

August 16, 2022

**To,
Corporate Relations Department
BSE Limited**
2nd Floor, P.J. Towers,
Dalal Street,
Mumbai – 400 001
SCRIP CODE : 543288

**To,
Corporate Relations Department
National Stock Exchange of India Ltd.**
Exchange Plaza, Plot No. C/1, G-Block,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051.
SYMBOL : DEEPINDS

Dear Sir/ Madam,

Sub: Transcript of Conference Call pertaining to Financial Results

Please find enclosed herewith a copy of the Transcripts of Conference Call held on Friday, November 11, 2022 on Financial Results for the quarter ended and half year ended on September 30, 2022.

A copy of the Transcripts of Conference Call is available on the company's website:

You are requested to take the same on your records.

Thanking you,
Yours faithfully,

**For, Deep Industries Limited
(Formerly known as Deep CH4 Limited)**

**Shilpa Sharma
Company Secretary & Compliance Officer**

Enl: a/a



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“Deep Industries Limited
Q2 FY ‘23 Earnings Conference Call”
November 11, 2022



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

MODERATOR: MR. RAHUL DANI - MONARCH NETWORK CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to Deep Industries Limited Q2 FY '23 Earnings Conference Call hosted by Monarch Network Capital. 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 press star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Dani from Monarch Network Capital. Thank you, and over to you, sir.

Rahul Dhani: Thank you, Seema. Good afternoon, everyone. We are pleased to host the management of Deep Industries with us. And we have with us Mr. Paras Savla, Chairman and MD; and Mr. Rohan Shah, Director of Finance and CFO with us. We will start with the opening remarks from Mr. Paras, and then we'll move to Q&A. Thank you, and over to you, Mr. Paras.

Paras Savla: Thank you, Rahul. Good afternoon, everyone. Thank you for joining Deep Industries Quarter two '23 Earnings Conference Call. I trust you had the opportunity to run through the earnings presentation, which was shared earlier. Just to give you a brief introduction about our company. We are one of the largest natural gas compression provider in India. A presence in niche segments like gas compression, gas dehydration, workover and drilling rigs and integrated project management services. The oil and gas industry is witnessing a strong demand environment for over a year now. This translates to continued buildup of order book, albeit with a lag of 6 to 9 months, considering involvement of complex engineering, floating of tenders, project evolution and thereby the awards of the tenders and project commissioning.

For our services business like us, this is now starting to reflect in the strong order book position, which now stands at INR 815 crores, good revenue visibility for around 2 to 2.5 years. Companies witnessing highest-ever expression of interest and bid submission, which could further enhance the order book going forward

I'm very happy to share that honorable NCLT has given approval for the resolution plan for acquisition of Dolphin Offshore Enterprise Limited under IBC 2016. This is a strategic development for the company and opens multiple avenues in offshore services business for us. With the acquisition Deep will get quick market access to the offshore services, which otherwise would have taken 2 to 3 years for Deep to get required qualification. Also, Deep will have synergy benefits from existing client relationships, expanded market and better market rates. Dolphin has been non-operational for about 3 years. So according to our estimates, Deep will require about 12 months to revive its business. 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 revenue of INR 400 crores with an EBITDA margin of around 30%. The company based extensional crisis on account of poor capital management. Overall, I would say that Deep is a zero net debt company with a good revenue visibility and strong future growth prospects. After the acquisition of Dolphin, Deep's portfolio of services

will expand from onshore to now also include offshore oil and gas services, which will further lead to diversification of the revenues.

With that, I would like to hand over the call to Mr. Rohan Shah, our CFO and Director Finance, to take you through quarter 2 for '23 numbers. Thank you very much.

Rohan Shah:

Thank you, Paras Sir. Good afternoon, everyone. I'll just go through the financial performance in brief, post which we will open the floor for question and answers. I'll start with the consolidated financials for the quarter and half year ended on 30th September 1st. Revenue receipts on a consolidated basis from the operation for the quarter stands at INR 66.67 crores. Revenue receipt from operations for the half year stands at INR 139.82 crores.

Consolidated EBITDA for the quarter ended stands at INR 29.02 crore with EBITDA margins of 38%. Consolidated EBITDA for half year stood at INR 60.95 crores with EBITDA margin of 40%. Consolidated net profit for quarter came at INR 16.57 crores with PAT margin of 21.7%. Consolidated PAT for half year stands at INR 36.08 crores with PAT margin of 23.75%. Cash profit for the quarter stood at INR 28.55 crores with cash profit margin of 37.34% and cash profit for half year stood at INR 59.67 crores with cash profit margin of 39.27%.

Coming to the standalone financials. Revenue receipt on stand-alone basis from operation for the quarter is INR 60.54 crores. Revenue receipt from operations for the half year is INR 120.70 crores. EBITDA on stand-alone basis for the quarter stood at INR 29.16 crores, with EBITDA margin of 41.48%. Standalone EBITDA for half year stood at 56.Crore with EBITDA margin of 42.5%.

Net profit for the quarter ended on standalone basis came in to be INR 17.21 crores with PAT margin of 24.4%. Net profit for half year stands at INR 32.65 crores with PAT margin of 24.6%. Cash profit on standalone basis for quarter stood at INR 27.12 crores with cash profit margin of 38.6%. And cash profit on stand-alone basis for half year stood at INR 53.96 crores with cash profit margin of 40.6%.

Overall, I would like to say that our financial performance has been almost in line with Q1. Growth in top line and bottom line will start reflecting from Q3 onwards on commencement of operations and revenue from new projects which are recently awarded. Strong order book and zero net debt status of the company are fueling to its growth.

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

Moderator:

We take our first question from the line of Manan Shah from Moneybee Investment Advisor.

Manan Shah:

Firstly I just wanted to understand in the current quarter, so our revenue was down sequentially also as well as on a Y-o-Y basis. So if you can just explain what happened during the quarter, why do we have a lower revenue for this quarter?

- Rohan Shah:** Right. So during the quarter, our one-off drilling rig which is DR13, was in transition from old ONGC contract to new ONGC contract and would not contribute to revenue for almost 2 months. So there, they had some impact on revenue, a bit lower. So that's all the reason. And secondly, as new contracts, which are getting started, they have started post September. And so additional revenue contribution will start appearing from Q3 onwards.
- Manan Shah:** So can you quantify what quantum of orders are we starting to execute from Q3 onwards?
- Rohan Shah:** So currently, we have seven projects of gas compression, which are under mobilization and of which three of them are starting from September -- have started from September end. And four of them will start probably in this month end. So quantification in terms of amount, I need to check. But yes, of course, we'll have a very good visibility going forward.
- Manan Shah:** Understood, also, this quarter, our other income was on the higher side. So if you can just give a breakup, what is part of this other income?
- Rohan Shah:** Correct, So other income is consisting of our treasury receipts -- treasury income. In addition to that, we have one dividend income from our Dubai subsidiary. So that was there.
- Manan Shah:** Ok and any update on the ONGC case that was pending?
- Rohan Shah:** The arbitration one?
- Manan Shah:** Yes, the arbitration one. We were expecting that you would receive at least 50% of the some if at all the they for further appeal?
- Rohan Shah:** So yes, it is on positive note. We have been given an order that will get at least 75% of that award amount probably in the next six to eight weeks.
- Manan Shah:** And lastly, on the Dolphin acquisition, so if you can just highlight, if you can just mention what will be the future course over here as in where are we with the assets that are there in the Dolphin how are we planning to scale up over here?
- Rohan Shah:** Right So, Dolphin as per our approved resolution plan, we have time of 90 days to infuse the resolution money and to takeover that company. But we are all set and gunning towards -- to acquire it before 90 days. So probably in a month or so, we'll complete the payment as per our expectation, and we'll start taking over that entire assets and their offices and all. In fact, we have already started getting their own employees back into our system who are crucial and on, you can say, on supervisory or critical role, we have already started getting them back.
- Moderator:** We take the next question from the line of Sudhir Bheda from Right Time Consultancy Private Limited.
- Sudhir Bheda:** Yes. Good afternoon, Paras bhai.

- Rohan Shah:** As he might not be on call. He had some urgent meeting. I'm not sure he is there or not, but I'm Rohan, Sudhir ji.
- Sudhir Bheda:** Ya Rohan bhai good morning, And as is added in the first quarter call that revenue in Q2 will be flat. So sir, I want -- we have -- if you remove the other income part, then our EBITDA is almost -- which we have never seen in the company, it's almost like 20%, 25%, which we used to have like 40%, 45% of EBITDA. So what has happened in this Q2?
- Rohan Shah:** Sir, first of all, even if we remove that other income, our EBITDA stands at around 29.5% on a consolidated basis.
- Sudhir Bheda:** Yes, sorry, 25% and 29%. And we used to have like 40% -- more than 45%. So...
- Rohan Shah:** Correct And, on standalone basis, it is again in line. However, on a consolidated basis, yes, if will remove that other income, your point is valid. But I think in last call also, we had explained that in consolidated business, we are consolidating the businesses other than services also in our overall top line. And that is how, on a consolidated basis, EBITDA is a little lower than standalone basis. Secondly...
- Sudhir Bheda:** Even on the standalone basis also, sir, sorry to interrupt. Even on the standalone basis, our EBITDA is like four years, five years low. Even if we remove the other income. So have there some expenses of, so is it possible that some expenses which pre-commencement of some project, which are happening in Q3 and some pre-operating expenses have been debited in Q2? So just wanted to know.
- Rohan Shah:** As I said, our one-off transition from one contract to another, and as per client requirement, we had to do some repair work for that particular Rig to get started in new contracts. And so we had some repair expenses higher in Q2 because of that particular transition.
- Sudhir Bheda:** Understood, So we will be again back to our normal EBITDA of 45% to 48%.
- Rohan Shah:** Yes Definitely.
- Sudhir Bheda:** And sir, my second question is, as we have seen in the cash flow, you have invested around INR 75 crores in capex. So can you throw some light on it on the nature of capex and when it will start earning or yielding the results?
- Rohan Shah:** Right. So as I said earlier, we have almost seven projects are under mobilization of gas compression services. And this entire capex is towards that particular projects only. And against that INR 67 crores of capex, we'll have seven compressor projects, which will start earning, which have already started earnings from, let's say, September end. And gradually, it will be contributing to revenue from October or November onwards, yes.
- Moderator:** We take the next question from the line of Abbas Punjani from Incred Capital.

- Abbas Punjani:** So I have a question on order book side. So when do you expect your order book to be evident in your performance? Like how will you start showing new results?
- Rohan Shah:** As I said, from Q3 onwards, you will start that effect coming up. Q4, we believe it would be like full all guns blown. So from Q4 onwards revenue will start up appearing. Q3 will have some projects adding to the top line. And order book, since it has grown to INR 800-plus crores, and the pipeline of order book, which we are envisaging and which we are experiencing is lifetime high. And we believe that conversion would be a great percentage and it will add again more into our conform order book.
- Abbas Punjani:** Another question on ROE side. So basically, your ROE, again, is on like around 10% for H1, right? So, what do you expect on going forward for '24 and '25?
- Rohan Shah:** Yes. ROE, we are consciously trying to improve that ROE, and we are quite hopeful that it should improve only going forward.
- Abbas Punjani:** Another, I wanted to just know the segmental breakup for this quarter?
- Rohan Shah:** Segmental breakup, I have for H1. Almost 45% is coming from their gas compression services. 36% is coming from Rigs and rest is from the gas dehydration and integrated put together.
- Moderator:** We take the next question from the line of Soumen Chatterjee from JRK Stock Broking.
- Soumen Chatterjee:** And first of all, if I remember, you have already guided in quarter 1 con call that quarter 2 will remain muted. And things will -- and the actual order book transition of order book into actual financials will take in the second half of the financial year, right? Now you, that will -- can we safely assume that the quarter 3 will be better than the quarter 2, first? Second, what is beyond quarter 4 means what would be the guidance for FY '24, both revenue and margin side?
- Rohan Shah:** Right. So as you rightly mentioned, we had indicated that Q2 would be almost in line with Q1. You correctly remember that and, from Q3 onwards, it will start appearing the additional revenue contributing to the top line. So of course, Q3 would be higher than Q2 only, and Q4 would be higher than Q3. Going forward, the way we are adding into our order book new orders, definitely, FY '24 would be quite higher than '23. And it would be in anticipation of what we are expecting, yes.
- Soumen Chatterjee:** That will help. But, and what would be the margin guidance for FY '24? Because we, the margin has dipped in this quarter. So FY '24, can we say we are going back to 40%, 45% EBITDA margin again?
- Rohan Shah:** Yes Yes, see, in our business, whenever there is a transition from one contract to another, and the same equipment is getting used. There are some repair maintenance coming up for that particular asset. And particularly, when that asset is one of the your major assets, it has some impact on repairing and operating expense. But going forward, we'll definitely achieve our

original EBITDA margin, yes. So I would request not to evaluate on Q-on-Q, but you can take some larger period to compare

Moderator: We take the next question from the line of Anurag Patil from Roha Asset Managers.

Anurag Patil: Sir, can you provide the breakup of current order book also in terms of three segments?

Rohan Shah: So out of total order book, we have as of now, almost 48% is contributing by gas compression contracts. 35% are from rig contracts and rest is integrated and gas dehydration.

Anurag Patil: And then across the three segments, sir, how is the working capital difference? Can you just briefly explain?

Rohan Shah: So more or less, working capital requirement in rig segment is a little higher than compression, dehydration because there, the involvement of expense, manpower and consumables are is high. But overall, I would say, more or less, they are seen, there is a little 5%, 7% difference in segments.

Anurag Patil: And sir, this ONGC award amount, what is the amount, can you specify?

Rohan Shah: Award amount is INR 108 crores around, yes.

Anurag Patil: Ok Sir, FY '23, what will be the total capex?

Rohan Shah: FY '23, we are expecting total capex around INR 90 crores, of which almost INR 76 crores have already been done.

Anurag Patil: Ok, and last question, sir, on the CNG boosters. How is the demand scenario there? Are you witnessing any slowdown? Or how is the things there?

Rohan Shah: So yes, currently, the supply is on a little slower pace, but demand is there and I would say the way we had expected to come up all around. It is coming in staggered manner.

Moderator: We take the next question from the line of Heeral from 4R Investments.

Heeral: I have two questions. One, just to understand where did we get dividend from? if you can elaborate on that, you mentioned something? And the second one is we are getting some arbitration award. We have some 75% of the amount we will get in six to eight weeks. So what would be the approximate number in that case?

Rohan Shah: So the arbitration amount 75% of INR 108 crores around. So you can say INR 76 crores, INR 78 crores. So that we are supposed to get in next six to eight weeks. And dividend we have received from our subsidiary based out of Dubai.

Moderator: We take the next question from the line of Mr. Manan Shah from Moneybee Investment Advisor.

- Manan Shah:** So again, coming on the margins. So in the gas compression, you mentioned we enjoy 50%-plus EBITDA margins. And on the drilling rigs, we enjoy 40%-plus. And both of these segments contributing almost 60%, 70% of our revenue, but still, our margins are on the lower side. So this one-off expense that you're talking about, will it be possible for you to quantify whatever that one-off expense during the quarter?
- Rohan Shah:** It was repairing for repairing and updating the rig, drilling rig. I believe the rig which we have visited that only.
- Manan Shah:** I understand, but what would be that amount an approximate ballpark number, if you can just...
- Rohan Shah:** It has, I'm not having exact number, but it was somewhere around INR 6.77 crores types.
- Manan Shah:** Secondly, on the gas dehydration so our utilization still remains suboptimal. So in our current order book of the order book that we have on hand, would that lead to better utilization of those assets? Or it will still remain at 50%-odd?
- Rohan Shah:** No. So for dehydration, we have bided project with Vedanta, where, so in addition to ONGC now Vedanta is also came up with a requirement of gas dehydration on charter higher basis. And which we will get that award of Vedanta, then we'll be able to utilize it very well.
- Manan Shah:** Ok So we wouldn't need to do any additional capex for that order?
- Rohan Shah:** The little one like to match the requirement of client-to-client, but not that significant.
- Manan Shah:** Also, we had mentioned that we expect our order book to go to almost INR 1,000-odd crores. So where are we on that line? How soon should we see this INR 1,000-odd crores or rather, how is the bid pipeline? So if you can quantify how many orders we bid for and what would be our win ratio over here? If you can just talk a little bit about that?
- Rohan Shah:** So as I said earlier, we are witnessing an excellent and probably lifetime high traction in expression of interest and biddings. And currently, we have bided almost 27 to 28 contracts. In terms of value, it would be too early to say, but I would say they are very high and conversion chances are also more than 50%, yes.
- Manan Shah:** And this has been our past history also like, our order win ratio has been almost 50%.
- Rohan Shah:** Sorry, I didn't get that.
- Manan Shah:** In the past also, for the company, our win ratio has been around 50%?
- Rohan Shah:** Yes. It is more than 50%, in fact.
- Manan Shah:** And you mentioned that there is some from ONGC arbitration or what we are expecting in the next six to eight weeks. So how are we planning to use this cash then going forward?

Rohan Shah: So currently, so these are all arbitration and court matter. So frankly, we have not preplanned the use of capex, but that amount. But definitely, we'll use it for growth and capex, yes.

Moderator: I would now like to hand the conference over to the management for closing comments.

Rohan Shah: Thank you, everyone, for participating in our call for quarter 2 and half year ending on 30th September. If you have any further query, you may reach to us directly or through our IR, we are always happy to respond to your queries. Thank you.

Moderator: Thank you, sir. On behalf of Monarch Network Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.