

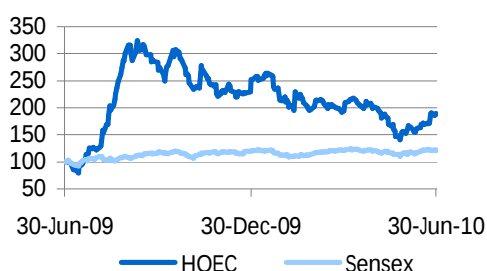
CMP Rs. 222

June 30, 2010

BSE Code	500186
BSE ID	HINDOILEXP
High/Low 1Y (Rs.)	399 / 93
Avg. vol (3m)	563,734
Market Cap (Rs Cr)	2,897
Net IB Debt (Rs Cr)	(162)
Enterprise value(Rs Cr)	2,735

Shareholding %	Dec-09	Mar-10
Promoters	47.18	47.18
MFs/ FIs/ Banks	1.61	1.62
FIIIs	4.38	3.97
Public & Others	46.83	47.23

Stock Chart (Relative to Sensex)



Stock Perfm.(%)	1M	6M	1Yr
Absolute	23.9	(25.2)	88.6
Rel. to Sensex	19.4	(26.5)	66.5

Financials (Rs.Cr)	03/08	03/09	03/10
Revenue	96	96	161
y-o-y	-21.1%	0.0%	66.6%
EBITDA	34	40	110
y-o-y	2084.3%	19.1%	171.2%
PAT	26	54	44
EPS (Dil.)	2.6	4.2	3.4
y-o-y	700.0%	58.3%	-19.4%
EBITDA Margin	35.2%	41.9%	68.2%
PAT Margin	26.7%	56.5%	27.4%
D/E(x)	0.15	0.12	NA
P/E(x)	84.1x	53.1x	65.9x
EV/EBITDA(x)	80.6x	67.7x	24.9x
ROCE	2.5%	2.4%	NA
ROE	2.5%	5.1%	NA

Financial Year ends at March 31

Qtry Fin	06/09	09/09	12/09	03/10
Revenue	29	13	33	79
PAT	12	(2)	10	21
EPS	1.0	(0.1)	0.8	1.6

All figures in Rs. crores except for per share data
Qtry fig. shows standalone results

Hindustan Oil Exploration Company Limited

Company Overview

Hindustan Oil Exploration Company Limited (HOEC) is engaged in the exploration, development and production of crude oil and natural gas, through its presence in major oil and gas fields in India. HOEC has participating interest in ten oil and gas fields in India (in Cambay basin, Cauvery basin, Assam Arakan basin, Pranhita Godavari and Rajasthan basin), which are in varying stages of the E & P life cycle i.e. exploration, development and production.

Key Business Highlights

HOEC successfully acquired interests in Rajasthan blocks

In consortium with Oil India, HOEC successfully acquired RJ-ONN-2005/1 and RJ-ONN-2005/2 blocks in the Rajasthan basin in December 2008. The exploration license was given by the Rajasthan government in July 2009 for a period of seven years. The company is the operator of Block RJ-ONN- 2005/1 and holds around 25 per cent working interest. Its other partners in this block include Bharat Petro Resources, IMC and Jindal Petroleum. On the other hand, the block RJ-ONN-2005/2 is operated by Oil India, where HOEC is the non operating partner of approximately 20 per cent working interest.

HOEC commences production from PY-1 gas field in Cauvery basin

HOEC started production from PY-1 gas field in the second half of FY10. The company holds 100 per cent working interest in this field. The 2P reserve is estimated at 247 bcf (billion cubic feet) (Source: ICRA Credit Perspective Report). The peak production rate of gas from the field is estimated at 90 mmscfd (2.54 mmscmd). It is expected that the company's production from the Cauvery basin will be substituted in the coming years from its presence in the PY-1 block as the expected production from the PY-3 field will continue to decline in the years ahead.

Development of Gulf "A" discovery approved by the Government

Directorate General of Hydrocarbons (DJH) has approved the development of Gulf "A" discovery in the Cambay basin in 2009, where the company holds non operating working interest of approximately 38 per cent. This field has a resource potential of around 11.34 mn barrels in the 10 years from the date of production. Moreover, the field is operated by ONGC.

Key Risks

- Decline in global crude oil and natural gas prices will affect the profitability of the company.
- Low exploration drilling success ratio can be a drag on the company's profitability.
- Dependence of profitability on oil production levels from PY-3 block, which is in a declining phase. Lower than expected reserves from PY-1 can affect the company's performance.

Valuations

The stock is currently trading at a P/E multiple of 65.9x on its FY10 EPS of Rs. 3.4 and 24.9x EV/EBITDA multiple based on FY10 EBITDA of Rs. 110 crores.

Business Description

Eni UK Holdings PLC holds a 47.18 per cent stake

Promoted in 1983 by Late Mr. H. T. Parekh, Hindustan Oil Exploration Company (HOEC) is a public limited company engaged in exploration, development and production of crude oil and natural gas in India through a mix of onshore and offshore assets. After a series of shareholding changes, Eni UK Holdings PLC along with its subsidiaries, Burren Shakti Limited and Burren Energy India Limited, holds a 47.18 per cent stake in the company. Eni UK Holdings PLC is a subsidiary of Eni S.p.A of Italy. The Company has a wholly owned subsidiary, HOEC Bardahl India Ltd, engaged in marketing of high performance fuel and engine additives.

Revenue Composition

HOEC has participating interest in ten oil / gas fields in India

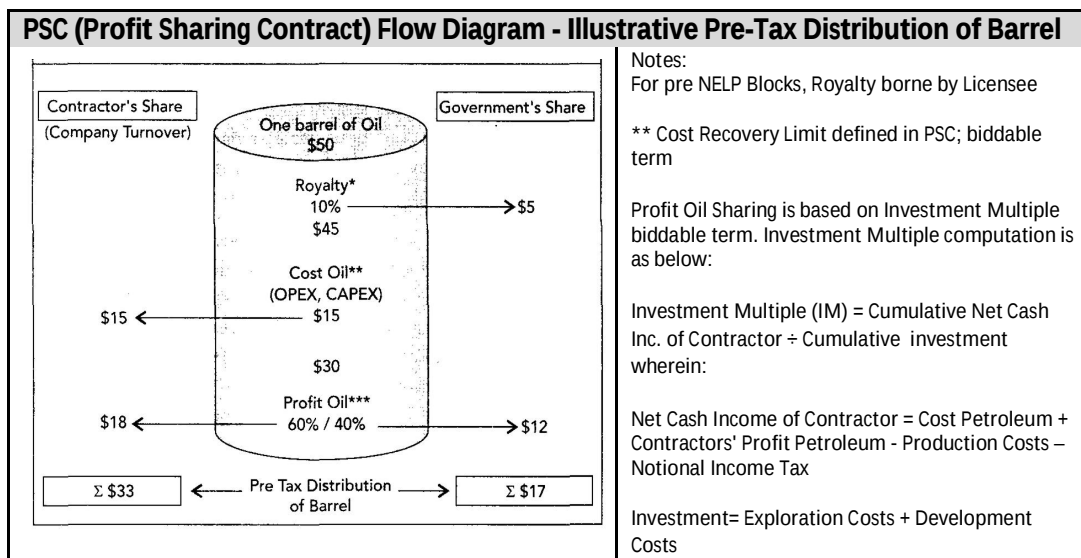
HOEC derives its revenue from the sale of crude oil, natural gas and oil additives. HOEC has participating interest in ten oil and gas fields in India (in Cambay basin, Cauvery basin, Assam Arakan basin and Rajasthan basin), which are in varying stages of E & P life cycle i.e. exploration, development and production. Out of the ten oil fields, eight oil and gas fields are obtained in Pre-NELP auctions in India. The company is also the operator in six of these Pre-NELP blocks. Further in December 2008, the company was awarded two blocks in Rajasthan under NELP VII with HOEC being the operator in one of the blocks.

Business Unit	Oil / Gas Block	Status	Operator	Exploration Share(%)	Development / Production Share(%)
Assam	AAP-ON-94/1	Appraisal	HOEC	40.32%	26.88%
Cauvery	CY-OS/90-1 (PY -3) PY -1	Production	HEPI	21.00%	21.00%
		Production	HOEC	100.00%	100.00%
Cambay	Asjol	Production	HOEC	50.00%	50.00%
	CB-OS/1	Development	ONGC	57.11%	38.07%
	CB-ON-7 (Palej)	Production	HOEC	50.00%	35.00%
	North Balol	Production	HOEC	25.00%	25.00%
Pranhita Godavari	GN-ON-90/3 *	Under Arbitration	HOEC	75.00%	75.00%
Rajasthan	RJ-ONN-2005/1	Exploration	HOEC	25.00%	25.00%
	RJ-ONN-2005/2	Exploration	OIL	20.00%	20.00%

Source: Company , * the contract area is subject matter of arbitration and the arbitration award is awaited

As of FY09, HOEC has proved and probable crude oil reserves of 53.4 mmboe on a working interest basis

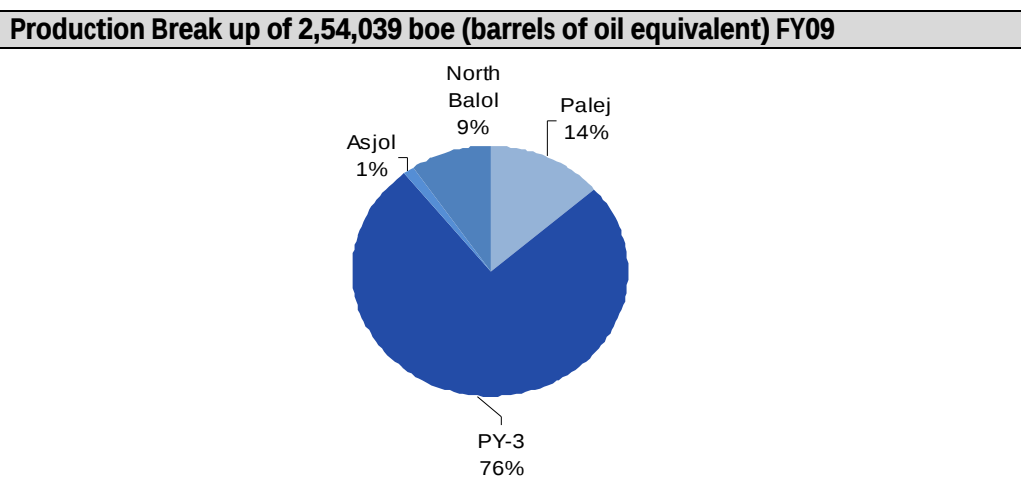
As of March 31, 2009, the proved and probable crude oil reserves (2P reserves) were approximately 53.4 mmboe (million barrels of oil equivalent) on a working interest basis (i.e. HOEC's share of production calculated by reference to the participating interest under the respective PSCs). According to ICRA credit perspective note, the PY-1 and PY-3 reserves together account for more than 90 per cent of the total reserves of the company and have been audited by independent agencies, namely, Gaffney, Cline and Associates (GCA) for PY-3 and Scott Pickford for PY-1.



Source: Company

For the year ended March 31, 2009, the production amounted to approximately 254,039 boe on a working interest basis which is a production of 698 barrels per day. In FY09, production at PY-3 block accounted for a significant share of the total production of the company. Production of the gas reserves discovered in PY-1, started in November 2009, and is likely to account for a significant share of production.

PY-3 block accounted for around 76% of the total production of 2,54,039 boe in FY09.



Source: Company

Operational Overview

Cambay Basin

HOEC is present in four blocks in Cambay Basin - three producing and one development basin

HOEC has presence in four blocks in the Cambay Basin. These blocks include Block Asjol, North Balol Field, Block CB-ON-7 and Block CB-OS/1.

Asjol Field is an oil producing block, where the company holds 50 per cent operated working interest. The field produced an average rate of approximately 20 bopd in FY09 with an aggregate production of 7,150 bbls.

North Balol Gas Field is operated by the company, in which it holds around 25 per cent working interest. North Balol Field produced 15,191,871 scm (standard cubic metres) of natural gas in FY09 with an average production rate of approx 41,622 scmd(standard cubic metres per day), up by 66 per cent over the FY08.

In the Block CB-ON-7 (Palej), HOEC has discovered two oil fields which include Pramoda Oil Field and SPD Oil Field. The company is the operator of both these fields in Block CB-ON-7 and holds around 35 per cent working interest in each field. The production from the block CB-ON-7 averaged approximately 267 boepd (barrels of oil equivalent per day). Production on net entitlement basis to HOEC averaged approximately 94 boepd in FY09, a decrease of 33 per cent primarily due to natural decline. During the financial year 2008-09, the SPD Discovery was hooked up for production to existing infrastructure in the CB-ON-7 block, with initial production being 100 bopd from SPD-1 well.

Under Block CB-OS/1, Gulf "A" prospect has been discovered, which is currently under the development phase.

Cauvery Basin

HOEC has presence in two blocks in the Cauvery basin, namely PY-1 and PY-3. PY-1 is the gas field and PY-3 is an oil field.

PY-3 Field: The company holds around 21 per cent non operating working interest in PY-3 field. The production from this field was affected during FY10 due to temporary shut down and natural declines due to more mature production from the asset. The average gross production from the PY-3 field decreased to approximately 2,563 bopd in FY09 from 3,573 bopd in the previous year. Production on net entitlement basis to HOEC averaged 538 bopd in FY09, as against 557 bopd in FY08, a decline of 3 per cent.

PY-1 Field: Most significant among these discoveries was the discovery of gas reserves in PY-1, a 75 sq. km. block located in the Cauvery basin with water depth of 40-250m and sizeable, recoverable natural gas (2P estimated at 247 bcf(billion cubic feet) (Source: ICRA Credit Perspective Report)). The company is planning to exploit the gas from the granitic fractured basement reservoir. The recovery rate is estimated at 74 per cent. The peak production rate of gas from the field is estimated at 90 mmscfd (2.54 mmscmd). The company's PY-1 block came online in 2009, and the company holds 100 per cent operated working interest in this block. The Natural Gas from PY-1 Field is supplied to GAIL (India) Limited. Pursuant to the Production Sharing Contract for PY-1 Field, Chennai Petroleum Corporation Limited (CPCL) is designated as the Government nominee for purchasing the condensate. It is expected that the company's production from the Cauvery basin will be substituted in the coming years from its presence in PY-1 block as the expected production from the PY-3 field will continue to decline in the years ahead.

Assam Blocks

Block AAP-ON-94/1: HOEC has successfully discovered Dirok gas prospect in consortium with its partners, IOC and Oil India. The company holds operated working interest of around 40.3 per cent in this prospect. The company is currently in the exploration/appraisal stage and expects to drill appraisal wells in this discovery in 2010.

Rajasthan Blocks

HOEC has presence in two Rajasthan Gas Blocks primarily in RJ-ONN-2005/1 and RJ-ONN-2005/2. Both these fields are exploratory fields.

HOEC is present in two blocks in Cauvery Basin which are currently producing: PY-3 and PY-1 block.

HOEC has discovery Dirok well in Assam which is currently in appraisal stage

HOEC is present in two blocks in Rajasthan which are currently in exploration stage

Growth Drivers

HOEC's assets are a mix of oil and gas potential with 90 per cent production coming from crude oil and 10 per cent from gas in FY09

- **Diversified mix of assets spanning across exploration, development and production phases:** Out of the nine oil/gas fields in India (in Cambay basin, Cauvery basin, Assam Arakan basin and Rajasthan basin), five blocks are in the production stage, two are in exploration stage with one each in development and appraisal stage. These assets provide the ability to replenish, add new reserves and strengthen the financial position of HOEC. As of March 31, 2009, the proved and probable crude oil reserves (2P reserves) were approximately 53.4 mmboe, and remained unchanged to last year. HOEC's assets are a mix of oil and gas potential with 90 per cent production emanating from crude oil and 10 per cent from gas in FY09.

Operating Indicators

Particulars	2005	2006	2007	2008	2009
2P Reserves (mmboe)	34	39.6	50.5	53.4	53.4
Add. to Reserves (mmboe)		5.6	10.9	2.9	0
Reserve Replacement Ratio (RRR)		12.2	21.7	8.4	NA
Annual Production (boe)	489,503	460,172	503,408	344,475	254,039
Reserve/ Production (years)	69.5	86.1	100.3	155.0	210.2
- Reserve Life Index					

Source: Company, mmboe: million barrels of oil equivalent, boe: barrels of oil equivalent

Reserve Replacement Ratio (RRR) is the reserves added during the year/Production of oil and gas during the year. It is a key measure of drilling and operating success. To sustain the company in future years, oil and gas produced must be replaced with newly discovered or purchased reserves. In FY09, there were no additions to the reserves. In FY09, production at PY-3 block accounted for a significant share of the total production of the company. The gas reserve discovered in PY-1, where production started in FY10, is likely to account for a significant share of production in the coming years.

Production in PY-1 (gas block) started in FY10, is likely to account for a significant share of production in the coming years

- **Production of PY-1 block to enhance the future revenue growth:** HOEC commenced the sale of natural gas from PY-1 Field on November 27, 2009 to GAIL and the sale of condensate on January 27, 2010 to CPCL. 2P reserves are estimated at 247 bcf and expected to be exploited over a 15-year period. The peak production rate of gas from the field is estimated at 90 mmscfd (2.54 mmscmd). The revenues from PY-1 should significantly scale up the turnover of the company in the medium term as APM gas prices are now at \$4.2 per million British thermal unit (mmBtu) (pre-royalty adjusted) from \$1.9 per mmBtu earlier.
- **Development of Gulf "A" discovery:** With the approval of development of the Gulf A Discovery in block CB-OS-1, the company is poised to add significant reserves and production from this field due to its huge resource potential.
- **Oil sale contract from CB-ON-7 fields (Palej):** With the revision of the fixed price contract for sale of oil to IOC, from retrospective effect, the company and its partners are poised to receive additional cash flows. On account of this agreement, the company will receive substantial cash in the form of arrears from

Gulf A discovery in block CB-OS-1 holds huge resource potential for the company

this price revision. The company has received Rs 12.58 crores for the year ended March 31, 2010 towards the said price revision.

HOEC is the operating partner in six of its nine fields in which it has participating interest

- **Operating Partners in six fields:** HOEC is the operating partner in six of its nine fields (excluding the GN-ON-90/3 which is under arbitration) in which it has participating interest currently. This helps the company to utilize its technical expertise and take strategic decisions for the development of the fields.
- **Controlling stake by ENI S.p.A, Italy is likely to provide technical, managerial and financial benefits to the company:** ENI is present in 70 countries with about 79,000 employees, operates in the oil and gas industry, power generation, marketing and oilfield services, construction and engineering. In these businesses it has a strong edge and enjoys a leading international market position.

New Business Initiatives

HOEC has discovered Dirok gas field in Assam and has two Rajasthan blocks in the last two years

- **Diversifying its asset base:** HOEC has been actively involved in finding new discoveries in order to diversify its portfolio and to grow its reserves and production from the newer assets. The company has discovered Dirok gas field in Assam and has two Rajasthan blocks (exploration phase) in the last two years. Currently, HOEC is focused on exploration segment. The focus is more on shale gas and coal bed source of energy.

Key Risks

- **Fluctuating crude oil and natural gas prices:** Any downtrend in global crude oil prices and natural gas will affect the profitability of the company.
- **Reserves and Drilling operations:** Future success of the company to a large extent depends upon its ability to find, develop or acquire additional oil and gas reserves. Success of its exploration, exploitation, and development program has a significant impact on the operations of the company. Exploration, development, and production activities may be subject to technical and other operational issues. This may cause a lower than expected output and higher operating expenses, leading to lower earnings.
- **Competition:** HOEC faces stiff competition from its peers in increasing its oil and gas reserves and employing advanced technologies to support its upstream business. These companies have significant access to oil and gas reserves in the areas in which HOEC operates which could affect the way the company does business.

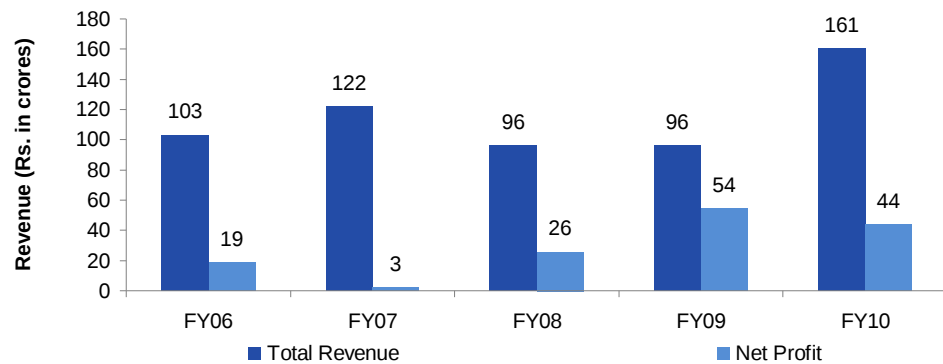
Profitability

Higher revenue on the back of commencement of PY-1 production in FY10

Higher revenue on the back of commencement of PY-1 production in FY10

HOEC's reported revenues have increased at a CAGR of 11.7 per cent over FY06-FY10. However revenue declined in FY08 and FY09 mainly due to the lower production in PY-3 block and increase in the government share of profit oil from 25 per cent to 40 per cent in PY-3 Block. The crude oil realisation has increased steadily from FY06 – FY09. The aggregate annual production has declined from 489,503 boe in FY05 to 254,039 boe in FY09 due to the lower production from PY-3 block. The net profit has been very volatile though the CAGR is at 23.9 per cent over FY06- FY10. This is due to the write-off on account of unsuccessful drilling and exploration activities.

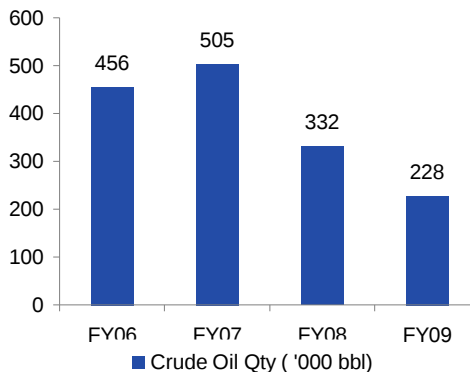
Revenue and Net Profit Trends



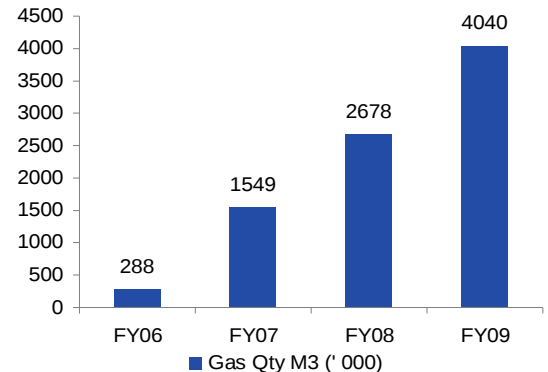
Source: Company

Crude oil quantity sales have declined from FY07- FY09, however the realisation per barrel has improved over the same period

Crude Oil Sales



Natural Gas Sales



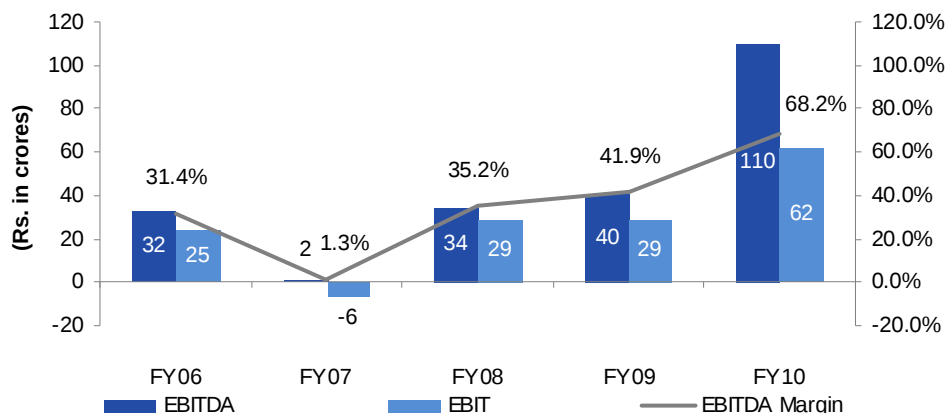
Source: Company

Margins show an improving trend

The margins of the company were low in FY06 and FY07 because of the expenses involved in unsuccessful exploration activities in AAP-ON-94/1 block and CY-OSN-97/1 block, which were written off due to the conservative SEM accounting policy followed by the company. In FY08, HOEC witnessed a write-off on account of unsuccessful drilling in AAP-ON-94/1 and an increase in the hire charges of its offshore production facilities in

PY-3 because of a renewal of contract. However, margins are showing an improving trend over the last few years.

Margin trends



Source: Company

Major Cost

Finding and development cost is an important indicator to gauge the efficiency of the oil and gas exploration companies. F&D costs/BOE expressed in terms of USD/ BOE is a unit measure of the total cost incurred to add and develop a barrel of new reserves to the point of production. The lower a company's F&D costs, the more profitable its oil and gas activities will be under a wider range of price environments. F&D costs are best measured over a period of years (3 year) to catch the inherent lag between capital spending and booking of reserves and to reduce distortions caused by one-time events. There was an increase in drilling expenses mainly on account of development activities in PY-1. While this led to an increase in reserves for HOEC, the unsuccessful exploration activities in CY-OSN-97/1 limited the returns of the FnD cost.

Finding and Development Cost

	2006	2007	2008
FnD/ BoE	2.6	5.4	12.7

Source: ICRA Credit Perspective Report

Competitor Analysis

HOEC is trading at a premium compared to its peer in the oil and gas exploration industry.

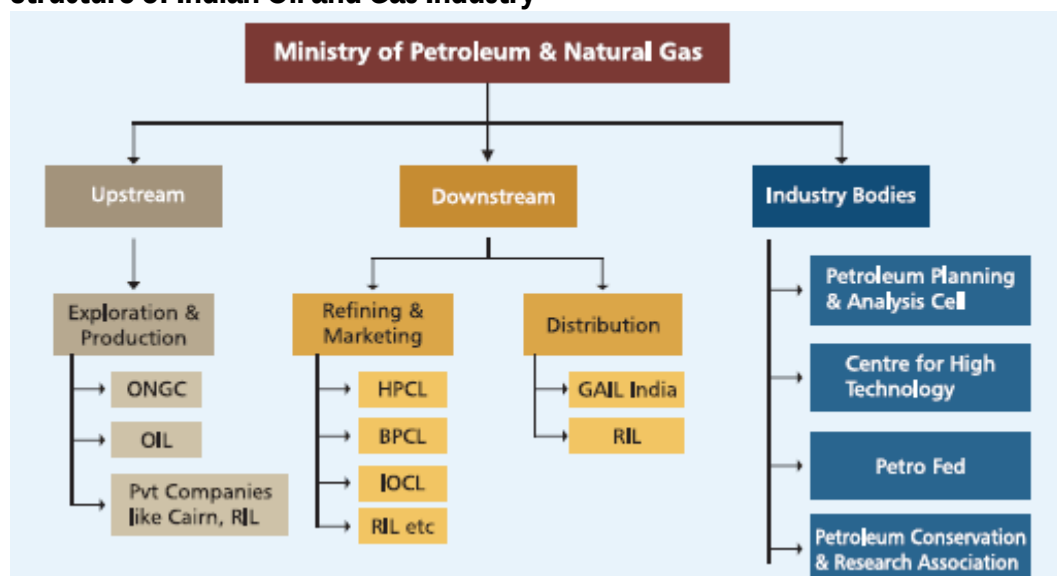
Particulars	CMP	M Cap	2P Reserves (FY 09) mboe	Revenue (FY 10)	EBIT Margin (FY 10)	P/E (FY 10)	EV/EBITDA (FY 10)	EV/2P Reserves
HOEC	222	2,897	53.4	161	38.8%	65.9x	24.9x	11.1x
ONGC	1320	282,416	10,080	107,066	29.0%	14.6x	5.7x	6.1x
Oil India	1450	34,860	974	8,860	44.0%	12.7x	6.2x	6.4x
Cairn India	304	57,593	815	2,031	50.8%	54.8x	47.0x	14.8x
Selan Exploration	386	597	73.6	74	62.8%	19.5x	12.0x	1.7x

Source: Company reports, BSE and Capitaline
Market cap and Revenue in Rs. crores

Industry Overview

Indian Oil and Gas industry is mainly divided into upstream (includes exploration & production) and downstream (includes refining & marketing and distribution) segments.

Structure of Indian Oil and Gas Industry



The upstream sector in India was traditionally dominated by the public sector, primarily ONGC and Oil India. However, since the liberalization of the sector from 1991-92, private companies such as Reliance Industries, Cairn India, and Hindustan Oil Exploration are increasing their footprint in this industry.

In FY08, only 22 per cent of the total area was moderately or well explored indicating the huge untapped potential for exploration

India's hydrocarbon potential is spread across 26 sedimentary basins spanning an estimated 3.14 million square kilometers of which 1.35 million square kilometers is in deep water while 1.79 million square kilometers is on land and in shallow offshore areas. For FY07-08, only 22 per cent of the total area was moderately to well explored, which by itself is an indicator of the untapped potential of the domestic upstream sector.

NELP Policy

India's E&P activities received a major thrust when the Government of India came out with the New Exploration Licensing Policy (NELP) in 1997-98, with the objective of institutionalising the bidding process for oil and gas blocks and providing a level playing field for all companies in the E&P segment. Under NELP, acreages are offered to the participating companies through the process of open competitive bidding. In the seven completed rounds of bidding (NELP I to NELP VII), 256 blocks have been allocated, entailing a total investment commitment of USD 10 billion. As of today, 68 oil and gas discoveries have been made in these NELP blocks, leading to a hydrocarbon accretion of around 600 million metric tonnes of oil equivalent

NELP Rounds	I	II	III	IV	V	VI	VII	VIII
No. of blocks offered	48	25	27	24	20	55	57	70
No. of blocks bid for	27	23	23	21	20	52	45	36
No. of bids received	45	44	52	44	69	185	181	76
No. of blocks awarded	24	23	23	20	20	52	44	36

Source: DGH, ICRA Report

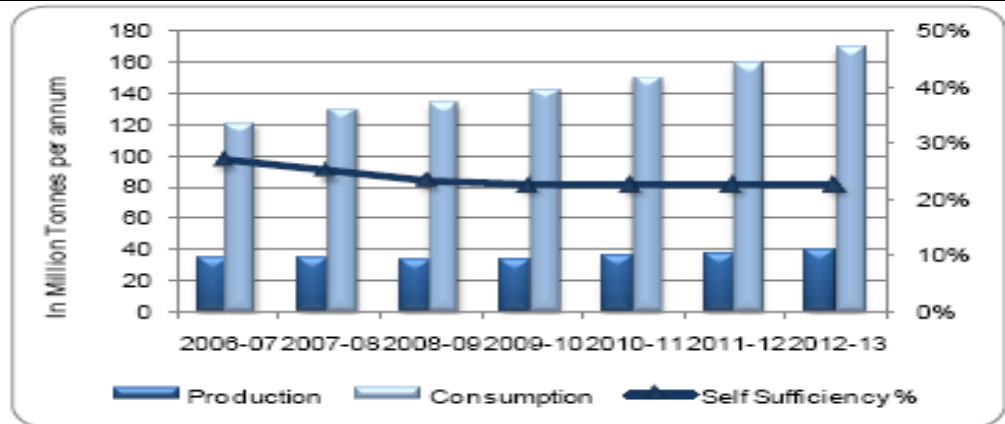
256 blocks have been allocated through the seven rounds of NELP bidding, entailing a total investment commitment of USD 10 billion

Domestic production of crude oil has been stagnant since 1998-99 while the demand has grown at a CAGR of 8.6 per cent

Demand supply mismatch favourable for the domestic upstream producers

India imported 81.6 per cent of its crude oil consumption of 157.1 million tonnes in 2008-09. During the period 1998-99 to 2008-09, demand for crude oil in the country increased at a CAGR of around 8.6 per cent, however the production has stagnated in the range of 32-34 million metric tonnes per annum. Further given India's targeted GDP growth, India's need for primary energy is likely to expand at substantial rate. As a result, domestic demand-supply levels are expected to continue favouring E&P firms in India over the long term.

Crude Oil Domestic Demand-Supply Situation

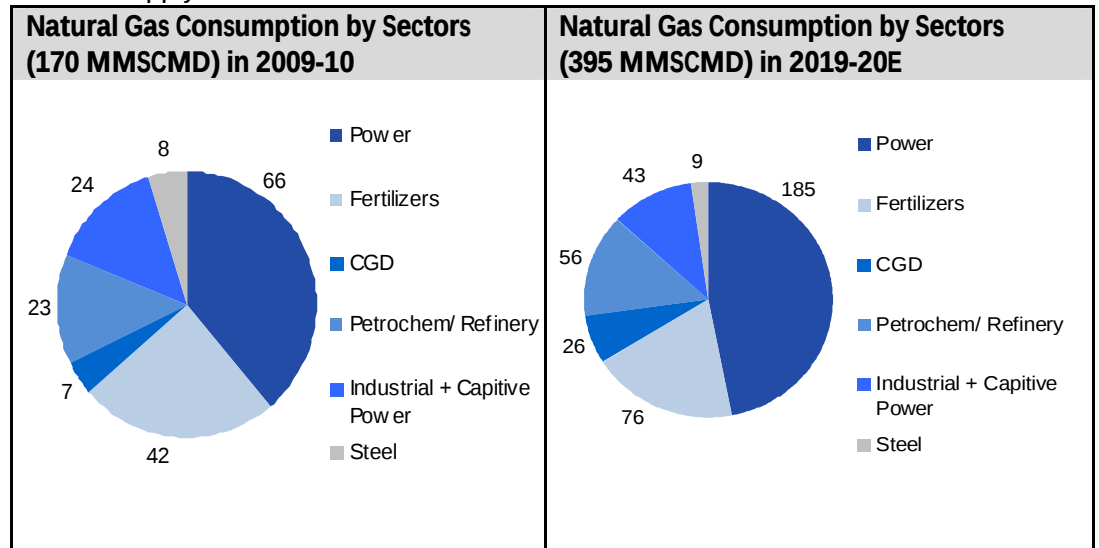


Source: Petroleum Planning and Analysis Cell (PPAC) and ICRA Estimates

The Indian natural gas market saw an unprecedented 65 per cent increase in gas supplies of 145 MMSCMD in 2009-10 from 87 MMSCMD in 2008-09 with the KG D6 field of RIL going into production. The actual consumption of natural gas was around 170 MMSCMD in 2009-10.

Going forward, ICRA expects domestic supply to increase to around 230 MMSCMD by 2018-19 against a demand expectation of around 390 MMSCMD by 2019-20. Power and fertilizer sectors will remain the largest consumers, provided natural gas prices remain competitive, since both the sectors are highly price sensitive. Thus, domestic gas producers should remain in a favourable position over the medium term on the back of demand-supply scenario.

Domestic gas producers should remain in a favourable position over the medium term on the back of sustained demand till 2020



Source: Industry, ICRA Report

Source: ICRA's estimates

The uptrend in oil and gas prices since 2004-05 has considerably enhanced the investment attractiveness of E&P projects

High crude oil prices to benefit the E&P players

E&P players have benefitted significantly from the higher realisation from the increase in the crude oil prices, although public sector companies have to share the subsidy burden imposed by the GOI. Average crude oil prices increased from a level of USD 42 per barrel (Brent Crude) in 2004-05 to USD 64 per barrel in the 1H of 2009-10 marked by a high degree of volatility. The uptrend in oil and gas prices has considerably enhanced the investment attractiveness and viability of E&P projects as is evident from the entry of private players and multinationals in the business.

ICRA's analysis shows that the capex plans have largely remained intact for domestic players, despite volatility in oil prices. A substantial portion of the capex in the domestic E&P sector is accounted for by the two public sector entities ONGC and OIL. In the first two years of the XIth Plan itself, ONGC invested more than Rs 394 billion in domestic E&P and integration projects, which is around 52 per cent of its total planned outlay.

Indian upstream companies have been increasing overseas presence in order to increase their reserves base

Increasing overseas acquisitions

During first half of 2010, Indian E&P companies were seen increasing their overseas presence in order to diversify their portfolio and increase reserve base. In addition to OVL, Reliance Industries has been actively focusing on overseas acquisition primarily in unconventional gas shales. Reliance Industries has successfully entered US shales by successfully acquiring interests in the Marcellus and Eagle Ford Shale in 2010.

Additionally, OVL has planned to increase its overseas oil and gas portfolio to 20 MMTPA of E&P assets by 2020. The company acquired Imperial Energy in January 2009, for \$12.1 Million, through which it acquired interests in oil producing blocks in the Tomsk region of western Siberia in Russia. The company further plans to invest around \$6.6 billion till 2012 to acquire overseas assets.

Private players set to play increasing role in domestic production

The role of the private sector share in production of oil and oil equivalent gas (O+OEG) is on an increasing trend with 13 per cent in the early 2000 to 18-19 per cent at present. The increase in production share of the private sector and joint ventures (JVs) is more pronounced in case of Natural gas (25 per cent) than for crude oil (14 per cent) in 2008-09.

PSU upstream companies to benefit from the hike in APM (administered pricing mechanism) gas price

PSU E&P companies to gain from hike in APM gas to USD 4.2/mmbtu

The government of India has approved a hike in the administered pricing mechanism (APM) gas price sold by Oil and Natural Gas Corp. Ltd (ONGC) and Oil India Ltd (OIL) from nomination blocks from Rs.3.20 per standard cu. m (scm) to Rs 6.82 per scm. Prices are now at \$4.2 per million British thermal unit (mmBtu) (pre-royalty adjusted) from \$1.9 per mmBtu earlier. ONGC and Oil India are the major beneficiaries. Total 55 MMSCMD of APM gas is supplied by both the companies. The gas price increase will lead to increase in the earnings of both the companies.

Summary Financials

Earning Statement

Particulars (Rs Crores)	FY06	FY07	FY08	FY09	FY10
Net Sales	100.5	126.6	96.3	98.7	155.7
Increase / (Decrease) in Stock	2.7	(4.4)	0.1	(2.2)	5.0
Total Income	103.2	122.2	96.4	96.4	160.7
<i>Growth (%)</i>		18.4%	-21.1%	0.0%	66.6%
Cost of Good Sold	(19.1)	(20.6)	(35.9)	(49.0)	(45.8)
Gross Profit	84.1	101.6	60.5	47.4	114.9
Employee Costs	(7.2)	(6.1)	(7.8)	(10.5)	(11.5)
Other Expenditure	(51.7)	(104.4)	(29.3)	(13.8)	(12.6)
Recovery of expenses	7.3	10.4	10.6	17.3	18.9
EBITDA	32.4	1.6	34.0	40.4	109.6
<i>Growth (%)</i>		-95.2%	2084.3%	19.1%	171.2%
Depreciation	(7.8)	(7.7)	(5.3)	(11.9)	(47.2)
EBIT Profit	24.6	-6.1	28.7	28.6	62.4
Net Interest expense	(2.2)	(5.6)	(7.6)	(10.4)	(8.1)
Other Income(expense)	5.5	13.2	20.5	46.5	14.4
PBT	28.0	1.4	41.6	64.7	68.7
Income Tax	(9.3)	1.2	(15.8)	(10.2)	(24.7)
Profit after Tax	18.7	2.6	25.8	54.5	44.0
<i>Growth (%)</i>		-86.1%	893.8%	111.4%	-19.2%
Extra Ordinary Items	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Share of P&L in Associate Co	0.0	0.0	0.0	0.0	0.0
Net Profit	18.7	2.6	25.8	54.5	44.0
<i>Growth (%)</i>		-86.1%	893.8%	111.4%	-19.2%
Reported Basic EPS	2.9	0.3	2.6	4.2	3.4
Reported Diluted EPS	2.9	0.3	2.6	4.2	3.4
DPS	1.0	0.0	1.0	0.0	0.0
Equity Capital	58.8	78.3	130.5	130.5	130.5
Face value	10.0	10.0	10.0	10.0	10.0

Ratio Analysis

Particulars (Rs Crores)	FY06	FY07	FY08	FY09	FY10
Margins					
Gross Margin (%)	81.5%	83.1%	62.7%	49.2%	71.5%
EBITDA Margin (%)	31.4%	1.3%	35.2%	41.9%	68.2%
EBIT Margin (%)	23.9%	-5.0%	29.7%	29.6%	38.8%
Net Profit Margin (%)	18.1%	2.1%	26.7%	56.5%	27.4%
Valuation					
EPS	2.9	0.3	2.6	4.2	3.4
BVPS	20.6	25.0	38.7	40.8	NA
P/E (x)	65.5	581.8	72.7	45.9	57.0
P/BV (x)	9.3	7.7	5.0	4.7	NA
EV/ EBITDA (x)	72.2	1507.7	69.0	58.0	21.4
EV/ Sales (x)	23.3	18.5	24.3	23.7	15.1
Profitability					
ROCE (%)	9.5%	NA	2.5%	2.4%	NA
ROE (%)	7.7%	0.7%	2.5%	5.1%	NA
Solvency Ratio					
Deb/ Equity Ratio (x)	0.07	0.34	0.15	0.12	NA
Interest Cover (x)	11.4	NA	3.8	2.7	7.7
Turnover Ratio					
Inventory T/o Days	383	403	256	344	NA
Debtors T/o Days	40	45	61	57	NA
Other Ratio					
Dividend Payout (%)	10%	0%	10%	0%	0.0%
Dividend Yield (%)	0.5%	0.0%	0.5%	0.0%	0.0%

Balance Sheet

Particulars (Rs Crores)	FY06	FY07	FY08	FY09
Sources of Funds				
Equity Capital	58.8	78.3	130.5	130.5
Reserves	183.8	313.2	880.5	933.4
Shareholders Fund	242.5	391.5	1011.0	1063.9
Long Term Debt	16.3	132.1	147.2	130.5
Total	258.8	523.6	1158.3	1194.4
Application of Funds				
Net Fixed Assets	185.5	43.2	38.1	103.8
Capital Work-in-Progress	0.0	274.5	402.2	1025.5
Investments	0.0	70.4	572.3	15.7
Deferred Tax Asset, Net	17.7	48.8	37.6	28.6
<i>Current Assets</i>				
Inventory	20.4	25.8	25.4	68.4
Sundry Debtors	11.1	20.5	12.1	19.3
Loans& Advances	10.7	32.9	56.6	60.5
Cash & Bank Balance	74.5	111.2	157.7	276.7
Other Current Assets	0.4	1.0	0.7	0.4
Total Current Assets	117.1	191.3	252.5	425.3
<i>Current Liabilities</i>				
Sundry Creditors	22.8	73.0	98.4	353.9
Provisions	35.6	30.2	43.6	34.2
Other Current Liabilities	3.0	1.4	2.4	18.1
Total Current Liabilities	61.4	104.6	144.4	406.3
Net Current Assets	55.6	86.7	108.1	19.0
Forex Translation Diff	0.0	0.0	0.0	1.7
Miscellaneous Exp not W/Off	0.0	0.0	0.0	0.0
Total	258.8	523.6	1158.3	1194.4

Cash Flow

Particulars (Rs Crores)	FY06	FY07	FY08	FY09
CF from Operating Activities				
Profit Before Tax	28.0	1.4	41.6	64.7
Depreciation	7.8	7.7	5.3	11.9
Direct Taxes paid	(15.9)	(28.2)	(15.7)	(5.2)
Others	39.2	85.4	4.1	-30.8
Change in Working Cap	(27.9)	17.1	23.7	216.0
CF- Operating Activities	31.2	83.4	59.0	256.5
CF from Investing Activities				
Change in Fixed Assets	(50.9)	(2.3)	(1.0)	(7.2)
Development Expenditure	0.0	(145.1)	(96.2)	(646.6)
Exploration Expenditure	(29.8)	(85.6)	(44.8)	(15.2)
Investment Income	5.0	10.8	17.3	42.6
Others	9.5	0.0	0.0	0.8
CF- Investment Activities	(66.1)	(222.2)	(124.7)	(625.6)
CF from Financing Activities				
Increase in Equity	0	148.8	61.1	0.0
Changes in Borrowings	(11.2)	117.1	18.4	(34.9)
Dividend Paid	(6.6)	(6.9)	0.0	(15.3)
Others	(3.4)	(16.7)	533.9	(15.2)
CF- Financing Activities	(21.2)	242.4	613.3	(65.4)
Net Change in Cash	(56.2)	103.6	547.7	(434.5)
Opening Cash & Bank Bal	104.7	48.5	151.4	699.1
Closing Cash & Bank Bal	48.5	152.6	699.52	264.6

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