Business Analysis

Asian is an oil & gas industry service provider with the primary offering of 2D and 3D seismic services to locate hydrocarbon deposits. They have recently expanded into providing other services including turnkey drilling, production facility construction (EPC), facility operation and maintenance (O&M) and Enhanced oil recovery.

ASIAN is in technical collaboration with the Geophysical Institute of Israel (GII) mainly for seismic detection technology.

They have global presence and operate in India, Iraq, Nigeria, Myanmar, Indonesia and Dubai.

ASIAN has partnered with Wireless Seismic, one of the largest onshore producers and the largest user of seismic data in the United States, to provide real-time seismic data acquisition. This collaboration will provide ASIAN with superior technical know-how.

Market Outlook

The government has launched a program to search and create a repository of Oil & Natural gas using 2D & 3D seismic technology in 2019. The idea of the government is to reduce the oil imports and is putting emphasis on the vast potential of India's unexplored basins.

This will give a considerable boost to ASIAN over and above their standard orders.

India has a large Land mass and this government initiative will give a huge boost to the sector.

According to economics times, all oil PSUs have a capex plan of Rs. 98,500 cr. And US 1.3 trillion is the potential of digitisation in this sector.

Order Book

ASIAN has received a Letter of Award (LOA) for acquisition of 20 and 30 seismic data of oil blocks located in Rajasthan and Gujarat State. The total value of the LOA received is about Rs. 640 crore.

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

Customers

Company's Key Customers include – ONGC, Oil India, GAIL India, L&T amongst 15 others. They are also pre-qualified with 8 clients.

Company Analysis of last 10 years (Annual Report and Financials combined)

Mr. Gautam Gode is a Promoter Director of the Company and is also the director on Samara Indian Advisors Pvt. Ltd. Samara who fist invested in 2008, acquired a majority stake in Asian Oilfield and assumed management control from 2010 with 36.33% of shares.

In FY 11, the company made considerable profits of Rs. 9.93 Cr v/s 3.39 cr the previous year, but almost 85% of this was wiped out due to "provisions for bad linter-corporate Loans" amounting to Rs. 7 Cr. That resulted in a net loss of approx. Rs. 7 cr. This is not considered good in terms of Management quality and intent.

From March 12 to March 17, the expenses were more than sales resulting in considerable losses every year. This indicates poor operations or orders taken at loss – both of which are not good management traits.

In FY 12, the company received only 2 orders that is indicated from low sales revenue. This year also saw a fall of crude oil process falling that impacted their order prospects. With low orders, company could not control expenses that stood at 115% of sales that resulted in considerable losses.

Sales were flat in FY13 at 49 Cr. This year, the company expanded to internationally. The management expected a top-line of 300Cr by 2016 – it was not even close at 78 Cr. The same factors resulted in poor order numbers. The same problem of Expenses being above sales existed, resulting in loss. The new management recruited last year doesn't seem to work. Despite losses and poor performance, the salaries of key managerial executives increased 3 times from 42 lacs to 1.4 cr! Provision from intercorporate doubtful loan still exists in the books.

In FY 14, sales increased substantially from 49 cr to 122 cr. This is due to the new government focusing on Indian oil reserves exploration. However the expenses overshot revenues again resulting in losses. (Not Sure But looks like provision has been made to disappear; that is written off – sign of siphoning?). The company was fined 20 lacs by SEBI for not disclosing Samara taking up of shares in 2012.

In FY 15, the sales further increased to 140 cr but again the expenses overshot sales resulting in losses.

The same story of inefficiency despite good market and good orders continues till FY 17 when Oilmax took over Asian.

The new management has set out clear goals for strengthening the balance sheet and on cost control. This focus is heartening.

The management has a record of good consistent delivery without major delays. No penalties have been levied on the company. No fishy transactions or doubtful loans.

The result of excellent management is seen in the financial numbers post FY 17. This is the proof of pudding.

New Management Analysis

Oilmax Energy Private Limited has acquired majority stake in AOSL in FY2017.

Oilmax Energy Pvt Ltd Is Closely Held by Mr Kapil Garg And Rabi Bistia both of whom are professionals in this field with impeccable track record.

Mr.Kapil Garg, a graduate from the prestigious premier institute, IIT Roorkee, started his career with ONGC as a production engineer, then moved to Enron Oil and Gas India Ltd. He has worked in various positions in Asia and Middle East based in the U.K.

Dr.Rabi Narayan Bastia (Padma Shri), post-graduated in Petroleum Exploration from Norwegian Technological University, Norway and obtained his Doctoral degree in Geology from IIT, Kharagpur. Is a reputed personality in the Hydrocarbon Industry. He was heading the exploration group of Reliance for more than 16 years.

Both of them are professionals with tremendous quality experience and proven track record in this field. They are astute entrepreneurs who have great business sense and have cleaned up the balance sheet and turnaround operations as is evident in the financial summary.

Mr. Ashutosh Kumar is the CEO who has 25 years of experience in Oil & Gas. He has worked with reputed companies like ONGC, Enron and BG Group. He has quality operational experience. His remuneration is well within the ceiling.

5-year Financial Analysis

	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
Return on Net Worth				8%	19%

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)

Performance Guarantee Liabilities

Approximately 15 cr is withheld by companies towards non satisfactory performance

Credit Rating

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

Insider Share Purchase/Sale

Insiders have purchased shares in last 12 months; No one has sold the shares in last 12 months.

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%

Peer Comparison

Parameters (FY 2020)	Asian Oilfield Services	Alphageo (India)
ROCE	29%	-2%
ROE	20.4	-3.29
Sales Growth (3Yrs)	29.99	-4.37
EPS	7.76	-64.11
ROIC	23.02	-2.17
PBV	2.38	0.41
OPM%	24%	7%
PAT	29%	-9%
ROCE	29%	-2%
Net Cash Flow	61	-36
FCF	66	-15

This would indicate to us that ASIAN will always be in a better position to win orders compared to Alphageo.

Risk Analysis

1. Dependency on couple of large customers (ONGC and Oil India)
2. **ONGC and OIL India can backward integrate creating a risk**
3. Consistent failure to locate crude oil in India may dampen governments interest
4. Movement to cleaner energy sources
5. Price of crude oil may affect the prospects
6. Change in government policy of exploration of basins.

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 may discover its true value within 12 months.