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December 19, 2007

Oil Allied Services: Huge opportunity ahead

Sector: Oil Allied Services

Shiv Vani Oil & Gas Exp Services Ltd

Rating:	BUY
CMP (Rs):	585
Target price (Rs):	674

Alphageo India Ltd

Rating:	BUY
CMP (Rs):	751
Target price (Rs):	916

Asian Oilfield Services Ltd

Rating:	Not Rated
CMP (Rs):	275

India Infoline Research Team

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Rising E&P spend to warrant increased demand for support services

Strong economic growth in India has warranted a strong demand for oil and natural gas in the country. With India importing more than 70% of crude oil requirements and starved for natural gas, investments in exploration activities of the companies have increased considerably. Government of India, through six rounds of NELP has attracted commitments of more than US$12bn.

Off late, impetus for onshore blocks have increased and in the seventh round of National Exploration Licensing Policy (NELP), government has offered 57 blocks of which more than 50% are onshore blocks as compared to only 38% offered so far. These activities would unfold huge opportunity for onshore support service providers like Shiv Vani Oil and Gas Exploration Services Ltd (SVL), Alphageo India Ltd (AGIL) and Asian Oilfield Services Ltd (AOSL).

Shiv Vani Oil and Gas Exploration Services Ltd

SVL is the largest integrated player in the Indian onshore E&P service space with 25 drilling rigs and 10 sets of seismic crews. The company is expanding its fleet base to 32 rigs. It has ventured into CBM integrated services with a contract from ONGC. The current order book of the company is at Rs34bn as compared to CY06 sales of Rs5bn. We maintain BUY on the stock with a target price of Rs674.

Alphageo India Ltd

One of the leading seismic survey operators for onshore E&P fields, AGIL is upgrading its crew to make them capable of conducting 3-D seismic surveys. The company has also plans to add one more crew to the fleet. The current order book is at Rs1.8bn compared to FY07 sales of Rs500mn. We maintain BUY on the stock with a target price of Rs916.

Asian Oilfield Services Ltd

AOSL is another leading service provider for onshore seismic survey. It is in the process of acquiring two additional crew capable of conducting 3-D seismic survey. It also has plans to acquire a CBM rig and is scouting for acquisitions, which could trigger a strong revenue growth for future. The current order book with the company is Rs1.6bn as compared to sales of Rs250mn in FY07.

Valuation summary

		Sales (Rs mn)	Growth yoy (%)	OPM (%)	PAT (Rs mn)	Growth yoy (%)	EPS (Rs)	P/E (x)
SVL	CY06	2,768	25.2	35.0	371	75.4	11.6	50.5
	FY08E	5,646	104.0	36.3	928	150.1	16.9	34.7
	FY09E	9,003	59.5	37.6	1,714	84.7	39.0	15.0
	FY10E	10,849	20.5	38.9	2,281	33.1	51.8	11.3
AGIL	FY07	543	127.5	46.9	75	77.8	15.1	49.6
	FY08E	910	67.7	50.0	196	161.5	35.7	21.0
	FY09E	1,317	44.6	50.3	325	65.5	59.1	12.7
	FY10E	1,646	25.0	50.4	420	29.3	76.4	9.8
AOSL	FY04	95	80.8	13.5	5	(33.3)	0.9	-
	FY05	78	(18.3)	11.7	3	(36.0)	0.6	-
	FY06	103	32.7	12.4	6	81.2	1.1	-
	FY07	273	164.3	28.0	48	720.7	6.8	40.4

Source: Company, India Infoline Research

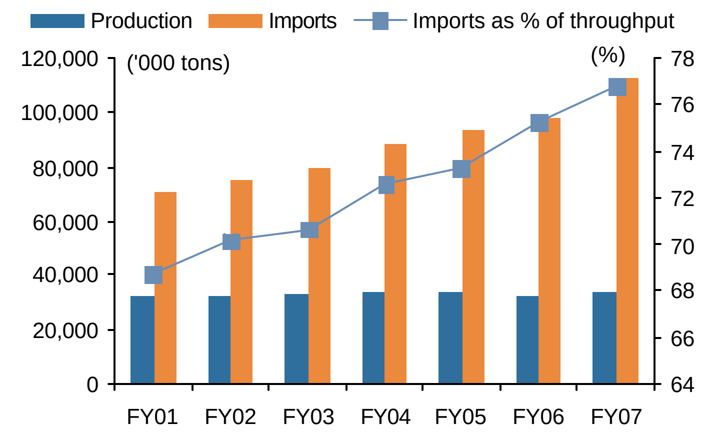
Industry scenario

Huge E&P expenditure planned in India

Strong economic growth is always accompanied by a robust demand for energy. India, over the last three years, has witnessed strong GDP growth, which we expect would continue in the years to come. The demand for energy would follow suit. With the country deriving more than 37% of its primary energy from crude oil and natural gas and still importing over 70% of crude oil requirements, search for new hydrocarbon reserves will surge. Of the 3.14mn square km of India's sedimentary basin, only 20% has been well explored. Prognosticated reserves in 15 of the 26 basins are 205bn barrels, of which established reserves are only 62bn barrels. Apart from 11 basins where exploration is yet to be initiated, the existing 15 basins also provide huge opportunity for exploration activities.

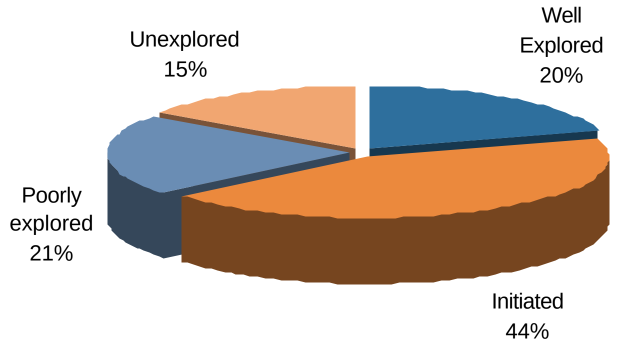
With an objective to attract investments from the private sector and foreign players, the Government of India initiated NELP in 2001. So far, there have been six rounds of bidding whereby 165 blocks were offered and commitments of US$12bn were made by various foreign and private entities. The government has offered 57 blocks in the seventh round of NELP, which was announced in the recent past. Government hopes to attract investments of US$3.5bn in these blocks.

Trend in production and import of crude oil in India



Source: Ministry of Petroleum & Natural Gas

Exploration status of the Indian sedimentary basin



Source: Directorate General of Hydrocarbons

Onshore segment getting impetus

Of the 165 blocks offered so far in the six rounds of NELP, 102 have been offshore blocks. Only 21.8% of the identified onshore area in the Indian sedimentary basin has been offered under license where exploration has been initiated. In a scenario where finding oil on the offshore side is getting expensive day by day, onshore would be a better bet. Onshore fields are easier to explore and the lead time from discovery to production is also less as compared to an offshore field. 57 blocks have been offered in the seventh round of NELP and 29 (50.8%) of them are onshore fields as compared to 38% in first six rounds.

Current exploration status

Sq Km	On land	Shallow Water	Deep Water
Acreage (A)	1.4	0.4	1.4
Under License (B)	0.3	0.3	0.9
B as % of A	21.8	75.0	63.7
Yet to be explored (%)	78.2	25.0	36.3

Source: Directorate General of Hydrocarbons

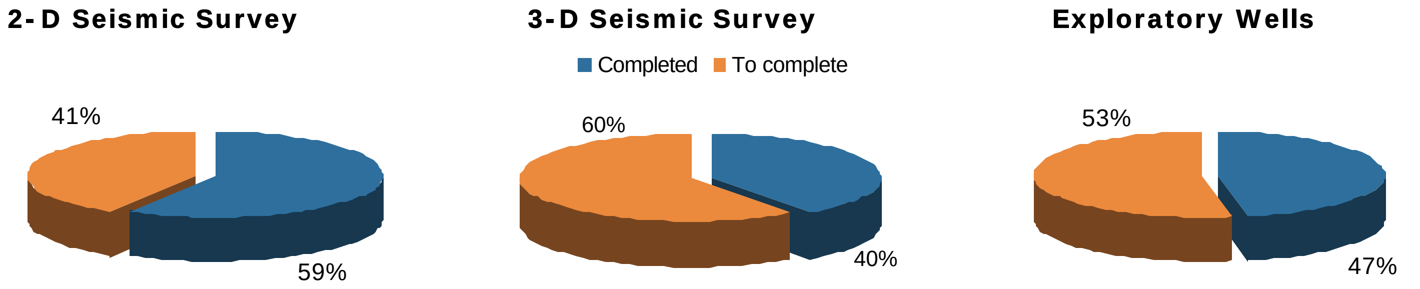
Prior commitments not met: Increased demand for support services

Over the last six rounds of NELP commitments were made for 22,118 square km of 2-D seismic survey, 15,600 line km of 3-D seismic survey and 237 exploratory wells. However, 41.3% of 2-D seismic survey, 60% of 3-D seismic survey and 53.2% of wells are yet to be completed. With the announcement of the seventh round of NELP, further commitments would be made. New fields on offer along with unfulfilled commitments of past six rounds will lead to huge demand for onshore exploration support services. It is estimated that Rs80bn worth of investments would be made for onshore seismic survey in the next few years of which 50-55% would be met by captive crews of oil exploration companies like ONGC and Oil India. Rest would be outsourced to companies such as SVL, AGIL and AOL.

Increased demand with resource crunch: Increase in margins and realizations

The onshore exploration support services segment is labour intensive with high requirement of skilled labour. With strong demand for manpower arising out of E&P spend, costs of manpower have increased substantially. Coupled with this, companies providing the services are few, making the market to be a sellers' market, leading to jump in realizations. Higher realizations along with strong volume growth will lead to an expansion in operating margins of service providers like SVL, AGIL and AOL.

Commitments yet to be completed for onshore exploration in India



Source: Directorate General of Hydrocarbons

CBM fields: huge prospects going ahead

Of the total identified area of 35,400 sq km for CBM exploration, work has commenced only on 38% of the area. The government expects production from CBM blocks to increase from 0.15mmscmd in FY08 to 7.41mmscmd. With demand for natural gas likely to remain very firm on back of increased energy demand, every source of gas in the country needs to be tapped. CBM fields provide rich gas and India is rich with coal reserves. This should lead to increased exploration activities for CBM fields. SVL and AOSL would thus see increased order flow, as they have developed expertise in providing services for CBM exploration.

BUY

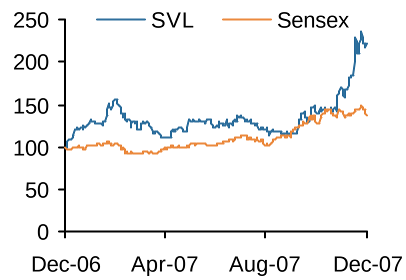
Shiv Vani Oil & Gas Exp Services Ltd

Sensex:	19,106
CMP (Rs):	585
Target price (Rs):	674
Upside (%):	15.2
52 Week h/l (Rs):	638/253
Market cap (Rscr) :	2,227
6m Avg vol BSE&NSE ('000Nos):	145.9
No of o/s shares (mn):	38
FV (Rs):	10
Bloomberg code:	SVOG IN
Reuters code:	SHVD.BO
BSE code:	522175
NSE code:	SHIV-VANI

Shareholding pattern

September 2007	(%)
Promoters	62.2
Foreign & institution	15.6
Non promoter corp hold	15.7
Public & others	6.5

Share price trend



Aggressive capex planned to meet the surging demand

SVL currently has 25 rigs and 10 sets of seismic crew. In order to meet the tremendous opportunity provided by the sector, the company has lined up capex of Rs6bn, to be incurred over the next couple of years. This money would be spent on acquisition of seven rigs. The capex is well-timed, in our view, given the sharp rise expected in on-shore contracts orders in the near term.

CBM turnkey projects: a new source of revenue

Coal Bed Methane is emerging an as exciting source of energy in India. Currently, of 35,400 sq km identified, exploration has been initiated in only 38% of the area. DGH expects production of CBM gas to increase from 0.15mmscmd in FY08 to 7.41mmscmd in FY13. This provides immense opportunity for service providers for CBM blocks. SVL has a contract in hand to develop coal-bed methane (CBM) fields with ONGC. It has also secured a work-over contract for Reliance Industries' CBM field. The company is the first to provide such services in the country. With development of its expertise in such projects, we believe SVL can get more contracts in the future, adding to revenue growth. The ONGC contract is worth Rs7.5bn and is to be executed in 24 months.

Entry into offshore space could be a potential growth driver

The off-shore segment of the Indian E&P industry has witnessed huge investment commitments in the first six NELP rounds. Over the next five years, apart from the pending commitments of first six rounds, commitments to be made in NELP VII will also be met. This would translate into a significant rise in order inflows for oil-allied services. To tap this growing opportunity, SVL is planning to enter the off-shore segment, but has not yet taken any concrete steps in this direction. Any future action on the plan would trigger growth for the company.

Strong order book improves growth visibility

SVL's order book currently stands at Rs34bn, which includes Rs8bn on account of the Oman contract which is to be executed over 10 years. The rest of the order book is to be executed over a period of 24-36 months. Further, SVL has bid for contracts worth around Rs40bn, of which the company hopes to secure around Rs15bn worth. As such, we expect a robust CAGR of 53% in SVL's revenues over the next three years.

Valuation summary

Period to March (Rs mn)	CY05 (12)	CY06 (12)	FY08E (15)	FY09E (12)	FY10E (12)
Revenues	2,210	2,768	5,646	9,003	10,849
yoy growth (%)		25.2	104	59.5	20.5
Operating profit	712	968	2,049	3,385	4,220
OPM (%)	32.2	35	36.3	37.6	38.9
PAT	212	371	928	1,714	2,281
yoy growth (%)		75.4	150.1	84.7	33.1
EPS (Rs)	6.6	11.6	16.9	39	51.8
P/E (x)	88.4	50.4	34.7	15	11.3
P/BV (x)	10	8.5	7.9	5.2	3.5
EV/EBITDA (x)	30.1	24.2	20.9	10.6	8.4
ROE (%)	11.3	16.8	22.8	34.5	31.4
ROCE (%)	7.3	10.1	11.2	18.5	21

Source: Company, India Infoline Research

Company background

Incorporated in 1989, SVL has rapidly evolved as a key player in the upstream sector of the hydrocarbon industry. The company offers a wide spectrum of services in the field of oil and natural gas exploration and production, from shot hole drilling and seismic surveying through to directional drilling, well development, down hole operations, engineering and logistics. The company has also developed its expertise in natural gas compression & allied services. SVL is the only integrated CBM services provider in India and has successfully pioneered horizontal and directional drilling in the country to enhance CBM procurement. SVL owns the largest fleet of onshore rigs in India and has successfully diversified into other crucial activity areas such as seismic surveying, gas compression services and offshore drilling & logistics.

Management Profile

Name	Designation
Prem Singhee	CMD
Prateep Kumar Lahiri	Director
Llewellyn Neville Vaz	Nominee (IDBI)
Dwarka Das Daga	Director
Om Prakash Garg	Director
Padam Singhee	Jt MD
Vimal Chadha	CS
H C Malik	Additional Director
T S R Subramanian	Additional Director

SVL's client roster includes:

- Oil India
- ONGC
- Assam Company
- Reliance Industries
- Larsen & Turbo
- Niko Resources
- MTNL
- Indraprastha Gas
- Engineering Projects India

SVL's service portfolio

Core Services	Specialized Services	Integrated Services	Gas Compression & Allied Services	Offshore	CBM
Seismic Data Acquisition, Processing & Interpretation	Cementing	Integrated Seismic Services	Natural Gas Compression	Logistics	
Drilling	Stimulation	Integrated Drilling & Workover Services	Gas Collecting/Group Gathering Stations	Platforms & Structures	
Workover	Logging	Integrated Well Maintenance Services	CNG Booster Compressor	Drilling	
Reservoir Data acquisition	Well Testing	Integrated services for Oil & Gas fields			
Pipeline Construction	Directional Drilling	Integrated CBM Services			
	Mud Engineering				

Source: Company

Quarterly performance

(Rs mn)	Q1 CY06	Q2 CY06	Q3 CY06	Q4 CY06	Q1 CY07	Q2 CY07	Q3 CY07
Net sales	348	551	424	562	628	651	612
Expenditure	(232)	(361)	(273)	(355)	(403)	(407)	(387)
Operating profit	116	190	151	207	225	244	225
Other income	26	17	15	8	24	15	12
Interest	(35)	(44)	(45)	(56)	(60)	(66)	(66)
Depreciation	(28)	(44)	(45)	(57)	(49)	(46)	(47)
PBT	78	118	76	103	140	147	124
Tax	(31)	(41)	(28)	(26)	(48)	(49)	(43)
PAT	48	77	49	76	92	98	81
Equity Capital	216	320	320	320	334	352	381
OPM (%)	33.4	34.4	35.7	36.9	35.8	37.5	36.8
EPS Annualized (Rs)	8.8	9.6	6.1	9.5	11.0	11.2	8.5

Source: Company, India Infoline Research

Financials

Income statement

Period to (Rs mn)	CY06 (12)	FY08E (15)	FY09E (12)	FY10E (12)
Net Sales	2,768	5,646	9,003	10,849
Operating expenses	(1,800)	(3,597)	(5,618)	(6,628)
Operating profit	968	2,049	3,385	4,220
Other income	85	100	100	100
Interest	(280)	(453)	(532)	(505)
Depreciation	(258)	(408)	(574)	(649)
PBT	515	1,288	2,379	3,166
Tax	(144)	(360)	(664)	(884)
PAT	371	928	1,714	2,281

Balance sheet

Period to (Rs mn)	CY06 (12)	FY08E (15)	FY09E (12)	FY10E (12)
Sources				
Share Capital	320	440	440	440
Reserves	1,892	2,820	4,534	6,815
Net Worth	2,211	3,260	4,974	7,255
Loan Funds	5,657	9,157	10,757	10,207
Def Tax liability	163	180	200	220
Total	**8,031**	**12,597**	**15,931**	**17,682**
Uses				
Gross Block	5,138	8,138	11,438	12,938
Accd Depreciation	(1,098)	(251)	(825)	(1,475)
Net Block	4,041	7,887	10,613	11,464
Capital WIP	968	750	500	500
Total Fixed Assets	5,008	8,637	11,113	11,964
Investments	11	11	11	11
Total Current Assets	3,437	4,903	6,328	7,541
Total Current Liabilities	(468)	(954)	(1,522)	(1,834)
Net Working Capital	2,969	3,948	4,807	5,708
Miscellaneous exp.	43	-	-	-
Total	**8,031**	**12,597**	**15,931**	**17,682**

Key ratios

Period to	CY06 (12)	FY08E (15)	FY09E (12)	FY10E (12)
Per share ratios (Rs)				
EPS #	11.6	16.9	39.0	51.8
Cash EPS #	19.7	24.3	52.0	66.6
Div per share	-	-	-	-
Book value per share	69.2	74.1	113.0	164.9
Valuation ratios (x)				
P/E #	50.4	34.7	15.0	11.3
P/Cash EPS #	29.7	24.1	11.2	8.8
P/BV	8.5	7.9	5.2	3.5
EV/sales	8.5	6.1	4.0	3.3
EV/ PBIT	29.5	19.7	12.4	9.7
EV/PBIDT	22.3	15.9	10.3	8.2
Profitability ratios (%)				
OPM	35.0	36.3	37.6	38.9
PAT	13.4	16.4	19.0	21.0
ROCE #	10.1	11.2	18.5	21.0
RONW #	16.8	22.8	34.5	31.4
Liquidity ratios				
Current ratio	7.3	5.1	4.2	4.1
Debtors days	140.9	140.9	140.9	140.9
Inventory days	20.0	20.0	20.0	20.0
Creditors days	23.2	23.2	23.2	23.2
Cash conversion	137.8	137.8	137.8	137.8
Leverage ratios (x)				
Debt / Total equity	2.6	2.8	2.2	1.4

 # Ratios for FY08 have been annualized

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BUY

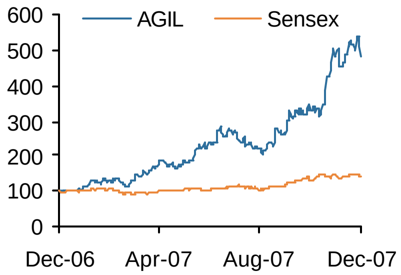
Alphageo India Ltd

Sensex:	19,106
CMP (Rs):	751
Target price (Rs):	916
Upside (%):	22.0
52 Week h/l (Rs):	858/140
Market cap (Rscr) :	372
6m Avg vol BSE&NSE ('000Nos):	21.9
No of o/s shares (mn):	5.0
FV (Rs):	10
Bloomberg code:	APH IN
Reuters code:	ALPI.BO
BSE code:	526397
NSE code:	ALPHAGEO

Shareholding pattern

September 2007	(%)
Promoters	34.5
Foreign & institution	9.8
Non promoter corp hold	11.6
Public & others	44.1

Share price trend



Capacity expansion to meet increased demand

The channel count for AGIL is pegged at 7,500 currently, which the company plans to increase to 10,000 over one year. The outlay for the expansion would be about Rs150mn. If needed, the company might add another crew, which would involve a capex of Rs120mn-250mn depending on the nature of the survey (2-D or 3-D). The company expects to source the capex through a mix of debt and internal accruals.

Lower dependence on non-monsoon contracts to spur revenue growth

AGIL, in the past, has been primarily operating in the north-eastern regions of the country, which encounter heavy rains for five to six months (July to September). For this duration, AGIL assets remain non-operative. However, in the recent past the company bagged an order of Rs584mn from ONGC for its operational blocks in the Cauvery basin in Tamil Nadu. This contract will enable AGIL to earn revenues in the monsoon period as well, adding to revenue growth.

Experience across variety of terrains

AGIL operates primarily in the north-eastern region of the country, where it has gained experience in harsh terrains and hostile environments. Through some other contracts, AGIL has also operated in regions such as Rajasthan, Gujarat, Vindhya basin, Ganga basin, Mahanadi basin, Krishna-Godavari basin and Cauvery basin. This will enable the company to bag orders in any area of operation in the country.

Healthy order book position

AGIL's order book was at Rs1.1bn as on April 30, 2007 and is currently at Rs850mn, 1.6x FY07 revenues. Almost 100% of the current order book is for 3-D seismic survey. With huge investments planned in the E&P space, the order book is expected to swell. Hence, we expect AGIL's revenues to register 52.1% CAGR between FY07 and FY09.

Valuation summary

Period to March (Rs mn)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Revenues	239	543	910	1,317	1,646
yoy growth (%)		127.5	67.7	44.6	25
Operating profit	112	255	455	662	830
OPM (%)	46.9	46.9	50	50.3	50.4
PAT	42	75	196	325	420
yoy growth (%)		77.8	161.5	65.5	29.3
EPS (Rs)	8.5	15.1	35.7	59.1	76.4
P/E (x)	88.2	49.6	21.1	12.7	9.8
P/BV (x)	17.2	13.2	8.8	5.3	3.5
EV/EBITDA (x)	35.7	15.6	9.4	6.1	4.5
ROE (%)	19.5	26.6	41.6	41.6	35.4
ROCE (%)	15.8	27.4	42.4	51.8	49.8

Source: Company, India Infoline Research

Company background

AGIL is India's largest private sector provider of seismic survey services to the rapidly growing oil exploration and production sector. It has grown from strength to strength and is now the only company in the private sector providing a gamut of seismic and related services including acquisition, processing and interpretation of seismic data. The company has highly experienced geologists, geophysicists, reservoir engineers, log analysts and survey engineers with exposure to different basins and terrains of the world.

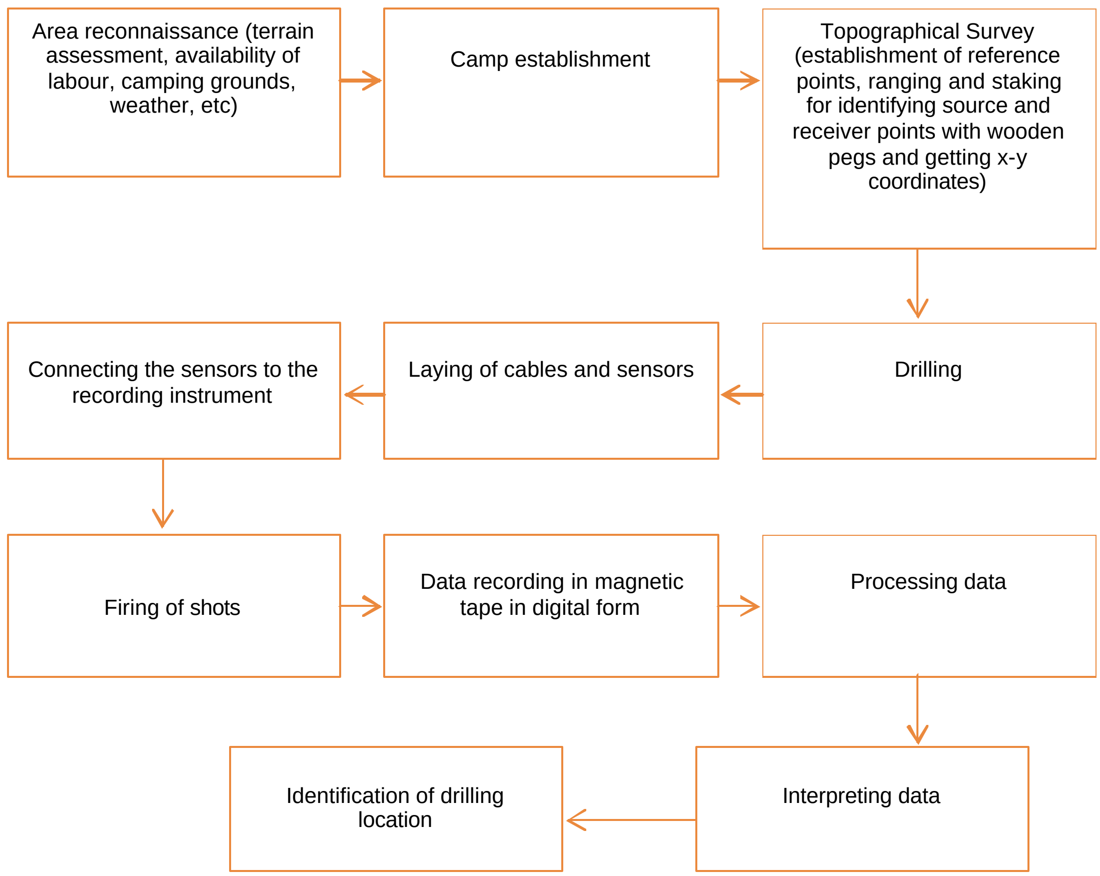
Management Profile

Name	Designation
Alla Dinesh	Managing Director
S Ravula Reddy	Director
Z P Marshall	Director
A Rajesh	Director
Ashwinder Bhel	Independent Director
P K Reddy	Director
M Chakrapani	Company Secretary

AGIL's client roster includes:

- Oil India
- ONGC
- Canaro Resources
- Gujarat State Petroleum Corporation
- Essar Oil
- Hindustan Oil Exploration Company
- Geopetrol International Inc
- Directorate General of Hydrocarbons

AGIL's service flow chart



Source: Company

Quarterly performance

(Rs mn)	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07	Q1 FY08	Q2 FY08
Net Sales	112	4	132	295	207	204
Expenditure	(54)	(7)	(65)	(164)	(127)	(71)
Operating profit	58	(2)	67	131	79	133
Other Income	2	(0)	1	0	0	0
Interest	(10)	(7)	(7)	(8)	(9)	(9)
Depreciation	(25)	(25)	(25)	(27)	(33)	(34)
PBT	25	(34)	36	96	38	90
Tax	(8)	11	(13)	(37)	(14)	(32)
PAT	16	(23)	22	60	24	58
Equity Capital	49	49	49	49	49	49
OPM (%)	51.6	(53.4)	50.9	44.5	38.5	65.1
EPS Annualized (Rs)	13.3	(18.7)	17.9	48.2	19.8	47.0

Source: Company, India Infoline Research

Financials

Income statement

Period to March (Rs mn)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Net Sales	543	910	1,317	1,646
Operating expenses	(288)	(455)	(655)	(816)
Operating profit	255	455	662	830
Other income	2	2	2	2
Interest	(33)	(36)	(25)	(13)
Depreciation	(101)	(126)	(151)	(187)
PBT	122	295	489	632
Tax	(47)	(99)	(164)	(212)
PAT	75	196	325	420

Balance sheet

Period to March (Rs mn)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Sources				
Share Capital	50	55	55	55
Reserves	233	417	726	1,130
Net Worth	283	472	781	1,185
Loan Funds	284	309	209	109
Def Tax liability	21	25	30	30
Total	**588**	**806**	**1,020**	**1,325**
Uses				
Gross Block	824	1,024	1,224	1,524
Accd Depreciation	(251)	(377)	(528)	(715)
Net Block	573	647	697	809
Total Fixed Assets	573	647	697	809
Investments	-	100	150	150
Total Current Assets	248	417	672	974
Total Current Liabilities	(233)	(358)	(499)	(608)
Net Working Capital	15	59	174	366
Total	**588**	**806**	**1,020**	**1,325**

Key ratios

Period to March	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Per share ratios (Rs)				
EPS	15.1	35.7	59.1	76.4
Cash EPS	35.6	58.6	86.4	110.5
Div per share	1.5	2.0	2.5	2.5
Book value per share	57.0	85.8	142.0	215.5
Valuation ratios (x)				
P/E	49.6	21.0	12.7	9.8
P/Cash EPS	21.1	12.8	8.7	6.8
P/BV	13.2	8.8	5.3	3.5
EV/sales	7.3	4.8	3.2	2.4
EV/ PBIT	25.6	13.2	8.1	6.0
EV/PBIDT	15.5	9.6	6.3	4.7
Profitability ratios (%)				
OPM	46.9	50.0	50.3	50.4
PAT	13.8	21.6	24.7	25.5
ROCE	27.4	42.4	51.8	49.8
RONW	26.6	41.6	41.6	35.4
Liquidity ratios				
Current ratio	1.1	1.2	1.3	1.6
Debtors days	131.3	131.3	131.3	131.3
Inventory days	2.9	2.9	2.9	2.9
Creditors days	121.6	121.6	121.6	121.6
Cash Conversion	12.7	12.7	12.7	12.7
Leverage ratios (x)				
Debt / Total equity	1.0	0.7	0.3	0.1

IndiaInfoline

IT'S ALL ABOUT MONEY, HONEY!

Not Rated

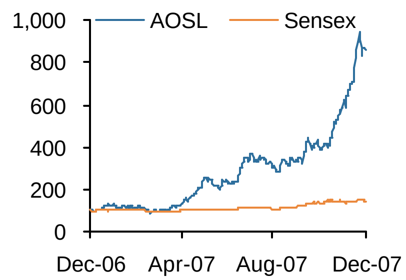
Asian Oilfield Services Ltd

Sensex:	19,106
CMP (Rs):	275
52 Week h/l (Rs):	318/26
Market cap (Rscr) :	193
6m Avg vol BSE&NSE ('000Nos):	84.8
No of o/s shares (mn):	7
FV (Rs):	10
Bloomberg code:	AOS IN
Reuters code:	AOSL.BO
BSE code:	530355

Shareholding pattern

September 2007	**(%)**
Promoters	11.6
Consolidated Securities	25.6
Foreign & institution	1.5
Non promoter corp hold	9.2
Public & others	52.1

Share price trend



Expansion of fleet

AOSL currently owns one seismic crew and has one crew on lease. With huge opportunity unfolding for seismic survey in the years to come, AOSL had placed orders for three crew: two 2-D and one 3-D. The capex lined up for this acquisition is to the tune of Rs360mn (2-D crews Rs180mn and 3-D crew Rs180mn). This would take the total fleet size from the current levels of two to five (four owned vessels and one leased). The two 2-D crews have commenced operations and the 3-D crew is likely to be delivered in Q4 FY08.

Change in business profile to fuel margin expansion

AOSL started off primarily as a job contractor for work over rigs and then provided shot hole drilling services. In 1998, the company implemented its first seismic survey contract. However, of the two crew, the company owned only one crew. All these factors suppressed operating margins. With increase in owned assets in the current year, the operating margins will expand. The expansion in margins will be fueled further with addition of the 3-D crew as 3-D seismic surveys command higher operating margins.

Entering new business avenues

AOSL is planning to diversify its current business with a view to derive major benefits out of the huge investments planned in E&P in India and abroad. The company is planning to acquire a CBM rig by Q1 FY09. The investment in the rig is expected to be in the range of Rs150-180mn. The rig can fetch a revenue of ~Rs300,000 per day. Post the addition of the CBM rig, margins could expand further as a CBM rig earns an operating margin in the range of 65-70%. The company is also planning to apply for E&P operations in marginal fields and also grow the inorganic way through small acquisitions in the Indian oil and gas space. AOSL is also planning to expand its geographic presence and generate over 30% of its revenue outside India in the next three years.

Valuation summary

Period to March (Rs mn)	**FY03 (12)**	**FY04 (12)**	**FY05 (12)**	**FY06 (12)**	**FY07 (12)**
Revenues	53	95	78	103	273
yoy growth (%)	-	80.8	(18.3)	32.7	164.3
Operating profit	11	13	9	13	77
OPM (%)	20.1	13.5	11.7	12.4	28
PAT	8	5	3	6	48
yoy growth (%)	-	(33.3)	(36.0)	81.2	720.7
EPS (Rs)	1.4	0.9	0.6	1.1	6.8
P/E (x)	-	-	-	-	40.5
P/BV (x)	-	-	-	-	12.8
EV/EBITDA (x)	-	-	-	-	24.5
ROE (%)	11.1	7.7	4.7	7.8	31.7
ROCE (%)	13.1	13.4	8.3	12.4	38.8

Source: Company, India Infoline Research

Management Profile

Name	Designation
Krishna Kant	Chairman
Avinash Manchanda	Managing Director
Bhupendra Shah	Director
N M Patel	Director
D E ILavia	Director
Somesh Shastri	CS
Vikram Walie	Additional Director

AOSL's client roster includes:

- ONGC
- Canaro Resources
- Jubilant Oil and Gas
- Premier Oil
- Arrow Energy
- Geo Empro

Robust order book position

The current order book of the company is at Rs1.6bn which is 6.3x FY07 sales of Rs277mn. The executable period for the orders is 2 years. This order book comprises only seismic studies and a small order for job services. With addition of CBM rig in the next six months, the order book would swell. The company has also bid for more than Rs3bn worth of contracts. The company has a vision to earn revenue of US$100mn by FY11.

Promoter share holding set to increase

Currently the promoters hold around 11.6% and Consolidated Securities, a Delhi based private equity firm, hold 23.6% in the company. Low promoter holding has been the concern with the stock but with issue of fresh warrants the shareholding of promoters is set to increase. AOSL had issued 1mn warrants to promoters and 1.39mn warrants to Consolidated Securities in September 2007 at Rs76. The company is also in the process of issuing 1.5mn shares and 1.2mn warrants at Rs190 to Samara Capital, a private equity fund managed by three ex-officials of Citigroup Venture Capital International. Post issue promoters shareholding will increase to 15% whereas Consolidated Securities and Samara Capital will have 28.5% and 14.9% stakes respectively.

Company background

AOSL was incorporated in 1992 and was primarily an operator for oilfield work-over rigs. The company then diversified into shot hole drilling in 1996. This was the first step towards developing expertise in seismic survey as shot hole drilling is a key element of seismic data acquisition process. Since then AOSL executed contracts in almost every kind of terrain for shot hole drilling services. It was the first private company to execute a seismic survey order in the geographic complex terrains of Nagaland and Tripura. The company thus earned a great reputation in shot hole drilling services which aided them to bag prestigious contracts for seismic survey. The key clients include ONGC, Canaro Resources, Jubilant Oil and Gas and Premier Oil.

Current order book

Company	Location	Work Category	Project Value (Rs mn)
ONGC	Nagaland	2D	450
OIL India	Mizoram	2D	840
Jubilant Gas	Assam	3D	180
ONGC	Gujarat	Job Services	140
Total			**1,610**

Source: Company

Quarterly performance

(Rs mn)	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07	Q1 FY08	Q2 FY08
Net sales	103	1	26	197	146	4
Expenditure	(90)	(3)	(21)	(118)	(92)	1
Operating Profit	14	(2)	5	79	54	5
Other Income	2	0	0	1	1	0
Interest	(2)	(0)	(1)	(1)	(1)	(1)
Depreciation	(3)	-	(3)	(4)	(2)	(2)
Profit before Tax	10	(2)	2	75	52	2
Tax	(4)	(0)	(0)	(25)	(18)	(0)
Profit after Tax	6	(2)	2	51	34	2
Extraordinary Items	-	(0)	-	(9)	-	-
Net Profit	6	(2)	2	42	34	2
Equity Capital	54	54	54	70	70	70
OPM (%)	13.2	(347.0)	18.6	40.2	37.1	134.4
EPS Annualized (Rs)	4.6	(1.8)	1.1	23.9	19.5	1.3

Source: Company, India Infoline Research

Performance in September quarter (Q2) is plagued by heavy rains in north eastern regions.

Financials

Income statement

Period to March (Rs mn)	FY04 (12)	FY05 (12)	FY06 (12)	FY07 (12)
Net sales	95	78	103	273
Expenditure	(82)	(69)	(91)	(197)
Operating profit	13	9	13	77
Other income	2	1	2	3
Interest	(1)	(2)	(2)	(5)
Depreciation	(5)	(4)	(3)	(7)
PBT	8	5	9	68
Tax	(3)	(2)	(4)	(25)
PAT	5	3	5	43
Extraordinary items	-	-	1	5
APAT	5	3	6	48

Balance sheet

Period to March (Rs mn)	FY04 (12)	FY05 (12)	FY06 (12)	FY07 (12)
Sources				
Share capital	54	54	54	70
Reserves	12	15	21	80
Net worth	65	69	75	150
Loan funds	7	11	17	38
Deferred tax liability	2	2	2	1
Total	**74**	**81**	**94**	**189**
Uses				
Gross Block	62	68	70	86
Accd Depreciation	29	32	36	18
Net Block	33	36	34	67
Capital WIP	-	-	-	-
Total assets	33	36	34	67
Investments	1	3	1	-
Total Current Assets	49	57	80	220
Total Current Liabilities	12	15	22	99
Net Working Capital	37	42	58	121
Miscellaneous exp.	2	1	-	-
Def Tax assets	1	-	-	-
Total	**74**	**81**	**94**	**189**

Key ratios

Period to March	FY04 (12)	FY05 (12)	FY06 (12)	FY07 (12)
Per share ratios (Rs)				
EPS	0.9	0.6	1.1	6.8
Cash EPS	1.9	1.3	1.7	7.7
Div per share	-	-	-	-
Book value per share	12.2	12.8	13.9	21.4
Valuation ratios (x)				
P/E	294.8	460.6	254.1	40.5
P/Cash EPS	141.7	213.6	160.2	35.6
P/BV	22.6	21.5	19.7	12.8
EV/sales	15.4	19.0	14.3	7.1
EV/ PBIT	153.1	224.3	130.0	26.7
EV/PBIDT	98.0	143.8	100.1	24.5
Profitability ratios (%)				
OPM	13.5	11.7	12.4	28.0
PAT	5.2	4.1	5.6	17.4
ROCE	13.4	8.3	12.4	38.8
RONW	7.7	4.7	7.8	31.7
Liquidity ratios				
Current ratio	4.1	3.9	3.7	2.2
Debtors days	118.0	201.0	222.4	245.1
Inventory days	3.8	7.0	0.4	1.2
Creditors days	32.6	48.3	36.7	90.7
Cash Conversion	89.2	159.8	186.0	186.0
Leverage ratios (x)				
Debt / Total equity	0.1	0.2	0.2	0.2

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