

Hindustan Oil Exploration Co. Ltd

B-80 basin to multiply revenue going ahead !!

Call: **BUY** at CMP INR **217**

Target Price INR **326 (Upside 50%)**

Natural Gas price to shoot up this March !

- ✓ Hindustan Oil Exploration Ltd (HOEC) is engaged in oil and natural gas exploration, development, production and has a diverse portfolio of 3 offshore and 8 onshore blocks. In Q3FY22 the company recorded a total gross production of 7,684 Boepd (Barrels of Oil Equivalent Per Day), with Dirok field in Assam accounting for almost 91% of the total volume produced, with a reported gross production of 7,023 Boepd. The upcoming Kharsang field development project in Arunachal Pradesh, which will involve the drilling of 18 wells, is expected to significantly increase production from the current capacity of 506 Boepd to 1,800 Boepd.
- ✓ The offshore B-80 project on the western coast is anticipated to transform the company, with a projected production capacity of 5,000 Boepd and 3,000 barrels of natural gas per day. The project was deferred primarily due to equipment delays from the United Kingdom and weather issues during the monsoon season. However, management is confident that the project will commence its operations from March, as the natural gas e-auction has already concluded successfully, and revenue will begin to reflect from the next quarter.
- ✓ The company proposed to sell 2,000 barrels of natural gas produced at the **B-80 field** through an e-auction at a Brent-linked price for a contract period of 2 years. Gujrat State Petroleum Corporation (GSPC) was the top bidder agreeing to pay 22.2% of the prior month's average Brent crude oil price. The remaining 1,000 barrels will be traded on Indian Energy Exchange (IEX). Natural gas production is estimated to generate revenues of ~INR 1.7bn annually (calculated at the floor price of US\$ 6/Metric Million British Thermal Unit). The B-80 field's oil production would be auctioned post Q1FY23. The commencement of this project will have a substantial impact on its top line, we expect the revenues would surge to INR 6,021mn in FY24E, a 5.3x increase from its current level.
- ✓ The Dirok Phase-II extension project would link the Duliajan hub with 35 km of pipeline, drilling three development wells and boosting production capacity from 35 mmscfd (Million Metric Standard Cubic Feet per Day) to 55 mmscfd. In Q3FY22, the gross production of natural gas and condensate products (achieved after condensation of gas) stood at 33 mmscfd and 629 Boepd respectively. The company delivers premium gas directly to Oil India Corporation and has recently added NRL, AGCL, NEEPCO Ltd, and BPLC to its customer base. Due to its new expansion plan, we expect this project to contribute revenues significantly.
- ✓ The Indian government's Atmanirbhar Bharat initiative seeks to expand its oil and gas production and boost its dependence on natural gas from 6% to 15% of its energy mix by 2030. The government plans on providing fiscal incentives to encourage foreign investors and enable the industry to explore ultra-deep-water resources in the future, emphasizing offshore projects, as the other 23 onshore crude field levels have started depleting. We believe that the industry requires more investment and international collaborations that can contribute to extraction and the introduction of innovative technologies into the fields. Petroleum Planning and Analysis Cell (PPAC) is expected to make a 100% jump in the price of natural gas in March; thereby directly affecting HOEC.
- ✓ In Q3FY22, the company, fared extraordinarily well, with revenue increasing by 57% YoY and PAT increasing by 127% YoY, on the back of higher gas selling prices and better realization. The cash flow produced post the commencement of the B-80 project would be utilized to repay the total borrowings of INR 2.7bn. The company's goal is to achieve debt-free status while maintaining a healthy cash flow. We expect HOEC to earn revenues at a CAGR of 74% between FY21-24E, owing to commencement of B-80 project and other upcoming projects.

Valuation: Revenue to skyrocket

- ✓ We value the company at INR 326, with a P/E ratio of 11x using EPS of INR 28.5 (FY24E), based on the following factors: 1) The government is intent on lowering imports and increasing its dependence on natural gas; 2) Future projects are being lined up to boost scale, and 3) The revenue generated from B-80 would be realized from the Q1FY23.

Financial Snapshot

Figures (in mn)	Q3FY22	Q3FY21	Y-o-Y (%)	Q2FY22	Q-o-Q (%)	FY21A	TTM	FY22E	FY23E	FY24E
Revenues	439	278	57.9	391	12.4	1,139	1,423	1,641	3,784	6,021
EBITDA	227	129	76.8	173	31.7	541	677	948	2,249	3,626
EBITDA Margins %	51.8	46.2	554bps	44.1	762bps	47.5	47.5	57.8	59.5	60.2
PAT	191	84	127.9	170	12.9	534	684	991	2,343	3,773
PAT Margins %	43.6	30.2	1338bps	43.4	19bps	46.9	48.1	60.4	61.9	62.7
EPS	1.4	0.6	127.9	1.3	12.9	4.0	5.2	7.5	17.7	28.5
BVPS						55.4		62.9	80.7	109.2

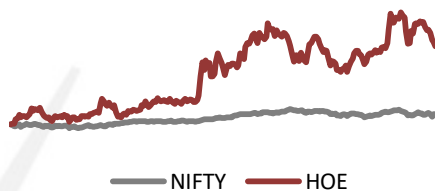
Source: Company, ULJK Research

Key Stock Data	
Bloomberg	HOE:IN
Sector	Exploration/Production
Mkt Cap. (INR. bn)	28.3
O/s Shares (mn)	13.2
52 Week High / Low (INR.)	245.2/89.6
Face Value (INR.)	10.0

Shareholding (%)		Q3FY22
Promoters		-
DII's		4.1
FII's		1.0
Others		95.0

Financial Ratios				
	FY21	FY22E	FY23E	FY24E
ROE %	7.3	12.7	24.7	30.1
ROCE%	6.7	10.7	22.6	28.9
P/E (x)	24.0	29.0	12.2	7.6
P/B (x)	1.8	3.4	2.7	2.0

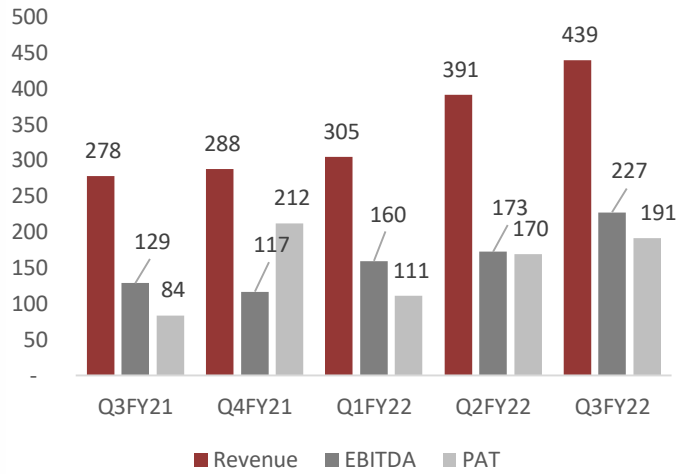
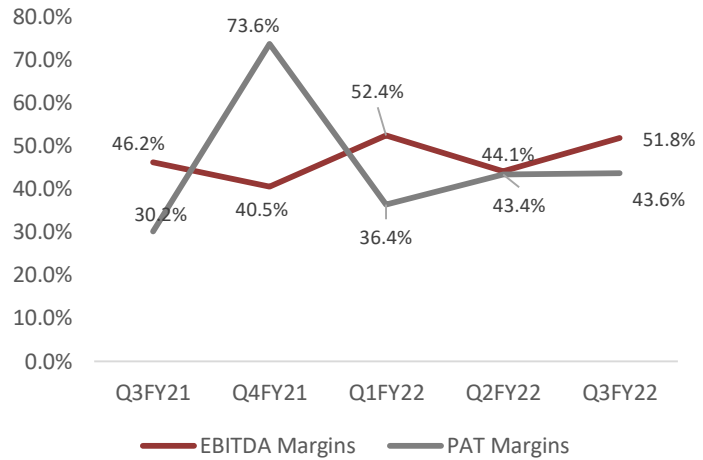
1 Year Relative Price Chart



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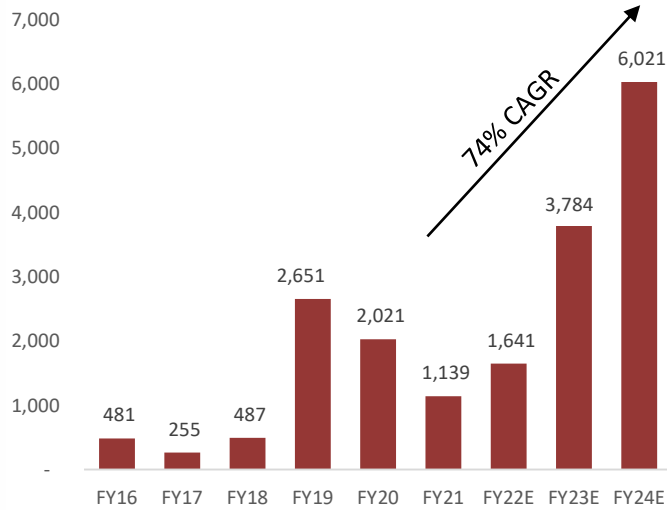
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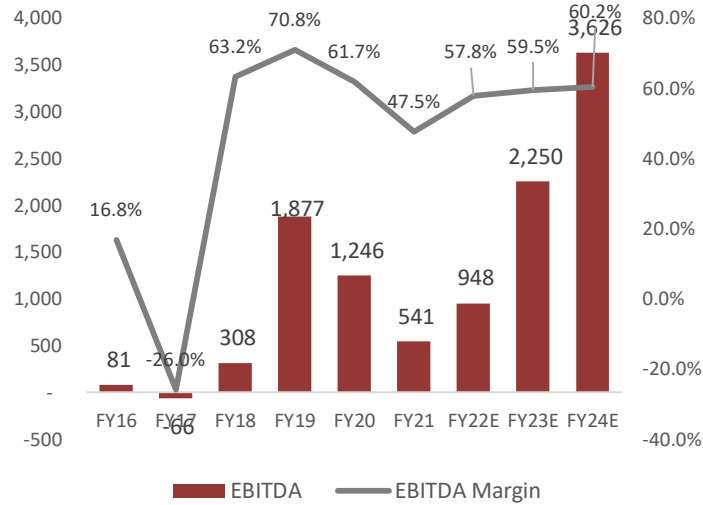
Exhibit 1: Revenue, EBITDA & PAT quarterly trend

Exhibit 2: EBITDA and PAT margins trend


Source: Company, ULJK Research

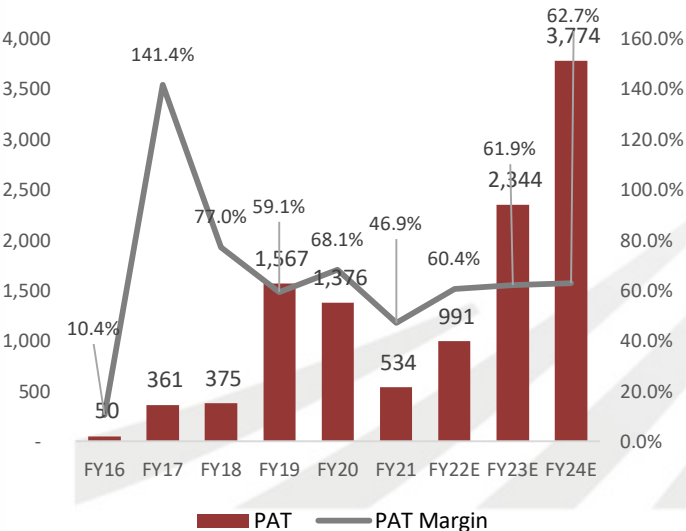
Source: Company, ULJK Research

Exhibit 3: 74% CAGR Revenue growth


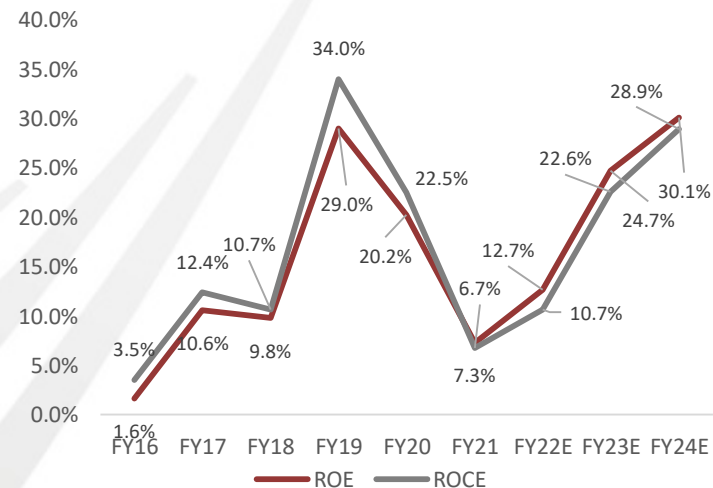
Source: Company, ULJK Research

Exhibit 4: EBITDA and EBITDA Margin (INR mn)


Source: Company, ULJK Research

Exhibit 5: PAT and PAT Margins (INR mn)


Source: Company, ULJK Research

Exhibit 6: Return ratios


Source: Company, ULJK Research

Company Overview

Hindustan Oil Exploration Company Ltd (HOECL), founded in 1983 engages in Exploration and Production (E&P) activities of oil and natural gas. HOEC, headquartered in Gujarat, was India's first private business to get into the sector of oil and gas exploration. The company's operations gained traction in 1991 when the Indian government announced the fourth round of exploration bids open to the private sector. Hindage Oilfield Services Ltd (formerly HOEC Bardahl India Ltd), a wholly-owned subsidiary, is involved in marketing high-performance fuel/engine additives. HOECL has over 10 offshore and onshore oil/gas blocks of discovered resources and 1 exploratory block in India. They are placed at 4 out of 7 production basins in India.

Industry Overview

Oil and gas is one of India's eight critical industries, with a considerable influence on all other critical sectors of the economy. India is anticipated to contribute to non-OECD petroleum consumption increase worldwide substantially. Crude oil imports increased dramatically in 2019-20, from US\$ 70.7bn in 2016-17 to US\$ 101.4bn in 2019-20.

Furthermore, from 221.6mn tonnes in 2017, crude oil consumption is anticipated to rise at a CAGR of 3.6 % to 500mn tonnes by 2040. India is Asia's second-largest refiner with a refining capacity of 259.3mn metric tons (MMT). In FY20, private businesses owned approximately 35.3% refining capacity. Upstream oil and gas companies locate, extract, drill wells, and produce crude oil and natural gas. They are also called Exploration and Production (E&P) companies.

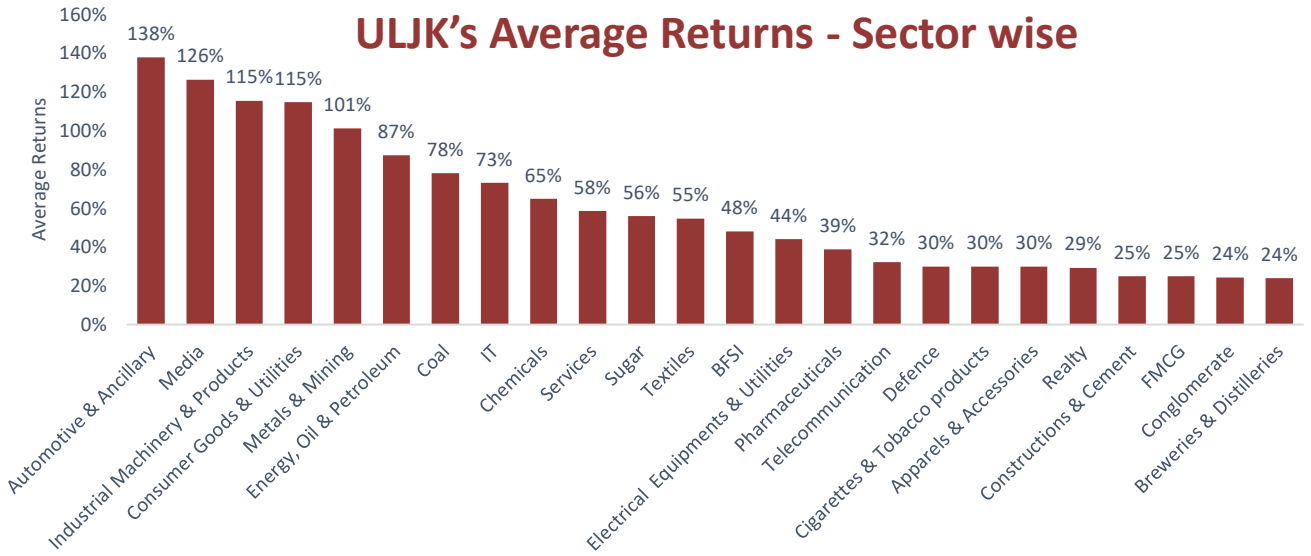
The Government of India intends to invest INR 7.5tn (USD 102.5bn) on oil and gas infrastructure over the next five years. The Government aims at investing US\$ 2.9bn in upstream oil and gas production to increase natural gas output to 60bn cubic metres (bcm) and develop more than 120 exploratory wells by 2022. The natural gas consumption level is expected to rise at a CAGR of 4.2% per annum to 143.1mn tonnes by 2040, up from 58.1mn tonnes in 2018. India plans to extend its natural gas infrastructure to 34,500 km by adding 17,000 km of gas pipeline. The present regasification capacity of 42 MMT per year will be increased to 61 MMT by 2022.

Key Con-call Highlights – Q3FY22

- ✓ B-80 update: Testing and commissioning operations will begin on March 22.
- ✓ The response to the B-80 e-auction has been positive, with significant industry players expressing interest in participating. The company has chosen to conduct the auction using Brent-linked pricing.
- ✓ Axis Bank acquired Axis Financial Ltd's loan of INR 1.3bn in its whole. With anticipated cash flow from B-80, the loan payback period would be shorter than anticipated. HOEC aims at regaining its debt-free position, since it has no plans to borrow anymore.
- ✓ Following commercial production from B-80, the next drilling procedure for PY-1 will be scheduled.
- ✓ The company intends to drill development wells in Asjol and North Balol, they have begun the environmental clearance procedure, and had a public hearing in January.
- ✓ The B-80 delay is mostly due to weather conditions, however management has promised that the risk has been mitigated.

ULJK's Performance Tracker

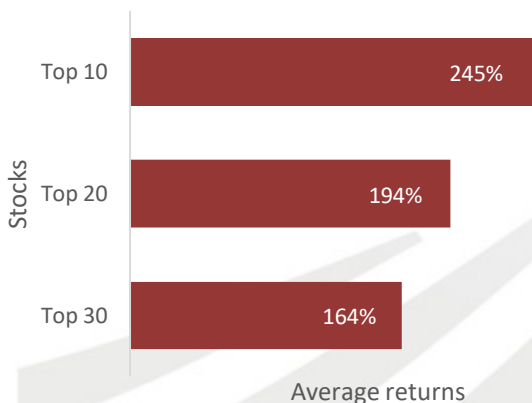
ULJK's Average Returns - Sector wise



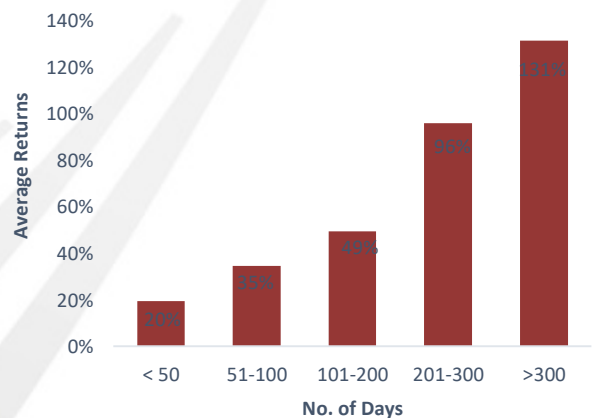
ULJK's Open Calls – Sector wise



Average Returns of Top Performing Stocks



Time wise (Days) to % Returns



ULJK returns compared to peers

Source: Bloomberg

Period (months)	ULJK Average Return %	Peers Average Return %	Outperformance compared to peers
1	3.4%	2.2%	54.3%
3	2.1%	1.4%	52.9%
6	9.3%	5.8%	59.8%
12	34.0%	29.6%	14.8%
24	36.7%	26.9%	36.4%
36	59.4%	39.9%	48.7%

ULJK's 184 Companies Under Coverage

ABB India Ltd	Chemplast Sanmar Ltd	Heidelbergcement India Ltd	LIC Housing Finance Ltd	Shilpa Medicare Ltd
ABB Power Products and Systems Ltd	Cipla Ltd	Heranba Industries Ltd	Lupin Ltd	Shree Cement Ltd
ACC Ltd	City Union Bank Ltd	Himatsingka Seida Ltd	Mahanagar Gas Ltd	Siemens Ltd
Adani Ports and Special Economic Zone	Coal India Ltd	Hindalco Industries Ltd	Mahindra & Mahindra Ltd	SPL Apparel Ltd
Adani Power Ltd	Coforge Ltd	Hindustan Oil Exploration Co. Ltd	Mangalore Chemicals & Fertilizers Ltd	SRF Ltd
Affle (India) Ltd	Container Corporation Of India Ltd	Hindustan Petroleum Corporation Ltd	Marksans Pharma Ltd	State Bank Of India
Amber Enterprises India Ltd	Cummins India Ltd	HT Media Ltd	Maruti Suzuki India Ltd	Steel Authority Of India Ltd
Ambuja Cements Ltd	Devyani International Ltd	ICICI Bank Ltd	Minda Corporation Ltd	Stove Kraft Ltd
Anupam Rasayan India Limited	Dhampur Sugar Mills Ltd	ICICI Lombard GIC Ltd	Mindtree Ltd	Sun Pharmaceuticals Ltd
Apollo Tyres Ltd	DLF Ltd	IDBI Bank Ltd	Monte Carlo Fashion Ltd	Sun TV Network Ltd
Ashok Leyland Ltd	Dr Reddy's Laboratories Ltd	IDFC First Bank Ltd	Motherson Sumi Systems Ltd	Sunteck Realty Ltd
Atul Ltd	Dynamatic Technologies Ltd	India Pesticides Ltd	Nath Industries Ltd	Syngene International Ltd
Au Small Finance Bank Ltd	Eclerx Services Ltd	Indiabulls Housing Finance	Nelco Ltd	Tata Chemicals Ltd.
Aurobindo Pharma Ltd	Eris Lifesciences Ltd	Indiabulls realestate Ltd	NMDC Ltd	Tata Communications Ltd
Axis Bank Ltd	Eveready Industries India Ltd	Indian Bank Ltd	NTPC Ltd	Tata consultancy services Ltd
Bajaj Healthcare Ltd	Everest Kanto Cylinder Ltd	Indian Oil Corporation Ltd	Oil and Natural Gas Corporation Ltd	Tata Motors Dvr Ltd
Bandhan Bank Ltd	Exide Industries Ltd	Indian Railway Catering and Tourism Corporation Ltd	Oriental Carbon & Chemicals Ltd	Tata Motors Ltd
Bank of Baroda	Expleo Solutions Ltd	Indo Count Industries Ltd	Parag Milk Foods Ltd	Tata Power Co. Ltd
Bank of India	Federal Bank Ltd	Indoco Remedies Ltd	Parsvnath Developers	Tata Steel Ltd
BASF India Ltd	Filatex India Ltd	Indus Tower Ltd	Parsvnath Developers Ltd	Tech Mahindra Ltd
Bata India Ltd	Firstsource Solution Ltd	Infibeam Avenues Ltd	Pfizer Ltd	Technocraft Industries (India) Ltd
BF Utilities Ltd	Fortis Healthcare Ltd	ITC Ltd	Piramal Enterprises Ltd	Tejas Network Ltd
Bharat Bijlee Ltd	Gail (India) Ltd	ITD Cementation Ltd	Poonawala Fincorp	Torrent Power Ltd
Bharat Electronics Ltd	GE Power India Ltd	Jaiprakash Power Venture Ltd	Poonawalla Fincorp Ltd	Triveni Engineering & Industries Ltd
Bharat Forge Ltd	GE T&D India Ltd	Jindal Steel & Power Ltd	Power Finance Corporation Ltd	TVS Motor Company Ltd
Bharat Heavy Electricals Ltd	GHCL LTD	JSW Steel Ltd	Power Grid Corporation Of India	Ujivan Financial Services Ltd
Bharat Petroleum Corp Ltd	Gland Pharma Ltd	Jubilant Ingrevia Ltd	Praj Industries Ltd	United Spirits Ltd
Bharti Airtel Ltd	Glenmark Pharmaceuticals Ltd	Jubilant Pharmova Ltd	Prestige estates Projects Ltd	Varroc Engineering
Birla Corporation Ltd	Godfrey Phillips India Ltd	Just Dial Ltd	Punjab National Bank	Vedanta Ltd
Blue Star Ltd	Graphite India Ltd	Jyothy Labs Ltd	PVR Ltd	Vinati Organics Ltd
BSE Ltd	Greaves Cotton Ltd	KEC INTERNATIONAL LTD	Quess corp Ltd	Welspun Corp Ltd
Cadila Healthcare Ltd	Gujarat Fluorochemicals Ltd	Kotak Bank Ltd	Quick Heal Technologies Ltd	Welspun India Ltd
Can Fin Homes Ltd	Happiest Minds Technologies Ltd	L&T finance holdings Ltd	Railtel Corpertaion Of India	Zee Entertainment Enterprises Ltd
Canara Bank	HCL Technologies Ltd	L&T Financial Holdings Ltd	RBL Bank Ltd	Zensar Technologies Ltd
Care Ratings Ltd	HDFC bank Ltd	larsen & Toubro Ltd	Reliance Industries Ltd	ZF Steering Gear India Ltd
CDSL Ltd	HDFC Ltd	Larsen & Tourbo Infotech Ltd	Sadbhav Infrastructure Project Ltd	Zydus Wellness Ltd
Century Textiles and Industries Ltd	HEG Ltd	Laurus Labs Ltd	SAKSOFT Ltd	

Total Calls review: Closed Calls: 142 ; Average return: 61%; Average period: 162 days								
Stocks	Sector	Type	Call Date	Call Price	Target	Exit Date	No of Days	Total Return %
TATA Motors DVR	Automotive & Ancillary	BUY	8/3/2020	37	225	10/13/2021	436	508%
JSW energy	Energy, Oil & Petroleum	BUY	4/9/2021	88	388	9/30/2021	174	341%
TATA Motors	Automotive & Ancillary	BUY	7/7/2020	103	448	10/13/2021	463	335%
SAIL Ltd	Metals & Mining	BUY	7/9/2020	35	140	4/30/2021	295	300%
Dynamatic Technologies	Industrial Machinery & Products	BUY	2/16/2021	868	3175	4/13/2021	209	266%
IRCTC	Others	BUY	7/19/2020	435	4470	11/6/2021	352	225%
Nelco Ltd	IT	BUY	1/18/2021	208	63	9/28/2021	253	209%
First source solutions	IT	BUY	8/1/2020	54	150	6/3/2021	297	177%
Eclerx Services	IT	BUY	12/28/2020	894	2465	7/16/2021	262	175%
Tata Chemicals	Chemicals	BUY	11/19/2020	552	949	10/5/2021	320	170%
Indian Bank	BFSI	BUY	8/20/2020	64	170	10/18/2021	424	166%
Ashok Leyland	Automotive & Ancillary	BUY	6/27/2020	52	136	2/2/2021	220	162%
State Bank of India	BFSI	BUY	7/7/2020	185	470	9/17/2021	437	154%
Mindtree	IT	BUY	3/15/2021	1935	4857	10/14/2021	213	151%
NMDC limited	Metals & Mining	BUY	7/1/2020	81	203	5/12/2021	315	151%
Mangalore Chemicals	Chemicals	BUY	12/9/2020	42	99	3/5/2021	86	136%
HEG Ltd	Industrial Machinery & Products	BUY	12/23/2020	865	2010	4/2/2021	100	132%
Zee Entertainment Enterprises Limited	Media	BUY	8/4/2020	111	21	9/22/2021	414	126%
Graphite India	Industrial Machinery & Products	BUY	2/8/2020	285	630	4/3/2021	101	121%
Tata steel	Metals & Mining	BUY	12/28/2020	634	1391	7/2/2021	213	119%
Stove Kraft Ltd	Consumer Goods & Utilities	BUY	5/14/2021	490	1052	9/28/2021	137	115%
ONGC	Energy, Oil & Petroleum	BUY	10/19/2020	72	54	11/3/2021	382	114%
Wockhardt	Pharmaceuticals	BUY	1/19/2020	332	685	5/19/2021	181	106%
NALCO	Metals & Mining	BUY	7/9/2020	36	74	5/7/2021	302	106%
Eveready Industries India	Others	BUY	1/11/2021	199	401	8/3/2021	204	102%
Triveni Engineering & Industries Ltd.	Sugar	BUY	10/9/2020	78	153	5/10/2021	213	96%
GHCL Limited	Chemicals	BUY	9/7/2020	164	318	7/15/2021	311	94%
SRF limited	Chemicals	BUY	4/26/2021	6205	11723	11/8/2021	196	89%
Minda Corp	Automotive & Ancillary	BUY	1/5/2021	92	170	11/1/2021	300	85%
Welspun India Limited	Textiles	BUY	8/28/2020	57	105	7/6/2021	312	84%

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