



“Dolphin Offshore Enterprises India Ltd. Q3 2012 Earnings Analyst
Conference Call”

January 23, 2013





*Dolphin Offshore
January 23, 2013*

**MANAGEMENT: MR. SATPAL SINGH – MANAGING DIRECTOR, DOLPHIN
OFFSHORE ENTERPRISES (INDIA) LIMITED**

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Moderator Ladies and gentlemen good evening and welcome to the 3rd Quarter 2012 Analyst Conference Call hosted by Dolphin Offshore Enterprises India Ltd. As a reminder, for the duration of the conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing '*' and then '0' on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Navpreet Singh – Joint Managing Director of Dolphin Offshore Enterprises India Ltd. Thank you. And over to you sir.

Navpreet Singh Thank you. Good afternoon and welcome to our quarterly telephone conference on our quarterly results. I think all of you have probably had time to go through our results as they were published over the week end. I do not want to take too much time in welcoming in everybody, I think you all know enough about the company and our background and what we have been doing. We would be happy to answer any questions that you may have specifically about any of the results that we have declared. So we are open to all your questions. Thank you.



Moderator Thank you sir. Participants, we will begin the question-and-answer session. Our first question from the line of Mr. Saurabh Jain from Sushil Finance, please go ahead.

Saurabh Jain Hello. Congratulations Sir, good set of numbers and thank you for the opportunity. I have a few book keeping questions. My first question would be on this ONGC project of worth Rs. 270 crores how much has been executed and how much of these revenues have already been booked in this quarter? And historically, we have seen EPC business commanding an OP margin of around 15% to 17%; however, during the recent quarter we have done around 10% to 11%. So is that because of that 51 crores of expenses which you have not yet incurred or is this due to the pricing pressure industry is still facing?

Navpreet Singh As of December 31st we finished approximately 63% of the contract OGIP and this has been reflected in the results that we have booked on year-to-date. The exact portion for this particular quarter would be in the vicinity of I think about Rs.100-odd crores. With regard to the profit margins, yes, we are in a very competitive market phase at the current moment. As you know we have not been winning contracts in the past because there was a lot of undercutting going on by a lot of the other competitors in the market. So we have won this contract, although we had to sharpen up our pencils



tremendously even on the profit margins. So I think we are expecting 17% to 20% profit margins on this particular contract will not really happen. We are following Accounting Standard – AS-7 on recognition of income and expenses. So although we have Rs.51 crores worth of expenses that have not been incurred as yet they will be incurred in the next quarter by the time we finish the end of the contract. But I think 10% to 12% is really what we would end up with in terms of profit on this particular job.

Saurabh Jain **Okay!** My next question is, as we do not have consolidated OPM figures, so would you be able to tell me about the depreciation and interest expenses incurred in our subsidiary company?

Navpreet Singh In terms of expenditure on depreciation, in our Mauritius Company we have incurred depreciation of nearly \$2 million you can say and finance cost of \$411,000. And in Dolphin Shipping, the other main subsidiary that we have, the amount of depreciation is Rs.37 lakhs and interest cost is about Rs.20 lakhs.

Saurabh Jain Any EPC segment apart from this ONGC contract?

Satpal Singh At the present moment the only EPC work that we are working on is the OGIP contract, we are providing our subcontract services to other companies like Swiber, Heerema and Leighton on some of the EPC work that they



have won as well as to L&T. The new round of EPC tenders are now coming out because as you know ONGC brings out the tenders in the month of January-February-March for work to start on the following October. So yesterday we submitted a tender for one of the much bigger contracts than the present one and there are another three tenders which are due to come up in the next couple of months that we will be bidding.

Saurabh Jain Could you give me some light on your asset deployment plans or CAPEX plans if you can say like asset acquisition?

Satpal Singh At the present moment the focus is more on expanding our marine base. As you know we have the Vikrant Dolphin currently on a long-term charter in Mexico and we are now looking at acquiring another DP construction barge either for the same Mexico market because there is a requirement there or against a specific existing requirement starting in October this year which is in Malaysia. So one of the assets we are looking at acquiring is going to be another DP2 construction barge. As you also know we have for the last six years chartered a dynamically positioned diving support vessel from Seamec the Seamec-1. And we believe now the time has come for us to acquire our own DP DSV because normally you should be able to recover your investment on a vessel in five years time. So the two investments that we are looking at this particular moment are for DP construction barge and



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DP DSV. We have also submitted a tender to ONGC for charter of anchor handling tug for a period of three years. And if we are successful in that particular bid which is presently under evaluation we will also examine the possibility of acquiring another anchor handling tug.

Saurabh Jain And could you please help me with the current order book and unexecuted portion of that as of 31st December?

Satpal Singh The order book for this financial year stood at about Rs. 380 crores, and we're looking at finishing about Rs.330 crores of that by end of March.

Saurabh Jain If there are any more questions i will come back to you sir

Moderator Any one who has any questions may press * and 1. Our next question from the line of Rupen Masalia from R&A Associates, please go ahead.

Rupen Masalia **Congratulation Sir for good set of numbers.** Trying to work out the margins in this newly chartered hire construction barge. At PBT level on a consolidated basis if I separate EPC businesses PBT then it comes around Rs.16-odd crores figure. So I just wanted to understand out of Rs.16 crores PBT, how much is due to chartered hire of construction barge and how much is due to Dolphin Shipping?



Navpreet Singh Well I think, As we have already stated earlier on we are getting a rate of \$45,000 a day on the barge which is on a bareboat charter, it is not only the barge, it is the barge and the tug. So it is roughly about 37,500 for the barge and 7,500 for the tug and all the operating expenditure basically being incurred by the clients that is all the operating expenditure on manning and maintenance and repairs. Our other costs on this are basically only towards the insurances and we have two representatives onboard who oversee and ensure that the vessel is properly operating and is being looked after and everything. So on an annualized basis our income works out to close to about \$17 million if we take the \$2 million demob fees as well, and our operating expenditure on this towards the cost of our two people are, visits to the vessels and the insurances, etc. would be in the vicinity of about 750,000 to 1 million. So basically by putting it on bareboat charter we have derisked the business on these assets so the profit margin is very high.

Rupen Masalia So would it be fair to presume that around 15.5 million to 16 million that is the PBT?

Navpreet Singh That is right; that is over a one-year period. Contract started somewhere around the 17th of October and in the initial period because that was being mobilized to Mexico, we were on a lower day rate of about \$25,000.



Rupen Masalia And now coming to net debt position in consolidated balance sheet as of 31st of December...?

Navpreet Singh We have a total debt of about \$7.5 million outstanding in Dolphin Mauritius and I think it is about Rs.2 crores in Dolphin Shipping that is in terms of long-term debt.

Rupen Masalia And working capital?

Navpreet Singh In Mauritius it is \$500,000 and in Dolphin Shipping it is Rs.1.5 crores.

Rupen Masalia And in standalone balance sheet?

Navpreet Singh Standalone balance sheet the figures are about 112 crores short-term, basically it is all cash credit at this point of time and term loan of about Rs.20 crores.

Rupen Masalia So over next one year where do you see this debt level? Because I guess your cash flow position is going to improve substantially because of fortnightly advance receipts from oversea chartered hirer. So in that case, where do you see the debt level over the next 1 year?

Navpreet Singh In terms of debt repayment we will be repaying about \$3.5 million from Mauritius back to our bankers. The actual debt position will depend on whether we go in for this new acquisition of the vessel or not. If we do go in for this new acquisition and then obviously the debt position will rise substantially. So that is really what it is going to be.



Rupen Masalia If I heard you correctly earlier like you are planning to acquire one DP construction barge then DP DSV and anchor handling tug provided you are going to win that bid. So out of three, two vessels you are going to acquire irrespective of the outcome of bid which you have already put in?

Navpreet Singh Yeah that is what the current thinking is.

Rupen Masalia And how much is it going to cost these two vessels; the construction barge and DP DSV?

Navpreet Singh My guess would be in the vicinity of about \$70 million together.

Rupen Masalia And anchor handling tug?

Navpreet Singh It will probably cost another \$7 million.

Rupen Masalia And how is the competition intensity of late?

Satpal Singh There is still a lot of competition, Rupen. As I was telling you about this tender we just bid yesterday there were seven bidders who responded to it. So there is no getting away from competition. What is happening more and more now is that the foreign companies who had come and dumped prices in India for the last two years, they are taking a back seat. And what we have seen is that in areas like pipe link units rates have started going up, it has come down to as low as \$690,000 per kilometer, the last tender was awarded at 1.2 compared to 1.7, which was the one which was being paid to



Leighton for the PRP-2 project. So there is a sign of improvement because the Indian companies have all had terrible two years, there has been a lot of fighting amongst the Indian companies with some desperate pricing to pick up orders. And I think it is still going to be another year before the situation stabilizes than what it was two years ago, and it has impacted margins to some extent.

Rupen Masalia And what steps we all have taken to remain competitive in the forthcoming tenders?

Satpal Singh Two, three things that we have done. First of all, we have reduced our overheads as you know. I think I mentioned to you that we have gone through a cost-cutting measure; we reduced about 22 crores of cost. We are looking at these assets. The biggest areas of cost outflow in these EPC contracts are the vessel costs. Now that we own Brahmaputra Dolphin, the GD and Beas Dolphin, useful assets which can be deployed on these contracts as is the Ganga Dolphin and the Kamrup. We are looking now at also through a separate entity, a joint-venture to acquire another construction barge but a non-DP construction barge. And we are also looking at acquiring the DP DSV in lieu of Seamec-1. The strength that Dolphin had over the last six years was basically the Seamec-1 allowed us to pick up a lot of these subsea turnkey sub contracts or delayed contracts for EPC work. By owning the assets we will be able to be more



competitive. So basically the strategy has to be that and apart from that our old strengths which are the fact that we have all areas of expertise in-house, subcontracting cost are not high for us. Still it is a battle.

Rupen Masalia So basically how much you all are going to incur by way of CAPEX towards proposed JV?

Satpal Singh The JV that we're talking about is going to be a very low equity-based company. And I'm not at liberty as of now to disclose any names till something is....

Rupen Masalia Fair enough.

Satpal Singh But the entire funding for the acquisitions will be done through that party on the same bare boat cum demise charter basis as we have for the AMS Divine. And that ownership will transfer at the end of the six-year period to the joint-venture company we form, it will be a 50-50 joint-venture and the manning and operating, maintenance and marketing of those assets will all vest with Dolphin Offshore Shipping. So in a way we are going to be earning revenue by being operators and managers in Dolphin Offshore Shipping of these assets and at the end of the lease period we will end up as 50% owners through this JV of the asset. This enables me now to be that much more competitive in my EPC work.



Rupen Masalia Overseas business outlook, we were expecting some breakthrough probably in Middle East or Saudi Arabia, so is there anything...?

Satpal Singh Yes, we have a little bit of delay in Saudi Arabia with our joint-venture partner. I think the joint-venture will finally be up and running by about May-June. That is not preventing us from bidding, we have already had the Beas Dolphin do some work for Saudi Aramco and Navpreet can give you more details about that. Right now, we have not picked up any diving or topside work in the Middle East. The last job that we did was many years ago when we were working in Iran long before sanctions came in. So right now I will say after May when the joint venture is registered in Saudi Arabia after that we will be pushing, starting our work there.

Rupen Masalia Ok, that is from my side and all the best for the future business.

Moderator We have a follow-up question from the line of Saurabh Jain from Sushil Finance, please go ahead.

Saurabh Jain I have just one follow up question. This order book of Rs.380 crores, does that include Vikrant Dolphin's order of \$17 million?

Satpal Singh No, this is only for the parent company.



Saurabh Jain And last time when you talked about Vikrant Dolphin you said this order is extendable for another two years also. So how is it looking for the next year?

Navpreet Singh The order is extendable for another three years. Currently, we have indications that they will extend but they do not need to exercise that extension option till somewhere around July. So formally they do not need to extend that till July but I have just had a meeting with the clients and they have indicated that they would like to keep on the vessel.

Saurabh Jain And if renewed the rates would be renewed also?

Navpreet Singh It will be the same rate for the next one year, thereafter we have the right to renegotiate rates.

Saurabh Jain I just missed out on that investment on new vessels, would be \$70 million or \$17 million?

Navpreet Singh \$70 million.
Satpal Singh

Saurabh Jain Thanks a lot and all the best.

Moderator Our next question is from the line of Mr. Ram Krishna from ET Intelligence Group, please go ahead.

Ram Krishna Good evening Sir and congratulations for the great set of numbers. I've missed out on this JV thing which you mentioned whatever I gathered from after joining in is that



some \$70 million are being invested with a JV partner and the assets would be owned by the JV after six years?

Satpal Singh

No, I will clarify. The \$70 million investment that we are presently contemplating is in our own company in Dolphin Offshore Mauritius. We are looking at acquiring a DP construction barge like the Vikrant Dolphin which is presently in Mexico, and we are looking at acquiring a DP DSV to replace the Seamec-1 which we have had on charter now for six years. That is the \$70 million investment that we are looking at. Aside from that we are in preliminary dialogues with a company to form a joint venture to acquire marine assets like construction barges non-DP for the EPC market here in India and that company will be a low equity-based company, 50-50 basis, which will be funded by the joint-venture partner for the lease purchase of these marine assets to the joint-venture company. The operating and management and marketing of these assets will be done by Dolphin Offshore Shipping.

Ram Krishna

So that will be basically a financial partner?

Satpal Singh

That is right.

Ram Krishna

But any clarity as regards to how many vessels, which types by when they would be...?



Satpal Singh As I said we are in preliminary stage of dialogues right now but we are looking at least one construction barge and an anchor handling tug and a workboat to start with.

Ram Krishna And with regard with to this Dolphin Mauritius this plan basically these vessels you will keep them constructed according to your needs?

Satpal Singh No, we are looking at existing assets, but I think for the construction barge we are looking at a relatively new build conventional barge which we will acquire and then we will convert it into a dynamically position barge.

Ram Krishna And how would this funding for the \$70 million come from, how will it be arranged?

Navpreet Singh We are currently working on various scenarios out there, but the idea is to try and get either through non-convertible debentures or bank loans against job orders that we'll get.

Ram Krishna In terms of order book, you had mentioned around Rs. 380 crores of order book you are carrying right now. What is the expected completion period for this?

Satpal Singh Well, Rs.330 crores of that we should be finishing by 31st of March and the balance should be finished by end of May.

Ram Krishna So Rs. 380 crores is the unexecuted portion of your orders, right?



- Satpal Singh** No, Rs. 380 crores is the order book for the financial year starting from 1st of April 2012 and out of that 330 crores will be finished by 31st of March that is the target that we have. It starts with the opening order book of 50 crores as of 1st of April, 2013. All the new tenders for the next season are starting to come out now.
- Ram Krishna** And out of these 380 crores, how much of that has been already completed in the first nine months?
- Navpreet Singh** 248 crores.
- Ram Krishna** So another 80-odd crores is yet to be completed in this final quarter?
- Satpal Singh** This quarter.
- Ram Krishna** Is there any visibility in terms of ONGC contracts which are coming up?
- Satpal Singh** No, we bid one tender for charter hire of a anchor handling tug which is under evaluation and other than that the first tender has only gone in yesterday and they normally take about a couple of months to finalize these tenders. There are about three or four more tenders coming out in the next couple of months.
- Ram Krishna** And in terms of the current prevailing rates in this market and in terms of competition how is the scenario?



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Satpal Singh Margins are still tight and I think they will remain tight for another eight months to a year. We have improved a little bit since last year. The process of market recovery has started.

Ram Krishna Thank you.

Moderator As there are no further questions I would now like to hand the conference over to Mr. Navpreet Singh for closing comments.

Navpreet Singh Thank you all of you for all your questions. I hope we have been able to answer them to your satisfaction. If any of you do have any more follow-up questions or require any additional information please do get in touch with us. I think you all have our contact numbers, otherwise it is available on our website www.dolphinoffshore.com. We look forward to seeing you again sometime towards the end of April or early May when we will declare our annual results. Thank you very much.

Moderator Thank you sir. On behalf of Dolphin Offshore Enterprises India Ltd. that concludes this conference. Thank you for joining us, you may now disconnect your lines.