



"Aban Offshore Limited Q1 FY15 Earnings
Conference Call"

July 31, 2014



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Moderator: Ladies and gentleman, good day and welcome to the Aban Offshore Limited Q1 FY 2015 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra of Axis Capital. Thank you and over to you Mr. Mishra!

Amit Mishra: Thanks. On behalf of Axis Securities, I welcome everybody on the call. We have Mr. Gopalakrishnan, Deputy MD and CFO and Mr. Srinivasan, Senior Vice President on the call from Aban management. I will hand over to the management for the time being and after a brief introduction; we can start off with Q&A. Thanks. Over to you Sir!

Gopalakrishnan: Good evening everybody and I welcome you all to the con call for the Q1. The consolidated revenue for the year in dollars had been 172 million dollars compared to 170 million dollars in the previous quarter. The figures in rupees are around Rs.1028 Crores in comparison to Rs.1052 Crores in the previous quarter. These are the major highlights, which I would like to tell you. The EBITDA is around 100.73 million compared to 102.63 million dollars in the last quarter. The figure in rupees had been Rs.602 Crores as against Rs.633 Crores in the last quarter. The EBITDA margins are 58.59% compared to 60.2. The overall performance has been in line with the earlier quarter and we are happy to inform you that during the first half of this month, we have raised Rs.750 Crores equivalent to Rs.125 million dollars of QIP. This would be definitely going to help in strengthening the finance to the company and also meet the financial plans of the company and the business continues to be positive because continues to be in the positive note and with this introduction, I will stop and ask Mr. Srinivasan, my colleague to take over whatever questions we had, Mr. Srinivasan and myself, we will answer the questions you have. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Jenit Metha from B&K Securities. Please go ahead.

Jenit Metha: Good evening Sir. I just wanted to know on the asset utilization this quarter, Aban-5, Aban-7 and Tahara on the marketing yet or what they deployed?

Srinivasan: They continue to be on the marketing, so these three assets were not utilized for the whole of last quarter.



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Jenit Metha: What is the outlook on Tahara now has been not deployed since a long time, so any brief outlook going forward for the three assets I mean are they likely to get deployed on the near term?

Srinivasan: As far as Tahara is concerned in the last three years has not been operational that is mainly because it has been performing a contract with this hardy oil construction for nearly 15 years and in order to improve the production assets, they were planning an additional work which also requires substantial investments in Tahara so basically the new contracts commercials could not be finalized and that is why it is not yet employed so they need to get some approvals from their own partners and from the government. Meanwhile, they are looking at other opportunities but as you know the contribution from these assets is not very significant compared to the overall numbers of the company as such it will take a while before we find the opportunities for this asset. The other two assets are concerned, Aban-5 needed to do some work in order to comply with the requirements, so we are in the process of completing that work and we are marketing it in a few places. Aban-7 has always been operating in the part market space, so it works for nearly four months in the last financial year, so we are looking for opportunities for that as well.

Jenit Metha: There are four renewals coming up during the year I think Aban-3, Aban-4, 6 and 8 respectively, so what is the sort of renewal or is that you are looking at and what is the sense on that Sir?

Srinivasan: As far as Aban-3 or 4 are concerned, they are basically contracted to ONGC. They started their contract sometime in 2011 and ONGC has already called out for the tender for replacing the rigs in which we have participated, so the results will be known probably in the next one to two months, so the rates as you know they are working it around 62,450 dollars per day and the recent renewals with ONGC for similar rig were upwards of 80,000 dollars. As far as the other two assets are concerned Aban-8 and Aban-6, they have been there now with same client for a fairly long time, so probably they will all get renewed around the same rate.

Jenit Metha: And Sir during the quarter we saw decline in terms of operations like 2.3% sequentially, EBITDA also came up by 5%, so could you throw some light on that?

Srinivasan: In dollar term if you look at it because the exchange rate for March quarter was Rs.61.74 to a dollar and the current quarter that is June quarter it is Rs.59.78, so basically as you know our functional currency is primarily US dollar so in dollar terms our revenue is in fact gone up, it is about 171.927 million dollars compared to 170.356 in the previous quarter and



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these three assets were not utilized in the current quarter, in the previous quarter, the rig Aban-5 was fully working and Aban-7 was working for two months and instead of that DD 5 was not working for the full quarter, so if you make these adjustments this is the result. As far as EBITDA is concerned, it is a very minute drop, it is about 102.907 last quarter, this time it is about 112. This time we had the extra mobilization expenditure of a big DD 5, so that is the primary reason. It is a very minute drop.

Moderator: Thank you very much. The next question is from the line of Ajit Motwani from Emkay Global. Please go ahead.

Ajit Motwani: Congratulations on great set of numbers. Sir just wanted to clarify you said that this quarter includes the mobilization expense of DD5 but I guess it also had revenue provision, have those been booked in the quarter?

Srinivasan: It has been booked there.

Ajit Motwani: There is a corresponding expenditure and corresponding revenue. Has this started working, it was fully functioned during the quarter?

Srinivasan: It has started working.

Ajit Motwani: From March quarter now the only thing is Aban-5 was not working and DD 5 was working.

Srinivasan: Aban-7 was working for two months in the March quarter and the current quarter, it is not working.

Ajit Motwani: And other thing you were looking at is the trajectory of margins, the margins which used to be 53%, 55% range has now at least for the two quarters have moved upwards of 56 and earlier it was 60%, now 58% and then the two cost that have come significantly of is rentals and other expenditure. Can you sort of highlight which are the cost savings which have been sustainable during this quarter and these margins are also sustainable.

Srinivasan: As far as your rental is concerned, we have been periodically replacing all the hire machinery with our own machinery, the reduction is in line with the strategy. Then there was savings of about 1 million dollars on quarter to quarter basis in terms of insurance, so these are the major reduction of expenditure.



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Ajit Motwani: But even when I look at your other expenditure, it used to be about 36, 39 million dollars which has now come to about 30 million dollars plus minus a couple of dollars here or there.

Srinivasan: So current quarter it has been around 33 million, so if you adjust it for that 3.8 million of mobilization expense, so it will be around 30 million dollars that is the running expenditure for this quarter.

Ajit Motwani: So to that extent this margin looks sustainable. Any development on sanctions on Iran or have you sort of checked up with any vendors of yours, is there any possible cost saving?

Srinivasan: Basically I think they have extended the interim arrangement by another four months.

Ajit Motwani: So July 20th extension has been now to October 20th.

Srinivasan: November.

Ajit Motwani: Sir one last question you are mobilized about 125 million dollars through QIP and about 25 million dollars from the promoter warrants, so you will be retiring the entire bond payments with this?

Srinivasan: The bond is actually due only in March, major amount is in March, so we will be using this in the financial plan of the company to redeem the bonds.

Ajit Motwani: So you said about 13.25% there.

Moderator: Thank you. The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.

Badrinath Srinivasan: Thank you for taking my question. I have two key ones, firstly on Aban-5 or 7 could you help us understand the scale of any ongoing capex?

Srinivasan: There is no major capex with respect to Aban-7, but in case of Aban-5 also it is very marginal expenditure.

Badrinath Srinivasan: And secondly the tax rates for the quarter appear a bit benign so could you help us understand how the taxation moves on QoQ basis?



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- Srinivasan:** As we have explained, our revenues from Aban Singapore primarily suffer the tax as the percentage of the revenue and in India, we pay the normal 33% tax on the BBT and we have taken some max credit now some max which we have paid in the previous years when there is no income tax payable. So there is some credits on account of that.
- Badrinath Srinivasan:** Going forward, what can we expect in terms of say headline rate the same 33 ...
- Srinivasan:** 33 line is the rates in the current quarter.
- Badrinath Srinivasan:** The finance cost has dropped around 100 million INR QoQ, so the key reason for this is the currency?
- Srinivasan:** Mainly I think we have replaced our high cost loans because mainly in rupees into dollar, this happened over the course of last one year, so this is the primary reason for the reduction and finance in cost.
- Badrinath Srinivasan:** What the headline debt number at the moment?
- Srinivasan:** I think roughly around 2.4 million dollars.
- Moderator:** Thank you. The next question is from the line of Mahantesh Sabarad from SBI Cap Securities. Please go ahead.
- Moderator:** The next question is from the line of Mahantesh Sabarad from SBI Cap Securities. Please go ahead.
- Mahantesh Sabarad:** Sir I wanted to just understand, these Russian sanctions will they affect us by in any manner?
- Srinivasan:** No, I do not think there are any affect us in any way.
- Mahantesh Sabarad:** We have JV when Rosneft if I am right?
- Srinivasan:** We are not working for them and in any case Russia, the market now requires some special capabilities towards in the arctic region. Even in the other regions, I think we have not worked in the past also.
- Mahantesh Sabarad:** The Hague Court has given \$50 billion award against them.



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- Srinivasan:** That is against Yukos.
- Mahantesh Sabarad:** That is again with Yukos, Yukos assets are with Rosneft
- Srinivasan:** But how we are concerned. We are not dealing with them at all.
- Mahantesh Sabarad:** I just wanted to understand, will they pull out from the JV, will they curtail they have forced in a cash flow.
- Srinivasan:** Rosneft is not at the JV partner, you talked about the Vietnam?
- Mahantesh Sabarad:** Yes sir.
- Srinivasan:** It is basically the Vietnamese government they require the support of some other established company. So, they have set up this joint venture. So, to my understanding I think it is the company called (indiscernible) 15.40 which is the joint venture partner. It is a separate legal entity, which is established in Vietnam.
- Mahantesh Sabarad:** I just wanted to understand from you, the Middle East tensions currently with Israel in the Gaza strip, hope they do not upset our operations there.
- Srinivasan:** We are not in that Mediterranean region, now we are working in the Persian Gulf.
- Mahantesh Sabarad:** Some personnel source from those regions and does it really affect operations? I really do not know and I just wanted to ...
- Srinivasan:** Most of the people are from India working there in our rigs are from India.
- Moderator:** Thank you. The next question is from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.
- Tarun Lakhotia:** Could you throw some light on the Rs.1400 Crores of Capex which you have done in the previous fiscal year? It will be useful if you could provide some breakup of that Capex and also if you can give some guidance of capital expenditure over the next few years. How much will be maintenance and if there is any major Capex lined up?
- Srinivasan:** Our major Capex is likely to be for the maintenance Capex on the old asset, because the old assets when they move from one contract to another, they have to do some work in order to qualify for the project, because the safety norms has been tightened. So, this is basically I



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think likely to be around on a levelized basis about \$20 million per annum just likely to be the annual capital expenditure, the maintenance capital expenditure on assets. As far as last year is concerned, it is basically due to exchange differences, because we maintain our assets of Aban, Singapore in dollars. So when they get translated into the books of consolidated, books of Aban Offshore, they get converted at a prevailing exchange rate. The exchange rate for FY March ending 2014 was about balance sheet rate was 59.88 whereas the previous year was around nearly 55 or something.

Tarun Lakhotia: What I am referring to is, the Rs.1400 Crores of cash Capex which you have given in your cash flow statement for the year? I assume that would not include any differences due to exchange translation.

Srinivasan: Basically it includes the exchange rate, because the cash flow statement is prepared in Indian rupees and then we had one rig called Aban Ice on which know we had incurred a Capex that probably around may be \$30 million. The balance is on account of this exchange capitalization, the exchange differences getting translated.

Tarun Lakhotia: So, in terms of dollar Capex, what was the number for last year, if you can provide that?

Srinivasan: It is about \$30 million.

Tarun Lakhotia: That was an Aban Ice.

Srinivasan: That was only asset on which substantial Capex have been incurred.

Gopalakrishnan: We have not been Rs.1400 Crores on Capex last year that is **per share**.

Moderator: Thank you very much. The next question is a follow up question from the line of Jenit Metha from B&K Securities. Please go ahead.

Jenit Metha: Could you just provide the debt on the cash flow, I think I missed out on the number.

Srinivasan: The debt is about \$2.4 billion. Cash as on June 30th, I do not have exact figures, probably it will be around, June 30th will be give-and-take will be around \$10 million.

Jenit Metha: This quarter, there was an increase in the JV share around Rs.25 million have reported as against Rs.5 million, sir could you just throw some light on JV and what percentage do you hold?



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- Srinivasan:** We have about 49% in JV in Malaysia, but this is the operating company for working the DDP rig, because in Malaysia only the local company will get the contract. So, we hold 49% in that and remaining 51% is held by a local Malaysian. So, it is basically marginal because as far as transfer pricing requirement, there will be some profit which is actually earned by this company, we will get 59% of it, probably it will get adjusted during the course of the year.
- Moderator:** Thank you. The next question is from the line of Sreesankar from Prabhudas Lilladher. Please go ahead.
- Sreesankar:** I have three questions. Could you please tell me the current NAV of the fleet?
- Srinivasan:** We do not calculate any NAV.
- Sreesankar:** Now, coming back to the question, how do you see in jack-up rigs availability going forward or kind of utilization if I may ask given the fact that what is the number of new builds which is coming into the market that is probably for the next one year.
- Gopalakrishnan:** Next one year give-and-take I think it will be around 30 jack-ups which are coming, but we expect these to get absorb, because the demand for jack-up there has been robust over the last four years, because of the oil prices being at a sustained level, so we have been seeing a good increase (indiscernible) 22.15 in the utilization. So, we expect these rigs to get absorb. Our new build rigs, we have nine new build jack-ups of which all of them are contractors and in the current financial year, we have only one rig which is likely to come off contract which probably will get renewed with the same party. Otherwise, we do not have any rigs coming off contract.
- Sreesankar:** But at the same time if I may look at other floaters, deep water or wherever the utilization rate for the new builds up seeing a sharp increase.
- Gopalakrishnan:** We have two floaters. One is contracted till November 2016, the other one is contracted till June 2015.
- Sreesankar:** November 2016, this is Ice right?
- Gopalakrishnan:** Still we have another two-and-a-half years and as far as Aban Abraham is concerned, another we have two more years.



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Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Congratulations on good set of numbers. I just wanted to know, what is the life of deep driller?

Gopalakrishnan: The initial life can be taken as 30 years and then depending on the work you put, the life can be extended.

Jayesh Gandhi: If you are refurbishing it, what is the extension of the life you are giving?

Gopalakrishnan: Extension in the sense, basically I think our rigs, the deep drillers series or rig were delivered in 2006 or later, so the first rig has completed only eight years. So we have still a long way to go.

Jayesh Gandhi: If I reframe my question, if I am taking all the jack-ups, there are many of them which apart from deep driller 8 and Aban 8, there are many of them which are I think republished and we have been used. So, what I am trying to say is, in next two, three years, what is the amount of Capex that we are going to employ on these?

Gopalakrishnan: I said know we have given levelized expenditure about \$20 million per year. So, this is mainly on this world jack-up.

Moderator: The next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.

Mahesh Sarda: Congratulations for a good set of numbers. I had just one question on the interest part. The interest expenses for this quarter comes about annualized \$184 million at 5988 which comes out to be about 7.7% cost of interest. So what is our current cost of interest now?

Srinivasan: That is mainly because we carry these two bonds which are at an average rate of 13.5%. Once the bonds are repaid in full, our cost should come down to 6.7 or those level, that is one series of bond will get repaid in the current year, so that will bring down the cost to around 6.7. The second series will get repaid during December 2015, so after that our cost should come to around 6%.

Mahesh Sarda: Excluding the bonds about \$400 million bond, the remaining \$2 billion what is the current cost it is LIBOR plus 550-basis points or?



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- Srinivasan:** It is around 6% totally it will be LIBOR plus 550.
- Mahesh Sarda:** During the quarter, what was the cost? Was it the same or it was slightly high?
- Srinivasan:** It was same, but the rate reflected is, the higher cost is mainly on account of the bonds.
- Mahesh Sarda:** That I understood, but I am talking of the \$2 billion that was having the same cost.
- Srinivasan:** We are trying to reduce it further wherever possible.
- Mahesh Sarda:** Okay and long time we used to get some announcement on VAC regarding our credit rating, any specific, can we see further ratings coming out on once if this QIP processes over?
- Srinivasan:** We are taking out with the rating agency, but the process for them to upgrade rating is quite elaborate. So after this QIP is over we have taken up with them and we have had meeting with them also. So, hopefully some result to be known in the next couple of month.
- Mahesh Sarda:** But this rating does not change the cost of interest or will it have any impact repercussion on the cost.
- Srinivasan:** Basically I think this rating is on the main company Aban Offshore. So, most of our loans are currently held in our subsidiary company.
- Moderator:** Thank you. The next question is from Bhavin Gandhi from B&K Securities. Please go ahead.
- Bhavin Gandhi:** Sir could you comment on the deliveries in the jack-up market over the next two to three years?
- Gopalakrishnan:** Totally about 140 rigs are contracted, but nearly 60% of it is from the chinese yard who do not have a proven track record like the Singapore yard. You should also note that in the last four years from 2010 to 2014 the jack-up demand has also increased by about 100 rigs. So we feel that most of these jack-ups will get absorbed.
- Bhavin Gandhi:** Because more than 50% of the rigs will be 25 years or older so any retirements which you think are likely to come through?



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- Gopalakrishnan:** Retirement also happening because some of the rigs which are cold stacked, some rig companies are feeling that it is not viable to reactivate them, so those will get retired.
- Bhavin Gandhi:** As far as ONGC is concerned, is there now a clear policy in terms of ageing and the rate differential for age rigs and newer rigs?
- Gopalakrishnan:** Rate differential is definitely there, but ONGC is the last requirement it is about 12 rigs which were required. They have said that only if you do not get the old rig they will go for new rig.
- Bhavin Gandhi:** Okay what percentage of our revenues is now coming from Iran?
- Gopalakrishnan:** About 35%.
- Moderator:** Thank you. The next question is from the line of Amit Mishra from Axis Capital. Please go ahead sir.
- Amit Mishra:** Sir just one thing on rigs which are coming to renegotiation, one is Aban 8 which is coming October 2014 and more importantly the Aban 4, which is with the contract is getting over in July 2014 what is the status on Aban 4 please?
- Gopalakrishnan:** Aban 4 basically as you know as I mentioned ONGC has called for a tender to replace this rig in which we have participated, but in the current contract though it is requiring in the current month as per the contract provision it usually gets extended to complete the current well which is in progress which is estimated to get completed only by the end of September, so by which time we expect this new contract to be finalized.
- Amit Mishra:** So you are not anticipating any downtime for Aban 4 in that sense between the two contracts?
- Gopalakrishnan:** The contract is likely to prolong till September, thereafter we have to do some work on the rig.
- Amit Mishra:** Which is (indiscernible) 31.27?
- Gopalakrishnan:** That is the work which will, that will probably get done in the next quarter that is Q3 of the current year.
- Amit Mishra:** Aban 8 you expect it to be with the same customer again?



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- Gopalakrishnan:** Yes we expect.
- Amit Mishra:** But by what time are we expecting clarity on that?
- Gopalakrishnan:** See as you know this is the progress both the parties will have to agree.
- Moderator:** Thank you. The next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.
- Mahesh Sarda:** Sir on this Aban 8, I believe you have one year of option?
- Gopalakrishnan:** No Aban 8 is basically expiring in October 2014.
- Mahesh Sarda:** Post which the contract which started some time back, it had a four-year plus one-year of option?
- Gopalakrishnan:** It was basically 18 well plus 4 well contract, so this options have been excised already.
- Mahesh Sarda:** On Aban 5, which has been lying ideal for last three months, this was operating in Iran?
- Gopalakrishnan:** Yes.
- Mahesh Sarda:** So currently we are looking at the same region or we are trying to remove it from Iran and looking at some better opportunities like ONGC which is currently having a tender of 10 to 11 rigs?
- Gopalakrishnan:** Multiple opportunities.
- Mahesh Sarda:** Yes because if I understand correctly in India, Indian companies have a write off first differential for about at least 10% of the rig rates?
- Gopalakrishnan:** Yes, yes they get a price preference.
- Mahesh Sarda:** So if they are able to get two awards from ONGC we look at deploying Aban 5 in India or it will again go back to Iran?
- Gopalakrishnan:** Basically I think we are evaluating multiple opportunities, which also depends on the opportunity when you get the opportunity the ideal period all that will have to take in.



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- Maresh Sarda:** On the industry how are the rates currently behaving over the last three to six months?
- Gopalakrishnan:** I think the three to six months, six months quietly quite upward trend and three months it is sustained, as a jack-up segment is concerned.
- Maresh Sarda:** There were some report saying that the rates have quite stabilized and rather than moving upwards it has been stable?
- Gopalakrishnan:** That is why I said like three months it has been stable just to give you an idea, the rig DD5 which got placed, commenced the contract in April. It is getting about 153000 net of tax. If we adjust for tax it is getting around 151000 dollars per day, whereas the DD1 and 7 which were placed in the similar period in the last year that is 2013 they are getting around 149,000, so that is how the rates have moved.
- Maresh Sarda:** Generally, historically suppose if the rigs are coming up for renewal over the next one year you start marketing those rigs right now, so are we looking at some of the options like in DD series if I look at most of the rigs are coming up for renewal in next year?
- Gopalakrishnan:** Yes, yes, one of the advantages of having the rig continue with the same company is to reduce the idea track significantly. If you look at it new rig commands a revenue of about 5 million dollars in a month, so you have one month ideal period will cost us heavily, so the preference I would say it will always be beneficial to have it continue in the same party. So at the same time depending on the likelihood of getting a renewal we also look at marketing it.
- Maresh Sarda:** Suppose if we were to look at two different kind of rigs DD3, which is 350 million dollars just taking an example, DD3 which is 353, and DD4 which is 375, what would be the current differential between the rates in both the categories?
- Gopalakrishnan:** Both are identity, almost identical typically the design one is the Keppel design and other one is the Sembcorp design because of this the Sembcorp we always used to have a 375 feet water deep capability design, so there is no big difference because of this thing.
- Maresh Sarda:** What is the current this rigs were to be deployed over the next one year for a long term what would be the current rig rates for them, the long term rig rates three to five years.
- Gopalakrishnan:** That is about 160,000 dollars.



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- Moderator:** Thank you. The next question is a followup question from the line of Ajit Motwani from Emkay Global. Please go ahead.
- Ajit Motwani:** Sir just to dwell upon this Aban 5, you said that the rig is currently does some works, was not it for the same contract?
- Gopalakrishnan:** Rig had finished the earlier contract. As you know these rigs are to be periodically surveyed and classified by the classification society, so because this is the older rig. In order to meet the standard we have to do some work.
- Ajit Motwani:** Essentially it is a statutory work and it is not really related to the contracts, so it is opened for marketing now? It is might not really get the same contract and the rate right?
- Gopalakrishnan:** Yes.
- Ajit Motwani:** On this Shell Brunei rig which is this DD8, options are still in the money right, when is the last option exercisable on this?
- Gopalakrishnan:** Currently they have excised for one year that is from September 2014 to September 2015 that is August 2015, we have till August 2018.
- Ajit Motwani:** Okay and is they are well programmed large enough for them to exercise all the options, what is the indication that you are getting?
- Gopalakrishnan:** Basically I think it is in a production drilling program, so as you know that it is a (indiscernible) 37.50 contracts for them, we presume being big company they will plan it well.
- Ajit Motwani:** So the indication you are saying it will largely be exercised you are saying/
- Gopalakrishnan:** I cannot see for them, but you can see from the numbers what is most likely.
- Ajit Motwani:** One broader question is on Iraq, how big the market will be about 30 to 32 rigs?
- Gopalakrishnan:** 20 to 25 I think.
- Ajit Motwani:** Okay, so what is your expectation let say once the sanctions are removed, will the drilling program almost sort of be extended big time for the demand to move up, what is your sense



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on that, because we know that the production might not be that great because of the sanctions as well?

Gopalakrishnan: It is our sense that the production will go up. The activity will go up there.

Ajit Motwani: That is logical but I am saying about the quantum over the next two-year period what could be the quantum jump in the programs?

Gopalakrishnan: Very difficult

Moderator: Thank you. The next question is a followup question again from Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir I just want to know that what is the general contract period for the rigs and jack-ups?

Gopalakrishnan: It is about three years, typically with the national oil companies which is about three years, but there are also cases like where it is for a longer period of five year and shorter period of even up to six months to one year. basically the national oil companies since they have a vast area under their command they will contract for a fixed-term of longer period, but if it is a private oil company or very small oil company they will contract for a shorter period depending on their well program, how many wells they want to drill. So this is the basic difference.

Jayesh Gandhi: Okay and other thing if the fleet is young, the contract rates are high, is it like that or it is because they are employed out of India that the rates are high?

Gopalakrishnan: Basically the fleet is new and they have better capabilities as you will see from our presentation the older rig capability is about 300 feet water depth. The new rigs are about 350 to 375 feet and the newer rigs have better capabilities in terms of processing the mud, then number of cranes, then capacity to handle high pressure and high temperature research, all this enables oil company to complete the well faster that is why these command a better day rate.

Jayesh Gandhi: Then if I see Aban in your presentation itself if I see Aban 3, 4 and 5 all the three are around 3 lakh?

Gopalakrishnan: Aban 3 and 4 are fairly old rig nearly about more than 30 years.



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- Jayesh Gandhi:** Okay, so that is why the contract rates are substantially low?
- Gopalakrishnan:** Yes.
- Jayesh Gandhi:** Other thing, see in the last six to nine years what has been the rate trajectory, has it been moving or it is being coming gradually down due to the new incoming fleet?
- Gopalakrishnan:** See in 2009-2010 is when the jack-up rates hit a raw quarter. The rates were fairly stable or marginal increase till about 2004-2005. So thereafter there was desperation to book the rigs, because oil prices started moving. So there was a big jump in the year 2006, 2007 and 2008 and then day rate hit a peak of nearly 190,000 to 200,000 thereafter because oil price crash in 2009 lot of the rigs got dehiired, so when the rigs are out of the job and more rigs competed for pure job, so the rigs day rate came down to as low as 100,000. This was towards the end of may be a second half of 2009 and after that because the oil price has shown a sustained recovery more and more E&P companies have increased their expenditure. So it is because of increased expenditure the rigs have started to get contract, the day rate has moved from a low of 100,000 to which is about 160,000 currently.
- Jayesh Gandhi:** When most of these jack-ups come in to renewal or they are freshly employed, what is the ballpark increment in the contract rate that you see, most of them are coming in.
- Gopalakrishnan:** We have given what is the indicative rate today right but see the jack-ups are coming up for renewal at different point of time.
- Jayesh Gandhi:** Most of them are coming in 2015-2016
- Gopalakrishnan:** So we will have to see the markets, how it moves at that time.
- Moderator:** Thank you. The next question is a followup question from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- Badrinath Srinivasan:** Very quick question on a couple of P&L line items, just wanted to help, your help in understanding why the cost of materials and the insurance charges change bit by a few million dollars every quarter, what drives these two line items?
- Gopalakrishnan:** The material, it depends on when we carry out periodical maintenance and all that so insurance basically I think have been coming down on a year-on-year basis, so if you look



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at it last year, it was about 7 million dollars and the last period full year was about 23.8 million dollar, current is about 6 million dollars in the current quarter.

Badrinath Srinivasan: It is possible to do with the Aban 5 and 7?

Gopalakrishnan: No because these assets we do not pay very high premium on those.

Badrinath Srinivasan: Okay right and the raw materials is purely based on how much?

Gopalakrishnan: When you plan a maintenance, so if you look at in last year was about \$40 million, currently it is about \$8 million but we will have to see depending on when the rig go for the schedule maintenance, this can vary and it is not a very big variation also.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Amit Mishra for closing comments. Over to you Sir.

Amit Mishra: On behalf of Axis Capital we thank all the participants and the management further taking the time out and thanks a lot sir. Anything you want to add?

Gopalakrishnan: Thank you very much for all showing interest in our company. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines.