

Stock Analyser

Asian Oilfield Services Ltd (CMP Rs. 61.50) **Scope for price upmove** May 09, 2007

Price Chart



Stock Details	
BSE Code	530355
NSE Code	NA
Bloomberg	AOS IN
Price (Rs) as on 08/05/07	61.50
Equity Capital (Rs Mn)	70.1
Fully Diluted Equity Capital	85.8
Face Value (Rs)	10
Eq. Shares O/s (mn)	7.01
Market Cap (Rs Cr)	40.48
Book Value (Rs)	22.10
Avg Dly Vol (3 Mths)	20347
52 wk H/L	63.60/15.50
EPS for FY07	7.50

Shareholding Pattern	
(as on 31 Mar 2007)	
Foreign	0.52
Institutions	0.00
Govt Holding	0.00
Non Promoter Corp Hold	31.30
Promoters	11.59
Public & Others	56.60
Total	100.00

Management Interaction Note

Asian Oilfield Services Ltd (AOSL) could be a beneficiary of the boom in the oil and gas exploration and production sector. With the recent increase in topline, AOSL can bid for larger orders of seismic data acquisition and shot hole drilling. With working capital constraints behind its back, it is slated to grow its topline by about 70% in FY08, with a PAT growth of over 100%. At the current price of Rs. 61.50, it is available at 7.5 times FY07 EPS and 5.4 times FY08 (E) EPS.

One could look at accumulating AOSL in the Rs. 59 – 65 band with a view to benefit from the topline and bottomline growth aided by larger orders and robust margins. AOSL could provide decent returns in the next 3 to 4 quarters.

Triggers and Investment Rationale:

➤ Changing gears due to fresh orders & capex plans:

AOSL is presently involved in completing 5 orders by June 2007. These include 3 orders from ONGC located in Patan, Mehsana and Tripura respectively, one from Canoro Resources (a Canadian based international oil and gas company) in Nagaland and one from Jubilant Oil & Gas Pvt Ltd in Tripura. Thus, AOSL currently has 3 projects in the North East and 2 in Gujarat.

In case of the orders from ONGC, AOSL is a direct contractor but in case of Jubilant and Canoro, AOSL is carrying out work as a sub-contractor. However, in case of ONGC projects, AOSL utilizes ONGC's equipment, so margins are lower in comparison to the other two projects. For the Canoro project, AOSL is using equipment provided by its technical collaborator, Geophysical Institute of Israel and for the Jubilant project it utilizes self-owned equipment.

With these orders completed by June this year, AOSL can bid for more orders during the lackluster monsoon period and commence work starting in October. Owing to the seasonal nature of the business, AOSL has virtually no activities in Q2 and thereafter pick up momentum.

Going forward, AOSL has capex plans to the tune of Rs. 35 cr spread over FY08 and FY09. AOSL plans to raise this money by way of term loans and internal accruals. The money will be invested in equipment including 3-D crews so that AOSL can take on more independent high value projects. This will not only help AOSL grow its topline but will also result in a further improvement of its operating margins.

➤ **Raising of additional capital through equity and warrants issue:**

With the infusion of fresh capital in FY07 and FY08, by way of equity and warrants to a Delhi based private equity investor - Consolidated Securities Ltd and to the promoters of the company, AOSL has overcome working capital constraints. This has also helped AOSL in bagging two additional orders. The total amount raised would amount to Rs. 6,60,10,000.

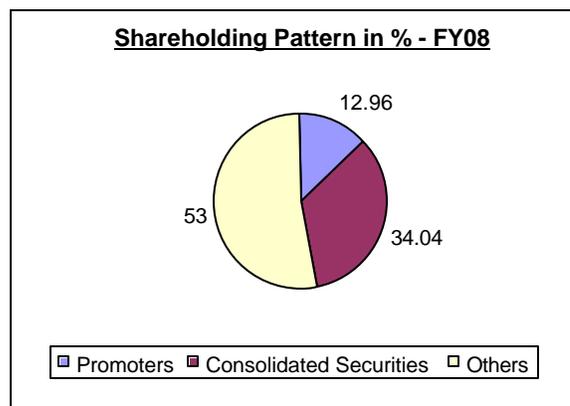
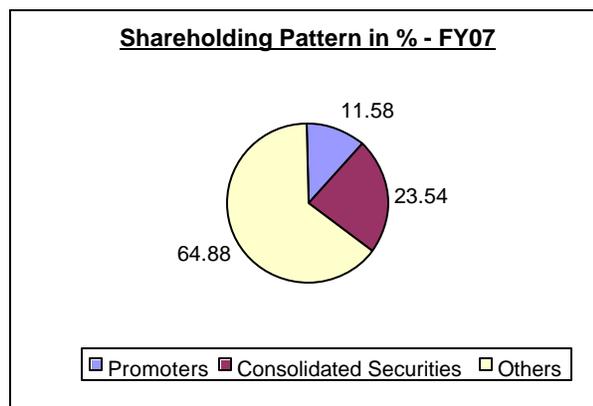
Underlying Asset	Issued to	Quantity	Price	Conversion to Shares	Total Amount
Equity Shares	M/s. Consolidated Securities Ltd	16,50,000	Rs. 20.50 (incl. premium)	-	3,38,25,000
Warrants (preferential issue)	M/s. Consolidated Securities Ltd	12,70,000	Rs. 20.50	To be converted to 12,70,000 shares of Rs. 10 each at a price of Rs. 20.50 per share (incl. premium)	2,60,35,000
Warrants to promoters (preferential issue)	Nimit Finance Pvt Ltd	3,00,000	Rs. 20.50	To be converted to 3,00,000 shares of Rs. 10 each at a price of Rs. 20.50 per share (incl. premium)	61,50,000
Total Amt Raised					6,60,10,000

* All amounts in INR.

The equity capital of Asian Oilfield will behave as under:

Equity	FY06	FY07	FY08	FY09
Number of shares O/s	5357100	5357100	7007100	8577100
Add: Issue of shares to Consolidated Sec	-	1650000	-	-
Add: Conversion of Warrants (Promoters)	-	-	1270000	-
Add: Conversion of Warrants (Consolidated Sec)	-	-	300000	-
Total number of shares O/s	5357100	7007100	8577100	8577100

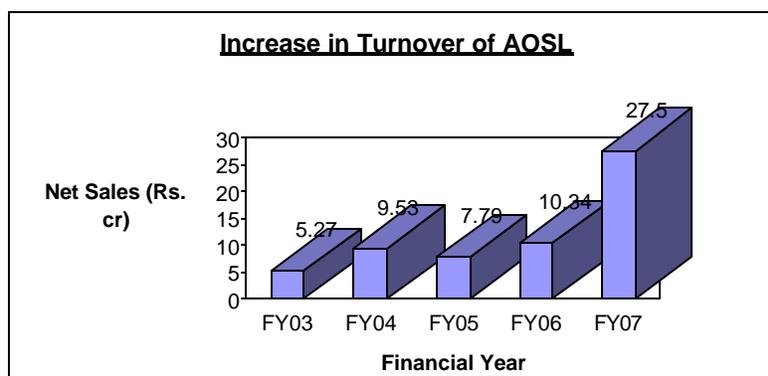
Change in shareholding pattern:



The promoter's stake has fallen from 15.14% in FY06 to 11.58% in FY07 and then increases to 12.96% in FY08 owing to conversion of the warrants taking place. Consolidated Securities holds a larger stake of 23.54% in FY07 and will hold 34.04% stake in FY08. As Consolidated Securities is a non-promoter strategic investor, promoters are not concerned about their shareholding being less than that of Consolidated Securities.

➤ **Larger size will enable Asian Oilfield to bid for even larger orders:**

From being a Rs. 7.8 cr turnover company in FY05, and a Rs. 10.5 cr turnover company in FY06, AOSL has changed gears and become a Rs. 27.5 cr turnover company in FY07. This 166% jump in topline not only results in a significant increase in the bottomline but also qualifies AOSL to bid for larger orders and projects from exploration companies and their contractors. With the working capital constraints problem behind its back, AOSL stands to benefit from bidding for orders in excess of Rs. 50 cr. This will lead to an improvement in its market share; strengthen the overall financial performance of the company by way of margin improvement and commensurate increase in PAT, which in turn will benefit the shareholders.



➤ **Few players in the field and rapidly growing market:**

With the boom in the oil & gas exploration sector, fuelled by the recent awarding of new blocks under NELP VI and Hydrocarbon Vision 2025, the shot hole drilling and seismic data acquisition activities have picked up pace. The government has made it mandatory for all oil and gas E&P companies to carry out 2D (minimum) surveys for their NELP blocks. Hence demand of services offered by companies such as AOSL is on the rise.

Prior to 1998, ONGC was the sole operator in the oil & gas exploration segment. But with the New Exploration Licensing Policy (NELP) formulated in 1998, private parties are allowed to participate in the exploration of oil deposits based on their bidding for the oil blocks. NELP VI has offered 55 additional blocks (164 blocks in all) that will provide a healthy base for the oil exploration industry for the next 10-12 years. Of these, 24 blocks are in deep water, 6 in shallow water and the remaining onshore. Once the blocks are allotted, it takes around 7-8 years for ramping up the exploration to its full resource utilization.

Along with NELP, the government has also formulated 'Hydrocarbon Vision 2025'. As per this, the government aims to develop the hydrocarbon sector as a globally competitive industry by tapping more and more hydrocarbon reserves. The goal is to tap 50% of the reserves by 2010 and 100% by 2025. With NELP and 'Hydrocarbon Vision 2025', the number of blocks allotted for exploration will increase, which ultimately will increase the demand for seismic data. Further, the steep rise in crude oil prices has caused oil E&P companies to increase the pace of their activities. It seems unlikely that crude prices will again fall to the \$25 mark below which exploration companies may start losing money. The current prices of around \$60 a barrel provide enough cushion for exploration companies and in turn companies like AOSL who are dependent on them.

Further, there are few players in this sector and thus the potential for expansion and to tap the growing market remains large for companies like AOSL. AOSL faces competition from companies like Shiv-Vani Universal, Alphageo and GT.

➤ **Increase in the levels of well exploration:**

India is the sixth largest crude oil consumer in the world. In the last two years, India reported 21 oil and gas discoveries amounting to over 800 million metric tonnes of oil and oil equivalent gas, a positive basis for undertaking fresh exploration. India's crude oil production rose at a compounded annual growth rate (CAGR) of around 2.3% from 1994 to 2003 while consumption increased at a CAGR of 8.3%. India remains one of the most under-explored regions in the world with a well density of a mere 20 per 10,000 sq km. Besides, of the 26 sedimentary basins, only 15 have been explored so far [Source: DGH]. The number of oil discoveries in India has been increasing, enhancing optimism among oil companies about India as an emerging provider of oil resulting in increasing investments and seismic surveys.

➤ **Technical collaboration with Geophysical Institute of Israel:**

AOSL is in technical collaboration with the Geophysical Institute of Israel (GII). Along with technical assistance, GII also provides state of the art equipment for AOSL. GII specializes in the application of geophysical methods to map the structure and the characteristics of the subsurface. GII caters to domestic and international customers, has state of the art technologies and equipment, extensive experience in the Middle East (and beyond) and a staff of highly skilled professionals, many of whom have achieved world recognition in their fields. GII's solid reputation comes from over 40 years of field experience and novel approaches to geophysical problems, both on small and large projects. In addition to geophysical surveys for the oil exploration industry, GII engages in environmental and seismological engineering, as well as earthquake seismology monitoring and research. GII has acquired international recognition mainly through its flexibility in meeting diversified requirements, broad experience and consistent performance together with its ability to identify with developing countries and offer them highly efficient, budget-adapted solutions. GII has acted as a consultant to seismological organizations in the Mediterranean area, Africa, Central America, Central Asia, the South Pacific and the Caribbean. Thus, AOSL has the strong backing of GII to rely upon.

➤ **Robust margins and could further improve:**

AOSL recorded an OPM of 36.32% in the 4th quarter of FY07 as against 16.29% in the previous corresponding quarter. Further, it closed FY07 with overall margins of 29.35% vs 15.18% in the previous year. This significant increase in margins by 2003 bp and 1417 bp respectively reflects improvement in the financial performance of the company and moreover given the company's future plans, these margins could further improve.

Current Business:

➤ **Company Background:**

AOSL was incorporated as a public limited company on 9th March 1992. The company was formed by an association of professionals working in different fields to give integrated services in the areas of exploration & drilling of Oil/Gas to O.N.G.C., O.I.L. and such other private Companies. Its board includes Mr. Krishna Kant as the Chairman & promoter, who is a retired ONGC director. AOSL takes advice on strategy matters from Mr. Krishna Kant while the day-to-day affairs are looked after by Mr. Manchanda (Managing Director and co-promoter). AOSL has its office in Baroda, Gujarat.

➤ **Services Offered:**

Asian Oilfield is in the business of Shot hole drilling & Seismic job services for exploration of petroleum.

Shot hole drilling is performed manually. This is normally a shallow drilling operation, drilling to a depth of about 30 feet. This activity involves drilling and the placing of the explosives in the drilled hole. The exploration/seismic crew is responsible for the discharge of the explosive. When the explosives are

discharged or shot, the vibrations are recorded on a seismograph. Shot hole drilling services are generally contracted to seismic geophysical contractors to perform the drilling aspect of the seismic operation.

Seismic job services- Seismic energy (the waves of elastic energy such as that transmitted by P-waves and S-waves, in the frequency of 1 to 100 Hz) is studied by scientists to interpret the composition, fluid content, extent and geometry of rocks in the subsurface. The generation and recording of seismic data has been made mandatory by the government for all oil and gas exploration activities been carried out. Acquisition involves many different receiver configurations, including laying geophones or seismometers on the surface of the Earth or seafloor, towing hydrophones behind a marine seismic vessel, suspending hydrophones vertically in the sea or placing geophones in a well bore (as in a vertical seismic profile) to record the seismic signal. A source, such as a vibrator unit, dynamite shot, or an air gun, generates acoustic or elastic vibrations that travel into the Earth, pass through strata with different seismic responses and filtering effects, and return to the surface to be recorded as seismic data. This data is then accordingly processed and interpreted.

AOSL carries out both 2D and 3D seismic data acquisition. It is currently converting or upgrading its present 2D crews into 3D crews and investing in more 3D crews. In 3D seismic surveys, the image comes clearer than 2D, which gives only a linear image.

Risks & Concerns:

A significant part of AOSL's business is derived from the oil-rich northeast India where a major part of the data acquisition can be conducted smoothly only from December to May due to monsoon impact, making the business seasonal. The region is also politically volatile.

If the price of oil goes down, exploration initiatives could taper and this could affect AOSL's prospects.

The government regulates the Indian E&P industry. Should the government stagger the announcement of successive NELP programmes or alter the liberal slant of incentives, AOSL's growth could be affected.

In a people-intensive business where external field conditions are never within the control of the service provider, any productivity loss could hamper project progress.

Since AOSL only has 50 core employees and chooses to hire the rest on a contract basis depending on the projects in hand, any delay in finding or finalizing labour could hamper AOSL's prospects.

A high receivables cycle could squeeze AOSL's working capital and cost of funds. In case of government agencies, outstanding is 2-4 months and in case of private companies, 1-2 months.

Customer companies could integrate backwards, creating competition, in addition to the entry of new seismic survey service providers into India.

AOSL only operates onshore so fails to benefit from the increase in offshore oil and gas exploration activities.

AOSL faces competition from companies like Alphageo, GT and Shiv-Vani Universal.

The appreciation of the Rupee vis-a-vis US \$ does not seem to have a significant impact on AOSL as its orders are received in Rupees and some payments are made in dollars. However, a contrary move in the INR/USD could impact AOSL.

Current Performance & Valuations:

The net profit of AOSL rose 1061.11% to Rs 4.18 crore in the quarter ended March 2007 as against Rs. 0.36 crore during the previous quarter ended March 2006. Sales rose 242.11% to Rs. 19.74 crore in the quarter ended March 2007 as against Rs. 5.77 crore during the previous quarter ended March 2006. Margins improved significantly from 15.18% in FY06 to 29.35% in FY07.

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acquisition and shot hole drilling. With working capital constraints behind its back, it is slated to grow its topline by about 70% in FY08, with a PAT growth of over 100%. At the current price of Rs. 61.50, it is available at 7.5 times FY07 EPS and 5.4 times FY08 (E) EPS.

One could look at accumulating AOSL in the Rs. 59 – 65 band with a view to benefit from the topline and bottomline growth aided by larger orders and robust margins. AOSL could provide decent returns in the next 3 to 4 quarters. A comparison with its peers given below suggests a scope for improvement in valuations of AOSL.

Peer comparison

Co. Name	Year end	Equity	Sales	EBITDA	OPM	NP	BV	EPS	CMP	P/E	P/BV	EPS- TTM	P/E
		(Rs. cr)	(Rs. cr)				(Rs)	(Rs)	(Rs)			(Rs)	
Asian Oilfield	200703	7.01	27.5	8.07	29.3	5.23	22.1	7.5	61.5	8.2	2.78	7.53	8.2
Alphageo	200603	4.94	24.38	11.69	47.9	4.22	43.6	8.4	255.65	30.4	5.86	11.61	22
Shiv-Vani Universal	200612	33.44	205.09	79.21	38.6	27.03	78.7	7.9	319.95	40.5	4.07	8.61	37.2

* CMP as on 08/05/07

Financials

P & L Account	4th Qtr	4th Qtr	Chg	Full Yr	Chg	Full Yr	Chg	Full Yr	Chg	Full Yr
(Amt in Rs. cr)	200703	200603	%	FY08 (E)	%	FY07	%	FY06	%	FY05
Net Sales	19.74	5.77	242.10	50.2	82.55	27.5	166	10.34	32.7	7.79
Other Income	0.12	0.08	50.00	0.25	31.58	0.19	-9.5	0.21	75	0.12
Total Income	19.86	5.85	239.50	50.45	82.2	27.69	162.5	10.55	33.4	7.91
Total Exp	12.69	4.91	158.50	33.9	72.78	19.62	118.5	8.98	30.3	6.89
PBIDT	7.17	0.94	662.80	16.55	105.1	8.07	414	1.57	53.9	1.02
Interest	0.13	0.12	8.30	0.96	242.9	0.28	21.7	0.23	53.3	0.15
PBDT	7.04	0.82	758.50	15.59	100.1	7.79	481.3	1.34	54	0.87
Depreciation	0.39	0.09	333.30	1.36	106.1	0.66	94.1	0.34	-8.1	0.37
PBT	6.65	0.73	810.96	14.23	99.58	7.13	613	1	100	0.5
Total Tax	2.47	0.37	567.57	4.41	77.88	2.48	552.63	0.38	111.11	0.18
Reported PAT	4.18	0.36	1061.10	9.8	111.2	4.65	650	0.62	93.8	0.32
Extraordinary Item	-0.55	0	0.00	0	-100	-0.58	0	0	0	0
Adjusted PAT	4.73	0.36	1213.90	9.8	87.74	5.23	743.5	0.62	93.8	0.32
EPS (Unit Curr)	6.16	0.68	805.90	11.42	40.09	8.15	602.6	1.16	93.3	0.6
OPM%	36.32	16.29		32.97		29.35		15.18		13.09
NPM%	23.96	6.24		19.56		19.02		6.00		4.11

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