



UNITED DRILLING TOOLS LTD.

CIN : L29199DL1985PLC015796

OIL DRILLING EQUIPMENT MANUFACTURING AND SERVICES

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To
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Security ID - 522014

Listing Compliance Department
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Sub: Transcript – Earning Conference Call dated 11-02-2022

Dear Sir/Ma'am,

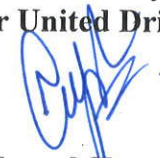
Pursuant to regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclosed herewith the transcript of earning conference call on quarterly results (un-audited standalone and consolidated) for the 3rd quarter & nine months ended 31st December, 2021.

Kindly take the same on record.

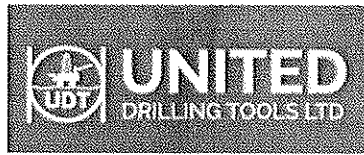
Thanking You,

Yours faithfully

For United Drilling Tools Ltd.


Inderpal Sharma
Director
DIN - 07649251





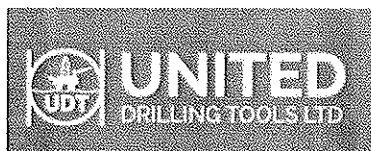
“United Drilling Tools Limited Q3 FY22 Earnings Conference Call”

February 11, 2022



MANAGEMENT: **MR. PRAMOD KUMAR GUPTA – MANAGING
DIRECTOR, UNITED DRILLING TOOLS LIMITED
MR. KANAL GUPTA - DIRECTOR, UNITED DRILLING
TOOLS LIMITED
MR. MUKESH MEHTA - CFO, UNITED DRILLING
TOOLS LIMITED**

MODERATOR: **MR. DHIRAL SHAH – PHILLIPCAPITAL**



*United Drilling Tools Limited
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Moderator: Ladies and gentlemen, good day and welcome to United Drilling Tools Limited Q3 and 9 Months FY22 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. This conference call may contain forward-looking statements about the Company which are based on beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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. Dhiral Shah from PhillipCapital. Thank you and over to you, sir.

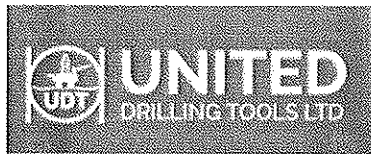
Dhiral Shah: Thank you Aman. Good evening all. On behalf of PhillipCapital, we are glad and thankful to the management of United Drilling Tools for giving us the opportunity to host this Q3 FY22 Earnings Call. Today, from the management side, we have Mr. Pramod Kumar Gupta - Managing Director of the Company; Mr. Kanak Gupta - Director of the Company and Mr. Mukesh Mehta - the CFO of the Company.

We would begin this call with some opening remarks from the management side and thereafter we will begin with the Q&A session. Now, I hand over the call to Mr. Mukesh Mehta for their opening remarks. Over to you, sir.

Mukesh Mehta: Thanks Mr. Dhiral. I am just giving a quick disclaimer. During the course of this conference call, there would be discussions which could be forward-looking statements regarding trends, our strategies and anticipated performance of the business. These forward-looking statements are on the management's current views and expectations and are subject to various unforeseen risks and uncertainties including those relating to the impact of COVID-19 on our business, the Oil and Gas industry and the global economic conditions. Our actual results may differ materially in any such events. I would request Shri. Pramod Kumar Gupta to just brief about the Company and what would be our business strategy in future and our current developments in the quarter. Over to Shri. Pramod Kumar Gupta.

Pramod Kumar Gupta: Thank you Mehraji. Good afternoon to all the participants and we thank you for your time and interest in UDTL. We would also like to thank Phillips Capital and Mr. Apurva Shah and Mr. Dhiral Shah for organizing this event for us. We believe that you all would have preliminary understanding about our business and operations. Now, I would like to give a brief about United Drilling Tools Limited.

United Drilling Tools is a global manufacturer of high-quality precision-engineered products and upstreams oil and gas exploration. It is a single manufacturer of several oil drilling items such as Wireline Winches, Stabilizers, large OD Multi-start Connectors in India. It is a solution provider with presence in downhole tools, wireline, well service equipment and gas



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lift equipments. This has led to the Company 60% of the market share in upstream drilling tools and equipment market in India. United Drilling Tools has a good pedigree management with four decades of brief industry experience of serving in the oil exploration and production success. The Company has four state-of-the-art and technologic focused manufacturing facility across Gujarat and Noida. Finally, the Company has an integrated value chain from being a stabilizer manufacturer to manufacturing various oil fields, drilling and production equipments. Our revenue breakup are that 68%, our revenues are coming from casing pipes and connectors, 10% from gas lift valves, 3% from stabilizers and 19% from wireline winches.

Now, I will go to the key developments during this quarter. We are still in the process of developing new product lines such as side pocket mandrel, swift connectors and lynx connectors which has demand in India and overseas markets. A copy of press release may be viewed on stock exchanges for this. Number two, we have got the design patent registered in UK for multi-start casing pipe connectors, matter to matter seal casing pipe connectors and metal to metal seal casing pipe connectors registration of which is valid for a period of 5 years. Copy of press release may be viewed on exchanges. Number three, we have appointed marketing representative in Egypt, Libya and Vietnam to promote our products and expand our market base in these countries. Copy of press release may again be viewed on exchanges for this.

Finally, local approval for new upcoming project in Gujarat near Mundra Port has been approved and registration of the land has already been done. Our future business strategies include increasing the registration in international markets, adding footprints in South East Asia, Middle East and Africa, scaling capacities of all product lines, increased production range via organic and inorganic routes, reduce cost of production and enhance revenue potential and profit margins. This is the summary of our presentation.

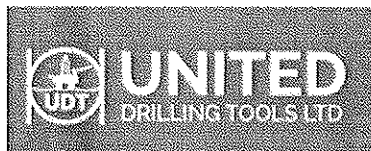
Now, I will request Mehtaji to give the presentation on our Q3 results.

Mukesh Mehta:

Thank you, sir. In Q3, we have achieved a turnover of 46 crores 14 lakhs which is 41% more than the Q3 results of the last year and EBITDA in this quarter is 19 crores 0.96 lakhs which is 30% more than the Q3 of the last year and the percentage of EBITDA is 43% and the depreciation cost is 0.68 Cr and the finance cost is 0.07. This finance cost is the minimum in the last 3 years and the profit before tax of the current year is 19 crores 19 lakh which is again 32% more than the Q3 of the last year. The PBT is 41% and tax is 61 Cr and the PAT margin is 13.04 crores which is again 8% more than the Q3 of the last year and the PAT margin is 28% and board has declared an 2nd interim dividend of 9% for the current financial year. So, I transfer the line to Shri. Pramod Kumar Gupta to open the question-and-answer session.

Pramod Kumar Gupta:

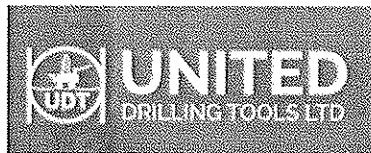
Thank you Mehtaji. Now we are open for question and answers. I will request the participants that if they have any questions, please come forward and ask them. Thank you.



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- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, this press release which you have sent in that press release is about the marketing tie-ups in those countries, when should they translate into either order inflow or some revenues if you could help us understand, how much time will it take? And second on your Mundra facility, what we see in the presentation was that we have bought the land and all, registered the land, should this facility be constructed and be ready for commercial use?
- Pramod Kumar Gupta:** With regard to our appointing of marketing representatives in Libya and Vietnam and Egypt, primarily we are already starting to get smaller quantities of orders those are like development orders which we are already getting and we are hoping that within a year time, we will start getting full quantity of these orders from these countries. With regard to Mundra facility, all the registrations are now already done and we are hoping to start the construction in next couple of months and if the facility should be ready in about a year time.
- Pritesh Chheda:** Sir, a follow-up question, you haven't discussed the order backlog that you had and what kind of revenues do you see now for the year end after 9 months are passed, so what kind of revenues do you see from the year and what kind of growth do you see next year that is 23?
- Pramod Kumar Gupta:** Approximately, we are hoping that our revenues for the fourth quarter will be similar to what we have in the third quarter. So, overall, our total revenue for the year may be around 200 crores and with regard to the next year, we are hoping that there should be increase of around 30 to 40% in the revenues.
- Pritesh Chheda:** And what kind of order backlog do you have now at the end of quarter 3?
- Pramod Kumar Gupta:** We have about Rs. 70 crores worth of order backlog, but we have also bid for around Rs. 200 crores worth the projects with different companies and we are hoping that around 50% to 60% will turn into orders.
- Moderator:** Thank you. The next question is from the line of Apurva Shah from PhillipCapital. Please go ahead.
- Apurva Shah:** Sir, my question is visibly two parts, so I just wanted some elaboration on the design patent in UK, so have we received or started participating any tender? And second part of the question is, we have some ambition where we would be reaching 5% of the global market shares, so what kind of revenue we expect from this design patent in UK? Now, have you understood, sir?
- Pramod Kumar Gupta:** Yes, actually we have already executed some orders from companies in UK and one of them is AquaTerra, so we are hoping that more and more companies, we are following up with several,



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all exploration companies there and we are hoping to get more orders from there. With regard to the percentage of the total revenue, I would say that you see North Sea is a big market and there is lot of exploration going on there, so that should contribute at least 1% of the total world market for our revenues, 1% to 2%.

Apurva Shah: And sir, for this 5% ambition, which could be the other major geographies and what kind of action we need to take?

Pramod Kumar Gupta: We are already taking whatever actions are required, like we are establishing our representative in the countries where our products are being used and so they are local representatives and they have very good contacts in the oil industry, so that is primarily what we are doing plus we are also strengthening our business development managers and sales people to meet with the national oil companies in these countries.

Apurva Shah: And sir, just a related question, in next year, hypothetically like 200 crores this year and will be 30-40% growth roughly you were doing to 80 crores of revenue, so what will be export contribution in that estimate?

Pramod Kumar Gupta: I would say that about 20% to 30% will be our export contribution.

Apurva Shah: And in this 70 crores of current order book, is there any export component?

Pramod Kumar Gupta: Yes, around Rs. 4 to Rs. 5 crores worth of export component is there.

Apurva Shah: And when we say exports, the margin profile will be similar, so like I think the casing pipe and connector is the highest profit margin followed by may be winches and etc., so similarly the export market will resemble the domestic market currently in terms of margin?

Pramod Kumar Gupta: Yes, more or less, I can say that it will be 100% exactly the same, but more or less it will be the same, yes.

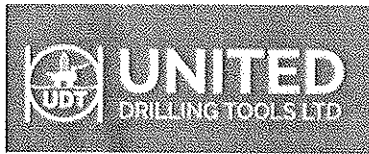
Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir, for Mundra facility, how much CAPEX we are planning to incur?

Pramod Kumar Gupta: Actually, for Mundra facility we are planning approximately around Rs. 20 crores. It may be a little bit less or little bit more, but it is around Rs. 20 crores.

Anurag Patil: Sir, how much revenue can this facility generate potentially?

Pramod Kumar Gupta: Well, actually it depends upon the product line, but we are hoping to generate revenue of approximately 500 to 600 crores, of course after a period of 3 to 4 years from now.



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- Anurag Patil:** And sir, recent quarters or this year, your margins have been pretty higher, so are these margins sustainable going forward?
- Pramod Kumar Gupta:** Well, actually, we are very much hopeful of that and the prime reason for that is that for some of the products, we are the only manufacturer in India. There is nobody else manufacturing these products and for the national oil companies, now it has become mandatory that they have to buy these products from India only, so private players can buy from anywhere else, but we are getting orders from them also.
- Anurag Patil:** And sir, this order backlog is it entirely fixed price order or you can pass on the raw material cost in this?
- Pramod Kumar Gupta:** Actually, these are fixed price orders, but what we do is when we get the orders, we immediately tie up with the raw material manufacturers and fix up their prices, so any inflation or change in price is usually does not affect our profits. It is the automatic regime.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor:** Sir, when you have mentioned that the fourth quarter would be in line with what the third quarter was in terms of revenue, we did around 46 crores for the December quarter and I think we have the standalone and console the same, do we have any consolidation of account also or it is only a standalone entity?
- Pramod Kumar Gupta:** No, there are consolidated accounts also, I think our consolidated figure is around 52 crores.
- Saket Kapoor:** So, taking into account, 134 we have done for the 9 months and we are hoping for something 200 crores for this year, so we will be slightly higher than what we did for this quarter, above 60 crores to reach that 200 crores topline?
- Pramod Kumar Gupta:** Yes, we are trying for that. It will be around that.
- Saket Kapoor:** Sir, what explains that this inventory buildup and the capital working, is it the pending order book execution only pertaining to that?
- Pramod Kumar Gupta:** Yes, that is true. See actually, nowadays the oil industry is changing little bit because previously they were giving us more to manufacture and supply. Now, they want the material very quickly and may be in 2-3 months, so that is why we have to build up more inventories to satisfy their requirements.
- Saket Kapoor:** Sir, when we look at your presentation, I am listening to Slide #22, in the Company overview we have mentioned endorsed by Indian marquee brand wherein the name of Adani and Jindal

SAW, MSL, Welspun, Oil India, every players, pipe manufacturers like Jindal SAW and MSL, what are the products they are sourcing from you?

Pramod Kumar Gupta: Actually, we manufacture both the connectors and that is one product and then the other product is casing pipe with connectors, so the connectors we are the only one in India who is manufacturing those, but casing pipe with connectors, what is done in that product is that you take the pipe and you take connectors and weld them both and then supply to the oil Company. So, these pipe companies like JSL or MSL, if they get any orders for casing pipe with connectors, then they buy the connectors from us, use their own pipe and weld them and supply them to the oil companies. So, that is why we are supplying our connectors to all these companies also, like MSL or JSL or Welspun.

Saket Kapoor: Sir, we are mainly into the connector part, not the casing pipe, casing pipe manufacturing has been done by the pipe manufacturer?

Pramod Kumar Gupta: That is true, yes. So, we either supply the connectors or we supply the combined products, we buy the pipe from the pipe mills and weld our connectors to them and then supply to the ultimate customer which is the oil Company. The final product which goes to the oil Company is casing pipe with connectors.

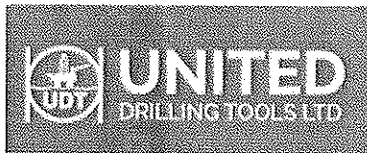
Saket Kapoor: So, just to get an understanding, the margins are better when you sell the connectors directly to these pipe manufacturer rather than doing the job work for them, how the margin for pipe changes when you do the job work also for them, firstly sourcing the casing pipe from a pipe manufacturer, then going for the connector and then supplying it to the oil Company, how the margins is there?

Pramod Kumar Gupta: Well, the margins are always better in Connectors, than, when we are supplying casing pipe with Connectors.

Saket Kapoor: Sir, what are the key reasons that you are the only players? Is it the technology or patent or what is the key reason as you have mentioned that you are the only player and what is the market size in this segment, sir?

Pramod Kumar Gupta: Actually, the main reason is in this, the high technology, very high precision and whatever products we are manufacturing and supplying, they are all patented products, so all three of them are working that we are the only player in this field. Now with regard to market size of connectors, I would say it is about Rs. 50 to Rs. 60 crores a year in India only and of course the world pipe there is a huge market for these.

Saket Kapoor: And if you could give me a unit price, what is the single unit with the bare minimum specification a connector cost, I just wanted to understand the volume of connectors you are selling in quantity terms?



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- Pramod Kumar Gupta:** I can say that about, there are 6000 to 7000 sets of connectors each year which are required by the oil companies in India alone.
- Saket Kapoor:** That is the annual requirement?
- Pramod Kumar Gupta:** Yes, that is the annual requirement.
- Saket Kapoor:** And currently, all these 6000 to 7000 are being made by United Drilling Tools?
- Pramod Kumar Gupta:** Yes, please.
- Saket Kapoor:** And globally, sir, what is our exposure and globally, sir any peer comparison you can give who are manufacturing these connectors?
- Pramod Kumar Gupta:** Globally, there are 4-5 companies who are manufacturing these connectors, I can give the name of few, like General Electric used to be one of them. There is another Company called Drill Quip and then there is another Company called, Oil State Industry. Mostly, these companies are from US, all three of them and then National Oil Well, of course, these are the four major.
- Saket Kapoor:** Sir, for this 9 months, how have been the cash flows for the companies if you could give the cash generation at the end and I think to the last annual report there was some loan to the promoter entity, P. Mittal, I was looking at the annual report, what is the current outstanding balance as on date, sir?
- Pramod Kumar Gupta:** I will check that. Now, P. Mittal is a 100% owned subsidiary of United Drillings Tools, so it is almost like giving loan to your own Company.
- Saket Kapoor:** And on the cash flow front sir, if you could give what have been the cash generation for the Company for the 9 months and what have been the utilization of that cash?
- Pramod Kumar Gupta:** Mehtaji, can we reply that or you will also....
- Mukesh Mehta:** We are a cash surplus Company, so we have not utilized any cash credit facility from bank during the 3 quarters, still we have surplus as on date.
- Saket Kapoor:** What is the cash bank balance if you could give that number?
- Mukesh Mehta:** It is around 20 Cr to 25 Cr .
- Saket Kapoor:** Sir, with respect to your dividend payout, if I note that your 9-month number, your EPS comes around Rs. 21 and you had made I think the second interim dividend payout of 90 paisa, so

what has been the total payout that has been made the shareholders including this and absolute numbers?

Pramod Kumar Gupta: I think it is 21, Mehtaji?

Mukesh Mehta: Sir, last year we paid dividend of 21%.

Pramod Kumar Gupta: Probably the same we are saying this year, isn't it?

Mukesh Mehta: As may be decided by the Board of Directors of the Company.

Saket Kapoor: We can look for dividend payout means we have one more quarter, I just wanted to understand what is the policy behind paying 90 paisa or 80 paisa something like this, on what premise if you conclude with this dividend payout, that was my question, since we are a cash rich we have the inventory backup and all working capital requirement and all, we are not using bank credit, if I am correct me there also, how is it Rs. 0.90?

Pramod Kumar Gupta: Actually, this is usually decided by the board and board usually has helped in their wisdom that around 20% is the good number to play that leaves enough money for the Company to grow also and as well as the shareholders also get their share of dividends.

Saket Kapoor: So, 20% will work out at 450?

Pramod Kumar Gupta: Mehtaji, can you answer that, please?

Mukesh Mehta: Actually, our policy is to share the benefit with the stakeholders also, so we have the capacity to pay to the shareholders, so that every year if you see the historical data that every year we had paid the dividend for the last 6 to 7 years and in between we paid a bonus share also in the proportion of 1:1.

Saket Kapoor: Sir, current employee trend?

Pramod Kumar Gupta: 370 people are working presently.

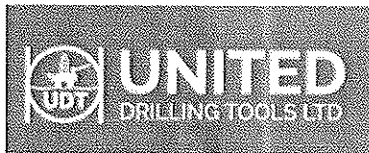
Saket Kapoor: And permanent and contractual included?

Pramod Kumar Gupta: Yes, please.

Saket Kapoor: I think the employed cost is around 10-12 crores for a year?

Pramod Kumar Gupta: Yes, I will have to check the numbers, but it must be around there.

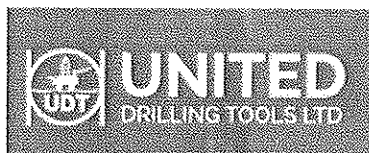
Mukesh Mehta: It is around 7% to 8%, employee cost.



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- Saket Kapoor:** And sir, what includes this other income component of Rs. 60 lakh for this quarter?
- Mukesh Mehta:** FDR interest.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.
- Nitin Gandhi:** Sir, you said approximately connector market in India is 60 crores, can you share same for the stabilizers and valves?
- Pramod Kumar Gupta:** I can just say that the total market in India for our product is around 300 crores and the export market is of course 8000 to 10,000 crores, so it is very difficult to differentiate between all of them because it keeps on changing from year to year little bit.
- Nitin Gandhi:** How much is current export percentage for 9 months?
- Pramod Kumar Gupta:** I will have to really check, but I think.
- Nitin Gandhi:** May be a guess estimate, may be 5% here and there. That is okay.
- Pramod Kumar Gupta:** Our exports are about 10 crores, will be 10 crores this year approximately, so that will come to around 5 to 6%.
- Nitin Gandhi:** When we say, our turnover includes casing pipe, we include that figure or we just have the connector figure in our turnover?
- Pramod Kumar Gupta:** No, we have connectors with casing pipes.
- Nitin Gandhi:** So, casing pipe you are buying from out, right?
- Pramod Kumar Gupta:** Yes.
- Nitin Gandhi:** So, can you split in the turnover, how much is traded component and how much is manufacture components?
- Pramod Kumar Gupta:** Even casing pipe with connectors, we buy the raw pipe and then we do certain processes on that and then you held the pipe with the connector and then after that we do certain processes and then finally we sell it to the oil companies. So, actually the basic pipe is just a raw material for us.
- Nitin Gandhi:** Value wise, how much it will be?
- Pramod Kumar Gupta:** Yes, approximately 50-50%, 50% is the value of the pipe and 50% is the connector.



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Nitin Gandhi: And what is the potential maximum revenue possible based on our existing facility, leave aside Mundra?

Pramod Kumar Gupta: We can do easily around 300 to 350 crores with our present facility.

Nitin Gandhi: And if the order comes flowing, I think there shouldn't be any problem to increase?

Pramod Kumar Gupta: Yes, there should not be any problem to increase.

Nitin Gandhi: So, it is just a question of tapping export market for you, right?

Pramod Kumar Gupta: Exactly.

Nitin Gandhi: Now, when you say our 300 crores is the Indian market and if Make in India initiative comes in, will it not be a mandatory for them to buy whatever you are not selling because out of 300 crore market, you are supplying at the most may be say 140 or 150 crores, so balance 150-170 is getting imported, right?

Pramod Kumar Gupta: Yes, actually this restriction that they have to procure these items from Indian market is just for national oil companies only. The private players can buy from anywhere they want to like Cairn, Reliance and there are few other oil companies.

Nitin Gandhi: Can you give split for 300 crores market, how much is private, how much is government?

Pramod Kumar Gupta: I would say around 200 to 220-230 crores is the government and the balance is the private.

Nitin Gandhi: And out of our sales, how much is the government?

Pramod Kumar Gupta: Our sales are about, I would say, 70 to 80% is government.

Nitin Gandhi: And margins are across all the products more or less same?

Pramod Kumar Gupta: Yes, for the different products, the profit margins are different, like for connectors it is higher, but for gas lift valve or stabilizers, it is comparatively lower or with casing pipe connectors, it is lower.

Nitin Gandhi: Can you share some gross range within which they are?

Pramod Kumar Gupta: I can give you just approximately, I think casing pipe with connectors is around 25% and gas lift valves and stabilizers are around 20%, 18 to 20% and connectors is around 40 to 45%.

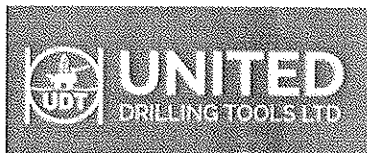
Nitin Gandhi: Whom should I contact in case of more questions and other things?



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- Pramod Kumar Gupta:** Mr. Mehta is there, you can be in touch with him, please.
- Moderator:** Thank you. The next question is from Pranay Jain as an Individual Investor. Please go ahead.
- Pranay Jain:** What is the revenue growth visibility that we have for the next 1 to 2 years based on one, the orders in hand, second, the export promotion activities that we have undertaken, what is the internal aim that we are looking at?
- Pramod Kumar Gupta:** I can give you around 3 to 4 years down the road, we are looking at revenue of about 600 crores and in next 1 to 2 years, it will be around 300-350 crores,
- Pranay Jain:** And out of this say 300 crores, what is the indicative export pie going to look like?
- Pramod Kumar Gupta:** The export will definitely be a good portion of that. It should be around 35 to 40%.
- Pranay Jain:** And pick up in the export numbers should be visible in say starting second half of the coming financial year, especially the market that you are not mentioning Egypt, Libya, Vietnam and may be some others if you could give us some color which are being excluded?
- Pramod Kumar Gupta:** Yes, actually our export numbers are increasing already and I would say yes, the reasonable jump should start coming in third or fourth quarter of next year.
- Pranay Jain:** And export markets that we are targeting, say in the top 10 out of the three that we have already listed?
- Pramod Kumar Gupta:** We are targeting like in Middle East, there are several countries, Bahrain is where we are getting orders from there, we are getting orders like I said UK, there are some orders which we are getting from UAE and then Singapore and Indonesia and there are few others which are there from where we are getting the orders. US is also one of them.
- Pranay Jain:** And sales promotion professionals/small offices that we have set up in these three countries, which are the others that you are planning in the next year?
- Pramod Kumar Gupta:** In these three countries, we don't have our sales office, we have tied up with the marketing companies there, sales and marketing companies in those countries who have very good contacts with the oil companies, so we are primarily working on that if they get us the orders and then we pay them certain amount of commission on each order procured.
- Pranay Jain:** So, besides these three countries, this kind of arrangement we are looking in which other overseas market next year?
- Pramod Kumar Gupta:** I think we have about, some negotiations are going on, with some, we already have arrangements like this, so total we have presence in about 16 countries so far.



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- Pranay Jain:** And any other products that we are possibly working on to add to our booking in the next 12 to 18 months?
- Pramod Kumar Gupta:** Sure, we are in the process of developing side pocket mandrel, then we have almost already developed swift connectors and lynx connectors and there are a few other products you know where we are working to develop. These are all new products.
- Pranay Jain:** What would be the revenue potential of these products in India and also if there is any color for our export business?
- Pramod Kumar Gupta:** Approximately if we say we are successful, then in India it could add up to 100 to 200 crores and export potentials are again, the markets are much higher, but looking at 4% to 5% of the market and other 200 to 300 crores will be there from export markets also.
- Pranay Jain:** So, domestically, we see these products coming to market say FY23 onwards and becoming reasonably visible in the next 12 to 18 months?
- Pramod Kumar Gupta:** Yes, sure.
- Pranay Jain:** And just one last question on what is our plan on the shareholder return and dividend payout say going forward, I understand there is some CAPEX for Mundra, but aside of this as our profitability and free cash flow picture that is better, how do we look to reward the shareholders and what is dividend payout or any other means that we would like at if some indicative numbers can be shared like you have plans on revenue for the next two years or 5 years, something on this front will also be very helpful?
- Pramod Kumar Gupta:** The board decides that, so it is very difficult for me to say, but like we are giving 20-21% dividend probably this year, 21% last year. Before that I think we had given around 35-40% dividend, so if the numbers and the profits will be good, of course the dividend will also increase accordingly.
- Moderator:** Thank you. The next question is a follow-up question from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Sir, for new facility, you mentioned the CAPEX will be 20 crores, so that will be the total CAPEX or it will be followed in further CAPEX in coming years?
- Pramod Kumar Gupta:** I said 20 crores, it should be around 20 to 30 crores, total.
- Anurag Patil:** Sir, even if you 30 crores, then 200 to 300 crores revenue potential you just mentioned, the current asset turns for you are somewhere around 4 to 5 times, so why this revenue potential from such a small investment, it is significantly high, are the products kind of expensive or a higher realization products?



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- Pramod Kumar Gupta:** Some of them are high realization products and then in our current CAPEX, probably we have spent more funds in R&D and developing the product, so the CAPEX may be more as compared to what we are now projecting in future in the new facility.
- Moderator:** Thank you. We have the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor:** Sir, there was a change in the memorandum article that especially with regarding this purchase of ferrochrome, ferrosilicon, iron steel and lot of products and then about manufacturing of PVC, iron steel water pipes, so sir, what exactly are we going to derive from these changes and are these going to be margin accretive things we are going to do going forward, sir?
- Pramod Kumar Gupta:** Actually, we have just put those in there in case we wish to go in those lines, sometimes in future because there is a good export market for some of these products in Middle East and we have enough land in Mundra and it is close to port, Mundra Port, so that is why we have put that in our memorandum and article of association.
- Saket Kapoor:** This not for the current product profile, this is for entirely new product portfolio?
- Pramod Kumar Gupta:** Right.
- Saket Kapoor:** Sir, you have spoken about connectors in oil and gas, do we have anything with respect to rigs also where in any products that is required in rigs and we are developing or we are already working for it?
- Pramod Kumar Gupta:** No, not related to it. Most of our products are consumables which are used in drilling oil well.
- Saket Kapoor:** But in case of the connectors, these will stay till the life of the pipe?
- Pramod Kumar Gupta:** Yes, you see when you drill a well, you have to put these pipes with connectors in the well and then cement it, so once you drill a well, they are gone forever, it cannot be reused actually.
- Saket Kapoor:** And in the same well, with the passage of time, is there an incremental demand for our continuous in a well where there is an oil output or is it once for the life of the well?
- Pramod Kumar Gupta:** Usually, it depends from product to products. If there are stabilizers and gas lift valves, you keep on needing new gas lift valves and stabilizers after every 2-3 years, but for the casing pipes, once you drill a well, you put the casing pipes there and then you don't really need it.
- Saket Kapoor:** So, the demand of connectors are repeated demand for the same well?
- Pramod Kumar Gupta:** Yes, it is not a repeated demand from the same well, but it is directly proportional to the number of wells being drilled. What I was saying that usually in India, presently around 500

number of wells are being drilled by National Oil Company and there is a prospect of increase in the number of wells every year by 15 to 20%, so that way requirement of our products with regard to casing pipes and connectors will increase accordingly.

Saket Kapoor: The demand is only from Oil India and ONGC or the private players Cairn, Vedanta also are our customers?

Pramod Kumar Gupta: They are also our customers, actually Vedanta, Cairn, and Reliance and there are Baker Hughes, there is Slumber J, the Halliburton, all are our customers.

Saket Kapoor: Sir, these are business plans that are being done for our long-term, so you must be having a fair idea of how much wealth is ONGC planning to drill, ONGC of 1 year, 2 year down the line because the CAPEX had to be planned ahead and then only the delivery schedules are to be done, so 500 wells are currently being drilled on an annual basis, this is the number for the country?

Pramod Kumar Gupta: Yes, that is for ONGC and Oil India.

Saket Kapoor: And what is the thought process from the companies going forward for the next financial year?

Pramod Kumar Gupta: I would say that there is an increase of around 15% to 20% .

Saket Kapoor: Sir, just to have a basic understanding the sites are not increasing, it is not that they are exploring today at one place and tomorrow they will be exploring at a different site. If the site are same, the continuous process only to bring out oil from the well they have to replace these things with wear and tear, is there that the replacement demand from the same well or otherwise?

Pramod Kumar Gupta: No, it is otherwise. There are different sites you see, they call them basins. Like in India there are 18 different basins. By basin I mean a very big chunk of land where the seismologist knows that there may be oil. So initially there is a study done by seismic surveys where the oil can be there. After that they explore at wells to check if oil is there or not and then finally if oil is found, they start the drilling production as well. So, what I am saying is, it is not one side or the same wells where the work is going on. There are new wells being drilled all the time wherever the seismologist feels that oil or gas may be there.

Saket Kapoor: Sir, last point is, so an existing well, which is producing oil and gas on a continuous basis, what are the key consumables which are required there and are we anyway planning to be a part because that would be a recurring continuous demand from the product if a well is generating oil?

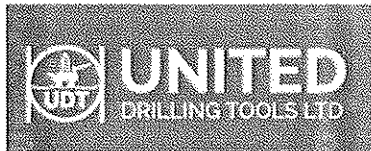
Pramod Kumar Gupta: Just like I said that gas lift valves which we are manufacturing, which is a recurring requirement, so that is one product line which we are manufacturing plus we are developing



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another product called side pocket mandrels, they require also sometime. So, those are recurring requirements from the same old wells. Wireline winches are also required to repair and fix the old well. So, these two product lines are there which are really being used for the old wells.

- Moderator:** Thank you. The next question is from Apurva Shah from PhillipCapital. Please go ahead.
- Apurva Shah:** Sir, just a clarification, on the global market sales of 5000 crores, what would be the breakup between casing pipe and connector?
- Pramod Kumar Gupta:** You mean the breakup of casing pipe and connector and gas lift valves and winches like that?
- Apurva Shah:** I think on the slide number 33, we have given a very nice presentation where we have given the global market size of our products, so there casing pipe and connector mentioned is 5000 crores out of which we only manufactured connectors, so that is why I am looking for what is the approximate size of connector market globally?
- Pramod Kumar Gupta:** I would say that it should be out of 5000 crores, connector market should be approximately 2000 to 2500 crores. It is about 50-50%.
- Apurva Shah:** And sir, one clarity, so I think since few quarters we have been expecting a large order from our key customer and I think because of, I don't know what is the execution, but still that is not reflecting in our order book, so probably that might be now at the pipeline, so what is the status there, is there any problem in the customer end or what?
- Pramod Kumar Gupta:** No, I think you may see it in the next quarter actually, they are under process because of COVID and few other things it was slightly delayed.
- Apurva Shah:** Delay is only because of the COVID, right?
- Pramod Kumar Gupta:** Right, yes.
- Apurva Shah:** On a yearly basis, if I look at your working capital cycle there might be some fluctuation seen upon the yearly basis, so that might be possible because of number of reason, so I just want to understand on a steady state basis, what could be our working capital cycle and if you could bifurcate between what are the typical inventory days, what are the typical receivable days and may be payable days?
- Pramod Kumar Gupta:** Actually, primarily it takes about 4 to 6 months for our products to be manufactured, so that is what our turnaround time is and we usually get our receivable pace in 30 to 45 days, mostly 30 days actually and so based on that we calculate our working cycle.



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- Apurva Shah:** I think what you mean to say is our net working capital cycle might be in the range of may be 50 to 70 days?
- Pramod Kumar Gupta:** Right.
- Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Dhiral Shah for closing comments. Thank you and over to you.
- Dhiral Shah:** On behalf of PhillipCapital, we would like to thank once again the management of United Drilling Tools for giving us the valuable time. Pramod sir, would you like to give any closing comment before signing up the call?
- Pramod Kumar Gupta:** Sure, I want to thank everybody who has participated in this presentation and we are really high obliged for their time and if there are any further questions, we are always available, Mr. Mehta and myself. Thank you very much once more.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.