



INDUSTRY: Oil and Gas sector

MARKET CAP: 550 crores

P/E: 11

ROCE: 50%+

ROE: 35%

D/E: 0.02

### ABOUT THE COMPANY

Incorporated in 1987, Alphageo (India) Limited is a seismic survey service provider for Oil and gas companies. The Company is engaged in seismic survey data acquisition, processing and interpretation services. The Company provides two-dimensional (2D) and three-dimensional (3D) seismic data acquisition, processing and interpretation services for oil exploration and production entities.

In 1990, it emerged as the first Indian private company to commence seismic survey operations in India and only Indian company to provide complete service from data acquisition to processing to interpretation of data. In 1997 it became the only geophysical company providing all comprehensive services.

Company has strong presence in North eastern states, contributing maximum to its topline. Recently company has diversified geographically marking its presence in Georgia and Myanmar.

In 2006, company started 3D seismic survey service. Company has increased its channel count from 6,000 to 30,000 till date.

## **MORE ABOUT EXPLORATION AND PRODUCTION BUSINESS**

Govt grants the licence to explore and exploit a specific area which may be rich in hydrocarbons, under specific contract. The company winning the contract then undertakes exploration of the area using various advanced technologies such as 2D or 3D seismic surveys and exploratory drilling to identify the size of the reserves and the best location to drill wells to exploit these reserves. This is where Alphageo (or other seismic survey companies) comes into picture in entire Oil and gas exploration activity.

Once the reserves are identified, the company applies for various clearances which once approved, allows company to drill production well. Certain percentage of wells may turn out to be dry wells. These dry wells have to be abandoned and has to be written off from books. Productive wells produce oil and gas which is transported via pipelines or other means to oil refineries.

## **MORE ABOUT SEISMIC SURVEY**

Sound waves and their physical properties are leveraged in the seismic surveying industry. Seismic surveyors use sound to hunt for oil and gas on land and under the depths of seas. The different layers of earth bounce sound at different frequencies – this principle of science is key to the seismic method of exploration. A seismic source is the starting point of exploration – the source can include dynamite or vibrators. Seismic sources generate single pulses or continuous sweeps of energy called seismic waves, which travel through water or layers of rock. Some of the waves then reflect and refract and are recorded by receivers, such as geophones on land or hydrophones in marine environments. Various media such as celluloid film, photographic paper and these days, computer memory, are used to record the earth's response to the probing geologists. The signals may then be displayed by a computer as seismograms for interpretation by a seismologist. The number of 'shots' per day range from around 20 to 70, depending on the terrain. Seismic surveys find extensive use in the exploration for hydrocarbons such as petroleum and natural gas and other resources such as coal, ores, minerals and geothermal energy.

## **ABOUT THE MANAGEMENT**

1. Mr. Dinesh Alla and Savita Alla are directors of the company has post graduate from BITS, Pilani.
2. Mr. Rajesh Alla is a promoter director and Post graduated from Carnegie Mellon university, Pittsburgh, USA

Best way to judge the competence of management is to check how they performed during sectoral headwinds. Major risk for the company is when oil prices fall, exploration activities become unattractive for Oil&Gas companies. Due to this, topline of the company takes a hit. During fall in crude oil prices from 2011 to 2014, Standalone Company's revenue fell drastically where revenue fell from 78 cr in 2010 to 8 cr in 2013. But company took geographic expansion and took project in Geogia and Mynmar. Consolidated revenue for 2013 was 24 cr. And company policy of being debt free saved company from further disaster during hard times.

## KEY RISKS

1. Company's business is affected by crude oil prices. For India story is different and more strategic in nature. India imports almost 75%+ of oil needs and PM Modi has set a target to reduce the import by 10% by 2025. Hence the roll out of such large order for a huge seismic survey has been rolled out. This is the starting point of OLAP (Open Acreage License Policy) which is going to come in effect from 2019.
2. Company is in the industry that needs continuous technological upgradation. Company has been consistently investing in its technology gives us some comfort. Besides company has patented technology.
3. Execution risk Company has the credibility of delivering project before schedule (85% projects are delivered ahead of schedule).
4. Competition risk Major players in onshore survey are Alphageo, Shiv-vani, Asian Oilfield and Quippo (subsidiary of SREI Infrastructure). Company is mainly into onshore seismic survey whereas major International players are into offshore seismic survey. And in onshore survey, most of its competitors are debt burdened and operating into losses.

## MAJOR REASON THEY ARE ABLE TO RETAIN CUSTOMERS?

1. They provide the entire services basket in the geophysical service space
2. They have the reputation of completing projects in difficult terrain
3. On time completion of projects

## TRIGGER POINTS

1. Large order book of 1700 cr, and operating margin of 25-30% and PAT margin of 15%, at current PE of 11 it is cheap.
2. Company has market cap of 550 cr, order book 3x size of market cap. Normally company's revenue is around 80 cr, 20x normal revenue order to be completed by June 2019.
3. Govt aim to reduce India's dependence on imports by 10% by 2025.
4. Open Acreage License policy to be implemented by 2019
5. Large unexplored field in India (only 50% of Indian Land and 41% of Indian water is explored)

## WHAT WE KNOW THAT MARKET DOES NOT KNOW?

Nothing;)

According to us recent correction in price from ATH of 1065 to 830 was majorly because management has stop bidding for new contracts. Management wants to first stabilise this big order and develop bandwidth to execute such order efficiently. Order has to be completed by June 2019. I think it is a good step taken by the management where they are concentrating on executing

current contract efficiently rather than going on hunt for another contracts. This shows management maturity and commitment towards quality.

There is a risk that management might not receive such large orders again in the future and topline of the company might revert to normal level of 70-100 cr. But with OALP and govt initiative to reduce India's dependence on imported oil and excellent execution capability by the management and debt burden competitors who cannot execute major contracts, many contracts are bound to be won by Alphageo.