

Faster production ramp-up continues to be key monitorable...

About the stock: Oil & Natural Gas Corporation (ONGC) is primarily engaged in exploration, development and production of crude oil and natural gas.

- ONGC's crude oil production has been in the range of 54-65% of total domestic oil production in FY11-22
- ONGC is also a player on the refining sector via its subsidiaries

Q2FY23 Results: ONGC's Q2FY23 profitability was above our estimates.

- Revenue grew 57.4% YoY (down 9.5% QoQ) to ₹ 38320.8 crore. (I-direct estimate: ₹ 39917.5 crore)
- EBITDA was at ₹ 18811.6 crore, up 42.2% YoY (down 27.5% QoQ), above our estimate of ₹ 14877.4 crore as statutory levies were lower than expected. Windfall taxes amounted to ₹ 6452 crore during the quarter
- PAT was at ₹ 12825.9 crore, down 30% YoY, 15.7% QoQ (I-direct estimate: ₹ 7757.9 crore)

What should investors do? ONGC's domestic oil production has seen a steady decline over the last 10 years but in the near to medium term volume growth from the KG Basin is expected to improve production. Currently, while oil prices are at elevated levels, imposition of windfall taxes will limit the upside to earnings.

- We retain our **HOLD** rating on the stock

Target Price and Valuation: We value ONGC at ₹ 155 i.e. ₹ 127 for core oil & gas business and ₹ 28 for subsidiaries and other investments.

Key triggers for future price performance:

- Sustained higher crude oil prices and gas realisations can result in better profitability. Periodic revision in windfall taxes will be the key monitorable
- Ramp-up in oil & gas production from newer fields
- Value unlocking from subsidiaries and other investments & lower holding company discount on investments
- High dividend yield and payout ratio

Alternate Stock Idea: Apart from ONGC, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- It operates a natural gas pipeline network of 14500 km as of end of FY22



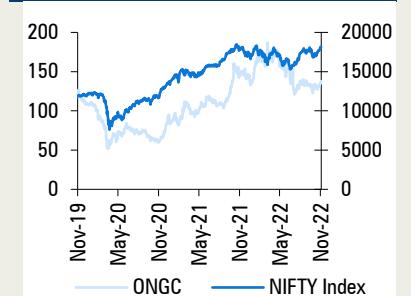
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,78,640.4
Total Debt (FY22) (₹ Crore)	11,861.9
Cash and Investments (FY22)	236.2
EV (₹ Crore)	1,90,266.1
52 week H/L	195/ 119
Equity capital (₹ Crore)	6,290.1
Face value (₹)	5.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.4	58.9	58.9	58.9
FII	8.9	9.9	10.0	9.0
DII	17.2	16.4	17.8	18.5
Others	13.5	14.8	13.3	13.6

Price Chart



Recent event & key risks

- **Key Risk:** (i) Sustained higher oil prices and increase in value of subsidiaries, (ii) Slower than expected increase in production

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22E)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues (₹ crore)	1,09,654.6	96,213.6	68,141.1	1,10,345.4	7.2	1,57,291.0	1,51,783.5	17.3
EBITDA (₹ crore)	59,462.7	49,288.2	32,812.7	59,938.3	10.7	86,508.9	90,330.9	22.8
Net Profit (₹ crore)	26,715.8	13,104.6	11,246.4	40,305.7	17.6	52,308.3	53,184.4	14.9
EPS (₹)	21.2	10.4	8.9	32.0		41.6	42.3	
P/E (x)	6.6	13.5	15.8	4.4		3.4	3.3	
Price / Book (x)	0.9	0.9	0.9	0.7		0.6	0.6	
EV/EBITDA (x)	3.3	4.0	6.0	3.2		2.1	1.9	
RoCE (%)	15.6	10.2	4.5	14.8		22.3	20.7	
RoE (%)	13.2	6.7	5.5	17.0		19.0	17.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Oil realisation declines QoQ, gas realisation remains unchanged QoQ

- Revenue declined 9.5% QoQ on account of ~12% decline in oil realisation. Gas realisation remained unchanged QoQ at US\$6.1/mmbtu (on GCV basis). On the production front, oil production was down 2.4% QoQ at 5.36 MMT. Gas production declined 0.6% QoQ to 5.35 BCM. Oil & gas production declined 2% and 2.1% YoY, respectively
- DD&A expenses were at ₹ 5314.7 crore. Other income was ₹ 3529.4 crore, higher than our estimate of ₹ 1791.1 crore on account of higher than anticipated interest and dividend income
- ONGC Videsh reported 1.48 MMT of oil production, down 31.4% YoY and 3.9% QoQ. Gas production was at 0.9 BCM, down 6.7% YoY, 8.7% QoQ
- Going ahead, we estimate gross oil realisation at ~US\$90.3/bbl and US\$71.5/bbl in FY23E and FY24E, respectively. We revise our gas realisation estimates as domestic gas prices have been revised by the government from US\$6.1/mmbtu to US\$8.57/mmbtu

Q2FY23 Earnings Conference Call highlights

- The management said the company will get its first oil from the KG-98/2 field in May 2023 and is expecting volume of 1.935 MMT of oil for the year. Incremental gas production from the KG basin is expected at 2.78 BCM
- During FY25E, oil & gas production is expected at 2.178 MMT and 3.81 BCM, respectively, from the KG Basin. Peak production will be achieved in FY25 with 45000 bpd of oil and 12 mmscmd of gas
- Total domestic oil & gas projection is as follows: 1) For FY23E, oil & gas production is estimated at 22.82 MMT and 22.099 BCM, respectively. 2) For FY24E, oil & gas production is estimated at 24.636 MMT and 25.685 BCM, respectively. 3) For FY25E, oil & gas production is estimated at 25.689 MMT and 27.529 BCM, respectively
- ONGC Videsh's capex for the year is ~₹ 5000-6000 crore. Total OVL oil and gas production projection for FY23E is 10 mmtoe

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	38,320.8	39,917.5	24,353.6	57.4	42,320.7	-9.5	Revenue growth YoY was on account of higher realisation
Raw materials costs	-143.4	800.0	717.6	-120.0	458.2	-131.3	
Employees Cost	612.8	798.3	698.1	-12.2	710.7	-13.8	
Other Expenses	19,039.6	23,441.7	9,711.7	96.0	15,221.6	25.1	
Total Expenditure	19,509.1	25,040.1	11,127.4	75.3	16,390.5	19.0	
EBITDA	18,811.6	14,877.4	13,226.2	42.2	25,930.3	-27.5	Lower than expected statutory levies led to higher than expected EBITDA
EBITDA margins (%)	49.1	37.3	54.3	-522 bps	61.3	-1218 bps	
Depreciation	5,314.7	5,874.4	4,641.6	14.5	5,709.4	-6.9	
EBIT	13,496.9	9,003.0	8,584.6	57.2	20,220.9	-33.3	
Interest	666.9	422.7	578.8	15.2	635.6	4.9	
Other Income	3,529.4	1,791.1	3,146.5	12.2	757.7	365.8	Higher than expected interest and dividend income
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	16,359.5	10,371.5	11,152.4	46.7	20,343.0	-19.6	
Total Tax	3,533.5	2,613.6	-7,195.4	-149.1	5,137.1	-31.2	
PAT	12,825.99	7,757.9	18,347.7	-30.1	15,205.9	-15.7	

Key Metrics

Exchange rate (₹/\$)	79.8	79.8	74.1	7.7	77.3	3.3	
Gross realisation(\$/bbl)	95.5	97.5	69.4	37.7	108.5	-12.0	Elevated crude oil prices led to higher realisation YoY
Oil Production (mmt)	5.36	5.3	5.5	-2.0	5.5	-2.4	In line with estimates
Gas Production (mmt)	5.35	5.3	5.5	-2.1	5.4	-0.6	In line with estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	1,57,592.8	1,57,291.0	-0.2%	1,50,601.4	1,51,783.5	0.8%	Revised estimates taking into account current oil & gas price trend
EBITDA	81,770.5	86,508.9	5.8%	89,514.1	90,330.9	0.9%	
EBITDA Margin (%)	51.9	55.0	311bps	59.4	59.5	8bps	
PAT	46,638.7	52,308.3	12.2%	52,573.4	53,184.4	1.2%	
EPS (₹)	37.1	41.6	12.2%	41.8	42.3	1.2%	

Source: ICICI Direct Research

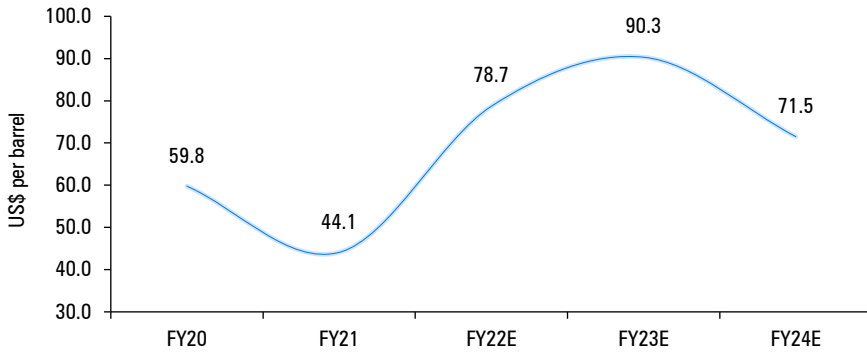
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.0	74.6	79.7	80.0	78.8	79.0	Estimates revised as per current trend
Gross realisation(\$/bbl)	44.1	78.7	90.3	71.5	90.4	71.5	
Oil Prod (Dom) (mmt)	22.5	21.7	21.9	24.6	21.8	24.8	Estimates remain unchanged
Oil Prod (OVL) (mmt)	8.5	8.1	6.6	7.6	6.6	7.6	
Gas Prod (Dom)(mmt)	22.8	21.7	21.8	25.4	21.7	25.4	
Gas Prod (OVL)(mmt)	4.5	4.2	4.3	4.3	4.3	4.3	

Source: ICICI Direct Research

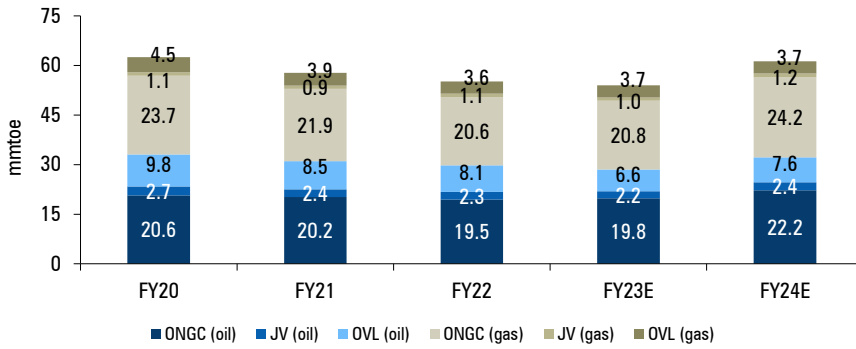
Story in charts

Exhibit 4: Gross Oil realisation trend



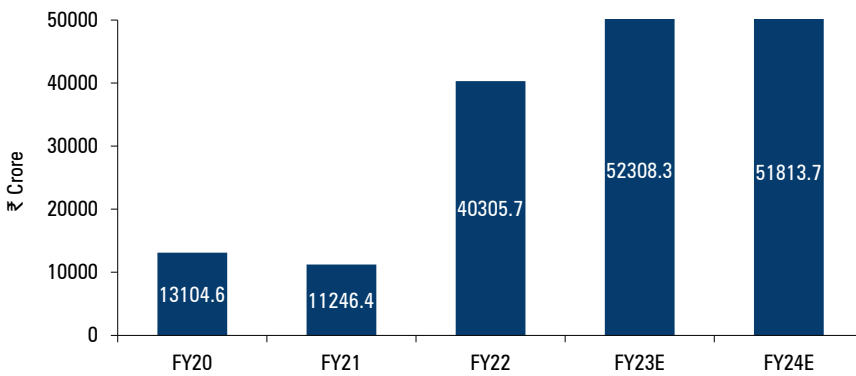
Source: Company, ICICI Direct Research

Exhibit 5: Production trajectory



Source: Company, ICICI Direct Research

Exhibit 6: Profitability trend (standalone)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	68141.1	110345.4	157291.0	151783.5
Growth (%)	-29.2	61.9	42.5	-3.5
(Inc./Dec. in stock trade)	-426.4	-143.0	-1118.6	0.0
Raw material Costs	1980.7	3272.5	3233.4	3800.0
Employee Costs	2307.3	2887.7	2856.5	3414.5
Statutory Levies	16423.7	27932.2	48248.6	37370.7
Other Expenditure	15043.1	16457.7	17562.1	18700.0
Op. Expenditure	35328.4	50407.1	70782.1	63285.1
EBITDA	32812.7	59938.3	86508.9	88498.4
Growth (%)	-33.4	82.7	44.3	2.3
Depreciation	22712.9	23054.0	22772.9	24185.9
EBIT	10099.8	36884.3	63736.0	64312.5
Interest	2214.5	2359.9	2147.7	1205.7
Other Income	8517.5	6515.6	7569.4	6162.9
PBT	16402.8	41040.0	69157.7	69269.7
Growth (%)	-18.3	150.2	68.5	0.2
Tax	5156.4	734.3	16849.3	17456.0
Reported PAT	11246.4	40305.7	52308.3	51813.7
Growth (%)	-14.2	258.4	29.8	-0.9
EPS	8.9	32.0	41.6	41.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	11,246.4	40,305.7	52,308.3	51,813.7
Add: Depreciation	22,712.9	23,054.0	22,772.9	24,185.9
Add: Others	1,129.3	-7,740.1	500.0	500.0
Cash Profit	32,887.1	43,844.5	59,758.4	61,780.7
Increase/(Decrease) in CL	8,093.3	3,430.5	-3,167.8	-3,710.9
(Increase)/Decrease in CA	-5,767.8	-7,822.7	-7,958.7	-3,215.4
CF from Operating Activi	37414.1	51227.3	64454.7	69573.4
Purchase of Fixed Assets	30,437.2	30,311.5	31,455.9	33,868.9
(Inc)/Dec in Investments	-8,946.4	-3,796.8	-10,679.8	-11,200.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activit	-39,383.6	-34,108.2	-42,135.7	-45,068.9
Inc/(Dec) in Loan Funds	2,329.8	-9,469.2	-1,000.0	-4,500.0
Less: Dividend Paid	2,201.5	11,775.1	15,822.8	14,718.9
Inc/(Dec) in Sh. Cap. & Res.	1,175.6	4,058.9	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activit	1,303.8	-17,185.4	-16,822.8	-19,218.9
Change in cash Eq.	-665.7	-66.3	5,496.2	5,285.5
Op. Cash and cash Eq.	968.2	302.5	236.2	5,732.4
Cl. Cash and cash Eq.	302.5	236.2	5,732.4	11,017.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	6,290.1	6,290.1	6,290.1	6,290.1
Preference Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,98,268.4	2,30,857.9	2,67,343.4	3,04,438.2
Shareholder's Fund	2,04,558.6	2,37,148.1	2,73,633.6	3,10,728.4
Loan Funds	21,331.1	11,861.9	10,861.9	6,361.9
Deferred Tax Liability	27,473.4	19,733.3	20,233.3	20,733.3
Well Abandonment Fund	0.0	0.0	0.0	0.0
Source of Funds	253363.0	268743.2	304728.7	337823.5
Application of Funds				
Net Block	20,020.7	20,057.8	20,557.8	21,057.8
Capital WIP	24,811.3	28,753.7	27,436.7	27,119.7
Producing Properties	1,10,679.1	1,16,877.8	1,24,877.8	1,32,877.8
Pre-Producing Properties	16,137.8	13,217.0	14,717.0	16,217.0
Total Fixed Assets	1,71,648.8	1,78,906.3	1,87,589.3	1,97,272.3
Investments	81,376.4	85,173.2	95,853.0	1,07,053.0
Inventories	8,474.5	7,861.4	10,773.4	10,396.1
Debtor	7,797.3	11,788.5	12,835.2	12,427.8
Cash	302.5	236.2	5,732.4	11,017.9
Loan & Advance, Other CA	48853.9	53298.6	57298.6	61298.6
Total Current assets	65428.3	73184.7	86639.5	95140.4
Current Liabilities	33169.6	34987.9	32320.1	29109.2
Provisions	31921.0	33533.1	33033.1	32533.1
Total CL and Provisions	65090.6	68521.0	65353.2	61642.3
Net Working Capital	337.7	4663.7	21286.3	33498.1
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	253363.0	268743.2	304728.7	337823.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	162.6	188.5	217.5	247.0
Cash per share	0.2	0.2	4.6	8.8
EPS	8.9	32.0	41.6	41.2
Cash EPS	27.0	50.4	59.7	60.4
DPS	3.6	8.0	10.8	10.0
Profitability & Operating Ratios				
EBITDA Margin (%)	48.2	54.3	55.0	58.3
PAT Margin (%)	16.5	36.5	33.3	34.1
Fixed Asset Turnover (x)	0.4	0.6	0.8	0.8
Inventory Turnover (Days)	45.4	26.0	25.0	25.0
Debtor (Days)	41.8	39.0	27.0	27.0
Current Liabilities (Days)	177.7	115.7	75.0	70.0
Return Ratios (%)				
RoE	5.5	17.0	19.1	16.7
RoCE	4.5	14.8	22.4	20.3
RoIC	4.5	14.8	22.9	21.0
Valuation Ratios (x)				
PE	15.9	4.4	3.4	3.4
Price to Book Value	0.9	0.8	0.7	0.6
EV/EBITDA	6.1	3.2	2.1	2.0
EV/Sales	2.9	1.7	1.2	1.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.0	0.0
Interest Coverage (x)	4.6	15.6	29.7	53.3
Debt to EBITDA (x)	0.7	0.2	0.1	0.1
Current Ratio	1.0	1.1	1.3	1.5
Quick ratio	0.9	1.0	1.2	1.4

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	309	330	Hold	65,800	42.0	-11.2	55.3	7.4	-27.6	5.6	6.2	29.1	4.7	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	15.3	27.8	27.2	33.6	18.5	17.3	20.1	11.7	27.3	18.4	28.1	23.3	16.5	24.0
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	900	1,000	Hold	8,890	60.4	50.4	79.6	14.9	17.9	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	142	155	Hold	1,82,233	8.9	32.0	41.6	15.9	4.4	3.4	6.1	3.2	2.1	4.5	14.8	22.4	5.5	17.0	19.1
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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