Hindustan Oil Exploration Company Limited

Instrument	Amount	Rating Action
		July 2016
Long Term Proposed Debt	Rs. 100.0 crore	[ICRA]BBB+(stable) reaffirmed

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 100.0 crore proposed facilities of Hindustan Oil Exploration Company Limited (HOEC). The rating carries stable outlook.

The rating reaffirmation considers the progress made in the development of gas field in Assam, which includes award of contracts and mobilization of materials; downward revision in project cost by adoption of modular gas processing technology and steps being taken for early monetization of gas. ICRA also takes note of the improved liquidity profile of the company on the back of tax refunds, which has resulted in healthy cash and investment balance, which coupled with reduced capex requirements has mitigated funding risks as the Company may not need debt funding for the project. However, the rating are constrained by the weak financial performance of the Company due to subdued production from existing fields, although margins have witnessed some incremental improvement on the back of cost control steps taken by the management and support from non operating income. ICRA also notes that the benefit of revised Assam project cost has been partly offset by downward revision in expected gas realisation compared to earlier estimates. Additionally, while the market risk for the Assam development project is limited due to presence of potential customers for natural gas in the vicinity; the project remains susceptible to execution risks due to pending approvals, risk of local protests and other factors, which may result in time and cost overruns and hence timely completion of project and commencement of production remain a key sensitivity factor. The rating is further constrained by geological risks inherent in the exploration and production (E&P) business; commodity price risk associated with crude oil sales (although gas sales account for major share of revenue); small-sized operations of the Company as measured by various operational metrics and the continued high dependence on PY-1 field in the near term.

Company Profile

Promoted in 1983 by the late Mr H T Parekh, Hindustan Oil Exploration Company Limited (HOEC) is engaged in the 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 Holding plc along with its subsidiaries held~ 47.2% stake in the Company. Eni UK Holding plc is a subsidiary of Eni SpA of Italy. However, in March 2016, Eni had reduced its stake to 22.7%, which was acquired by Mr. Ashok Goel and Mr. Rohit Dhoot who were acting in consort through trusts and other entities in personal capacity.

Currently, HOEC has participating interest in eight oil / gas fields in Cambay basin, Cauvery basin, Assam-Arakan basin, and Pranahita-Godavari basin. Of the eight fields, five are in the production phase and the remaining in exploration/development phase. As at end-March 2016, HOEC's 2P crude oil and natural gas reserves were approximately 19.8 mmboe ; with the major producing asset being PY-1 gas field in the Cauvery basin. The company has surrendered one of the Rajasthan Blocks during 2015-16 and the PSC for another block in the state has expired and the operator has surrendered the block.

Recent Results

The Company reported operating income (OI) of Rs. 28.3 crore and profit after tax of Rs, 6.6 crore during fiscal 2015-16 compared to OI and loss of Rs. 40.5 crore and Rs, 1221.0 crore (including impairment of Rs. 1168.8 crore) during fiscal 2014-15.

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