: Okay. And generally, when such disputes arise, typically, what is the timeline for them to get resolved?

Paras Savla: After the completion of the contract, it cannot normally happen during the ongoing operations of the contract. Normally, once the contract is over, then the disputes -- if there are serious disputes, the same are being referred for an arbitration. So I believe after the completion of the contract, normally, hearing and all those stuff, depending on the claim and all, may take anywhere a period from a year to a year and a half.

Parin Gala: Year to year and a half? Okay. So, sir, in all these contracts, especially ONGC and when you're dealing with government and things like that, how is the payment schedule, whatever services you provide, you get immediately paid? And is there some retainer money, which is kept till the end of the contract, or how does it work?

Paras Savla: No, no, there is nothing called a retainer money. Every invoices are paid in the due course of time. So normally, we have seen a trend of payments being in the ranges of about 90 days to 100 days as an average. For all the monthly billing, normally, it's a process that the invoices go to the field, they get certified through various hierarchies, and then they move to the different locations. So that is, I mean, some of the clients would have been paying early, some of them paying little late. But largely, we believe that the monthly billing cycle is in the ranges of 90 to 100 days.

Parin Gala: And these invoices are raised after the service is provided or during the period of the contract?

Paras Savla: It is within the period of the contract, but at the end of the month in the few days from the next preceding month, we make the invoice and send it to our clients.

Parin Gala: Got it. Thank you so much, sir. I'll come back if I have it. Thank you.

Moderator: Thank you. The next question is on the line of Kashvi Dedhia from Centra Advisors. Please go ahead.

Kashvi Dedhia: Yes, thanks for the opportunity and congratulations on a great set of numbers. So I have two questions. Firstly, can you share the segment-wise breakup for order book that you received for INR1,078 crores? And secondly, the order, which you received from ONCC for mobile drilling of INR106 crores, is it recognized or by when will it get recognized?

Rohan Shah: Yes, so I'll answer your second question first. So the INR106 crores order is for over a period of three years. So it is part of our rig division and it is for drilling rig with Ahmedabad assets. So you can say INR106 crores would be -- revenue would be earned in three years' time. And with regards to breakup of our order book, out of INR1,078 crores of order, almost gas compression consists of 52% of order book. Rig consists of around 36% of order book. Gas dehydration consists around 5% of order book, and rest is from integrated project management.

Kashvi Dedhia: Yes, okay. Thanks. That's it from my side.

Rohan Shah: Thank you.

Moderator: Thank you. The next question is on the line of Sanjay Shah from KSA Securities Private Limited. Please go ahead.

Sanjay Shah: Yes, good morning, gentlemen. Thanks for opportunity. Paras sir, I have one question to understand from you about our acquisition, that is Dolphin Offshore, which is maybe more than 40 years old company and having a pioneer position in the business. So what went wrong and why are we so optimistic about it and acquired that being in a troubled company because they are into something different that is diving underwater services and other services. So what expertise we see in an integration we can do to revive this and what confidence we have in the company?

Paras Savla: See coming to the first question, we said that what went wrong with Dolphin. I'm sure the thing that went wrong was their financial management. They were doing things when they were not able to manage the company in the best financial discipline that was required. That's what we believe. They have been definitely in a very dominating position as far as the services, as far as repairs of the well platform goes, or diving services. So they have been leaders for all these years. Even before the acquisition, we met our clients and there is a lot of vacuum in this industry.

Business has always been very good in offshore segment and there has been a demand. So if you have to ask me today, we see a lot of demand in this segment. There's a lot of vacuum to the kind of growth that is happening. We believe the, kind of, experience that Dolphin has would definitely bring a lot of opportunity for the company going forward. So we believe if there is a decent amount of financial discipline, utilization, recognition and getting the funds from the clients in a proper systematic way, then the company should not face any difficulty.

As usual, we have been into the same sector, but the difference is Dolphin is offshore and what we were used to do is onshore. So we almost have a sense of what the clients are, what the requirements are, and we are also operating company for more than 30 years now. So we have a fair and decent idea of how to manage these kinds of difficulties. So with this, it allows us a

lot of opportunity to be in both these segments. And that's why we feel that we will be fairly successful.

Sanjay Shah: That's good. So can we take, understand that previously, Dolphin used to do around INR300 crores, INR400 crores, INR500 crores top line. Is that market of that size still there available for us?

Paras Savla: Honestly speaking, I believe it is much, much, much more than what even they were doing, because they were doing this before four, five years now. And in these four, five years, the level of requirement, the level of services, see lot of equipment, what they used to, a lot of services, what they used to provide in the market, I think the demand has superseded to what the supply is.

So I'm just being optimistic. I do not have a clarity on what the answer would be in terms of numbers. But the only thing that I clearly understand is that these numbers are very, very easily achievable in a span of time.

Sanjay Shah: That's great. So we are retaining the old staff of the Dolphin, or we have our own expertise in that?

Paras Savla: We are trying to source the best possible talent from the market. And we are trying to see what best we can do. We are not very sure that what amount of staff that already Dolphin had, we will be taking use of them or not. But going forward, I believe there is a lot of talent already available in the market. So we'll try to see what best we can get and in the best interest of the company.

Sanjay Shah: That's great sir. Good luck to you. Thank you for answering my questions.

Paras Savla: Thank you.

Moderator: Thank you. The next question is in the line of Mayank Mamania from Mavira Investments. Please go ahead.

Mayank Mamania: Yes, sir. Good morning. Sir, I wanted to understand what was the turnover of our subsidiary, RAAS in Q4 and what is the outlook of FY'24 for RAAS?

Rohan Shah: So RAAS has achieved INR17 crores over a year for FY '23. And going forward, we expect to increase this at quite a good pace because currently the demand is little low because the GA allottees, who have been awarded the areas to install this gas compressor packages and stations and pipeline, they are taking a little long with some extensions with government. And that is how the demand is not picking up as per our expectation. So in current financial year, we expect to pick it up.

Mayank Mamania: Okay. And sir, the refurbishment of Dolphin as it will be completed and put to use in H2. So what kind of revenue visibility will be there in H2 from Dolphin?

- Rohan Shah:** So as I said before, it depends on how fast we can complete this refurbishment and put it into revenue. But yes, even if it will be there in revenue for five months or so, we can expect around INR40 crores of revenue from there.
- Mayank Mamania:** Okay, sir. Thank you. That's all from me, sir.
- Rohan Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sudhir Bheda from Right Time Private Limited. Please go ahead.
- Sudhir Bheda:** Yes, congratulations, Paras bhai, Rupesh bhai, Rohan sir for posting outstanding results, and congratulations to the entire team. Particularly on cash flow side, it's a good cash flow and very good control on debtors. So, sir, my question is this kind of debtors control, because now it's almost on a standalone, there is INR100 crores debtors are there. So this kind of debtors, will we be able to maintain in future also?
- Rohan Shah:** Yes, yes. In fact, we are working on reducing it even further. So yes, we are quite hopeful that debtors, we would be in control.
- Sudhir Bheda:** And my second question, is there any scope for margin improvement going forward as dollar rates, rupee has weakened a bit. And the rigs rate and other rates have also gone up. So, is there any scope for improvement in the margin?
- Paras Savla:** I believe in the industry per se, this is perhaps the best margin already in the sector. So, if you compare any other players in the industry, you won't find that kind of a margin. But having said that, the scope of margin improvement always exists. And just to answer you the first question, why this amount of debtors are lying in the book, because whenever we start the first project, so normally debt cycle of that project getting into revenue stream, takes normally four to five months. And that is the typical way because the first invoice has got a lot of compliances to go through. And even in this year, there were few projects which were installed.
- So, when we say this kind of a INR100 crores being outstanding, some of these amounts attribute towards the new commissioning of the projects as well. So, even while you have to see year-on-year, this trend would be continuing to an extent, because of the new projects getting commissioned, and then it's about four or five months, the first revenue gets started. And once the first revenue starts coming in, then it becomes very regular, then it is a normal process of monthly invoices getting paid. So, that is the primary reason why these kinds of amounts are visible in the balance sheet.
- Sudhir Bheda:** Great, but it is a fairly controlled debtors rate, I think.
- Paras Savla:** See, we are very much focused and as I mentioned to see, the only thing that we believe is that we have to have a lot amount of financial discipline and that is the key to this business. So, if we do not get our dues intime, this could be dangerous. And we know this, having seen having

acquired these companies where they had gone wrong, so we'll never make such mistakes. We are very, very, vigilant on getting our dues.

Sudhir Bheda: And the rest of my questions are already answered. So, thanks for the opportunity and all the best.

Paras Savla: Thank you.

Moderator: Thank you. The next question is on the line of Dhruv from Jairam Stock Brokers. Please go ahead.

Dhruv: Yes, on the order book front, I have my first question. So, in which segment or in which sector are we receiving the majority orders for say this year in FY'22-FY'23 and going forward, are you able to see, in which segment are you expecting the order books to flow?

Rohan Shah: The order book for us is increasing on every segment. So yes, there is a little increase in gas compression division in comparison with others. But having said so, the order flow is there in all the segments.

Paras Savla: And actually to quantify that what sector would get what kind of a thing is a little unpredictable. So, there could be a possibility a year that one segment would be doing fantastically well, the other will be in the bidding pipeline. But as an average, what we have seen is that demand overall in this sector has been quite promising. So, you can't expect what segment could be turning out in a better way.

Dhruv: Thank you. And my second question is out of our current order book of INR1078 crores, so what is the expected execution timeline for this order book or the current order book?

Rohan Shah: Two and a half years.

Dhruv: Two and a half years. Okay, sir thank you. Thank you so much.

Rohan Shah: Thank You

Moderator: Thank you. The next question is from the line of Gaurav Sachdeva from Further Investments. Please go ahead.

Gaurav Sachdeva: Yes, good morning, sir. So, the ONGC order of INR106 crores which you have got, is this a renewed contract or a new contract?

Rohan Shah: It's a new contract.

Gaurav Sachdeva: Okay. And sir, could you please tell, since we have three drilling rigs, what are the other prices of two drilling rigs? Which rig they are occupied currently?

Rohan Shah: So Yes, currently all these three rigs are working with ONGC, Ahmedabad asset and all are at the same rates.

- Gaurav Sachdeva:** Sir, could you tell me the price at which they are occupied, all three?
- Rohan Shah:** You mean daily rate or you want to...
- Gaurav Sachdeva:** Daily rate, daily rate, Yes.
- Rohan Shah:** They are in range of \$11,000 to \$11,500 a day.
- Gaurav Sachdeva:** Okay. And sir, in future are we looking for getting into offshore rigs also?
- Rohan Shah:** Not as of now. So, with the acquisition of Dolphin, our thought process was to start with support services in offshore oil and gas segment and having some good amount of experience in those service segment, we may look for, but not in next five years.
- Gaurav Sachdeva:** Okay, next five years you are not looking, okay. And sir, since I heard in the previous question that you are occupying a new drilling rig, what is the cost of a new drilling rig, sir, right now of 1,000 HP?
- Paras Savla:** It would be in the ranges of around INR45 odd crores.
- Gaurav Sachdeva:** INR45 odd crores. And sir, what is the cost of this work over rig?
- Paras Savla:** There again different capacity of the rig. They would be 50-100 tons or 150 tons, but if I have to say typically for 100 ton, it would be in the ranges of around INR11 crores to INR15 crores.
- Gaurav Sachdeva:** 11 to 15 crores. And sir, since you told that 36% order book is from the rigs, could you also tell the bifurcation between this drilling rigs and the work over rigs?
- Paras Savla:** I think that may take us some time because we don't bifurcate within the sector in itself. Because rig is one thing, with the drilling and work over it becomes the composite sector as a sector in itself. So, we have not identified what work over does or what drilling does, but as a division or as a sector, we report these numbers.
- Gaurav Sachdeva:** Okay, thank you, sir. That's all, sir. Thank you.
- Moderator:** Thank you. The next question is in the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Yes, namaskar sir and thank you for the opportunity. Yes, sir. Firstly, we have our capital work in progress of rupees INR20 crores as on 31st March '23. What does it constitute, sir? Where is the money spent and when is it going to be capitalized?
- Rohan Shah:** Yes, hi, Saketji. Capital work in progress is for projects under mobilization for plant and machinery. So, the gas compressor projects which we are mobilizing, the cost which we have incurred in it goes into capital work in progress, unless and until it is put to use.
- Saket Kapoor:** And also in the cash flow from investing activities, we find INR113.39 crores being spent. So, if you could give the bifurcation of the same.

- Rohan Shah:** Sorry, I'll have to come back to you separately because that ready calculation is not available.
- Saket Kapoor:** Right, and for the exceptional item part, sir, I missed your opening remarks. If you could explain once again, what constitutes this INR45 crores exceptional item?
- Rohan Shah:** Yes, so it's a net positive difference of writing back of liabilities and writing off of receivables of Dolphin Offshore post acquisition from IBC. See, under IBC, this company comes under clean slate principle and you are not supposed to adhere any liabilities post the resolution amount has been paid. So, we'll have to write them back into your balance sheet and if those liabilities are operational liabilities, then they come into profit and loss account. And so it's a positive difference between writing back of liability and receivables.
- Saket Kapoor:** But this line item involves any tax incident when it's a just blustering of the balance sheet and the P&L part.
- Rohan Shah:** Sorry, I didn't get.
- Saket Kapoor:** Sir, does it occur for a tax incident also for this exceptional item or is it a non-cash line item? This INR45 crores is only added to the book value in the balance sheet part or any tax treatment to be provided for the case?
- Rohan Shah:** Yes, it would be offered for tax. But since we have a carry forward loss in Dolphin, so there will be no tax outflow.
- Saket Kapoor:** And sir, rightly, the services are, what is the current understanding of the oil and gas sector, especially from the capex from ONGC and Oil India? Where are we in the midst of this capex journey? Sir, if you could, from your experience, if you could throw some more light, what kind of capex can we envisage for the entire ecosystem going ahead?
- Rohan Shah:** See, overall, if clients like ONGC, Oil India, if they are coming up with big plans of capex in this industry, it would definitely benefit to us and of that overall capex, there is a good amount of opportunity which would come to our services segment as well. I'll just give it to Paras bhai.
- Paras Savla:** Yes, on the front of a capex, a lot of assets of, I'll just give a perspective of ONGC, they have been, there are many fields and many group gathering stations, they have been operating over 40 years and 50 years. So, government, under the leadership of government, ONGC is constantly in the process of scrapping the old and trying to build the new facility. So, while they start building the new facility, definitely the opportunity for these kinds of services also would come in place. So, we have seen a lot of their equipment getting discarded or they're getting scrapped out from the system.
- So that is allowing a lot of requirement coming in for our side of kind of a business. And also, for the fact, if you'd have seen in last 5 years to 10 years, there are private players who have been very, very active and they're also trying to, come out with a good amount of oil and gas production. So, all that put together is, putting a lot of demand in the system. Now to quantify that, what kind of a demand that would be, that is really a very difficult answer to be given.

But what we feel and what we have been always saying for years together, that we are seeing a lot of things getting converted.

Now that has been reflected only with the fact that we crossed the order book of INR1000 crores. And going forward, we are quite hopeful to keep adding this order book. So that could be probable answer what you may be looking for.

Saket Kapoor: Sir, any colour you can give on the order edition for the first quarter, sir? As on date, what should be the ballpark number for the order book? Order book for first quarter? As of now, sir, if any nearest event date, if you can give, this was the 31st March order book. We are already at the end of May. So, if you could give us some understanding of how the business sentiment have been in terms of order intake for these two months?

Rohan Shah: No, so in coming months, we are expecting one order to come based on our bids. Other than that, some small re-awards have come in these two months. But as of now, the exact number is not available. But Yes, conversion is quite good based on our bidding pipeline.

Saket Kapoor: Thank you, sir. Thank you on all the best sir. Thank you.

Rohan Shah: Thank you.

Moderator: Thank you. The next question is in the line of Raja Panda, an Individual Investor. Please go ahead.

Raja Panda: Yes. So, my question is regarding the INR44.7 crores, that exceptional item from the Dolphin writing back. Sir my understanding is that this will be also added to the receivables, right? So, we have not received the actual cash. It will stand in the books as receivable. Is that correct?

Rohan Shah: No, so it's a writing back of operational liabilities. So, we are discharging of our liabilities by writing them back. So that comes as an income to my profit and loss account. And that income would be reduced by writing off of receivables, the receivables which will not be received have been written off. So, the difference between writing back of liabilities and writing off of receivables has been identified as gain in profit and loss account. And that would be a business gain.

Raja Panda: Okay. So, the second question is recently Adani Gas announced the opening up of the huge project in Dhamra, right? INR6,000 crores LNG import project. So, my question is, does this kind of LNG import also has a need for the gas compression services like what we provide?

Moderator: Ladies and gentlemen, thank you for patiently holding. We now have the line for the management reconnected over to you, sir.

Rohan Shah: Yes, hi, sorry. There was some line issue.

Raja Panda: Yes, no problem. So, my question is recently the Dhamra project was announced where LNG import of a roughly large amount from Adani Gas is going to happen. So, my question was, does the gas compression services that our company provides are required for such kind of import?

- Paras Savla:** Yes, yes it is very much needed. So, we have been in past already providing services to Petronet LNG, KLPL, and we are already doing it for GFPC LNG right now. So, this requirement of compressor are definitely going to be for any new LNG terminal that is going to come up.
- Raja Panda:** That's it. Thank you.
- Moderator:** Thank you. The next question is on the line of Surya Narayan from Sunidhi Securities. Please go ahead.
- Surya Narayan:** Yes. My question is that regarding the RAAS equipment, how much investment has gone into this?
- Rohan Shah:** We have invested around INR20 crores into it.
- Surya Narayan:** So, in which year?
- Rohan Shah:** In 2021. '21 end yes.
- Surya Narayan:** So, what kind of opportunity here we can see for the booster station?
- Rohan Shah:** So, with allotment of all these new GAs, booster compressors would definitely be required for daughter station of city gas distribution network and CNG pumps as well. So, we expect this demand to boost up at any point in time.
- Surya Narayan:** So, have you got any expression of interest from any of the CGD players?
- Rohan Shah:** We are already providing booster compressors to Adani, IOCL, Gujarat Gas, AGNP and all.
- Surya Narayan:** What is the revenue currently we are deriving?
- Rohan Shah:** FY'23 it was around INR17 crores.
- Surya Narayan:** So, any ballpark EBITDA operating profit out of that?
- Rohan Shah:** We are reporting EBITDA of around 19%.
- Surya Narayan:** 19%. And sir, Rohan sir, one question is that over the years, no doubt we are doing quite a lot in exploration, I mean, gas compression area and rig operations, but revenue is not growing that great pace. And secondly, if you take last six-year perspective, our operating profit margin has dropped by around 14%. So, going ahead, what is that we can do to go back to the prior level of let's say 2018 level of 52% currently around 38%. So at least because there is a huge gap of 14%. So, can we go back to that kind of level or we will be satisfied, we will have to contend with this kind of margin of close to 40%?
- Rohan Shah:** Yes, so currently our EBITDA is in range of 42%, not 38%. That is one. Second 52% margin in FY'18 was primarily because gas compression division was contributing more than 60% in overall revenue. So, it also depends on the mix between overall revenue from various

divisions. So, from 18 onwards, the revenue from integrated project management was also contributing at large and in that first particular contract our EBITDA margins were less in comparison with other verticals. But since now we are qualified by our own for integrated project management, we are definitely eyeing on to improve our operating margins.

Surya Narayan:

So, if you see the gas compression, you are also guiding that the gas compression division won't go beyond 50%. Though we are our order composition is around 52%, but it will be below 50% so far as revenue is concerned. So, in that case, less than the gas compression revenue, then the margins will be under check. I mean, it won't go beyond 45%, 42%. I mean, whatever you are saying 42%, it won't go beyond. So, is there any chance we can get higher operating margin?

Rohan Shah:

Yes. So, as I said, in our overall revenue mix, gas compression is contributing around 40% to 43%. And with other business verticals, with improvement in margin, this margin can go up. I would like to mention here is in our industry, EBITDA of 42% is highest and probably no company other than us is reporting such type of margins. So, we need to keep point also in our mind. And having said so, we are definitely working on improving our margins.

Surya Narayan:

So, I mean, anything above 40%, 42% I mean, the past operating margin is we can say that is quite of anomaly rather than the norm. I mean, the norm is around 40% to 45% maximum, not beyond that.

Paras Savla:

You asked me the norm, the norm is quite below the industry. If you see the industry, the norm is very, very low. So it's not about the norm, it is about the projects that you execute. So there could be a project in a particular year where we could have commanded an higher margin. But having said that, we always eye on that. And that is the reason to answer your first question that what kind of revenue visibility you have been seeing. See, we have been as a company, we have always focused on good profit margins rather than just seeing the top line.

I believe top line is definitely very important thing, but we have always focused to be improving on our bottom lines. So, we have never compromised on that. And that is perhaps the reason that you might see a little low growth on the revenue side. But from last year onwards, that question is also now been taken care of with the visibility of new order book that we already have in place. And the new bidding pipeline is getting converted into the order. So, this probably would be answered in the next financial year when we have completed the year. That would give a good visibility of what the top line and the bottom line will be.

Surya Narayan:

Okay. And I believe some of our competitors are also not in the good of the health like ours. So, are we intending to participate in any kind of NCLT process further beyond the Dolphin or we will wait for Dolphin to get consolidated and look for anything else?

Paras Savla:

If you ask me very clearly, we want to do hush-hush. We have something on our table already, which is a very, very promising sector. So first, our intentions would definitely be consolidating and trying to get this company operative. Secondly, by saying that it's not that we are completely off on what is happening in the market. We have our eye completely on

what's going on. And given an opportunity, we'll definitely be eyeing for acquisition as and when needed.

Surya Narayan: Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.

Paras Savla: Thank you all for joining the call. At the end, I would like to say that healthy bidding pipeline, strong order book status, diversification to offshore segment, zero net debt, and strong liquidity position along with the hard work and commitment of our team, augurs well for the success of Deep Industries. We hope that we are able to resolve all your queries. If you still have any follow-ups questions, please feel free to reach out to us, our Investor Relations, Go India Advisors. Thank you all once again.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Go India Advisors, that concludes this conference call. We thank you for joining us. And you may now disconnect your lines. Thank you.