

| | |
|-----------------|----|
| Estimate change | ↔↔ |
| TP change | ↔↔ |
| Rating change | ↔↔ |

CMP: INR116 TP: INR150 (+29%) Buy

Concerns over delay in gas production continue

- ONGC reported in-line numbers and crude oil sales; lower gas sales were offset by higher-than-estimated VAP sales. Gas offtake was lower due to lower offtake from GAIL, led by shutdowns at the customer end.
- Gas production continues to decline on a sequential basis. The management has guided for gas production potentially at 24.7bcm for FY22, while gas production would be lower than earlier guided at 27bcm for FY23.
- Delays in production at the KG-DWN-98/2 field continue amid restrictions on international movement due to COVID. The guidance is that gas production from the field may be ramped up to 3mmscmd by Dec'21, with a further ramp-up expected by Jun'22. The peak production is expected at 14.5mmscmd/45kbopd for gas/oil respectively.
- In line with the aforementioned delays, we shift our production estimates of 24mmt/27.8bcm to FY24E and lower our FY23E estimates to 23.2mmt/25.8bcm.
- ONGC expects 2HFY22 APM price to rise above USD2.8/mmbtu (from USD1.79 currently), with APM price significantly expected to increase in 1HFY23 as well.
- Brent prices have started cooling off from the peak of USD75/bbl in Jul'21 to ~USD70/bbl. We expect prices to return to normal levels of USD60–65/bbl as OPEC+ gradually increases its oil production (by 0.4mbopd per month from Aug'21). We forecast Brent price of USD63/USD60 per bbl for FY22E/FY23E, considering the easing of the current 5.8mbopd production cuts.
- Despite the continued delay, ONGC's gas production is likely to clock a CAGR of 7% over FY21–24E, with efforts to arrest the decline in oil production.

Result in line with estimates

- Crude oil sales were in-line at 5.1mmt (-1% YoY and -3% QoQ). Although, gas sales were lower at 4.1bcm (-8% est.; -3% YoY and -7% QoQ). On the other hand, VAP sales were better than expected at 784tmt (+13% est.; +15% YoY and +8% QoQ).
- Net realization was in line with estimates at USD65.6/bbl (+128% YoY and +13% QoQ). Thus, revenue was in-line at INR230b (+77% YoY and +9% QoQ).
- EBITDA stood at INR121.5b (+106% YoY and +20% QoQ). Higher interest cost was offset by higher other income, while depreciation was lower.
- Reported PAT stood at INR43.3b (v/s INR5b/INR67b in 1Q/4QFY21).
- OVL PAT stood at INR9.2b (v/s loss of INR3.3b in 1QFY21 and gains of INR10.2b in 4QFY21).

Valuation and view – maintain Buy

- Capex guidance for FY22 stands at INR295b (v/s INR280b spent in FY21).
- OPAL reported profits for the second consecutive quarter, with utilization at 87% in 1QFY22. EBITDA stood at INR9.7b in 1QFY22 (v/s INR11b in 4QFY21), with PAT at INR0.65b (v/s INR0.27b in 4QFY21). ONGC is further improving process efficiencies to maintain profitability.

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| | ONGC IN |
|-----------------------|---------------|
| Equity Shares (m) | 12,833 |
| M.Cap.(INRb)/(USDb) | 1460.6 / 19.7 |
| 52-Week Range (INR) | 128 / 64 |
| 1, 6, 12 Rel. Per (%) | -9/12/3 |
| 12M Avg Val (INR M) | 2868 |

| Financials & Valuations (conso) (INR b) | | | |
|---|-------|-------|-------|
| Y/E March | 2021 | 2022E | 2023E |
| Sales | 3,606 | 4,665 | 4,623 |
| EBITDA | 566 | 749 | 808 |
| Adj. PAT | 207 | 298 | 328 |
| Adj. EPS (INR) | 16.1 | 23.2 | 25.6 |
| EPS Gr. (%) | 23.8 | 44.1 | 10.0 |
| BV/Sh.(INR) | 172.2 | 188.0 | 205.9 |
| Ratios | | | |
| Net D:E | 0.5 | 0.3 | 0.2 |
| RoE (%) | 9.7 | 12.9 | 13.0 |
| RoCE (%) | 7.3 | 9.9 | 10.7 |
| Payout (%) | 21.6 | 31.8 | 30.1 |
| Valuations | | | |
| P/E (x) | 7.2 | 5.0 | 4.5 |
| P/BV (x) | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (x) | 4.4 | 3.0 | 2.4 |
| Div. Yield (%) | 3.1 | 6.4 | 6.6 |
| FCF Yield (%) | 10.2 | 28.5 | 27.2 |

| Shareholding pattern (%) | | | |
|--------------------------|--------|--------|--------|
| As On | Jun-21 | Mar-21 | Jun-20 |
| Promoter | 60.4 | 60.4 | 60.4 |
| DII | 17.6 | 17.5 | 17.4 |
| FII | 8.1 | 8.1 | 8.1 |
| Others | 13.9 | 14.0 | 14.1 |

FII Includes depository receipts

■ ONGC is trading at 2.4x FY23 EV/EBITDA and 4.5x FY23 PE. We value the company at 10x Sep'23E adj EPS of INR11.6 and add the value of investments to arrive at TP of INR150. Reiterate Buy.

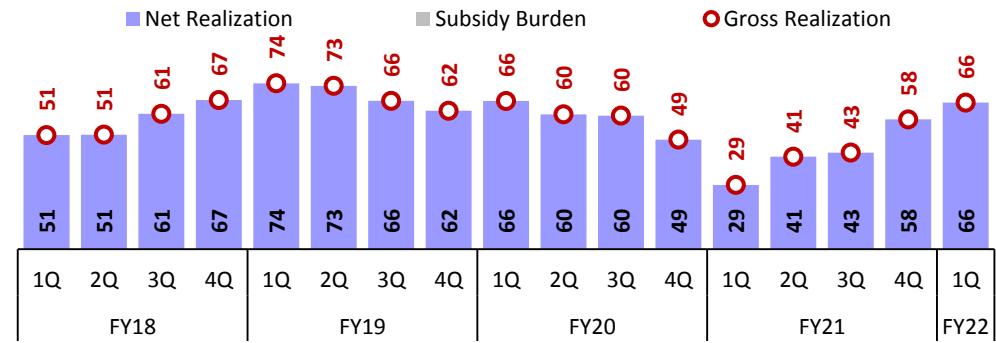
Standalone - Quarterly Earnings Model

| Y/E March | (INR b) | | | | | | | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| | FY21 | | | | FY22 | | | | FY21 | FY22E | FY22 | Var vs est (%) |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | | |
| Net Sales | 130.1 | 169.2 | 170.2 | 211.9 | 230.2 | 221.6 | 232.4 | 233.9 | 681.4 | 918.1 | 230.8 | 0% |
| YoY Change (%) | -51.0 | -30.9 | -28.2 | -1.2 | 76.9 | 31.0 | 36.5 | 10.4 | -29.2 | 34.7 | 77.4 | |
| EBITDA | 59.1 | 84.4 | 83.5 | 101.2 | 121.5 | 109.6 | 117.9 | 117.1 | 328.1 | 466.1 | 116.7 | 4% |
| Margins (%) | 45.4 | 49.9 | 49.0 | 47.8 | 52.8 | 49.5 | 50.7 | 50.1 | 48.2 | 50.8 | 50.5 | |
| Depreciation | 49.5 | 51.3 | 62.7 | 63.7 | 53.2 | 55.8 | 59.8 | 60.8 | 227.1 | 229.6 | 63.0 | -16% |
| Interest | 4.9 | 3.2 | 6.0 | 5.7 | 6.2 | 5.4 | 5.4 | 4.7 | 22.1 | 21.7 | 5.2 | 19% |
| Other Income | 4.4 | 22.4 | 12.2 | 31.3 | 5.3 | 23.5 | 12.8 | 30.8 | 71.4 | 72.4 | 4.6 | 16% |
| PBT before EO expense | 9.0 | 52.3 | 27.0 | 63.1 | 67.5 | 71.8 | 65.5 | 82.4 | 150.3 | 287.2 | 53.0 | 27% |
| Extra-Ord expense | 0.0 | 12.4 | 0.0 | -26.1 | 0.0 | 0.0 | 0.0 | 0.0 | -13.8 | 0.0 | 0.0 | |
| PBT | 9.0 | 39.9 | 27.0 | 89.3 | 67.5 | 71.8 | 65.5 | 82.4 | 164.0 | 287.2 | 53.0 | 27% |
| Rate (%) | 45.1 | 27.9 | 53.4 | 24.6 | 35.8 | 33.3 | 33.3 | 33.3 | 31.4 | 33.9 | 33.3 | |
| Reported PAT | 5.0 | 28.8 | 12.6 | 67.3 | 43.3 | 47.9 | 43.7 | 54.9 | 112.5 | 189.9 | 35.4 | 23% |
| Adj PAT | 5.0 | 37.7 | 12.6 | 47.6 | 43.3 | 47.9 | 43.7 | 54.9 | 103.0 | 189.9 | 35.4 | 23% |
| YoY Change (%) | -91.6 | -39.8 | -70.2 | 566.6 | 774.0 | 27.1 | 247.3 | 15.4 | -38.3 | 84.3 | 613.0 | |
| Margins (%) | 3.8 | 22.3 | 7.4 | 22.5 | 18.8 | 21.6 | 18.8 | 23.5 | 15.1 | 20.7 | 15.3 | |
| Key Assumptions (USD/bbl) | | | | | | | | | | | | |
| Fx rate (INR/USD) | 75.9 | 74.4 | 73.8 | 72.9 | 73.6 | 73.5 | 74.0 | 74.5 | 74.3 | 73.9 | 73.6 | 0% |
| Net Oil Realization | 28.7 | 41.4 | 43.2 | 58.1 | 65.6 | 65.0 | 60.0 | 60.0 | 52.7 | 56.2 | 68.5 | -4% |
| Crude oil sold (mmt) | 5.2 | 5.1 | 5.3 | 5.2 | 5.1 | 4.8 | 4.9 | 4.9 | 20.7 | 19.8 | 4.9 | 3% |
| Gas sold (bcm) | 4.2 | 4.6 | 4.5 | 4.4 | 4.1 | 4.5 | 4.9 | 4.9 | 17.7 | 18.4 | 4.4 | -8% |
| VAP sold (tmt) | 680 | 836 | 784 | 726 | 784 | 789 | 858 | 858 | 3,026 | 3,289 | 693 | 13% |

E: MOFSL Estimates

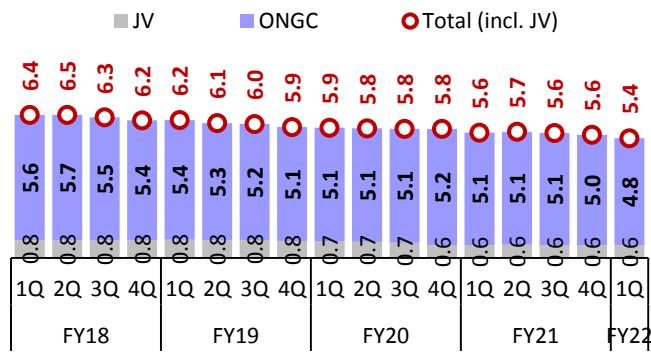
Key charts from the quarter

Exhibit 1: Oil price realization (USD/bbl)



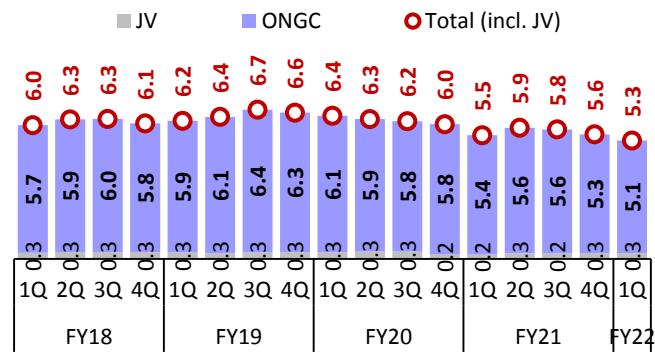
Source: Company, MOFSL

Exhibit 2: Oil production (mmt)



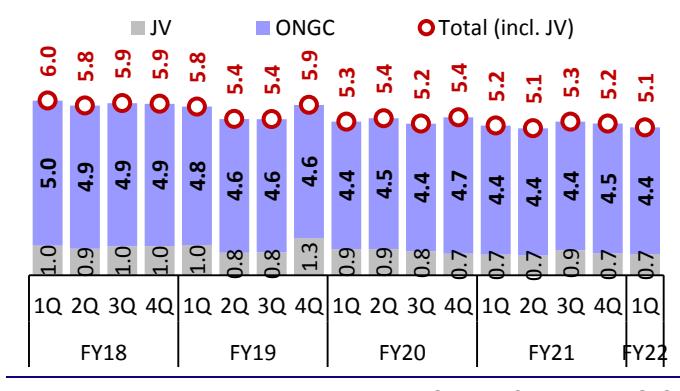
Source: Company, MOFSL

Exhibit 3: Gas production (bcm)



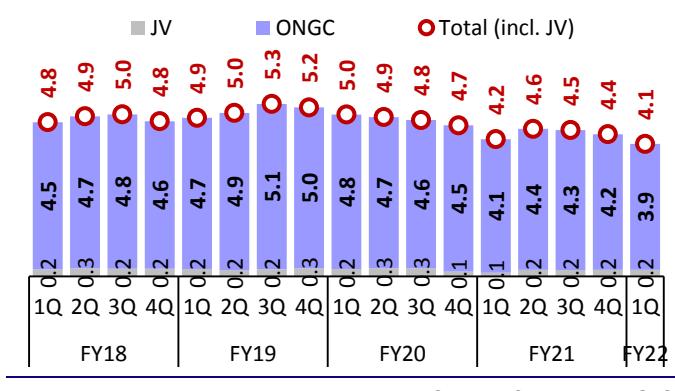
Source: Company, MOFSL

Exhibit 4: Oil sales (mmmt)



Source: Company, MOFSL

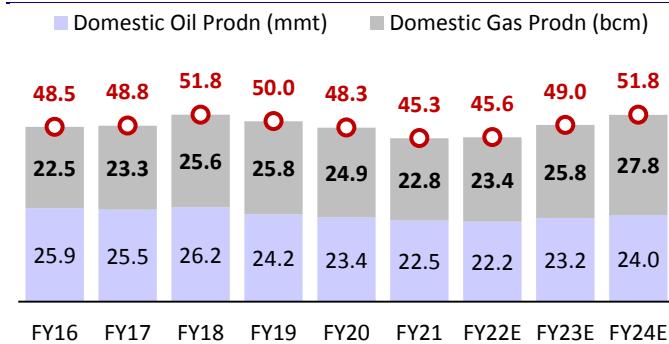
Exhibit 5: Gas sales (bcm)



Source: Company, MOFSL

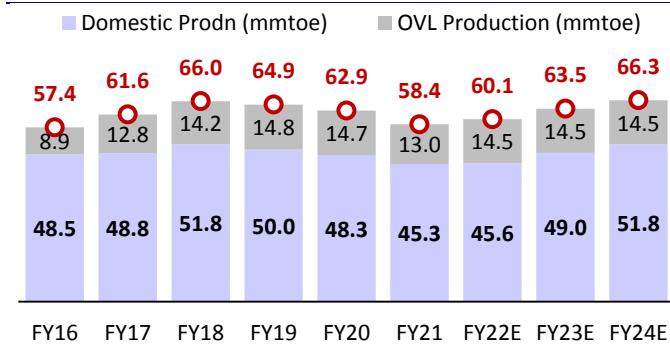
Story in charts

Exhibit 6: Oil/Gas production to increase (mmmt)



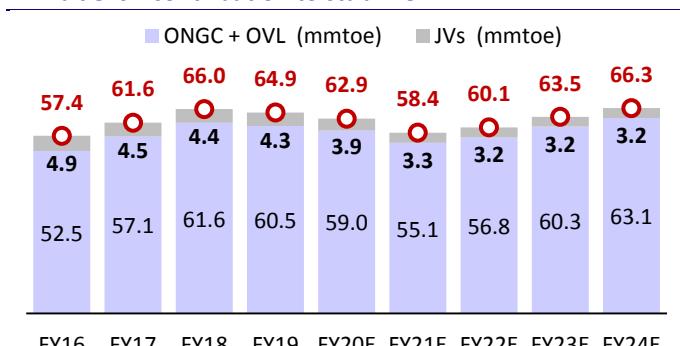
Source: Company, MOFSL

Exhibit 7: OVL production to remain stable



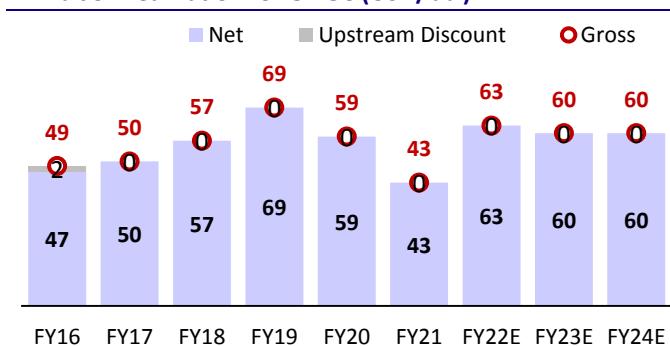
Source: Company, MOFSL

Exhibit 8: JV contribution to stabilize



Source: Company, MOFSL

Exhibit 9: Realization for ONGC (USD/bbl)



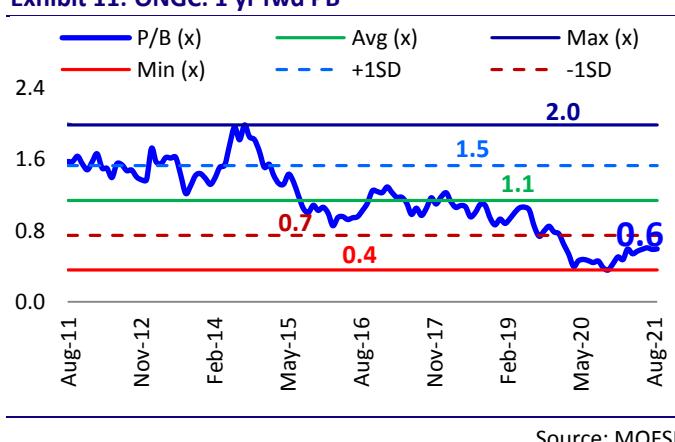
Source: Company, MOFSL

Exhibit 10: ONGC: 1 yr fwd PE



Source: MOFSL

Exhibit 11: ONGC: 1 yr fwd PB



Source: MOFSL

Financials and valuations (conso)

| Consolidated - Income Statement | | | | | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | (INR b) | | | | | | | |
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| Total Income from Operations | 3,257 | 3,622 | 4,537 | 4,250 | 3,606 | 4,665 | 4,623 | 4,642 |
| Change (%) | 140.1 | 11.2 | 25.2 | -6.3 | -15.2 | 29.4 | -0.9 | 0.4 |
| EBITDA | 580 | 644 | 840 | 611 | 566 | 749 | 808 | 828 |
| Margin (%) | 17.8 | 17.8 | 18.5 | 14.4 | 15.7 | 16.1 | 17.5 | 17.8 |
| Depreciation | 254 | 306 | 329 | 357 | 327 | 309 | 341 | 356 |
| EBIT | 326 | 338 | 511 | 255 | 239 | 440 | 466 | 471 |
| Int. and Finance Charges | 36 | 50 | 58 | 75 | 51 | 53 | 47 | 35 |
| Other Income | 93 | 75 | 77 | 91 | 93 | 44 | 55 | 59 |
| PBT bef. EO Exp. | 383 | 362 | 530 | 271 | 282 | 431 | 475 | 495 |
| EO Items | 6 | 2 | -16 | -90 | 9 | 0 | 0 | 0 |
| PBT after EO Exp. | 389 | 365 | 514 | 180 | 291 | 431 | 475 | 495 |
| Total Tax | 125 | 131 | 209 | 75 | 88 | 144 | 158 | 165 |
| Tax Rate (%) | 32.3 | 36.0 | 40.7 | 41.6 | 30.1 | 33.3 | 33.3 | 33.3 |
| Share of associates/JVs/Minority int | -28 | -27 | -34 | -9 | -10 | -11 | -11 | -12 |
| Reported PAT | 292 | 261 | 339 | 115 | 213 | 298 | 328 | 342 |
| Adjusted PAT | 288 | 259 | 349 | 167 | 207 | 298 | 328 | 342 |
| Change (%) | 64.9 | -9.9 | 34.6 | -52.1 | 23.8 | 44.1 | 10.0 | 4.3 |
| Margin (%) | 8.8 | 7.2 | 7.7 | 3.9 | 5.7 | 6.4 | 7.1 | 7.4 |

| Consolidated - Balance Sheet | | | | | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| Equity Share Capital | 64 | 64 | 63 | 63 | 63 | 63 | 63 | 63 |
| Total Reserves | 1,880 | 1,963 | 2,092 | 1,988 | 2,147 | 2,350 | 2,579 | 2,822 |
| Net Worth | 1,944 | 2,028 | 2,155 | 2,051 | 2,210 | 2,413 | 2,642 | 2,885 |
| Minority Interest | 133 | 156 | 183 | 184 | 216 | 216 | 216 | 216 |
| Total Loans | 744 | 993 | 1,015 | 1,044 | 1,098 | 824 | 618 | 463 |
| Deferred Tax Liabilities | 352 | 391 | 450 | 434 | 427 | 427 | 427 | 427 |
| Capital Employed | 3,173 | 3,568 | 3,803 | 3,713 | 3,951 | 3,880 | 3,903 | 3,991 |
| Gross Block | 3,328 | 3,683 | 3,983 | 4,382 | 4,642 | 4,736 | 4,828 | 4,920 |
| Less: Accum. Deprn. | 1,358 | 1,590 | 1,827 | 2,093 | 2,348 | 2,661 | 2,980 | 3,305 |
| Net Fixed Assets | 1,969 | 2,093 | 2,156 | 2,289 | 2,293 | 2,075 | 1,849 | 1,615 |
| Goodwill on Consolidation | 142 | 142 | 141 | 142 | 135 | 135 | 135 | 135 |
| Capital WIP | 214 | 207 | 298 | 458 | 629 | 839 | 1,024 | 1,201 |
| Exploratory wells under progress | 377 | 401 | 392 | 380 | 374 | 374 | 374 | 374 |
| Total Investments | 707 | 667 | 738 | 575 | 609 | 609 | 609 | 609 |
| Curr. Assets, Loans&Adv. | 1,029 | 1,048 | 1,252 | 1,229 | 1,365 | 1,268 | 1,323 | 1,472 |
| Others | 428 | 503 | 632 | 642 | 626 | 638 | 650 | 662 |
| Inventory | 299 | 305 | 351 | 331 | 446 | 361 | 352 | 352 |
| Account Receivables | 139 | 156 | 175 | 115 | 186 | 159 | 158 | 158 |
| Cash and Bank Balance | 132 | 51 | 48 | 96 | 72 | 74 | 128 | 263 |
| Cash | 18 | 25 | 38 | 48 | 40 | 42 | 96 | 232 |
| Bank Balance | 114 | 26 | 10 | 49 | 32 | 32 | 32 | 32 |
| Loans and Advances | 31 | 33 | 46 | 44 | 36 | 36 | 36 | 36 |
| Curr. Liability & Prov. | 1,266 | 990 | 1,175 | 1,360 | 1,454 | 1,420 | 1,411 | 1,415 |
| Account Payables | 985 | 694 | 853 | 987 | 1,045 | 1,010 | 1,001 | 1,005 |
| Net Current Assets | -236 | 58 | 77 | -132 | -90 | -152 | -88 | 57 |
| Appl. of Funds | 3,173 | 3,568 | 3,803 | 3,713 | 3,951 | 3,880 | 3,903 | 3,991 |

E: MOFSL Estimates

Financials and valuations

| Ratio | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|-------------|-------------|-------------|-------------|-------------|--------------|--------------|----------------|
| Y/E March | | | | | | | | |
| Basic (INR) | | | | | | | | |
| EPS | 22.4 | 20.2 | 27.2 | 13.0 | 16.1 | 23.2 | 25.6 | 26.7 |
| Cash EPS | 42.2 | 44.0 | 52.8 | 40.8 | 41.6 | 47.3 | 52.2 | 54.4 |
| BV/Share | 151.5 | 158.0 | 167.9 | 159.8 | 172.2 | 188.0 | 205.9 | 224.8 |
| DPS | 6.9 | 6.6 | 6.9 | 5.0 | 3.6 | 7.4 | 7.7 | 7.8 |
| Payout (%) | 36.0 | 38.0 | 31.3 | 67.5 | 21.6 | 31.8 | 30.1 | 29.1 |
| Valuation (x) | | | | | | | | |
| P/E | 5.2 | 5.7 | 4.3 | 8.9 | 7.2 | 5.0 | 4.5 | 4.4 |
| Cash P/E | 2.7 | 2.6 | 2.2 | 2.8 | 2.8 | 2.5 | 2.2 | 2.1 |
| P/BV | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 |
| EV/Sales | 0.6 | 0.7 | 0.5 | 0.6 | 0.7 | 0.5 | 0.4 | 0.4 |
| EV/EBITDA | 3.6 | 3.8 | 2.9 | 4.0 | 4.4 | 3.0 | 2.4 | 2.0 |
| Dividend Yield (%) | 6.0 | 5.7 | 5.9 | 4.3 | 3.1 | 6.4 | 6.6 | 6.7 |
| FCF per share | 19.8 | 22.6 | 27.8 | 22.4 | 11.8 | 33.1 | 31.6 | 33.1 |
| Return Ratios (%) | | | | | | | | |
| RoE | 14.7 | 13.0 | 16.7 | 8.0 | 9.7 | 12.9 | 13.0 | 12.4 |
| RoCE | 11.1 | 9.2 | 11.3 | 6.4 | 7.3 | 9.9 | 10.7 | 10.7 |
| RoIC | 10.6 | 9.1 | 11.3 | 5.6 | 6.4 | 11.8 | 13.8 | 15.5 |
| Working Capital Ratios | | | | | | | | |
| Fixed Asset Turnover (x) | 1.0 | 1.0 | 1.1 | 1.0 | 0.8 | 1.0 | 1.0 | 0.9 |
| Asset Turnover (x) | 1.0 | 1.0 | 1.2 | 1.1 | 0.9 | 1.2 | 1.2 | 1.2 |
| Inventory (Days) | 33 | 31 | 28 | 28 | 45 | 28 | 28 | 28 |
| Debtor (Days) | 16 | 16 | 14 | 10 | 19 | 12 | 12 | 12 |
| Creditor (Days) | 110 | 70 | 69 | 85 | 106 | 79 | 79 | 79 |
| Leverage Ratio (x) | | | | | | | | |
| Current Ratio | 0.8 | 1.1 | 1.1 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 |
| Interest Cover Ratio | 9.1 | 6.8 | 8.8 | 3.4 | 4.7 | 8.3 | 10.0 | 13.4 |
| Net Debt/Equity | 0.3 | 0.5 | 0.4 | 0.5 | 0.5 | 0.3 | 0.2 | 0.1 |
| Consolidated - Cash Flow Statement | | | | | | | | |
| | | | | | | | | (INR b) |
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| OP/(Loss) before Tax | 417 | 392 | 548 | 190 | 301 | 431 | 475 | 495 |
| Depreciation | 202 | 231 | 237 | 266 | 255 | 309 | 341 | 356 |
| Interest expense | 36 | 49 | 58 | 75 | 51 | 53 | 47 | 35 |
| (Inc)/Dec in WC | -27 | 3 | -98 | 127 | -39 | 64 | -11 | -9 |
| CF from Operating incl EO | 458 | 568 | 615 | 706 | 472 | 724 | 706 | 725 |
| (Inc)/Dec in FA | -203 | -277 | -258 | -419 | -321 | -300 | -300 | -300 |
| Free Cash Flow | 254 | 291 | 357 | 287 | 151 | 424 | 406 | 425 |
| (Pur)/Sale of Investments | -125 | 87 | -9 | -18 | -12 | 0 | 0 | 0 |
| Others | -111 | -470 | -102 | -99 | -59 | 0 | 0 | 0 |
| CF from Investments | -439 | -660 | -368 | -535 | -391 | -300 | -300 | -300 |
| Inc/(Dec) in Debt | 160 | 241 | -31 | 24 | 53 | -275 | -206 | -154 |
| Dividend Paid | -173 | -112 | -122 | -99 | -31 | -95 | -99 | -100 |
| Others | -31 | -30 | -39 | -86 | -111 | -53 | -47 | -35 |
| CF from Fin. Activity | -19 | 99 | -233 | -161 | -89 | -422 | -352 | -289 |
| Inc/Dec of Cash | 0 | 7 | 13 | 10 | -8 | 2 | 54 | 136 |
| Opening Balance | 18 | 18 | 25 | 38 | 48 | 40 | 42 | 96 |
| Closing Balance | 18 | 25 | 38 | 48 | 40 | 42 | 96 | 232 |

E: MOFSL Estimates

NOTES

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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