



“Aban Offshore Limited Q1 FY 2016
Earnings Conference Call”

August 3, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Aban Offshore Q1 FY'16 earnings conference call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra from Axis Capital Limited. Thank you and over to you Mr. Mishra!

Amit Mishra: Good evening everyone. On behalf of Axis capital I welcome you to Aban Offshore Q1 FY'16 results conference call. Today we have with us Mr. C. P. Gopalakrishnan, Deputy MD and CFO and Mr. Ravi, DGM. At this moment I would like to handover the call to Mr. Gopalakrishnan over to you Sir.

C.P. Gopalakrishnan: Hello everybody. I will give you a brief background about the results and the other happenings. The total income for the quarter ending was about 154.89 million compared to around 162.183 and the profits are a bit lower at 21.36 against 18.7, about \$3 million higher. This is mainly on account of the revenues are lower on account of DD 5 not working this quarter compared to the last year. The interest income has come down from 41.95 to 36.83 and the EBITDA margins are slightly lower compared to the last year of 60.82 for the quarter to 59.7 and if you look at the markets the oil price is still sliding but there are other things happening in the market. The Iran sanctions are being lifted in a few months which I am sure will help the company because we are already working there, so that will definitely be of interest to us and during the course whatever questions we have we will answer so you can ask any questions you have.

Moderator: We will now begin with the questions and answer session. The first question is from the line of Amit Shah from BNP Paribas. Please go ahead.

Amit Shah: Hi Sir, just a couple of questions, one is if you can just kind of explain what potentially the Iran opportunity might look like and also second is to follow up if there is going to be a presentation on the website then probably this may not matter but if you can just give us a run down how many rigs are there in Iran, what kind of contracts you are looking at just a know just a basic fleet update.

Ravi: Amit as you know in our Aban Holding System we have four rigs working in Iran, Deep Driller 2, Deep Driller 4, Deep Driller 6 and Aban VIII and from Aban Offshore Aban VI is working there. There are three four advantages because of this, first briefly we will tell you how this Iran sanctions is going to be lifted. So there are four parties basically that is one is the EU other is the United Nations Security Council, US and Iran. So already the United Nation Security Council has already approved the sanction lifting process and EU has also approved it, but the US Congress they have a review period of 60 days so we expect that this sanction would be completely lifted by end of October that is the process we are looking at, so in terms of the opportunities for the company one, definitely there



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will be savings in interest cost and insurance cost apart from the stigma of doing what is business in Iraq, so as I mentioned that may be a future business opportunity, we have to wait and see how it is going to unfold and also we have early days, so it becomes much more easy to work there rather than waiting for other contractors to come in. We have an advantage of working at difficult times with them.

Amit Shah: But as of now you know seeing any incremental interest coming from Iran or .. and the second question is like as of now significant percentage of the business comes from Iran would it be, do you think its okay to kind of say if there is more demand there probably charter more rigs there considering that situation will always remain volatile and can be turned back again?

Ravi: See, that is what, it is only hardly 14 days, it was announced on July 14, so we have to wait and see what is going to be the implication and take a decision so it is probably too early to take a decision whether you are going to increase the business there in Iran and all those things.

Amit Shah: Okay. I am sorry Ravi, if you can just once again kind of say the four rigs that operate in Iran in addition to Aban VI.

Ravi: DD2, DD4, DD6 and Aban VIII.

Moderator: The next question is from the line of Arun Gopalan from Systematic Shares. Please go ahead.

Arun Gopalan: This question is about the utilization of the Rigs, I find that a couple of rigs were due for renewal, the contract was getting over sometime in April, I think Aban II contract was due to get over in April and then DD 5 was also due to get over in April, DD5 you said is not working presently but what about Aban II has that got renewed?

Ravi: No Aban II is working with ONGC, they have extended the contract because the well is in progress so likely to be working till let us say end of September or October second week. DD 5 we moved the rig from Iran to Vietnam it has worked for a one year contract, due to the fall in oil prices the program there temporarily they have halted, we are aggressively marketing in Vietnam and outside Vietnam also.

Arun Gopalan: Alright. The other question I had was regarding the other rigs where contracts are due to get over in the next couple of months I think you have around three, four rigs where the contract is due to get over in the next three months I think DD2, DD 3, I think there are few more also, what is the status of those contracts at this point?



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- Ravi:** DD2 and DD 4 are working in Iran so you know that it has been present in Iran for quite long time, so we have to go and discuss on these things. Most likely it may be.
- C.P. Gopalakrishnan:** We are discussing with them.
- Arun Gopalan:** Okay but I guess even DD 3 is due to get over in October right?
- C.P. Gopalakrishnan:** All the discussions will be inclined to see how it can be implemented.
- Arun Gopalan:** What is the scenario as far the day rates are panning out, the oil scenario right now the prices falling I guess the US day rates are quite low I think they have you know sort of crash during the first six months of this year?
- Ravi:** See today I think, more than the day rates each of the rig companies they will be more keen to ensure that the rig is deployed on contracts.
- Arun Gopalan:** But even the Rig counts are coming down right?
- Ravi:** I explained in the last call itself, if the rig is not working for a month, whatever you are going to lose that you can gain by giving a discount to the oil company, let us say the rig is not going to work for one or two months, so it will be better to give a discount to keep the asset deployed. When you have a portfolio of 18 assets and you can always capture the upside in the market and it will always be average growth, so every rig company's focus will be to ensure that the rig is completely deployed.
- Arun Gopalan:** Okay. What about that the old rig you have Tahara anything happening on that?
- C.P. Gopalakrishnan:** No, nothing has happened on that.
- Arun Gopalan:** So that's still idle?
- Moderator:** The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- Badrinath Srinivasan:** Thank you for taking my question. I have two, firstly on Iran just wanted your perspective would not you say the opening up of Iran is a negative in the sense that whatever premium we have don't you see that going away in the medium term and the second question is when a rig goes from being deployed to being hot stacked could you give us a sense of how the cost changes?
- C.P. Gopalakrishnan:** Iran to an extent yes, by the time the new players come in, yes you are right, anyway the prices in other places have also dipped because of the oil price being down, so let us see how this has



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happened. As Ravi said we are looking at utilizing it when the oil prices are down, that is how we are looking at this scenario at this moment.

Badrinath Srinivasan: And my second question was on when a rig goes from being deployed to being hot stacked would you help us with sense of what is cost on a daily basis?

C.P. Gopalakrishnan: It depends on locations and where you keep it. It is very important that you keep the cost minimum. I would say that it may cost around plus \$10,000 a day to keep it.

Ravi: See it differs, for example Sahara it is not working for last two three years, there it is very minimum maybe it has got \$5000 kind of thing. Where there are rigs like DD5 is under marketing or marketing the right where you feel like going to get a contract it may be slightly higher, it depends on the location and your outlook on the rig and all those things.

Badrinath Srinivasan: And finally sort of add on question, is there any progress yet on Aban 5 and Aban 7 Sir?

Ravi: We are actively marketing, there is no like lot of tenders are out in the market then we are marketing it.

Moderator: The next question is from the line of Mahesh Salda from Exide Life Insurance. Please go ahead.

Mahesh Salda: Just wanted to understand the rig industry scenario because oil prices have come off from \$100 to \$50 and we have seen the stability at \$50 though it is still coming off only but just I heard you saying that lot of contracts are coming up so is it right that you are seeing demand uptick though the rates may be much lower?

C.P. Gopalakrishnan: See these types of contracts are coming because by the time contracts come in together for months but overall if you look at it, with volatility in the oil prices the capex also has reduced in the last six to eight months, by the oil companies because they are also not sure what the oil price is going to be. So definitely there is a pull back on the capex requirement of the oil company, in that sense we will find the demands are coming down.

Mahesh Salda: But are the tenders coming up or are you seeing the tendering activity also decreasing only?

C.P. Gopalakrishnan: There are tenders which come up, there are some markets which are always on, Indian market, part of the Middle East market, Brazil or Mexican market there are places where they continue to drill to get contracts.



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- Maresh Salda:** Like I saw a couple of in India itself, there were two tenders which have come up recently over the last one month itself, I saw something happening on that front at least, but globally are such kind of tenders coming up or they are.... I mean just wanted to get a proper sense on this outlook?
- C.P. Gopalakrishnan:** It is coming out but when the prices are high it comes out more **(indiscernible) 13.33** there are few players who always come up some people even the smaller players won't come up.
- Maresh Salda:** Sure. And in the last call you mentioned that if you keep DD5 idle you tend to lose so you are happy giving a discount but I think over the last three months we haven't and you are mentioning that one or two months is a maximum you would look to keep that rig idle but I think now last three four months are over and we have seen that rig remaining idle only so DD 5 being one of the better Rigs and more new Rigs are you finding difficult to market such kind of rigs also?
- Ravi:** See, this is an industrial marketing thing, so any tendering or marketing of these rigs it takes time, probably it takes about three to four months time, this fall in the oil price, in fact DD 5 rig when it started work in Vietnam they had a program for another one year but as far as the oil price started crashing that program I think they have deferred it. It takes time for us also to market it.
- Maresh Salda:** Yes, I understand the scenario is slightly grim, but I just wanted to get a sense.
- Ravi:** We are marketing in Vietnam as well as outside Vietnam also, let us see we have to wait and see.
- Maresh Salda:** Okay, because lot of DD series rigs are coming up for renewal over the next three four months so that will give us some kind of sense and comfort in terms of whether we will be able to place or we will see more of idle days rather than having deployed at even lower rate?
- C.P. Gopalakrishnan:** Yes, that's why we explained earlier in the conference saying which are the rigs which are coming out, what are our plans.
- Maresh Salda:** Okay. On the preference share the maturity was over and I just wanted to get a sense of what are we doing on this?
- Ravi:** See all these preference shareholders are all our relationship bank so we are in discussion with them, they have on the credit base they have huge exposure with us. On a total debt size of around \$2 billion, for them also it is a small amount.
- Maresh Salda:** No, but are we renewing the preference shares and will it continue to have those shares?
- Ravi:** We here a discussion with them so let us see, we are yet to arrive some conclusion with them.



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- Maresh Salda:** And what is the absolute debt now, the net debt levels at the end of this quarter?
- C.P. Gopalakrishnan:** It will be around \$2.2 billion
- Maresh Salda:** Can you give the absolute number like last time you mentioned the debt of 2250 million so.....
- C.P. Gopalakrishnan:** It will be 2238 kind of thing.
- Maresh Salda:** And a last question from my side, there was some working capital increase because of the industry was going through a bad phase, we saw some receivable days increasing what is the scenario now on that?
- Ravi:** It is like an auto component industry where the supplier takes some time to get the money, same thing here also but here it is not like that industry, it is not so lengthy, here you get the money in a matter of one-and-a-half, if it is on a regular basis, if it is let us say one month probably it may be two months or three months now that's all.
- Maresh Salda:** And possibly after this October or November whenever the Iran sanctions are lifted will we see some improvement on the working capital also or it will remain like this?
- C.P. Gopalakrishnan:** Obviously there is improvement.
- Moderator:** The next question is a follow up from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- Badrinath Srinivasan:** A couple of follow ups. Firstly do we see any credit for refinancing for the \$87 million bond we have coming up in December 2015 and second is that Aban Abraham my understanding is it Petrobras and given that they have seen a sharp capex cut are we seeing any sort of risk to that rig being deployed?
- Ravi:** Bonds we have sometime to think it over, with the current year cash flows we should be able to pay the bonds, so Aban Abraham the contract is up to June 2016, as of now we have not heard anything from them.
- Moderator:** The next question is a follow up from the line of Maresh Salda from Exide Life Insurance. Please go ahead.
- Maresh Salda:** Sir following on the previous question by some other analyst on this cash flow issue, just wanted to get a sense that you said that your current year cash flow would be sufficient to help you repay the bonds.



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- Ravi:** Yes, we have published our repayment schedule itself, if you look at the total repayment its only around \$120 million, that is including the bond this 120 million, other than the bond there is no other major repayment.
- Mahesh:** Okay and no major capex also over the next two year one year
- Ravi:** Every year I think it is only around \$20 - \$21.
- Moderator:** The next question is from the line of Amit Mishra from Axis Capital Limited. Please go ahead.
- Amit Mishra:** Sir just one thing, given that the overall macro scenario is not very favorable right now what is your current outlook on new rig additions which were expected to be very significant in CY 2015-2016?
- C.P. Gopalakrishnan:** What most of the people have done is ask for postponement from the shipyards, so they have asked for a postponement. Whatever we thought will be delivered this year only a miniscule has been delivered, exact numbers I do not have at the moment but they all are postponed to the next year and many of the people who are small have started they are also not likely to continue with this. You will find that numbers what we thought would deliver this year may not happen.
- Moderator:** As there are no further questions I would now like to hand the floor over to Mr. Amit Mishra for closing comments.
- Amit Mishra:** On behalf of Axis capital I would like to thank Mr. Gopalakrishnan for taking time out for this conference and very helpful for the investors and over to you Sir, for any final comments from your end.
- C.P. Gopalakrishnan:** Nothing much, the oil prices are coming down, that is a worry for everybody else particularly the drilling services but it is likely that this would continue this year but the pundits are saying that next year there will be an improvement. Let us hope by the next year we will see much more improvement and thank you all the participants. Thank you for the interest showed in the company.
- Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference, thank you for joining us and you may now disconnect your lines.