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E-Communication

JDIL/SECT/SE/2024-25

04 August 2024

BSE Limited

25th Floor, P.J. Towers,
Dalal Street, Mumbai-400001

National Stock Exchange of India Limited

Exchange Plaza, C-1, Block-G,
Bandra - Kurla Complex
Bandra (E), Mumbai-400051

Security Code: 511034

Security Code: JINDRILL

Sub.: Transcript of earnings conference call held on 31 July 2024

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find below the link of transcript of earnings conference call held on 31 July 2024.

Link to access above transcript is as under:

<https://www.jindal.com/jdil/pdf-new/Transcript-of-Conference-Call-Q1-FY25-Earnings-Call.pdf>

You are requested to kindly take the same on record.

Thanking you,

Yours faithfully,

For **Jindal Drilling & Industries Limited**

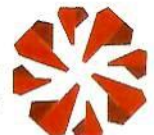
Binaya Kumar Dash
Company Secretary

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MEMBER : INTERNATIONAL ASSOCIATION OF DRILLING CONTRACTORS, HOUSTON, TEXAS, USA



IADC
MEMBER



Jindal Drilling & Industries Limited
Q1 FY25 Earnings Conference Call

31 July 2024



MANAGEMENT: **MR. RAGHAV JINDAL – MANAGING DIRECTOR, JINDAL DRILLING AND INDUSTRIES LIMITED**
 MR. KAUSHAL BENGANI – DEPUTY GENERAL MANAGER, INVESTOR RELATIONS AND FINANCE, JINDAL DRILLING AND INDUSTRIES LIMITED

MODERATOR: **MR. VARTATHA RAJAN – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Jindal Drilling Q1 FY25 Earnings Conference Call hosted by Antique 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. Vartatha Rajan. Thank you and over to you, sir.

Vartatha Rajan: Thank you, Dale. Good afternoon everyone. On behalf of Antique Stock Broking, I welcome you all to this call.

We have from the Management side Mr. Raghav Jindal – Managing Director and Mr. Kaushal Bengani – DGM, Investor Relations and Finance.

A warm welcome to the Management as well. And over to you, sir, for your opening remarks.

Kaushal Bengani: Thank you. Good afternoon, shareholders, and thank you for joining our Earnings Call.

In FY24, we improved upon revenue and profitability on account of deployment of all 5 rigs. In FY25, our performance will improve further, as one owned rig, Jindal Supreme, will be redeployed on a new contract by November 2024 at a higher rate. Further, we are in the final stage of acquisition of Rig Jindal Pioneer, which is owned by one of the joint venture companies, and are awaiting approval from statutory authorities. Our earnings will improve immediately on acquisition of the said rig. These two factors will influence earnings in FY25, and we remain positive on the same.

I will briefly summarize key financial indicators:

On comparison of Q1 FY25 with Q1 FY24, revenue increased by 86%, EBITDA declined by 7%, PAT and EPS increased by around 15%. On comparison of Q1 FY25 with last quarter Q4 FY24, our revenue reduced by 12%, EBITDA reduced by 20% with a consequent reduction in PAT and EPS of around 28%. The decline in earnings is primarily attributed to 4 rigs being under operation in Q1 FY25 as compared to 5 rigs being in operation in Q4 FY24. The fifth rig is currently under refurbishment and is expected to be redeployed onto a new contract by the 3rd Quarter of FY25. Our earnings will revive from the 3rd Quarter of FY25 onwards as the rig under refurbishment commences operations at a much higher rate. Further, one of our rigs will get onto a new contract next year in FY26. Whilst there was cancellation of an ONGC contract earlier this year, we remain hopeful of redeployment of our rig at good rates in next financial year.

I would now like to take you through our Earnings Presentation:

The first slide is about the Company:

We are, as mentioned earlier, are the leading offshore drilling services contractor in India's oil and gas sector. We have more than 35 years of experience, especially in the sector of offshore drilling. We are supported by an efficient and experienced operational and management team who ensure that our efficiency is not compromised and we achieve the highest levels of safety.

The efficiency of our rigs in operation are in excess of 98.5% and we are extremely proud of that statistic. We've been supporting and serving ONGC for the past three decades in their drilling programs. They are our satisfied customer and we have always explored opportunities with them. Apart from 5 offshore jackup rigs that we operate from time to time with ONGC, we

also provide mud logging and directional drilling services to the oil and gas sector.

The details of the rigs on long-term contracts are given on slides 4 and 5. Slide 5 also talks about the prevailing order book position as on 30th June, 2024. The rig which is going to be redeployed in the 3rd Quarter of FY25 is Jindal Supreme and the operating day rate is \$88,859.

Financial highlights on the next slide have already been discussed.

The temporary decline is on account of one rig being in between two contracts. Annual highlights are detailed on slide 8. The EBITDA mix is given on slide 9 in which it is clear that the rig segment contributes most of the profit for the Company. The borrowings are mentioned on slide 10. We have been net cash for quite some time. That position continues to improve on quarter-on-quarter basis. One term loan was fully paid on 31st May 2024, entirely from our internal accruals. Our net cash position as on 30th June 24 is at Rs. 68 crores, which is an increase of Rs. 17 crores from the position on 31st March 24. As all rigs are now contracted at higher rates on new ONGC contracts, gross debt will reduce rapidly over next 12 months.

The shareholding structure is mentioned on the next slide in which some marquee investors are mentioned.

That concludes the presentation and I would now request that the floor be open for questions.

Moderator: Thank you. We will now begin the question and answer session. First question is from the line of Avi Agarwal from Arihant Capital Markets Limited. Please go ahead.

Avi Agarwal: I wanted to ask that the acquisition of one rig from JV will take the total number to six rigs and what would be the operating day rate for that and what kind of revenue or order book we can expect from that acquisition?

Kaushal Bengani: The rig which we proposed to acquire from the joint venture company is currently deployed in Mexico at a rate of \$40,000 per day. That rate is a bareboat charter rate, which means that no expenses are incurred by the rig owner. Once we acquire the rig, the contract will be assigned to Jindal Drilling and that contract will continue till December 2025. Just to clarify, the rate of \$40,000 per day is not comparable to the rates mentioned in the earnings presentation because the nature of contracts with ONGC are different from the contract on which the rig is deployed in Mexico.

Avi Agarwal: Okay, and post the completion of the contract, what do we plan for it?

Kaushal Bengani: Once the contract is completed in December 25, the rig will go for a few months of refurbishment and then it will be brought back to India for possible deployment with ONGC.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to understand this first up Jindal Pioneer. So, when are we getting this? I mean, we said we are expected to deploy till September 25. But when the billing for it will start for us?

Kaushal Bengani: No, it is on contract till December '25, but the contract is with the joint venture company right now. When we acquire the rig, then the contract will get assigned to Jindal Drilling. From the date of acquisition of the rig, the contract will get assigned to Jindal Drilling.

Deepak Poddar: And when is that expected?

Kaushal Bengani: It was expected on yesterday basis. But we have not yet received the final approval from the regulator. We are following up with them. We wanted to do it as early as possible. We still want to do it as early as possible, but we just have to wait till we obtain necessary approval.

- Deepak Poddar:** So, maybe, I mean, in one to two weeks, this contract will be assigned to Jindal Drilling from JV Company, right?
- Kaushal Bengani:** No, I never said that.
- Deepak Poddar:** I mean as of yesterday it was supposed to get assigned.
- Kaushal Bengani:** On yesterday basis means that it's already delayed. We have been following up with the regulator for more than three months now.
- Deepak Poddar:** Okay, more than three months now. So, what did what it means for the Company? I mean ideally we already are getting 50% of the revenue accruing from this rig in our P&L and now we'll get 100% once it gets directly into our Company. So, is that the right understanding?
- Kaushal Bengani:** We follow the equity method of consolidation, so the profit of the joint venture is consolidated below the line.
- Deepak Poddar:** Okay, so this consolidation is below the line so the entire revenue will come and EBITDA will come. And on the bottomline, the impact could be to the extent of 50%?
- Kaushal Bengani:** As of now, yes, to the extent of 49%, which is the ownership of Jindal Drilling in the joint venture. But if you look at our standalone financials and our consolidated financials, there is no impact above the line because of the method of consolidation that is required under IndAS.
- Deepak Poddar:** I got a little confused here. What you mentioned is that once this JV is directly under Jindal Drilling, there will be no impact on the revenue or EBITDA because of this.
- Kaushal Bengani:** I have not said that. I don't think I can be more clear on this. Due to the equity method of consolidation, the profit of the joint venture, depending on the percentage of equity holding in the joint venture, is consolidated

below the line. Line wise consolidation does not take place when you do equity method of consolidation.

Deepak Poddar: Understood. So, line by method consolidation is not happening right now, but once it comes into us, the corresponding revenue and EBITDA will be coming to the Company.

Kaushal Bengani: Yes. However, the profit of the joint venture is being consolidated below the line.

Deepak Poddar: Understood. Fair enough, I got it. It's very clear now. And just a clarification. You mentioned it's earning right now US \$40,000 per day right?

Kaushal Bengani: Jindal Pioneer is currently operating at \$40,000 per day. That rate is a bareboat charter rate, which means that almost the entire \$40,000 per day is flowing into EBITDA. There are no expenses being borne by Discovery Drilling, which is the owner of Jindal Pioneer, except for certain administration expenses.

Moderator: Thank you. The next question is from the line of Pinkesh Thakrani from ProfitGate Capital Services. Please go ahead.

Pinkesh Thakrani: I just wanted to know about this fifth rig that is going under refurbishment on quarter three FY24. And you are saying that the revenues to revive from that. So, basically is that the ONGC one or it is connected to some other JV, or I just want to know about what the day rate for would be the same. What could be the impact on the revenues going forward?

Kaushal Bengani: The rig under refurbishment is Jindal Supreme. It will be redeployed in the 3rd Quarter of FY25 at an operating day rate of \$88,859.

Moderator: Thank you. The next question is from the line of Kishan Mundhra from Antique Research. Please go ahead.

Kishan Mundhra: Hi sir, just one question from my end. So, on the order book of Rs. 2000 crores, have you given any guidance on what would your EBITDA margins look like on this?

Kaushal Bengani: It is difficult to give guidance on quarter-on-quarter basis because when a contract concludes, the revenue of the rig goes away. So, margin for that quarter will decline as it has happened in the June quarter. Generally, we operate between 30 to 35 margin range if all rigs are operational. Obviously, rigs which are owned will generate higher EBITDA margin than rigs which are rented because the rental payable to the rig owner is missing in the case of rigs which are owned. For the purpose of your modeling, you can estimate an EBITDA margin of 30% to 35% based on our current blend of owned and rented rigs. So, two rigs are owned, and three rigs are rented.

Moderator: Thank you. The next question is from the line of Udit Sehgal, an individual investor. Please go ahead.

Udit Sehgal: I wanted to know what is the situation on the international front as far as the day rate for rigs are concerned because we know Saudi suspended its program for 22 rigs. And since then, what is the latest situation on the day rates? Have they gone up? Are they stable? Have they gone down? And secondly, when is the next ONGC tender expected?

Raghav Jindal: Hi, good afternoon. So, yeah, internationally the day rates are still at the high level. It has not really declined. The rigs which have been removed from operation in Saudi will not be coming into India. So, it does not affect our demand. So, we expect the rate to dip slightly from our last rate because of higher competition, but not significantly, as it does not really affect our supply.

Udit Sehgal: And secondly, regarding the suspension of the ONGC tender, can we expect it to revive back after the monsoons or is there any timeline?

Raghav Jindal: Obviously the demand is there. The government wants more and more rigs to increase oil production. They can only increase oil production if they deploy more rigs. The reason for why these contracts were cancelled is unknown. I'm sure the demand will aggregate and there'll be a lot more rigs coming in in the next tender.

Udit Sehgal: One more thing, just a small suggestion, I'm an investor in your Company. You see, some of our other competitors like GE Shipping, they are giving the NAV of their ships, right? Whatever the present value should be after getting valued. So, if we could also do if it is possible to do something of a similar exercise, you know the market could recognize what kind of value our Company holds. Just a suggestion.

Kaushal Bengani: Okay, we've received that suggestion earlier as well from a few other individuals. However, the NAV that is being given also depends on what could be the future cash flows generated. So, since the market has been quite volatile and we recently started investor engagement, we are a little apprehensive as to how that will work out. Whilst your suggestion is appreciated, we will wait for some time before we start doing that. We will wait for our earnings to become more stable before we go ahead and do that.

Moderator: Thank you. The next question is from the line of Pritesh from Lucky Investments. Please go ahead.

Pritesh: Sir, I just have one question in this JV number, this quarter, the profit from JV, what is in this number? The number is a fairly high number for this quarter considering the two rigs and their rates that are deployed at.

Kaushal Bengani: The reason for the number appearing to be on the higher side when compared with the previous quarter was because in the previous quarter there was a one-time impairment in one of the joint venture companies. That one-time impairment having taken place, the earnings have now

normalized and you should expect similar numbers from the joint venture companies because they are operating at good rates, both the rigs of both joint ventures.

Pritesh: So, this Rs. 40 crores per quarter run rate is what you said is a normalized number?

Kaushal Bengani: It also depends on exchange fluctuation because those numbers are in dollars. So, maybe if you can build some cushion for exchange fluctuation, then you can take a similar figure.

Pritesh: So, in quarter three where you I think deployed Virtue, right in the quarter three?

Kaushal Bengani: We deployed Virtue in quarter three of FY24. So, one month, towards the end of October 23, Virtue was deployed.

Pritesh: So, you had couple of months of Virtue in quarter three, revised rate. And then you had some impairment in quarter four. Because quarter three number was, I think, Rs. 7 – Rs. 8 crore number and quarter four was a minus number, so what was the impairment taken in quarter four if you could quantify the impairment?

Kaushal Bengani: We've already communicated that last time if you refer to our earlier results, you will see that number has been detailed in a note under the results. What also changed from quarter three of FY24 and quarter four of FY24 was the rate at which the rig in Mexico was deployed. So, till 31st December 23, it was deployed at \$35,000 per day. That rate increased to \$40,000 per day from 1st January 24. However, the improvement in rate of Jindal Pioneer and the full quarter of operations of Virtue-1 were not captured on account of the impairment. That impairment was around \$7 million under equity accounting method for Jindal Drilling.

- Pritesh:** So, it's to do with the impairment because \$5,000 for 90 days just means about Rs. 3.5 crores number. That's not the swing number. The swing number is the \$7 million. Can you tell what was the Virtue repricing it?
- Kaushal Bengani:** The swing number is the impairment. There is no question about it. I'm just letting you know that the earnings profile of Jindal Pioneer also improved and the earnings profile of Virtue-1 despite having improved in the 3rd Quarter was fully captured in the fourth quarter. Now both these two positive factors were more than negated by the impairment in the fourth quarter. But in the first quarter of FY25, all of that is fully captured and I think that is how the figure will reflect going forward.
- Pritesh:** And what is the repricing in Virtue from what price to what price it got repriced?
- Kaushal Bengani:** So, Virtue got repriced from around \$40,000 per day to around \$80,000 per day.
- Pritesh:** We got a \$40,000 swing. So, that also is a Rs. 30 crore number that also you have 50% holding in it. So, that's a Rs. 15 crore swing. 15 plus 3 crore comes from Pioneer about Rs. 18 crores. This is also pre-tax. So, I'm just wondering where did the Rs. 40 crore number come from? Is there any one-off that you have booked in this quarter?
- Kaushal Bengani:** No.
- Pritesh:** So, for estimate purpose we have to take Rs. 40 crore (JV profit + standalone) now as a number for the next four quarters?
- Kaushal Bengani:** Yes, but please build in some cushion. 40 does not mean 40, 40 can also mean 37, it can also mean 43.
- Pritesh:** That's okay, a 10% currency swing is okay. But other than that, there is no one-off?

Kaushal Bengani: No.

Pritesh: And have you drawn down debt in the Virtue JV?

Kaushal Bengani: No, both joint venture companies are debt free.

Pritesh: Is there any change in depreciation method by any time?

Kaushal Bengani: No.

Pritesh: So, we are now building in a Rs. 40 crore per quarter (JV profit + standalone) number until you merge it. Basically once the acquisition of the rig happens, then the JV number goes away and it comes to your full line number.

Kaushal Bengani: Yes, and since you are so particular about numbers every quarter, I will also let you know that in standalone numbers of Jindal Drilling for the second quarter of FY25, earnings will decline from first quarter on account of refurbishment of Rig Jindal Supreme.

Pritesh: There will be a refurbishment expense. And what is that expense? How much is the refurbishment?

Kaushal Bengani: We are not disclosing that. Also, we are not sure the extent to which those expenses can be deferred and amortized for the duration of the subsequent contract. We are in discussion with our auditors, but that impact will be there in the next quarter.

Moderator: Thank you. The next question is from the line of Raaj from Arjav Partners. Please go ahead.

Raaj: From Jindal Supreme, are we expecting an incremental sales of Rs. 100 to Rs. 120 crores for FY25?

Kaushal Bengani: All numbers are in public domain. I think you can do the calculation very easily.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir as you have mentioned that the business is from ONGC. So, there is a very strong client concentration although we have been maintaining three decades of relationship with them. So, in terms of private players who are there in the rig business, how do our profile of rig matches with their requirements in terms of the rig requirement of Reliance, Vedanta, Essar. How have we evaluated that aspect of business?

Raghav Jindal: The private players, the contracts are usually much smaller. We have always preferred to go with ONGC because it was three to five year contracts. Obviously, you get better revenues with private players because it's shorter period and when I say short period, it's like sometimes it's ten days also. So, we have to move our way to the location, deploy, maybe certain times it might remain unemployed. It's always better to go with ONGC and we've kept that strategy. But our rigs are suited to private players as well.

Saket Kapoor: Two more questions. You alluded to the fact earlier also that other than the rig which we are in the JV Company for which you took the permission also to purchase, that is pending I think some approvals are pending, other than that you are also still looking in the marketplace for rigs that matches your valuation parameters. So, if you could explain in terms of the rig count and the dynamics of the market and how..

Raghav Jindal: We will look at a lot of rigs, but none were suited to the ONGC requirements. Hence, we've stalled that for now because either they are too old or they are not as per the specifications ONGC suggests. So, unless and

until ONGC changes something in their specifications, we didn't find anything financially feasible to acquire.

Saket Kapoor: And that is we had a matter with ONGC, I think is pending with Supreme Court wherein they have made some payment also, some arbitration is pending. So, any update on the same?

Raghav Jindal: No, since it's undergoing, we're not really commenting on that right now.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of our question and answer session. I would now like to hand the conference over to the management for closing comments.

Raghav Jindal: It was a delight to speak with all of you. It's a nice podium to have an interaction and thank you all for joining in.

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