



“Dolphin Offshore Enterprise India Limited Q4 FY11 Results Conference Call”

**May 20, 2011**



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MR. SATPAL SINGH – MANAGING DIRECTOR, DOLPHIN OFFSHORE**



**Moderator:** Ladies and gentlemen, good evening and welcome to the Analyst Conference Call hosted by of Dolphin Offshore Enterprises India Limited to discuss the financial results for the year ended 31<sup>st</sup> March 2011. As a reminder, for the duration of this conference, all participants' lines are 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, please signal an operator by pressing '\*' and then '0' on your touchtone phone. 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 evening ladies and gentlemen. Welcome to the Analyst Teleconference Call for the Year-Ended March 31, 2011. The financial results I think have been declared and I think all of you would have got a copy but for those of you who have not had the time to go through the results I will quickly run through the figures both for the year ended 31<sup>st</sup> of March on a standalone basis as well as on a consolidated basis. I am not reading out the prior year comparative figures. I think all of you know what will be the nature of this year which really does not reflect too much upon performance of the current year. But we are always willing to take any questions that may come up on either of these issues.



So to start with total income on a standalone business was about 289.78 crores. Total expenses 250.72 crores. EBITDA was 39.05 crores. Profit before interest and tax 43.18 crores. Profit before tax after adjusting for interest and depreciation 32.41 crores and net profit after tax 22.41 crores resulting in earnings per share of Rs. 13.90 per share. On a consolidated basis the revenues for the year were 315.15 crores. Total expenses 276.36 crores. EBITDA profit 38.79 crores. Profit before tax of 27.31 crores and net profit after tax of 15.85 crores. Earnings per share has been Rs. 9.83 per share. Having read out these figures I now throw the conference open to anyone who has any questions. Mr. Satpal Singh is also there to answer any questions that you may have.

**Moderator:** Thank you. Our first question is from the line of Nikunj Doshi. Please go ahead.

**Nikunj Doshi:** The obvious question is of the visibility.

**Satpal Singh:** Yeah, as far as the performance this year is concerned as you see from the earlier three quarters there has been a slow down in our business largely reflective of what has been taking place in the market over here with prices crashing down and international companies coming in and picking up a major portion of the work. But the encouraging thing that you should notice is a change for the previous three quarters into this current quarter where we have been able to book a revenue of 88 crores and we started to pick up contracts, we



picked up the contracts from SCI for Sevak and Prabha which is a one-year contract and will continue through till the end of March 2012. We picked up some more subcontracts works locally over here, in fact, this particular season which normally ends around the beginning of May we are going well into the end of May and some contracts even into the middle of June. There are a lot of tenders which are now coming out from ONGC, as you know, this is the period that most of the tenders are processed down by ONGC during the monsoon period for work to commence post monsoon. There are a number of Greenfield projects of ONGC's that are already been issued, there are two tenders out for Greenfield Well platforms to be built, there are two tenders for pipelines already out these will be submitted in the month of June. Values of these two tenders as far as ONGC's budget is in the vicinity of around \$850 million. We are pursuing two of these tenders directly as bidders or consortium partners and the others we would provide subcontract services too whoever the successful party is. We have four tenders already submitted for work internationally. Two of them are in Qatar and two of them are in Saudi Aramco, the first two tenders our bids have been technically approved, the evaluation of the remaining parties have been carried out, price bids would be open sometimes towards the end of June on these two tenders, we will have some information available around I would say the third week of June on the outcome of these tenders.



We have more tenders coming out from ONGC apart from these four which are already out. There is a tender from ONGC for the turnkey tender for the inspection of platforms in Bombay high 40 platforms and all which involves the provision of DP vessels with separation and air diving services. This is ideally suited for the type of resources we have given the Seamec I charter that we have for the next two plus one plus one year, plus our own vessels Vikrant Dolphin which I am very happy to tell you is sailing this evening at 5.30 from the ship yard where it has been built for its final trials and testing. We have another tender coming up for repair and Brownfield project for the repair and upgradation of the BPA field of ONGC which is similar to the ICP and NQD contracts which we have executed two years ago. And there are some more tenders for the Revamp Brownfield work again, Revamp of Well platforms and some upgradation of equipments on various platforms of ONGC. Before the year is over we will be participating and bidding tenders either directly as main bidders consortium partners or subcontractors for tenders in excess of around \$800 billion. That is pretty much the situation vis-à-vis tenders over here.

We also have submitted offers; we have been approached for a two-year contract in Mexico, where they have a requirement for DP vessel for which the Vikrant Dolphin has been offered. And is basically just to be used as accommodation module. The initial requirement was to start



towards the end of this year but they had an accident offshore where they lost one of their vessels, so they are even considering preponing that requirement. We have offered the Vikrant Dolphin as well for two more contracts in the Middle East and one contract in Southeast Asia for the monsoon period, and we are hopeful that we will be able to pick up some work during the monsoon for this particular asset. We have also got the Beas Dolphin which is sailing for the Middle East in the first week of June when she finishes her current assignment she will be towed offshore and we have offered that vessel on two jobs, one for Saudi Aramco and one in Abu Dhabi. The AMS Divine continues to operate in Saudi Aramco and that contract I think will conclude around the end of this month and we have a follow-up requirement for the vessel for a period of six months also in the Middle East. There is pretty much where we are going ahead. There is no doubt. Profit is down, turnover is down compared to the last year and this is largely because of the outcome of the last year's tender process where we did not manage to pick up any of these Greenfield projects. The Greenfield projects as you know are Dolphin's weakest strength because neither is our fabrication yard ready and nor do we have the heavy installations were required for the offshore work. Yes, we came pretty close to winning. On three occasions, we were the second lowest bidder, won by a small margin of \$2 million on a \$237 million contract. In order to strengthen our position in the market this year we have tied up and identified



various partners, some international, some Indians, so that we can put together the best of what we each has to offer and come up with more competitive solutions and proposal for the projects which we are now pursuing.

**Nikunj Doshi:** And Vikrant Dolphin is basically the new construction barge which is coming in or...?

**Satpal Singh:** That is right. That is absolutely right.

**Nikunj Doshi:** Okay. So we do not have anything on hand right now for that vessel, you put in for bid now?

**Satpal Singh:** We have already submitted four jobs, the similar four tenders already for the vessels which are in the process of being evaluated. Obviously, till the vessel is delivered the parties will not clear the vessels technically till we hand over the certification. The vessel is sailing this evening from Bharuch were it is being built. It is going to Pipavav port where the final DP trials and testing will be carried out. And as per schedule, we will have a certification in place by the 28<sup>th</sup> and on the 29<sup>th</sup> we will sail the vessel straight to the Middle East because we need to get that before the onset of monsoon, otherwise, the vessel will be stuck in Indian waters because of the weather conditions.

**Nikunj Doshi:** And this vessel, particularly, say-, you mentioned that in Mexico it is offered as a ....



- Satpal Singh:** Accommodation vessel.
- Nikunj Doshi:** Yeah. This kind of vessel if it goes on accommodation vessel then obviously you will be...
- Satpal Singh:** Actually no, because the advantage of the Mexico job is that it is specifically required in DP mode and there are very, very few DP accommodation barges available. And as a DP vessel, the rate of this barge is dramatically higher than when we pitched against the conventional barge. And we have the fluidity on this barge of either offering it as a DP if there is a DP requirement or going into a conventional 8 point mode anchor to compete, for the type of jobs we have been doing, where we did not need a DP vessel we have the 8 point mooring systems and for that the rate is lower. So it is not really a disadvantage taken on that contract because the rates are higher and more importantly, it is a continuous two-year charter including through the monsoon.
- Nikunj Doshi:** And ONGC that extra work what we had done, what is the status of that now?
- Satpal Singh:** Well the first round of discussions on the NQD have been concluded. The reports are being finalized and with the recommendations of the committee has been identified by ONGC to examine our claims. That recommendation will be put up to the tender committee which is responsible for evaluating and recommending to the board, the extra claims.



In the case of ICP that meeting is scheduled for Monday. But it is the start of the process.

**Nikunj Doshi:** But I mean change of government will hamper this process?

**Satpal Singh:** No, not at all.

**Nikunj Doshi:** And what is the claim going in the first round?

**Satpal Singh:** The ICP claim?

**Nikunj Doshi:** Yeah.

**Satpal Singh:** The ICP claim I think is in the vicinity of about 55 crores.

**Nikunj Doshi:** Okay. And in terms of the current order what we have on hand around...

**Satpal Singh:** Let me clarify that. The claim of 55 crores is inclusive of the refund of the liquidated damages.

**Nikunj Doshi:** Now, this 126 crores order book right now what we have written in the presentation, what does that comprise of? It is only the vessel charter order book or...?

**Satpal Singh:** No, this is a conclusion of the work for the current monsoon season, I mentioned to you work is still going on and will carry until June. This is part of the work that we are doing with Leighton for the PRP contract. It includes the new job we have picked up from L&T for removal of some structures under water, it includes work we have done for British Gas, it



includes the new contracts we have won from SCI which are continuing on till March, some work we are doing with Sime Darby in Malaysia. So basically, it is a cross-section of all the activities that Dolphin normally undertake. Top side marine and diving. In fact, the marine input on this is relatively small because that is more in the Dolphin Offshore shipping order rather than in this company's order book.

**Nikunj Doshi:** And Dolphin marine spread how is it, you utilize that now, how many vessels?

**Satpal Singh:** Well, as you know in the Dolphin Offshore group right now we have six tugs, all six at this present are operating, five are on long-term charter, one is normally kept as a standby replacement when one of these five have to be sent for dry docking but for that one vessel we picked up spot charter work, we presently have a pretty good order for that vessel as well. So, as of this moment, all six are working. We have the AMS Divine, which is anchor handling tug, that is in contract right now in Saudi Arabia. That Beas Dolphin is still on charter and is due to return around the first week of June, when I finish that project then we will sail her to the Middle East where we have already offered for two different projects. And we should know by the first week of June the outcome of the first tender. The Brahmaputra Dolphin is also on charter but that charter will expire pretty soon by the end of the month and then the vessel will return to Bombay. Ganga Dolphin and Kamrup, I think the Kamrup is presently



in harbor, the Ganga Dolphin is doing some completion punchlist work. These are the vessels that we have. And then we have the Seamec - 1 which has been chartered by us on a long-term basis. The Seamec - 1 is presently working and will carry on working, she sails this morning and started the new job with L&T, and that job should go through till the first week of June. After that we will send her to the Middle East where we made offers for the vessel. We have also made an offer for the same vessel for some work in Malaysia. Wherever we strike our first contract we will deploy the vessel there. But after completion of the current work in June, there is no firm order for further deployment.

**Nikunj Doshi:** And this JV in Saudi, what is the progress on that?

**Satpal Singh:** Well, the papers have all been filed, but it is a slow going process. What we have done in the interim is we have been technically qualified, so we have tied up with another party who are already established over there. I mentioned to you earlier on that we have decided to synergize our resources the companies who have resources overseas, they try and be more competitive. So that is what we have done on the two tenders that we have bid. We are pursuing that work through these entities.

**Nikunj Doshi:** Okay, thanks and all the best.

**Moderator:** Thank you. Our next question is from the line of Bunty Chawla from Span Capital. Please go ahead.



**Sanjeev:** Hello, Sanjeev here. Can you just update us on your subsidiaries in the Mauritius and the shipping?

**Navpreet Singh:** Yeah, the Mauritius company as you know is the company that is currently owns the Beas Dolphin and place the order also for the Vikrant Dolphin. And Dolphin Shipping subsidiary which is Dolphin Offshore Shipping is the one that owns all the other vessels that is based in Mumbai. Now, as far as Dolphin Shipping is concerned, they have done a turnover of about 40 crores during the course of this year. Net profit of about 3.5 crores. In terms of Dolphin Mauritius, they have raised about \$8 million and they have incurred loss of about \$350,000. This loss is basically on account of the fact that the Beas Dolphin was undergoing major refit for the mooring system from July till about the beginning of February 2011 and therefore the charter for the vessel has been relatively low. Furthermore, there has been nearly about a million dollars of depreciation that has been charged to the books. This was launched in December 2009.

**Bunty Chawla:** Sir, going forward, looking at your business current scenario, what steps are you taking to be a technically superior than the MNC companies coming into India for the contracts or getting contracts ahead of them? Like you said you are the second lowest bidder in some of the contracts. So what more steps are you taking?



**Satpal Singh:** We have done a lot of analysis of the results of the various tenders that we have bid. And if you look at it the tenders have come out, we have bid all the Greenfield projects. The Greenfield project is either for installation, I mean for fabrication, installation of Well platforms or process platforms or pulling of pipelines. The main cost component of a platform or a process platform is the cost of procurement, fabrication and offshore installation. In the case of these projects, we have the necessary in-house resources to tackle the procurement. We do not however have a fabrication yard even though we have fabrication capability and competency. So the first area in which we are deficient is to own the yard so you can control the fabrication cost of the platform.

**Bunty Chawla:** I guess you are looking in Jaffarabad?

**Satpal Singh:** That is right. That is why we approached the Gujarat government for the Jaffarabad project. However, in the absence of our own yard, we decided that we needed to tie up with somebody who did own a yard and so we tied up with Pipavav shipyard. And based upon their yard and our fabrication capability, we pursue that tenders in which we were the second lowest bidder. The third element of the cost is of course the high cost of heavy lift construction barge. That involves a major expenditure investment of close to \$150 million which is not something that we are going to look at, not at this stage. The solution therefore for us was to



tie up with an international party who owns the right assets and try and get favorable rates from them. For these reasons, one, we have pursued and we will continue to pursue the Greenfield projects for getting to well platforms and process platforms. We do not really believe that that is Dolphin's strength. Now, come to the next area of Greenfield projects which is pipelay. Now, pipelay involves again surveys, pre-engineering, post-installation, pre-construction surveys, it involves procurement, it involves pipe coating, it involves marine loader and transportation that it requires topside modification, it requires pipelaying, it requires riser inflation, it requires subsea work. With the exception of the actual pipelay, and the coating of pipelines, we have every capability in-house. The key to getting a contract successfully for pipelay therefore hinges on our ability to obtain a highly competitive cost for the pipelay activity, because everything else we are competitive on and we are in control of. For this purpose, we are now examining with various companies to enter into a long-term exclusive arrangement where we can either acquire and access to or take over on charter a pipelay barge which we will then operate ourselves. And I would say equal playing field is not a preferential playing field for the pipelay projects. The launch of the Vikrant Dolphin gives us a cheaper cost alternative than a pipelay barge for doing all the riser escalation and tie-in work. Being present in India, we have a low mobilisation / demobilisation cost. Given these scenarios, we should be able to put far more competitive



pricing together. As far as the Brownfield projects are concerned, a lot depends upon the quantification and assessment of the actual scope of work. There is a lot of grey area in Brownfield projects. The only thing that we were lacking in the Brownfield projects was our own construction barge. The Vikrant Dolphin maybe too expensive for these given its DP capability and the likelihood of us deploying either for pipelay projects or internationally in Mexico as I mentioned earlier. We are now looking at taking on a long-term charter an accommodation barge. In the same manner as we have taken the Seamec – 1 on a long-term charter and Seamec – 1 has proven to be the main contributor to our turnover and bottom-line over the last four years, in a similar manner, we intend doing a deal for a hook-up and construction barge. I hope that answers your question.

**Bunty Chawla:** Yes, quite a long one. Sir, going forward in this scenario, basically in the Indian context, most of the contracts were from ONGC, you were looking at some Dubai, Qatar that contract. I mean looking at three years down the line where do you see yourself coming up with the outside India player?

**Satpal Singh:** Yeah, actually, as of today, it is true that ONGC continues to be our main client either directly or indirectly on the basis of the subcontracts that we take from ONGC other contractors. But we are already doing work with British Gas, we have done work with Cairn Energy, we are pursuing projects onshore right now as well, we have submitted offers to the



Nuclear Power Corporation, we had submitted offers already as I mentioned to you in RasGas Qatar as well as Saudi Aramco in Saudi Arabia, we have been prequalified by all these oil companies there. We now need to yet qualify with a few more, we have been qualified now in Abu Dhabi by Dubai petroleum company at ADNOC, we are positioning right now till we finish the season we have our assets coming back, we will be positioning one saturation system, one air diving system, the Seamec – 1, the Vikrant Dolphin, the Beas Dolphin and the AMS Divine, all in the Middle East. So we are actually moving the bulk of our asset base into the Middle East immediately following conclusion of the season to start picking up work in the Middle East itself. Our target is I am not sure what will happen in three years, more like at about four years time, we should get 50% of our revenues from overseas. That is our target.

**Bunty Chawla:** Sir, one more thing. Have you settled all claims with ICP, NQD projects and even the L&T?

**Satpal Singh:** No, no, in terms of settlement, as far as ICP and NQD are concerned our claims are all in. In the case of NQD we had a first round of discussions so that ONGC has understood the basis of our claims. ONGC have had internal discussions among their different departments about the various claims and they are formulating their own opinion about the claims we have made. This will be put up now to the tender committee for their evaluation and based upon that they will



make a recommendation to the board. After they get the board approval they will come back to us and let us know what they feel is acceptable to them or not acceptable to them. That is in the case of NQD. And ICP, our first round of discussions will take place in the coming Monday. In the case of L&T the matter was referred by L&T. So the dispute between L&T and ONGC in which we were a subcontractor effected in back to back manner. The decision has been taken by the OEC. The OEC is the outside expert committee appointed to intervene between ONGC and its contractors to come to a settlement on disputed matters and instead of going to arbitration. They have come up with a particular recommendation which has been agreed to by L&T and ONGC. The document has been prepared for I believe it has been signed. Right now, the asset has to process the claim from the board of L&T for release of the additional funds. We in turn have had several dialogues already with L&T to finalize what portion of what has been approved by the OEC is payable to Dolphin and what to L&T. All this should be concluded by the end of June.

**Bunty Chawla:** So L&T by end of June you are expecting and ICP, NQD another quarter like, by September end?

**Satpal Singh:** Well, the thing is it all depends on what the eventual recommendations are made by ONGC on our claims.



**Bunty Chawla:** The total amount including ICP, NQD and L&T will be around 95 crores, is it not?

**Navpreet Singh:** Actually, we booked net 33 crores of changed orders, 58 crores of LD we have not provided for.

**Satpal Singh:** I think the total claim comes to about 115 crores.

**Bunty Chawla:** Okay. Sir, coming to the basics I mean by what quarter can you predict the future, like expecting the orders or going forward you said 126 order you have currently in your hand?

**Satpal Singh:** My guess is that it is going to be an ongoing thing. We should know the outcome of the two tenders which have been technically qualified in the Middle East already, we should know by the end of June. The deployment of Vikrant Dolphin and Seamec-1 during the monsoon we should know by the month of June as well. The Beas Dolphin, Vikrant Dolphin and Seamec-1. Rest of it will not come out because rest of them the tenders are yet to be submitted. The big tenders for the pipeline as well ONGC tender for the turnkey inspection of platforms, I do not think the result of that will come out before September-October; it is going to be a progressive thing.

**Bunty Chawla:** Yeah, sir, last time you told that ONGC was going with 4,000 crores of the Brownfield contract. How much of them are tenders, like they are processed, I mean other competitors have bagged the orders likewise?



**Satpal Singh:** Out of the estimated 4,000 crores of Brownfield work that we are talking about it include all the pipelines tenders for PRP, the new well BHD it includes the revamp of topside 40 Well platforms, the DP and all this and those tenders are yet to come out. The tenders that are out right now are the Greenfield projects. If I remember correctly I mentioned 4,000 crores on pipeline and Brownfield which included these two tenders which are being submitted in the month of June for the clusters 7 series and the WO40.

**Bunty Chawla:** Okay. Right. Thanks a lot and best of luck.

**Moderator:** Thank you. Our next question is from the line of Rupen Masalia from RN Associates. Please go ahead.

**Rupen Masalia:** Basically, can you throw some light on the current chartered hire rates for new construction barge with DP installation that is Vikrant Dolphin and....?

**Satpal Singh:** We have submitted offers for the Vikrant Dolphin as a DP construction barge at around \$42,000 a day, \$42,000 in some cases, \$39,500 depending upon the nature of the work and the type of crane we have to provide. So that is about the ballpark figure for the DP construction barge.

**Rupen Masalia:** Okay. And for work boats?

**Satpal Singh:** Work boats we have, had the Beas Dolphin on charter at a rate of around \$11500 a day. And as you know for the



Brahmaputra Dolphin, we have been getting various rates ranging from 9,500 to 12,000 even depending upon market conditions.

**Rupen Masalia:** And sir, regarding its deployment, I mean without any Brownfield work or maybe the Greenfield project and if you were to exclusively deploy all these new fleets, then would that be deployed for say maybe 250 days in a year?

**Satpal Singh:** Yeah actually for the Vikrant Dolphin my priority and preference is to put it to work in Mexico on a two-year contract, because nothing beats having continuous deployment during the monsoon. And the rates are also very encouraging; we may be able to get the rates that we have quoted, so it actually makes a lot of sense to give that vessel out on a long-term charter. Saudi Aramco in particular is our main target for the Beas Dolphin. The reason is that Saudi Aramco, apart from the spot contract of three months four months, five months, they give contract of three years, five years, six years, seven years and their restriction is vessels are up to ten to maximum fifteen years and they prefer to deploy brand new vessel, so Saudi Aramco in particular is and one of the tenders which will come out now which we are bidding in association with another Saudi Arabian company that is one of our main thrust area for the Beas Dolphin. And as far as deployment over here on Brownfield projects and all are concerned but obviously that is the fall back plan and if Dolphin is not successful in being the main



bidder for the contract there is nothing to stop us from being the subcontractor and this year the 287 crores of business that we have done has primarily come from our position as a subcontractor. So there is a lot of Greenfield projects that have already been awarded and they require all these assets for deployment. One of our existing clients Sime Darby have another project starting next season and hopefully we will be able to pick up that work as well and this time around they have asked us not only to provide our engineers and top side team but they have also asked to provide the marine spread, so the opportunities for deployment of these marine assets are high.

**Rupen Masalia:** Okay, and sir, can you throw some light on typical EBITDA margin for all these new fleets, Vikrant Dolphin and some sort of operational parameters?

**Navpreet Singh:** The EBITDA margin should be around the vicinity of about 60%, of course in the initial years, the interest depreciation charges would be a lot higher but operating and cost, etc., we don't think it should be more than about 40% per annum.

**Rupen Masalia:** Right and sir, couple of days ago, L&T won one Greenfield project from GSPC in KG Basin so that is roughly Rs. 1450 crores. Are we pursuing some sort of subcontracting work out of it?

**Satpal Singh:** Well we have been doing a lot of hook-up both for ONGC top side work for them so we are hopeful that we maybe able



to pick up but a lot depends on how L&T eventually decides to approach the project. If they have to go out and subcontract the whole thing because it's a very heavy lift which maybe beyond the capacity of their own barge, then the scope of work that we can provide maybe limited. If, however, they decide to do it and find a way to do it with their own barge by breaking it up in the sections which can be handled by the new barge is a 3000 tonne capacity crane, if they go that route then the scope for us to provide them with services would be much greater.

**Rupen Masalia:** Right, and sir, how is the competition intensity nowadays especially in the Indian water considering that the crude is hovering at maybe \$100 to \$125 of late so how is the intensity from competition?

**Satpal Singh:** Competition is still very stiff. There is still a lot of international players who are actively pursuing work in India. I mentioned to you earlier on that the Middle East had slowed down a lot, Southeast Asia has slowed down a lot and suddenly, we were getting a whole lot of parties from abroad who have not even pursued work before in India as well as those who had being a lot more vessel in pursuing the contract that ONGC had because there was no downturn in ONGC's demand for services. What is encouraging today though is that in the Middle East now there is visibility almost \$16 billion worth of work is going to be awarded.



**Rupen Masalia:** Okay, over next one year?

**Satpal Singh:** It has already started, I think Saipem has picked up \$4 billion contract from Saudi Aramco, McDermott have another \$4, \$5 billion contract, Leighton has picked up a \$1 billion contract, there is a lot of work coming up over there right now and that will lead to a situation where all these idle assets will be deployed and that will help firm up the rates over here once again. The Southeast Asian market is still relatively low. For the immediate monsoon period of this round of tendering of ONGC, I expect there will be continued competition but I think that some of the parties who will be competing this year will not be as hungry as they were before, but we have to go on the basis that we are up against the hungriest.

**Rupen Masalia:** Okay, right and finally coming to our core competency that is Brownfield projects by any chance have we skipped or any major work went away to competitors in the last couple of quarters?

**Satpal Singh:** Yes, a big setback for us was we lost WIN tender to Leighton we had formed a consortium with Great Offshore to bid the WIN tender revamp and I think there were about four or five bidders, we were again the second lowest bidder we were outbid by Leighton and our analysis of that shows that we estimated that there would be a lot more work to be done than perhaps what they have, because in their program they



estimate they finish the entire work in one season whereas our estimate was that it would take more than one season, more like one and a half to two seasons, so that's perhaps is the reason why we have lost and only time will tell whether our assessment was right or wrong.

**Rupen Masalia:** And sir, we are also acting as a subcontractor for Leighton for some ONGC work?

**Satpal Singh:** Yes we have been providing them with all the diving requirements on the PRP tender plus they have chartered some of our marine assets.

**Rupen Masalia:** Okay, okay and sir, finally looking at the overall bidding pipeline may be locally in the Middle East and your own assessment over '10-11 what sort of ballpark figure can you give us?

**Satpal Singh:** I am not sure I understand the question. What do you mean about '10-11 pipeline tenders, we had none other than the subcontract service we were providing.

**Rupen Masalia:** No, what I am asking is looking at the current situation bidding pipeline in the local market and Middle East pipeline which you all are pursuing, in the light of this, in the current financial year that is FY11-12 what sort of guidance or what sort of visibility you have like internally over 2010-11?



**Satpal Singh:** Look, I don't want to give too much information of where about our market strategy or thought process about it, I can just say to you that in the two tenders which are already out from ONGC we are talking about close to \$370 million of pipeline to be laid and if you use a rule of thumb of \$1 million per kilometer that gives you an idea as to what the magnitude of the contracts are but the contracts differ because there are additional components in some cases there is a plant to be installed, all kind of subsea work to be done on the topside modification work to be done. All I can say is that if we are to be successful in winning any of these tenders we cannot expect to have high margins, we have to be highly competitive, and we have to have the right tie-up with the person owning the most efficient or cost efficient asset for pipelay, we already have I would say the most cost-efficient DP DSV and the Seamec-1. We have our topside in-house expertise for all the modification work and we are looking tying up on a long-term basis a hook-up accommodation barge, which is cheaper than the Vikrant Dolphin.

**Rupen Masalia:** Okay, that is it from my side and all the best for future sir.

**Moderator:** Thank you. Our next question is from the line of Alok Deshpande from Elara Capital. Please go ahead

**Alok Deshpande:** Yeah, sir, first question is general housekeeping question, out of the 289 crores of revenue; can you just put a number on



what would be the contribution from ONGC directly or indirectly?

**Navpreet Singh:** I would say about 98% of it come has directly or indirectly from ONGC.

**Alok Deshpande:** Right and my second question is more of a broader question about how this sector would probably shape up over the next three to five years. When you mentioned competition from international players, what sort of strategies are they using, is it purely based on prices are they cutting down their prices mainly to get contracts or is it better quality also?

**Satpal Singh:** The main competitiveness they have been able to achieve has been on the basis of offering the depreciated assets at operating base value. If you analyze the entire history of the oil and gas industry its always been cyclical and the biggest yardstick of the industry has been the rate of jack-up rigs and they tend to follow the variations in oil price historically and what happens is when you are on a falling market and you suddenly have a lot of assets being stacked up that means put to patch idle, rates come down all the way to the variable operating cost for the simple reason that as long as your rig is operating, its been maintained, but the minute you stack it or you keep it part, the restart up cost is huge which is why if you have noticed even in ONGC that the rates that awarded in previous tenders went up to \$165,000 a day but they have come all the way down to \$58,000 a day now and that price



fluctuation is the difference between variable cost and market situation, that is the area which we lost our arm, because we didn't own the asset, we had to go out and hire it from somebody else.

**Alok Deshpande:** So mainly it was because the charter hire model that you take the opportunity....

**Satpal Singh:** Absolutely.

**Alok Deshpande:** Okay and do you see this as something which will probably continue like you said...?

**Satpal Singh:** As I said as soon as the market in the Middle East starts, the tendering process has already started, contracts have already been awarded; it is when the work physically starts offshore which is invariably a time lag of about nine months, one year, one and a half years. That's when you will find that the rates will start picking up, that's the lag.

**Alok Deshpande:** Right, where I am coming from is till very recently I mean the Indian oil field services market, the domestic players were depending entirely on ONGC and now with this influx of international players, are we seeing a shift because we have missed something which I have observed in other oil fields players as well, are we seeing a shift where there is a decisive effort to transfer or get some business from other regions as well globally?



**Navpreet Singh:** Absolutely, we ourselves are doing that, the fact is that most of the international companies who come in dumps prices to win contracts over here are reluctant to dump prices in their own backyard because of the long-term implications with the existing clients that they have, which is why we have decided to go into their yard and compete with them over there. And you will see a lot of Indian companies moving actually, L&T has already set up a base in Oman, they are pursuing projects in the Middle East, you have companies like Punj Lloyd and all who have done work or had their assets deployed overseas in the Middle East, so yes, you are right there is a move among Indian companies to start exporting their services and part of it is reflective of the fact that our own market over here has been threatened and we all have assets that need to be deployed.

**Alok Deshpande:** And one more question when you talk about fixed cost or variable cost, somebody like say, BakerHuges or Schlumberger these guys come to India, engineers or geologists, would not that be more than what oil field players have here in terms of Indian engineers?

**Satpal Singh:** Yes, the rates are higher, but the example that you take them of BakerHuges and Halliburton Schlumberger for all for instance these are pretty much monopoly industry and they are able to get their price and so you are right, our cost of operations Indian engineers are much cheaper than the international, but the Indian companies would not qualify.



**Alok Deshpande:** Right, sir, it is mainly because of the brand value they have?

**Satpal Singh:** It is not brand value; it is the track record and the know-how which is patented.

**Satpal Singh:** Alok, if I can add, in our particular area of activity, most of the costs that goes in is basically either on cost of fabrication or its on the cost of deployment of equipment whether it is the marine spread or the diving equipment or the heavy lift equipment, etc., and although the manpower cost of foreign companies is higher it's a very small cost in the overall percentages, the overall cost of actually executing a contract because the bulk of the money really goes in the marine spread and other equipment costs. And that is where these companies have really been able to cut their costs down dramatically.

**Alok Deshpande:** Right, and just one last question when you are looking at markets like in Middle East or Africa anywhere outside India, when you look in the national oil companies there are Indian oil field companies facing any difficulties in getting orders, what happens in India, for example.

**Satpal Singh:** Actually, you will be surprised the answer is no, to share with you we recently put in a tender to RasGas in Qatar, for a diving cum survey job involving provision of a DP/DSV and other vessels and certain specialized equipment for subsea work. We actually bid initially as a subcontractor to a Middle East based company but after we had all our presentation and



gone through all the procedures, presented the HSE manuals and all of that the client has actually turned around and made the main bidder change positions with us to make us the main bidder which would never happen over here, the bid would be disqualified but here the client has turned on and said no, we have more faith in Dolphin's ability to do the job than yours and they are providing more of a contribution and stake of the work so they must front the bid. So I am quite surprised I think I have always thought that it would be very difficult to make inroads inside these well-established markets, they have been around a lot longer than ONGC has but I was pleasantly surprised.

**Alok Deshpande:** Okay, so it is a very highly merit based you can say?

**Satpal Singh:** I would say that, they are very exactly technically make no mistake about it, and their system requirements are immense, but if you understand the ropes it is a lot easier.

**Alok Deshpande:** Okay, and since you mentioned HSE norms, after the BP rig disaster have the quality standards gone up a notch higher in terms of what people look for when they hire oil field service there?

**Satpal Singh:** Well I think that's a given, every time there has been a major incident internationally anywhere in the world all oil companies sit up, take stock, analyze, we have various associations internationally like IMCA for instance, they analyze what went wrong, they come up with their



recommendations and they pass it to every member. So for instance all the marine construction companies, the diving companies they all are members of IMCA and IMCA has guidelines which are continuously upgraded and we as members of IMCA are required to follow all these guidelines so it's a continuous ongoing process, because every time something happens it happens for the first time because of one problem you take special care to ensure that it does not happen again because the financial and ecological ramifications of these type of incidences are huge.

**Alok Deshpande:** Yeah, got it, okay, and all the best and have a great weekend.

**Moderator:** Thank you. Our next question is from the line of Alok Devrao from Sushil Finance. Please go ahead

**Alok Devrao:** Yeah, just had a few questions, one was on the international competition, like we had recently lost order since we were L2, so are we now in a position where we would be lowering prices and compromising on the margin front?

**Satpal Singh:** I think to some extent that has to be done because in a foreign market to survive you have to do things, you have to reduce your margins but you also got to find cheaper ways of doing the same thing and if you really want to make the breakthrough I would say a combination of both, so yes, we are looking at margins, we are also looking at ways in which we can cut our operating costs variable and fixed costs, and we are also looking at synergizing with companies and



sharing part of the work so the areas that we are strong in we can retain so it's a combination across the both.

**Alok Devrao:** Okay, in the last couple of quarters during con-call we had discussed I mean we were emphasizing on the point that you would not be cutting margins drastically so at what level can we do that?

**Satpal Singh:** Let me explain that to you. When we talk about cutting margins dramatically, we are talking about the Greenfield projects which we have been held on. The problem in these Greenfield projects are a combination of different cost components and the only areas in which you have personal control over are the ones which you physically execute yourself, you have no control over procurement in the sense that you are dependent upon the supplier for his cost other than your ability to negotiate better deals with them, whether it is financial terms of credit or whatever or whether it is in terms of a stronger negotiating power, whether you have exclusive arrangement with one party against another party of all your tenders so you got to look at all those particular angles, only with the objective of bringing down the actual cost. In the case of our assets, we are getting our prices as a subcontractor because our prices for saturation diving, air diving, our cost of our marine spread is all very competitive by itself. So in way we are chartering out or offering day rate services we do not really need to cut our margins because we are already competitive there but we have to cut our margins



on the EPC contract there we have been chasing where we have ended up L2.

**Alok Devrao:** Okay, so it would not be too substantial a portion of the whole business?

**Satpal Singh:** No, not on our own assets and our own services but on everything else that we are looking at. For instance if I used to bid a tender let us say a 25% margin across the both, including on services I am subcontracting or procuring from overseas, and I am just throwing that figure in the air, it is not indicative of what we are doing or not doing, I need to relook at that given the current scenario and reduce those margins.

**Alok Devrao:** Okay, so focusing on the international competition like you just sometime back spoke about going into international markets and competing so as we have discussed like there are a lot of gaps where we have to tie-up with others to fill up the gap. So would we be really competitive...?

**Satpal Singh:** Absolutely, and that is what I mentioned, it is all about synergizing with party who can provide you the most cost-effective solution. So, for instance, a tender that we bid in Saudi Arabia, we are far most cost-effective in the diving side. They have marine assets sitting in Saudi Arabia which had been deployed by Saudi Arabia for this particular tender, the first tender we had bid, which is for stabilizing of the pipeline, and the reason we have gone with them, even I could have said I will take the Beas Dolphin from here, we



have the marine spread but it would not have been competitive for this particular job.

**Alok Devrao:** But do you think the pricing which would be bid by the international players we would be able to bid below that considering that they already are able to bid at competitive values?

**Satpal Singh:** Yeah, horses for courses. The Beas Dolphin is not suitable for this particular tender that I bid. It is more than adequate and it is competitive for the next tender, in fact the party who has the existing contract, which is coming up for retender, I have asked us to provide them with the Beas Dolphin to replace the current vessel they have, at the price we have quoted.

**Alok Devrao:** Okay, so we would be able to at least get close to what they would be able to?

**Satpal Singh:** Absolutely, absolutely.

**Alok Devrao:** Okay, and one question was regarding the baseline revenues like in Q4 we have achieved like assuming in the next quarter we have what we had in Q4 where we do not have too much of order inflows, so this could be considered as a base case revenue figure assuming we just employ the assets for accommodation purpose or something like that?



**Satpal Singh:** I am not sure if I have understood your question with regard to Q4 because Q4 tends to be one of our better quarters, right.

**Alok Devrao:** Actually we just wanted to know what could be the base case for revenues?

**Navpreet Singh:** Alok, let me put it down that way, because really speaking because as long as our operations are based primarily in India as it is now, what tends to happen is there in the first quarter we have revenue earnings capacity for the whole of April and maybe half of May, after that there is a little bit of a gamble as to how long we can carry on depending upon the weather conditions. Q2 is all monsoon so nothing happens. Q3 in the monsoon field work may start anywhere between the 15 to the end of October so again you only get two months and in Q4 that you get a full three months of activity so if you look at base rates Q4 is not exactly the best way of looking at it because this is one quarter where you get full three months of activity.

**Alok Devrao:** Okay, so on an average if we see what could be the base revenues if we want to consider for FY12?

**Navpreet Singh:** I am not sure we can really give you a figure on that because it also depends upon what really is required by the clients and when so everything starts bang on, on day one. So the company that has a contract may not require diving to start till about 20 days, 30 days after they start laying pipeline, on



the other hand some companies may require you to provide manpower from day one because you need to do some set up work, etc., for installation of various equipments, hook up and commissioning will happen later, so in our business is generally quite difficult to establish what really is a base rate as long as we can keep most of our assets occupied right through the working season.

**Alok Devrao:** Right, and just one last question at the start of the con call you had mentioned about ONGC tenders worth around I think \$850 million?

**Navpreet Singh:** Yeah.

**Alok Devrao:** Could you give the break up if possible?

**Satpal Singh:** There are two pipeline tenders out, Cluster 7 and the WO14 and similarly there are two tenders out for the same two fields, Cluster 7 and WO14 for construction of Well platforms, there is the turnkey contract for inspection of subsea structures of 40 platforms of ONGC, there is a 40 Well Revamp projects which is all topside work, there is the residue work of project which has to come up which is the grid integration project, there is the PRP III which is the pipeline replacement project of ONGC, all these contribute towards that cost.

**Alok Devrao:** Sir those tenders have already come out like..?



- Satpal Singh:** Four are out.
- Alok Devrao:** Four are out, so that would be worth how much?
- Satpal Singh:** I would imagine that, that should be in the vicinity of around \$600, \$700 million.
- Alok Devrao:** Okay, so most of entire area is out, right?
- Satpal Singh:** In terms of figure it is more than \$850 million when you add these other projects that I talked about because some of these projects are not the Greenfield and Brownfield projects, there are ongoing maintenance projects as well, which is a separate budget.
- Alok Devrao:** Okay, so out of this how much we have already bid for or...?
- Satpal Singh:** No, the tenders are out for four of them and those four tenders are closing in the month of June.
- Alok Devrao:** Okay, so the bidding process have not started yet?
- Satpal Singh:** The bids are not yet submitted.
- Alok Devrao:** All right, that would be all from my side and all the best.
- Satpal Singh:** Thank you very much.
- Moderator:** Thank you. As there are no further questions I would like to hand the floor over to Navpreet Singh for closing comments.



*Dolphin Offshore Enterprises India Limited  
May 20, 2011*

**Navpreet Singh:** Thank you and thank you all for participating in this Analyst Meet. We look forward to meeting you again at the end of the first quarter of financial year 2011-12, where we will discuss the results for Q1, and we look forward to sharing good news with you in the near future as when news comes along. Thank you very much.

**Moderator:** 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.