



“Aban Offshore Q2 FY 2016 Post Results Conference Call”

November 5, 2015



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Moderator: Ladies and gentlemen good day and welcome to Aban Offshore Q2 FY'16 Post results Conference Call hosted by ICICI Securities Ltd. 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 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. Rohit Ahuja of ICICI Securities Ltd. Thank you and over to you Sir!

Rohit Ahuja: Hi, Good evening everyone. I welcome you all to the conference call and thanks for logging in. We have with us Mr. Gopalakrishnan, CFO and Mr. S. Srinivasan, VP Finance from Aban Offshore. Over to you sir for few comments and then we can start with the Q and A.

C.P. Gopalakrishnan: Good afternoon everybody. Welcome you all to the conference call. The results were published and by this time you must be having in your hands now. The income if you look were 153 million compared to last quarter which was 155 million, a small 2 million dollar difference. EBITDA at 92 million and PAT compared to last quarter has been at 90 million; fairly the same kind of results as that of last quarter. If we look at the business part DD 2 and DD 7 are under marketing now and Aban too has got a new contract for a period of three years. If you look at the industry, the oil continues to be similar with a small band of \$ 1 or 2 ranges and drilling industry continues to be under challenging circumstances as the contractors or the EMPs are not opening up their purses or not started looking at more activity. There has been a downward revision on the rates which are coming in and we have also put up a presentation in the website giving the status of all our rigs for DD series which are available. So these are the situations and in the coming quarter, that is in October-November-December quarter DD 3 and DD 8 contracts are coming to an end. Those also would be under marketing. For further, I will ask Ravi to answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Amit Murarka from Deutsche bank. Please go ahead.

Amit Murarka: Hi good evening everyone. I just wanted an update on the rigs, I had seen the presentation, from there it seems like there are roughly five rigs which are being marketed, so Aban 5, 7DD, DD2, DD5 and DD7. Is this correct?

S. Srinivasan: Yes, that is right.

Amit Murarka: So, are you saying that DD3 and DD8 will also further soon be marketed?

S. Srinivasan: Yeah! Yeah! It will be under marketing in the current quarter.



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- Amit Murarka:** But these are in Iran.
- S. Srinivasan:** DD3 is working in Malaysia and DD8 is working in Brunei. DD2 was working in Iran and the contract got over and we are discussing with the customer as regards DD2.
- Amit Murarka:** How about Aban8?
- S. Srinivasan:** Aban8 contract is continuing now. These are all work specific contracts. Probably they might have given some other date but as of now it is continuing, the contract probably will continue up to December kind of thing for Aban 8 and DD6.
- Amit Murarka:** What will be the debt situation now?
- S. Srinivasan:** Debt is \$2.2.
- Amit Murarka:** And all of this is dollar now?
- S. Srinivasan:** Most of it is dollar except some \$20-30 million in rupee terms that is all, rest of it are denominated in dollars.
- Amit Murarka:** How much is due for repayment this year?
- S. Srinivasan:** Repayment this year we have a bond due of \$87 million dollars. Other than the bond, there is no major repayment. That is the major repayment.
- Amit Murarka:** And the last question is about the rig rates. Generally, because of the lower oil prices the rig rates have come off so all these rigs that you are marketing right now for the newer rigs particularly what are the day rates you are expecting?
- S. Srinivasan:** That will be very difficult to say, you know the market, you have access to all the reports, after all there are only 500 rigs in the world. So, it depends on individually, you cannot say that this is the benchmark rate in the market like oil price or something like that. It will become location specific, what period the term contracts are and what are the other expenses they have, all those things it is very difficult to say that this could be the range.
- Amit Murarka:** But still, just as a ballpark number, on an average can we expect like more than 110, 120?



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- S. Srinivasan:** It is difficult to say any number, that's the issue of it. If somebody gives a six months contract it may vary and if somebody gives a five year contract, you don't know and if a rig is there in the location already then there is no mobilization cost, so, the rates will vary depending upon all these parameters. The market is soft.
- Amit Murarka:** What is the situation on the taxation for the Singapore subsidy? The tax free period is coming to an end.
- S. Srinivasan:** That is only a renewal. It is there in the policy and you have to apply for a renewal and we have already applied for the renewal, that probably we will get it.
- Moderator:** The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.
- Amit Shah:** Hi. Good afternoon. Just a couple of questions from my side. actually I am just looking at the schedule as well. So, DD2, as of now is hot stacked right?
- S. Srinivasan:** Yeah, yeah, it is in the location itself.
- Amit Shah:** So, when do you expect a contract for DD2?
- S. Srinivasan:** We do not have anything in our hand to say. Until we get we will not. We hope to get a contract.
- Amit Shah:** Okay the same goes for, basically, Aban2, Aban6, DD2, DD3, DD4 and DD8 are all under marketing, right?
- S. Srinivasan:** Aban2, we have got a contract in ONGC for 3 years.
- Amit Shah:** Hi. I just wanted to know roughly. Aban4, Aban7, DD1, DD2, DD5, 7 and 8 are the rigs that are either cores-hot stacked or close to ending their contracts right?
- S. Srinivasan:** Aban5, Sahara, Singapore system, Aban7, DD2, DD5, DD7, these are the rigs which are actually stacked.
- Amit Shah:** DD8 is also ending in November right?
- S. Srinivasan:** DD8 is ending in November.
- Amit Shah:** DD3 and DD4 were in October 15, so, they have got extended?



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S. Srinivasan: No, no. DD3 is also likely to expire in November, and DD4 we have got a temporary some wells it is ending in December.

Amit Shah: Aban7 earlier was supposed to end in October 2016, now it is December 2015 or is this well by well thing that you were saying

S. Srinivasan: As of now, it is till December. We are discussing with them, because it depends on the well.

Amit Shah: Correct, so these are actually quite a lot of vessels which are either idle or going to come. How comfortable are you based on the current market that, of course you know, there will be some delays but how easy or how difficult it is going to be, if you can give us some sense as to you know, where do you see the pockets of demand, is Iran coming back? Is oil coming back to Iran is helping in getting the orders or although it might have lower day rates, but, is that like a big avenue that you look at, as that seems like the place where incremental demand is there?

S. Srinivasan: As of now the market looks challenging only. We are working on some scenarios, but, that we will be able to share only when some tangible result is known. We have bid in many places but we have to wait till some bid is won.

Amit Shah: Correct. Correct. So, from our perspective should we assume that a three month delay in rechartering or probably you think that it is safer to be a little longer than that?

S. Srinivasan: It will be very difficult to give guidance on that.

Moderator: Thank you. The next question on the line is from Mandar Pawar from Kotak Mutual Fund. Please go ahead.

Mandar Pawar: Good evening sir. Looking at your half yearly balance sheet there is about 680 Crores increase which is there in the trade receivables, so that is about \$100 million increase that we have seen in the last six months. Can you please give us the reason behind the same?

S. Srinivasan: There were basically some delays in the collection of receivables from the Middle East. That is the reason for the delay in collection of receivables. Some of the rigs are working in Middle East there has been some delay in collection.

Mandar Pawar: Are these pertaining to one rig?

S. Srinivasan: No all the rigs working in Middle East.



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- Mandar Pawar:** Is it something which is being resolved or are we seeing any issues there?
- S. Srinivasan:** We hope not. The environment is getting cleared. Hopefully, it should get resolved. As of now, it is taking some time.
- Moderator:** The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- Badrinath Srinivasan:** Hi sir. Thank you for taking my question. My understanding is that DD7 contract termination was a little early. Has that led to a rise in receivables sir?
- S. Srinivasan:** Not much
- Badrinath Srinivasan:** Because my understanding is in Jan or so it was supposed to end, but it came back to October.
- S. Srinivasan:** It was supposed to end on December 31 but they terminated it around August 27.
- Badrinath Srinivasan:** Right. Do we get any payment for the early cancellation sir?
- S. Srinivasan:** No. We did not get any payment.
- Badrinath Srinivasan:** Sir what is the capex for the first half and your estimate for the full year sir?
- S. Srinivasan:** No major capex.
- Badrinath Srinivasan:** Any sort of other numbers possible?
- S. Srinivasan:** May be around \$5 million.
- Moderator:** The next question is from the line of Mahesh Sarda from Exide Life insurance. Please go ahead.
- Mahesh Sarda:** Sir I was looking at the presentation which you just released on BSE. It says that 5 rigs to be precise which are working in Iran. On the footnote you have mentioned that all those are working on a well-by-well contract. So, what is the possibility that these contracts which are likely to get ended in December or November will further get extended?
- S. Srinivasan:** For the rigs working in Iran or outside Iran?



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- Mahesh Sarda:** No, for the rigs working in Iran because all the footnotes which are specifically for the rigs Iran, some are hot stacked and some are still working.
- S. Srinivasan:** Basically, I think, as of now the program is there till December. We are discussing with them for further period. So, the results are not yet known.
- Mahesh Sarda:** So, let us look at the scenario in the presentation. It says, that these are five rigs and so what is the possibility that all of them get extended and none of them getting extended? Some percentage if you can give us.
- S. Srinivasan:** It will be very difficult to say. We will have to wait for the result.
- Mahesh Sarda:** In terms of the rig environment the industry more so, not specifically to Aban, in terms of activity last one year we have seen the activity, right down continuously, are you seeing any uptake in terms of the contract being called?
- S. Srinivasan:** There is no major uptake except one or two companies like ONGC had lot of tenders, beyond that there was no major activity.
- Mahesh Sarda:** One recent tender by ONGC, it mentions that that the rigs would be totally new and it has not worked anywhere. Will we be eligible for looking at some of our rigs or we are not eligible in that contract?
- S. Srinivasan:** We haven't seen any such tender.
- Mahesh Sarda:** It has just come about two three days back in ET, I saw that.
- S. Srinivasan:** Nobody has asked for a new rig or all that. Normally it is the other way.
- Mahesh Sarda:** No, I just saw that in the Egypt there was an article which came, tendered by ONGC, they have asked for some rigs and it should be totally new. So, I was just quite surprised to see that.
- S. Srinivasan:** Even I am surprised. I shall look it into that article. We have not got any tender like that.
- Mahesh Sarda:** And, or any other geography where you are seeing some action or some decrease whatever you are seeing?
- S. Srinivasan:** It is not region specific. Whatever has happened to the industry has happened across the world.



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- Mahesh Sarda:** Sir, compared to last quarter, you have not seen any major improvement or any minor improvement also?
- S. Srinivasan:** Yes.
- Mahesh Sarda:** Okay. Can you please specify this net debt figure again? You mentioned \$2.2 billion. See, last quarter it was 2238, currently it would be what?
- S. Srinivasan:** 2232 or approximately it would be the same.
- Mahesh Sarda:** You dint pay any major in the last quarter, correct?
- S. Srinivasan:** Yes.
- Mahesh Sarda:** And, on this issue of this bond extension which you are looking at, by what time do we get to know we have clarity on this? What is the timeline by which time you would be successfully able to extend this?
- S. Srinivasan:** It is difficult to specify a timeline. As and when we get, if it requires an announcement it will be made.
- Mahesh Sarda:** Any timeline which you are looking at in terms of the extension would be three year, five year or short term?
- S. Srinivasan:** Nothing now can be specified at this point of time.
- Moderator:** The next question is from the line of Jimit Mehta from B & K securities. Please go ahead.
- Jimit Mehta:** Hi sir. You mentioned that you will not be able to put a number on the renewal rates because of the different geographies if you can tell us, what sort of percentage decline do you expect for the renewals?
- S. Srinivasan:** The market is in a state of flux. The rate can be indicated only when we actually secure a contract.
- Jimit Mehta:** Has there been any contract recently which will give you sort of an indication if they are 20% down apart from the Aban 2?



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S. Srinivasan: Aban2 is a different rig right. Aban2 rig is around 45,000 but that is a MAT supported rig with only 250 feet water depth, you cannot compare it with 350 or 375 feet water depth. So, we have to see the actual rates.

Jimit Mehta: But, any expectations from your side? At least 20 to 25 percent decline?

S. Srinivasan: No point in giving a percentage because we have to see the actual numbers. You have seen the current market contracts, the recent contracts which have been placed, they are all around \$100,000.

Moderator: We have a follow on question from the line of Mahesh Sarda from Exide life insurance. Please go ahead.

Mahesh Sarda: Sir, I understand that the industry is in a really bad scenario and appreciate at the same time that we are continuing with this conference call. Just wanted to get some kind of confidence in terms of where do we see as a company over the next three to five years in terms of surviving these challenging circumstances? Basically, in terms of cash flow mismatch, if at all we see anything. And how comfortable are we to pass through this?

S. Srinivasan: Just repeat the question Mahesh?

Mahesh Sarda: I understand that the crude prices have crashed and over the last one year the incremental demand is not seeing any major uptake, so while our debt equity has come down to a comfortable level but there might be some cash flow mismatch because lot of rigs are coming off tenders. So, just wanted to get the comfort in terms of where do the management see passing through this phase.

S. Srinivasan: This is a cyclical industry Mahesh. We find that if there is a down-cycle there is also an up-cycle which keeps coming, now when it would come, I do not know but then we have a three months pattern. Till 2016 we do not have prepayment whatever is possible from our side we have actually refinanced the loans so that the bank loans are repayable over a fairly long period. We have repayments till 2020 and we have repaid most of our high cost debt, the interest costs have come significantly, so we are trying to do constant improvement in terms of operating costs and improve the operating efficiency. As far as market is concerned we have to live with the basic conditions, try to see how to make some good contracts in this so that we get the cash flow.

Mahesh Sarda: Okay. So, you see over the next 6 to 9 months you are able to place some of the rigs at least which may aid in improving the cash flow or as of now it is very unclear?

S. Srinivasan: We evolve with the market condition.



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Moderator: As there are no further questions, I would like to hand the floor over to Mr. Rohit Ahuja for closing comments.

Rohit Ahuja: Hi. Thank you all for logging in and especially to Aban management for answering all the queries post the results. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI securities Ltd, that concludes this conference. Thank you for joining us. You may now disconnect your lines.