

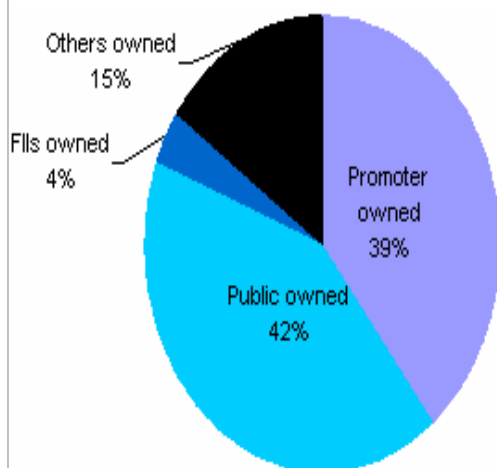
Selan Exploration Technology Limited (SELAN)

BUY

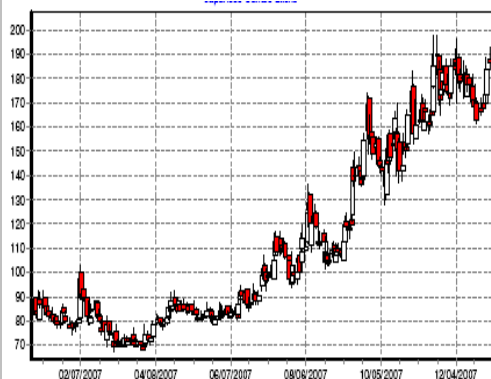
Company Details

| | |
|---------------------|---------------------------|
| CMP | : Rs.186 |
| Target | : Rs.350 |
| Upside | : 85% |
| Time Frame | : 12-15 months |
| P/E | : 19.25 |
| P/B | : 5.27 |
| Beta | : 1.2 |
| Market Cap | : Rs.268.14 cr |
| 52 High/ Low | : Rs.197.5/Rs.67.4 |
| Free Float | : 41.5% |

Shareholding Pattern



Price Chart



An onshore oil exploration and production company, operating 14 oil wells in three oil blocks namely Bakrol, Indrora and Lohar in Gujarat Awaiting approval for production in another two fields, OGNAJ Oilfield and KARJISAN Gas Field

Incorporated in 1985, Selan Exploration Technology Limited (SELAN) is an onshore oil exploration and production company. It currently operates 14 oil wells on three oil blocks, Bakrol, Indrora and Lohar in Gujarat and produced 100963 barrels of crude oil, in FY2006-07.

During 2004, the company entered into a production sharing agreement with the Ministry of Petroleum and Natural Gas (MPNG) for the OGNAJ Oilfield and KARJISAN Gas Field. It has already obtained mining lease for KARJISAN Gas Field, however, mining lease for OGNAJ Oilfield is yet to be obtained. Once the production from these fields start, it would lead to substantial increase in the sales of the company.

Investment Rationale

• Huge Oil Reserves...

Selan has four oil fields and one gas field, located in the oil rich Cambay Basin, Gujarat. Though the official description to the valuation of assets is restricted to "significant", industry sources estimate that its oil reserves is around 45 million barrels.

• Awaiting permission for production from OGNAJ field...Massive increase in volumes

Selan is already operating three oil blocks namely Bakrol, Indrora and Lohar in Gujarat. However, permission for production from OGNAJ oil filed is still pending and once the company receives that permission, we will witness massive volume increase.

• Enterprise Value of meager Rs. 268 crore against an oil reserve value of Rs. 13400 crores... Massive Undervaluation

Applying a currency conversion rate of Rs.39.7/USD and a crude oil price of \$ 75 per barrel, the valuation of total oil reserves of Selan comes around to Rs.13400 crores. The current enterprise value of the company is meager Rs. 268 crores suggesting a massive undervaluation.

Valuation

We expect Selan to witness a sales growth of 40% CAGR over FY2007-09. Further, higher crude prices will boost up the margins from current 76% to 80% in FY08 and 83% in FY09. Factoring into higher growth, higher EBITDA margins, possible revenue from sale of gases being flared from the current oil blocks and production from new oil field and gas block, we expect the stock to get re-rate.

At the CMP of Rs.186, the stock is trading at 15.37x and 10x, FY08E EPS of Rs. 12.1 and FY09E EPS of Rs. 18.6, respectively. Applying a PE multiple of 19 we arrive at a target price of Rs. 350 with a time frame of 12-15 months. We recommend a strong BUY on the stock.



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Key Financials

(Rs. Crore)

| | 2004-05 | 2005-06 | 2006-07 | 2007-08E | 2008-09E |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Sales | 10.4 | 18.6 | 26.1 | 34.5 | 51.2 |
| <i>% Change</i> | 40.8 | 80.0 | 40.3 | 32.2 | 48.1 |
| Total Expenditure | 6.3 | 5.2 | 6.2 | 6.9 | 8.9 |
| EBITDA | 4.1 | 13.4 | 19.9 | 27.6 | 42.3 |
| <i>% of Net Sales</i> | 39.6 | 72.0 | 76.2 | 80.0 | 82.7 |
| Depreciation | 0.6 | 0.6 | 0.7 | 0.8 | 1.1 |
| Other income | 0.3 | 2.7 | 0.9 | 0.5 | 0.3 |
| PBIT | 3.8 | 15.5 | 20.1 | 27.3 | 41.5 |
| Interest & Financial charges | 0.0 | 0.2 | 0.9 | 1.0 | 1.1 |
| PBT | 3.8 | 15.3 | 19.3 | 26.3 | 40.4 |
| Tax provision | 0.6 | 6.0 | 7.2 | 8.9 | 13.6 |
| PAT before Extraordinary items | 3.1 | 9.3 | 12.1 | 17.5 | 26.8 |
| <i>% Change</i> | 281.7 | 195.8 | 30.8 | 88.6 | 121.1 |
| Extraordinary items | -1.9 | -0.7 | -1.6 | 0.0 | 0.0 |
| APAT after Extraordinary items | 1.2 | 8.6 | 10.6 | 17.5 | 26.8 |
| Capital | 13.4 | 14.4 | 14.4 | 14.4 | 14.4 |
| Earnings per share (diluted) | 0.9 | 6.0 | 7.3 | 12.1 | 18.6 |

Growth (%)

| | | | | | |
|-------------------|-----|-----|----|-----|-----|
| Net Sales | 41 | 80 | 40 | 85 | 96 |
| Total Expenditure | 29 | -16 | 19 | 32 | 43 |
| EBITDA | 63 | 227 | 49 | 106 | 112 |
| PBIT | 151 | 311 | 30 | 76 | 106 |
| PBT | 173 | 305 | 26 | 72 | 110 |
| APAT | 40 | 624 | 23 | 103 | 154 |

Margin (%)

| | | | | | |
|--------------------|----|----|----|----|----|
| EBITDA / Net Sales | 40 | 72 | 76 | 80 | 83 |
| PBIT / Net Sales | 36 | 83 | 77 | 79 | 81 |
| PBT / Net Sales | 36 | 82 | 74 | 76 | 79 |
| APAT / Net Sales | 11 | 46 | 40 | 51 | 52 |

(Source: CMIE, RR Research)



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Concern

• **Sensitive to oil price movements**

Selan's operating performance is to great extent linked to the crude oil prices.

Crude oil prices are sensitive to global and regional demand-supply situation and expectation regarding the future demand-supply situation. Any adverse impact on crude oil prices can significantly affect Selan's operating performance.

• **Obsolescence of equipments**

Interpretation of data, acquired for seismic evaluation of oilfield & reservoir modeling requires highly capital intensive and technologically advanced software and equipments which are prone to obsolescence. Further, interpretation, thus made is quite unpredictable.

• **Pending approval for mining Lease**

Selan is awaiting for permission for production from OGNAJ oil field, prolonged delay for that may affect Selan's performance significantly.

• **Lack of adequate tankage**



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