



“Aban Offshore Q2 FY-18 Earnings Conference Call”

November 08, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Aban Offshore Q2 FY18 Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in a listen-only mode. 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.

I now hand the conference over to Mr. Manikantha Garre from Axis Capital. Thank you, and over to you, sir.

Manikantha Garre: Thank you, Tanvi. Good evening, everyone. On behalf of Axis Capital, I welcome you to Aban Offshore Q2 FY18 Conference Call. We have with us Mr. S. Srinivasan, Senior Vice President, and Mr. Ravi K, DGM. The call will begin with a brief management discussion and would be followed by Q&A session.

I will now hand over the floor to Mr. Srinivasan. Over to you, sir.

S. Srinivasan: Yes. Thank you, Manikantha. So in dollar terms, our consolidated revenues was about \$51.237 million against \$67.242 million in Q1, this mainly on account of three factors; one is the rig Aban Ice has not worked in this quarter, and the rig Aban VIII worked only for 11 days. As you know, it has been working uninterruptedly for the last nine years in Iran. Now it has completed its contract. Similarly, Aban VI also worked only for 13 days. So that is also out of contract.

In terms of new contracts and the contractual position of the rigs, DD8 has completed its short-term contract in Vietnam towards the end of Q2. Similarly, DD4 and Aban VIII also completed their contract in Iran. DD6 is continuing in Dubai. It started in March. Now it is likely to go till December. The highlight is, during the first fortnight of October, so we have started our five-year charter in Shell Brunei for DD5. So these are the highlights of performance. I mean, as you know, the results are with you. I mean, we have incurred a net loss of about 270 crores.

So I now leave the field open for questions. So I'll be happy to answer your questions.

Moderator: Thank you. We will now begin the question-and-answer session. We have our first question from the line of Mahesh Sarda, Individual Investor. Please go ahead.

Mahesh Sarda: I understand the situation is challenging for you because of the oil prices etc., but last two, three months, we have seen some activity at least in terms of oil prices moving up. So I just wanted to see the correlation as to what is the time lead or lag for you or are you seeing inquiries increasing further from last quarter or it is the same as it is?



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S. Srinivasan: I think definitely the trend looks positive. There are a lot of inquiries for short-term jobs. I mean as you know, only the large oil companies and the national oil companies, they can give long-term charters. So as far as the private companies, they only go for short-term opportunities. We have basically like seen this Dubai Petroleum, originally it started out for two months. Now it is likely to last for about eight months.

Mahesh Sarda: Which one?

S. Srinivasan: Dubai Petroleum, the rig DD6, which was earlier working in Iran. See, we pulled out of Iran and placed it with Dubai Petroleum that is in UAE. Dubai Petroleum is a government oil company in Dubai, which is in the country United Arab Emirates. So it started in March for a typically a two-month job. So now it is likely to last till December. That is for about ten months. Basically it is going to be a ten-months job. So likewise, we are looking at short-term contracts for at least two or three more rigs, but it will be short-term, basically somewhere each ranging for up to 100 days. The national oil companies who give long-term charters, we were able to get one, basically it's a five-year charter, amidst very stiff competition, with Shell Brunei. So we have competed with almost all the major drilling companies. So we got a five-year charter. So yes, so otherwise there are some opportunities in the Middle East for fairly long-term, so typically three to four years. So we have to wait and see the result.

Mahesh Sarda: But in terms of the longer-term charters, they are not too many as of now, you are saying?

S. Srinivasan: Thing is there, but if you look at it, the competition is, like we have out of 550 jackups, only about 280 are working, which is about 50% capacity utilization. So all the idle rigs are competing for fewer jobs. So that's why you may be successful in some and you may not get some.

Mahesh Sarda: Okay. Can you just update on various rigs? Last quarter, you have updated on most of the rigs. What is the status of that?

S. Srinivasan: So we have the rig, I'll start with the Indian rigs. So the rig Aban II is working. It has a contract till, I think, about 2019 and then Aban III and Aban IV, we have a contract with ONGC ending typically mostly around March of 2018. Rig Aban V is idle. Aban VI is idle. Aban Ice is with ONGC. So that's till about May 2020. And Tahara is idle. Similarly, in the Singapore system, we have Deep Driller 2, which is in Iran till September 2018. Then Deep Driller 6, which is in UAE, till December 2017. Then Aban Abraham, which is there till October 2018 with ONGC. Deep Driller 5, till October 2022 with Shell Brunei. So all other rigs are idle there. About seven rigs are idle. So only of these idle seven rigs, we are looking at short-term jobs for about three of them, yes.

Mahesh Sarda: On DD4, you said it is up to December '17?



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- S. Srinivasan:** No. DD6. DD6 in Dubai.
- Mahesh Sarda:** DD4 is also idle now. Okay.
- S. Srinivasan:** DD4 is idle.
- Mahesh Sarda:** Okay. And DD2 was earlier up to March '18. Now it has got extended to September '18, if I am right.
- S. Srinivasan:** Yes.
- Mahesh Sarda:** And Aban Ice, you said in the initial comment that it was not working.
- S. Srinivasan:** Basically it was on breakdown. So they've started the contract in May 2017. Towards the end of June, it suffered a big breakdown. So it resumed operations around the last week of September.
- Mahesh Sarda:** Again restarted. It's basically for three years, correct?
- S. Srinivasan:** Yes.
- Mahesh Sarda:** Just if I can take one more question, on the debt and receivables from Iran and total debt if you can give them.
- S. Srinivasan:** See, we have about \$2,150 million that is the debt. And total receivable is about \$296 million. Major portion of it is from Iran. I think I can say about 90% is from Iran.
- Mahesh Sarda:** Okay. Any situation improving, do you foresee from Iran or not yet?
- S. Srinivasan:** Definitely improving, but as you know, the amounts are large there.
- Moderator:** Thank you. We have the next question from the line of Avishek Datta from Prabhudas Lilladher. Please go ahead.
- Avishek Datta:** Sir, what will be the amount to be paid out of the debt this year and next year?
- S. Srinivasan:** Every year, we have about 200 million. So \$160 million to \$180 million each year.
- Avishek Datta:** For next two years?
- S. Srinivasan:** Yes.
- Avishek Datta:** Okay. And sir, bulk of this \$2.1 billion, is that long-term debt or?



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- S. Srinivasan:** No. It is long-term debt, but you have amortization every year.
- Avishek Datta:** Okay. And sir of this 2.1 billion, what will be the domestic debt and international debt?
- S. Srinivasan:** No. In the sense, most of it is from Indian banks only. See, most of our debt is sitting in our Singapore company, but it's predominantly from Indian banks.
- Avishek Datta:** Sir, one more thing like, have you been participating in any of the ONGC's contract which they have come out with?
- S. Srinivasan:** Yes. We have been regularly participating, yes.
- Moderator:** Thank you. The next question is from the line of KS Manikashetty, Individual Investor. Please go ahead.
- KS Manikashetty:** At least during the next quarter, that is December ending, what do you expect results for the asset deployment?
- S. Srinivasan:** That's why I told you, apart from the rigs which are on contract, currently now we have four rigs...
- KS Manikashetty:** No, what are your expectations? That you gave us the position. Do you expect any deployment during the next quarter?
- S. Srinivasan:** So we are looking at short-term opportunities for three more of our rigs, but I think the operations will commence only in January because there is always a lead time from the order placement till actually before commencement. So in December quarter, I don't think there'll be any further deployments beyond these rigs, what I mentioned now. Eight rigs. That is four in Singapore, four in India. But in the January quarter, we are looking at opportunities for three more rigs.
- KS Manikashetty:** The first quarter of next year, you have...
- S. Srinivasan:** Yes. Calendar year, we are looking at it. Of course, I am qualifying it as a forward-looking statement, but we are looking at three more rigs getting into short-term contracts.
- KS Manikashetty:** Those are only again short-term?
- S. Srinivasan:** Yes.
- KS Manikashetty:** Okay. And do you have any position for the first quarter of '18?



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- S. Srinivasan:** No, that's what. No, out of the Deep Drillers only.
- KS Manikashetty:** And rigs?
- S. Srinivasan:** Because, see, I'm looking at on an overall basis, three more rigs on a short-term basis.
- Moderator:** Thank you. We have the next question from the line of Mr. Manikantha Garre from Axis Capital. Please go ahead.
- Manikantha Garre:** Sir, in light of the possible new sanctions on Iran from US, what can be the impact on the receivables, the major portion?
- S. Srinivasan:** As of now, we have only one rig, which is working in Iran that is DD2. As you may be knowing, at the peak, we had about seven rigs working in Iran. So we have gradually reduced it, so that is how we have mitigated against any further sanction risk, but as far as receivables are concerned, basically, we'll have to collect fees. As of now, it is very high. So we expect it to be paid over a period of time. Yes.
- Manikantha Garre:** Okay, sir. Okay, sir. And sir, in terms of the wind energy business, may I know the strategy of this business, sir, going forward in terms of what is the targeted capacity and what is the current capacity?
- S. Srinivasan:** We are not looking at any further addition in this business because the existing assets are getting run down, yes, because it will be a focused drilling company. As you know, this quarter itself is very minuscule compared to the size of the company. Going forward, it will probably come down further because assets are also getting old.
- Manikantha Garre:** Understood, sir. Sir, if I may know what is the utilization for the rigs that are working in the last quarter? What was the utilization?
- S. Srinivasan:** On an average basis, you can say because capacity utilization is somewhere around, I can say, about 45% to 46%. On all the rigs put together, the capacity utilization is about 45% to 46%.
- Manikantha Garre:** So on all the rigs, it is 45 to 46...
- S. Srinivasan:** But when a rig works, it works typically 100% of the time. Only when it breaks down or it is without a contract, then it will not earn revenues.
- Moderator:** Thank you. We have a follow-up question from the line of Mahesh Sarda, Individual Investor. Please go ahead.



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- Mahesh Sarda:** Just on these receivables, Iran, if we look at oil from 50 to 60, definitely cash flows of the country also improves quite substantially.
- S. Srinivasan:** Yes.
- Mahesh Sarda:** So is it only the sanctions, which is impacting the cash flows or we are getting some visibility that we will receive some cash flow because I don't think...
- S. Srinivasan:** No, firstly, they don't have money. That is the reason. Once the oil price goes up, they are able to generate more surplus, then probably we hope the things will improve.
- Mahesh Sarda:** So if this scenario of \$60, even if it is at \$60 remains for about three...
- S. Srinivasan:** Yes. Definitely it gives them more surplus, yes.
- Mahesh Sarda:** So do we expect something by March end because if this continues and..
- S. Srinivasan:** It is very difficult to say now because since our rigs are not working, we have only one rig working. So we will have to, I mean, really follow up with them on a continuous basis.
- Mahesh Sarda:** So all the more difficult like now that we don't have any rig..
- S. Srinivasan:** Yes, but even then, they have actually been paying. Even when we started reducing the rigs, they have been paying.
- Mahesh Sarda:** And on the demand side in Iran, are we looking at placing some rigs over there? Or we are totally...
- S. Srinivasan:** I don't think we are looking at it because they also don't have major programs and now there is lot of competition there. So they expect the rates to be rock bottom. It will not be a profit.
- Mahesh Sarda:** Yes. You said that couple of areas, geographies where you are seeing some long-term tenders, which are these geographies?
- S. Srinivasan:** There are some long-term tenders in Middle East, basically in UAE, and there were some in Qatar. Then there was of course, ONGC tenders were there. We expect some more tenders from ONGC. So these are the places where there are long-term opportunities there.
- Mahesh Sarda:** As of now open tender is only in UAE?
- S. Srinivasan:** Yes. There are short-term opportunities in the other places, yes.



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Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Manikantha Garre for closing comments.

Manikantha Garre: Thank you, Tanvi, and we thank the management for taking out time from their schedule at address our investor conference. I'll now hand over to Mr. Srinivasan for the final remarks.

S. Srinivasan: Yes. Thanks to Axis Capital and Manikantha for organizing this and thanks for Ms. Tanvi, the moderator. And thanks for all the investors who have participated in this call. Thank you very much.

Manikantha Garre: Thank you, sir.

Moderator: Thank you. On behalf of Axis Capital, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.