

KG98/2, OVL volumes expected to boost upstream profitability

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 FY11-23
- ONGC is also a play on the refining sector via its subsidiaries

Q4FY23 Results: ONGC's Q4FY23 profitability was below I-direct estimates due to an exceptional provision for disputed taxes.

- Revenue grew 5.2% YoY but declined ~6% QoQ to ₹ 36292.6 crore (I-direct estimate: ₹ 37826 crore) due to a decline in crude prices
- EBITDA was at ₹ 16340 crore, down 12% YoY, 20% QoQ due to higher other expenditure. The company made an exceptional provision of ₹ 9235 crore towards disputed taxes for the period April 1, 2016-March 31, 2022
- Subsequently, ONGC reported a net loss of ₹ 247.7 crore (I-direct estimated PAT: ₹ 11823 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. Domestic gas prices have been revised to a ceiling of US\$6.5/mmbtu (from US\$8.57/mmbtu). Although lower QoQ, prices still continue to remain above historical averages. With the commencement of production from the KG Basin in August, volumes are expected to grow, going ahead.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value ONGC at ₹ 190 i.e. ₹ 158 for core oil & gas business (~5.5x P/E on FY25 EPS) and ₹ 32 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 ₹ 2850



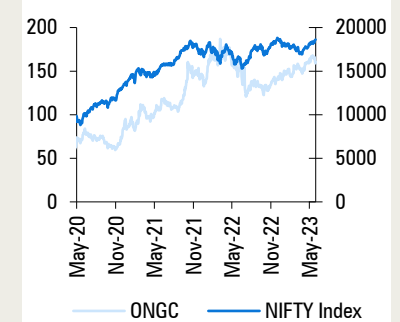
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,01,284.9
Total Debt (FY23) (₹ Crore)	16,101.8
Cash and Investments (FY23)	21,634.0
EV (₹ Crore)	1,95,752.7
52 week H/L	195/ 119
Equity capital (₹ Crore)	6,290.1
Face value (₹)	5.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	58.9	58.9	58.9	58.9
FII	10.0	9.0	8.4	8.0
DII	17.8	18.5	19.3	19.9
Others	13.3	13.6	13.4	13.3

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)	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenues (₹ crore)	68,141.1	1,10,345.4	1,55,517.3	12.8	1,41,699.8	1,43,588.2	(3.9)
EBITDA (₹ crore)	32,812.7	59,938.3	81,493.1	13.0	78,354.4	79,352.1	(1.3)
Net Profit (₹ crore)	11,246.4	40,305.7	48,064.0	19.2	39,148.0	37,219.7	(12.0)
EPS (₹)	8.9	32.0	30.9		31.1	29.6	
P/E (x)	17.9	5.0	5.2		5.1	5.4	
Price / Book (x)	1.0	0.8	0.8		0.7	0.7	
EV/EBITDA (x)	6.8	3.6	2.4		2.5	2.5	
RoCE (%)	4.5	14.5	20.0		16.2	14.3	
RoE (%)	5.5	17.0	18.6		13.9	12.4	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Gross oil realisation declines 11.5% QoQ, gas realisation remains unchanged QoQ

- Gross oil realisation declined by US\$10/bbl QoQ to US\$77.1/bbl. Gas realisation remained unchanged QoQ at US\$8.57/mmbtu (on GCV basis). On the production front, oil production de-grew 3% QoQ to 5.24 MMT. Gas production also fell 2% QoQ at 5.26 BCM. Oil & gas production declined 3% and 1.5% YoY, respectively
- DD&A expenses came in at ₹ 9305 crore, up 44% QoQ due to higher survey and exploratory well costs. Other income was ₹ 1928 crore, up 37% QoQ
- ONGC Videsh reported 1.697 MMT of oil production, up 5% QoQ. Gas production at 0.938 BCM, was up 3% QoQ
- Going ahead, we estimate oil production at 22 MMT and 22.9 MMT for FY24E and FY25E, respectively. Similarly, gas production is estimated at 22.9 BCM and 25.4 BCM in FY24E and FY25E, respectively

Q4FY23 Analyst Meet Highlights

- Planned capex for FY24 was ₹ 30125 crore, out of which 39% would go towards capital projects, 27% towards development drilling, 21% on exploratory drilling, 10% on survey, 2% for R&D, and the remaining 1% towards integration projects
- The company is likely to get its first oil from the KG-Basin by August, 2023 (latest by October 2023). Gas production is expected to commence by the end of FY24
- The management said that although gas prices have been capped at US\$6.5/mmbtu for the nomination fields, gas produced from any new well will be priced at 12% of Brent price
- In order to avail the tax benefit of the OMPL-MRPL merger, the company does not see the merger of MRPL into HPCL till 2026
- The HPCL Barmer refinery would likely take another two years to begin operations
- ONGC plans to work on 50% of the 1 million sq km of prohibited areas released by the Government of India for exploration and production
- Projected standalone oil & gas production for the coming years is as follows:
 - a) In FY24, 21.26 MMT of oil and 23.62 BCM of gas production is estimated.
 - b) In FY25, 21.53 MMT of oil and 26 BCM of gas production is expected.
 - c) In FY26, 22.39 MMT of oil and 27.17 BCM of gas production is estimated
- On the OVL front, of the 485 MMTOE of 2P reserves, around 60% lies in Russia. The company expects gas production from Mozambique to commence by 2026-27.

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	36,292.6	37,825.7	34,497.2	5.2	38,583.3	-5.9	Revenue decline QoQ was on account of lower oil realisation
Raw materials costs	1,321.2	900.0	881.8	49.8	1,803.6	-26.7	
Employees Cost	778.5	699.8	764.4	1.8	683.1	14.0	
Other Expenses	17,852.9	15,465.9	14,260.8	25.2	15,685.4	13.8	
Total Expenditure	19,952.6	17,065.7	15,907.1	25.4	18,172.1	9.8	
EBITDA	16,340.0	20,760.1	18,590.2	-12.1	20,411.2	-19.9	
EBITDA margins (%)	45.0	54.9	53.9	-887 bps	52.9	-788 bps	
Depreciation	9,304.5	5,874.4	7,639.8	21.8	6,461.0	44.0	Higher than estimated due to higher survey and exploratory well cost
EBIT	7,035.5	14,885.7	10,950.4	-35.8	13,950.2	-49.6	
Interest	707.7	370.2	579.8	22.1	689.5	2.6	
Other Income	1,928.1	1,291.1	1,343.7	43.5	1,411.3	36.6	
Extra Ordinary Item	-9,235.1	0.0	0.0	NA	0.0	NA	Exceptional provision for disputed taxes
PBT	-979.2	15,806.6	11,714.3	-108.4	14,672.0	-106.7	
Total Tax	-731.5	3,983.3	2,854.8	-125.6	3,627.3	-120.2	
PAT	-247.70	11,823.37	8,859.5	-102.8	11,044.7	-102.2	

Key Metrics

Exchange rate (₹/\$)	82.3	82.3	75.2	9.4	82.2	0.1	
Gross realisation(\$/bbl)	77.1	79.9	95.0	-18.8	87.1	-11.5	
Oil Production (mmt)	5.24	5.46	5.4	-2.9	5.4	-3.0	De-grew QoQ
Gas Production (bcm)	5.26	5.38	5.3	-1.5	5.36	-1.8	De-grew QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,49,367.5	1,41,699.8	-5.1%	1,43,619.9	1,43,588.2	0.0%	Revised estimates taking into account current oil & gas price trend
EBITDA	79,853.0	78,354.4	-1.9%	80,123.9	79,352.1	-1.0%	
EBITDA Margin (%)	53.5	55.3	184bps	55.8	55.3	-53bps	
PAT	45,673.2	39,148.0	-14.3%	43,970.5	37,219.7	-15.4%	
EPS (₹)	36.3	31.1	-14.3%	35.0	29.6	-15.4%	

Source: ICICI Direct Research

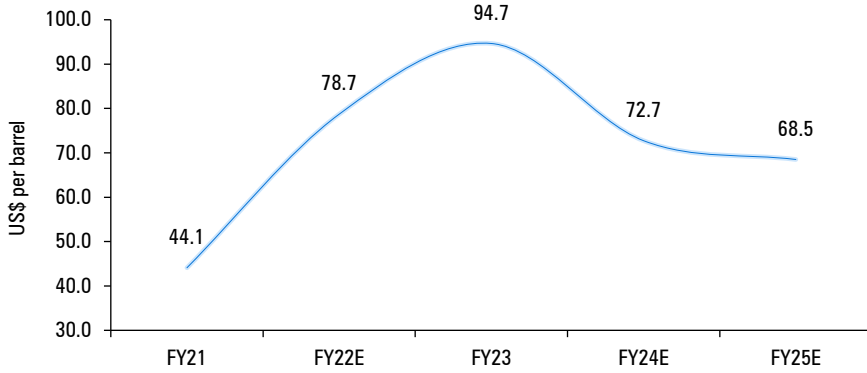
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
Exchange rate (₹/\$)	74.6	80.2	82.2	82.2	82.1	82.2	
Gross realisation(\$/bbl)	78.7	94.7	72.7	68.5	77.5	73.5	
Oil Prodn (Dom) (mmt)	21.7	21.5	22.0	22.9	22.4	23.6	Estimates changed post Q4FY23E
Oil Prodn (OVL) (mmt)	8.1	6.3	6.4	6.4	5.9	7.6	
Gas Prodn (Dom)(mmt)	21.7	21.4	22.9	25.4	22.9	24.4	
Gas Prodn (OVL)(mmt)	4.2	3.8	3.8	3.8	3.8	4.3	

Source: ICICI Direct Research

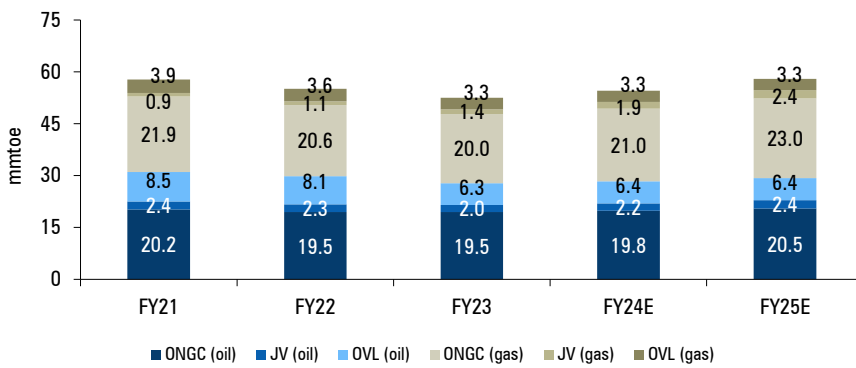
Story in charts

Exhibit 4: Gross oil realisation trend



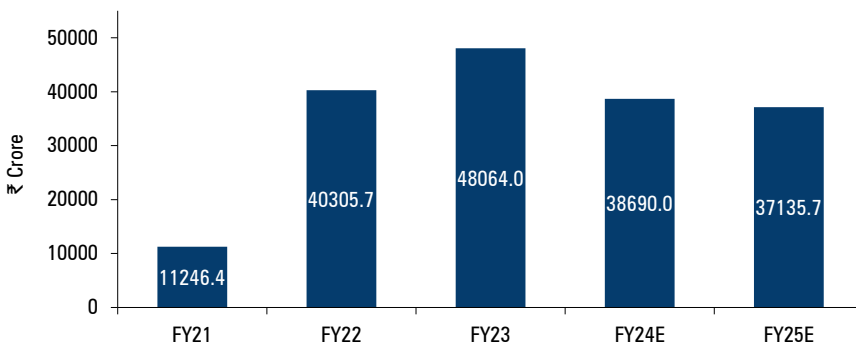
Source: Company, ICICI Direct Research

Exhibit 5: Production trajectory



Source: Company, ICICI Direct Research

Exhibit 6: Profitability trend (standalone)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Standalone Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Revenue	110345.4	155517.3	141699.8	143588.2
Growth (%)	61.9	40.9	-8.9	1.3
(Inc./Dec. in stock trade)	-143.0	-481.7	0.0	0.0
Raw material Costs	3272.5	3921.3	4000.0	3800.0
Employee Costs	2887.7	2785.1	2939.7	3231.7
Statutory Levies	27932.2	45284.2	36625.6	35864.4
Other Expenditure	16457.7	22515.3	19780.0	21340.0
Op. Expenditure	50407.1	74024.2	63345.4	64236.1
EBITDA	59938.3	81493.1	78354.4	79352.1
Growth (%)	82.7	36.0	-3.9	1.3
Depreciation	23054.0	26789.6	30535.2	34375.2
EBIT	36884.3	54703.5	47819.2	44976.9
Interest	2359.9	2699.6	2567.3	2397.3
Other Income	6515.6	7626.6	7085.0	7179.4
PBT	41040.0	59630.5	52336.9	49759.0
Growth (%)	150.2	45.3	-12.2	-4.9
Tax	734.3	11566.5	13188.9	12539.3
Reported PAT	40305.7	48064.0	39148.0	37219.7
Growth (%)	258.4	19.2	-18.6	-4.9
EPS	32.0	30.9	31.1	29.6

Source: Company, ICICI Direct Research

Exhibit 8: Standalone Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	40,305.7	48,064.0	39,148.0	37,219.7
Add: Depreciation	23,054.0	26,789.6	30,535.2	34,375.2
Add: Others	-7,740.1	2,027.9	500.0	500.0
Cash Profit	40,164.7	60,322.7	53,992.4	54,432.3
Increase/(Decrease) in CL	-1,120.2	7,358.0	-3,336.2	-112.4
(Increase)/Decrease in CA	-7,822.7	514.0	-3,550.1	-4,225.5
CF from Operating Activi	62695.6	95679.7	63296.9	67757.1
Purchase of Fixed Assets	17,661.2	25,116.0	30,726.4	32,581.1
(Inc)/Dec in Investments	-3,796.8	187.6	-20,000.0	-20,000.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activit	-50,127.2	-46,605.0	-50,726.4	-52,581.1
Inc/(Dec) in Loan Funds	-4,918.5	-310.8	-1,000.0	-1,000.0
Less: Dividend Paid	15,454.9	16,558.8	16,190.8	17,662.7
Inc/(Dec) in Sh. Cap. & Res.	7,738.7	-10,807.4	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activit	-12,634.7	-27,677.0	-17,190.8	-18,662.7
Change in cash Eq.	-66.3	21,397.7	-4,620.2	-3,486.7
Op. Cash and cash Eq.	302.5	236.2	21,634.0	17,013.7
Cl. Cash and cash Eq.	236.2	21,634.0	17,013.7	13,527.0

Source: Company, ICICI Direct Research

Exhibit 9: Standalone Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	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	2,51,555.7	2,74,512.9	2,94,069.9
Shareholder's Fund	2,37,148.1	2,57,845.8	2,80,803.0	3,00,360.0
Loan Funds	16,412.6	16,101.8	15,101.8	14,101.8
Deferred Tax Liability	19,733.3	21,761.2	22,261.2	22,761.2
Well Abandonment Fund	0.0	0.0	0.0	0.0
Source of Funds	273293.9	295708.8	318165.9	337223.0
Application of Funds				
Net Block	1,36,935.6	1,41,614.8	1,51,079.5	1,56,704.3
Capital WIP	41,970.7	46,368.3	37,094.6	29,675.7
Total Fixed Assets	1,78,906.3	1,87,983.0	1,88,174.1	1,86,380.0
Investments	85,173.2	84,985.6	1,04,985.6	1,24,985.6
Inventories	7,861.4	8,319.5	7,580.3	7,681.4
Debtor	11,788.5	10,250.3	10,539.6	10,664.1
Cash	236.2	21,634.0	17,013.7	13,527.0
Loan & Advance, Other CA	53298.6	53864.6	57864.6	61864.6
Total Current assets	73184.7	94068.4	92998.3	93737.1
Current Liabilities	30437.2	31921.9	29085.6	29473.3
Provisions	33533.1	39406.5	38906.5	38406.5
Total CL and Provisions	63970.4	71328.3	67992.1	67879.7
Net Working Capital	9214.4	22740.1	25006.2	25857.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	273293.9	295708.7	318165.9	337222.9

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Book Value	188.5	205.0	223.2	238.8
Cash per share	0.2	17.2	13.5	10.8
EPS	32.0	30.9	31.1	29.6
Cash EPS	50.4	52.2	55.4	56.9
DPS	10.5	11.25	11.0	12.0
Profitability & Operating Ratios				
EBITDA Margin (%)	54.3	52.4	55.3	55.3
PAT Margin (%)	36.5	30.9	27.6	25.9
Fixed Asset Turnover (x)	0.6	0.8	0.8	0.8
Inventory Turnover (Days)	26.0	19.5	19.5	19.5
Debtor (Days)	39.0	24.1	24.1	24.1
Current Liabilities (Days)	100.7	74.9	74.9	74.9
Return Ratios (%)				
RoE	17.0	18.6	13.9	12.4
RoCE	14.5	20.0	16.2	14.3
RoIC	14.6	21.7	17.1	14.9
Valuation Ratios (x)				
PE	5.0	5.2	5.1	5.4
Price to Book Value	0.8	0.8	0.7	0.7
EV/EBITDA	3.6	2.4	2.5	2.5
EV/Sales	2.0	1.3	1.4	1.4
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.0
Interest Coverage (x)	15.6	20.3	18.6	18.8
Debt to EBITDA (x)	0.3	0.2	0.2	0.2
Current Ratio	1.1	1.3	1.4	1.4
Quick ratio	1.0	1.2	1.3	1.3

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)	368	430	Buy	78,364	91.0	53.4	8.8	4.0	6.9	41.9	6.1	6.3	11.0	14.8	14.5	4.8	34.9	22.0	3.6
GAIL (India) (GAIL)	107	125	Buy	70,354	11.0	23.3	8.1	9.7	4.6	13.3	8.0	3.8	12.8	8.7	18.8	5.9	10.5	18.6	9.5
Gujarat Gas (GUJGA)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
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)	205	105	Buy	1,21,190	15.5	17.1	6.0	13.2	12.0	34.2	3.3	2.9	5.4	13.3	12.9	3.8	19.8	18.4	6.1
Indraprastha Gas (INDGAS)	488	590	Buy	34,160	14.4	18.8	20.8	34.0	26.0	23.5	22.3	17.5	15.5	20.0	22.3	23.5	17.1	19.0	20.5
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
ONGC (ONGC)	160	190	Buy	2,05,333	10.4	8.9	32.0	15.4	17.9	5.0	4.4	6.8	3.6	10.2	4.5	14.5	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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