



Prosperity & Wealth

Hindustan Oil Exploration Company Ltd

Sector: Oil & Gas

Q1FY22 result update & revised price target

Brief Overview

cmp(INR)(as on 26-08-2021)	164
Target(INR)	237
Upside(%)	45%
Recommendation	Strong Buy
BSE Code	500186
Reuter Ticker	HOEXau.NS
Bloomberg Ticker	HOE.IN

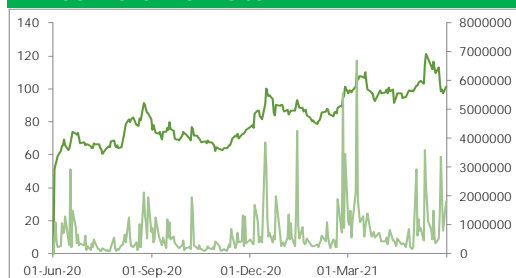
Stock Scan

MktCap(INR cr)	2169
Outstanding shares(cr)	13.22
Face Value(INR)	10
Dividend Yield(%)	0
TTM P/E(x)	32.51
Debt/Equity	0.22
Beta vs Nifty	1.19
52 Week high/Low(INR)	186/60.35
Avg. Daily Vol(NSE) 1 yr	1067352

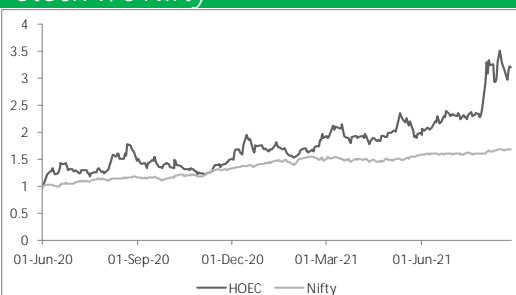
Shareholding Pattern

Shareholding Pattern(%)	Dec-20	Mar-21	Jun-21
promoters	0	0	0
Institution	4.02	4.02	4.66
Non-Institution	95.97	95.97	95.34

Price Volume Data



Stock v/s Nifty



Company data & FinartHa Research

Investment Rational

Commercialization of B-80 block is likely to almost double the topline of the company: Hindustan Oil Exploration (HOEC) explored total 8590 boepd of oil & gas during FY21. B-80 block coming on stream will add up another 8000 barrel to its total production. B-80 project was expected to be completed by Apr-21. Due to severe cyclone in the West Coast, B-80 project got into hold. However, 95% of the work is done before commercialization. The management expects B-80 will be on stream in the month of Nov-21. So, the exploration from B-80 is likely to be translated into revenue from Q4FY22.

Management is planning to increase B-80 exploration to 15000 boepd: The company has dug 2 wells. But the management is planning to dig another 3 wells thereafter which will increase the production to 15000 barrel of oil equivalent.

Production in Dirok will increase to 55 mmscfd by FY23 from current 35mmscfd: Currently Dirok is producing 35 mmscfd of gas. The company has started digging 3 wells in Phase-II expansion program. After Phase-II, production is likely to touch 55 mmscfd. Environmental clearance for laying pipeline has also been obtained. The company has started Laying of 35km pipeline to connect directly to Duliajan hub. Thereafter the management is targeting to increase production to 75 mmscfd.

Kharsang production is also likely to increase to 1800 boepd: Kharsang has current production capacity of 600 boepd. HOEC is drilling 18 new wells at Kharsang, Arunachal Pradesh. Post drilling the production capacity will be increased to 1800 boepd.

..... Contd.

Outlook & Valuation

Commercialization of B-80 is a big trigger for the company which is likely to nearly double the total production of the company. The B-80 block itself is likely to explore 8000 boepd v/s its current total production of 8590 boepd in FY21. B-80 is likely to be on stream by Nov-21 & the management is targeting to increase B-80 production to 15000 boepd thereafter. Increase in Dirok from current 35 mmscfd to 55 mmscfd is highly likely by FY23. Kharsang is also likely to add another 1200 boepd after B-80 first oil. The probability of hike in the Gas price by the Govt. may further increase profitability of the company. With the experience in B-80, HOEC may win another oil field in DSF round III which may even be much larger than B-80. All these are opening long term opportunity & visibility of the company.

On the basis of above rational we are revising our estimate & assigning a multiple of 7x to FY23E EV/EBITDA to arrive at a target price of INR237 per share.

Key Data (FY21 result updated)	FY19	FY20	FY21	FY22E	FY23E
Revenue	265.14	196.84	113.86	404.97	920.35
EBITDA	187.12	136.72	64.73	236.43	459.63
Margin	70.6%	69.5%	56.8%	58.4%	49.9%
PAT	155.32	137.05	51.88	222.24	465.99
Margin	58.6%	69.6%	45.6%	54.9%	50.6%
EPS	11.75	10.37	3.92	16.81	35.25
ROE	28.75	20.16	7.08	23.26	32.78
ROCE	26.52	8.41	6.19	16.77	24.73
EV/EBITDA	7.37	9.95	22.99	6.53	3.26

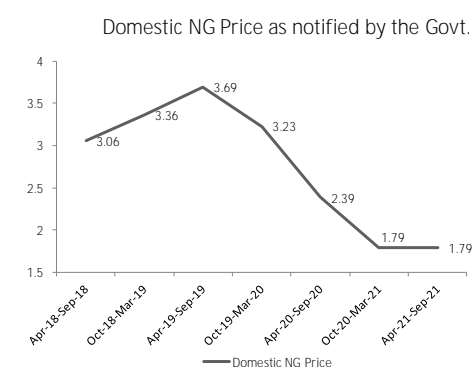
Research Analyst: Anik Mitra

SEBI Regd. Investment Advisor
(Reg No. INA300003236)



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Story in the Chart



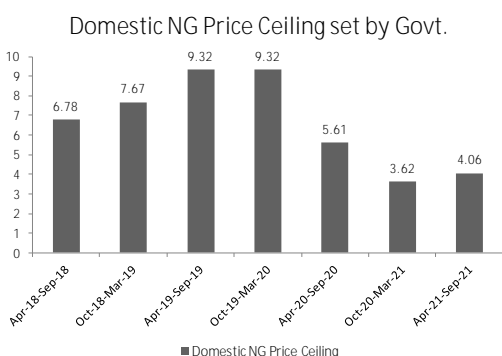
Investment Rational (contd.)

Probability of Increase in the Gas Price: Govt. notified Gas Price is currently at USD1.79 which is all time Low. This price is prevailing since Oct-20. The street expectation is rise in the Natural Gas Price in Oct-21. Current Breakeven of NG is USD1.5 for the company. Rise in price will increase Margin of the company.

Discovered Small field (DSF) round-III bidding: HOEC has participated in DSF Round III bidding. With its experience in B-80, HOEC may win offshore oil field in Bombay High region. B-80 was 56 sq.Km in size but this time there is a possibility of winning oil field of much bigger size in this bidding. Result of the same is expected by Nov-21.

Increase in HOEC's participating interest in B-80: There is an amendment of B-80 revenue sharing contract in HOEC's participating interest from 50% to 60% which has been cleared by the law ministry and is in final stages of execution. This will further increase the revenue & profitability from the block.

Dirok Gas will be sold to new customers at higher premium since Q3FY22: Dirok Gas is currently sold to Oil India Ltd. As per the contract, with Oil India, HOEC will be selling Dirok gas to new customers from Q3FY22 at higher premium which will bring additional revenue to the company.



Q4FY21 & full year FY21 result update

During Q4FY21 topline of the company was down by 14% YoY at INR28.8 cr. However, lower other expenses helped the company to report 6.3% growth at the EBITDA level. EBITDA Margin expanded by 770 bps at 40%. Adjusted Net Profit of the company was down by 47% at INR6.31 cr. Adj. Net Profit Margin was compressed by ~1400 bps at INR6.31 cr.

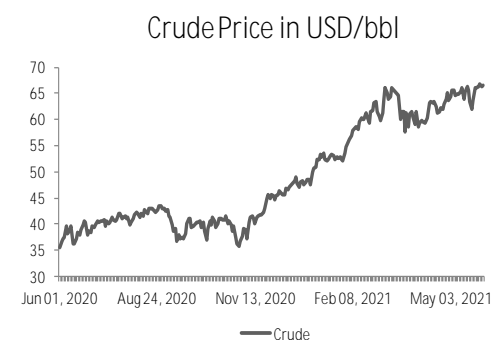
For the full year FY21 Top line of the company fell 44% at INR113.9 cr. In FY21 production mix 90% is gas & 10% Oil. Reduction in Revenue in FY21 is due to reduced price of Assam Gas and reduced output from PY-1. Due to technical issue PY-1 production was interrupted. In Q4FY21 small quantum of production was there from the block. EBITDA of the company fell 12% at INR79 cr. EBITDA Margin stood at 69%. Net profit of the fell 25% at INR76.3 cr. Net Profit Margin expanded 1700 bps at 67%.

Q1FY22 result update

Top line of the company grew 27% YoY & 5.8% QoQ at INR30.5 cr during Q1FY22. Net Production volume of the company stood at 2402 boepd. Increased revenue was due to higher Sales volume of Assam Gas & Higher realization of oil.

EBITDA of the company grew 22% YoY at INR16 cr. EBITDA Margin stood at 52%.

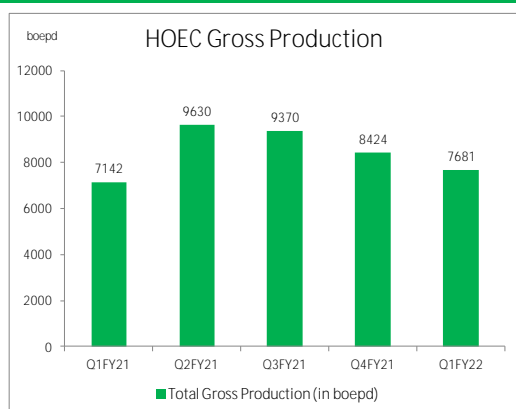
Net Profit of the company fell ~12% at INR10.7 cr. The decline in the net profit is due to lower Other income at INR1.3 cr in Q1FY22 cr v/s 5.1 cr a year back. Net Profit Margin was also compressed by 1500 bps YoY at 35%.





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Story in the Chart



About the Company

HOEC is the first private player in Oil exploration business in the country. The company possesses 11 blocks in 4 regions. In Cambay the company has 3 blocks (Asjol, Palej are onshore oil wells & North Balol is an onshore Gas well), In Assam Arakan region the company has 5 oil blocks (Umatara, Kherem, Kharsang are onshore oil wells, Dirok is an onshore Gas well & Greater Dirok is under exploration). In Cauvery region, the company has 2 blocks (PY-1 is an Offshore Gas well, PY-3 is an Offshore Gas well). In Bombay High the company has one project pending called B-80. Due to Cyclone in the West Coast B-80 project got delayed. As per the management commentary it will restart in the month of Oct-21 & first oil is expected in Nov-21..

B-80 Operation explained

B-80 Field has been awarded J.V consisting of HOEC & Adbhoot Estates Private Limited (AEPL) by Government of India (GoI) under a Production Sharing Contract (PSC) for exploration, development and production of hydrocarbon reserves within the field.

The company used 6 Diesel Generators of total 5000 HP/3750KW. 4 DG sets were working & 2 were at standby. Total Fuel Consumption per day was 6 to 9 KL.

The company deployed a Sewage treatment plant designed to meet the MARPOL regulation. Each well took 45-60 days drilling, reservoir testing and suspension under normal condition.

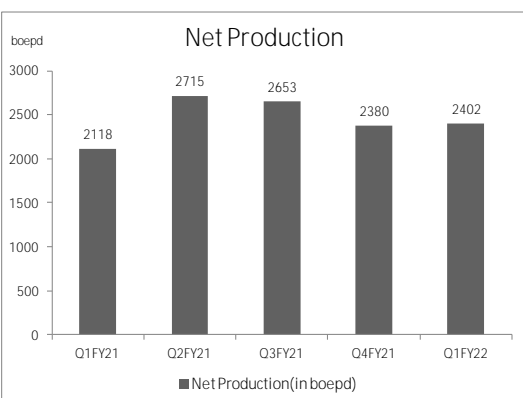
The vertical depths of B-80 is ~2700 m and ~3000 m.

The drilling rig system was employed for drilling for the separation of drill cuttings and solids materials from the drilling fluid. The drill cuttings cut by the drill bit, were removed from the fluid by the shale shakers and centrifuges and transferred to the cuttings containment area. Once the drilling fluid / mud was cleaned, it will be returned to the fluid tank and pumped down the drill string again.

Various solid wastes generated during the drilling campaign include drill cuttings, cardboard, papers, scrap metal, wood and packaging material, oil and oil contaminated wastes, contaminated containers and packaging materials, plastic and other wastes.

General wastes, scrap metal, wood and all plastic / paper waste were segregated and brought back to the shore for appropriate disposal. Waste lubricants and hydraulic oils generated from the equipment onboard were also brought back to the shore in a drum and disposed off & sold to MPCB / CPCB authorized recyclers.

The Maximum and minimum value of mean air temperature in the Arabian Sea is of the order of 30.2 °C and 24.4 °C, respectively. Mean air temperature of the area of exploratory block lies in the range of 27.5 °C to 26.5 °C. Maximum & Minimum wind speed in the region was 9.98 m/sec & 3.5 m/sec respectively. The average rainfall in the Arabian sea was of the order of 1-2 mm /day

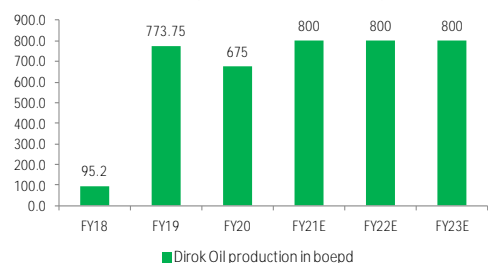




Story in the Chart

Location of B-80

Dirok Oil production in boepd



Location of B-80

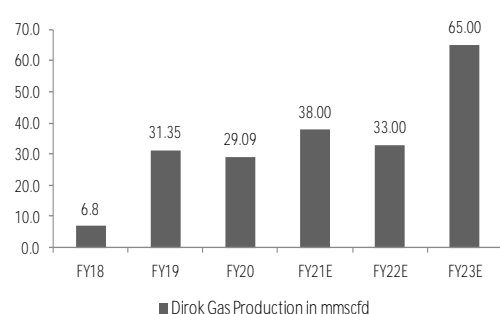
B-80 oil field is located off the west coast of India in the Arabian Sea, at a distance of about 110 km from Mumbai City. It lies to the south of Mukta field. Six Wells are there in B-80 is connected to the production platform and evacuating the oil and gas through existing subsea pipeline of ONGC in the offshore Block B-80 of Heera-Panna-Bassein.

Current status of B-80

95% of the work is done at B-80. Only Calm buoy installation is yet to be done & Floating Storage Unit (FSO) is to be connected which is a task of 1-2 week to get the first oil & this is possible post monsoon. The work at the site was halted due to poor visibility in the water after the cyclone massacred the West Coast & subsequently monsoon came to the coast. Now the management expects to resume the pending work in the month of Oct-21 & the First oil is expected in the month of Nov-21.

B-80 wells successfully being tested for 8000 boepd per day of exploration. Two wells at B-80 will produce oil & gas together. B-80 well exploration is likely to become operational from Nov-21. The production mix at B-80 will be 5000 barrel of oil & 3000 boepd of gas.

Dirok Gas Production in mmscfd



Initially B-80 will start with 2 wells. With 2 wells & an average 8000 boepd of exploration, the field would have a reserve for 15 yrs. The management has a plan to further increase production to 15000 boepd. With total 5 wells & 15000 boepd of production the block would have a reserve for 10 yrs.

Current status of Dirok

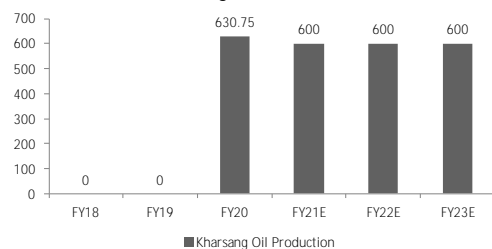
Dirok is Currently producing 35 mmscfd of Gas. After Phase II, the management expects production will be increased to 55 mmscfd in FY23. The management is targeting 75 mmscfd thereafter. Public hearing has already been conducted successfully for phase-II execution. The company is Laying of 35km pipeline to connect directly to Dullajan hub. Environmental clearance for the same has been obtained already. The company is Drilling 3 wells to increase production from 35 mmscfd to 55 mmscfd.

Dirok Gas is mainly sold to Oil India. Recently Dirok Gas e-auction has been concluded in June 2021 which demonstrates willingness of the market to pay premium for reliable gas supply. The e-auction has revealed very healthy demand which is double to the gas offered by the company. Majority of e-auction customers were Numaligarh refinery, NTPC, BCPL.

Current status of Kharsang

The Kharsang oil field is located in the state of Arunachal Pradesh and 60 kms away from Dirok. Kharsang has current production capacity of 600 boepd. HOEC is drilling 18 new wells at Kharsang, Arunachal Pradesh. Post drilling the production capacity will be increased to 1800 boepd.

Kharsang Oil Production



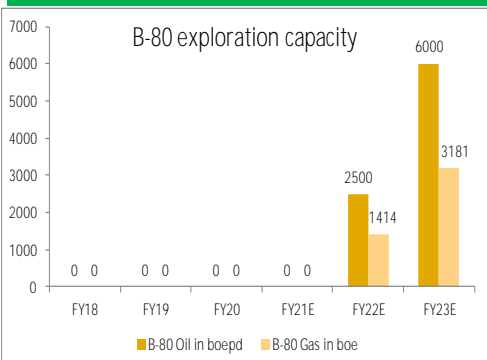
Disruption in PY-1 impacted FY21 performance

Reduction in Revenue in FY21 is due to reduced price of Assam Gas and reduced output from PY-1. Due to technical issue PY-1 production was interrupted. In Q4FY21 small quantum of production was there from the block. PY-1 will resume higher production after B-80 first oil.



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Story in the Chart



Favourable Govt. Policy

Any field developed after 1st April 2019 has marketing freedom as well as pricing freedom. Operators can participate in e-bidding and can set own price above Govt. notified price. Currently prevailing Gas price is USD1.79.

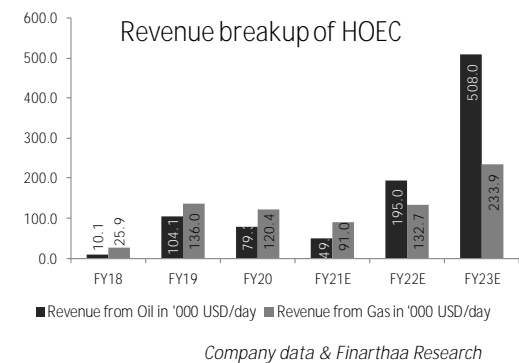
Strategy & Outlook

B-80 commercialization is not too far. 1-2 weeks of work which is left will start Post monsoon, hopefully in the month of Oct-21 & the first oil is expected in Nov-21. of Q3FY22 Hence, exploration from B-80 is likely to translate into revenue from late Q3FY22.

Expansion program in B-80 is likely to be done after the First oil from B-80 & commercialization of added exploration from this site is expected in FY23.

The company has participated in DSF Round III for offshore well. There is a high possibility that with the experience of B-80, if the company may win oil block in the West Coast. Then the company will accordingly decide whether to dig new well in the new site or they will go for completion of Dirok expansion first or completion of Kharsang expansion program. That decision will be done based on the feasibility, Budget & cash flow in the company.

The management is keen to reduce debt. However, management will decide accordingly whether new site development/expansion program will be done by raising debt/equity or from internal accrual.



Risk

Delay in commercialization of the B-80 block could bring negative sentiment for the company.

Delay in execution at Dirok & even at Kharsong may hit growth.

Volatility in the crude price is a major threat. The breakeven of crude is USD35 for the company. Fall in crude prices will hit margin. Fall below USD35 would be negative for the financials of the company.



Oil field specific data per year

<i>FY18 Oil Block specific data</i>	<i>Unit</i>	<i>Dirok</i>	<i>PY-1</i>	<i>Kharsang</i>
Participating Interest		35%	100%	25%
Oil Production	boepd	95.2	83	0
Gas Production	mmscfd	6.8	2.2	0
Gas Production	boe	1204.5	396.7	0
HOEC equivalent BOE	HOEC BOE	454.9	479.7	0
Revenue from Oil/condensate	US \$ '000/day	5.4	4.7	0.0
Revenue from Gas	US \$ '000/day	17	9	0
Total Revenue	US \$ '000/day	23	13	0
Daily revenue net royalty	US \$ mn/day			
Annualised Revenue	US \$ mn	8	4.8	0
Annualised Revenue	INR Rs Cr	20	32	0
Statutory levies (Royalty & Cess)	US \$ mn	1.4	0.3	0.0
Opex	US \$ mn	1.3	0.3	0.0
Revenue net royalty	US \$ mn			
Govt. take	US \$ mn	0.0	0.0	0.0
Statutory levies/opex/Govt. take	US \$ mn	2.7	0.7	0.0
EBITDA	US \$ mn	5.6	4.2	0.0
HOEC EBITDA	US \$ mn	2.0	4.2	0.0
HOEC EBITDA	INR Rs Cr	13.1	27.9	0.0

<i>FY19 Oil Block specific data</i>	<i>Unit</i>	<i>Dirok</i>	<i>PY-1</i>	<i>Kharsang</i>
Participating Interest		35%	100%	25%
Oil Production	boepd	773.8	45	668
Gas Production	mmscfd	31.4	8.1	0
Gas Production	boe	5539.5	1434.4	0
HOEC equivalent BOE	HOEC BOE	2209.7	1479.1	167
Revenue from Oil/condensate	US \$ '000/day	54.2	3.1	46.8
Revenue from Gas	US \$ '000/day	105	31	0
Total Revenue	US \$ '000/day	159	34	47
Annualised Revenue	US \$ mn	58	12.4	17
Annualised Revenue	INR Rs Cr	143	87	30
Statutory levies (Royalty & Cess)	US \$ mn	11.7	1.1	1.7
Opex	US \$ mn	6.0	1.2	6.1
Govt. take	US \$ mn	0.0	0.0	1.4
Statutory levies/opex/Govt. take	US \$ mn	17.7	2.4	9.2
EBITDA	US \$ mn	40.5	10.0	7.9
HOEC EBITDA	US \$ mn	14.2	10.0	2.0
HOEC EBITDA	INR Rs Cr	99.2	70.2	13.8



Oil field specific data per year

<i>FY20 Oil Block specific data</i>	<i>Unit</i>	<i>Dirok</i>	<i>PY-1</i>	<i>Kharsang</i>
Participating Interest		35%	100%	25%
Oil Production	boepd	675	15	630.8
Gas Production	mmscfd	29.1	4.185	0
Gas Production	boe	5139.8	739.5	0
HOEC equivalent BOE	HOEC BOE	2035.3	754.7	157.7
Revenue from Oil/condensate	US \$ '000/day	40.5	0.915	37.8
Revenue from Gas	US \$ '000/day	105	16	0
Total Revenue	US \$ '000/day	145	17	38
Annualised Revenue	US \$ mn	53	6	14
Annualised Revenue	INR Rs Cr	130	43	24
Statutory levies (Royalty & Cess)	US \$ mn	9.7	0.6	1.4
Opex	US \$ mn	5.5	0.6	5.8
Govt. take	US \$ mn	0.0	0.0	1.0
Statutory levies/opex/Govt. take	US \$ mn	15.3	1.2	8.1
EBITDA	US \$ mn	37.7	4.9	5.7
HOEC EBITDA	US \$ mn	13.2	4.9	1.4
HOEC EBITDA	INR Rs Cr	92.37	34.42	9.93

<i>FY21E Oil Block specific data</i>	<i>Unit</i>	<i>Dirok</i>	<i>PY-1</i>	<i>Kharsang</i>
Participating Interest		27%	100%	25%
Oil Production	boepd	800	0	600
Gas Production	mmscfd	38	2	
Gas Production	boe	6714.6	353.4	0
HOEC equivalent BOE	HOEC BOE	2028.9	353.4	150.0
Revenue from Oil/condensate	US \$ '000/day	28	0	21
Revenue from Gas	US \$ '000/day	83	8	0
Total Revenue	US \$ '000/day	111	8	21
Annualised Revenue	US \$ mn	41	3	8
Annualised Revenue	INR Rs Cr	78.8	21.0	13.8
Statutory levies (Royalty & Cess)	US \$ mn	7.1	0.3	0.8
Opex	US \$ mn	7.2	0.3	5.5
Govt. take	US \$ mn	2.6	0.0	0.2
Statutory levies/opex/Govt. take	US \$ mn	16.9	0.6	6.5
EBITDA	US \$ mn	23.6	2.3	1.2
HOEC EBITDA	US \$ mn	6.4	2.3	0.3
HOEC EBITDA	INR Rs Cr	45.8	16.7	2.2



Oil field specific data per year

FY22E Oil Block specific data	Unit	B-80	Dirok	PY-1	Kharsang
Participating Interest		50%	27%	100%	25%
Oil Production	boepd	6000	800	0	600
Gas Production	mmscfd	18	33	10	0
Gas Production	boe	3180.6	5831.1	1767	0
HOEC equivalent BOE	HOEC BOE	4590.3	1790.4	1767.0	150.0
Revenue from Oil/condensate	US \$ '000/d	438	40	0	30
Revenue from Gas	US \$ '000/d	75	61	38	0
Total Revenue	US \$ '000/d	513	101	38	30
Daily revenue net royalty	US \$ mn/d	0.46			
Annualised Revenue	US \$ mn	187	37	14	11
Annualised Revenue	INR Rs Cr	683	73	101	20
Statutory levies (Royalty & Cess)	US \$ mn	18.7	8.1	1.4	1.1
Opex	US \$ mn	30.7	6.3	1.5	5.5
Revenue net royalty	US \$ mn	168.5			
Govt. take	US \$ mn	53.3	2.3	0.0	0.7
Statutory levies/opex/Govt. take	US \$ mn	102.6	16.6	2.9	7.2
EBITDA	US \$ mn	84.6	20.4	11.0	3.7
HOEC EBITDA	US \$ mn	42.3	5.5	11.0	0.9
HOEC EBITDA	INR Rs Cr	308.63	40.23	80.04	6.79

FY22E Oil Block specific data	Unit	B-80	Dirok	PY-1	Kharsang
Participating Interest		50%	27%	100%	25%
Oil Production	boepd	6000	800	0	600
Gas Production	mmscfd	18	33	10	0
Gas Production	boe	3180.6	5831.1	1767	0
HOEC equivalent BOE	HOEC BOE	4590.3	1790.4	1767.0	150.0
Revenue from Oil/condensate	US \$ '000/d	438	40	0	30
Revenue from Gas	US \$ '000/d	75	61	38	0
Total Revenue	US \$ '000/d	513	101	38	30
Daily revenue net royalty	US \$ mn/d	0.46			
Annualised Revenue	US \$ mn	187	37	14	11
Annualised Revenue	INR Rs Cr	683	73	101	20
Statutory levies (Royalty & Cess)	US \$ mn	18.7	8.1	1.4	1.1
Opex	US \$ mn	30.7	6.3	1.5	5.5
Revenue net royalty	US \$ mn	168.5			
Govt. take	US \$ mn	53.3	2.3	0.0	0.7
Statutory levies/opex/Govt. take	US \$ mn	102.6	16.6	2.9	7.2
EBITDA	US \$ mn	84.6	20.4	11.0	3.7
HOEC EBITDA	US \$ mn	42.3	5.5	11.0	0.9
HOEC EBITDA	INR Rs Cr	308.63	40.23	80.04	6.79



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Declaration

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