

Arihant Capital values your support in the Asiamoney Brokers Poll 2021 for Institutional Team. We request your ballot



<http://www.asiamoney.com/brokers>

CMP: INR 340
Outlook : Positive

Stock Info

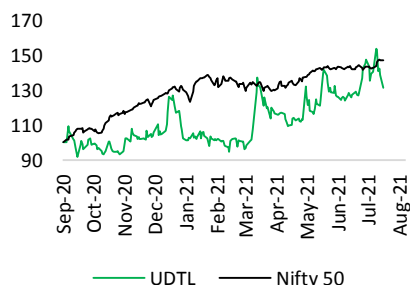
BSE	522014
NSE	UNIDT
Bloomberg	UDT:IN
Reuters	UNDR.BO
Sector	Energy
Face Value (Rs)	10
Equity Capital (Rs cr)	193
Mkt Cap (Rs cr)	688
52w H/L (INR)	410 / 141
Avg Yearly Volume (in 000')	41.97

Shareholding Pattern %

(As on June, 2021)

Promoters	74.65
Public & Others	25.35

UDTL Vs Nifty



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United Drilling Tools Ltd (UDTL) is a leading oil drilling equipment manufacturer in India. UDTL manufactures conductor and surface connectors and service equipment's such as wire line winches, gas lift equipment and down hole tools. It has four plants and 5 key manufacturing departments which are machine shop with CNC, Milling machines, drilling machines, cylindrical grinders and special purpose laths; Design and research development; quality assurance; fabrication, assembly and testing facilities includes compression, tension, bending and variety of testing machines. UDTL manufactures high quality products that are used in upstream oil and gas exploration. It has excellent track record of supplying products with most reliable designs and staying consistent with competitive prices.

Key Positive Triggers:

Government rule to support company: The Indian government has made it mandatory for Indian PSUs to give orders up to INR 200 crores for Indian companies. As per this direction, this can be big competitive advantage for UDTL as company's major competitors are GE, Winter more & others.

First mover and Local advantage: Getting approval from API is a big entry barrier for the industry. There is hardly any Indian player with approvals and execution capabilities like UDTL. Technical expertise is key forte of company with lowest rejection rates from the clients.

New products to drive growth: The company has been relying on newer products like Leopard connectors, swift connector & Lynx connector to drive growth going forward which are margin accretive also and would drive growth also.

Exports is a big opportunity: There is huge scope for client penetration going forward; Some of the overseas clients like Aquatera has given orders worth INR 10mn to the company. This can be 30-50x opportunity for the company in next 2-3 years.

Government of India is reducing oil dependency on imports by promoting oil/gas production in the country.

Constant demand for the product: The company's product lifecycle is One -two year only and they need to be replaced by clients on regular basis. As most of the products are used for continued drilling operations also apart from New Exploration also (only 20% of business), so demand for the products are not going to see any dip even oil prices crashed also.

Outlook :As per discussion with the management, company can do topline of INR 500 crores and EBIDTA of INR 200 crores on large exports opportunity. We believe this can generate PAT of INR 130 crores which translate into EPS of INR 64 for the company. Even if take valuation of 10x, stock has a potential to touch INR 640 in next two years. The stock can be added in trenches between INR 250- INR 350 post this rally.

in cr	FY18	FY19	FY20	FY21
Revenue	73	156	112	143
EBITDA	17	28	53	50
EBITDAM (%)	22%	18%	47%	35%
PAT	13	25	45	33
PATM (%)	17%	16%	40%	23%
EPS (INR)	6.2	12.2	22.3	16.1

Source: Arihant Research, Company Filings

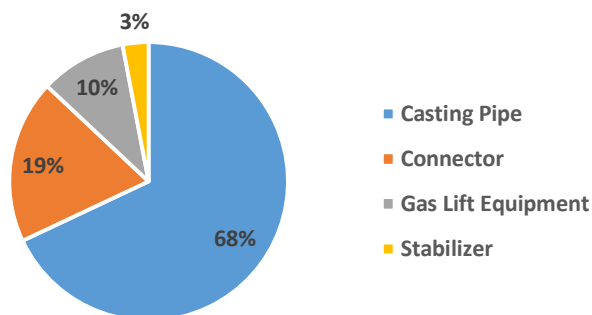
Management Meet Highlights:

- Strong balance sheet with cash of INR320 millions.
- EBIDTA margins are around 40% on sustainable basis.
- 80% of products to be sold for existing oil fields and 20% is largely for newer oil/gas drilling.
- Products have a life cycle of 1 year and replacement demand. Products are cheaper than 15-20% than competitors.
- Received API & ISO certification in 2005
- Launched Leopard & swift connector between 2016-20
- UDT lynx connector and new product to be launched going forward.
- Company is working on 40% utilization now.
- Total capex for FY22& FY23 would be INR 100mn & INR 150 mn respectively.
- 800mn order book: 1250 bid submitted and another 1000mn bid to be submitted going forward. Expecting order book of INR 1200 mn going forward.
- Global industry growth to be 8-10%.
- Company have started exports post collaboration with Herbertson over. Contribution of Exports top touch from 1.3% to 5 % going fin FY22.
- Government reserved tenders for INR 200 cr for Indian companies.
- Entry barriers for new players: getting new approval would take 5-7 years.
- Credit Rating improved in last 2 years.
- Tax rate was lower due to 2 units in SEZ. The company has four plants.
- In India competition was largely from global players GE.
- New products would generate INR 50 crores from global markets.
- Collaboration from herbertsons was over as it was more restrictive to exports. Have gained all technical know-how during collaboration.
- Imports have 10% duties & Targeting Exports to reach 40 pc in next 3 years.
- Have started bidding in UAE, Vietnam, Africa& Indonesia etc.
- Have started doing for a UK based company Aquatera.
- Pipes sourced from Welspun, Jindal Saw etc.
- Management is expecting INR 200 crore sales in FY22 and should reach INR 500 crores in next 3-4 years. Most of the orders are from ONGC; New NELP policy with oil/gas well to newer
- EBITDA Margins : Wireline (30-35%). New products connectors (40-60%).

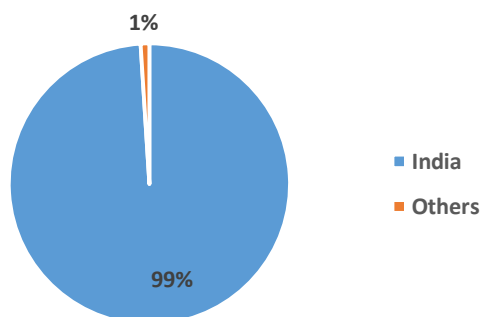
Product Line			
Products	Description	Function	Application
Casing Pipe with Connectors	During the drilling of oil and gas wells, it becomes necessary to line the walls of borehole with steel pipe which is called casing. Casing joint is run from the rig floor, connected one joint at a time by casing elevator and stabbed into the previous casing string that has been inserted into the well	Keeping the hole open by preventing the weak formation from collapsing i.e. caving of the hole.	Drilling
Wireline Winches	Production winches are used for inserting and retrieving the flow control devices from the side pocket mandrel. Side pocket mandrels are installed in the tubing string at different locations. Wireline winch units have line speed, depth and tension measurement system in addition to fast jarring action of the reel unit which can insert and retrieve the flow control devices from the side pocket mandrel at any depth in the oil well with high accuracy. UTD manufactures Slim-split, Flyline, Truckline and Landline	In order to insert or retrieve the flow control device into or from the side pocket mandrel a wireline string is lowered into the production tubi string. They are used to lift gas equipment's	Drilling
GAS LIFT EQUIPMENTS	After the completion of lowering of production casing into the oil well, production tubing is lowered. Gas lift equipments are installed as a part of tubing string. Gas lift equipment's consists of gas lift mandrels and flow control devices. Gas lift mandrel includes conventional mandrels and side pocket mandrels whereas flow control devices includes gas lift valve, orifice valve and dummy valves.	Gas Lift Vales are used in artificial lifting of oil when the natural pressure of the gas pushing the oil up on the surface is reduced and Gas lift Equipment is required to push the oil from earth to surface.	Drilling
Stabilizer	Stabilizer is one of the component of drill string elements which is generally placed near bit or up in the drill string. In the drill string assembly the drill bit is lowest component which is used to drill the well hole. Stabilizer's function is to smoothen the hole made by drill bit. UDT offers two types of stabilizers namely Integral blade stabilizer and replaceable sleeve stabilizer with different hard facing options to suit all drilling condition.	Stabilizes the Bottom hole assembly. The stabilization maintains drilling trajectory whether drilling straight, horizontal, or directional wells	Drilling

Product	Market Share (%)
Upstream Drilling Tools	70%
Stabilizer	50%
Gas Lift Equipment	50%
Wireline Winches	50%

Product-wise Breakup

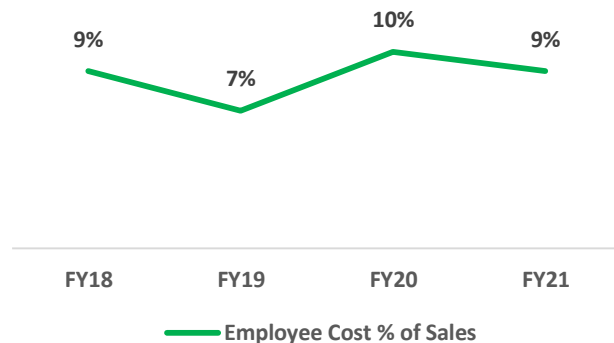
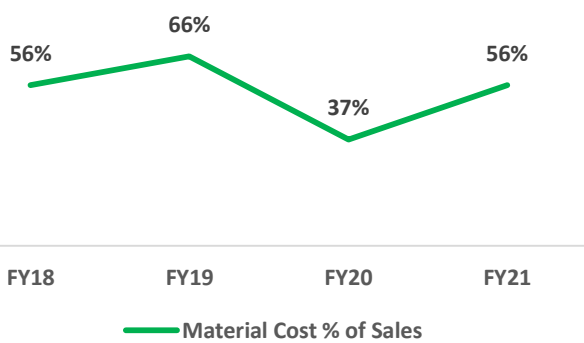
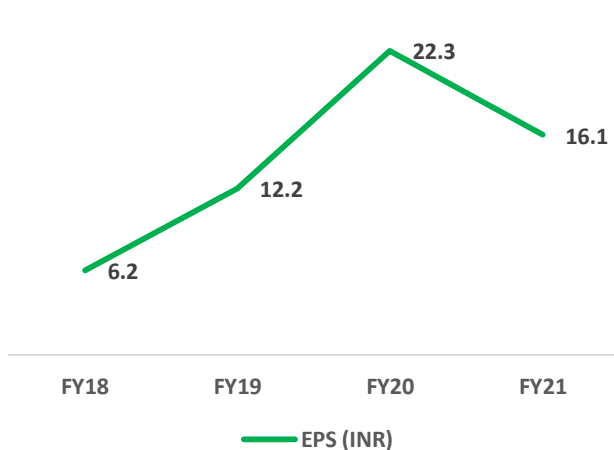
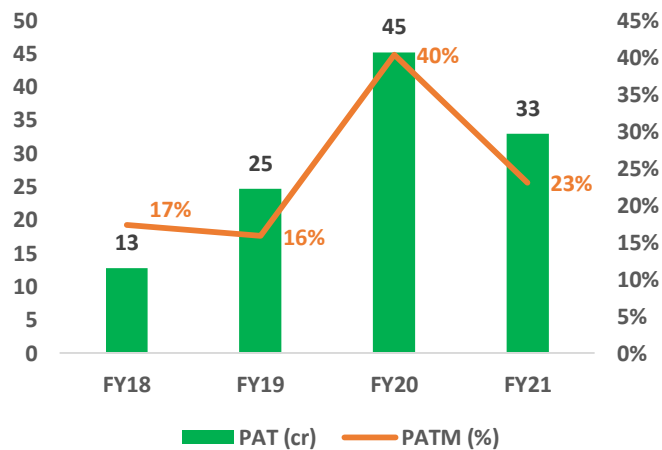
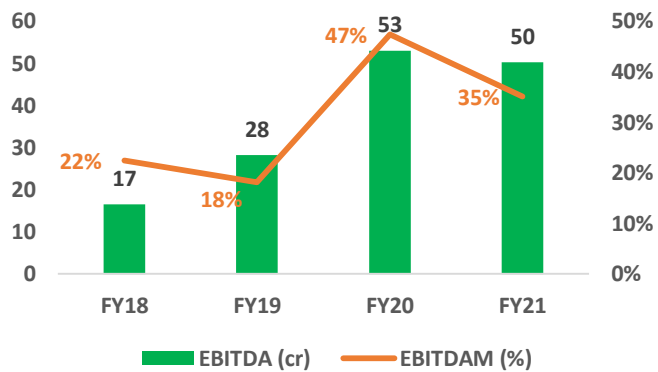
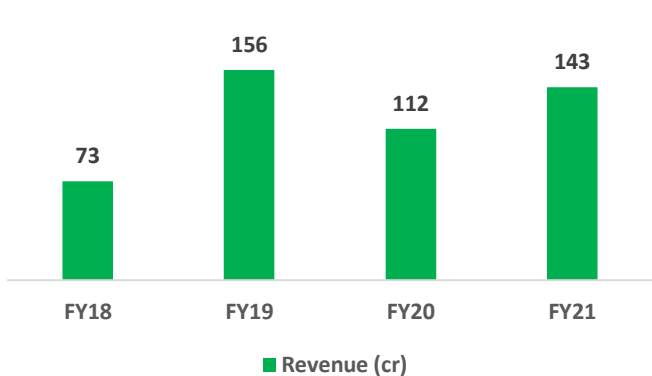


Location-wise Breakup



Source: Arianth Research, Company Filings

Charts



Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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