

Asian Oil Fields - My Analysis Sep 15, 2020

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1 BUSINESS ANALYSIS

1.1 About Asian Oilfield Services

Asian Oilfield Services Limited is an India-based oilfield services company. The Company specializes in a geophysical range of onshore seismic and drilling services, including acquisition, imaging and field evaluation. The Company's segment is Seismic data acquisition and its related services. Its products and services also include directional drilling and drilling services, formation evaluation and well testing.

The Company offers two dimensional (2D) and three dimensional (3D) seismic data acquisition, processing and interpretation, topographic survey, continuous core drilling for mineral and coal bed methane (CBM) exploration, wire-line logging and directional core drilling to target shallow horizons. The Company also provides specialized high technology services to oil and gas companies for targeted applications. The Company's mineral exploration services include geophysical logging for mineral industry and integrated geological studies for mine planning and mineral exploitation.

1.2 Key Developments

- * On 22nd November 2016 – company was taken over by Oilmax Energy Private Ltd & holding 57.81 % stake in the Company As of March 2017.
- * On 27/12/2016 – company approved Additional Issue Of 50 Lac Warrants To Promoter Oilmax Energy Pvt Ltd At Rs 80/- Also Allotted 45 Lac Convertible Equity Warrants To Balram Chainrain @ Rs 80/-.
- * On December 27 2016 – about receipt of a binding Letter of Intent (LOI) for contract of approximately \$57 million for providing O&M services for 3 years. The above contract of \$95 million for a total period of 5 years (inclusive of client options) is for the same LOI. Asian Oilfield & Energy Services DMCC has also entered into an agreement to acquire 99.99 per cent shareholding of Ivorene Oil Services Nigeria (a company registered under Nigeria) to provide local support for this O&M contract.
- * On 17th January 2017- company received letter of award of contract from Oil India for an estimated contract value of Rs 142.86 crore. In a BSE filing, the company said that that the order is for 2D Seismic data acquisition in Manipur (Area-1) from the unappraised areas of North East India.
- * On 23rd February 2017 – company informed bourses that its wholly-owned subsidiary, Asian Oilfield & Energy Services DMCC, Dubai, has signed a contract for providing operations and maintenance services (O&M) for an offshore production unit operating at EBOK field offshore Nigeria. The total value of contract is about \$95 million for a total period of 5 years.
- * On 24th March 2017 – company announced that it has received a letter of award (LoA) of contract worth Rs 108.97 crore from ONGC. The Company in its filing to the bourses

said that the LoA is for the 2D seismic data acquisition in unappraised on land areas of sedimentary basins of India for Sector 6 (Ganga), and the contract is worth Rs 108.97 crore.

* On 25th April 2017 – Asian Oilfield Services Limited has recently completed the mobilization of crew and equipment of two more contracts totalling Rs 111 Cr approximately. The excerpts of the contracts as per the company's report filed at the BSE is as follows:

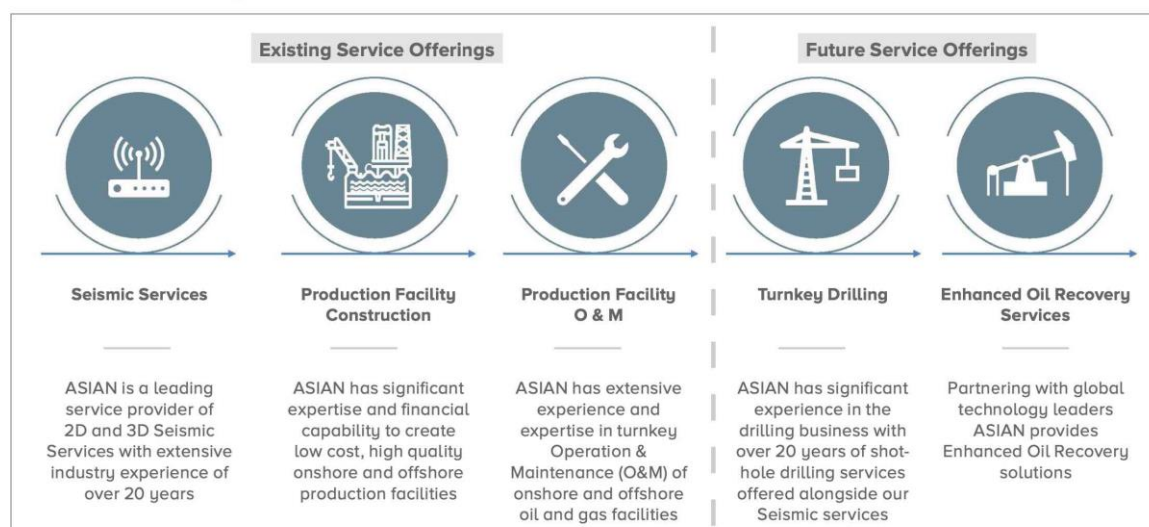
Name of the client, Location & Total approximate contract value :

* Oil India Limited, North Cachar Hills, Assam – Rs 63.75 Cr

* Bashneft International, BV Netherlands Myanmar- Rs 47.25 Cr

1.3 Services

AOSL service offerings



Source: Company

1.4 Technical Collaboration

AOSL has technical collaboration with **Geophysical Institute of Israel (GII)**, an Israeli state owned geophysical company since 2002. It has expertise in seismic services. In addition, it provides a full range of related geophysical services, such as innovative seismic processing services and software development to companies, institutions and countries in the Mediterranean, Asian and African areas.

Both AOSL and GII have worked together on multiple seismic contracts. Between AOSL and its partner GII they have an experience over 2000 GLKM (Ground Line Kilometre) of 2D surveys and over 1400 Sq. KM of 3D surveys.

This collaboration has helped AOSL to exchange knowledge with GII, which strengthens the Company's insight into the 3D technology. Along with technical assistance, GII also provides state of art equipment to AOSL to carry out the seismic survey.

1.5 Global Presence

1. India
2. Iraq (Kurdistan, Baghdad)
3. Nigeria
4. Myanmar
5. Indonesia
6. UAE (Dubai)

1.6 Market Outlook

With the Indian Government's recent unveiling of the National Seismic Program (NSP) to appraise the country's reserves, the Indian seismic market has been expanded greatly with ~Rs 5000 Crore of work on offer up to March of 2019.

With reduced competition in the seismic space, and many major players being saturated with work, ASIAN should see an increase its market share and margins in the coming years.

With ASIAN being the only company to offer 3D wireless seismic technology in the Indian market, we hope to be the most attractive option to potential customers who are looking to work in harsh environments. We have extensive work experience in a host of challenging terrains, all the way from deserts in Kurdistan to the wet, hilly, forests in Assam.

The future for the O&M vertical look promising, with extensions on our current orders and negotiation for more orders currently in the works. Even in a low oil price scenario, ASIAN should continue to see growth in the O&M vertical, as we specialize in being low-cost operators.

Expansion into offering other services like EPC, drilling, and decommissioning, is strategically focused on de-risking ASIAN's revenue streams. Moreover, it allows ASIAN to offer low-cost integrated management solutions to the Indian and international market.

1.7 Order Book

Asian secured Rs 640-crore seismic data acquisition work

Mumbai, December 14th, 2019: Asian Oilfield Services Limited ("Company") has received a Letter of Award (LOA) for acquisition of 20 and 30 seismic data of oil blocks located in Rajasthan and Gujarat State from a reputed oil and gas company in India. The total value of the LOA received is about Rs. 640 crore (inclusive of GST).

The term of LOA is two years. The Company will perform services pursuant to issuance of call out notice for respective block/area. The actual volume and value of work along with duration will be subject to issuance of call out notice.

The Company has accepted the LOA and is in process of finalizing the terms & conditions for signing the contract post this issuance of LOA.

Post the current award, our executable order book crosses about Rs. 1,400 crore giving us robust revenue visibility for FY21 & FY22.

1.8 Growth Drivers

Huge opportunities in the domestic seismic survey; Diversification in O&M and construction of oil and gas facilities to de-risk earnings from a cyclical nature of the seismic business: A large part of India's 26 sedimentary basins covering ~3.14 million square kms of area is yet to be explored fully by E&P companies. Additionally, OALP provides significant opportunities (estimated at Rs. 1,500 crore) for seismic survey. Moreover, privatisation of the coal sector would bring new opportunities (estimated at Rs. 1,500 crore) for seismic surveys. Hence, we see ample scope of new order inflows for AOSL from domestic 2D and 3D seismic survey market. Moreover, diversification into construction of oil and gas facilities and operations & maintenance services with focus on the overseas market would de-risk its business from cyclical nature of seismic business.

1.9 Customers



Company's Customers includes following:-

1.10 Competition

Limited competition exist in seismic services Industry in India.

The Indian market size of Seismic services is estimated to be over Rs. 8,000 Crs which is to be executed over the next 4-5 years and it is expected to grow by 50%.

It's only competitor, Alphageo has bagged so many orders that for the next few years they Will Be operating at there full capacity & won't be In a state to take new big orders. Now Asian Oilfields & Alphageo are only two companies into 2D And 3D Seismic Survey.

2 FINANCIAL ANALYSIS

2.1 5-Year Financials

	March-16	March-17	March-18	March-19	March-20
Sales	77.67	124.32	222.22	193.86	273.04
OPM%	-30%	-15%	14%	17%	24%
PAT	-27.06	-18.2	10.3	9.1	29.24
NPM%	-34.84%	-14.64%	4.64%	4.69%	10.71%
D/E	10.95	2.45	0.20	0.07	0.00
CFO	-1.11	-18.22	27.33	26.93	89.08
FCF	-8.29	-21.34	-6.4	21.08	65.77
SSGR	-45%	-44%	-41%	-23%	-4%
EPS	-12.12	-6.98	2.71	2.39	7.68
BVPS	4.51	12.96	36.91	39.92	47.66
Earning Yield	-40%	-3%	1%	4%	11%
ROE	-115%	-83%	12%	6%	18%
ROCE	-12.59%	-8.72%	11.83%	9.02%	25.33%
ROIC	-9.09%	-5.56%	8.10%	5.41%	16.27%
ROA	-8.93%	-5.43%	7.29%	6.33%	16.53%
Interest Coverage Ratio	-2.18	-1.58	4.71	14.22	108.42
Net Cash Flow	5.48	19.87	-18.87	-7.26	60.99
Cash in Bank plus Investments	9.66	29.14	24.57	25.19	81.98

The company has done extremely well in last 5 years and has grown with good diligence.

Since SSGR is low compared to its high growth rate, it is possible that the company will issue additional shares/rights issue or take in additional debt in next 2 years (FY 2023)

2.2 Credit Rating

This has been withdrawn by Crisil. The Company is now zero debt and does not require ratings

3 MANAGEMENT ANALYSIS

3.1 Promoter Quality

Promoter Quality is Extremely Good. Oilmax Energy Pvt Ltd Is Closely Held By 2 Individuals Mr Kapil Garg And Rabi Bistia. Mr Kapil Garg Has Been Managing Director At British Gas India Pvt Ltd Since 2007. Has very good experience In both upstream & downstream business. He Started his Career In Ongc & held various positions In Areas Of Operations Mr Garg Holds A Master's Degree In Chemical Engineering From IIT,Roorkee. Mr Rabi Bistia is a reputed personality In the Hydrocarbon Industry. Dr Bistia contribution In exploring For hydrocarbon In deep water area of India Is commendable He Has Immensely Contributed In Major Hydrocarbon Discoveries Of 2002 In Krishna Godaveri Basin(KG BASIN). In The Recognition To His Outstanding Contribution In The Field Of Science Govt Of India Has Awarded Him Padma Shree Award.

3.2 The New Management

Since its acquisition in mid-2016 by Oilmax Energy, ASIAN is now run by a very highly qualified management team composed of industry veterans and pioneers, with an average experience of over 35 years working in the industry. Find out more about our illustrious management team.

Being an Oilmax company, allows ASIAN to leverage existing capabilities in other areas of the value chain to expand its suite of services, while still maintaining the rigorous standards of quality and performance that ASIAN strives to maintain for its seismic services.

As previously mentioned, the company's focus under the new management team is to be low-cost operators. Going forward, ASIAN intends to cut its costs by focusing on major reductions in non-project related expenses like corporate overheads and G&A, restructuring of existing project costs, and strategically leasing and subcontracting where needed.

Under the guidance of its new management team, ASIAN aims to switch from a capital-intensive business model to one in which it avoids owning assets where possible, to keep its capital risk as low as possible, going forward.

New promoter has cleaned up the balance sheet and turnaround operations. Become profitable from loss making; Balance sheet strengthened with net worth of Rs. 163 crore in 9MFY2020 from just Rs. 10 crore in FY2016.

Oilmax Energy Private Limited had acquired majority stake in AOSL in FY2017 and infused funds through shares and warrants into the company. Post taking control, the new promoter has cleaned up the balance sheet with retiring high-cost debt (declined to just Rs. 4 crore in FY2019 as compared to gross debt of Rs. 75 crore in FY2017) and net worth increasing to Rs. 163 crore in 9MFY2020 versus only Rs. 10 crore in FY2016). With this,

AOSL has net cash of Rs. 52 crore as on December 31, 2019, as compared to net debt of Rs. 46 crore in FY2017. Additionally, AOSL has also won several new orders in the past 2-3 years and has diversified into services for construction of oil and gas facilities and operations and maintenance contracts from predominantly a seismic service provider. With strong execution, the new management has turnaround its operations with PAT of Rs. 19 crore in 9MFY2020 compared to loss of Rs. 27 crore in FY2016. The company targets to have maximum exposure of 25% to a single business segment and geography by FY2023E-FY2024E, which is expected to remove the cyclical nature of earnings to some extent.

3.3 Financial Turnaround

ASIAN achieved profitability for the fourth quarter and the full year ended 31 March 2017, on a standalone basis. It achieved profitability in Q4 on a consolidated basis also.

After its acquisition, ASIAN's new promoters aimed to reduce the its debt-to-equity ratio, through repayment of corporate loans and outstanding liabilities, and to get rid of any deadweight, by selling off any non-strategic assets, to clean up its balance sheet.

Significant reduction in consolidated debt of nearly 25% from Rs. 110 Crores in FY 16 to Rs. 83 Crores in FY 17. Hence, the consolidated Debt-to-Equity Ratio improved significantly from 11x in FY 16 to 1x in FY 17.

With Rs. 29 Crores of consolidated free cash and bank balance, in FY 17 the company's net debt stands at just Rs. 54 Crores compared to Rs. 100 Crores of debt in FY 16, a reduction of 47%. Furthermore, with Rs. 37 Crores of the remaining Rs. 54 Crores being from the promoter Oilmax Energy itself, ASIAN is virtually debt-free compared to last year.

Last year saw a 700% increase in consolidated net worth, from Rs. 10 Crores to Rs. 82 Crores, and a 300% increase in consolidated cash and bank balances, from Rs. 15 Crores to ~Rs. 62 Crores.

This is evident from last 5 year financials

3.4 Insider Share Purchase/Sale

Insiders have purchased shares in last 12 months.

No one has sold the shares in last 12 months.

4 VALUATION ANALYSIS

Valuation Method	intrinsic Price	Safety Margin
Simply wall street	644	82%
Mojo	200	45%
Graham Original	69	-37%
DCF Method	200	45%
EPS with PE Growth	128	14%
EPS without PE growth	100	-9%

5 RISK ANALYSIS

1. Dependency on couple of large customers
2. Movement to cleaner energy sources

6 SUMMARY OF COMPANY ANALYSIS

The Company has performed extremely well with quality, strong and prudent management team.

The company has improved almost all its financial parameters.

The growing OPM% shows a good moat.

The company is in unique position to eat into the orders of its competitors.

The zero debt along with increase in OPM, Net profit & EPS indicates a sure sign of creating considerable shareholder value that will reflect into the pricing within 1 to 2 years.

The company is in a strong position to give dividends wither in FY 21 or FY 22 that will increase the price considerably.

Also institutions hold only 1.3%; if institutional enter the fray, the PE will shoot up giving a substantial price movement.

Its main competitor Alphageo is a loss making company with poor financial metrics but still the price is higher than Asian Oil Fields.

The market will discover its true value within 12 months.

-Kaushik Mazumdar