



“Deep Industries Limited
Q4 & FY ‘24 Earnings Conference Call”
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**MANAGEMENT: MR. PARAS SAVLA – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER– DEEP INDUSTRIES
LIMITED
MR. ROHAN SHAH – DIRECTOR FINANCE AND CHIEF
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Moderator:

Ladies and gentlemen, good day, and welcome to the Q4 FY '24 and FY '24 Earnings Con Call of Deep Industries Limited. We have with us Mr. Paras Savla, MD and CEO, Deep Industries and Mr. Rohan Shah, Director Finance and CFO, Deep Industries.

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.

I now hand the conference over to Mr. Paras Savla. Thank you, and over to you, sir.

Paras Savla:

Good morning and hello everyone. Thank you for joining Deep Industries' Quarter 4 and FY '24 Earnings Conference Call. I hope you had an opportunity to review our "Earnings Presentation and Financial Results" posted on our website and stock exchanges. We are delighted to announce that FY'24 has been a momentous year for Deep Industries marked by commendable financial and operational accomplishments.

Let me share some key highlights from this quarter. Our order book has been consistently scaling the height of performance over last 3 years. In keeping with this, at the end of quarter 4 FY '24 our order book continues to grow standing at INR 1,210 crores which marks a 12% year-on-year increase. Speaking on another wins of this quarter, we have secured a marquee order of INR 81 crores from Oil India Limited amongst other wins, we also continue to maintain a solid bidding pipeline for numerous projects across the country.

We have added two new drilling rigs in previous quarter of which one has started operation in February 2024 and the other has started operation recently in May 2024. Our company is witnessing highest ever bidding pipeline which could further enhance the order book going forward. This accelerated growth has been achieved on the back of our strategic and evaluative approach. Our strong numbers and performance speak of how we have not just achieved our targets but have also outperformed the results of the same period last year.

We at Deep Industries have always believed in providing value-added services to our clients. Value-added services can give one-stop solution to the client, and it reduces costs and save time for them with efficient output. A value-added service for us become margin assertive opportunity and gives us flexibility to perform in one more efficient manner. Taking this vision ahead, we have pioneered in providing entire gas processing facilities on charter hiring basis and it has opened up great opportunities for us in coming time.

We are much pleased to inform that in line with our dividend policy of distributing profit for 15% of net profit, board has recommended a final dividend of INR 2.44 which is 49% of the face value of INR 5 per equity share, subject to shareholders' approval.

Regarding Dolphin offshore, we are pleased to report that our barge asset "Prabha" has reached Mexico after completing dry docking and is in its final refurbishment stage. We anticipate the revenue stream to commence in the first half of FY '25. Furthermore, we have begun exploring platform supply vessels opportunities in both local and international markets.

Early indications suggest a substantial demand for PSV services. On the macro front, oil and gas sector PSUs have shown significant capital expenditure in the first month of current financial year. ONGC incurred a capex of INR 2,318 crores while Indian Oil Corporation spent INR 2,423 crores. In February 2024, Prime Minister announced that the country is expected to see investments worth USD 67 billion in the gas sector over the next 5 years to 6 years.

This focus on domestic natural gas production is expected to attract significant investments given the goal of the increasing gas share in the primary energy mix to 15%. These developments are reassuring growth drivers for our company. They make us poised to capitalize on opportunities, while cruising ahead with agility and focus.

We are optimistic about the robust bidding pipeline for Deep, which is expected to remain solid in the foreseeable future and we stand firm to reap the benefits of the promising and seemingly favorable macro scenario.

With that, I would like to invite Mr. Rohan Shah, CFO and Director Finance to discuss the financial performance for the last quarter FY '24. Thank you, and over to you, Mr. Rohan.

Rohan Shah:

Thank you. Ladies and gentlemen, thank you for joining us today. I'm delighted to present our company's financial performance for the last quarter and FY '24. Following this presentation, we will welcome your questions and insights. To ensure a fair evaluation we will assess the figures using year-over-year comparisons.

Beginning with our consolidated financial performance for the quarter FY '24, I'm thrilled to announce that Deep Industries has achieved exceptional results surpassing the performance of corresponding quarter from the previous year. Consolidated revenue from operations for the quarter has increased to INR 119.7 crores, making a significant 16% rise compared to the same quarter last year. This growth is attributed to our robust order book and meticulous execution of orders. Notably, consolidated EBITDA for the quarter improved to INR 49.1 crores with an EBITDA margin of 37.5% and 4% absolute value increase from the quarter ending March 31, 2023.

The consolidated quarter EBITDA is appearing low due to a onetime loss of INR 5.8 crores accounted under other expenses on sale of office of Dolphin which was revalued in books by the erstwhile management in past. For the sake of fair comparison, if we add back the same, EBITDA could have been INR 54.9 crores with EBITDA margin of 42%.

The adjusted PAT for the quarter rose to INR 36.1 crores with margin of 27.6%, showcasing a significant 31% absolute value increase from the quarter ending March 31, 2023. For the full fiscal year FY '24, our performance has been remarkably robust compared to the previous fiscal year. Total revenue from operations for this period reached to INR 427 crores, reflecting a 25% increase over the prior year. EBITDA for FY '24 rose to INR 195 crores with an EBITDA margin of 42.2%, demonstrating a commendable 38% absolute value increase compared to FY '23.

Furthermore, adjusted PAT for FY '24 increased to INR 123.5 crores with a margin of 26.7%, indicating a noteworthy 53% absolute value growth compared to the previous year.

This year, we have improved over our return ratios as well. Our ex-goodwill adjusted ROCE has improved to 12.42% from 10.27% previous year. And our ex-goodwill adjusted ROE has improved to 11.83% from 8.18% previous year.

In summary, the performance for the last quarter and full year FY '24 has been outstanding. This year generated the highest revenue and profits in the company's history. With the current macroeconomic conditions and our ongoing efforts and initiatives, we are confident that we'll continue to cruise ahead with agility, strategy, and future readiness. And we'll remain determined to capitalize on this upward trajectory.

With this, I will now open the session for questions from audience. Thank you.

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

Rohan Patel: Sir, if we look at your margin since March 2022 -- financial year March 2022 it has been 36% and it has rose to -- in March '24 to 37%. But you still look beyond that, it used to be paying in range of 48% - 50%. So can we expect margins to increase from here? Can we get 7% to 10% delta in margin -- EBITDA margin?

Rohan Shah: See, our margins would definitely improve as the year passes. And we have always been maintaining our EBITDA above 40%. So yes, we are very much confident that with new service mix added into our revenue stream, this margin will tend to improve.

Rohan Patel: Okay. And just to understand, the order book as far as end of quarter 4 is concerned, it stands around INR 1,200 crores. So how long it will take you to execute it, like what will be the effect in FY '25? So how much will this order book get executed in FY '25?

Rohan Shah: Yes. So this particular order book has execution timeline of 2.5 years to 3 years. So if you will do simple math, you'll have to just divide this INR 1,210 crores by 2.5 which we can expect bare minimum in FY '25 and whatever new orders will be added, it would be in addition.

Rohan Patel: Okay. And the drilling rigs that you have started which has been operational in this month; so how much will that add into our top line? And what's the margin profile of those activities?

Rohan Shah: So drilling rig would add somewhere in between INR 2.5 crores to INR 3 crores a month. And one has already started in February and second has just recently started last week. So both put together, it can add INR 5 crores a month going forward.

Rohan Patel: Okay. And what are the approx. margin, we can expect?

Rohan Shah: Margins for rig business would be in a range of 40% to 45% EBITDA.

Rohan Patel: Okay. Okay. Okay. Yes. And the barge that has been started; so how much will that add? And what's the margin profile? And are you thinking of increasing the capacity in barge?

- Rohan Shah:** Barge has not yet started operation. It is expected to start in short time. So once it will start, we can comment on their absolute margins. But our expectations are EBITDA around 60%- 65% for that particular asset.
- Rohan Patel:** Okay. And I just wanted to understand -- I want to understand the general scenario and outlook of the oil and drilling industry as well as servicing industry and debt aspect. So if you can help us understand the trends that are going on right now?
- Rohan Shah:** So the recent trend is very much positive and in our favor. So the demand has increased a lot for our kind of services. We are witnessing it since last 1 year that our order book is constantly growing. And our demand -- our bidding pipeline has also increased a lot. Currently, we are having bidding pipeline of almost INR 1,000 crores, and we believe a good amount of conversion out of it in coming time. So overall industry is in, I would say, boom and our services since we are more focused on gas in addition to oil. So our services demand is excellent.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, just first up, you mentioned about your order book. It's constantly growing and bidding pipeline is also good. So any sort of target we have for FY '25 and what sort of order book closing we might look at or what sort of order inflow we are looking at this year?
- Paras Savla:** We cannot have any definitive numbers or what kind of order flow, but we have a large intuitions, or we have large confident that a substantial amount of the order book can get converted in our favor. But to put that in absolute terms or numbers, it would be a little difficult.
- Deepak Poddar:** Okay. Okay. So what you're trying to say substantial amount of bidding pipeline that you are doing, that you can convert?
- Paras Savla:** It's right.
- Deepak Poddar:** Okay. Okay. Okay. Understood. And this quarter, your adjusted EBITDA margin was 42%. I mean your exceptional loss is about INR 6 crores? That was on account of some sale of office, right?
- Rohan Shah:** Correct.
- Deepak Poddar:** So your -- so you have included other income also in that, right?
- Rohan Shah:** Yes, yes.
- Deepak Poddar:** Okay. Okay. Including other income, we are saying 42%.
- Rohan Shah:** Correct.

- Deepak Poddar:** Okay. And how do we see that EBITDA margin also you mentioned will tend to be improved. So what is the range that we'll be comfortable with, or we aspire for maybe in FY '25, '26 or yeah.
- Rohan Shah:** Yes. So it will definitely improve from this level with an addition to revenue and profits from Dolphin, where we are expecting high margin in comparison with this particular margins. So overall, at consolidated level, margin will definitely improve beyond 42% to 45%.
- Deepak Poddar:** 42% to 45%. So that's the range we might be working with or -- I mean, we are saying it will improve from these levels, 42% to 45%.
- Rohan Shah:** So in FY '25, we expect it should reach 45%. And in FY '26, it can further improve as well.
- Deepak Poddar:** Understood and this would include other income? I mean, when you're saying 45%, it would include other income?
- Rohan Shah:** Correct.
- Moderator:** The next question is from the line of Gaurav Sachdeva from Sajag Fund House. Please go ahead.
- Gaurav Sachdeva:** Yes. Sir, any update on the tenders in Kuwait for rigs?
- Paras Savla:** No, those tenders are over, and we didn't get business of that region.
- Gaurav Sachdeva:** Okay. And sir, what is the expected revenue from the barge on the annual basis, if it has worked on a full annual basis, what is the expected revenue from the Barge?
- Rohan Shah:** On full year basis, revenue of almost INR90 crores to INR100 crores is expected from that particular barge.
- Gaurav Sachdeva:** Okay. And sir, what is the amount of total investments right now and cash in hand right now?
- Rohan Shah:** You mean for -- as a group?
- Gaurav Sachdeva:** Yes.
- Rohan Shah:** Yes. So as a group, we have investment of more than I believe INR140 crores, I'll have to check on exact numbers, but it is more than INR140 crores.
- Gaurav Sachdeva:** But sir, how we are generating around INR40 crores other income from this investment, what kind of instruments we have invested in?
- Rohan Shah:** Sorry, INR196 crores is the total investment. And the other income is largely interest and mutual fund income.
- Gaurav Sachdeva:** Okay, mutual funds. Okay. And sir, in the last con call, you talked about 50% EBITDA in the Dolphin International. But in the operational times when Dolphin used to work, it used to get

EBITDA from 20% to 30% range, then how you're talking about 50% EBITDA margin in the Dolphin International?

Rohan Shah: So more than 50%, we said for a particular barge. In earlier time, Dolphin used to be there in various different services, including EPC jobs as well. So their overall EBITDA was less but these margins we are expecting from barge, which has a good potential margin business. And we being deep industry's mindset, we always look for good margin business only, and we'll start activities in Dolphin with good margins only.

Gaurav Sachdeva: Okay. And sir, what is the expected top line growth for the FY '25? What is the expected top line?

Rohan Shah: So yes, we are quite bullish on FY '25, '26, both, and we expect minimum 25% growth, I'm saying minimum.

Gaurav Sachdeva: And this 25% includes the revenue from Dolphin also or that is excluded that -- you are excluding that?

Rohan Shah: No, it will include Dolphin also. And that is why I said minimum. We should commit less and perform more.

Gaurav Sachdeva: Okay. And sir, the market capitalization of the Dolphin Enterprises has far exceeded the Deep Industries, it has gone to INR3,500 crores. How has it gone to that level?

Rohan Shah: I believe it's a market phenomenon. We are also amazed with such increase in market capitalization. Probably free float is less, and that can be one of the reasons.

Gaurav Sachdeva: Okay but that needs to be checked, because without any operations without any PAT, without any revenue, it has gone to INR3,500 crores, and the Deep Industries market capitalization is less than INR2,000 crores despite the subsidiary of Deep Industries.

Rohan Shah: No, I understand your point. But see, the free float in that particular share is very less because 75% is with us and 20% is with QIP institutions. So probably only 5% is there in free float and people are quite amazed about the performance, which we are expecting from the Prabha barge. And that can be reason. So you see, I cannot comment much how market is behaving. But these are potential reasons can be according to us.

Gaurav Sachdeva: Okay. And are you going to further reduce the stake in there or in the Dolphin.

Rohan Shah: No, no, we'll continue with 75% as of now.

Moderator: Thank you. The next question is from the line of Vikas from AcornTree. Please go ahead.

Vikas: Sir, one thing I want to understand, last year, your guidance in FY '24 is a 20% increase, which was achieved in the actual number also. This year, your guidance is 25% in the revenue and the EBITDA is 42% to 43% as per my understanding in the last whatever the questions asked. Is it correct understanding right now?

- Rohan Shah:** Yes, 42% to 45% EBITDA and growth we are expecting 25% minimum.
- Vikas:** Okay. And whatever the Q3 is the 6th February whatever the concall is happened, it's overall a Dolphin full year guidance is INR90 crores. But as per this presentation the Dolphin has come in the H2 I think such revenues being likely to start in H1 FY '25, INR90 crores reflects in this year itself or it is somewhere in INR60 crores, INR70 crores reflects this year?
- Rohan Shah:** So INR90 crores is on an annual basis, we said. So in FY '25, we'll not see INR90 crores because it will not have entire year of operations.
- Vikas:** Correct. So how much we assume is it INR60 crores, INR70 crores odd numbers?
- Rohan Shah:** Yes, we can assume around INR60 crores.
- Vikas:** And previously, you give the guidance of this one is the Dolphin is somewhere in the 50% EBITDA margin. But right now is the 60%, any specific reason to incremental 10% in the EBITDA margin?
- Rohan Shah:** So 50% to 60% is what we are expecting and with barge, achievement of 60% is possible. So we are gunning for that.
- Vikas:** But 60% is achievable in constantly in the next 2, 3 years plan or it's a one time?
- Rohan Shah:** Yes, apparently, we believe it is achievable throughout tenure.
- Vikas:** And what about this Dolphin losses is there -- it's as per my understanding is around INR100 crores is there?
- Rohan Shah:** Yes, they are there, and it can definitely help us going further.
- 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. It's very heartening to hear that your bid pipeline has almost doubled from -- it used to be around INR400 crores - INR500 crores to now almost INR1,000 crores. Can you give some color from which segment are we seeing this sort of buoyancy?
- Rohan Shah:** So of course, our routine business has exceptional response in almost out of INR1,000 crores, almost INR700 plus crores is from our regular services, including rigs, compression gas processing and integrated jobs. I would say more than 70% 75% is from our current services portfolio itself.
- And there are a few good opportunities. We are working on it, which includes production enhancement contracts and enhanced oil recovery business which we believe can change the table, so we have started bidding those opportunities as well.

- Manan Shah:** Okay. Understood. And the gas processing facility, we've recently started with that services. So any sort of bid pipeline in that segment as well?
- Rohan Shah:** Yes. So this bidding pipeline and -- no, gas processing, we have one project which is bidden in addition to what we are doing. And we believe it should further come in other quarters as well because gas processing, we are quite bullish on. And in the coming period, being value-added services to our clients, this particular area can shape up well.
- Manan Shah:** Okay. Understood. My next question was on the CWIP. So we are sitting on a normally high CWIP of almost INR220 crores. Of this, probably INR45 crores is from your Dolphin, another INR80-odd crore is Deep standalone, what is the balance INR80 crores - INR90 crores?
- Rohan Shah:** So capital work in progress includes almost INR30 crores for one rig which has just started in May and rest was with other gas compressor packages which are yet to start.
- Manan Shah:** Okay. So this INR120 crores quarterly run rate that we have achieved. So we are very confident of maintaining this and this will be further likely to improve in the going quarters.
- Rohan Shah:** Yes.
- Moderator:** Thank you. The next question is from the line of Rohan Patel from Turtle Capital. Please go ahead.
- Rohan Patel:** I just wanted to understand that the order book that we have right now, is it over and above the current annual run rate that we are doing of INR400 crores?
- Rohan Shah:** No. The order book in hand is including of what we are doing. So it's an unexecutable portion - - sorry unexecuted portion.
- Rohan Patel:** Okay. So this is all fresh orders that we get. This is not about what we are doing at...
- Rohan Shah:** Yes. So in our business, see, we are operating currently for more than 40 different contracts, and you can assume 40 different orders in hand. So for us orders are generally in the range of 3 years to 5 years contract. And the order book we arrive as if whatever amount we have executed we reduce it. And whatever is balance we put it into an order in hand. And whatever new orders is received it would be added to it.
- Rohan Patel:** Okay get it. Thank you that was from my side.
- Moderator:** Thank you. The next follow up question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Yes. Sir, just I missed this point that you just mentioned that quarter-on-quarter we should see an improving trend, on what parameters were you talking about that?
- Rohan Shah:** See in our business, I would suggest don't judge or don't look at quarter-on-quarter. For us, it's year-on-year because our order book is such that it will definitely be continuous, but

sometimes it happens that one contract is completed and second has started we might have a gap of one month or so in between.

So definitely it would be improving based on the projects which are under capital work in progress. As I just explained before that one of rig has just started earning in this May itself and few gas compressor projects are still under mobilization, which will start earning in next 1 or 2 months. So it would definitely improve quarter-on-quarter, but for evaluating our business, I would suggest to look at year-on-year.

Deepak Poddar: Fair enough. I got it. I mean that's very fair also actually, but the parameter we are talking about is adjusted PAT?

Rohan Shah: Correct.

Deepak Poddar: And then this quarter, adjusted PAT was INR42 crores?

Rohan Shah: Correct.

Moderator: Thank you. The next follow-up question is from the line of Gaurav Sachdeva from Sajag Fund House. Please go ahead.

Gaurav Sachdeva: Sir, as you told that we are expecting INR100 crores revenue from the barge on annual basis. So what other activities we are looking for Dolphin because when we took over the Dolphin, we were expecting around more than at least INR400 crores revenue in around 2 to 3 years. So when we are starting other activities in Dolphin?

Rohan Shah: So I believe, as Mr. Savla has mentioned, in addition to this barge, we have also started exploring the opportunity of PSVs, which is an excellent opportunity appearing for us. And in addition to PSVs we are also looking for some diving support systems, which we already have to mobilize. So as a strategy, currently, we are focusing on 1 asset to put in operation, 1 asset will start operating, we'll add other assets to get into operation and we'll definitely, going further, we'll acquire a few more assets as well.

Gaurav Sachdeva: Okay. And sir, are we looking for any other inorganic opportunities also?

Rohan Shah: See in our business, currently, there is a good amount of opportunity coming, and we are evaluating one or two opportunities of taking over some companies as well. But they are on primary stage. So we cannot be sure on it.

Moderator: As there are no further questions, I would now like to hand the conference over to the Management for closing comments. Over to you, Sir.

Rohan Shah: Thank you, everyone, for joining us today. We'll be always there. If you have any further questions, you can reach out to us either through our IR partner or you can directly approach us. We'll be happy to resolve all your questions. Thank you.

Moderator: Thank you. On behalf of Deep Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.