



“DEEP Industries Limited
Q1 FY2023 Earnings Conference Call”

August 10, 2022



ANALYST: MS. SANA KAPOOR – GO INDIA ADVISORS

**MANAGEMENT: MR. PARAS S. SAVLA – CHAIRMAN & MANAGING
DIRECTOR – DEEP INDUSTRIES LIMITED
MR. ROHAN SHAH – DIRECTOR OF FINANCE & CFO –
DEEP INDUSTRIES LIMITED**

Mr. B. Ravi – Strategic Advisor - Deep Industries Limited

Moderator: Ladies and Gentlemen, good day and welcome to The Deep Industries Q1 FY2023 Earnings Conference Call hosted by Go India Advisor. 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 ‘*’ then ‘0’ on your touchtone phone. Please note that the conference is being recorded. I now hand the conference over to Ms. Sana Kapoor from Go India Advisor. Thank you and over to you.

Sana Kapoor: Thank you Melisa. Good afternoon everybody. Welcome to the Deep Industries Earnings call to discuss the Q1 FY2023 results. We have on the call Mr. Paras S Savla – Chairman and Managing Director, Mr. Rohan Shah – Director of Finance and Group CFO and Mr. B. Ravi – Strategic Advisor. We must remind you that the discussion on to this call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces. May I now request Mr. Paras to take us through the company’s business outlook and financial highlight subsequent to which we will open the floor for Q&A. Thank you and over to you Sir!

Paras S Savla: Thank you Sana. Good afternoon. Thank you for joining Deep Industries Q1 FY2023 earnings conference call. I trust you had the opportunity to run through the earnings presentation which was shared earlier. Let me give you the brief introduction about the company. We are one of the largest outsource natural gas compression providers in India. We have presence in niche segments like gas compression, gas dehydration, workover and drilling rigs and integrated project management services. After having a great FY2022 we have started FY2023 on a good note. I am delighted to share that Deep has a very strong consolidated order book of over Rs.760 Crores. The order book has grown from Rs.400 Crore in Q1 FY2022 to Rs.760 Crore currently which is an increase of 90%. This provides the strong revenue visibility for next two years. Recently we got an order of Rs.150 Crore for Charter hiring of two 1000 Horse power mobile rigs for the period of three years. We are witnessing a remarkable shift that is happening towards natural gas as a greener source of energy and is rising share in the overall energy basket for India. We believe that this shift is more of a structural shift and yet to stay for long. We are seeing a stronger demand for natural gas and an overall good traction in the industry with the healthy big pipeline in place. We are also quite positive that we will reach the consolidated order book of Rs.1000 Crore very soon.

Coming to the strategic updates, I am glad to share that in this quarter our company has achieved another key milestone in terms of resolving the case with ONGC in our favor

through arbitration tribunal. Arbitration tribunal has cited the termination of the dehydration contract by ONGC was illegal and also contravened the provisions of the contract agreement. Tribunal also directed ONGC to pay compensation of approx. Rs.108 Crore for both the cases.

Regarding update of the acquisition of Dolphin offshore, as we have mentioned earlier that Deep has been issued a Letter of Intent by the committee of creditors approve its resolution plan for acquiring asset for Dolphin Offshore Enterprise Limited. Currently it is at NCLT level and is expected to be completed very soon. Those who are not aware about Dolphin offshore it has been a leader in providing services to offshore oil and gas industry. The company at its peak achieved a revenue of Rs.400 Crore with an EBITDA margin of around 30%. The company faces existential crisis on account of poor capital management. This acquisition would allow the Deep industries to extend its service offering to existing clients for their offshore assets as well.

Overall I would say that Deep today is a zero net debt company and with good revenue visibility and strong future growth prospects. With that I would like to handover the call to Mr. Rohan Shah our CFO and Director Finance to take you through Q1 FY2023 numbers. Thank you.

Rohan Shah:

Thank you. Good afternoon everyone. I will just go through the financial performance in brief post which we will open the floor for question and answer. We will be comparing numbers on Y-o-Y basis for a reasonable comparison. I will start with the consolidated financials first.

Deep Industries has shown an increase of 3% in revenue from operations and 5% in total income, other expenses have increased a bit. Finance cost decreased by 45% which also leads an increase in Profit-Before-Tax by 4%. The PAT for the quarter showed an increasing trend an increased by 17% to Rs.19.5 Crore. Both EBITDA and PAT margins stands strong at 43% and 25% respectively. Despite subdued environment Deep has maintained and even marginally improved its profitability ratios.

Coming to the standalone financials, there is a little drop of 10% in revenue from operations on Y-o-Y basis this was primarily on account of one of our drilling rig getting demobilized from one client contract on completion of contract and under remobilization towards other client contract. This transition condition phase is of around 3 months and due to this demobilization and remobilization of the rig we could not book revenue for that particular rig. Despite that EBITDA and PAT margins are still strong at 44% and 25% respectively.

Strong EBITDA margin strong order book and zero net debt status of the company is fueling its growth.

With this I would now like to open the floor for question.

Moderator: Thank you. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Siddharth from Zenith Capital. Please go ahead.

Siddharth: Sir just question on this ONGC order only, so whatever the order we have received whether the income has been booked for these and when the amount is likely to be received from ONGC?

Rohan Shah: The income is not yet booked like this would be the compensation which will directly add to our top line and bottom line, income would be booked on receipt of actual amount from the client and we are expecting to get it in this financial year itself.

Siddharth: Sir just one minor follow up question, whether this order is again likely to be sell in by ONGC or this would be a final one?

Paras S Savla: This is basically an arbitration tribunal order so in majority of the cases this is accepted by the client but we are not sure that whether this would be challenged or not but having said that even if they did not challenge we stand a very strong case and we are very sure to get the claim in our favor even if it is challenged at the higher level.

Siddharth: Okay thank you Sir.

Moderator: Thank you. We have the next question from the line of Dhruv Mehta from Akash Ganga Investment. Please go ahead.

Dhruv Mehta: Good afternoon Sir. First of all congratulations for a good set of results, Sir I wanted to ask that how is the performance of RAAS been in this quarter and also if you could please mentioned the number of CNG boosters that have been sold in Q1?

Rohan Shah: Yes, RAAS has contributed with decent amount so in this particular quarter they have sold around 9 units of CNG booster compressor. The business is picking up slowly and we are pretty sure that it will start picking up soon.

Dhruv Mehta: Okay. Sir I have another question, so could you give an update on the projects with the Kuwait oil company like has anything started on that front?

- Paras S Savla:** No, so the bid they have already been submitted at Kuwait oil company and they are under evaluation for now, I believe may be in a month time we should get some outcome of them.
- Dhruv Mehta:** Okay thank you Sir.
- Moderator:** The next question is from the line of Gaurav Somani from Korman Capital. Please go ahead.
- Gaurav Somani:** Thanks for the opportunity and congratulations for the good set of numbers. Sir I have three questions, so firstly, what are your capex plan if you can throw some number on it?
- Rohan Shah:** So currently we are doing Capex of around 60 Crores for different gas compressor projects and depending on the new awards we might do further Capex but that would be identified only on receipt of order so currently we are doing Capex of around 60-65 Crore only.
- Gaurav Somani:** Okay. Sir you mentioned that you planned to double the capacity of RAAS how much capex have you planned to put in here?
- Rohan Shah:** Sorry I did not get it correctly.
- Gaurav Somani:** If you double the capacity of RAAS which you have how much capex you plan to put in this?
- Rohan Shah:** For RAAS it is more of an asset light model for premises we have already taken up the facility which can cater the double amount of capacity so even if we double the capacity will not be much Capex but currently we are targeting to achieve our current install capacity and then we will look for doubling it.
- Gaurav Somani:** Okay, any timeline for it?
- Rohan Shah:** May be in FY2024.
- Gaurav Somani:** Okay, Sir EBITDA and PAT margin is very strong but that does not translate into ROE is pretty low any target ROE which you want to achieve in the next two to three years?
- Rohan Shah:** So yes, since our business is capital intensive and services are provided with the help of capital equipment so we are seeing some pressure on ROE because of that but yes going forward we are endeavoring to improve this ROE further so let say if will be able to optimize our utilization of existing equipment then ROE improvement will definitely be there.

- Gaurav Somani:** Any target ROE which you have for two to three years?
- Rohan Shah:** So target ROE we have not yet any such target but we are trying to improve it further may be more than 30%-40%.
- Gaurav Somani:** Okay, thank you Sir, that is it from my side.
- Moderator:** We have the next question from the line of Naman Bhansali from Perpetuity Venture. Please go ahead.
- Naman Bhansali:** Hi Sir, I have three questions, the first one is do you see any impact of monsoon in Q2 performance? How is Q2 going so far in terms of input cost inflation and revenues?
- Rohan Shah:** Yes, so in our one of the contract of integrated project management we will face monsoon effect and since those operations are into the state of Jharkhand where usually there is a heavy monsoon so we will have a pressure on integrated project management service revenue during Q2 other than that other cost are in control.
- Naman Bhansali:** Okay. My next question is that we have 100% & 85% utilization in workover and drilling rig and gas compression so what is the trigger for your growth for the next two to three years apart from that Dolphin Offshore?
- Rohan Shah:** Of course rig segment is 100% utilized so there any new contract with requirement of new equipment will entail into capex whereas we have a little chance in gas compression division where we can improve our utilization and we are pretty sure with current new orders coming in we will be able to improve our existing utilization from 85% to 95% so there will be potential upside there and there is a good potential upside in gas dehydration segment as well where our utilization is little less we can utilize those assets more efficiently in coming period and with the requirement of contract we may also go for a new equipments on compressions and rigs as well.
- Naman Bhansali:** Okay and my final question is on the debt side, so as you are zero net debt company and have a strong balance sheet so what are your plans on taking up a debt?
- Rohan Shah:** Yes we have never said that we will not take debt. We will definitely go for debt on doing Capex but yes as a policy we have always been maintained our debt equity ratio below one and we are aiming to keep it below one only going forward, as and when required we may take debt as well.

- Naman Bhansali:** Okay thank you that is it from my side.
- Moderator:** We have the next question from the line of Sudhir Bheda from Right Time Consultancy Services. Please go ahead.
- Sudhir Bheda:** Good afternoon Paras Sir.
- Paras S Savla:** Good afternoon.
- Sudhir Bheda:** See as we have seen lot of traction on the gas demand and also the gas prices are very high so lot of traction would be coming and reflected on the order book also but as far as numbers are concerned growth is not visible in the first quarter so what could be the reason and how this FY2023 will pan out going forward?
- Paras S Savla:** See in our business there has been, very rightly said there has been a lot of traction and reason being is there are the gas prices are very attractive for all the producers, from last three months we are witnessing as I had mentioned that there has been a huge amount of orders that we have already received and there are lot many numbers of tenders where we are already L1 but the order is yet to come now getting the orders and getting it implemented cannot be reflected in the on-going quarter, normally it takes around one and half to two quarters because once we get the order then we plan and design the equipment for that particular plant by the time we get it implement it is normally one and half to two quarters so there could be that you may find may be even the next quarter very close to flattish or may be few percentage is here and there but there would be an immediate reflection of the contract that we already have in hand from the third quarter so if you have to see the growth I believe that could be really witnessed only by the end of the financial year which will bring the correct picture of whatever that we have envisaged and that would be reflected in the balance sheet.
- Sudhir Bheda:** So there would be resilient growth in Q3 and Q4?
- Paras S Savla:** Absolutely because as I mentioned we are currently sitting on around 760-odd Crore of an order book and we are expecting that very soon, see this is because we are largely dependent on PSUs for getting this order finalized but still we believe that we would easily cross the 1000 Crore order book which has to be delivered by 2.5 year's time so then that will give a clear idea of standalone what kind of revenue that would be generated and that will give an idea of the growth that we stand from the last year vis-à-vis this year and the on-going year.

- Sudhir Bheda:** Great, so that means we can grow like 20% over FY2022 in this finance year?
- Paras S Savla:** My wish list and we are working towards it.
- Sudhir Bheda:** Great thank you very much and thanks for the opportunity and all the best.
- Paras S Savla:** Thank you.
- Moderator:** The next question is from the line of Kashvi Dedhia from Centra Advisors. Please go ahead.
- Kashvi Dedhia:** Thank you for the opportunity. Sir can you give us the breakup of your revenue from different segments?
- Rohan Shah:** Revenue from different segments for us like all services are under oil and gas support service but if you will ask me particular breakup then it would be almost 40% from gas compressor units, that is gas compression services almost 35% to 36% from rig services and balance would be from integrated and gas dehydration units.
- Kashvi Dedhia:** And Sir what are the margins that you are expecting going forward also if you could specify for different segments separately?
- Rohan Shah:** See margins as a whole we have always try to achieve EBITDA more than 40% and will continue to maintain those type of margins going forward. In the verticals there are different margins like gas processing business is having some little higher margin in compare with rigs and integrated project but overall as a company level we will continue to maintain EBITDA above 40%.
- Kashvi Dedhia:** Okay and Sir what is the scenario of input cost inflation as of now and also how are you looking for it going forward, if you can throw some light on that?
- Rohan Shah:** With regard to input cost, yes fuel cost has impacted us last year there was a major increase in fuel this year we are not witnessing that high price hike in fuel so with regards to fuel cost are in control with regards to other spares and lubrication and all they are more or less in control.
- Kashvi Dedhia:** Okay. And Sir more on gas dehydration segment like your current utilization is 50% and you are going to double the capacity so what is your outlook on that?

- Rohan Shah:** The gas dehydration we are intending to improve our utilization rate and with the bidding pipeline which we have we are targeting to get this contract which can improve our utilization rate of gas dehydration units.
- Kashvi Dedhia:** Okay thank you Sir that is all from my side.
- Moderator:** We have the next question from the line of Jathin Kaith from Invesavvy PMS. Please go ahead.
- Jathin Kaith:** Hi, I have two questions, first regarding the order book, can you please give me a segment wise breakup of the order?
- Rohan Shah:** Yes, segment wise we have to look around out of total order book almost 45% is from gas compression services almost 31%-32% is from rig services giving and integrated project management and dehydration put together is having balance order book.
- Jathin Kaith:** And in which segment are you expecting some of the major new orders to come in future?
- Rohan Shah:** We are expecting the traction for all the verticals and primarily gas processing is looks very promising in coming period.
- Jathin Kaith:** And Sir what EBITDA margins we will be able to maintain on new orders?
- Rohan Shah:** So as I said before we are targeting to achieve EBITDA more than 40% so more or less we will be maintaining our EBITDA between 40% to 45% going forward as well.
- Jathin Kaith:** Will you be able to maintain this 40%-45% next two to three years Sir as soon as many new players come into this segment so will you be able to maintain?
- Rohan Shah:** See in this business we are there now more than three decades and we have seen all ups and downs and we have fairly been able to manage our EBITDA margin for all these years so we are pretty sure that we will be able to maintain this profitability margins going forward as well.
- Jathin Kaith:** Okay and Sir on your orders that you own ONGC when are you expecting to receive the compensation that is directed to the arbitral tribunal?
- Rohan Shah:** So as Mr. Savla said there can be a possibility that clients may challenge it to hire ups but even in that case we are expecting that we should get compensation in this financial year itself.

- Jathin Kaith:** Okay and Sir do you have any Capex plans?
- Rohan Shah:** As of now we are doing Capex of around 60-65 Crores and depends the award of new contract so whatever order book we have we will be doing further Capex of 60-65 Crores only on receiving new orders and if it a requirement of contracts then we will go for Capex but that cannot be quantified as of now.
- Jathin Kaith:** Okay how you will be raising the fund through debt or internal accruals?
- Rohan Shah:** It would be a mix of internal accruals and debt.
- Jathin Kaith:** Okay and what are your plans after the acquisition of Dolphin is completed?
- Rohan Shah:** The Dolphin once we will complete the acquisition process and we will get control over that company and we will immediately start reviving that company we will immediately take control of those assets and operations so yes it will take some time to revive that company but yes we are quite bullish on it because the cliental of Dolphin are almost same as of our Deep industries as well.
- Jathin Kaith:** And when do you see this the comment to results and the operations?
- Rohan Shah:** At least FY2024.
- Jathin Kaith:** Okay that is it from my side, thank you so much Sir.
- Rohan Shah:** Thank you.
- Moderator:** We have the next question from the line of Srishti from Well Win Consultant. Please go ahead.
- Srishti:** Hi Sir thanks for the opportunity. Sir I was bit concerned about the competition I wanted to know that who are the other players in CNG booster compression and the revenue margin potential have to do with the entire 250 compressors and second I also wanted to know about the import scenario whether we are importing something in terms of raw material and third is on the coal side, is it possible for us to pass on the inflationary pressure to our client do we have to and is there an escalation clause in contract?
- Paras S Savla:** In market CNG booster compression there around seven to eight active companies have been participating in this CNG booster tenders and all of these we believe around two to three companies have been predominantly present for long so one of the company is ICL

and the second company is Tulsa and the third company is Sopan so likewise there are few companies they have been in presence in these market for around more than three to four years while bagging this booster compressor there are few equipments which have an item to be imported. We are facing some pressures coming in because the supply chain has been disrupted and the cost have increased so there is a certain amount of pressure coming in for the items that have been imported but at the same time we are trying to ensure that what all items that we used to procure domestically we are trying to doing a little reverse engineering and developing on our own so that we will have a little advantage to the increase cost that we have towards the import so net there is certain amount of pressure coming in for the cost and also there is a pressure for the time and that in fact it remains true for everyone in this industry across India.

Srishti: Okay that is it from my side. Thank you so much.

Moderator: We have the next question from the line of Siddharth from Zenith Capital. Please go ahead.

Siddharth: Sir I believe is there any plan to issue a new share so any preferential allotment or something like that? Because on agenda on 8th August meeting there was one item raising a fund so whether it is new issuance of shares or is it for some other purpose?

Paras S Savla: See we do not have any plans for now to raise the capital through the way of equity but this was an enabling resolution so that we do not go to the board now and again this was an enabling resolution and if in future whenever we require to do a capex on receipt of any orders or so with the virtue of this resolution we can go ahead and easily implement that project but for now we do not see that.

Siddharth: Okay thank you Sir.

Moderator: Thank you. As there are no further questions we will now close the question queue. I would like to hand the conference over to the management for closing comments. Please go-ahead Sir.

Rohan Shah: Thank you everyone for participating in our earnings call. If you have any further questions you may reach to us directly or through Go India Advisors we are happy to answer your questions. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Go India Advisor that concludes this conference. Thank you for joining us. You may now disconnect your lines.