

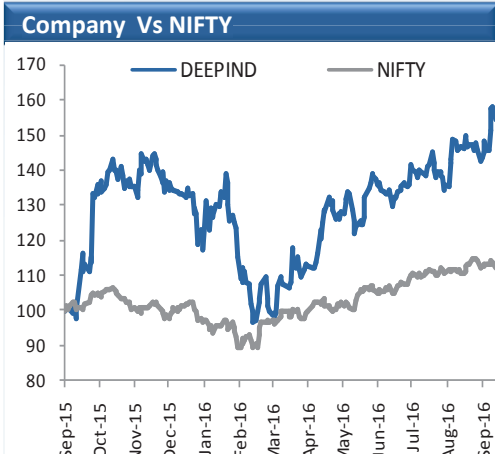
DEEP INDUSTRIES

Company Update	
CMP	231
Target Price	225
Previous Target Price	225
Upside	-3%
Change from Previous	-

Market Data	
BSE Code	532760
NSE Symbol	DEEPIND
52wk Range H/L	236/117
Mkt Capital (Rs Cr)	677
Av. Volume(,000)	73.53
Nifty	8706

Stock Performance			
	1M	3M	12M
Absolute	7.7	53.7	32.5
Rel.to Nifty	6.1	44.4	17.3

Share Holding Pattern-%			
	1QFY17	4QFY16	3QFY16
Promoters	70.08	70.08	70.08
Public	29.92	29.92	29.92
Others		--	
Total	100	100.0	100.0



Deep Industries has shown robust performance for 1QFY17. It has reported Revenue of Rs. 64 Cr in 1QFY17, growth of 136% on YoY basis and 18% on QoQ basis. This growth is led by the increase in the Revenue from the both Gas Dehydration Business and Work over Rigs Business. Going ahead the company has order book of Rs. 845 Cr which has to be executed over the period of next three Years and Management is optimistic to achieve 70% growth in Revenue in FY17. Earlier we recommended Buy on the stock with a target price of Rs. 225, an upside of 12.5%. The stock has achieved our recommended target; we recommend to **Book Profit** at current price level

Q1FY17_Result Update

- Reported sales of Rs 64 Cr, growth of 136% YOY .Revenue Improved due to improvement in Gas Compression and Gas Dehydration Business
- Revenue from Gas Compression Business is Rs. 25 Cr, Dehydration Business is Rs. 22 Cr
- EBITDA at Rs. 37 Cr vs 16 Cr in the corresponding Quarter of FY16 .EBITDA Margin at 57.1%
- PAT of Rs16 Cr vs 7 Cr in the corresponding Quarter of FY16.
- Capex for 1QFY17 is 68 Cr.
- Debt Outstanding till date is Rs. 300 Cr.

Outlook and Valuation

ONGC, being the major client of the company, accounts for approx. 80% of the revenue of the company. The company has strong order book from ONGC which is expected to complete in next three year. Management is optimistic about future growth of the company. According to the management, Gas Compression business is expected to grow at a CAGR of 25-30% ,dehydration business is expected to grow at a CAGR of ~40% %,Rig business is expected to grow at a CAGR of 10-15%.Considering Medium term growth we recommend Buy rating with a target price of Rs. 225

	Rs,Cr				
Financials	2012	2013	2014	2015	2016
Sales	60	65	91	101	169
EBITDA	29	36	52	55	96
Net Profit	12	12	20	21	41
EPS	5	5	8	7	14
P/E	13.2	6.8	5.9	6.4	10.3

(Source: Company/Eastwind)

Management Speak/ Key take aways From Conference call

- Capex for FY17 & FY18 combined is 300 Cr
- No new tender is pending in the pipeline, but management optimistic to file few more tenders in upcoming months
- 90% of Revenue generated by the Business is Recurring in Nature
- Order Book of Rs. 845 Cr for the period of next 3 years—~ 40% is of Dehydration Business, ~30% Gas Compression
- Revenue from E&P Business will start from 2018-19
- Margin level for Whole Company will be maintained at 50-51%
- Entire Revenue is Generated from Domestic Business
- Order Quantum Will Increase in gas compression and gas dehydration
- Demand for Gas Dehydration business is mainly for the Offshore production

Business Model

Deep Industries Limited (DIL) is a well diversified oil & gas company serving the industry since 1991 .It operates in midstream and upstream segment.Midstream business include Air and Gas Compression, Gas Dehydration Services, work over & Drilling Rigs .Its upstream business include Oil & Gas Exploration and Production. DIL's upstream portfolio includes both conventional and unconventional assets with an acreage of onshore exploration and production blocks .Revenue from the upstream segment is marginally low .

Deep Industries is the first Company in India to provide high pressure Natural Gas compressors and Gas Dehydration Service on charter hire basis. DIL is the largest Natural Gas Compression services provider in India. ONGC is the major client of DIL. Some of the Clients of DIL are GSPC, Oil India,Essar,Reliance Industries , Gujarat Gas etc.

Business Segment Overview

Oil & Gas Services

Natural Gas Compression	Work Over & Drilling Rigs	Natural Gas Dehydration
<ul style="list-style-type: none"> Owns 56 Gas Compressors with total capacity of more than 50,000 HP One of the largest companies providing Gas Compression Services in India Compressing about 3.5 MMSCMD 	<ul style="list-style-type: none"> Own and operate 9 work over rigs Currently has 3 drilling rigs 	<ul style="list-style-type: none"> One of the first companies to bag contract for Dehydration on contract basis in India Contract for Dehydrating about 3.1 MMSCMD

Exploration and Production

Conventional	Unconventional
<ul style="list-style-type: none"> Deep Industries is operator in 7 oil & gas blocks in India covering total area of 10,102 sq km having resource potential of 8,920 MMBOE 3 onshore marginal gas fields in Rajasthan 1 oil & gas block each in Chhattisgarh and Gujarat and 1 oil & gas Blocks in MP 	<ul style="list-style-type: none"> Deep Industries is operator in 4 CBM blocks in India and Indonesia covering a total area of 2,060 sq. km having resource potential of 5.5 TCF 2 CBM blocks (North Karanpura & Singrauli) in India 1 CBM Block in Indonesia

DEEP INDUSTRIES

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	65	91	101	169
Other Income	2	1	1	1
Total Revenue	67	92	103	170
COGS	17	22	24	40
GPM	25%	25%	24%	24%
Other Expenses	6	7	8	18
EBITDA	36	52	55	96
EBITDA Margin (%)	55%	57%	54%	57%
Depreciation	10	12	12	20
EBIT	26	40	43	76
Interest	6	9	11	15
PBT	21	33	33	62
Tax	9	13	12	21
Tax Rate (%)	43%	39%	36%	34%
Reported PAT	12	20	21	41
Dividend Paid	2	2	4	4
No. of Shares	3	3	3	3

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	5	8	7	14
Book Value	66	74	75	90
DPS	1	1	1	1
Payout (incl. Div. Tax.)	13%	9%	17%	9%
Valuation(x)				
P/E	7	6	6	10
Price / Book Value	1	1	1	2
Dividend Yield (%)	2%	2%	3%	1%
Profitability Ratios				
RoE	7%	10%	10%	16%
RoCE	11%	14%	15%	17%
Turnover Ratios				
Asset Turnover (x)	0.22	0.25	0.26	0.27
Debtors (No. of Days)	76	67	94	120
Inventory (No. of Days)	105	66	88	58
Creditors (No. of Days)	31	24	27	32
Net Debt/Equity (x)	0	0	0	1

Source: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	26	26	29	18
Reserves and surplus	146	158	190	234
Shareholders' funds	172	194	220	263
Long term Debt	73	84	74	186
Total Borrowings	14	28	40	78
Non Current liabilities	17	24	29	37
Long term provisions	245	277	293	449
Short term Provisions	247	289	321	498
Current liabilities	50	51	50	-
Total liabilities	14	17	26	56
Net Fixed Assets	7	11	11	17
Non Current Investments	6	6	7	15
Other non Current assets	17	22	12	17
Current assets	24	36	38	66
Total Assets	300	359	384	635

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	21	33	33	62
Depreciation	10	12	12	20
Direct Taxes Paid	(2)	(4)	(4)	(4)
Operating profit before v	37	53	55	100
CF from Op. Activity	32	39	43	75
Proceeds from sale of Cu	-	-	-	-
Capital expenditure on fi	(18)	(60)	(37)	(202)
CF from Inv. Activity	(16)	(58)	(32)	(204)
Repayment of Long Term	-	-	-	-
Interest Paid	(6)	(9)	(11)	(15)
Divd Paid (incl Tax)	(1)	(2)	(3)	(3)
CF from Fin. Activity	(14)	23	(11)	135
Inc/(Dec) in Cash	2	5	(0)	6
Add: Opening Balance	4	7	11	11
Closing Balance	7	11	11	17

Source: Eastwind/Company