



**“Aban Offshore Limited Q2 FY 2017
Earnings Conference Call”**

November 07, 2016



ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Aban Offshore Earnings Conference Call, hosted by Axis Capital Limited. 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. Prashant Tarwadi from Axis Capital Limited. Thank you and over to you Sir!

Prashant Tarwadi: Good evening to you all. On behalf of Axis Capital, I welcome all participants on the conference call of Aban Offshore Limited. Today we have with us Mr. Gopalkrishnan - Deputy Managing Director and Mr. S. Srinivasan - Senior Vice President. They will start with the overview of the company's performance and then we can switch to question and answer session. Gentlemen, thanks a lot for your time. Over to you Gopal Sir!

C P Gopalkrishnan: Good evening everybody. This is an earnings call. I welcome all the participants to the Earnings Call of Aban Offshore Limited, Q2 FY2017. Our performances continue to be impacted by the oil prices due to which some of the rigs remain idle. As on date we have 9 out of 18 rigs working. The market continues to be sluggish because of the oil prices, although oil price went up to 53; there has been a slide down in the last few days. The good news has been that we have been able to put Aban Abraham into work. It has started working on 25th October 2016 and Aban Ice contract also has been extended for two more months. One more thing, which we wanted to mention to you, is that in order to protect the competitiveness of our market and our bidding strategy we are not able to discuss the rates what we have got. We have got two more contracts, which I think during the conversation we will mention to you, so we will not be able to talk about the rates what we have got. We have got two more contracts, one for DD8 with Santos in Bangladesh which is for one well, 50 days, and we have got also contract with Cairn India in Cairn, for two wells, 75 days, and one optional well. Both will be performed in January to March quarter. In terms of revenues for the last quarter, revenue during the Q2 was 59.6 million, down by 17% compared to Q1. EBITDA during Q2 was 31.97 million, down by 28% compared to Q1. Now, I ask the participants to ask questions, which will be answered by Srinivasan, thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, may please press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Amit Shah from BNP Paribas. Please go ahead.



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Amit Shah: Hello Sir. Just one question, the loss was slightly higher than our estimate. I just wanted to know what kind of impact are you seeing as a result of the idle rigs? It is a new contract also, they are short term in nature, and so what happens with regards to the mobilization fees, etcetera, considering these are short-term contracts, and what kind of EBITDA margins would you look at in these contracts?

S. Srinivasan: As you know, the market is extremely competitive, we are unable to disclose anything related to pricing. Because there are several other rigs, which are being bid, where we are facing extreme competition. That is the reason why we are not able to disclose the prices and anything related to the margin.

Amit Shah: No problem, but what about idle rigs?

S. Srinivasan: We are incurring some losses on idle rigs, which is less than \$10,000 per rig for idle rig. We have on cycled the rigs, so it can go for any work, small or long term at the earliest possible opportunity. Basically, I think what we are trying to do is we have grouped the rigs in a few places for example near Singapore, then in Middle East, so we have now more than rig at a time there, so we are able to reduce the cost significantly.

Amit Shah: And what is the debt repayment for this year and next year?

S. Srinivasan: We have this year about 120 million dollars or something.

Amit Shah: And is anything being paid as of now or this is the total outstanding so far?

S. Srinivasan: This is the total to be repaid; we have paid a part of it.

Amit Shah: How much?

S. Srinivasan: I do not have the exact figure, but I can give you later.

Amit Shah: For FY18 how much is due?

S. Srinivasan: I think it is around 130 to 140, slightly higher than this year.

Amit Shah: Okay, and the payment from Iran have now started coming through?

S. Srinivasan: We are getting, but still we have to receive a large sum from there.

Amit Shah: What is the outstanding so far from them?



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- S. Srinivasan:** We have about 250 million dollars outstanding as of September.
- Amit Shah:** When do you expect that, is there like a cycle, is there a quarterly number that they are paying you or how does it work?
- S. Srinivasan:** There is nothing fixed, I think as you know the oil price is less, the surplus available to them is also limited. We are following several strategies to realize this.
- Amit Shah:** Okay, perfect, thank you.
- Moderator:** Thank you. We take the next question from the line of Prashant Tarwadi from Axis Capital Limited. Please go ahead.
- Prashant Tarwadi:** Thanks a lot Sir. If you can brief about the status of various rigs, which are the rigs which are working and which are the rigs that are idle, that would be great?
- S. Srinivasan:** We have in the Aban Singapore system we have four rigs, which are working, so that is DD2, DD4, Aban Abraham, and Aban VIII. As Mr. Gopalkrishnan mentioned we have got short-term contracts for the rigs DD5 and DD8, DD5 for about 70 days and DD8 for about 50 days, which will be performed in the Q1 of next year. In the Indian company, we have four rigs working for ONGC that is Aban II. We have a contract till April 2019 and for Aban III and Aban IV we have till about March and April of 2018. Aban Ice we have still January of 2017. Aban VI is working in Middle East that we have till February 2018. So these are the 9 rigs plus 2 rigs, which have got short-term contracts, they are yet to start.
- Prashant Tarwadi:** That is helpful. Secondly, you spoke about receivables from Iran, but I understand there is some receivable from Bimex also right, so has that been settled?
- S. Srinivasan:** Yes, it is settled.
- Prashant Tarwadi:** Around 30 million receivables, which were outstanding, we have received?
- S. Srinivasan:** It has been settled.
- Prashant Tarwadi:** Lastly on the overall rig market, not asking about specific pricing perspective, but we understand that Iran is also picking up their E&P activities quite sharply as well as ONGC is also kind of active in terms of their exploration plans, are we seeing some pickup in the overall demand wise or still demand is mute?



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- S. Srinivasan:** It is just picking up, because these two rigs, which were idle for quite sometime, we were able to get short-term contracts, but there is no big market for term contracts, like one year or two years. It is all well based contracts. What we have got for these two rigs, it is well based. One is for two wells and another is for one well. Naturally, it is for very short term. There is no major pickup in term contracts.
- Prashant Tarwadi:** Okay, am I right in understanding that most of the domestic E&P companies based ONGC, Oil India or even Cairn; they are shifting from term contract to more of a spot contract?
- S. Srinivasan:** No, ONGC was always giving for term contracts and they continue to do so, but other private companies like Cairn and all that always used to be spot contracts. It is well based, like one well, two wells, three wells like that, it was always like that, it was never term based.
- Prashant Tarwadi:** On the like-to-like comparison, spot contract in current market environment would be cheaper compared to term contract?
- S. Srinivasan:** We do not know, actually I will not be able to comment on the pricing.
- Prashant Tarwadi:** Okay, and finally, more of a directional speaking, ONGC management has been saying on their various concalls and they have actually reported quite sharp reduction in their operating expenses and one of the reasons that they keep quoting is reduction in the payment to their service providers, so are we seeing a new trend that probably this upstream companies are negotiating very hard?
- S. Srinivasan:** If there is a competition, it will be like that. Let us say 20 rigs are competing for three rigs contract, so naturally rates will come down. In ONGC, everything is tender based because; the competition itself will bring down the price.
- Prashant Tarwadi:** Okay, that is from my side, thank you.
- Moderator:** Thank you. We take the next question from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.
- Miten Lathia:** Good afternoon Sir. Is there a need to restructure our debt repayment obligation or given that it is very low principal payments that are there we will be able to sort of manage with the current stream?
- S. Srinivasan:** We are in constant discussion with our lenders on how to address this issue, but nothing is finalized.
- Miten Lathia:** Okay, is there a proposal live or it is just very, very open-ended?
- S. Srinivasan:** We will not be able to comment on it unless it is concluded.



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- Miten Lathia:** Okay, but you have not been delaying payments till date?
- S. Srinivasan:** There is some delay mainly because the collection has also been delayed from Iran, it is happening, even the market size is down, it was unexpected with the market of Swiss market. We have been discussing with the bankers to see how it can be done.
- Miten Lathia:** Okay, so it is sort of imminent, but not concluded yet?
- S. Srinivasan:** Yes.
- Moderator:** Thank you. We take the next question from the line of Abhinav Ganeshan from Canara Bank Securities. Please go ahead.
- Abhinav Ganeshan:** Good evening Sir and thanks for taking my question. My first question would be that could you just give an outlook on crude prices for the next coming quarter or six months what do you feel because this OPEC meeting on 30th November hold some ground or what is your reading of the situation?
- S. Srinivasan:** Basically I think it can go either way, there is some agreement in the output probably there will be some rebounding of the price, but nobody can predict it. It all depends on how the decision is taken. There was an informal agreement in the Algiers meeting in September, thereafter oil price improved and now it has reduced, it has come down to nearly 45, so you will not know. Basically, nobody can predict it with that kind of accuracy.
- Abhinav Ganeshan:** Okay. I just wanted to understand one more thing. We are very active in E&P in Iran, so how is the situation looking there? Are they beefing up and are we getting some orders from that place?
- S. Srinivasan:** Actually they have increased their crude oil production to presanction levels. They used to produce around 3.8 million barrels per day, which came down to less than 2 million barrels, now they have restored this production. They have good requirement. At the peak, we had about seven rigs working there; currently we have about four rigs working there. We do not see any major increase compared to the other region. Whatever is the trend in other region is happening there also.
- C P Gopalkrishnan:** They have come out with a new petroleum contract, which is still in the early stages.
- S. Srinivasan:** They are actually planning to invite private sector participation in E&P, but till now it is in the preliminary stage.
- Abhinav Ganeshan:** Okay Sir that was very helpful, that is all from my side, thank you so much.



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- Moderator:** Thank you. We take the next question from the line of Abhishek Dutta from Prabhudas Lilladher Pvt. Ltd. Please go ahead.
- Abhishek Dutta:** I just want to know how is the market in Iran, are the price at par with the global trend or how is the pricing trend over there?
- S. Srinivasan:** That is what Iran wants, now they say that they are getting offers from all the countries, mainly from China and other places, so they claim that they want rigs to be offered at the same rate at which it is offered outside Iran, that is what they are asking. Probably there will be a small premium, but not very large.
- Abhishek Dutta:** So the four rigs, which are working currently in Iran, are they at lucrative rates or have they been renegotiated?
- S. Srinivasan:** Whenever a contract is renewed or new contract is entered, at that time it is always reset to the market rates.
- Abhishek Dutta:** Okay. Given the weak financial performance in H1, the debt position is likely to remain at similar levels because you have to pay 120 million dollars this year?
- S. Srinivasan:** Yes, as I was replying to Miten, basically I think we are discussing with our lenders on how to address this issue. Because there are several rigs idle and the oil market is down, we are now in constant discussion with our lenders on how to address this debt repayment issue.
- Abhishek Dutta:** Lastly, the trade receivables of 1961 Crores, bulk of it will be Iran thing?
- S. Srinivasan:** Yes, substantial portion is from Iran.
- Moderator:** Thank you. We take a followup next question from the line of Amit Shah from BNP Paribas. Please go ahead.
- Amit Shah:** Is it possible to give a breakdown of the lenders by amount?
- S. Srinivasan:** No, not possible.
- Amit Shah:** Okay, no problem, thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management of Aban Offshore for closing comments.



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C P Gopalkrishnan: Thank you very much for attending this conference call.

S. Srinivasan: Just as a followup to Amit, as you know we have several lenders in the portfolio and because of the confidentiality with them we cannot disclose the names of the lenders and their exposures. Thank you very much for participating in this and our sincere thanks to Axis Capital for organizing this call.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.