

## Deep Industries

NOT RATED

Beneficiary of increased outsourcing

## Summary

We visited the site and met the management of Deep industries (DEEPIND) for an insight into the company's business. DEEPIND specializes in providing Oil & Gas support services including Natural Gas Compression Services (37% contribution to revenue with a 60% EBITDA Margin), Drilling and Workover Rigs Services (33% to revenue with a 42-45% EBITDA Margin), Natural Gas Dehydration Services (10% to revenue with 60% EBITDA margin) and Integrated Project Management Services (20% with a 27-28% EBITDA Margin). The order book of company has grown significantly in the last 3 years and currently stands at ~Rs 12bn which gives them a visibility of 3 years as per TTM sales. As per management, outsourcing work for compression of gas is expected to increase from 30% currently and DEEPIND stands to benefit from this.

## Key Highlights and Investment Rationale

- **Business Model:** DEEPIND purchases natural gas compression sets/drilling or workover rigs and places them on charter hire (bundled with manpower) with major clients such as ONGC, Oil India and Vedanta. The management asserted that the scope for outsourcing in both natural gas compression and rigs is set to increase as clients look out for more cost effective and time efficient solutions. As clients focus more on core E&P operations, the other operations are bound to be outsourced to leading players such as DEEPIND.
- **Moving higher up the value chain:** DEEPIND is moving up the value chain with unique services such as charter hiring of entire gas processing facility. The company is also looking at expanding scope of services in the rigs business to provide integrated services which in a nutshell expands the outsourcing pie. This will lead to cost and time savings for clients as well as provide them a one stop solution for their outsourcing needs. DEEPIND also stands to benefit from higher margins and reap benefits from their flexible asset model.

TP --

CMP Rs256

Potential upside/downside --

Previous Rating --

## Price Performance (%)

	-1m	-3m	-12m
Absolute	6.0	1.7	94.4
Rel to Sensex	6.9	0.9	70.2

## V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	--	--
Consensus	--	--
% difference	--	--

## Key Stock Data

Bloomberg / Reuters	DEEPIND IN
Sector	Oil & Gas
Shares o/s (mn)	64
Market cap. (Rs mn)	16,384
3-m daily average value (Rs mn)	--
52-week high / low	Rs299 / 127
Sensex / Nifty	72,012 / 21,817

## Shareholding Pattern (%)

Promoters	63.5
FII	2.0
DII	0.0
Public	34.5

## Financial snapshot

(Rs mn)

Year	FY19	FY20	FY21	FY22	FY23
Revenue	3,175	2,618	1,937	3,216	3,413
Change yoy, %	1.5	(17.5)	(26.0)	66.0	6.1
EBITDA	1,523	1,255	803	1,148	1,305
Change yoy, %	(6)	(18)	(36)	43	14
EBITDA Margin(%)	48.0	47.9	41.5	35.7	38.2
Adj.PAT	136	311	648	724	884
EPS (Rs)	2	5	10	11	14
Change yoy, %	580.8	129.0	108.4	11.7	22.1
PE(x)	120.6	52.7	25	23	19
Dividend Yield (%)	0.3	0.3	-	0.3	0.4
EV/EBITDA (x)	11.0	13.5	20.3	14.4	12.8
RoE (%)	1.4	3.2	6	7	7
RoCE (%)	4.7	3	(1)	8	8

Source: IDBI Capital Research, Company

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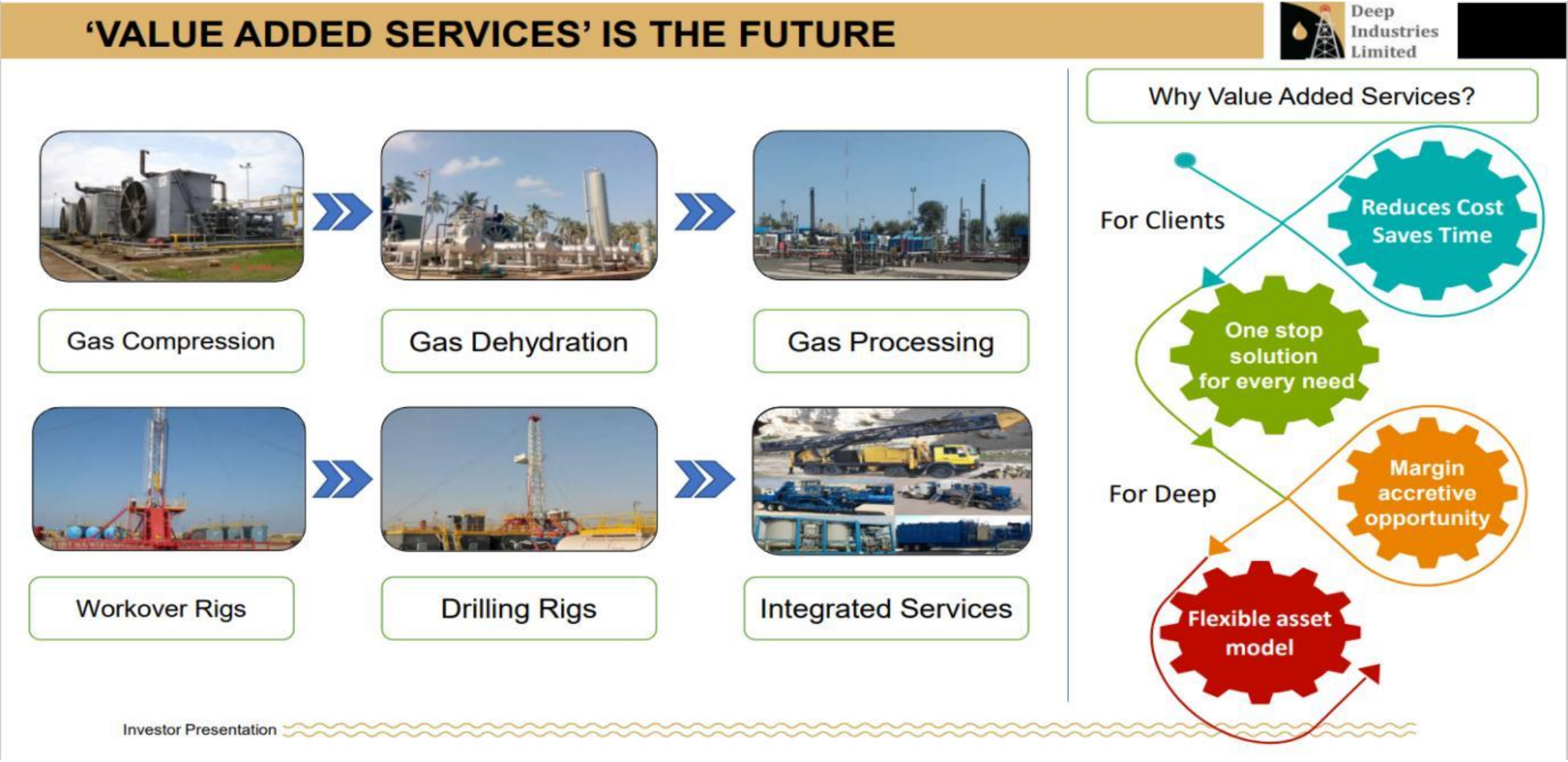
**Key takeaways of the management meet:**

- **Nature of Business:** Gas compression is an indispensable requirement for further processing or transportation. Nature of the natural gas compression business is not cyclical as it has a continuous flow. The company as of now has 3 drilling rigs and plans to acquire 2 more taking the total count to 5. Business in the Gulf (Oman, Egypt and Iraq) is done through the Dubai Subsidiary, Deep International DMCC. For existing equipment which is given on hire, revenue booking typically begins within 2 months. For new equipment, revenue booking begins post 6 months. The company typically undertakes 70% of debt and 30% of equity for new equipment. This debt is targeted to be paid within 3-4 years. The company is executing certain projects on a skid mounted basis wherein they can lift the entire facility from one location to another with a crane which makes relocating easier.
- **Market Share:** More than 85% of the market share is with Deep Industries in the outsourced gas compression segment which makes it difficult for the peers to match rates.
- **Order Book:** Order book is derived as per minimum volume off take of the contract. 70% of the normal rate has to be paid as stand by charges if there is any shortfall in minimum off take. Company has various contracts (45) which vary with respect to different tenures.
- **Business Updates:** DEEPIND is an authorized and approved vendor with KOC (Kuwait Oil Company) for drilling rigs (onshore). This vendor approval process is difficult to crack since the vendor registration process is quite stringent. The margins are healthy and fuel cost is half of when compared to India's. Company will be having 13 rigs (onshore) and no offshore rigs by the end of the financial year.
- **Key Clients:** Deep Industries derives 60%, 18% and 15% of revenues from ONGC, Oil India and Vedanta respectively. Company does provide Gas Compression services to Chennai Petroleum and GACL. The margins are quite high (upwards of 60%) and on an average contracts are of 3 to 5 years.
- **Outsourcing opportunities driving the business:** Outsourcing is preferred by the customers since it results in faster execution and earlier monetization of gas. Efficient execution by the company boosts the revenue monetization cycle to 6-8 months as compared to 12-18 months if done in-house which results in significant saving of time.

- **Dolphin Offshore:** Capex done is usually depending on the awarded contract. Dolphin Offshore was acquired at an attractive price of Rs 270mn and has a revenue potential of Rs 1bn in the near term. Company is doing an additional capex of Rs 450mn in the Dolphin Offshore business for refurbishment. With the acquisition of Dolphin Offshore, the company will be catering to both the Onshore and the Offshore projects. Operating in the offshore segment is more challenging as it escalates the overall supervision cost vs the supervision cost on the Onshore projects side.
- **Client Concentration:** Deep Industries client concentration is high totaling to 93%. (ONGC- 60%, Oil India- 18% and Vedanta- 15%). They only cater to domestic market with Deep and other than that Rs 500mn of revenue emanates from the Dubai subsidiary.
- **Prudent Capital Allocation:** Leveraged competitors have gone wrong in undertaking leverage which ultimately led to difficulties in operating these capex heavy driven businesses. Deep Industries have operated with conservativeness keeping leverage under check.
- **Arbitration and Sourcing:** The company did mention about the issue which was faced with ONGC in the past. The company received Rs 800-820mn of arbitration amount in their favor and is still working with ONGC on their other assets. Deep sources their compressors from US and Rigs from China.
- **Other Income:** Other income majorly includes treasury receipts which consists of income earned on arbitration amount of Rs 820mn received from ONGC as well. One needs to bear in mind that ONGC could challenge this verdict against them at higher levels of the judiciary system.
- **Guidance:** The company is targeting ROCEs and ROEs to reach at 14-15% in the coming years. Deep is focusing on adding more value added services like entire gas processing on charter hire basis. The management believes to use debt optimally and stay quite conservative to debt to optimize their free cashflows.
- **Competitors:** DEEPIND competes with Assam Air Products and Hull Offshore in the Gas Compression/ Gas processing segment. Within Rigs, they compete with Essar and John Energy. In the integrated services business deep competes with MNCs such as Halliburton, Schlumberger and Baker Hughes. Large fleet of different ranges coupled with Pan-India presence differentiates DEEPIND from its competitors.

- **Future of Gas Business:** The management asserted that the government is going to strongly focus on gas development as the consumption of gas would increase from 6% to 15% in the overall energy consumption market.
- **Revenue Metrics:** The revenue in the drillings rigs business is billed on day rate basis while in the case of gas compression billing is done on volumes processed with certain minimum committed volumes.
- **Working of the Drilling Rigs Business:** Essentially, the client first locates the site for the exploration of Oil/Gas. Post which, client outsources the drilling part of that to Deep. Deep then gets all of its equipment on the identified site and starts the work. Post the completion of drilling (when the resource is actually found), Deep does the casing, and installs an equipment to enclose the drilled hole. Post which the entire well site is handed over to the client and Deep moves all of its equipment to a new well site.
- **Gas Compression Business:** The gas compression business is done in the following way. Usually when the gas is extracted (raw), the pressure of the gas is quite low and may not be as per requirement of intended end use application. Deep acts as a player which helps them to compress the gas within an optimal period of time. For instance, gas pressure initially was 3 Kg and after compressing it was raised to 60Kg, further the client can now use the compressed gas for commercial application purposes/further processing/further transportation.
- **Offshore Business:** Dolphin Vikrant (Now 'Prabha') is a Dynamically positioned (DP2) Accommodation Barge with total capacity of 275 men and material handling capabilities. Dolphin Vikrant (Now 'Prabha') is a dynamically positioned Barge ( DP2 ) owned by Wholly Owned Subsidiary of Dolphin Offshore Enterprises (India) Limited. A Dynamic Positioning System is able to control the position and heading of the barge by using thrusters that are constantly active and automatically balance the environmental forces (wind, waves, current etc.). Prabha is currently undergoing the refurbishment which is likely to complete in next 3 months. The revenue stream is likely to start in Q1FY25. DP2 barge like Prabha are in heavy demand due to its features and capabilities. It has potential to generate excellent daily rental revenues of with EBITDA Margins in range of ~ 60%. Contract tenors range up to 5 years.

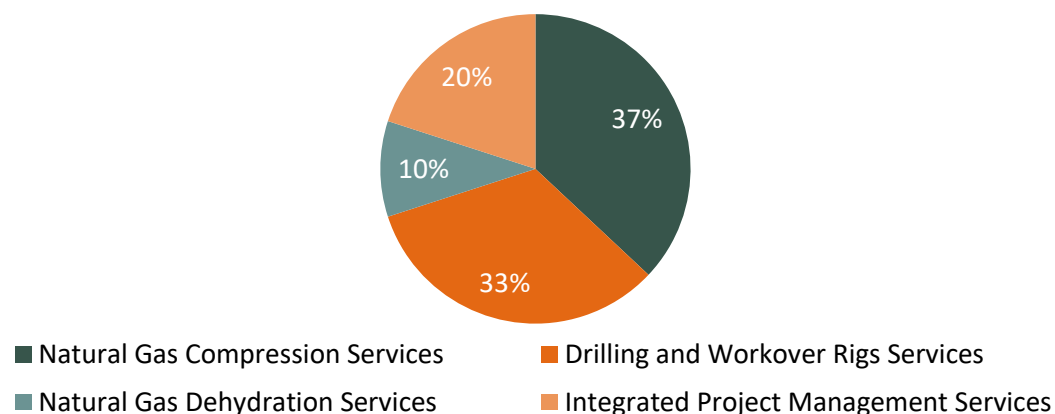
Exhibit 1: Moving up the Value Chain



## About the company

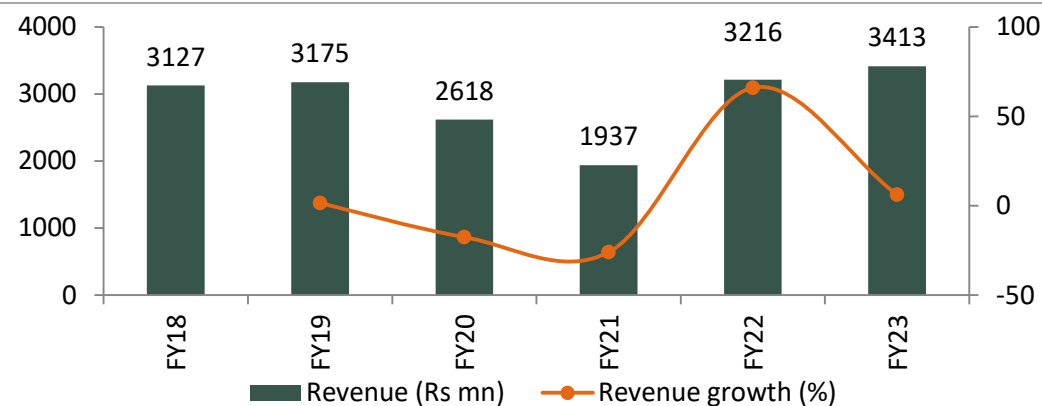
- Deep Industries Ltd. is specialized in providing various Oil & Gas support services since more than 30 years. The Services portfolio includes Natural Gas Compression , Natural Gas Dehydration, Workover and Drilling Rigs Services, and Integrated Project Management Services. Deep is now 'One Stop Solution Provider' for every need of Oil and Gas field operations and services.
- Its comprehensive services portfolio is well supported by wide range of equipments used right from Exploration & Production to Mid Stream Services along with skilled manpower while maintaining safety and quality. Deep started its journey in 90's by pioneering Gas Compression services on charter hire basis and has further expanded into various other services over a period of time.
- Deep has also pioneered the charter hiring of Natural Gas Dehydration and is the only Indian company providing Integrated Project Management Services
- Recently, as a part of 'Value Added Offerings' Deep has forayed into EPC of entire Gas Processing Facilities on charter hire basis and has become the first entity in the country to provide such one of it's kind services.

**Exhibit 2: Segment wise revenue (Rs 3.4bn) break up for FY23**

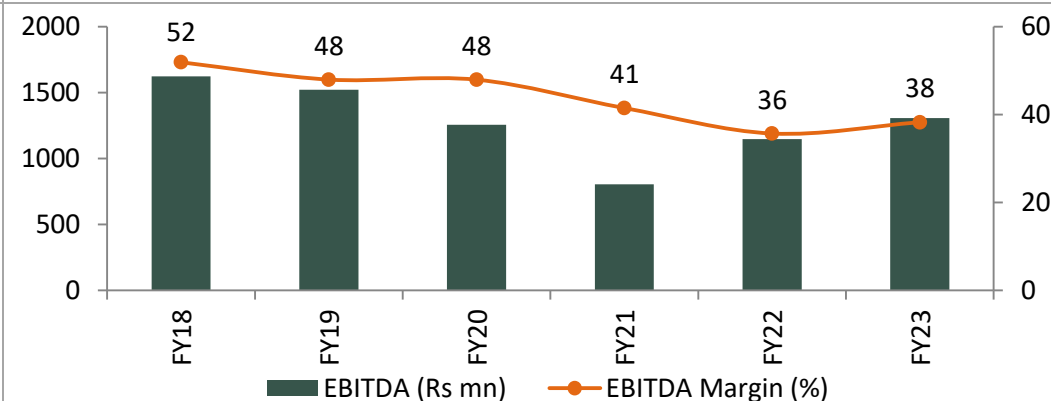


Source: Company

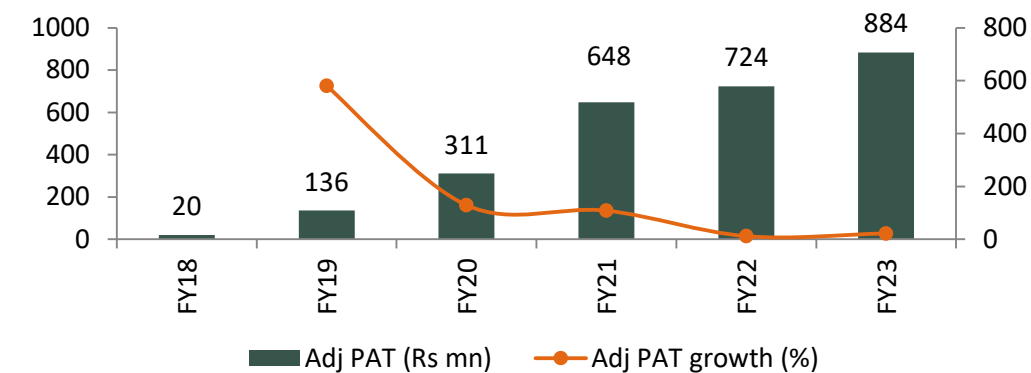


**Exhibit 3: Revenue and Revenue Growth Trend**

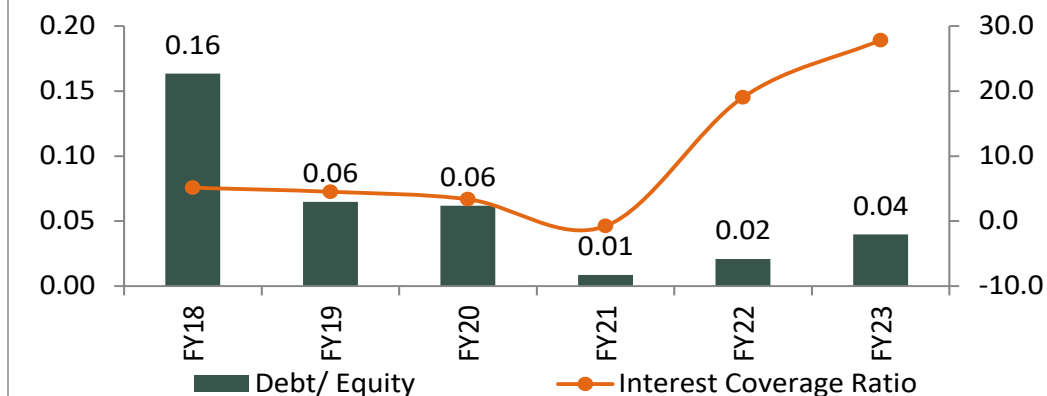
Source : Company, IDBI Capital Research

**Exhibit 4: EBITDA and EBITDA Margin Trend**

Source : Company, IDBI Capital Research

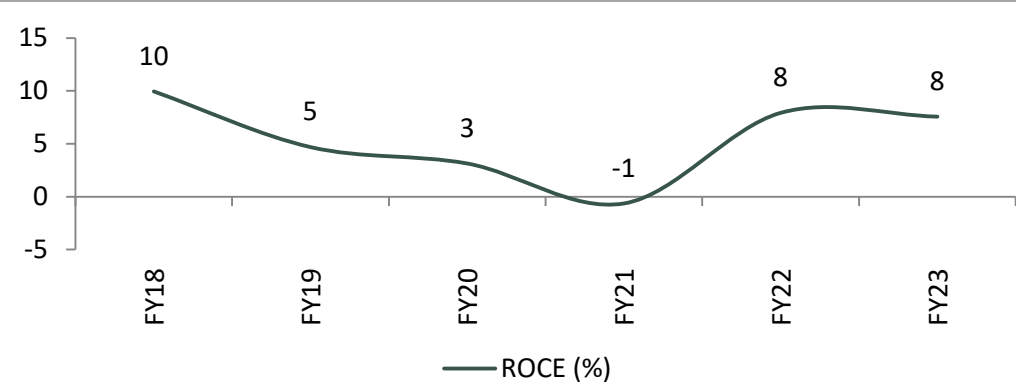
**Exhibit 5: Adj PAT and Adj PAT Growth Trend**

Source : Company, IDBI Capital Research

**Exhibit 6: Debt/Equity and Interest Coverage Ratio**

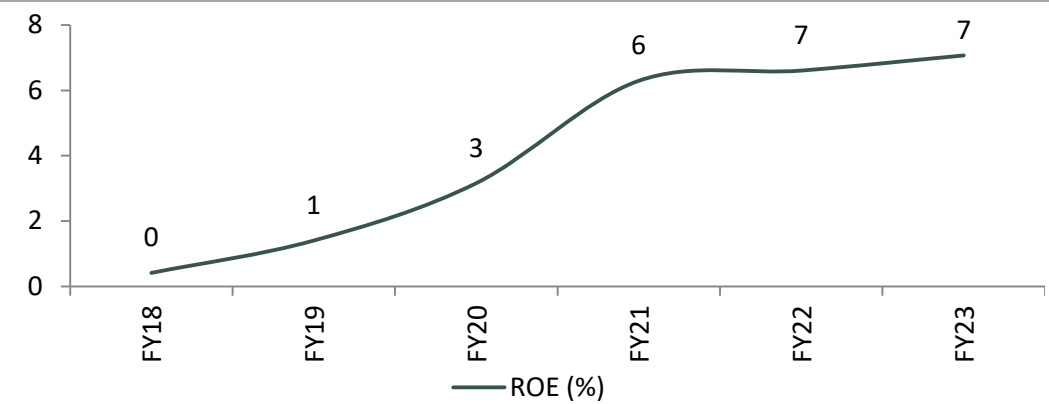
Source : Company, IDBI Capital Research

Exhibit 7: Trend of ROCE (%)



Source : Company, IDBI Capital Research

Exhibit 8: Trend of ROE (%)



Source : Company, IDBI Capital Research

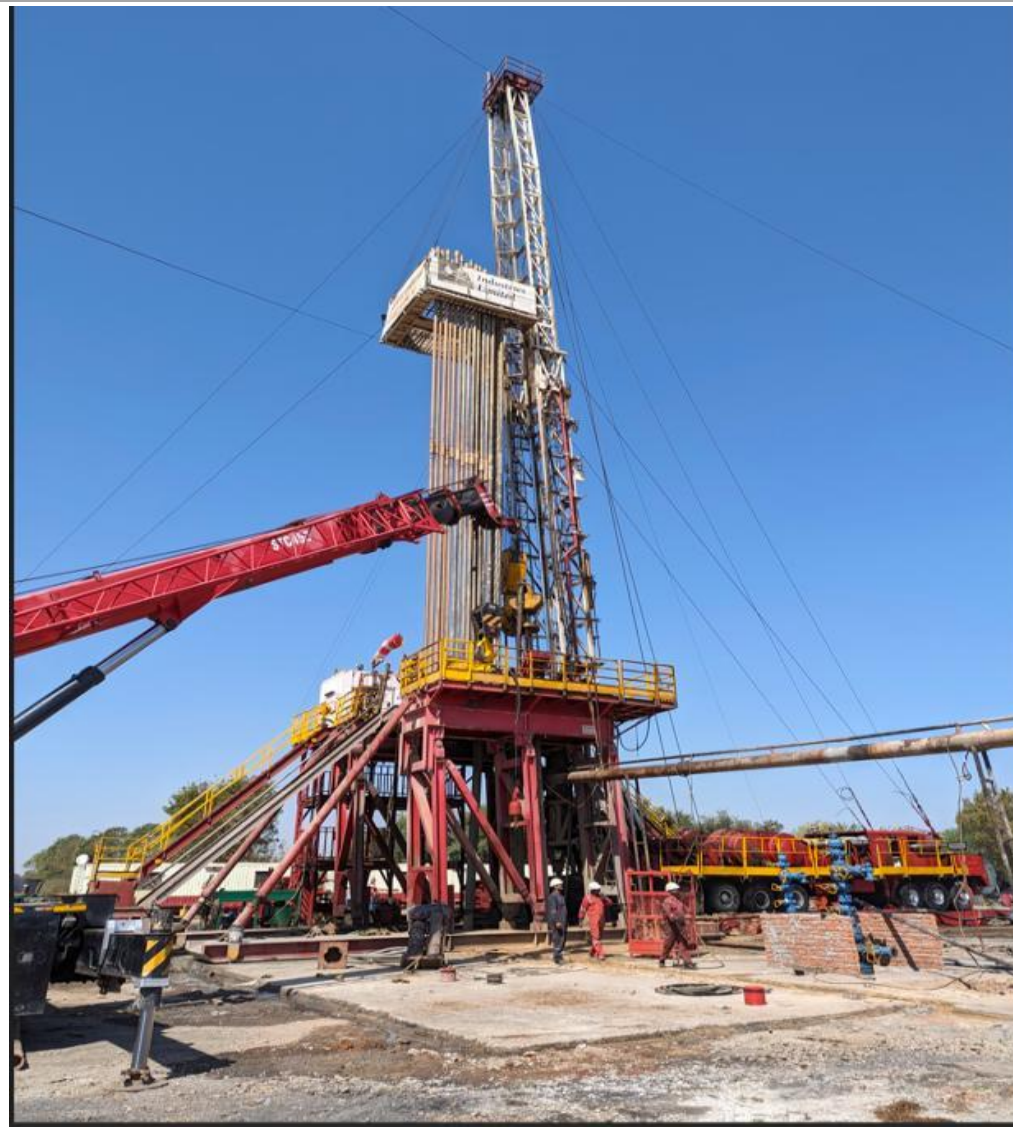


**Exhibit 9: Drilling Rig (Front Side)**



Source : Company, IDBI Capital Research

**Exhibit 10: Drilling Rig (Rear Side)**



Source : Company, IDBI Capital Research



**Exhibit 11: Post Drilling (Drilling Rig Site)**



Source : Company, IDBI Capital Research

**Exhibit 12: Casings (Drilling Rig Site)**



Source : Company, IDBI Capital Research



Exhibit 13: Gas Compression Site (Machine 1)



Source : Company, IDBI Capital Research

Exhibit 14: Gas Compression Site (Machine 2)



Source : Company, IDBI Capital Research



**Exhibit 15: Tool Bin (Drilling Rig Site)**



Source : Company, IDBI Capital Research

**Exhibit 16: Gas Compression Site (Machine 3)**



Source : Company, IDBI Capital Research



Exhibit 17: Gas Compression Site (Machine 4)



Source : Company, IDBI Capital Research

Exhibit 18: Gas Compression Site( Machine 4)



Source : Company, IDBI Capital Research



**Exhibit 19: Gas Compression Equipment ( Gas Compressor)**



Source : Company, IDBI Capital Research

## Management Background

### Exhibit 20: Brief Management Profile

Name	Designation	Details
Mr. Paras Savla	Chairman and Managing Director	With over three decades of expertise, he graduated in Commerce from Gujarat University. Under his leadership, the organization has experienced exponential growth. Guided by his vision, the company has evolved from a mere transportation service entity to a comprehensive provider of energy infrastructure equipment solutions.
Mr. Rupesh Savla	Managing Director	Possessing over 27 years of experience in the energy sector, he has steered the organization towards extensive operational expansion. He completed his Master's in Business Administration from Bentley College, USA, and holds a degree in Commerce from Gujarat University. His responsibilities include supervising the coordination and implementation of various projects.
Mr. Rohan Shah	Director Finance & CFO	A Chartered Accountant with over 17 years of expertise in Finance, Accounts, Audit, and Statutory Compliances, he has dedicated more than 13 years to Deep, assuming several high-ranking financial roles, including Chief Financial Officer. Before joining Deep, he served at ICICI Bank Limited. In 2019, he was honored with the "Financial Express CFO of the year award" in the category of Small Enterprises - Services Industry.



## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20	FY21	FY22	FY23
<b>Net sales</b>	<b>3,127</b>	<b>3,175</b>	<b>2,618</b>	<b>1,937</b>	<b>3,216</b>	<b>3,413</b>
<i>Change (yoy, %)</i>	2	2	(18)	(26)	66	6
Operating expenses	(1,504)	(1,652)	(1,364)	(1,134)	(2,069)	(2,108)
<b>EBITDA</b>	<b>1,623</b>	<b>1,523</b>	<b>1,255</b>	<b>803</b>	<b>1,148</b>	<b>1,305</b>
<i>Change (yoy, %)</i>	30.0	(6)	(18)	(36)	43	14
<i>Margin (%)</i>	51.9	48.0	47.9	41.5	35.7	38.2
Depreciation	(1,029)	(980)	(897)	(876)	(239)	(296)
<b>EBIT</b>	<b>594</b>	<b>543</b>	<b>358</b>	<b>(72)</b>	<b>908</b>	<b>1,009</b>
Interest paid	(116)	(120)	(107)	(94)	(48)	(52)
Other income	46	21	30	66	46	112
<b>Pre-tax profit</b>	<b>524</b>	<b>444</b>	<b>281</b>	<b>(101)</b>	<b>907</b>	<b>1,517</b>
Tax	(504)	(308)	30	749	(183)	(264)
<i>Effective tax rate (%)</i>	96.2	69.4	(10.5)	744.4	20.2	17.4
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>20</b>	<b>136</b>	<b>311</b>	<b>648</b>	<b>724</b>	<b>1,175</b>
Exceptional items	-	-	-	-	-	447
<b>Adjusted net profit</b>	<b>20</b>	<b>136</b>	<b>311</b>	<b>648</b>	<b>724</b>	<b>884</b>
<i>Change (yoy, %)</i>		581	129	108	12	22
EPS	0.3	2.1	4.9	10.1	11.3	13.8
Dividend per sh	1.1	0.9	0.9	-	0.7	0.9
<i>Dividend Payout %</i>	347.5	42.8	18.6	-	6	7

**Balance Sheet**

(Rs mn)

Year-end: March	FY18	FY19	FY20	FY21	FY22	FY23
<b>Shareholders' funds</b>	<b>9,620</b>	<b>9,703</b>	<b>9,974</b>	<b>10,617</b>	<b>11,300</b>	<b>13,702</b>
Share capital	9,600	9,600	9,600	320	320	320
Reserves & surplus	20	103	374	10,297	10,980	13,382
<b>Total Debt</b>	<b>1,437</b>	<b>394</b>	<b>561</b>	<b>85</b>	<b>113</b>	<b>376</b>
Other liabilities	885	1,114	1,079	310	491	608
<b>Curr Liab &amp; prov</b>	<b>1,247</b>	<b>967</b>	<b>744</b>	<b>716</b>	<b>696</b>	<b>1,092</b>
Current liabilities	1,182	915	744	716	696	1,039
Provisions	65	52	-	-	-	54
<b>Total liabilities</b>	<b>3,569</b>	<b>2,475</b>	<b>2,384</b>	<b>1,111</b>	<b>1,301</b>	<b>2,076</b>
<b>Total equity &amp; liabilities</b>	<b>13,190</b>	<b>12,177</b>	<b>12,358</b>	<b>11,729</b>	<b>12,604</b>	<b>15,871</b>
Net fixed assets	10,863	9,841	9,514	8,684	8,731	10,270
Investments	15	14	22	541	669	481
Other non-curr assets	-	-	-	-	34	-
<b>Current assets</b>	<b>2,311</b>	<b>2,323</b>	<b>2,821</b>	<b>2,504</b>	<b>3,171</b>	<b>5,120</b>
Inventories	145	137	265	390	397	457
Sundry Debtors	848	1,271	1,557	1,276	1,355	2,523
Cash and Bank	482	385	373	456	320	428
Loans and advances	836	530	627	383	1,099	1,712
<b>Total assets</b>	<b>13,190</b>	<b>12,177</b>	<b>12,358</b>	<b>11,729</b>	<b>12,604</b>	<b>15,871</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY18	FY19	FY20	FY21	FY22	FY23
Pre-tax profit	524	444	281	(101)	907	1,517
Depreciation	1,029	980	897	876	239	352
Tax paid	(167)	(95)	(81)	(41)	(57)	53
Chg in working capital	(116)	(514)	(705)	43	(558)	(578)
Other operating activities	731	104	77	31	15	(464)
<b>Cash flow from operations (a)</b>	<b>2,001</b>	<b>919</b>	<b>470</b>	<b>809</b>	<b>546</b>	<b>881</b>
Capital expenditure	14	68	(569)	(45)	(286)	(1,134)
Chg in investments	(1,103)	(632)	(737)	(943)	(1,809)	(263)
Other investing activities	453	1,341	716	877	1,334	313
<b>Cash flow from investing (b)</b>	<b>(636)</b>	<b>777</b>	<b>(590)</b>	<b>(112)</b>	<b>(760)</b>	<b>(1,084)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(69)	(58)	(58)	-	(45)	(59)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(508)	(1,410)	98	(538)	184	345
<b>Cash flow from financing (c)</b>	<b>(577)</b>	<b>(1,468)</b>	<b>40</b>	<b>(538)</b>	<b>140</b>	<b>285</b>
<b>Net chg in cash (a+b+c)</b>	<b>787</b>	<b>228</b>	<b>(80)</b>	<b>159</b>	<b>(74)</b>	<b>83</b>

**Financial Ratios**

Year-end: March	FY18	FY19	FY20	FY21	FY22	FY23
Book Value (Rs)	150.3	152	156	166	177	214
Adj EPS (Rs)	0.3	2.1	4.9	10.1	11.3	13.8
Adj EPS growth (%)	61.0	581	129	108	12	22
EBITDA margin (%)	51.9	48.0	47.9	41.5	35.7	38.2
Pre-tax margin (%)	16.8	14.0	10.7	-5.2	28.2	44.4
Net Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0	0.0
ROCE (%)	9.9	5	3	-1	8	8
ROE (%)	0.4	1	3	6	7	7

**DuPont Analysis**

Asset turnover (x)	0.5	0.3	0.2	0.2	0.3	0.2
Leverage factor (x)	1.4	1.3	1.2	1.2	1.1	1.1
Net margin (%)	0.6	4.3	11.9	33.5	22.5	25.9

**Working Capital & Liquidity ratio**

Inventory days	17	16	37	73	45	49
Receivable days	99	146	217	240	154	270
Payable days	58	50	96	104	68	96

**Valuations**

Year-end: March	FY18	FY19	FY20	FY21	FY22	FY23
PER (x)	821.3	120.6	52.7	25.3	22.6	18.5
Price/Book value (x)	1.7	1.7	1.6	1.5	1.4	1.2
EV/Net sales (x)	5.5	5.2	6.3	8.3	5.0	4.8
EV/EBITDA (x)	10.7	10.8	13.2	19.9	14.1	12.5
Dividend Yield (%)	0.4	0.4	0.4	0.0	0.3	0.4

Source: Company; IDBI Capital Research



# Notes

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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