Initiating Coverage

Hindustan Oil Exploration Co. Ltd.

Jan 28, 2022

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Hindustan Oil Exploration Co. Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Exploration & Production	Rs. 210	Buy in the Rs. 208-212 band & add more on dips to Rs. 174-178 band	Rs. 238	Rs. 274	2 quarters

HDFC Scrip Code	HINOIL
BSE Code	500186
NSE Code	HINDOILEXP
Bloomberg	HOE IN
CMP Jan 27, 2022	210
Equity Capital (Rs Cr)	132.2
Face Value (Rs)	10.0
Equity Share O/S (Cr)	13.2
Market Cap (Rs Cr)	2781.7
Book Value (Rs)	58.1
Avg. 52 Wk Volumes	1158485
52 Week High	245.7
52 Week Low	78.3

Share holding Pattern % (Dec, 2021)	
Promoters	0.0
Institutions	5.1
Non Institutions	94.9
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Hindustan Oil Exploration Company Ltd. (HOEC) is one of the first midsized private companies in India in oil and gas exploration space. It is engaged in exploration, development, production of crude oil and natural gas in India. HOEC assets are geographically spread across Tamil Nadu, Maharashtra, Gujarat, Assam, and Arunachal Pradesh with a balanced portfolio of development and production assets, both in onshore and offshore. The company assets portfolio consists of 10 oil & gas blocks of discovered resources and 1 exploratory block. HOEC reduces the risk involved in extracting oil and gas by focusing on discovered oil and gas resources. This enables HOEC to fast track its projects, ensure certainty and monetize resources at a much faster pace.

Transformation of B-80 block in Mumbai basin is on final stage and operational activities could commence soon. B-80 is an offshore discovered field and HOEC is engaged in development of this site and the field is jointly owned by operator HOEC 50% and Adbhoot Estates AEPL, 50%. We expect, first oil sale revenue could start from Jan/Feb 2022. Apart from this, the company is hoping to increase its production potential from 2000 boepd to 8000 boepd going forward and if this is realised, HOEC could see huge potential to generate incremental revenue going forward.

Dirok gas field is located in Assam-Arakan Basin and the block is currently being operated by Hindustan Oil Exploration Company (HOEC), along with JV partners Oil India Ltd (OIL) and Indian Oil Corporation Ltd (IOCL) under a Production Sharing Contract and producing 35 mmscfd of Gas. After completion of Phase II, the management expects to increase its production to 55 mmscfd in FY23 from 35 mmscfd. Post that, the drilling of 3 wells the company 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 Duliajan hub. Environmental clearance for the same has been obtained.

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.

HOEC plans to carry out drilling program at its two onshore Cambay blocks in Gujarat for a proposed project cost of Rs 345 crore. HOEC shares the blocks with Gujarat State Petroleum Corp (GSPC). HOEC plans to drill four infill wells and six development wells at Asjol and proposes drilling of 16 development wells in the North Balol block. The initial oil estimate in the Asjol oil field is about 10.7 mn barrels.

The company plans to take advantage of existing infrastructure while growing its operations organically or inorganically, and strives to add attractive assets with synergies to its current asset portfolio. With its portfolio of gas resources both in North East and in Southern Regions, HOEC is well positioned to leverage the opportunities presented by this transition to a gas based economy.

Oil prices have climbed on expectation of demand recovery, as vaccination roll-outs is picking up. Crude Oil (WTI) climbed sharply by 64.2% YoY to US$ 868/bbl. Higher crude oil prices lead to higher realization for HOEC and help shore up its profitability. Apart from this, Natural gas has rallied sharply in the last few months and momentum could be continue in the near to medium term. Natural Gas price is at US$ 4.3 /mbtu, which is up by 55.1% YoY. The annual demand is expected to hit pre-pandemic levels in 2022, according to the International Energy Agency (IEA). This is spurred by the return of vehicular traffic in most of the major countries in the world as well as the improving overall economic outlook.

Valuation & Recommendation:

HOEC portfolio comprises 10 Oil & Gas blocks of Discovered Resources and 1 exploratory block, all of which have resources with some upside potential. The company has sufficient capital to implement its business plans and to continue the development of the Dirok field in Assam, revisiting the development of PY-1 field, B-80, Kherem and other fields. B-80 and Dirok is the main producing assets for the company. Expansion program in B-80 is likely to be done after the first oil from B-80 & full commercialization of added exploration from this site is likely to be operational in FY23E. Over the next two years, the company expects significant ramp up in volumes which would ensure growth visibility going ahead on account of rising production in B-80.

Taking the advantage of favorable government policy, E&P operators can participate in e-bidding and has right to set own price above Govt. notified price. Currently (from Oct 01, 2021) prevailing APM Gas price is USD 2.90 per mmbtu. Given strong management, a robust balance sheet and stellar growth expected over the next two-three years.

We believe the base case fair value of the stock is Rs 238 (6.75x FY24E EV/EBITDA) and the bull case fair value of the stock is Rs 274 (7.75x FY24E EV/EBITDA) over the next two quarters. Investors can buy in the Rs. 208-212 band and add further on dips in the Rs 174-178 band (5x FY24E EV/EBITDA). At the LTP of Rs 210, the stock is trading at 6x FY24E EV/EBITDA.

Financial Summary (Consolidated)

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	39	33	17.8	30	28.3	202	114	259	722	975
EBITDA	19	17	16.8	16	20.9	125	54	121	346	474
Depreciation	6	6	-11.7	5	16.2	29	23	37	39	45
Other Income	6	3	98.4	2	246.6	22	11	9	14	19
Interest Cost	2	1	7.1	2	-0.1	6	6	13	16	13
Tax	-1	0	-900.0	0	-407.7	0	-2	12	46	66
RPAT	19	12	62.4	11	71.3	111	38	68	260	370
APAT	17	12	40.5	12	47.2	138	53	71	265	376
Diluted EPS (Rs)	1.3	0.9	40.5	0.9	47.2	10.4	4.0	5.4	20.0	28.4
RoE-%						22.6	7.6	9.3	28.3	29.9
P/E (x)						20.2	52.0	38.9	10.5	7.4
EV/EBITDA						21.1	52.1	24.7	8.7	6.0

(Source: Company, HDFC sec)

Q2FY22 Result Update

- HOCL delivered strong performance in Q2FY22, revenue grew by 17.8% YoY to Rs 39 crore. EBITDA was up by 16.8%YoY to Rs 19 crore, supported by lower other expenses and net profit was up by 40.5% YoY to Rs 17 crore.
- EBITDA margin inched down by 40bps YoY to 49.4% and net profit margin stood at 43.4% in Q2FY22 vs. 36.4% in Q2FY21.
- Gross production stood at 9,622 boepd in Q2FY22 led by 8918 boepd from Dirok and 14 boepd from PY-1 vs. 7689 boepd in Q1FY22.
- Net production was at 2964 boepd in Q2FY22 vs. 2405 boepd in Q1FY22

Recent Triggers

Commercialisation of most awaited B-80 Mumbai Offshore project to generate robust revenue going forward

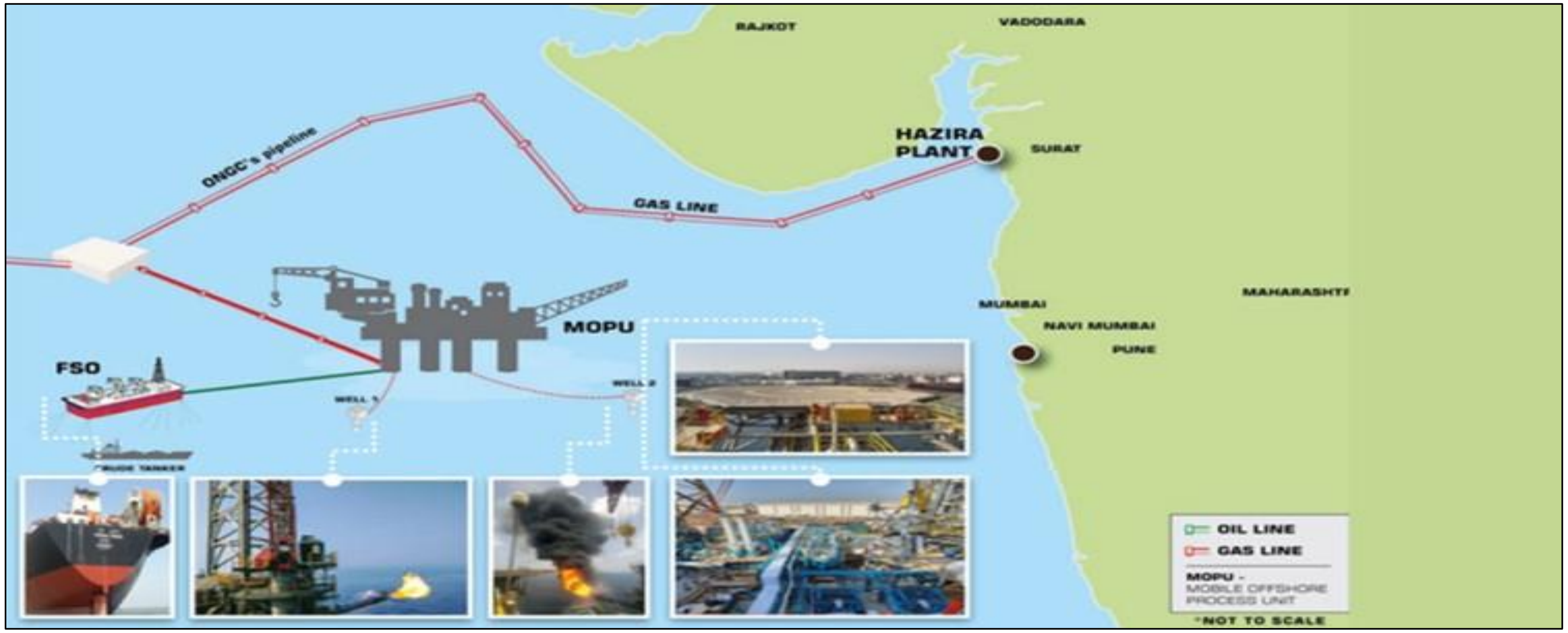
HOEC is developing the B-80 block **(**MB/OSDSF/B-80/2016) in Mumbai offshore, located at approximately 110km away from the Mumbai coast in the Arabian Sea, situated south of the Mukta field. The B-80 field spans 56km in water depths ranging from 80m to 100m and is estimated to hold reserves of 40 million barrels of oil and 26 billion cubic feet of gas. B-80 has potential to produce >8000 boepd. However, this field’s first offtake of oil and gas is likely to be 5000 barrels of oil and 15mmscfd per day respectively. The field is jointly owned by operator HOEC (50%) and Adbhoot Estates (AEPL, 50%). The new revenue sharing contract of HOEC with government of India as per PSC amendment to reflect increased participating interest at 60% as against 50% earlier. Development work of this project is in completion phase, more than 95% of operational works has been completed so far and site is likely to be operational very soon.

Resources:
All required 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. The company is following light asset model strategy in a capital intensive industry.

Key developments

- Two subsea wells drilled and proven to produce 8,000 boepd of hydrocarbons.
- Offshore Installation for collecting, separating and processing well fluids safely installed.
- Subsea production controls and flexible flowlines/export lines have been installed.
- Tie-in into ONGC system for Gas evacuation completed.
- Installation of Oil evacuation using FSO moored with CALM buoy is in-progress
- Majority of offshore work completed and 'First Oil' expected in Q4FY22

B-80 Site-



Long-term prospects looking robust:
As on 31st March 2021, the 2P reserves number from B-80 increased 5-fold post development drilling. This revision in reserves is based on revised Geological model and applying all available data from the field from the latest 2 well drilling and from wells drilled by ONGC earlier.

- Well test data indicates in-place volumes higher than previously interpreted.
- Independent due diligence work done by Gaffney Cline & Associates.
- Positive outcome to life of field and production from field is expected.

Key Milestones

- First Discovered Small Field (DSF) complete drilling.
- First private player in India to convert Jack-up Rig to Mobile Offshore Production Unit (MOPU).
- First in India to drill and complete two subsea wells using a Jack-up Rig.

Now, B-80 First Discovered Small Field (DSF) has emerged as transformation asset as well as anchor asset and this could transform HOEC from a significant onshore player to one of the few operators in India who have offshore experience and capability. The company has participated in DSF Round III for offshore wells. With the experience of B-80, HOEC could win oil block in the West Coast. However, the company could accordingly decide for digging of new well in the new site or could go for completion of Dirok expansion first or completion of Kharsang expansion program.

Expectation of better realisation from Dirok due to E-auction and development of Phase II
Dirok gas field is located in Block AAP-ON-94/1 in Assam-Arakan Basin, operated by HOEC (holds 27% of PI), along with JV partners Oil India Ltd (OIL) and Indian Oil Corporation Ltd (IOCL) under a Production Sharing Contract. OIL is the sole buyer of the gas produced in this field. This site is currently delivering about 35 Million Metric Standard Cubic Feet of gas per day (mmscfd), which represents more than 15% of Assam's natural gas production, as well as about 800 barrels of condensate to refinery in Digboi.

E-auction: First ever E-auction for Gas produced from North-East was conducted in June 2021, and bids received from State and Central PSUs, ensuring reliability of payments, most of E-consumers were power companies, Numaligarh Refinery (a subsidiary of OIL), and BPCL. Sales based on new gas sales contracts was expected to start from Q3FY22. Healthy quantity bid in e-auction indicating presence of latent demand and HOEC could enjoy with a minimum of $1/mmbtu premium over 6-monthly PPAC price to be realized after execution of contracts. HOEC will sell gas to new consumer above government notified prices. For the last two consecutive reviews, the gas prices remained at US$1.79/mmbtu as the government reviews gas prices twice in a year that is in the month of April and October every year. In Oct-2021, it was at US$ 2.90/mmbtu. Further, rise in gas prices as per the government's notification could boost HOEC revenue.

Dirok consumer and pipeline network

Phase II development: Dirok Phase II development is going on and HOEC is drilling 3 development wells, laying of 35km pipeline up to Duliajan and increasing gas production to 55 mmscfd from 35 mmscfd. Post completion of this development work, HOEC can have directly access to North East market without depending on transportation partner.

Field Development Plan:

The Dirok JV decided to adopt a phased approach to develop the field. In line with this strategy, a Field Development Plan (FDP) was prepared and submitted to the Directorate General of Hydrocarbons (DGH) for approval. The FDP was approved in May 2015.

The FDP targeted development of about 130 bcf of gas and involved the following scope:

- Drilling and completion of 6 development wells – 3 re-entry and 3 new wells,
- Setting up a Gas Gathering Station,
- Setting up a Gas Processing Plant of sufficient capacity,
- Laying of pipelines to tie into existing infrastructure to export gas and condensate.

The key aspects of the project delivery included:

- Drilling and completion – Re-entry and completion of 3 smart wells, and drilling of 3 new development wells with unitized compact X-mas trees. A total of approx. 7500 m was drilled in 222 days.
- Setting up a Gas Gathering Station – This Gas Gathering Station (GGS) is zero-emission (no flare). Remote power generation and underground power transmission to this GGS is executed to minimize noise and air pollution.
- Laying pipelines to evacuate gas and condensate – A total of approximately 60 km of pipelines, including infield ones were laid for this project.
- Setting up Hollong Modular Gas Processing Plant (HMGPP) – A Modular Gas Processing Plant with a capacity of 36 mmscfd is setup in Margherita, Assam under a Building, Maintenance and Operations (BMO) contract awarded to Expro, UK. The HMGPP was commissioned in March 2018.
- In the delivery of the Dirok Project and HMGPP, the Dirok JV focused on ensuring significant local content, as well as on sustainability.

Significant achievements in the project delivery include:

- First gas delivered in 27 months from approval of FDP, which is a record for greenfield development in the North-East
- Leveraging expertise and capacity available with contractors, including both global and local contractors
- L&T HIPPS – India's first indigenously developed High Integrity Pressure Protection System (HIPPS) for Dirok Gas Field development. HIPPS detects and isolates the source of high pressure within seconds, and hence avoids excess fluid discharge
- Zero-Emission GGS – This Gas Gathering Station is zero-emission (no flare). Remote power generation and underground power transmission to this GGS is executed to minimize noise and air pollution
- HMGPP built using an innovative contracting model – Adoption of a modular-based approach on OPEX model resulted in Zero CAPEX on equipment, reduction in project construction period and utilisation of state-of-the-art technology.

Dirok sites & HMGPP continued to operate continuously with no downtime during the course of the pandemic and environmental clearance obtained and public hearing conducted successfully for Dirok Phase – II execution.

Long term Triggers

Diverse product portfolio along with technical capabilities

HOEC is Gujarat based company and the company is India's one of the first midsized private exploration and production (E&P) company. HOEC is engaged in the exploration, development, and production of onshore and offshore crude oil and natural gas in India. The company has decades of experience operating multiple fields, both onshore and offshore in leading producing basins. The company holds interest in various oil and gas blocks/fields. HOEC has diverse product portfolio of oil and gas assets across a range of sedimentary basins and at different product life cycles. HOEC will continuously look for ideas, opportunities, talent and technology that has the potential to improve oil & gas discovery and recovery rates.

Assets Portfolio

- Consists of 10 Oil & Gas blocks of Discovered Resources and 1 Exploratory block
- Diverse geographical footprint Presence in 4 out of 7 producing basins in India
- Balanced portfolio Offshore – 3 blocks / Onshore - 8 blocks & Oil / Gas
- Upside potential for exploration within portfolio with infrastructure for rapid monetisation
- Operatorship in majority of blocks to drive value creation
- One exploratory block in our focus area, North- East, added to portfolio through OALP-I

Experienced management could help to be turnaround its growth story

HOEC has been under professional management since inception consisting of eminent industrialists, professionals and technocrats like Late Mr B K Nehru, Late Dr I G Patel, Mr Deepak Parekh and the current Chairman Mr Vivek Rae.

Mr. Vivek Rae (Chairman/Non-Executive Independent Director), a former Secretary, Ministry of Petroleum & Natural Gas, Government of India, served in the Indian Administrative Services for 36 years. Mr. Rae has been an invitee to the Prime Minister's annual consultation with global experts on Oil & Gas, convened by NitiAyog during 2016-18.

P. Elango (Managing Director), in his career spanning over 30 years in the Upstream Oil & Gas sector, he was the Chief Executive Officer & Whole Time Director of Cairn India Ltd. Over his long association with Cairn, he played a key role in building Cairn into a leading Oil & Gas company. Mr. Elango has held several leadership roles in different areas of the business. Mr Elango joined HOEC in Feb-15 as MD. His expertise has imparted better growth visibility over the past few quarters. Under his leadership, company has been able to identify low-risk, and short cash cycle development projects.

Mr Ashok Goel (Non-Executive Non-Independent Directors) has been associated with Essel as a Director since 1984 and is the Vice Chairman & Managing Director. Mr Ashok holds a Bachelor of Commerce Degree and is an experienced businessman who also oversees the management of the Essel Group's three existing leisure properties, Essel World, Water Kingdom and Fun Kingdom.

Mr Ashok is the President and Founder Member of the Indian Association of Amusement Parks & Industries and the Vice-President of the Org- of Plastic Processors of India. He is currently a member of the Stakeholders' Relationship Committee of Essel's Board of Directors.

Mr. Pronip Kumar Borthakur (Non-Executive Non-Independent Directors) brings in more than 37 years of diverse experience from his illustrious career in ONGC, from where he retired as Director (Offshore). He has led multiple large onshore and offshore operations & projects.

Mr. Ramasamy Jeevanandam (Executive Director and Chief Financial Officer), has an overall experience of more than 30 years in finance, listing, funding, finalization of accounts and taxation of Upstream Oil & Gas industry in India. Before joining HOEC, he worked as Vice President at Aban Offshore Limited and functioned as CFO& Director at Hardy Exploration & Production (India) Inc.

HOEC's experienced management is focused on expanding its exploration activities across new geographies and looking new blocks for development.

Robust demand, policy support and fiscal relief in the Oil and Gas Industry

- India is the third largest energy consumer and fourth largest consumer of gas with demand primarily met by imports and India is focussed on increasing its domestic production of Oil & Gas thereby reducing imports that helps reduce forex outflows.
- The government allows 100% FDI in Upstream and Private sector refining projects.
- Government has enacted various policies such as OALP, DSF and Production enhancement contracts to encourage investment and private participation.
- Various steps have been taken recently by DGH to improve ease of business.

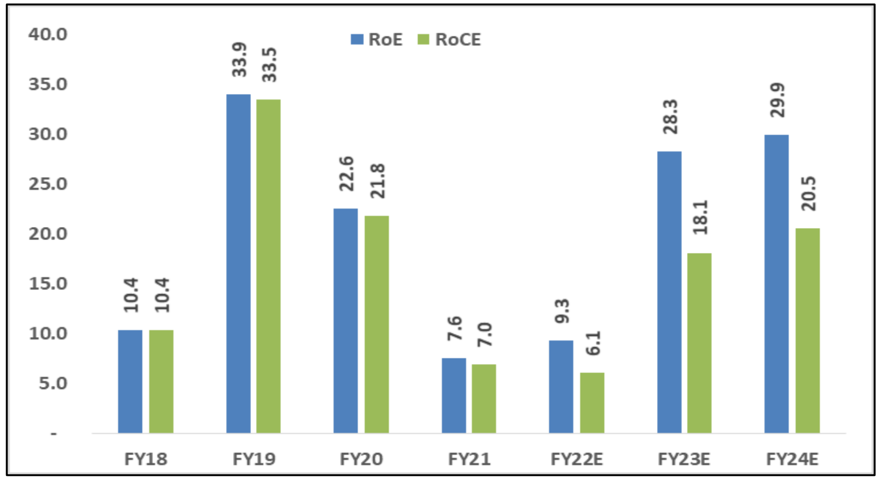
Besides, Energy and oil demand have picked up significantly in 2021 after the massive drop in 2020. Oil demand could grow sharply in the next few years as economies recover from the pandemic. Thus, OPEC expects global oil demand is likely to rise by 1.7 million barrels per day in 2023 to 101.6 million bpd, adding to robust growth already predicted for 2021 and 2022, and pushing demand back above the pre-pandemic 2019 rate. Recent sharp recovery in oil prices and potential upward revision in domestic gas prices could help to improve earnings as well as profitability of HOECL in near to medium term.

Strong fundamentals led by healthy debt protection metrics and liquidity

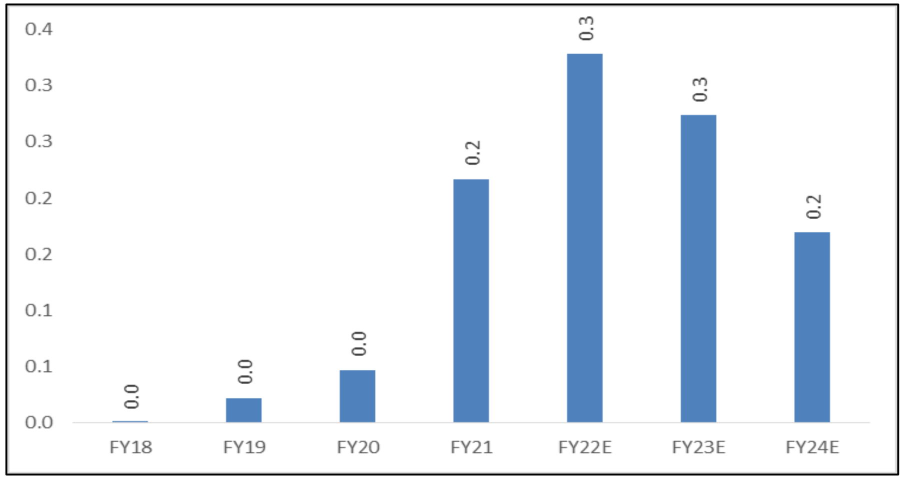
- HOEC's revenue as well as profitability has been volatile over the past, as company's business nature carry a potentially high level of attendant safety and environmental risks. Now, taking into the consideration of cost rationalisation strategy and company's focus in direct sale to consumers with a premium pricing, the company could report substantial and consistent growth in revenue and profitability going forward.
- HOEC has been debt free over the FY15 to FY20 with surplus cash. However, for ongoing and upcoming activities in different projects, company raised fund through debt in FY21. Debt to Equity stood at 0.4x as on 30 Sept, 2021. Apart from this, company has conservative approach on dividend payout to shareholders, retained funds are used only for capex.
- HOEC's financial profile looks strong supported by healthy cash accruals. Total Cash and cash equivalents stood at Rs 165 crore as on 30 Sept, 2021 vs. Rs 117 crore as on 31 March, 2021. We expect the FCF could be positive going forward, even after factoring in annual capex. Capital spending is expected to remain moderate; this and incremental working capital needs are likely to be funded through cash accruals.

- Because of cost rationalization efforts, the company could see growth in profitability as well as on better return ratios in the future. We expect return ratios to remain healthy on account of a sustained improvement in operating performance.

Return Ratio (%)



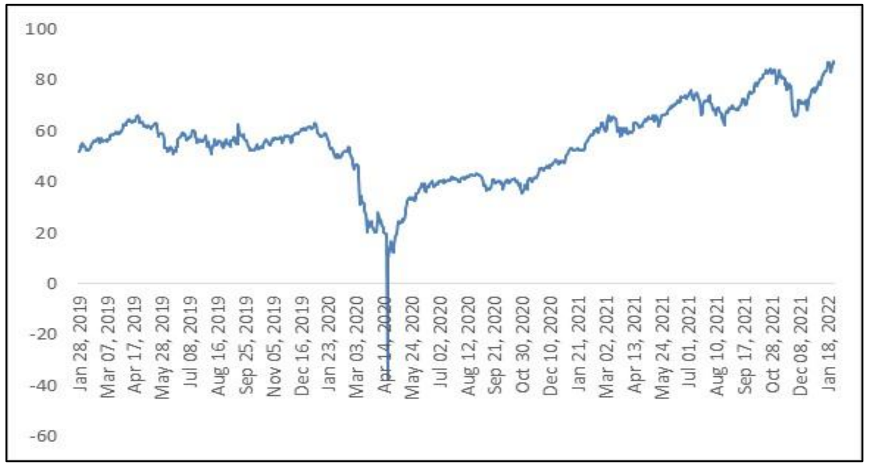
Debt to Equity (x)



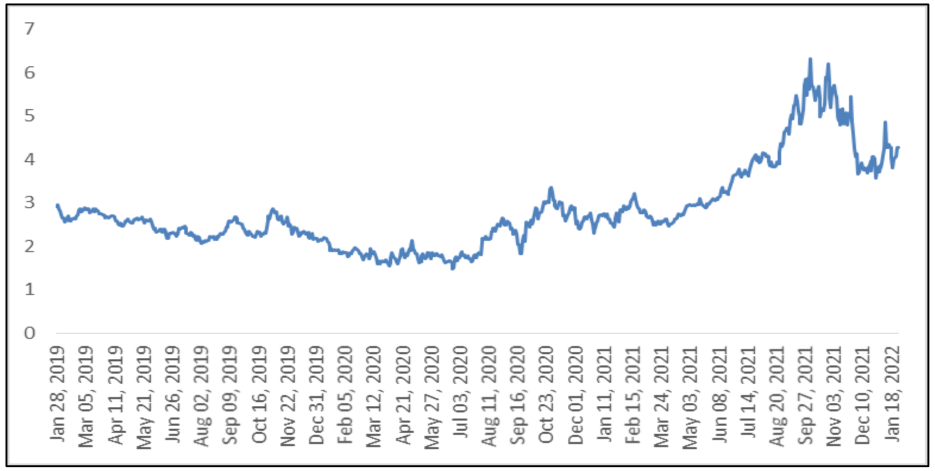
(Source: Company, HDFC sec)

Oil & Gas Price:

Crude Oil WTI Fut-US$/bbl



Natural Gas Price-US$/mbtu



(Source: Investing.com, HDFC sec)

What could go wrong?

- Oil and gas operations by its very nature carry a potentially high level of attendant safety and environmental risks and the impact of an accident can be significant in terms of human life, environmental and financial cost.
- E&P business is highly capital intensive activity and has long gestation period with high uncertainty with respect to estimation of reserves. The success of E&P activities depends on quality of the available data engineering, geographies, geologies and geopolitical interpretation. Adverse outcome or failure on E&P project could bring cost burden and impact its profitability. HOEC however prefers asset light model.
- Given the volatility in Crude oil and petroleum product prices, inventory gains/losses in each quarter can be large affecting the estimates. Any decrease in the price of the crude oil may hamper the profitability of the company. Prices of crude oil depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situations and market sentiment.
- A large part of the growth in topline and bottomline of HOEC would be driven by B-80. Any delay in the commencement of production, lower than expected production and/or lower realization could impact the growth rates of financial parameters and hence could impact the stock price movements.
- On 04 Nov, 2020, A National Green Tribunal (NGT) committee has found the Baghjan oilfield and 26 other oil wells in Assam are operating without mandatory environmental clearances. HOEC's most project are situated in Assam. If any violation by HOEC comes in this regard, it could impact its business.
- HOEC's PY-3 block is under arbitration phase with its JVs Hardy Exploration & Production (India) Inc., ONGC and Tata Petrodyne. Any adverse outcomes will be negative for the company.
- The company's operation and day to day activities are subject to various rules and regulations. Change in regulations may impact its operation and financials and have short term, medium term and long term impact to the value of company.
- Delay in commercialisation of the B-80 block due to incomplete positioning of site, adverse weather condition and monsoon, could impact investor's sentiment towards the stock.
- HOEC's performance in the PY-1 has been subdued, The PY-1 wells production declined from prolonged Covid-19 related shut down which impacted its gross production and it declined to 211 boe in FY21 from 736 boe in FY20. 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.
- Overall, gas dominates ~85% of the volumes, and oil 15%, as on 30th Sept 2021. Fall in domestic gas prices than Oil prices could impact its revenue as well as volumes. The impact of a falling oil price is however partly mitigated via the production sharing formula in the PSCs. However, B-80 product could help to transform it production mix to almost equal sphere.
- HOEC has poor track record of dividend payout, paid only in two different years (FY08 and FY10) over the life of its 38 years. Further, company has no plan to pay dividend to shareholder in the next two three years.

- Apart from B-80, PY-1, Dirok blocks, Kherem, Umatara, Kharsang and greater Dirok are not operational due to legal issues as well as environmental clearance. Non-operational blocks impact its profitability as well as earning ability.
- There is no promoter's holding in the company.
- The net working capital cycle has been volatile due to higher inventory days and higher receivables over the past.

Company Profile:

Hindustan Oil Exploration Company Ltd (HOEC) was incorporated in the year 1983, is engaged in Oil exploration and production of crude oil and natural gas in onshore and offshore fields. HOEC was the first midsized private company in India to enter into field of oil and gas exploration and its operational activities commenced in 1991. HOEC provides geological and geophysical services relating to the exploration of oil and natural gas and other field services. The company has built a strong portfolio of onshore and offshore fields in India. The company has participating interest in 11 oil/gas fields in India (in Cambay basin, Cauvery basin, Assam Arakan basin, Mumbai Offshore basin and Rajasthan basin), it consists of 10 Oil & Gas blocks of Discovered Resources and 1 Exploratory block which are in varying stages of E&P life cycle i.e. exploration, development and production.

Subsidiary:

HOEC has two wholly owned subsidiaries, namely Hindage Oilfield Services Ltd and Geopetrol International Inc.

Hindage Oilfield Services Ltd: Hindage Oilfield Services Ltd ('Hindage') is engaged in the business of Oil Field Equipment and Services (OFES). Hindage has been contemplating various business proposals in the OFES and the company is not operational.

Geopetrol International Inc (GPII): HOEC acquired the entire share capital of GPII, a company incorporated in the Republic of Panama. GPII has entered into various production sharing contracts with Government of India including a producing oil field Kharsang in Arunachal Pradesh with 25% participating interest. GPII holds the entire share capital of Geopetrol Mauritius Ltd ('GML'), a company established under the laws of Mauritius, holding Category I Global Business License. GML has an Indian Associate Company viz., Geoenpro Petroleum Ltd ('Geoenpro'), in which GML holds 50% of the paid-up share capital. Geoenpro is the Operator to the Kharsang Block with 10% participating interest. GPII reported Rs 14 crore revenue and net loss of Rs 12 crore in FY21.

As of 31.03.2021 the 2P reserve of Oil stood at 16.41MMBBL and Gas stood at 138.32 BCF.

Participants in various oil and gas blocks / fields

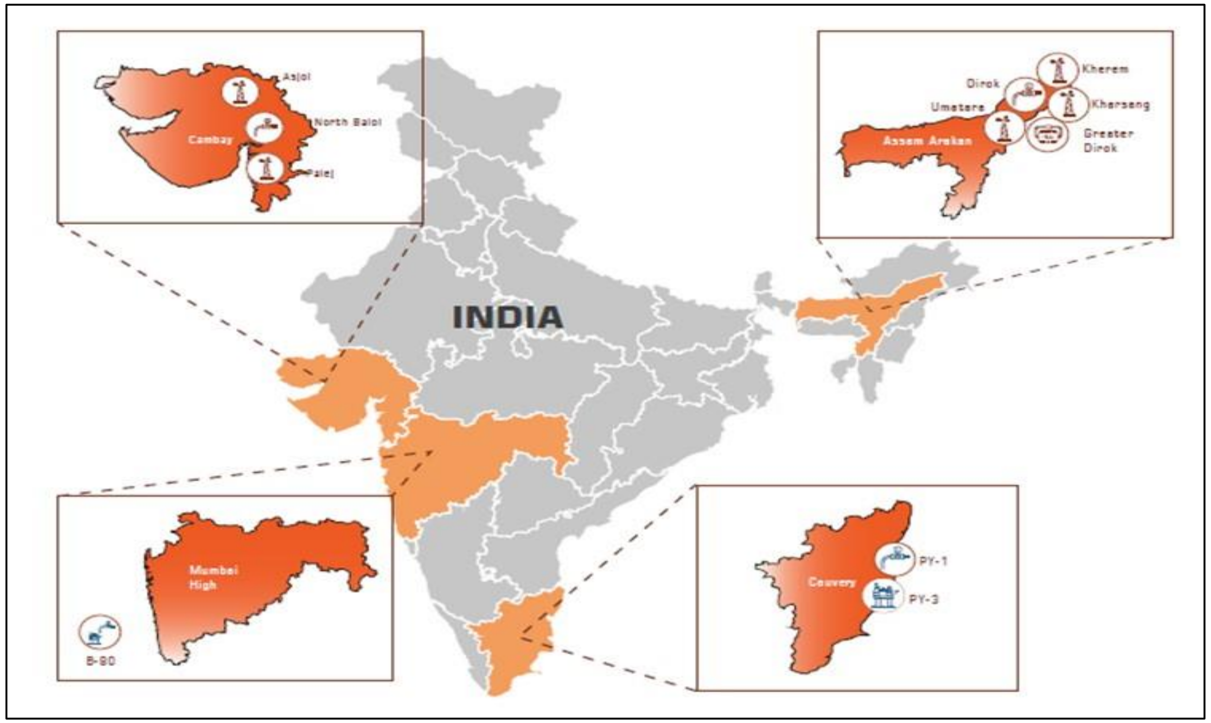
Blocks	Participants	Share (%) 31-Mar-20	Share (%) 31-Mar-21
PY 1	Hindustan Oil Exploration Company Limited (O)	100	100
CY-OS-90/1 PY-3	Hardy Exploration & Production (India) Inc. (O)	18	18
	Oil and Natural Gas Corporation Limited	40	40
	Hindustan Oil Exploration Company Limited	21	21
	Tata Petrodyne Limited	21	21
Asjol	Hindustan Oil Exploration Company Limited (O)	50	50
	Gujarat State Petroleum Corporation Limited	50	50
North Balol	Hindustan Oil Exploration Company Limited (O)	25	25
	Gujarat State Petroleum Corporation Limited	45	45
	Gujarat Natural Resources Limited (GNRL)	30	30
CB-ON/7 (Palej)	Hindustan Oil Exploration Company Limited (O)	35	35
	Gujarat State Petroleum Corporation Limited	35	35
	Oil and Natural Gas Corporation Limited	30	30
CB-OS/1	Oil and Natural Gas Corporation Limited (O)	55.26	55.26
	Hindustan Oil Exploration Company Limited	38.07	38.07
	Tata Petrodyne Limited	6.67	6.67
AAP-ON-94/1 Assam	Hindustan Oil Exploration Company Limited (O)	26.882	26.882
	Indian Oil Corporation Limited	29.032	29.032
	Oil India Limited	44.086	44.086
MB/OSDSF/B80/2016 **	Hindustan Oil Exploration Company Limited (O)	50	60
	Adhboot Estates Private Limited	50	40
AA/ONDSF/KHEREM/2016	Hindustan Oil Exploration Company Limited (O)	40	40
	Oil India Limited	40	40
	Prize Petroleum Company Limited	20	20
AA-ONHP-2017/19	Hindustan Oil Exploration Company Limited (O)	100	100
AA/ONDSF/Umatara/2018	Hindustan Oil Exploration Company Limited	10	10
	Indian Oil Corporation Limited (O)	90	90

(Source: Company, HDFC sec)

(O-Operator)

**** Effective December 1, 2020 Adhboot Estates Private Limited assigned 10% of its participating interest in the UJV to HOEC, but is pending to be signed by the Ministry of Petroleum and Natural Gas**

Site as a glance



Onshore Blocks

Dirok - AAP-ON-94/1 (HOEC PI : 26.882%) (O)
Dirok field continued to produce at full capacity through the lockdown and the waves of pandemic.
Revised Field Development Plan involves targeting Dirok upside potential.
Environmental clearance obtained for Phase – II execution.
Phase-II involves drilling of 3 wells, laying of 35km pipeline and increase in gas production to 55 mmscfd.
Average Production (100%) (FY21) –35.55 mmscfd; Total Production (FY21) – 28,05,428 boe.

AA/ONDSF/Kherem/2016 (HOEC PI : 40%) (O)
Block awarded under DSF Bid Round 2016. Work Program (2 wells) to be completed in 3 years from the date of PML.
Tested : Oil - 402 bopd.
Nearest Facility is 30 km away (Digboi Refinery).
Application for Forest Clearance and PML is made and approval is in process.

Palej - CB-ON-7 (HOEC PI : 35%) (O)
Average Gross (100%) Production (FY21) – 79 boepd.
Approval of R2 PSC in final stages.

Kharsang (HOEC PI : 30%) (O) - Direct and Indirect
Average Gross (100%) Production (FY 2020-21) – 579 bopd.
RFDP is approved & Mining lease granted till 15 June 2030. Adhoc PSC extension is granted.

Umatara (HOEC PI : 10%) (O)
Block awarded under DSF Bid Round 2019.
Fifth block in HOEC's portfolio of North-East blocks. Located at a distance of 50 km from Dirok field.
To be operated in Joint Operator model with IOC.

Greater Dirok - AA-ONHP-2017/19 (HOEC PI :100%) (O)
Block awarded under OALP Bid Round 2019.
Exploratory block adjacent to Dirok block with associated synergies with respect to both surface and sub-surface.

Offshore Blocks

PY-1 (HOEC PI : 100%) (O)
Average Production (FY21) – 1.15 mmscfd.
Total Production (FY21) – 77,346 boe.
Reduced offtake due to customer shutdown,resulting in loss of production.
Rig based intervention in the form of workovers required to improve production.

MB/OSDSF/B80/2016 (HOEC PI : 60%) (O)
Block awarded under DSF Bid Round 2016.
Two subsea wells drilled and proven to produce 8,000 boepd of hydrocarbons.
Majority of offshore work completed and 'First Oil' expected in Q4 FY 2021-22

(O) - HOEC as Operator (PI) - Participating Interest

PY-3 (HOEC PI : 21%)
Field under shutdown since July 2011.
Last production (100%) – 3,300 bopd.
HEPI was acquired by Invenire Energy and retained operatorship.

Story behind the gloomy days:
HOEC has seen more challenges since 2015. ENI of Italy was its sole promoter, which held a 47% as on 31 Dec, 2015. ENI decided to quit, and first reduced stake to 22.4% as on 31 March 2016, to 16.3% as on 30 June 2016 and to Zero as on 30 Sept, 2016.

In 2015-16, ENI asked Mr P Elango to take over the management of HOEC and ENI agreed to waive its Rs 1000 crore loan to HOEC and quit India, then Mr P Elango was the CEO of Cairn Energy. Elango's friend, Mr Ramaswamy Jeevanandam, who was then looking after finance at Hardy Oil, a UK company that operated the PY-3 oil field in the Bay of Bengal. The two friends entered HOEC in February 2015, picking up a 3% and 2% stake respectively.

Unburdened of loans, HOEC then had cash of Rs 36 crore on its books and participating interests in the PY-1 gas field and PY-3 oil field were not producing much. However, the company had a 27% interest in the Dirok field, a promising asset that had cash-rich, public-sector giants, IOC and OIL for partners, but which was yet to be put into production. The asset was brought to production in a record time of 27 months.

In March 2016, Ashok Goel of Essel Propack and Rohit Dhoot of Dhoot Industrial Finance together picked up 14 and 10% stake respectively from ENI, at a price of Rs18.5 a share, which formed a major part of ENI's exit. Thereafter, Elango and Jeevanandam picked up a further 4% each, at the same price as Goel and Dhoot.

At that time, oil prices were falling and HOEC's production was not meaningful, mainly due to operational challenges at its principal asset, the PY-1 gas field in the Bay of Bengal. In FY16, the company's turnover was Rs 28 crore and net profit was 8 crore. In 2017, when HOEC successfully bid for B-80 when the government auctioned 'discovered small fields'. This was a big breakthrough. B-80 will go on stream very soon, it will produce 5,000 barrels of oil a day, 60 per cent of which belongs to HOEC.

HOEC intends to start operational activities on the other assets like — Kherem and Kharsang in Arunachal Pradesh, a couple of small fields in the Gulf of Cambay, and the high-potential but operationally challenging PY-1.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**202**	**114**	**259**	**722**	**975**
Growth (%)	-23.8	-43.6	127.4	178.9	35.0
Operating Expenses	77	60	138	376	501
EBITDA	**125**	**54**	**121**	**346**	**474**
Growth (%)	**-33.4**	**-56.6**	**122.9**	**187.0**	**36.8**
EBITDA Margin (%)	**61.7**	**47.5**	**46.6**	**48.0**	**48.6**
Depreciation	29	23	37	39	45
EBIT	95	31	84	307	429
Other Income	22	11	9	14	19
Interest expenses	6	6	13	16	13
PBT	**111**	**36**	**81**	**306**	**435**
Tax	0	-2	12	46	66
RPAT	**111**	**38**	**68**	**260**	**370**
APAT	137.6	53.4	71.4	264.9	376.2
Growth (%)	-12.2	-61.2	33.7	270.9	42.0
EPS	10.4	4.0	5.4	20.0	28.4

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	132	132	132	132	132
Reserves	547	601	672	937	1313
Shareholders' Funds	**680**	**733**	**805**	**1070**	**1446**
Long Term Debt	32	159	279	329	269
Net Deferred Taxes	3	1	1	2	2
Long Term Provisions & Others	107	113	118	124	131
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**822**	**1006**	**1204**	**1525**	**1847**
APPLICATION OF FUNDS					
Net Block & Goodwill	357	335	747	1006	1102
CWIP	327	535	374	281	295
Other Non-Current Assets	84	88	77	73	71
Total Non Current Assets	**769**	**958**	**1198**	**1360**	**1468**
Current Investments					
Inventories	27	36	78	218	294
Trade Receivables	36	31	67	188	254
Cash & Equivalents	186	117	75	91	224
Other Current Assets	17	43	45	47	49
Total Current Assets	**267**	**227**	**265**	**544**	**820**
Short-Term Borrowings	0	0	0	1.5	1
Trade Payables	66	36	74	208	280
Other Current Liab & Provisions	148	143	184	170	159
Total Current Liabilities	**214**	**179**	**258**	**380**	**441**
Net Current Assets	53	48	6	165	380
Total Application of Funds	**822**	**1006**	**1204**	**1525**	**1847**

Hindustan Oil Exploration Co. Ltd.

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	137	52	83	308	438
Non-operating & EO items	156	-133	13	-137	-78
Interest Expenses	6	6	13	16	13
Depreciation	29	23	37	39	45
Working Capital Change	-34	-21	-9	-14	-19
Tax Paid	-1	2	-12	-46	-66
OPERATING CASH FLOW (a)	**294**	**-71**	**124**	**165**	**333**
Capex	-303	-207	-285	-200	-150
Free Cash Flow	-9	-277	-161	-35	183
Investments	-11	-13	-2	-2	-2
Non-operating income	17	11	9	14	19
INVESTING CASH FLOW (b)	**-297**	**-208**	**-278**	**-188**	**-133**
Debt Issuance / (Repaid)	32	206	120	50	-60
Interest Expenses	-6	-6	-13	-16	-13
FCFE	16	-77	-54	-1	109
Share Capital Issuance	2	0	0	0	0
Dividend	0	0	0	0	0
FINANCING CASH FLOW (c)	**27**	**200**	**107**	**34**	**-73**
NET CASH FLOW (a+b+c)	**24**	**-79**	**-47**	**12**	**127**

Key Ratios

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratio (%)					
EBITDA Margin	61.7	47.5	46.6	48.0	48.6
EBIT Margin	47.1	27.0	32.5	42.5	44.0
APAT Margin	68.1	46.9	27.6	36.7	38.6
RoE	22.6	7.6	9.3	28.3	29.9
RoCE	21.8	7.0	6.1	18.1	20.5
Solvency Ratio (x)					
Net Debt/EBITDA	0.3	2.9	2.3	1.0	0.6
Net D/E	0.0	0.2	0.3	0.3	0.2
PER SHARE DATA (Rs)					
EPS	10.4	4.0	5.4	20.0	28.4
CEPS	15.2	12.6	5.8	8.2	23.0
Dividend	0.0	0.0	0.0	0.0	0.0
BV	51.4	55.4	60.8	80.9	109.3
Turnover Ratios (days)					
Debtor days	65.7	99.6	95.0	95.0	95.0
Inventory days	48.0	115.7	110.0	110.0	110.0
Creditors days	119.0	116.2	105.0	105.0	105.0
VALUATION (x)					
P/E	20.2	52.0	38.9	10.5	7.4
P/BV	4.1	3.8	3.5	2.6	1.9
EV/EBITDA	21.1	52.1	24.7	8.7	6.0
EV / Revenues	13.0	24.8	11.5	4.2	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)

One Year Price Chart

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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