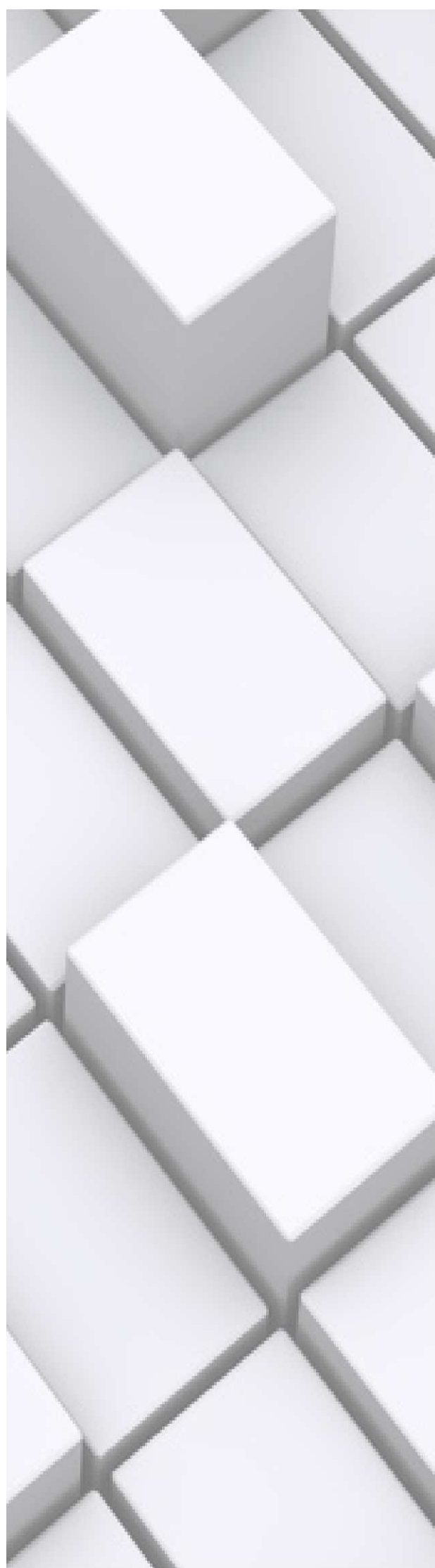


February 7, 2018



Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Hindustan Oil Exploration (HINOIL)

₹ 118

About Hindustan Oil Exploration Company (HOEC)

HOEC is India's first private player in upstream oil & gas sector and holds a portfolio of 9 blocks with 2P reserves of 12.7 million barrels of oil equivalent (mmboe). HOEC production stood at 1,46,976 barrels of oil equivalent in FY17 from its 4 fields (mainly from PY-1 field).

Triggers

- **Commencement of new gas field:** HOEC's management team has been successful and have started oil & gas production from new field in Assam (Dirok) in August 2017 where the company holds 27% stake. The company expects ramp-up in gas production from the field to 1 mmscmd in FY19E from the current levels of ~0.3 mmscmd. In addition, the Dirok field is also expected to produce 1000 barrels per day of condensate from FY19E which will have realisations of crude oil prices. The field has a total revenue potential of ~₹ 400 crore at current APM gas prices (GCV basis) of US\$ 2.9 per mmbtu (HOEC-27% stake). Also, attractive fiscal terms and high exploration & appraisal cost carry will entitle HOEC to enjoy ~40% of revenues in initial years with nil royalty & cess payments on the part of HOEC. These terms along with low operating costs of US\$ 0.5-0.6 per mmbtu will enable HOEC to command high operating margins of ~75%.
- **Revive production from PY-1 offshore field:** HOEC plans to develop 2 wells in PY-1 field (HOEC-100% stake) in addendum to 2 existing producing wells with a cost of ~₹ 60 crore. The same will ramp up the production to ~0.3 mmscmd by FY19 from ~0.1 mmscmd at present. With fixed realisation of US\$ 3.7 per mmbtu, the block has a potential to generate additional ~₹ 85 crore in revenues.
- **Potential from new fields:** HOEC won B-80 block in Bombay high (50% PI) and Kherem in Arunachal Pradesh (40% PI) in Discovered Small Field round 1, with tested production of 3773 bopd & 402 bopd, respectively. The filed development plan of B-80 has been approved and production is expected to start from Q1FY21.

Valuation & Outlook

We believe, the production ramp-up associated with Assam and PY-1 blocks will multiply its revenue and profitability in FY19E. Also, the debt free balance sheet and strong cash balance puts HOEC in a sweet spot. We have a target price of ₹ 150

Exhibit 1: Financial Performance

(Year end March)	FY14	FY15	FY16	FY17	FY18 (9 months)
Revenues (₹ crore)	79.1	59.5	48.7	25.5	25.5
EBITDA (₹ crore)	(25.0)	(1,172.7)	8.1	(6.6)	20.3
Net Profit (₹ crore)	(123.7)	(1,219.6)	5.0	36.1	21.4
Balance Sheet					
Equity (₹ crore)	130.5	130.5	130.5	130.5	130.5
Net Worth (₹ crore)	535.9	280.7	305.3	341.4	352.7
Debt (₹ crore)	946.8	-	-	-	-
Ratios (Annualised for 9 month FY18)					
RONW (%)	(23.1)	(434.4)	1.6	10.6	8.1
ROCE (%)	(8.3)	(429.0)	3.4	11.7	11.5
Earnings per share (₹)	(9.5)	(93.4)	0.4	2.8	2.2
P/E (x)	NA	NA	307.0	42.7	54.0

Source: Company, ICICIdirect.com Research

Research Analyst

Rating	:	Buy
Target	:	₹ 150
Target Period	:	12 months
Potential Upside	:	27%

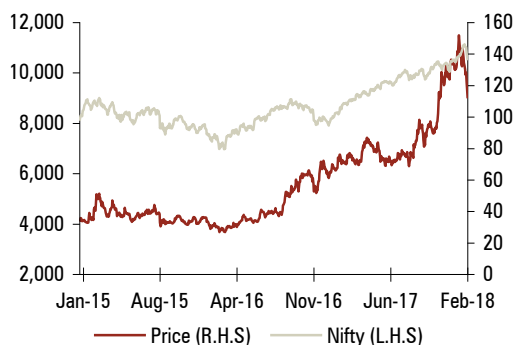
Stock Data

Particular	Amount
Market Capitalization (₹ crore)	1,554.0
Total Debt (FY17) (₹ crore)	-
Cash (FY17) (₹ crore)	194.5
EV (₹ crore)	1,359.5
52 week H/L (₹)	153/66
Equity capital (₹ crore)	130.5
Face value (₹)	10.0

Shareholding Pattern

Particulars	December 2017 (%)
Promoter Holding	0
FII	4.5
DII	1.62
Public	93.9

Price Movement



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Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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