

INDUSTRY OVERVIEW:

Global Scenario

The oil industry, with its history of booms and busts, has been in its deepest downturn since the 1990s. Earnings are down for companies that made record profits in recent years, leading them to decommission more than two-thirds of their rigs and sharply cut investment in exploration and production (E&P).

To correlate our business perspective, marine logistic services business is directly associated with offshore drilling activity by E&P operators and since offshore drilling is experiencing a steep downturn, the implications are on the same line for marine logistic services business.

The primary cause is the plunging price of a barrel of oil, which at one point fell more than 70% compared with June 2014 levels. Prices have recovered a few times over the last year and lately Brent crude crossed the \$50-a-barrel threshold for the first time in nearly seven months. But prices are still below the level at what producers need to drill profitable wells.

However, over the long term, demand for fuels is recovering in some countries and that could help in the recovery of crude prices in the next year or two. Hence a gradual uptick is expected in the business scenario for Offshore drilling, marine logistics & allied oilfield services in the next two years as oil prices stabilize in the range of USD 60-70 per barrel.

Indian Scenario

India continues to be one of the largest energy consumers globally, a strong reason for securing the Country's energy needs.

Oil and Natural Gas Corporation Limited ("ONGC") has formulated its perspective plan 2030 envisaging that the oil and gas production of OVL would increase from the current level of 8.75 Million metric tonnes of oil equivalent ("mmtoe") to 20 mmtoe by 2018 and 60 mmtoe by 2030.

Award of fields for Oil & Gas Exploration in India is done through NELP rounds conducted by Ministry of Petroleum & Natural Gas. A total of 254 blocks have been awarded in the nine rounds of NELP since 1999, out of which 81 are deep water, 59 shallow water and 114 onland blocks. The latest round of bid for exploration license will be awarded under NELP X, wherein 46 blocks will be awarded.

The Government of India has been reviewing the policies from time to time for encouraging exploration activities and investments. The coming tenth round of auction under the new exploration and licensing (NELP) will probably be the last in the series, that have met only with a moderate success, as the government intends to shift to the open acreage licensing policy (OALP) thereafter. The OALP will enable upstream companies to bid for any oil and gas block throughout the year without government having to hold an auction.

To ease the process, the Government of India is looking at the following three things:

1. Uniform licensing policy,
2. Open acreage and
3. Revenue sharing model.

To cater to the increasing demand, the Government of India has adopted several policies including 100% foreign direct investment in many segments of the sector such as natural gas, petroleum products and refineries, among others.

BUSINESS OVERVIEW:

Your company continues to be regarded and accepted as one of the premier companies in the offshore services sector, both domestically and internationally with its diversified range of vessels and activities in international and domestic markets. The segments that the Company operates in, are as follows:

- Offshore Drilling
- Offshore Marine logistics & Port Terminal Services
- Engineering and Marine Constructions
- Inspection, Maintenance and Repairs
- Salvage Operations



(I) Strengths

The Company's versatile and diversified fleet of vessels is its major strength. The fleet includes two drilling rigs, eight anchor handling tug supply vessels, six platform supply vessels, four anchor handling tugs, one Multi Support Vessel, two Fire Fighting Support Vessels, three Accommodation work barges/ vessels, one work boat and eleven harbor tugs. The Company is in the process of phasing out the older vessels and replacing them with modern ones. Our well trained and qualified work force is our strength, ready to take on the challenges and opportunities as they arise.

All our assets are Indian flagged and hence can get preference over the foreign flag vessels and Rigs in Indian offshore waters.

(II) Weaknesses

Ageing fleet is one of the issues. As the vessels age they require a lot of age related repairs, adding to cost of operations. It is also a challenge to market an older vessel especially when the newer vessels of modern specifications are available. In fact there is a glut of new build vessels in the market and many are on the block waiting to be delivered.

Another major area of concern that needs to be addressed is the challenges faced by the Company over the liquidity issues.

(III) Opportunities

The Government of India is committed to fully develop the hydrocarbon sector which is expected to give impetus to the E & P activities.

ONGC's plans to come out with series of vessels and Rig tenders on long term charter provides opportunities for the company to bid and place the vessel when awarded on long term charter.

ONGC tenders for requirement of Offshore Supply Vessels, Fire Fighting Support Vessels, barge and Rigs are expected in second/ third quarter of 2016. Starting from October 2016, there would be around six to seven Lump sum Turnkey Engineering Procurement & Commissioning (LSTK EPC) projects in offshore execution phase simultaneously and accordingly, there will be good opportunities for our offshore construction fleet.

(IV) Threats

With the slow recovery in oil prices, the charter market would be depressed in 2016, as was the case in 2015, coupled with fiercer competition from domestic as well as foreign players, all vying for a share in the Indian offshore business.

As the industry shows slowdown and the competition bound to become fiercer, the Company has to battle new technologically advanced vessels. The management is aware of the challenges with regard to the competition. We upgrade and endeavour to keep our vessels in top working condition and explore new markets. The experience and expertise of our work force also stands in good stead for us.

Globalization brings in foreign exchange risk. However, as the Company's substantial earnings are in US Dollars, there is a natural hedge against the foreign exchange risk. The Company also has in place pragmatic treasury policies to guard against the volatility of Forex risk.

By nature the Company's business is risk prone. However, with insistence on training of employees and keeping the vessels in top sea worthy condition, Your Company has been successful to avert any major disaster on account of accident. All the vessels of the Company are adequately insured.

OPERATIONS:

Drilling

The Company owns two Drilling Rigs namely Kedarnath, a Jack-up Drilling Rig and Badrinath, a Drill Barge. Rig Kedarnath, continued with its five year charter with ONGC. In financial year 2015-16, Rig Kedarnath was deployed in Mumbai High for Casing Repair & Well Testing and successfully drilled two wells. Rig was de-hired from this contract on December 8, 2015. Thereafter, to comply with statutory requirements of Special Survey, various jobs are being carried out on board, while waiting for charter.



Rig Badrinath continued with its three years charter with ONGC, which commenced in April 2012. During financial year 2015-16, Rig successfully completed one well in Mumbai High. Rig was de-hired on May 8, 2015. Letter of Award (LOA) was issued by ONGC on March 1, 2016, for charter hire of Rig for a firm period of three years. At present, Rig is undergoing necessary refurbishment/ repair, to meet contractual requirements.

Engineering Services

During the year under consideration, Engineering Services department was executing the prestigious contract from ONGC for revamping ONGC's BPA-BPB platforms. The revised contractual completion date of this project is December 31, 2016. The Engineering Services has participated for "LEWP3" in Western Offshore and is actively bidding for various E&C projects of ONGC including the West coast of India.

ONGC floats global tenders for lump sum turnkey (LSTK) jobs under Engineering Procurement Installation Commissioning (EPIC) contracts. The assignment involves design and engineering, precision fabrication, installation and commissioning on offshore platforms.

Your Company is geared to participate in large value bids in consortium with internationally renowned organizations to expand business in this niche area. This is expected to be a growth area with high potential. Successful completion of BPA-BPB RC Project will provide a major boost to the track record/ credentials of the Company.

Inspection, Maintenance and Repairs (IMR)

IMR department operates Marine Construction Vessels, Anchor Handling & Towing vessels, Fire Fighting and Multi Support Vessels. The department offers wide range of operational package to the customers under one roof.

Multi Support Vessel Malaviya Thirty six is on ONGC charter up to September 19, 2019, operating in Mumbai High. This vessel, apart from its routine duties such as safety, pollution, firefighting and rescue, also carries out saturation and air diving duties for under water maintenance of E&P units in Mumbai High fields.

Fire Fighting Vessel Malaviya Twenty Three is on ONGC charter up to September 10, 2016, operating in Mumbai High and has been successfully carrying out FI-FI standby duty, maintenance and repair jobs to the satisfaction of charterers.

Fire Fighting vessels Malaviya Twenty Five and Malaviya Twenty Seven were chartered with Shipping Corporation of India on long term basis till March 2016. Vessels undertook the role in prestigious defense Research & Development project of national importance. Vessels have been awarded with various appreciation letters during the tenure.

Other vessels of this fleet are mainly Construction Vessels with passenger carrying capacity of up to 275 persons. These vessels have been involved in Marine Construction Projects of various oil companies of repute such as British Gas and were also deployed in-house with Engineering Services department for BPA-BPB Project of ONGC. These vessels are equipped with heavy lift cranes to cater to all kind of project requirements.

Anchor Handling & Towing Support vessels of the department namely Bharati-S and Sangita carried out support duties to the Marine Construction Assets of the department for in-house Engineering Services for BPA/BPB Project of ONGC. Gal Beaufort Sea and Gal Ross Sea were employed by L&T and also kept on stand-by duties for Rig Badrinath at Mumbai anchorage.

Fleet Management Department (FMD)

The Fleet Management Department operates Anchor Handlers of capacity ranging from 80 T Bollard Pull to 160 T Bollard Pull, Platform Supply Vessels of sizes 3300 DWT & 4500 DWT & Harbor Tugs.

During the year under review, the Deep Sea Anchor Handlers (150-160 T) were working for ONGC India and PETROBRAS Brazil on long term contracts. 80 T Anchor Handlers are hired by ONGC and are mainly being used for Rig Moves and cargo supply duties.

The Platform Supply Vessels are operated in North Sea, Brazil and India. They are the workhorses when it comes to bulk of material supply required for Offshore Fields.

The Harbor Tugs are operated for vessel berthing/ un-berthing by major ports in India like Pipavav, Muldwarka, Gangavaram, Kattupalli & Haldia.



The main activity of FMD involves operating/ managing the assets efficiently to the satisfaction of clients, achieve maximum utilization of the assets by having minimum downtime and compliance/ implementation of Flag State/ IMO statutory requirements. FMD also takes care of logistics function (Import/ Export of Spares & Material) for FMD, Drilling & IMR departments.

Business Development & Marketing (BDM)

The activities of the BDM department include securing the employment of assets of the Company so as to generate optimum revenue and exploring new employment opportunities in the maritime industry. The business development and marketing function even during tough times has been able to secure charter on long term contracts for few of the vessels of the Company.

Training

During the year under review, the Training Department of your Company continued to provide Quality Training – both Simulator based and Non-Simulator based, to Fleet Personnel. A total of 50 persons (all in-house candidates) were trained on the Company’s Simulators for various facets of ship handling and other advanced activities such as Anchor Handling and Towing. In-house Value Addition Training was also conducted for 30 personnel thereby ensuring the safe operations of our vessels.

It is heartening to note that in compliance with MRM-2014 decision, Training Department has successfully prepared safety leaflets for carrying out briefing to the joiners in line with Brazilian practices. In addition, Training Department has provided necessary assistance as and when required, to ensure safe sea operations

During the financial year under consideration, 165 persons have undergone Hydrogen Sulphide Safety (H2S) Course In-House, thereby doing away with the need for offshore personnel being sent to external institute as was the case before. Consequently, this has resulted in reducing expenditure incurred earlier.

Information Technology (IT)

Information Technology is an integral part of any business and more so in case of a highly technical business like that of the Company. The IT Team is working towards minimizing the operation costs through automation of processes and in house Developed Business applications, which reduces the maintenance cost drastically and operation time. The IT Team also focuses on training needs of floating staff and shore staff on a regular basis to meet the company’s requirement.

Human Resources (HR)

While the HR Department zealously endeavors to promote performance and productivity through the continuance of its already existing strategies like the Newsletter- “Go Ripples”, Presidents Award, and various training programs. To this effect, an in-house workshop on Self Awareness was conducted and well received by the employees.

Apart from Goal setting, we opened the lines of communication between the Heads of Department and their teams and provided employees a further platform to discuss their performance through the implementation of a mid-term review appraisal. Your company has adopted best practice by following a continuous process of performance evaluation apart from just annual appraisals. The HR department has also taken keen interests in the health of the employees – healthy food choices have been made available to the employees at work, in order to curb lifestyle diseases which commonly affect those leading a hectic corporate life.

As on March 31, 2016, your Company had a work force of 1229 employees comprising of 168 Shore based personnel, 746 Shipboard personnel and 315 Rig Personnel. The total number of employees for year ended March 31, 2015 were 1404.

CAUTIONARY STATEMENT

Statements in this Management Discussion and Analysis about Company’s business, outlook, estimations and expectations may be “forward looking statements” within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company’s operations include unavailability of finance at competitive rates, charter rates at which assets are deployed, significant change in the geo political environment, tax laws, litigation, exchange rate fluctuations, interest rates and other costs.