



# “Asian Energy Services Limited Q1 FY23 Earnings Conference Call”

**August 16, 2022**



**MANAGEMENT: MR. ASHUTOSH KUMAR – CEO AND WHOLE-TIME  
DIRECTOR  
MR. SUMIT MAHESHWARI – SENIOR VICE PRESIDENT  
AND INVESTOR RELATIONS OFFICER  
MR. NIRAV TALATI – CHIEF FINANCIAL OFFICER**

**Moderator:** Ladies and gentlemen, good day and welcome to Asian Energy Services Limited Q1 FY2023 results conference call.

As a reminder, all the participants' 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 for an operator by pressing "\*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashutosh Kumar, CEO and Whole-time Director of Asian. Over to you, sir.

**Ashutosh Kumar:** Good afternoon, everyone. On behalf of Asian, I welcome everyone to the earnings conference call of the company for Q1 FY 2023. I have with me Mr. Nirav Talati who is the CFO and Mr. Sumit Maheshwari who is Senior Vice President and Investor Relations Officer. The presentation and the press release have been uploaded on the stock exchange and our company website. I hope everyone had a chance to look at our results and the presentation.

As you would have noticed, our overall revenue in this quarter had been affected by a couple of things like interruption in ongoing seismic projects in Assam due to early arrival of monsoon and slowdown of Gevra project in Chhattisgarh. Both these projects have been resumed partially, and we are in the process of expediting the Gevra project execution further in order to recover the revenue that we lost in the last quarter.

Our coal handling project in Jharkhand has finally kicked up this quarter. The ground activities have started, and we now expect that this project will add and contribute to the overall revenue during the year. The ongoing field activity of CHP project at Gevra is also expected to pick up post monsoon, which will add further revenue to the company.

Another significant event is we have successfully completed mobilization of the integrated operation and maintenance contract for Vedanta for their Suvali facility. We had started this contract from 1st April this year and completed the mobilization as per the contract. The other contract that we already had, which is O&M of Amguri field, is progressing well. We are working on a few more opportunities in this O&M segment and intend to consolidate our position further by securing at least one more contract in this year.

This is as far as a brief update is concerned. Now, we look forward to having questions from the session.

**Moderator:** We will now begin with the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rahul Shah, an individual investor. Please go ahead.

**Rahul Shah:** I have a few questions. Sometime back, we had heard of some merger news with Oilmax. How is that progressing, sir?

**Sumit Maheshwari:** There is nothing on cards or on discussion on the proposal of Oilmax merger with Asian. And whenever any such proposal will come, the Board of Directors of Asian will take appropriate action at that point of time. But currently, there is nothing on discussion on board's agenda in terms of merger of Oilmax with Asian.

**Rahul Shah:** My second question is, what is the total current order book position with the company as of date?

**Ashutosh Kumar:** Presently, for seismic, we have around Rs. 60 crores of contract on hand.

**Nirav Talati:** The total order book of the company comprises of all the 3 segments currently is in excess of Rs. 500 crores. The majority of the portion comprises of the coal handling plant order which we have and it includes a long-term contract of O&M also. The seismic business order book is currently slightly on the lower side because there has been no activity for the last 5-6 months in terms of the tendering.

**Rahul Shah:** Another question is for Mr. Ashutosh Kumar. Sir, since I have been a very long investor with the company, I have seen a lot of value, you can say, degeneration for myself as well as for my clients. Looking at the current valuation of the company, why doesn't the company go for a share buyback, something like that or maybe bring out something good so that investors can cheer up what they have lost for the last 5 years?

**Ashutosh Kumar:** I will answer your question slightly differently. If you remember, last year, we had made a strategic shift in our approach and ventured into the coal segment. Our idea at that point in time was that it's not good to rely only on one business, which was seismic at that time. Accordingly, we have kind of started putting in our efforts to get into coal, secure businesses in coal and all. And if you notice, we have been quite successful in our efforts in the sense that we have managed to secure 2 CHP contracts, the total value roughly around Rs. 300 crores at that point in time. I am sure all of you have noticed that this quarter the seismic performance has not been good. That was primarily because there is not much happening in the seismic area. At the same time, because we had our coal handling orders, we have been working on it and that has been contributing to the overall order book as well as our revenue at this point and going forward. So, in terms of value erosion, yes, there has been a dip a little bit as is reflected in the Q1 revenue, but because we believe our strategy has been successful and it is going to give returns and bear fruits in the months going forward, I would like to basically suggest to all of you is that whatever value erosion that you are looking at is temporary. Our efforts in the coal area is already adding significant revenue going forward. So, you will see improvement in the overall revenue and performance this point forward.

**Rahul Shah:** But sir, we are currently holding a sizable cash position also in our books. Maybe even if you see, you can say, Rs. 5-10 crores buyback also will create a good upbeat for the shareholders also. Since we have never been a dividend-paying company as of yet – at the same time, we had some sizable price erosion also – and in the last 5 years, in fact, all the shareholders, we have not made significant wealth from Asian Energy while we were expecting that management change, all the changes that have taken place, will build up some good value for investors.

**Ashutosh Kumar:** You are right in the sense that there has been value erosion. As far as buyback is concerned, that is something that the board will have to decide, and we are happy to take you to the board, not a problem. I was trying to answer more from a performance perspective that the decision that we took last year – of course, by approval of all the shareholders – has started showing results. You can't see the whole picture as of now, but as we move on and secure more and more CHP projects and other EPCs in coal business, you will see that in the coming quarters. But as far as buyback is concerned, obviously, it is up to the board. We take your suggestion. We will propose it to the board, and whatever board decides.

**Rahul Shah:** Sir, then is it possible that we can become a dividend-paying company from this year itself since we had shown continuous profits for the last 4 quarters before this quarter?

**Ashutosh Kumar:** I don't see any reason why not, but Sumit will respond to you.

**Sumit Maheshwari:** Rahul, the board endeavors to declare a dividend wherever there is an appropriate thing. Whatever the profits which we have made, the company had carried forward, booked losses, which had prohibited the company to declare a dividend earlier. Once we cross that limit which we are quite hopeful to do in this year, then the board will definitely consider declaring a dividend and the board will put up a formal dividend declaration policy also. Hopefully, in this year, we should be able to declare a dividend subject to the board approval. But yes, we have recovered the previous losses which had not allowed us to declare the dividend earlier, and now the board will take appropriate decision accordingly.

**Moderator:** Next is Mr. Harbind Singh, an individual investor. Please go ahead.

**Harbind Singh:** Sir, we are moving from seismic to coal. Are we actually looking at this futuristically? I am just asking because the whole thing is like renewable and nonrenewable thing and I hope you got my point.

**Ashutosh Kumar:** If I have understood correctly, your question is when everybody is talking about renewable, how come we are focusing on coal. Is that the question?

**Harbind Singh:** Right, sir.

**Ashutosh Kumar:** If you look at the coal industry in Indian context, I don't think renewable is impacting the coal growth in any way. There is a space for renewable as well as coal. The current growth in coal is

driven primarily by the transportation requirements of it. It's not only about producing more coal but it's about connecting the coal produced at different mines to the end users, which is basically transportation. And the projects that we have targeted are exactly in that space, which is a coal handling plant. What it basically does is, it kind of creates a facility to transport the coal from mines to the loading facility, which kind of loads the coal into the racks and all. There are more than enough projects coming up in this segment for the next 2 to 3 years. Along with the guidance from the board, we could spot this opportunity and now we have positioned ourselves to be a significant player in this segment. And that was the reason why we decided to diversify in this segment last year. I hope that answers your question.

**Harbind Singh:** Yes sir, perfectly. And one more thing. As far as I remember, we made some investment in Vaan Electric sometime back. Is there any update on that?

**Sumit Maheshwari:** I will give an update on the Vaan. Vaan was our strategic investment to understand the aspect of e-mobility sector and segment. So, we had invested in Vaan. To give an update on the Vaan, Vaan has already launched its product e-bicycle in January month in a very selective launch in Kerala market. Now after 3-4 months of success and trial, Vaan has entered into a large-scale Indian distribution system where they have already appointed 30-40 distributors and they are opening 3-4 exclusive showrooms. And now Vaan has developed their e-scooter also, which is currently in the process of getting the necessary approval from authorities in India and they want to launch once that approval is there in the next year also.

Vaan was more of a strategic investment from our side to understand and be updated related to the e-mobility segment which is happening, and as a stand-alone, Vaan is doing good and they are launching their product which has been well received by the market. So, you will see significant product launches and the value addition at Vaan level. And Asian is evaluating further other opportunities also into this segment. As your last question was there that we were just focusing only on the hydrocarbon sector, at appropriate time, any new opportunity comes to enter into other segments also, we will evaluate at that point of time.

**Harbind Singh:** There is one more question regarding Vaan. When we started with it, our focus was to get into charging stations, i.e., getting into making distribution channels and focusing on that investing in that. That is what I heard from the management. Is it still the same or are we interested in creating some distribution channels or getting into it? Are we thinking of increasing our strategic investment into this or are we on the plans like we are just focusing on creating charging stations in future?

**Sumit Maheshwari:** There is no change in our strategy in terms of Vaan. As we told you, Vaan has recently launched its product and it is just 3-4 months for their launching the product, we are still evaluating how the market is going to receive these products and what would be the best strategy going forward in terms of expanding our services offering into this particular segment. It depends on that particular aspect. The board will take appropriate decision, but currently, nothing is on table in

terms of increasing our stake in Vaan or entering into a different type of agreement or setup with the Vaan. Our strategy or investment objective in the Vaan remains the same.

**Moderator:** The next question is from the line of Prakash Diwan from Altamount Capital. Please go ahead.

**Prakash Diwan:** I am sorry I logged in a bit late. So, I missed out on some of the critical explanations on what do you attribute this significant drop in revenue to? That was the first thing. The second, I was given to understand in the earlier years or quarters whatever that this O&M revenue has started accruing from some of the orders that have fructified last year and the quantum was estimated to be about Rs. 100 crores for the year with the run rate of almost 75. If that is there, then why is there no revenue from any other stream? I am very perplexed because there are so many positive things about the company and certainly the revenue lets you down. Maybe I missed out on the explanation, but if you could just explain that?

**Ashutosh Kumar:** The O&M revenue is on track. I am not sure if you were there when we discussed that we have commenced one of our O&M contracts in Suvali for Vedanta.

**Prakash Diwan:** How much is this size, sir? What is the size of that revenue?

**Ashutosh Kumar:** That is Rs. 200 crores order book in 4 years, so around Rs. 50 crores per annum, plus there are reimbursables which are over and above....

**Prakash Diwan:** And that has started? This particular quarter that you have reported has some component of this factored in?

**Ashutosh Kumar:** Correct.

**Prakash Diwan:** So, Rs. 25 crores already has some part of this whatever Rs. 12.5 crores run rate from O&M from this particular contract?

**Sumit Maheshwari:** Definitely, some part has started. As the contract has started from the 1st of April, the revenue and the run rate will increase going forward. The first 3 months, there has been some revenue booking which is not very significant in terms of the overall annual expected contract value, but in the coming quarters, more and more work will be taken care at those particular facilities and the revenue will increase. And as Mr. Ashutosh explained, the contract is for 4 years and roughly targeted revenue of....

**Prakash Diwan:** Rs. 200 crores he said, that I've got. So, essentially, this quarter, you have some revenue that has come in. That's the mota-moti important thing, and it will grow as the contract....

**Sumit Maheshwari:** In this quarter, some revenue has come up and it will grow going forward further.

**Prakash Diwan:** Then, my question continues to be even more.... I am more confused. I know you have answers but I am the one who is confused. Sir, if Rs. 27 crores top line that you reported has some component of this particular O&M also in it, then where is the core seismology and material handling business? Is it virtually not being there or what has gone wrong?

**Ashutosh Kumar:** The major part that has been missed out is – Sumit will explain in detail, but I will just give you the headline – our forecast for this quarter included seismic revenue in Assam. That was based on our experience last year when we could work during monsoon also. However, this year, the monsoon came early in Assam, and due to that, our seismic work in Assam was interrupted. We effectively lost a month. You are seeing that impact in the revenue, which is not there. After that brief interruption, we could resume the seismic work in Assam. That is primarily the gap between the expectations and actual delivery in Q1 plus there has been a little bit of impact from the coal handling plant facility as well, which is nothing but a phasing. A few things here and there, but that is more of a phasing issue. The revenue you will realize in coming quarters.

**Prakash Diwan:** You are seeing this big miss is because a lot of your business comes from Assam and that one-third of the time you lost because of the early monsoon actually led to this shrinkage of the time you had and the revenue thereof. That's what you are saying?

**Sumit Maheshwari:** Yes, Mr. Diwan. And apart from that, we were expecting a certain contract award by the Government of India of NSP-2 which was expected to kick-start working in May and June month, but those contracts have been delayed by the government by a couple of months, and those tenders are yet to come out. That has a bit dipped our seismic revenue, but as Mr. Ashutosh explained, the work has already resumed at one site in Assam and another site we are expected to resume work in next month. And post October, there will not be any monsoon effect on overall seismic business, and with the new line of orders which have been tendered and which have been planned, we are quite hopeful to make a very good recovery in coming quarters in seismic business, especially in Q3 and Q4. And as explained by Mr. Kumar, in our CHP business, one of our contracts has recently started working after getting the necessary clearance for the land acquisition and land approval being done by our clients. There, in the CHP segment, the work has started and that will show in Q2, Q3, and Q4 coming quarters.

And in another one of the contracts, because of the phasing issue, there was some slowness in the contract execution, which is also likely to be covered up in the coming quarters. This Q1 has been exceptionally not a very good quarter what we had earlier anticipated, but we are quite hopeful to make a good recovery in the coming quarters and still do the best.

**Prakash Diwan:** Thanks for being so candid in admitting that it has been not at all a good quarter. I earlier heard somebody say it was just a slight value erosion. This is not slight. If I were running a company and reporting these kind of numbers, I am sure I would have got questioned by the board on a lot of accounts. I can understand government orders getting delayed, but we have always been executing a pipeline of orders that we already had in the bag. That's the worry. With Rs. 400-

500 crores expectation of top line for the year.... This is serious. I am glad at least you are anticipating some sort of a spillover in the subsequent quarters. Hopefully, that will pay off. You do believe that Q2 from a business perspective is not very good because of the monsoon in all the other areas, and I was under the impression Q2 is bad. You would probably have all that lumpiness, all the spillover, coming into Q2. So, Q2 could not be as bad as cyclically seasonally it is and you might see some improvement on a Y-o-Y basis as well?

**Ashutosh Kumar:** Q2, you will see improvement over Q1, and that improvement will come primarily from our CHP business which has kick-started, the ground activity has been started. Q3 and Q4 will be significantly better compared to Q1 and Q2 because seismic also will come into play.

**Prakash Diwan:** So, seismic is virtually not there because of these factors that you explained such as the Assam floods and all that loss of time and all that, right? And that will happen and CHP also you had some delays in the execution starting. So, that will also start reflecting. That's what you are saying?

**Ashutosh Kumar:** Correct.

**Prakash Diwan:** On this O&M thing, we kind of missed that trade a bit. Do you anticipate actually getting execution started for more orders from here? Order booking is one thing.... I now want to understand whether business has started or revenue has started percolating. Beyond this Rs. 200 crores that you mentioned, is there something else in the bag?

**Ashutosh Kumar:** No. Generally, O&M contracts take a long time to materialize. So, I can't really guarantee that we will have one more. All I can share with you is that we are currently actively pursuing 2 tenders for O&M.

**Prakash Diwan:** These are, as usual, from the likes of Vedanta and ONGC and all?

**Ashutosh Kumar:** Vedanta and other private players.

**Prakash Diwan:** But same ticket size, Rs. 200 crores over 3-4 years, as you said earlier?

**Ashutosh Kumar:** Yes.

**Prakash Diwan:** And this employee cost that has gone up. You didn't have seismic going on, coal handling is yet to start, and O&M is just 1 contract that is off the floor. Why has the employee cost gone up? Have you hired for future? What is the reason?

**Sumit Maheshwari:** Mr. Diwan, this is a mix of 2 things. First thing is, as our O&M contract has started, we have hired a lot of people for doing that O&M contract. So, their cost has come in into employee cost. The second thing is, as we explained to you in the seismic business, the floods which had affected our operation, still we continue to employ few people in anticipation of making good recovery.

That is why the employee cost is slightly higher as compared to our revenue and there are some employees which we have hired for executing our CHP business also for which the revenue will start coming in the coming quarters. So, you will see a normalization vis-a-vis employee cost versus our revenue in the coming quarters.

**Prakash Diwan:** From a revenue flow perspective, you are saying Q1 was a significant miss, but a lot of that might start getting captured in Q2, and as Mr. Ashutosh Kumar said, Q3 and Q4 could be even better. That's the whole narrative, right, in terms of the plan? And from that perspective, everything is looking good and it is more back ended for this financial year, the revenue generation and profitability. Value erosion in the stock seems to be probably a mismatch. So, there will be more attractiveness. But ever since the promoter bought this company off the private equity fund, there has been no infusion, right, by the promoters here? I am sorry, I don't have the old data with me, and no buyback also?

**Sumit Maheshwari:** Oilmax promoter has invested Rs. 80 crores of primary equity in the company in year 2017-2018.

**Prakash Diwan:** Yes. That is why I am saying.... We know the transactions, yes. That is okay. That can be explained, but after.... They bought it at whatever price they bought it as this was looking far more attractive given what you are saying. There has been no buyback, I mean no creeping acquisition by the promoters in any of these couple of years, right?

**Sumit Maheshwari:** No.

**Moderator:** The next question is from the line of Mohit Rathi from CCIPL. Please go ahead.

**Mohit Rathi:** Thank you for explaining the Q1 numbers. You mentioned something about phasing on the coal handling plant. Could you explain it more in detail like what is phasing and how it will play out?

**Ashutosh Kumar:** For example, if we talk about a particular project, the typical coal handling project is around 24 months. If you look at Gevra, before the monsoon, we were progressing well in Gevra, and a part of the revenue captured in Gevra was in the last financial year. After that, the monsoon came and a few other challenges came. Therefore, the revenue booking was slowed down. In fact, the project progress was slowed down. In the subsequent quarters, it will again come up. That is what I meant by phasing. Typically, in any coal handling plant, all the revenue will not be captured in any particular year. The key really is to have....

**Sumit Maheshwari:** As Mr. Ashutosh explained, the coal handling plants are spread over between 18 months and 24 months and these are a mix of mechanical, civil, and a lot of activities. So, it depends on managing the project and the project structure and the project cash flow. Few quarters, you book slightly extra revenue in terms of placing of orders and making the order. And the few quarters depend on your site execution in terms of the availability of land and the challenges related to the monsoon and the civil structure and you try to manage your operating cash flow level. So,

overall projects will get completed in the similar period time frame of 18 months to 24 months, but depends on at which particular stage you are into the project and which makes more commercial sense in terms of that particular month's activity, You decide to slow down activities for a couple of months and you decide to further expedite the activities in the coming months to maintain the balance, both in terms of your costing and in terms of your utilizing best of your resources giving the best value to your resources. That is the meaning of phasing. The last quarter because of the rainy season and the challenges related to the civil structure in that particular project during that particular period, there has been some slowdown in those activities. In the coming quarters, those activities will further pick up and overall projects will be completed in the same duration. That is what we meant by the phasing.

**Mohit Rathi:** So, is it fair to assume that when you are bidding for a project, you are bidding for the IRR of the project so that it will get realized in this CHP?

**Sumit Maheshwari:** Yes, whatever is our estimated margin, when we bid the project, we keep all those things into the picture and we calculate and take factor of all these aspects into the picture and we strive to maintain our margins with all these slowdown and fast-track activities keeping in mind. And the entire margins will be realized during the project execution phase.

**Mohit Rathi:** So, we are still on track, basically?

**Sumit Maheshwari:** We are slightly delayed in that particular project, not from the client point of view but from our internal estimate point of view, and we are quite hopeful to cover up the ground in the coming quarters and stay ahead of the track.

**Mohit Rathi:** Sir, the second question was, now that the crude oil price has gone up substantially in the last 1-2 years, do you see any new opportunities or something like we had 1 Nigerian contract which we terminated and things like that? Do you see any new opportunities on the horizon?

**Ashutosh Kumar:** Our business model is not actually directly dependent on crude oil. As you know, our business has been focused around seismic and subsequently we decided to get into coal and all which has nothing to do with crude oil. We all wish that the crude oil increase will have an impact on seismic. Unfortunately, no, because seismic orders are driven by government policies and government decisions to start the national seismic program.

In terms of EPC in the oil & gas local market, we don't see much activity in the areas of our interest on a short-term basis. So, I would say, on a short-term basis, crude oil price increase probably will not affect us one way or the other.

**Mohit Rathi:** But long term also, if price is increasing, I am sure there will be more demand for seismic activity. That is where I was coming from, but your point is well taken. I mean, government policy is good for you. Point is well taken.

**Sumit Maheshwari:** What we meant to say is there is no directly proportional relation with the crude oil prices with our business activity and our endeavor to get into the long-term contracts where we minimize the cyclicalities related to the crude oil prices and all those activities. It is not a direct proportion related to the oil & gas activity with the crude oil prices.

**Moderator:** As there are no further questions from the participants, I would now like to hand the conference over to Mr. Ashutosh Kumar for closing comments.

**Ashutosh Kumar:** I would like to thank all of you once again for joining on this call and asking questions related to our business, which kind of helps us look further into how we are conducting our business. I hope we have been able to answer your queries to your satisfaction. If you still want to ask more questions, please feel free to contact Mr. Sumit Maheshwari. For now, thank you, and see you next time.

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