

Price: 174

Recommendation: Buy

Industry: Oil Exploration

Sector: Energy

Report Date: 03-Apr-2025

Hindustan Oil Exploration Company (HOEC) is strategically enhancing production and expanding its operational footprint. Focusing on the B-80 and Dirok fields, HOEC has increased production significantly. The company is diversifying through new initiatives, securing environmental clearances, and exploring offshore opportunities. With a Rs. 1000 crore capital plan, HOEC aims for sustainable growth, despite challenges in regulatory approvals and market dynamics.

Sales		Profit & Loss		Profitability Matrix	
Current Year	389 Cr	Operating Profit(Year)	42.6 Cr	Operating Profit Margin	11.0 %
Previous Year	381 Cr	Operating Profit(Quarter)	8.80 Cr	EBITDA Margin	33.68 %
Current Quarter	63.3 Cr	PAT (Year)	81.3 Cr	Net Profit Margin	17.5 %
Previous Quarter	47.4 Cr	PAT (Quarter)	4.93 Cr	EPS	2.76
Revenue (QYoY)	95.0 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	62.9	Sales Growth	-0.95 %	Sales Growth	33.54 %
PEG Ratio	-5.91	PAT Growth	-49.81 %	Sales Growth QYoY	-33.37 %
EV/EBITDA	30.0	EPS Growth	-56.54 %	PAT Growth	344.14 %
P/B	2.22	Dividend Yield	0.00	PAT Growth QYoY	2.28 %
Capital Allocation		Holdings		Leverage	
RoE	8.37 %	Promoter	0.00 %	Debt/Equity	0.06
RoA	5.28 %	FII	1.40 %	Debt	61.8 Cr
RoCE	9.07 %	DII	0.34 %	Market Cap	2296 Cr
RoIC	9.84 %	Public	98.2 %	Enterprise value	2273 Cr
		No of Shares	13.2 Cr	Cash Equivalents	85.7 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Hindustan Oil Exploration Company (HOEC) outlined several strategic initiatives and business strategies aimed at enhancing production and expanding their operational footprint. The company is focusing on increasing production from its existing fields, particularly the B-80 and Dirok fields. The B-80 field has shown significant growth, with production reaching 88,073 barrels of oil and 0.6292 bcf of gas in the current quarter, compared to 58,000 barrels of oil and 0.38 bcf of gas in the previous quarter. This increase is attributed to continuous production and improved offtake. The company is also planning to activate the Dirok-4 well and has completed a Pre-Stack Depth Migration study to target deeper sands, indicating a strategic focus on maximizing output from existing assets.

HOEC is also pursuing diversification and expansion through new initiatives. The company has secured environmental clearances for the North Balol and Asjol fields in the Cambay region, and plans to commence drilling as soon as partner approvals are obtained. Additionally, the company is awaiting the award of the DSF Special Bid Round 2024 for Block B-15 in Mumbai offshore, which is expected to enhance their offshore capabilities. The company is also exploring opportunities in the Greater Dirok area, with plans to extend the block for another year to complete the committed work program. These initiatives reflect HOEC's commitment to expanding its resource base and enhancing production capabilities.

Looking ahead, HOEC is optimistic about its growth and scaling prospects. The company has outlined a capital expenditure plan of Rs. 1000 crore, with a significant portion allocated to offshore projects. The company aims to achieve a consolidated revenue of Rs. 1000 crore by FY26, driven by the full potential of the Dirok field, continuous production from B-80, and additional wells in Kharsang. The company is also focused on maintaining a net debt position of zero, leveraging its strong EBITDA margins to fund growth initiatives without incurring significant debt. This financial strategy positions HOEC well for sustainable growth and value creation.

While the company's strategic initiatives and growth prospects are promising, there are areas for improvement. The company faces challenges related to regulatory clearances and environmental approvals, which have delayed some projects. Additionally, the company must navigate market-driven gas production dynamics and demand constraints, particularly in the Dirok field. Addressing these challenges will be crucial for HOEC to fully realize its growth potential. Overall, HOEC's strategic focus on production enhancement, diversification, and financial prudence bodes well for its future, but careful management of external challenges will be key to achieving its ambitious targets.

HINDOILEXP Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Selan Expl. Tech	867.46	12.30	8.70%	-7.17%	46.84%	-13.39%	206.80%
Oil India	62892.76	8.55	18.01%	15.04%	-13.29%	-33.60%	-42.98%
Guj.Nat.Resour.	402.28		-3.49%	-23.09%	-29.57%	-157.50%	84.72%
Deep Industries	3203.20	20.69	8.73%	18.53%	47.89%	13.54%	60.51%
O N G C	306141.09	7.74	16.26%	4.91%	-0.75%	-12.72%	-17.97%

Aspect	Commentary
Revenue	The company's revenue shows a slight increase from the previous year, indicating stable performance. However, the quarterly revenue growth is more pronounced, suggesting a positive trend in recent months. This could be attributed to strategic initiatives or market conditions favoring the company's operations.
Profit & Loss	The operating profit remains strong, but the year-on-year PAT shows a significant decline, indicating potential challenges in cost management or market conditions. The quarterly PAT, however, suggests a recovery, possibly due to improved operational efficiencies or favorable market dynamics.
Profitability Matrix	The company's profitability metrics indicate a healthy operating profit margin and EBITDA margin, suggesting efficient cost management. However, the net profit margin is moderate, which may reflect higher expenses or lower revenue growth. The EPS is stable, supporting investor confidence.
Valuation Matrix	The valuation metrics reveal a high trailing P/E ratio, indicating market optimism or overvaluation. The negative PEG ratio suggests potential growth concerns. The EV/EBITDA is high, reflecting market confidence in future earnings. The P/B ratio is moderate, indicating fair valuation.
Growth (YoY)	Year-on-year growth metrics show a decline in sales and PAT, indicating challenges in maintaining growth momentum. The negative EPS growth further highlights potential profitability issues. The absence of dividend yield suggests a focus on reinvestment or cash conservation.
Growth (QoQ)	Quarter-on-quarter growth metrics are positive, with significant sales and PAT growth, indicating a strong recovery or seasonal factors. The QYoY sales decline suggests underlying challenges, but the PAT growth indicates improved profitability or cost management in the short term.
Capital Allocation	The company's capital allocation metrics show moderate returns on equity and assets, indicating efficient use of capital. The return on capital employed and invested capital are healthy, suggesting effective capital management strategies. The focus on maintaining a strong balance sheet is evident.
Holdings	The holdings structure shows a high public shareholding, indicating broad market participation. The low promoter and institutional holdings suggest limited insider confidence or strategic interest. The number of shares is stable, supporting liquidity and market stability.
Leverage	The company's leverage metrics indicate a low debt-to-equity ratio, reflecting prudent financial management. The moderate debt level and strong market capitalization suggest a solid financial position. The cash equivalents provide liquidity, supporting operational and strategic flexibility.

Analyst viewpoint: Hindustan Oil Exploration Company (HOEC) has shown a robust quarter-on-quarter growth with a 33.54% increase in sales and a notable 344.14% rise in profit after tax. This performance is supported by strategic capital allocation, aiming for a zero net debt position while maintaining strong EBITDA margins, which reflect financial prudence and capability for sustained growth. The company's strategic focus on enhancing production from its key B-80 and Dirok fields and diversifying into new projects underscores its potential to generate increased revenues and expand its operational footprint in the short to mid-term. Additionally, the company's valuation metrics, including a P/E of 62.9, underscore market confidence, supported by efficient cost management and robust financial strategies.

While HOEC's ambitious growth plans and strategic initiatives are promising, it's worth noting the challenges presented by regulatory and environmental clearances, which have impacted the timeline of certain projects. Despite these hurdles, the company's capital expenditure plan of Rs. 1000 crore and focus on maximizing output from existing assets position it well for future value creation. With a strong emphasis on production enhancement and diversification, we remain optimistic about HOEC's ability to achieve its ambitious revenue targets and continuously improve its market position.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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