

CMP: ₹ 152

Target: ₹ 180 (18%)

Target Period: 12 months

February 16, 2023

BUY

Production ramp up to improve volumes in FY24E...

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 play on the refining sector via its subsidiaries

Q3FY23 Results: ONGC's Q3FY23 operating profitability was in line with I-direct estimates although overall profitability was below estimates.

- Revenue grew 35.5% YoY but remained flat QoQ at ₹ 38583.3 crore (I-direct estimate: ₹ 41066 crore) as increase in gas realisation was offset by a decline in crude prices
- EBITDA was at ₹ 20411.2 crore, up 27.8% YoY, 8.5% QoQ in line with I-direct estimate of ₹ 20333 crore. Special additional excise duty (SAED) amounted to ₹ 2938 crore during the quarter
- PAT came in at ₹ 11044.7 crore, up 26% YoY but down 14% QoQ due to increase in depreciation and lower other income QoQ (I-direct estimate: ₹ 12027 crore)

What should investors do? Net oil realisation would remain capped at around US\$75-76/bbl in the near to medium term on account of SAED levied by the government. Even if gas prices get capped at US\$6.5/bbl after Kirit Parikh committee recommendations, realisations are likely to remain high as they are well above historical averages. With commencement of production from the KG Basin in May, volumes are expected to grow, going ahead.

- We change our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value ONGC at ₹ 180 i.e. ₹ 150 for core oil & gas business and ₹ 30 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 KG Basin and overseas assets
- Value unlocking from subsidiaries and other investments along with 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 Reliance Industries (RIL).

- RIL is one of India's biggest conglomerates with a presence in oil refining & marketing and petrochemicals, oil & gas exploration, retail, digital services, media, etc, making it a well-diversified business entity
- BUY with a target price of ₹ 3050



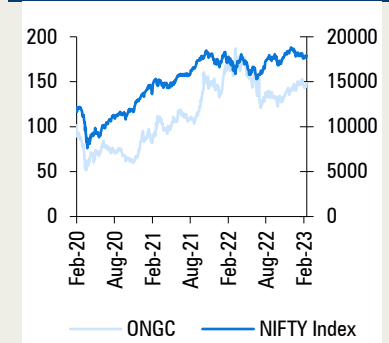
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,91,220.7
Total Debt (FY22) (₹ Crore)	11,861.9
Cash and Investments (FY22)	236.2
EV (₹ Crore)	2,02,846.4
52 week H/L	195/ 119
Equity capital (₹ Crore)	6,290.1
Face value (₹)	5.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	58.9	58.9	58.9	58.9
FII	9.9	10.0	9.0	8.4
DII	16.4	17.8	18.5	19.3
Others	14.8	13.3	13.6	13.4

Price Chart



Recent event & key risks

- **Key Risk:** (i) Lower than expected gas realisation, (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	FY25E	3 year CAGR (FY22-25E)
Revenues (₹ crore)	1,09,654.6	96,213.6	68,141.1	1,10,345.4	7.2	1,57,638.5	1,49,367.5	1,43,619.9	9.2
EBITDA (₹ crore)	59,462.7	49,288.2	32,812.7	59,938.3	10.7	86,334.2	82,469.5	80,123.9	10.2
Net Profit (₹ crore)	26,715.8	13,104.6	11,246.4	40,305.7	17.6	51,214.9	47,330.3	44,886.4	3.7
EPS (₹)	21.2	10.4	8.9	32.0		40.7	37.6	35.7	
P/E (x)	7.2	14.6	17.0	4.7		3.7	4.0	4.3	
Price / Book (x)	0.9	1.0	0.9	0.8		0.7	0.6	0.6	
EV/EBITDA (x)	3.6	4.2	6.5	3.4		2.3	2.3	2.4	
RoCE (%)	15.6	10.2	4.5	14.8		22.4	18.6	16.1	
RoE (%)	13.2	6.7	5.5	17.0		18.8	15.5	13.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Gross oil realisation declines 9% QoQ, gas realisation increases 40% QoQ

- Revenue was flat QoQ on account of 9% decline in gross oil realisation. Gas realisation improved 40% QoQ to US\$8.57/mmbtu (on GCV basis). On the production front, oil production remained flat QoQ at 5.4 MMT. Gas production was also flat QoQ at 5.36 BCM. Oil & gas production declined 1% and ~4% YoY, respectively
- DD&A expenses came in at ₹ 6461 crore. Other income was ₹ 1411 crore, down 60% QoQ mainly due to lower dividend income this quarter
- ONGC Videsh reported 1.388 MMT of oil production, down 29% YoY and 7% QoQ. Gas production was at 0.784 BCM, down 30% YoY, 14% QoQ
- Going ahead, we estimate oil production at 21.7 MMT, 22.4 MMT and 23.6 MMT for FY23E, FY24E and FY25E, respectively. Similarly, gas production is estimated at 21.59 BCM, 22.9 BCM, 24.4 BCM, in FY23E, FY24E and FY25E, respectively

Q3FY23 Earnings Conference Call highlights

- The management said the company is likely to get its first oil from the KG-98/2 field in May/June 2023 and is expecting volume of 1.9 MMT for FY24. Associated gas production is estimated at 2.8 BCM
- During FY25E, oil & gas production is expected at 2.2 MMT and 3 BCM, respectively, from the KG Basin. Peak oil & gas production estimates are 45000 bpd and 11 mmscmd, respectively
- In FY24, the company expects a 4-5% increase in volumes over FY23
- OVL oil & gas production projection for FY24E is estimated at 9.668 mtoe
- With the government opening up 3 lakh sq km of no-go areas, ONGC plans to spend ₹ 32000 crore in exploration and surveys over a span of three years
- With respect to the offshore assets, the company is in talks with the Vietnamese government to extend the PSC agreement there. Oil production in Columbia is at 18000 bpd. ONGC is planning to drill six exploratory wells and increase the production to 35000 bpd
- The company has incurred a capex of ₹ 19153 crore till December. The capex for FY23 is at around ₹ 30000 crore

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	38,583.3	41,065.5	28,472.9	35.5	38,320.8	0.7	Revenue growth YoY was on account of higher oil and gas realisation
Raw materials costs	1,803.6	900.0	829.7	117.4	-143.4	-1,358.2	Increase in RM cost due to high LNG prices
Employees Cost	683.1	821.3	695.0	-1.7	612.8	11.5	
Other Expenses	15,685.4	19,011.6	10,979.2	42.9	19,039.6	-17.6	
Total Expenditure	18,172.1	20,732.9	12,503.9	45.3	19,509.1	-6.9	
EBITDA	20,411.2	20,332.7	15,969.1	27.8	18,811.6	8.5	In line with estimates
EBITDA margins (%)	52.9	49.5	56.1	-318 bps	49.1	381 bps	
Depreciation	6,461.0	5,874.4	5,455.9	18.4	5,314.7	21.6	Higher than estimated
EBIT	13,950.2	14,458.3	10,513.1	32.7	13,496.9	3.4	
Interest	689.5	370.2	581.6	18.6	666.9	3.4	
Other Income	1,411.3	1,991.1	1,491.6	-5.4	3,529.4	-60.0	Decline in other income QoQ
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	14,672.0	16,079.3	11,423.2	28.4	16,359.5	-10.3	
Total Tax	3,627.3	4,052.0	2,659.4	36.4	3,533.5	2.7	
PAT	11,044.73	12,027.28	8,763.7	26.0	12,826.0	-13.9	

Key Metrics

Exchange rate (₹/\$)	82.2	82.2	75.0	9.7	79.8	3.0	
Gross realisation(\$/bbl)	87.1	86.8	75.7	15.1	95.5	-8.8	Elevated crude oil prices led to higher realisation YoY
Oil Production (mmt)	5.40	5.53	5.5	-1.0	5.4	0.7	Flat QoQ
Gas Production (bcm)	5.36	5.45	5.6	-3.8	5.35	0.1	Flat QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	1,61,749.5	1,57,542.9	-2.6%	1,52,350.7	1,49,367.5	-2.0%	-	1,43,619.9	-	Revised estimates taking into account current oil & gas price trend
EBITDA	87,383.2	86,249.9	-1.3%	84,405.0	79,853.0	-5.4%	-	80,123.9	-	
EBITDA Margin (%)	54.0	54.7	72bps	55.4	53.5	-194bps	-	55.8	-	
PAT	53,040.9	51,151.8	-3.6%	49,013.7	45,373.1	-7.4%	-	44,886.4	-	
EPS (₹)	42.2	40.7	-3.6%	39.0	36.1	-7.4%	-	35.7	-	

Source: ICICI Direct Research

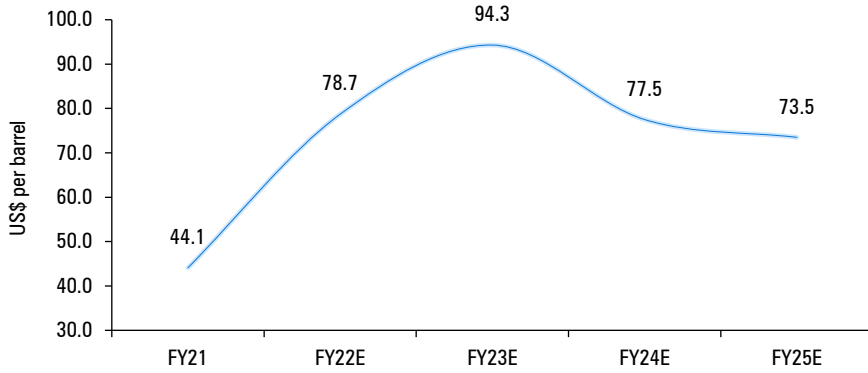
Exhibit 3: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Exchange rate (₹/\$)	74.0	74.6	80.2	82.1	82.2	80.3	82.2	-	
Gross realisation(\$/bbl)	44.1	78.7	94.3	77.5	73.5	93.3	75.5	-	
Oil Prodn (Dom) (mmt)	22.5	21.7	21.7	22.4	23.6	22.2	24.2	-	Estimates changed post Q3FY23E
Oil Prodn (OVL) (mmt)	8.5	8.1	6.6	5.9	7.6	6.6	7.6	-	
Gas Prodn (Dom)(mmt)	22.8	21.7	21.6	22.9	24.4	21.9	25.3	-	
Gas Prodn (OVL)(mmt)	4.5	4.2	4.3	3.8	4.3	4.3	4.3	-	

Source: ICICI Direct Research

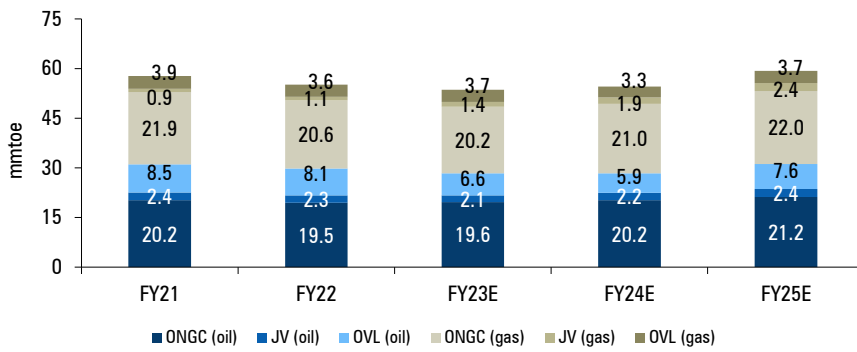
Story in charts

Exhibit 4: Gross oil realisation trend



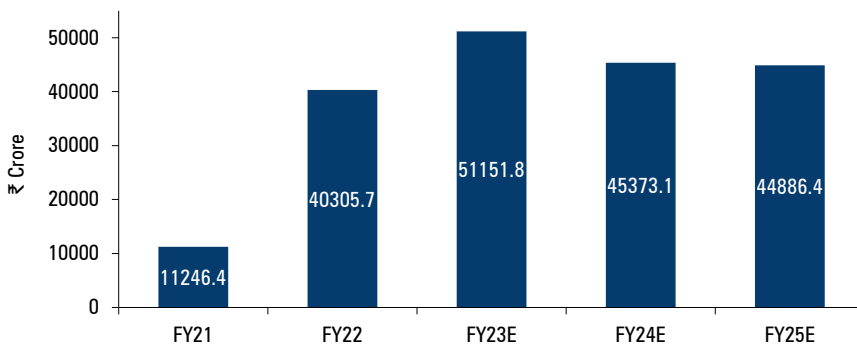
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Revenue	110345.4	157542.9	149367.5	143619.9
Growth (%)	61.9	42.8	-5.2	-3.8
(Inc./Dec. in stock trade)	-143.0	-605.1	0.0	0.0
Raw material Costs	3272.5	3623.5	3600.0	3800.0
Employee Costs	2887.7	2715.5	3100.1	3231.5
Statutory Levies	27932.2	47727.4	44114.4	37764.6
Other Expenditure	16457.7	17831.7	18700.0	18700.0
Op. Expenditure	50407.1	71293.0	69514.5	63496.0
EBITDA	59938.3	86249.9	79853.0	80123.9
Growth (%)	82.7	43.9	-7.4	0.3
Depreciation	23054.0	23359.5	24185.9	25018.2
EBIT	36884.3	62890.4	55667.1	55105.7
Interest	2359.9	2362.1	1170.7	1310.7
Other Income	6515.6	6989.6	6162.9	6213.6
PBT	41040.0	67517.9	60659.3	60008.6
Growth (%)	150.2	64.5	-10.2	-1.1
Tax	734.3	16366.1	15286.1	15122.2
Reported PAT	40305.7	51151.8	45373.1	44886.4
Growth (%)	258.4	26.9	-11.3	-1.1
EPS	32.0	40.7	36.1	35.7

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	40,305.7	51,151.8	45,373.1	44,886.4
Add: Depreciation	23,054.0	23,359.5	24,185.9	25,018.2
Add: Others	-7,740.1	500.0	500.0	500.0
Cash Profit	42,225.4	59,188.5	53,868.2	52,741.9
Increase/(Decrease) in CL	3,430.5	-3,116.1	-4,226.0	-1,602.3
(Increase)/Decrease in CA	-7,822.7	-7,994.6	-2,835.3	-3,181.2
CF from Operating Activi	51227.3	63900.7	62997.7	65621.2
Purchase of Fixed Assets	30,311.5	32,042.5	33,468.9	34,401.2
(Inc)/Dec in Investments	-3,796.8	-10,679.8	-12,200.0	-12,000.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activit	-34,108.2	-42,722.3	-45,668.9	-46,401.2
Inc/(Dec) in Loan Funds	-9,469.2	-4,000.0	1,000.0	1,000.0
Less: Dividend Paid	13,394.2	15,822.8	16,190.8	17,662.7
Inc/(Dec) in Sh. Cap. & Res.	5,678.0	500.0	500.0	500.0
Others	0.0	0.0	0.0	0.0
CF from financing activit	-17,185.4	-19,322.8	-14,690.8	-16,162.7
Change in cash Eq.	-66.3	1,855.5	2,638.0	3,057.3
Op. Cash and cash Eq.	302.5	236.2	2,091.7	4,729.7
Cl. Cash and cash Eq.	236.2	2,091.7	4,729.7	7,787.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
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	2,30,857.9	2,66,686.9	2,96,369.2	3,24,092.9
Shareholder's Fund	2,37,148.1	2,72,977.0	3,02,659.3	3,30,383.1
Loan Funds	11,861.9	7,861.9	8,861.9	9,861.9
Deferred Tax Liability	19,733.3	20,233.3	20,733.3	21,233.3
Well Abandonment Fund	0.0	0.0	0.0	0.0
Source of Funds	268743.2	301072.2	332254.5	361478.2
Application of Funds				
Net Block	20,057.8	20,557.8	20,657.8	20,857.8
Capital WIP	28,753.7	27,436.7	27,119.7	26,802.7
Producing Properties	1,16,877.8	1,24,877.8	1,32,877.8	1,40,877.8
Pre-Producing Properties	13,217.0	14,717.0	16,217.0	17,717.0
Total Fixed Assets	1,78,906.3	1,87,589.3	1,96,872.3	2,06,255.3
Investments	85,173.2	95,853.0	1,08,053.0	1,20,053.0
Inventories	7,861.4	10,790.6	10,230.6	9,837.0
Debtor	11,788.5	12,853.9	12,249.1	11,823.9
Cash	236.2	2,091.7	4,729.7	7,787.0
Loan & Advance, Other CA	53298.6	57298.6	61298.6	65298.6
Total Current assets	73184.7	83034.8	88508.1	94746.5
Current Liabilities	34987.9	32371.8	28645.8	27543.5
Provisions	33533.1	33033.1	32533.1	32033.1
Total CL and Provisions	68521.0	65405.0	61178.9	59576.7
Net Working Capital	4663.7	17629.8	27329.1	35169.8
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	268743.2	301072.2	332254.5	361478.2

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	188.5	217.0	240.6	262.6
Cash per share	0.2	1.7	3.8	6.2
EPS	32.0	40.7	36.1	35.7
Cash EPS	50.4	59.2	55.3	55.6
DPS	9.1	10.8	11.0	12.0
Profitability & Operating Ratios				
EBITDA Margin (%)	54.3	54.7	53.5	55.8
PAT Margin (%)	36.5	32.5	30.4	31.3
Fixed Asset Turnover (x)	0.6	0.8	0.8	0.7
Inventory Turnover (Days)	26.0	25.0	25.0	25.0
Debtor (Days)	39.0	27.0	27.0	27.0
Current Liabilities (Days)	115.7	75.0	70.0	70.0
Return Ratios (%)				
RoE	17.0	18.7	15.0	13.6
RoCE	14.8	22.4	17.9	16.2
RoIC	14.8	22.6	18.1	16.6
Valuation Ratios (x)				
PE	4.7	3.7	4.2	4.3
Price to Book Value	0.8	0.7	0.6	0.6
EV/EBITDA	3.4	2.3	2.4	2.4
EV/Sales	1.8	1.3	1.3	1.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.0	0.0	0.0
Interest Coverage (x)	15.6	26.6	47.6	42.0
Debt to EBITDA (x)	0.2	0.1	0.1	0.1
Current Ratio	1.1	1.3	1.4	1.6
Quick ratio	1.0	1.1	1.3	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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	115	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	480	520	Hold	33,043	18.5	18.9	21.2	25.9	25.4	22.7	16.2	16.2	14.3	31.9	27.3	24.1	28.7	23.3	21.5
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	855	1,000	Buy	8,446	62.7	60.4	71.1	13.6	14.1	12.0	8.6	8.7	7.4	23.1	19.8	20.8	19.2	16.6	17.6
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

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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