"The Dolphin Offshore Enterprises India Limited 2nd Quarter 2012 Analyst Conference Call"

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Moderator Ladies and gentleman good evening and welcome to the second quarter 2012 analyst conference call hosted by Dolphin Offshore Enterprises India Limited. As a reminder for the duration of this conference all participant 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 this conference call please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Navpreet Singh of Dolphin Offshore enterprises India Limited. Thank you and over to you sir.

Navpreet Singh Thank you. Good afternoon everyone. My name is Navpreet Singh. I am the joint managing Director of Dolphin Offshore Enterprises. And I am also the managing director of Dolphin Offshore Shipping which looks after all the shipping business of the Dolphin Offshore group. Unfortunately Mr. Satpal Singh – our Managing Director from Dolphin Offshore Enterprises cannot join us today as he had to go for an urgent meeting with ONGC. But I have Mr. Keith Drego who is our General Manager – Marketing with me on this telecon call. And he would be happy to answer any questions that any of you would have on the future prospects on the company. Let me just come back to what we have been doing in the last 6 months etc. As you know we peaked in the financial year 2010 when we did a turnover of close to about 540 odd crores and since then in the last 2 years, the business has really been very hard to come by. And we have been on a declining trend with a turnover of 280 crores in 2011 and turnover of about 200 crores in 2012. The main reason for this really was because a) ONGC was coming out with all the green field projects where we have no inherent cost advantage and secondly because the international market conditions were so tight. A number of foreign companies have started targeting the Indian market and were in actual fact dumping their prices while entering the Indian market. So for the first time, we really had tenders been awarded by ONGC at close to about 30% to 40% of their actual budget. These are not contracts that have been won at prices that we would say are fair market values. Companies have incurred accounting losses. I use the phrase accounting losses deliberately because lot of the assets that they have deployed have actually free of cost for them. And therefore in cash terms they have not really lost any money as such. They have been able to factor these costs as zero in terms of capital cost. It's only been there operating cost that they had to recover. This has had 2 problems for us. One is that because in any case we didn't have any cost advantages when foreign companies come in at such low costs, it gets very difficult for us to compete but secondly its also very difficult for them us to give us contracts. Sub contracts as we would only have done because they can't afford to pay us market rates. When very often they are forced to bring in their zero valued assets to be able to undertake these work. So we had a tough 2 years. Luckily towards the end of March 2012, ONGC came out with a contract which was the OGIP contract worth 270 crores which is basically a brown field project of interconnecting various platforms with under water electric cables. This contract we have won and we are in the process of executing and as a result of this we expect that we will see a significant growth in this current financial year. The first half year result of this year don't

exactly show that growth primarily because all that we have done so far is that we have done our underwater and off shore pre engineering surveys. We have done all our design engineering. We have placed orders for procurement of material. We have finalized the product specifications with the companies from whom we are buying the material. And we had started the structural fabrication work etc that we had to do for e - houses which had to be installed on this off shore platforms. But the bulk of the revenue approximately the total work that we have done as of 30th of September of this contract comes up to about 22 – 23% of the total contract value. The balance of it will be completed between now and May 2013 with a bulk of it being completed by the month of March. What we are going to be doing now is that we are going to be picking up the material. The material will basically comprise the underwater cables and the e - houses which are basically the electric houses, which are used for mainly as distribution boards for the electric supply that are coming in. So we are going to be picking up this material from the vendors, having it delivered to India and then doing all the laying, doing all the hook up and commissioning. So the bulk of the revenue could also start flowing between now and end of March with all the hook up commissioning being done in the month of April and we will hand the project back to ONGC on schedule in May 2013. We therefore expect that the results for the next 2 quarters will definitely be significantly better than what we have achieved in the first half year. I am not going into figures in great detail because I we believe each of you have already had the opportunity of having studied them in detail but I have the figures available. So if during the question answer session, if you have any specific questions, we are happy to give you whatever information that you may want. With that I now basically throw the session open for your questions. Thank you.

Moderator Thank you very much Mr. Singh. Ladies and gentlemen we will now begin the question and answer session.Rupen your line has been unmuted, please go ahead.

Rupen Masalia Basically sir I have few questions, one is regarding current order book, that I guess is around 285 crores 30th September and over and above that, there is that Chartered Hire contract for construction barge with anchor handling Tug. Now in terms of future pipeline for your core areas that is brown field project and may be green field project, if you can throw some light on that?

Navpreet Singh I will hand over the mike to Keith Drego who can tell you briefly about what the market potential is.

Keith Drego Good afternoon Rupen. Just to tell you, like Mr. Navpreet Singh said earlier, last 2 years have essentially been green field jobs, which are new constructions, new pipelines that are there. what we call as the brown field is when we do revamps and repairs to current structures and off shore. ONGC has come up with quite a few of these contracts and in the pipeline is some more of these contracts. We over the years have tended to excel in this area. Whereas in the green field we have not really entered in. So we are expecting these to come in right now. ONGC have planned, there is a major tender called BPB which is under tender right now. It is going to be a very

competitive bid and we will surely put our best foot forward on that one. But ONGC also has a few assets in terms of marine vessels that they are planning to give out on bareboat cum charter bags. They will hand over the vessel to you at a cost and they take it back on contract for about 10 years. So that's another contract where we have done this kind of work up to 2001 till they went into SEI. So these are contracts that are coming up and there is a lot of revamp work on the older platform, the older structures that are being there 15 – 20 years. There is a lot of up gradation coming up, lot of different contracts like the 40 well platforms, 50 well platform, various names to these contracts. But essentially what they refer to is revamping and replacement of older equipment and up gradation of new equipments and new technologies coming in. So these are contracts that ONGC is working on and we are expecting them to come out over the next 4 – 6 months. These tenders would be finalized 2 – 3 months down the road and work will actually start coming here.

Moderator Sir it seems Mr. Masalia's line has gone on hold. We will take our next question. That's from Savitree Singh of Sushil Finance, please go ahead.

Savitree Singh Sir can you throw some outlook on the competition scenario like how you see the competition in the market in coming quarters because of the tough economy which is going on currently?

Navpreet Singh To be honest with you, we are actually seeing international markets are now beginning to pick up. Basically you have got Saudi Arabia, which is talking about increasing production by nearly 1 million barrels of oil per day and they are talking about investing close to about $17 billion in the next 24 months. You also have Qatar talking about investing about close to about 12 billion, there is UAE which is talking about investing 7 billion, their longer term projects over the next 5 years is going to be in the vicinity of close to about $60 billion. Simultaneously we are seeing that activity in South East Asia also beginning to pick up. PETRONAS of Malaysia are becoming a little more active. Markets in Vietnam etc are also starting up. Myanmar which has been a very closed market now is now beginning to open out as well. So what we are seeing is there is a lot of hope now that markets will stabilize and will enter a boom phase very shortly. But we believe it will still take 6 – 9 months before this kicks in. What we are therefore witnessing right now is lot of the companies are being a little hesitant on entering into long term contracts because they believe that to do that right now may render their prices on the lower side. So they are not willing to commit to long term contracts at low rates at the moment, but having said that people still need to get work so there is a little bit of flurry to get jobs, competition is still tight. We cannot believe that markets would improve immediately. But I think over the next 9 months you will see a definite improvement in rates that companies are earning.

Savitree Singh Another question is that, the write-off which is of 11 crores in the current quarter, what is that, is it one off or it's a one time thing or it will be.

Navpreet Singh Yeah what write-off?

Savitree Singh The 11 crores of write-off given on consolidated basis.

Navpreet Singh You mean loss, there is no write-off.

Savitree Singh Okay. It's 11 crores of loss, you earlier said this is accounting losses if I am not wrong?

Navpreet Singh I am not quite sure what 11 crores figure you are talking about. On a consolidated basis, we are showing a net loss of 11 crores. That is primarily because we had to dry docking of 3 vessels in Dolphin shipping during the monsoon period which is being quite expensive because there is a 30 year statutory dry docking. At the same time we also had loss in Dolphin Mauritius because of the idle vessel cost that we had in the Vikrant Dolphin and AMS Divine. As far as dry docking is concerned yes it is an accounting issue because this dry docking is required once in a period of 5 years. But we have to charge of the entire cost in the year in which it has been incurred. Other than that we have had no write of as such during this quarter.

Savitree Singh Yeah I was asking for the same question sir, the dry dock. The vessel which you already kept for dry docking, what is the status? Have you deployed in the last quarter or it is expected?

Navpreet Singh No, it was not deployed in the last quarter. They have now both come out of dry dock, like all 3 vessels are out of dry dock, two vessel already started work. The other one will be going on charter very shortly.

Savitree Singh Like in the next quarter you are expecting 2 on the charter?

Navpreet Singh Not next quarter I am talking about within the next 2 weeks.

Savitree Singh And sir can you give me some margin on the vessel order and ONGC order, what kind of margin do you see for these kind of orders?

Navpreet Singh Sorry, which vessel order are you talking about?

Savitree Singh The project which we got from the ONGC, what kind of margin you get from ONGC and second is for the vessel order.

Navpreet Singh See ONGC contracts you would generally look at probably earning about 20% EBITDA margins or so.

Savitree Singh 20% for the ONGC order sir?

Navpreet Singh But right now the market is a lot more tighter. I think the at our best peak period we hit about 25% or 27% EBITDA. Today I think even if you get 10% EBITDA you would take it, right. On the vessels traditionally if you look at vessels EBITDA margins generally tend to be between 40

– 60%. That is if you see it with the industry because lot of the cost is towards the capital repayment cost and that is what we are effectively trying to achieve even now. But here even because of the market situations, the vessels out on contract you will earn that. When vessels are sitting idle, it becomes difficult to earn that.

Savitree Singh You mean to say it would be between 40 – 60% for the vessel order and for the ONGC it would be around 20%.

Moderator Thank you very much. Our next question is from Rupen Masalia of RN Associates, please go ahead.

Navpreet Singh Sorry Rupen we got cut of. In brief to answer your question what we are looking at in the next 6 months ONGC will come out with contracts or tenders worth about 7000 crores. These include the revamp of certain processed platforms like BPA, BPB, which are very similar to the ICP **N**QD platform contract that we had done 2 years ago. There is also a revamp of 40 well head platforms. This involves a lot of underwater work basically. This top side work is also underwater inspection work to be done. On another contract for about 36 odd platforms. And then ONGC is now thinking on giving its multi purpose support vessels out on bareboat charter to companies and then taking them back on time charter and they need to do this for a period of 10 years. These vessels traditionally have been, we were managing these vessels till about 2001, 1993 to 2001 this element of business was one of our main pillars where we were doing the marine management and diving operations of these vessels. We were also looking after all the repair and maintenance of these vessels. Then ONGC gave all these contract to Shipping Corporation of India. We are managing it since then. So now ONGC is thinking of giving out on bareboat charter and then taking it back on time charter. So this is also expected to come up with the next couple of months.

Rupen Masalia And sir coming to Charter Hire of newly built construction barge if I am not mistaken you said that there EBITDA margin is going to be anywhere between 40 – 60%, typically since it is on a bareboat charter basis, the margin would ideally be higher than that quantum.

Navpreet Singh Yeah, It is absolutely correct. I was talking about in general. Vessel charter rates in balance sheets of shipping companies like Ved Offshore or Varun Shipping etc, their EBITDA margins generally tend to be about 50% but that's on time charter. If we are looking at barefoot charter your EBITDA margin will be closer to about 90%.

Rupen Masalia It is going to be the case for our contract?

Navpreet Singh Yes it will be.

Rupen Masalia And I guess a tax rate would be perfectively met in that case?

Navpreet Singh The Mauritius company the maximum tax liability will be 3%.

Rupen Masalia So its quite lucrative and what about the payment terms? Under the current EPC contract or offshore work for ONGC, is there in the payment terms ranges is between 4 – 6 months or even longer. So here I guess payment terms would also be quite favorable.

Navpreet Singh Here we are actually getting paid every 15 days in advance.

Rupen Masalia So that would improve the balance sheet and cash flow position in a much better way than what it is currently.

Navpreet Singh It is basically one of the reasons why we were so keen on investing in these kind of vessels even though it involved a lot of investments. As you know we spent more than $30 – 35 million in the last couple of years in these vessels and the reason for that is only because we believe that even in these drying markets, there is a demand for state of the art vessels where companies are willing to pay you a fair price and companies are willing to pay u in favorable terms. So we do believe this is the beginning of the new growth pace of the companies where yes we will get positive cash flows coming in from here which would ease out the companies cash issues and payment terms will also be very lucrative.

Rupen Masalia And sir what would be the consolidated debt as on today?

Navpreet Singh In Dolphin Offshore Enterprises we have a total debt including working capital of about 95 crores. In Dolphin Offshore Shipping we have got a total debt of about 4 crores and in Dolphin Mauritius we have got a total debt of about $10 million.

Rupen Masalia Right. And sir any update on that past 2 cases old one where you acted for a sub contractor for L&T in ONGC work and the other one NQD & ICD contract?

Navpreet Singh As far as SHRC is concerned we have 50% of the payment. Balance 50% is still being reviewed and finalized. With regard to NQD and ICP, the NQD liquidation damages file is I think being cleared by the chairman. We should be receiving that clearance in next 2 weeks or so. Based on that of course, that settles our claim for additional claims as well. But that will take little bit longer to come through. ICP has gone into a little bit of a spin but we believe that probably follows suit in another month's time.

Rupen Masalia So are you envisaging any penalty finally being levied on the company out of these 2 contracts?

Navpreet Singh There is going to be some equity that is going to be levied but at the same time there is going to be additional change orders that are going to be cleared which will more than compensate for the levy that will be charged. So there will be net add on to this bottom line instead of a write-off.

Rupen Masalia And sir you also changed your accounting policy for this EPC type of contract as per AS-7. So you have already accrued this 1 – 11.5 crores worth of expenditure and commensurate revenue is yet to approve probably in Q3 or Q4. So some more light on that.

Navpreet Singh No. we have not changed our accounting policy per say. We have been forced to change because AS 7 has now become a mandatory policy. What this policy does is that it tries and matches your revenues versus your expenses throughout the contract period. So if you completed 21% of your contract, then you have to book 21% of your expenditure whether you have incurred it or not. So what we are trying to say is that on that basis we made an approval of 11.5 crores of expenses that we have not yet incurred. We were going on milestone basis that every milestone was considered as a separate kind of accounting unit. So if I did a milestone and I earned 40% profit on that then I booked my entire revenue, I booked my entire expense size book to 40% revenue. If on the other hand it was a 20% loss then the same thing applied. There I booked the entire revenue, entire expenditure, entire loss. So what we are trying to say is that have you followed the same systems that we were following last year. My profit for the quarter would have been 11.5 crores higher but it will equalize and equate itself over the life of this contract. Thank you Rupen.

Moderator Thank you very much. Our next question is from Himanshu Upadhyay from M3 Investments, please go ahead.

Himanshu Upadhyay What are your CAPEX plans and for this ONGC order which you are going to execute, any major CAPEX would be required or any new equipment is further pending?

Navpreet Singh For executing the major contracts that we have got right now we have minor CAPEX plans to be incurred. I think it would be under Rs.3 crores or 4 crores. We are not envisaging any major investments for completing the rest of the work. With regard to the company itself at the moment we do not have any CAPEX plans. Going forward we are still in a consolidation phase at this point of time. But I think next year you will see us investing more in marine spreads as we go ahead.

Himanshu Upadhyay In what things?

Navpreet Singh In new vessels.

Himanshu Upadhyay Sir you have all 3 vessels, ROV SV, are they deployed for long term charter, all the 3 vessels?

Navpreet Singh 2 vessels are on long term charter, the third one is on charter, it is going to come out charter around the 15 of this month. It's going to the dry dock and then it is going back on charter for another 6 months.

Himanshu Upadhyay And generally the charter reads of the ROV SV has improved or are they stagnant or what is the outlook you are having?

Navpreet Singh Are you asking me about charter of ROV?

Himanshu Upadhyay Yeah ROV.

Navpreet Singh We don't hold any ROV.

Himanshu Upadhyay the vessels what you own.

Navpreet Singh They are not ROV. They are regular vessels. ROV are remotely operated vehicles which are basically used in place of divers.

Himanshu Upadhyay Sorry the 3 offshore support vessels, what is the outlook of those 3 offshore support vessels is what I was trying to ask?

Navpreet Singh We have in Dolphin Offshore Shipping, we have 3 vessels, 2 offshore utility vessels and 1 work boat. Both the works offshore utility vessels are currently deployed. They will remain deployed right through this working season. The work boat is currently not deployed. We are expecting to go on charter in the next 2 weeks and we expect to pick up close to about 140 days of work between now and end of this particular season. These 3 vessels have also been offered for another contract spinning over for the entire working season next year. So we are very hopeful that this contract will come through and we will be deploying all our vessels on that. In terms of Dolphin Off shore Mauritius where we own one work boat, we own one construction barge and one anchor handling tug. The construction barge and anchor handling tug have gone on charter with effect from 17th of October for a minimum period of 1 year in Mexico. And the work boat has been on charter right through. It is currently on charter with **McDermott** coming around 15th. It is then going to dry dock and then we expecting it will go on a six month charter after that.

Himanshu Upadhyay And what is the outlook you are having about the vessels?

Navpreet Singh We are very positive on the vessel outlook front especially the ones that we have in Mauritius. Because they are brand new vessels and they are in demand.

Moderator Thank you. As we have no further questions from the participants, I would now like to hand the floor over to Mr. Navpreet Singh for closing comments.

Navpreet Singh Thank you very much. As usual you all know how to contact us if any of you have any questions that you haven't been able to raise today or questions that have come up in the next couple of days. We will be happy to answer them for you. Otherwise we look forward to talking with you

again in January when we declare our 3rd quarter results. Thank you very much for spending time with us this afternoon.

Moderator Thank you very much sir. Ladies and gentleman, on behalf of Dolphin Offshore Enterprises India Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.