April 20, 2017

Deep Industries (DEEIND)

₹ 322

Rating matrix

Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials

(₹ Crore)	FY12	FY13	FY14	FY15	FY16
Net Sales	60.5	65.3	90.8	101.3	169.2
EBITDA	28.7	36.0	52.3	55.0	96.2
Net Profit	12.0	12.2	20.0	21.2	41.0
EPS (₹)	4.8	4.6	7.6	7.3	14.0

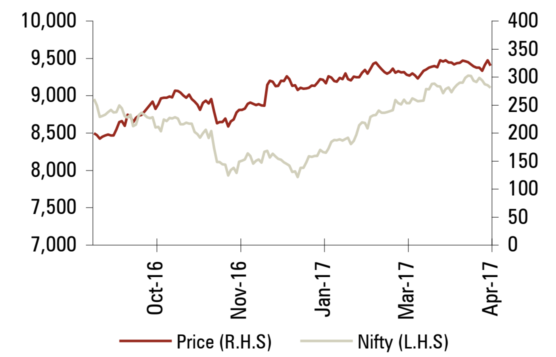
Valuation Summary

(x)	FY12	FY13	FY14	FY15	FY16
P/E	66.9	69.5	42.3	44.3	23.0
EV / EBITDA	44.3	35.4	24.3	23.2	13.2
P/BV	6.8	6.0	5.3	4.7	4.0
RoNW (%)	7.9	7.1	10.3	9.7	15.9
RoCE (%)	9.6	11.4	14.3	13.2	15.5

Stock Data

Particular	Amount
Market Capitalization (i₹ crore)	1024.6
Total Debt (FY16) (₹ crore)	264.6
Cash (FY16) (₹ crore)	17.0
EV (₹ crore)	1272.2
52 week H/L (₹)	343 / 143
Equity capital (₹ crore)	29.2
Face value	10

Price movement



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Niche play…

We recently met Rohan Shah, CFO of Deep Industries (DIL) to get an insight into its business and future plans. Established in 1991, DIL is an oil & gas company with well diversified business segments like gas and air compression services, work-over and drilling rigs, gas dehydration services and oil & gas exploration and production (E&P). DIL became the pioneer company to provide gas compression services on a charter hire basis and is currently the largest player in India. The company extended its foray into the field of gas dehydration and work-over/drilling services through its fleet of rigs to major oil producing companies. On the E&P front, DIL also holds some acreage of conventional and unconventional assets. On a standalone basis, revenues recorded growth at 29.3% CAGR (FY12-16) to ₹ 169.2 crore in FY16 whereas PAT grew at 36% CAGR (FY12-16) to ₹ 41 crore in FY16.

Market leader in gas compression business

Traditionally, oil & gas companies managed their gas compression processes internally. However, scrappage of existing equipment, better operational/pricing benefits have led to need of outsourcing. Currently, 70% of gas compression demand is operated in-house while 30% is outsourced providing an opportunity for DIL to penetrate the market. DIL commands ~90% market share in the gas compression division with 53 out of 59 gas compression packages under deployment. Heavy penalties on non-compliance of quality standards act as an entry barrier for new entrants. DIL's strong success ratio in winning tenders and tie-ups with international companies for technical and equipment support provide a competitive edge over others. The company expects gas compression volumes to grow at 20-25% per annum in the next two or three years with EBITDA margins of ~60%.

Well diversified portfolio

DIL has been awarded three out of five gas dehydration contracts, processing more than 4 mmscmd of gas dehydration volumes. The blast incident at Gail India's site necessitated statutory requirements for dehydration units. This provides a good growth opportunity for DIL's gas dehydration business with an additional demand of ~7 mmscmd in the next two years. DIL also operates a fleet of nine work-over rigs, two drilling rigs and one coring rig and has plans to expand the same to cater to market requirements. On the E&P front, even though the business is at a nascent stage, monetisation of the same can add to overall growth of the company.

Exhibit 1: Financial Performance

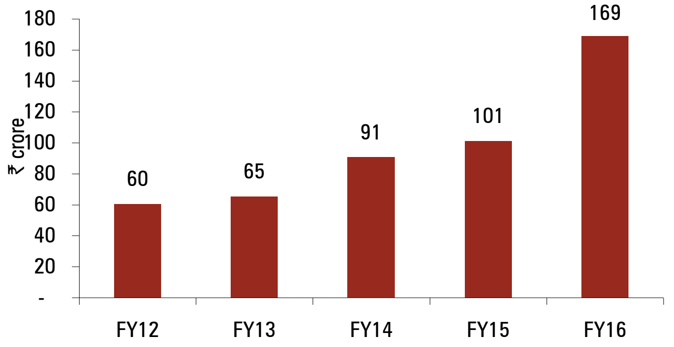
(₹ Crore)	FY11	FY12	FY13	FY14	FY15	FY16
Net Sales (₹ crore)	49.4	60.5	65.3	90.8	101.3	169.2
EBITDA (₹ crore)	25.7	28.7	36.0	52.3	55.0	96.2
Net Profit (₹ crore)	11.9	12.0	12.2	20.0	21.2	41.0
EPS (₹)	5.0	4.8	4.6	7.6	7.3	14.0
P/E (x)	63.9	66.9	69.5	42.3	44.3	23.0
Price / Book (x)	7.5	6.2	5.5	4.9	4.3	3.6
EV/EBITDA (x)	46.2	41.4	33.0	22.7	21.6	12.3
RoCE (%)	13.3	9.6	11.4	14.3	13.2	15.5
RoE (%)	9.4	7.9	7.1	10.3	9.7	15.9
RoIC (%)	17.7	15.3	13.9	17.4	16.3	20.4

Source: Company, ICICIdirect.com Research

Management meet highlights:

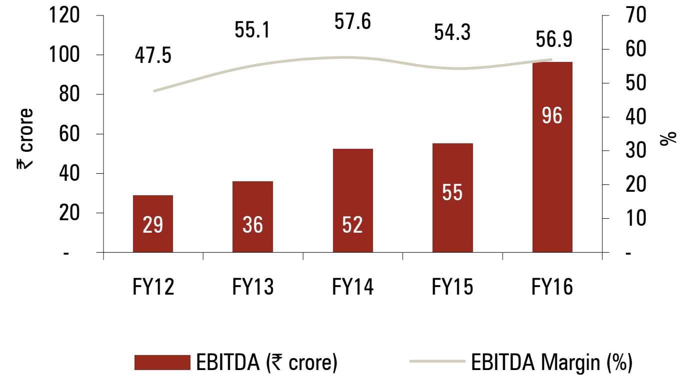
- The company has a number of reputed customers like ONGC, Oil India, Cairn India, GACL, GSPC, CPCL, etc
- Revenues for FY16 recorded growth of 67% YoY at ₹ 169.2 crore with gas compressor contributing ₹ 99 crore (58.6%), Work-over & drilling rigs contributing ₹ 30 crore (17.7%) and gas dehydration contributing ₹ 40 crore (23.6%)
- The payback period for gas compressor capex ranges between three and four years. In case of drilling rigs, the payback period ranges between four and five years
- Currently, DIL has 59 gas compression packages of which 53 are under deployment marking the utilisation rate of ~90%. During the past five years, the company added ~40 new compressors
- DIL has achieved good success historically in getting an extension of the gas compression contract for at least three terms of three to four years each
- All gas compressors and dehydration systems are skid mounted easing the site to site mobility
- DIL leads the market in the gas compression segment with current market share of 90%. Competitors include companies like John Energy and Assam Air Products
- DIL has a tie up with US based Valerus Compression Services for equipment support and PT Indrilco Bakti, Jakarta for technical support. The tie-ups enable DIL to procure equipments and design earlier than expected
- DIL's order book as of January 2017 was at ₹ 790 crore
- In E&P business, DIL has a 51% stake in Prabha Energy Pvt Ltd that will act as an operator in ONGC-IOC's North Karanpura CBM block
- DIL through its subsidiary Prabha Energy plans to drill 70 wells in 2018-19
- DIL successfully raised ₹ 63.8 crore through qualified institutional placement (QIP) at a price of ₹ 228/equity share to explore opportunities in new business segments

Exhibit 2: Revenue trend



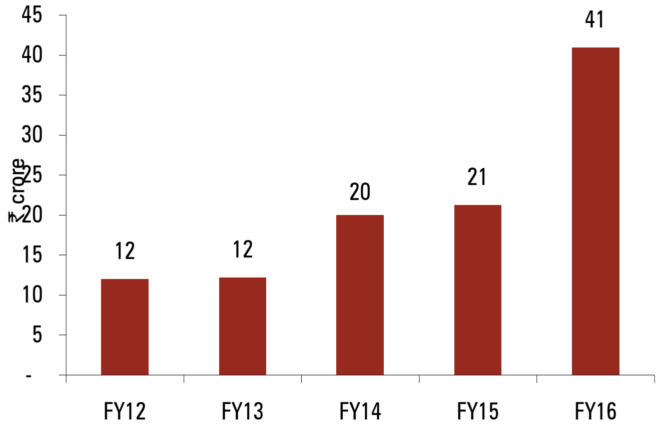
Source: Company, ICICIdirect.com Research,

Exhibit 3: Trend in EBITDA & EBITDA margins



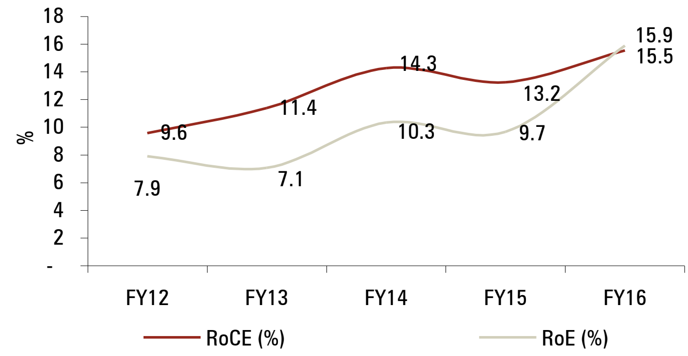
Source: Company, ICICIdirect.com Research

Exhibit 4: PAT trend



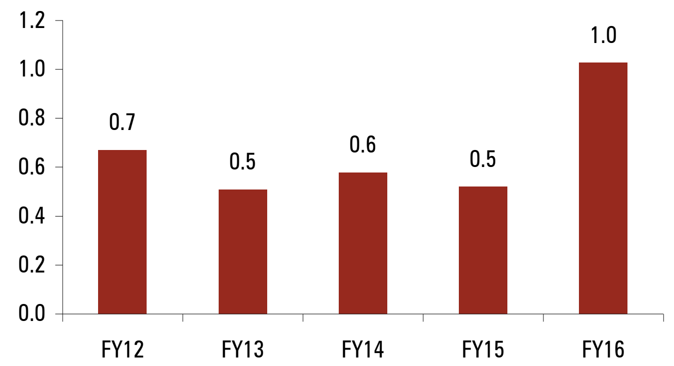
Source: Company, ICICIdirect.com Research

Exhibit 5: Trend in return ratios



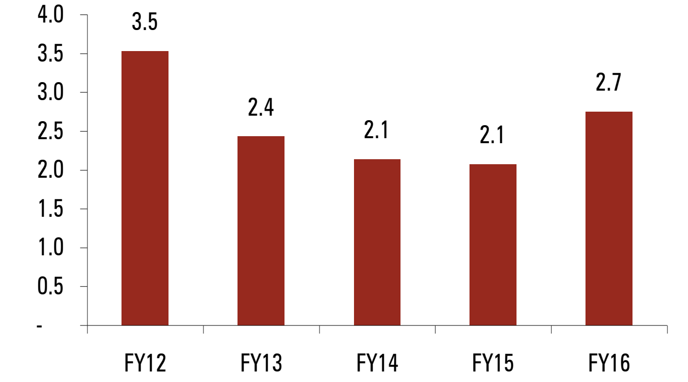
Source: Company, ICICIdirect.com Research

Exhibit 6: Debt/equity trend



Source: Company, ICICIdirect.com Research

Exhibit 7: Debt/EBITDA trend



Source: Company, ICICIdirect.com Research

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