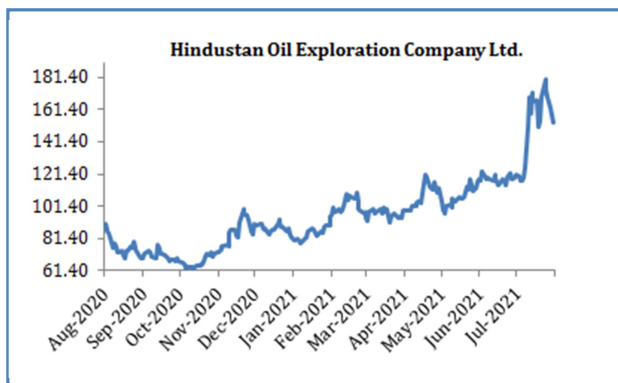


Hindustan Oil Exploration Company Ltd. (HOEC)

Industry	Oil Exploration
No. of Shares (Crore)	13.22
Face value (Rs)	10.00
Mkt. Cap (Rs. Crore)	2282.52
Price (7/9/2021)	172.60
Book Value (Rs)	56.25
P/BV	3.07
BSE Code	500186
NSE Code	HINDOILEXP
Bloomberg	HOE IN
Reuters	HOEX.BO
Avg. Weekly Volume (NSE)	1365616
52 W H/L (Rs)	186.00/60.35
Shareholding Pattern	%
Promoters	0.00
DIIs	4.23
FIIIs	0.43
Body Corporate	26.77
Total Public	68.57
Total	100.00

(As on June 30, 2021)
Recommendation
BUY

Company Background

Incorporated in the year 1983, Hindustan Oil Exploration Company Ltd. (HOEC) based in Vadodara is one of the first private companies to be involved in exploration, development and production of crude oil and natural gas in India through a mix of onshore and offshore assets. The company operates 10 out of 11 blocks with discovered and producing resources and covering 4 out of 7 basins in India. As on 31.03.2021 the 2P reserve of Oil stood at 16.41MMBBL and Gas stood at 138.32 BCF.

Investment Rationale

- The company stands on the cusp of transformation as the B-80 block (an off shore Discovered Small Field development) in the western off shore would increase the production potential to 8000 boepd and double its revenue once the first oil sale revenue starts in Q3FY22. The company has 60% participating interest in this field.
- In FY21, HOEC registered a gross production of 8590 boepd (barrels of oil equivalent per day), which is 101% CAGR growth in 5 yrs and net production stood at 2460 boepd.
- North-east is the main geographic focus of HOEC where it has 5 major assets and Dirok field contributes >15% of Assam's gas production. HOEC has a 27% stake. In June 2021 another major development was made as the company planned to move from government's fixed price contract to Oil India Ltd, to e-auction, whereby it will directly sell its gas directly to customers. This will fetch the company a premium of \$1.3 per MMBtu of gas above fixed price of \$1.78. The new gas sales contract is expected to start in Q3FY22. This would add approx. 77 crs to revenue in FY22.
- The e-auction has revealed very healthy demand which is double the total capacity it produces. A majority of e-auction customers were Numaligarh refinery, BPCL NTPC etc.
- The phase II development of Dirok envisages an investment of US\$60 Million whereby it plans to drill 3 wells to increase production from 35 mmscfd to 55 mmscfd in FY23. The company is laying 35km pipeline to connect directly to Duliajan hub which is connected to North-East gas grid (Project Indradhanush) through Numaligarh and environmental clearance for the same has been obtained.
- The recent Oil & Gas prices ascent to US\$69.10/bbl & US\$3.9/ mmbtu respectively signals vibrant FY22 earnings for HOEC with a strong portfolio of producing assets.
- The consolidated debt increased to Rs.160 crores in FY21 due to Rs.750 crore borrowing for investment in B-80 block. Going forward the interest cost could increase but would be offset by higher crude oil and gas price realization. HOEC aspires to remain debt-free and follow its low cost operating model.

Recommendation

The B-80 project is important to HOEC because it will transform the production mix of HOEC from 10% oil and 90% gas to 50% oil and 50% gas in next two years. All the above defined projects that can be executed in next 24 to 36 months would grow the gross production from 8590 boepd to 16590 by FY22. These developments could take the company's topline to past Rs.500 crores in FY22. The probability of hike in gas price by GoI may further increase profitability of the company. Based on the above rationale, **At CMP of Rs 172.60, we are assigning a multiple of 7x to FY23e EV/EBIDTA to arrive at target price of Rs.235 per share.**

*Numbers (in Rs. Crs)	Q1FY22	Q1FY21	Var%	FY21	FY20	FY19	FY18	FY17
Net Sales	30.48	24.04	26.80	113.87	202.05	265.14	48.71	25.49
PBIDT (Excl OI)	15.98	13.07	22.22	54.13	124.64	187.67	30.79	1.34
Consolidated Net Profit	11.10	12.12	-8.40	53.42	137.56	156.74	37.52	36.06
PBIDTM (%)	52.41	54.38	-3.62	47.54	72.45	75.00	87.50	80.85
PATM (%)	35.01	50.30	-30.39	45.56	67.83	58.58	77.03	141.06
EPS (Rs.)	0.84	0.92	-8.40	4.04	10.40	12.01	2.88	2.76

*Consolidated Numbers

Source: Company, Ace Equity, AUM Research

E-auction for Dirok Gas would result in increased revenue realization

Dirok is the onshore asset of HOEC and is located in India's North-East Premier Basin. In FY21, Dirok's total production was at 2793710 boe as against 23, 24,490 boe in FY20. Oil India Ltd, the JV partner of this project is the sole buyer of the gas produced in this field. HOEC holds 27% of PI (Participating Interest) in this field.

Dirok Phase II development involves drilling 3 development wells, laying of 35 km pipeline upto Duliajan and increasing gas production from current 35 mmscfd to 55mmscfd. Once the pipeline is laid, HOEC can access North-eastern market directly without depending on transportation partner.

In June 2021 the management planned to move from Government notified fixed price contract of US\$1.79/mmbtu of gas sold to Oil India Ltd to more competitive E-auction based on its strategy of 'Value over Volume', where by it will now sell gas to new consumers at a premium rate of \$2.79-\$3.79/mmbtu above government notified prices. The Government reviews gas prices in the month of April and October every year. For the last two reviews the price remained at \$1.79/mmbtu and the industry is expecting a rise in this rate in the month of October 2021 which would boost HOEC's revenue. The recent e-auction which was held in 23rd and 24th of June 2021 has confirmed total bids over and above its production capacity of 36 mmscfd. When the gas sales to new consumers commences in Q3 FY22 at ~\$3/mmbtu the revenue would go up by 67% YoY to Rs.77 crs. Any increase in Govt notified prices would have a corresponding benefit. Majority of Dirok e-consumers were power companies, Numaligarh refinery, BPCL etc.

Subdue performance of PY-1

PY-1, is a predominantly gas bearing flagship asset of HOEC with 100% PI. It is the only offshore platform in Cauvery Basin with four wells drilled and having a processing capacity of 55 mmscfd of gas and the realization rate of gas stood at \$3.65/mmbtu in FY21. Gail is the sole buyer of gas produced in this field. The PY-1 wells production declined from prolonged Covid-19 related shut down which impacted its gross production that decreased from 736 boe in FY20 to 211 boe in FY21. The company plans to start its next drilling campaign post geological survey and environmental clearance and expects to bring back to its original production after B-80 first oil.

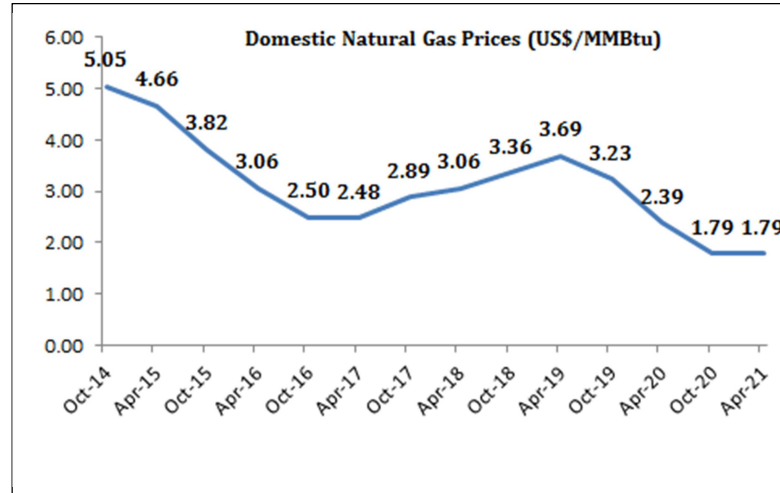
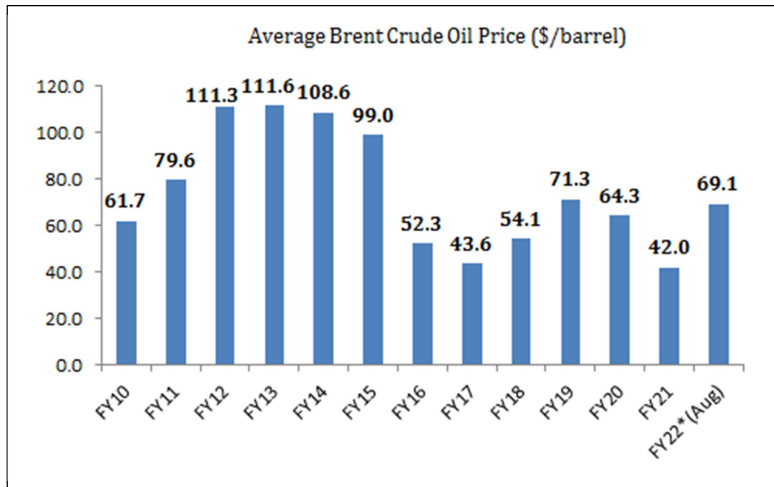
B-80 (Off shore asset of HOEC), the major game changer

B-80 is HOEC's first foray into the Western offshore where the company has successfully drilled two wells along with its joint venture partner Adbhoot Estates Private Limited, which has a potential to produce > 8000 boepd. Over 95% of B-80 project is completed. It is expected to deliver its first oil and gas sales from Q3FY22. All key project material like mobile offshore production unit (MOPU), flexibles, and equipment for gas export through ONGC pipeline has been outsourced for the project from Sharjah, US, UK. This is company's strategy of following light asset model in a capital intensive industry. This field's first offtake of oil and gas is likely to be 15mmscfd and 5000 barrels of oil per day respectively post monsoon. The new revenue sharing contract of HOEC with government of India to reflect increased participating interest at 60% as against 50% earlier. The gas realization is estimated at \$3.69/mmbtu for FY22. The company has completed procurement of FSO (Floating Storage and Offloading) - 'Prem Pride' having a capacity of 900000 barrels.

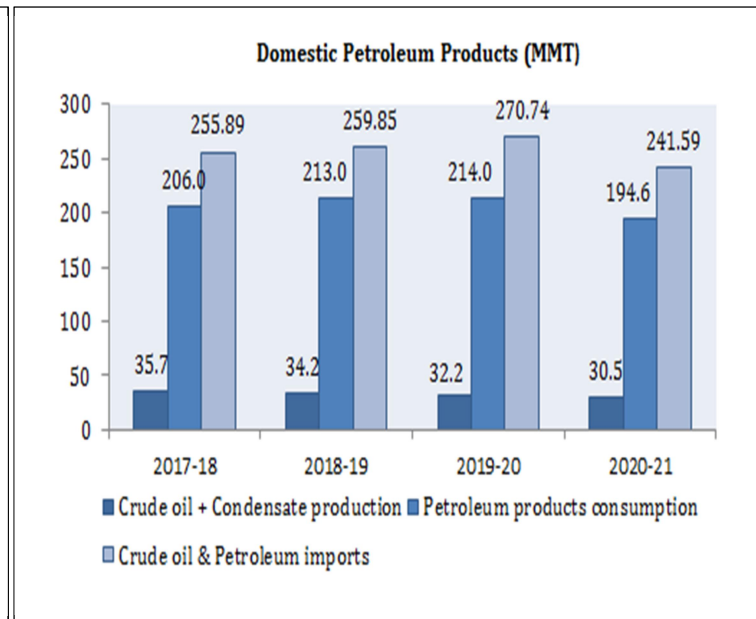
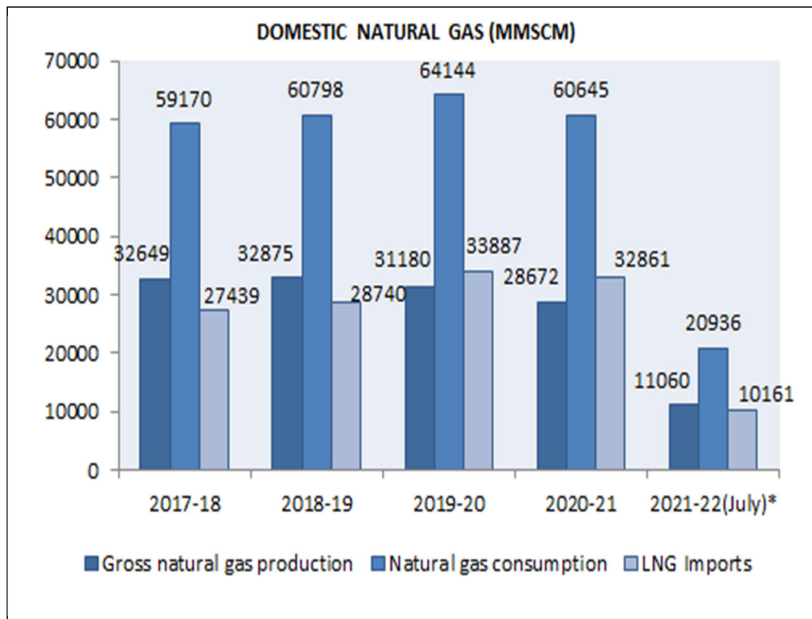
Kharsang Oil Field Phase-I development:

The Kharsang oil field of HOEC is located in the state of Arunachal Pradesh and is 60 kms away from Dirok. HOEC plans to develop 18 wells by which the production is expected to double from ~600 bopd to ~1800 bopd. HOEC has acquired entire share capital of M/s Geopetrol International Inc in 2018 which has 30% stake directly and indirectly in Kharsang oil field. The company is pursuing another 10 year extension in production sharing contract in this block.

Price Trends for Crude Oil and Natural Gas



Production and Consumption of Natural Gas



Source: Company, AUM Research

Financials

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q1FY22	Q1FY21	Var%	FY21	FY20	Var%
Net Sales	30.48	24.04	26.80	113.87	202.06	-43.65
Total Expenditure	14.51	10.97	32.27	59.73	77.46	-22.89
PBIDT (Excl OI)	15.98	13.07	22.22	54.13	124.60	-56.56
Other Income	1.31	5.10	-74.33	11.32	21.76	-47.98
Operating Profit	17.29	18.17	-4.88	65.46	146.36	-55.27
Interest	1.55	1.45	7.33	5.79	6.40	-9.53
Exceptional Items	0.00	0.00	0.00	13.99	26.22	-46.64
PBDT	15.73	16.73	-5.94	73.65	166.18	-55.68
Depreciation	4.80	5.34	-10.02	23.37	29.39	-20.48
Tax	0.26	-0.70	136.51	-1.60	-0.26	-515.38
Profit After Tax	10.67	12.09	-11.74	51.88	137.05	-62.15
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00
Share of Associate	0.43	0.03	1382.76	1.54	0.52	196.15
Consolidated Net Profit	11.10	12.12	-8.40	53.42	137.56	-61.17
EPS (Rs)	0.84	0.92	-8.40	4.04	10.40	-61.15

Consolidated Income Statement (Value in Rs. Crs)					
Particulars	FY20	FY19	FY18	FY17	FY16
Net Sales & Other Operating Income	202.05	265.14	48.71	25.49	48.72
Total Expenditure	77.42	77.47	17.93	24.15	40.39
PBIDT (Excl OI)	124.64	187.67	30.79	1.34	8.33
Other Income	21.76	11.19	11.84	19.33	9.05
Operating Profit	146.4	198.86	42.62	20.67	17.38
Interest	6.44	2.23	1.12	0.00	4.71
PBDT	139.96	196.63	41.5	20.67	12.67
Depreciation	29.39	43.81	8.47	9.6	12.17
Exceptional Income/ Expense	26.21	2.62	4.49	28.95	5.15
Tax	-0.26	0.12	0.00	3.95	0.63
Profit After Tax	137.05	155.32	37.52	36.06	5.02
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share of Associate	0.52	1.42	0.00	0.00	0.00
Consolidated Net Profit	137.56	156.74	37.52	36.06	5.02
EPS (Rs.)	10.40	12.01	2.88	2.76	0.38

Source: Company, Ace Equity, AUM Research

Consolidated Balance Sheet (Value in Rs. Crs)					
Particulars	FY20	FY19	FY18	FY17	FY16
EQUITY AND LIABILITIES					
Share Capital	132.26	130.51	130.51	130.51	130.51
Share Warrants & Outstandings	0.00	0.00	0.00	0.00	0.00
Total Reserves	547.45	409.73	252.70	210.84	174.81
Shareholder's Funds	679.71	540.24	383.21	341.35	305.32
Minority Interest	0.00	0.00	0.00	0.00	0.00
Secured Loans	31.97	0.18	0.25	0.00	0.00
Unsecured Loans	0.00	0.00	0.00	0.00	0.00
Deferred Tax Assets / Liabilities	3.02	3.95	0.00	0.00	-0.13
Other Long Term Liabilities	0.31	0.31	0.03	0.00	0.10
Long Term Trade Payables	0.00	22.11	22.11	22.11	26.30
Long Term Provisions	106.78	101.56	96.79	93.85	96.29
Total Non-Current Liabilities	142.07	128.11	119.18	115.96	122.55
Trade Payables	65.89	16.28	18.07	18.22	9.22
Other Current Liabilities	121.88	30.95	22.89	49.15	54.13
Short Term Borrowings	12.82	11.76	0.00	0.00	0.00
Short Term Provisions	13.48	6.81	0.17	0.08	0.10
Total Current Liabilities	214.06	65.80	41.13	67.45	63.45
Total Liabilities	1,035.84	734.15	543.52	524.76	491.33
ASSETS					
Gross Block	2,781.32	2,778.50	2,521.39	2,464.16	2,293.82
Less: Accumulated Depreciation	2,428.16	2,398.98	2,241.64	2,233.21	2,225.79
Net Block	353.17	379.51	279.76	230.95	68.02
Capital Work in Progress	327.37	26.18	5.62	6.13	130.11
Intangible assets under development	0.00	0.00	0.00	0.00	0.00
Non-Current Investments	21.89	21.58	0.83	0.87	0.00
Long Term Loans & Advances	1.53	0.13	0.40	0.14	1.81
Other Non-Current Assets	65.18	61.60	55.19	51.44	48.04
Total Non-Current Assets	769.13	489.00	341.79	289.53	247.99
Currents Investments	100.48	119.74	50.65	160.21	74.46
Inventories	26.59	27.83	28.27	24.70	24.34
Sundry Debtors	36.36	40.93	16.49	5.16	4.03
Cash and Bank	85.85	35.44	91.64	34.37	53.46
Other Current Assets	3.24	10.60	5.36	0.58	0.62
Short Term Loans and Advances	14.20	10.60	9.33	10.22	86.44
Total Current Assets	266.71	245.15	201.73	235.23	243.34
Net Current Assets (Including Current Investments)	52.65	179.35	160.60	167.77	179.89
Total Assets	1,035.84	734.15	543.52	524.76	491.33

Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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