

Pricing strength more than offsets output worries

Despite a 5/4% YoY decline in oil/gas production, a sharp USD37/bbl YoY (USD8/bbl QoQ) increase in oil realization to USD65.6/bbl and a 1% YoY (23% QoQ) improvement in gas realization to Rs7.3/scm ensured a 96% YoY jump in EBITDA to Rs116bn and a sharper 8.7x YoY jump in net earnings to Rs43.3bn for ONGC. Earnings, however, were below estimates of Rs125bn EBITDA / Rs48bn PAT mainly due to the miss on production. While production growth remains elusive in the near term, management has aggressive plans to augment output once Covid-related travel/logistics constraints abate. We see a very strong oil/gas price environment ahead to support earnings for both ONGC and OVL. Upgrade to BUY, with a TP of Rs156. The stock currently trades at just 6.7x FY23E EPS / 2.8x EV/EBITDA.

Production remains weak; outlook to get better

Oil output at 5.4mt (-5/-3% YoY/QoQ) and gas production of 5.3bcm (-4/-5% YoY/QoQ) both came below estimates of 5.5mt/5.6bcm. Management has pointed to (i) lower level of domestic exploration/development work, and (ii) the difficulty of arranging for technical equipment / experts from outside India to execute the KG 98/2 development (both due to Covid constraints) as the chief causes for the decline.

Outlook from management ambitious, however

Management has put in place plans to augment oil/gas output by as much as 5mt/12bcm over the next five years, which can materially alter ONGC's operational scale even if executed partially. We note, however, that ramp up of KG 98/2 production, which is expected to add 3bcm in FY23 and another 2bcm thereafter, and also 2mt of oil, will be the key monitorable to achieve these numbers.

Oil realizations jump sharply; gas prices to also jump materially in H2FY22E

The USD36/7 per bbl YoY/QoQ jump in Brent crude prices reflects in a USD37/7.5 per bbl jump in net realizations for ONGC, with gas realizations improving 1/23% YoY/QoQ to Rs7.3/scm. Domestic gas prices are set to jump 50% (~USD0.8-0.9/mmbtu) from 1 October 2021 and price trends suggest another USD0.4-0.5/mmbtu increase from 1 April 2022. Given a Rs30bn jump in standalone PBT for every USD1/mmbtu change in gas prices, this indicates a material delta for ONGC's FY22/23E earnings.

Valuations – upgrade to BUY

We factor in a decline in production estimates offset by much stronger oil prices, and hence, we have increased our FY22/23E EPS by ~22% each, with gas price estimates also raised by 15-20%. While there is little to excite investors in the near term, current valuations of 2.8x EV/E FY23E and 6.7x PER FY23E are materially attractive, and the very strong earnings momentum + incremental earnings support from key subsidiaries (OVL/HPCL) is too strong to ignore, particularly at current stock levels. Upgrade to BUY with TP of Rs156, suggesting ~35% upside from here.

Financial and valuation summary

YE Mar (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E
Revenues	2,30,216	1,30,113	76.9%	2,11,889	8.6%	6,81,411	9,98,514	10,30,505
EBITDA	1,15,971	85,879	35.0%	1,01,235	14.6%	3,28,127	5,10,781	5,32,782
EBITDA margin (%)	50.4%	66.0%		47.8%		48.2%	51.2%	51.7%
Adj. Net profit	43,348	1,841	2254.5%	49,831	-13.0%	1,12,464	2,14,469	2,18,893
Adj. EPS (Rs)	3.4	0.1		4.0		8.2	17.0	17.4
EPS growth (%)						-38.3%	107.7%	2.1%
PE (x)						14.1	6.8	6.7
EV/EBITDA (x)						5.3	3.1	2.8
PBV (x)						0.7	0.7	0.6
RoE (%)						5.5	9.8	9.4
RoCE (%)						3.9	9.6	9.2

Source: Company, Centrum Broking

Result Update

India I Oil & Gas

15 August, 2021

BUY

Price: Rs116

Target Price: Rs156

Forecast return: 34%

Institutional Research

Market Data

Bloomberg:	ONGC IN
52 week H/L:	129/64
Market cap:	Rs1460.6bn
Shares Outstanding:	12580.3mn
Free float:	18.7%
Avg. daily vol. 3mth:	2,33,36,620

Source: Bloomberg

Changes in the report

Rating:	BUY; upgraded from Add
Target price:	Rs156; +15.6%
EPS:	FY22E: Rs17; +21.8%
	FY23E: Rs17.4; +22.2%

Source: Centrum Broking

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	60.4	60.4	60.4	60.4
FII	8.1	8.1	7.7	7.7
DII	17.6	17.5	17.7	17.5
Public/other	13.9	14.0	14.2	14.4

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY22	Actual Q1FY22	Variance (%)
Revenue	2,36,689	2,30,216	-2.7%
EBITDA	1,25,085	1,15,971	-7.3%
EBITDA margin	53%	50%	
PBT	72,585	67,502	-7.0%
Adj. PAT	48,632	43,348	-10.9%

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	9,98,514	9,23,914	8.1%	10,30,505	9,51,497	8.3%
EBITDA	5,10,781	4,54,875	12.3%	5,32,782	4,74,711	12.2%
EBITDA margin	51.2%	49.2%		51.7%	49.9%	
Adj. PAT	2,14,469	1,76,137	21.8%	2,18,893	1,79,078	22.2%
Diluted EPS (Rs)	17.0	14.0	21.8%	17.4	14.2	22.2%

Source: Centrum Broking

ONGC versus NIFTY 50

	1m	6m	1 year
ONGC IN	(3.6)	19.7	47.7
NIFTY 50	3.8	7.9	47.9

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY22E	FY23E
Brent (US\$/bbl)	67.0	68.0
INR/USD	74.0	74.5
Production (Standalone + JV)		
Crude (mmt)	22.4	22.2
Gas (bcm)	23.2	24.8
Sales (Standalone + JV)		
Crude (mmt)	20.6	20.4
Gas (bcm)	18.0	19.3
Crude net realisation (US\$/bbl)	64.5	65.7
Avg gas price realisation (Rs/mcm)	9,973	10,482
OVL		
Crude (mmt)	8.3	8.5
Gas (bcm)	4.6	4.6
Crude net realisation (US\$/bbl)	25.5	25.8
Avg gas price realisation (Rs/mcm)	2.1	2.1

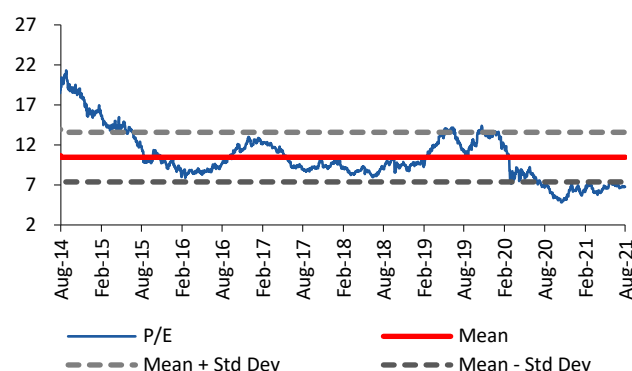
Source: Centrum Broking

Valuations

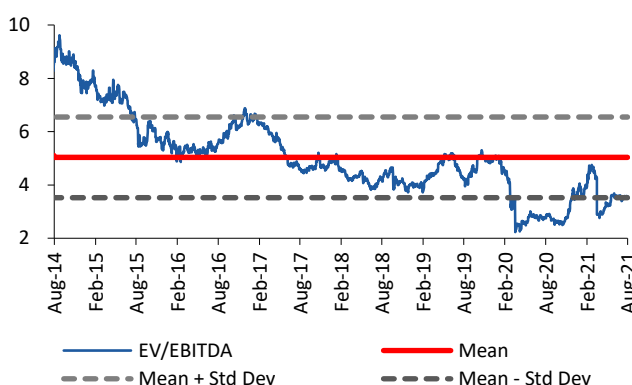
We value ONGC's standalone business at 5x FY23E EPS, value contribution from subsidiaries – OVL at 5.5x FY23E EPS and HPCL, MRPL and OPAL at 5.5x FY22E EPS, and value investments at a 40% discount to CMP, to arrive at a TP of Rs156, implying valuation of 9x FY23E standalone EPS.

Valuations	Rs/share
ONGC Standalone	84
Contribution from subsidiaries:	
OVL	15
HPCL + MRPL + OPAL	46
Investments (valued @40% discount to CMP)	12
Value per share	156
CMP	116
Upside/ (downside) %	34.9%

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	EPS CAGR (FY21-23E) (%)	PE (x)			P/Bv (x)			EV/EBITDA (x)			RoE (%)	RoCE (%)
			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
ONGC	14,59,315	1.9%	1.8%	39.5%	14.1	6.8	6.7	0.7	0.7	0.6	5.3	3.1	2.8
OIL India	1,80,012	23.9%	82.3%	41.2%	20.4	11.4	10.2	0.7	0.7	0.6	23.5	8.1	8.0

Source: Company, Centrum Broking

Exhibit 1: Quarterly Summary

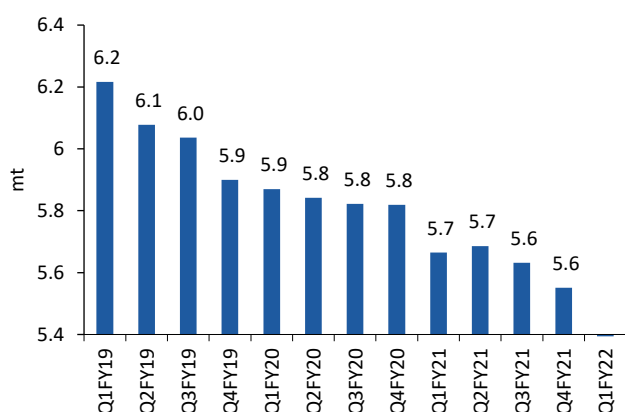
Particulars (Rs bn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Sales	2,44,926	2,37,101	2,14,562	1,30,113	1,69,171	1,70,238	2,11,889	2,30,216
Total Income								
Accretion to Stocks in trade & work in progress	2,44,926	2,37,101	2,14,562	1,30,113	1,69,171	1,70,238	2,11,889	2,30,216
Raw Material Consumed	(38)	(2,036)	4,678	(1,115)	(1,320)	(464)	(1,364)	(294)
Sales & Admin expenses	6,932	6,681	5,882	3,967	5,386	4,930	5,525	7,298
Employee Expenses	58,606	56,671	48,070	29,809	39,349	40,973	54,107	59,696
Other Exp	6,332	6,674	6,115	4,985	6,161	5,621	6,307	7,302
Operating Profit (Core EBITDA)	40,194	46,139	63,938	33,391	35,243	35,718	46,079	40,245
Depreciation	1,32,900	1,22,971	85,879	59,077	84,353	83,461	1,01,235	1,15,971
EBIT	62,553	70,196	80,370	49,492	51,254	62,655	63,727	47,609
Interest	70,347	52,776	5,509	9,585	33,099	20,806	37,508	68,362
Other Revenue/Income	6,818	6,264	8,695	4,918	3,172	5,982	5,688	6,197
Other Excep. Items (restructuring, asset sales etc)	26,853	14,025	13,256	4,368	22,355	12,188	31,324	5,337
Profit Before Tax	-	-	(48,991)	-	(12,382)	-	26,132	-
Tax	90,383	60,537	(38,920)	9,035	39,900	27,011	89,276	67,502
<i>Tax rate (%)</i>	27,752	18,273	(7,938)	4,075	11,122	14,430	21,936	24,154
Profit After Tax	30.7%	30.2%	20.4%	45.1%	27.9%	53.4%	24.6%	35.8%
PAT attributable to Consolidated Group	62,631	42,265	(30,983)	4,960	28,778	12,581	67,340	43,348
Adjusted PAT for the group	62,631	42,265	(30,983)	4,960	28,778	12,581	67,340	43,348
Growth (%)	62,631	42,265	1,841	4,960	37,074	12,581	49,831	43,348
<i>Net Sales</i>								
<i>EBITDA</i>	-12.5%	-14.4%	-19.8%	-51.0%	-30.9%	-28.2%	-1.2%	76.9%
<i>Adj. PAT</i>	-15.8%	-25.8%	-30.6%	-60.9%	-36.5%	-32.1%	17.9%	96.3%
Margin (%)	-24.2%	-48.8%	-95.7%	-91.7%	-40.8%	-70.2%	2606.7%	774.0%
<i>EBITDA</i>								
<i>EBIT</i>	54.3%	51.9%	40.0%	45.4%	49.9%	49.0%	47.8%	50.4%
<i>PAT (reported bef minority interest)</i>	28.7%	22.3%	2.6%	7.4%	19.6%	12.2%	17.7%	29.7%
Key Drivers	25.6%	17.8%	-14.4%	3.8%	17.0%	7.4%	31.8%	18.8%
Brent (US\$/bbl)								
INR/USD	61.9	62.4	50.0	32.0	43.2	44.5	60.5	68.0
Production	70.4	71.2	72.4	75.9	74.4	73.7	72.9	73.7
Crude (mmt)								
Gas (bcm)	5.8	5.8	5.8	5.7	5.7	5.6	5.6	5.4
Sales	6.3	6.2	6.0	5.5	5.9	5.8	5.6	5.3
Crude (mmt)								
Gas (bcm)	5.4	5.2	5.4	5.2	5.1	5.3	5.2	5.1
Crude net realisation (US\$/bbl)	4.9	4.8	4.7	4.2	4.6	4.5	4.4	4.1
Avg gas price realisation (Rs/mcm)	60.3	59.7	49.0	28.7	41.4	43.2	58.1	65.6

Source: Centrum Broking, Company Data

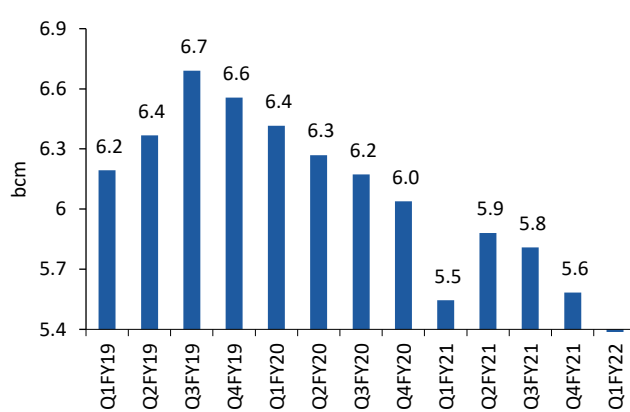
Exhibit 2: Management Commentary takeaways

	Q4FY21	Q1FY22	Comments
Production guidance	The management guided total production 48.7/49/52 mtoe for FY22/23/24E, though it believes Covid third wave, restriction on travel could impact the output.	The management guided total production 47.6/52.6/60 mtoe for FY22/23/24E, though it believes Covid third wave, restriction on travel could impact the output.	We have factored in production of 22.4/22.2 mt of oil for FY22/23E and 23.2/24.8bcm of gas for FY22/23E.
Capex Guidance	Company's capex guidance for FY22E: would range from Rs290-320bn	Company's capex guidance for FY22E: would range from Rs290-320bn	FY21-23E capex will be in the range of Rs300-360bn, in line with historical trends.
Update on new projects	KG Basin volumes of ~2mmscmd are slated to go up to 7mmscmd by the end of the year and further to 8/11mmscmd over FY23/24E.	KG Basin volumes of ~1mmscmd are slated to go up to 3mmscmd by the end of the year and further to 8/11mmscmd over FY23/24E.	Now that the production in KG gas field is ramping up, we have factored 1.5mmscmd in FY22E and 5.5mmscmd in FY23E.
Transition to new tax regime	No update	No update	Since the management is still evaluating the new tax regime, we have taken the normal taxes applicable.
Update on subsidiaries	OPAL has achieved positive PAT for the 1st time in Q4FY21, with utilization also at 100% (PAT of Rs2.9bn). FY21 PAT came at loss of Rs7.9bn.	OPAL has achieved positive PAT for the 2 nd consecutive quarter in Q1FY22 and utilization also is at >85% for the last two quarters.	

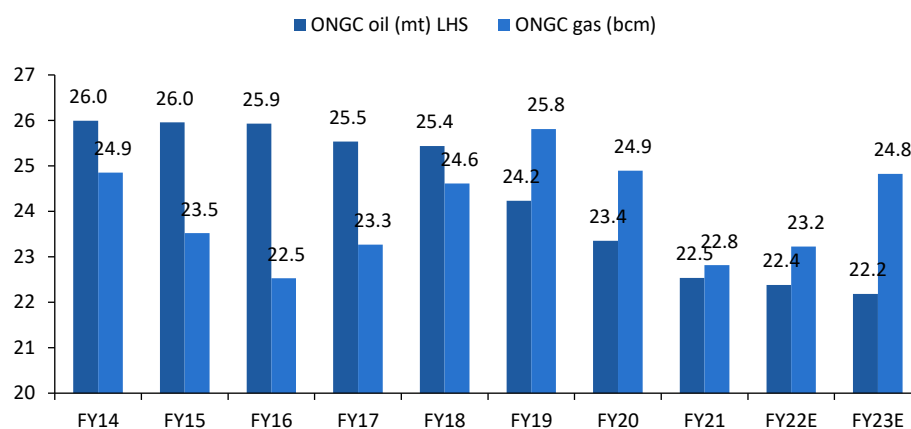
Source: Centrum Broking, Company Data

Exhibit 3: Oil output remains weak

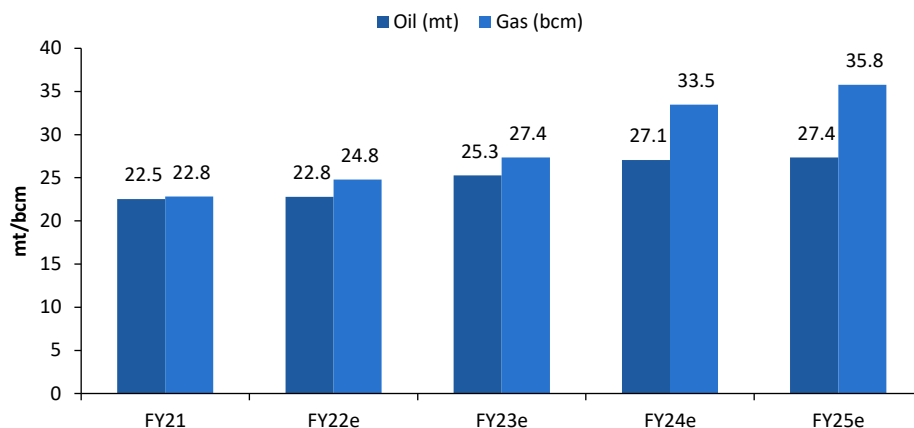
Source: Centrum Broking, Company Data

Exhibit 4: So does Gas output

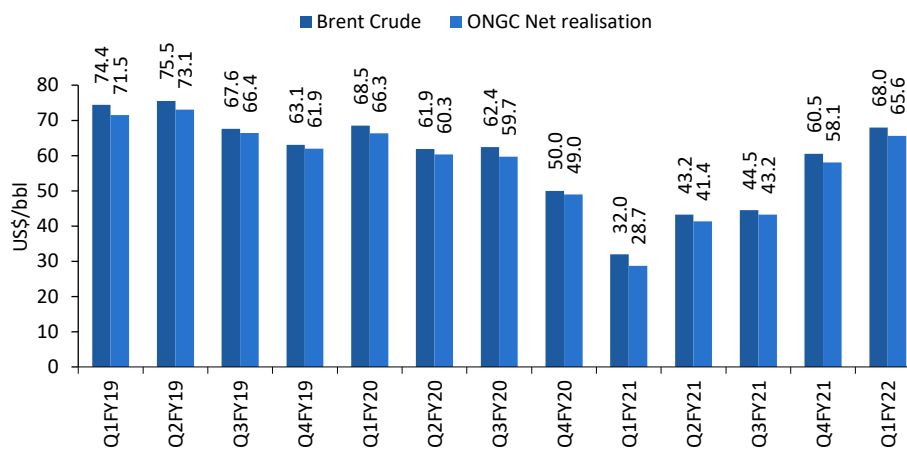
Source: Centrum Broking, Company Data

Exhibit 5: FY22/23e output to remain at lower levels vs FY20

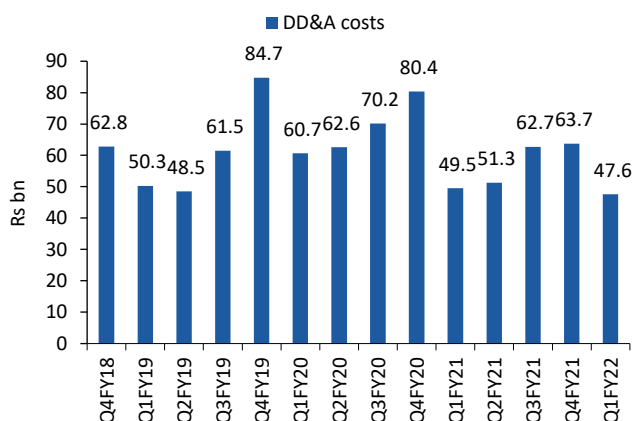
Source: Centrum Broking, Company Data

Exhibit 6: Management guidance for output is very aggressive over FY22-25e

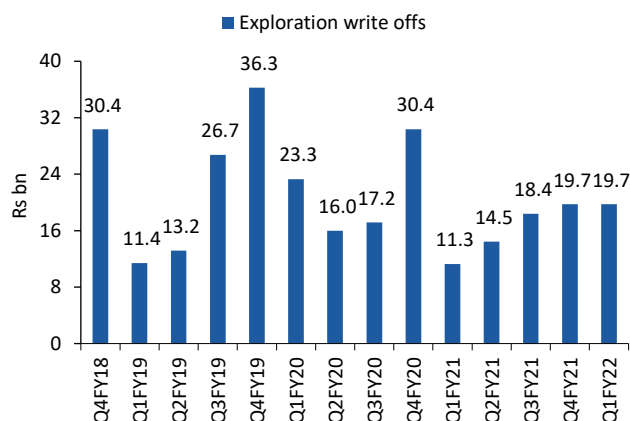
Source: Centrum Broking, Company Data

Exhibit 7: Realisations continue to improve materially

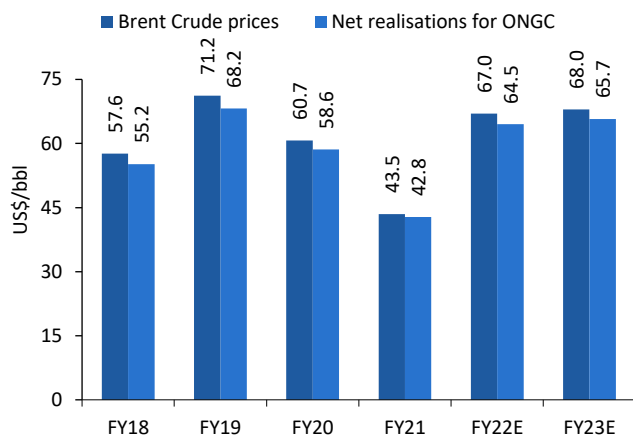
Source: Centrum Broking, Company Data

Exhibit 8: DD&A costs sees a sharp reduction

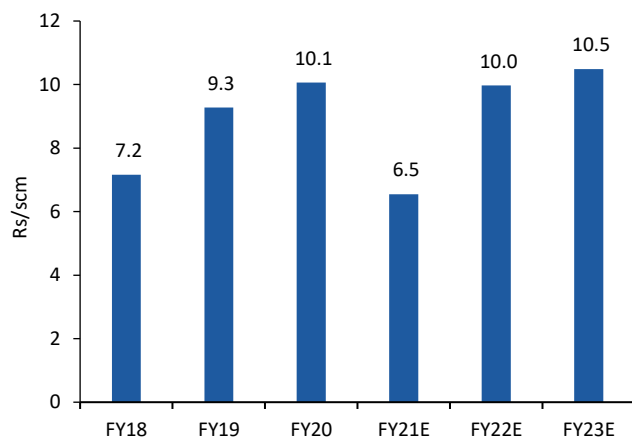
Source: Centrum Broking, Company Data

Exhibit 9: As dry well write offs increase marginally

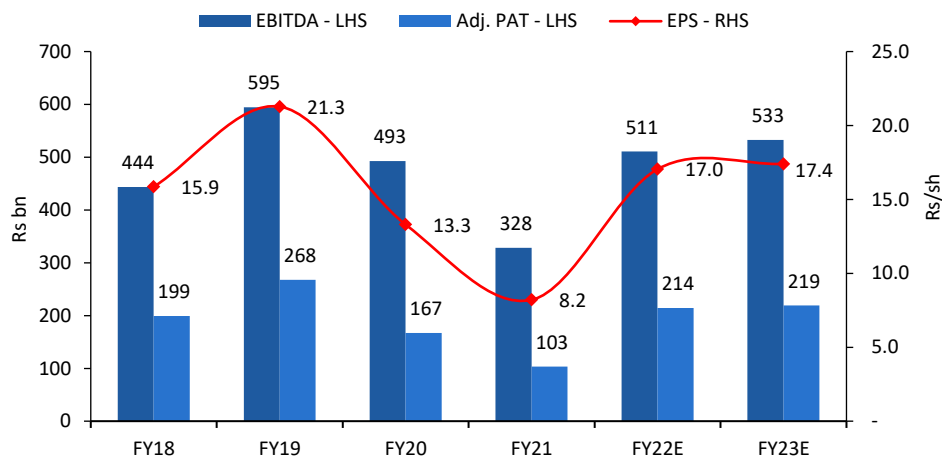
Source: Centrum Broking, Company Data

Exhibit 10: Oil realisations to see uptrend on Global cues

Source: Centrum Broking, Company Data

Exhibit 11: Gas prices to also see sharp improvement

Source: Centrum Broking, Company Data

Exhibit 12: We expect earnings trajectory to improve materially over FY22-23e

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	10,96,546	9,62,136	6,81,411	9,98,514	10,30,506
Operating Expense	2,65,004	2,25,708	1,64,237	2,51,424	2,59,051
Employee cost	1,20,639	1,24,258	1,29,229	1,34,398	1,39,774
Others	1,16,213	1,19,300	59,818	1,01,911	98,898
EBITDA	5,94,689	4,92,869	3,28,127	5,10,781	5,32,782
Depreciation & Amortisation	2,42,129	2,73,005	2,27,129	2,49,777	2,72,388
EBIT	3,52,560	2,19,864	1,00,998	2,61,004	2,60,394
Interest expenses	24,921	28,237	22,145	20,344	16,888
Other income	72,653	61,050	71,425	72,139	75,746
PBT	4,00,291	2,03,687	1,64,028	3,12,800	3,19,253
Taxes	1,32,645	69,241	51,564	98,331	1,00,360
Effective tax rate (%)	33.1	34.0	31.4	31.4	31.4
PAT	2,67,647	1,34,445	1,12,464	2,14,469	2,18,893
Minority/Associates	0	0	0	0	0
Recurring PAT	2,67,647	1,67,269	1,03,252	2,14,469	2,18,893
Extraordinary items	0	(32,824)	9,213	0	0
Reported PAT	2,67,647	1,34,445	1,12,464	2,14,469	2,18,893
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	29.0	(12.3)	(29.2)	46.5	3.2
EBITDA	34.1	(17.1)	(33.4)	55.7	4.3
Adj. EPS	34.2	(37.5)	(38.3)	107.7	2.1
Margins (%)					
Gross	100.0	100.0	100.0	100.0	100.0
EBITDA	54.2	51.2	48.2	51.2	51.7
EBIT	32.2	22.9	14.8	26.1	25.3
Adjusted PAT	24.4	17.4	15.2	21.5	21.2
Returns (%)					
ROE	13.5	8.4	5.2	10.1	9.7
ROCE	12.8	8.5	5.3	9.6	9.2
ROIC	9.5	5.9	2.8	6.9	6.8
Turnover (days)					
Gross block turnover ratio (x)	0.6	0.5	0.3	0.4	0.4
Debtors	53	69	106	102	119
Inventory	nm	nm	nm	nm	nm
Creditors	nm	nm	nm	nm	nm
Net working capital	(30)	(71)	(89)	(32)	(7)
Solvency (x)					
Net debt-equity	0.1	0.1	0.1	0.1	0.0
Interest coverage ratio	23.9	17.5	14.8	25.1	31.5
Net debt/EBITDA	0.4	0.4	0.8	0.2	0.0
Per share (Rs)					
Adjusted EPS	21.3	13.3	8.2	17.0	17.4
BVPS	160.4	154.5	162.6	173.7	185.0
CEPS	40.5	35.0	26.3	36.9	39.1
DPS	7.0	5.0	3.6	6.0	6.1
Dividend payout (%)	32.9	46.8	40.3	35.0	35.0
Valuation (x)					
P/E	5.5	8.7	14.1	6.8	6.7
P/BV	0.7	0.8	0.7	0.7	0.6
EV/EBITDA	2.8	3.3	5.3	3.1	2.8
Dividend yield (%)	6.0	4.3	3.1	5.1	5.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	62,902	62,902	62,901	62,901	62,901
Reserves & surplus	19,54,994	18,80,479	19,82,684	21,22,089	22,64,370
Shareholders fund	20,17,896	19,43,381	20,45,586	21,84,990	23,27,271
Minority Interest	0	0	0	0	0
Total debt	2,17,443	1,91,964	2,77,517	2,57,517	2,37,517
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	2,74,261	2,63,441	2,74,734	2,77,734	2,80,734
Total liabilities	25,09,600	23,98,786	25,97,837	27,20,241	28,45,522
Gross block	17,78,192	20,83,140	22,19,689	24,59,689	27,23,689
Less: acc. Depreciation	(5,58,835)	(8,06,149)	(9,12,691)	(11,68,848)	(14,41,236)
Net block	12,19,357	12,76,991	13,06,998	12,90,841	12,82,453
Capital WIP	3,50,502	3,62,255	4,09,491	4,39,491	4,72,491
Net fixed assets	15,69,860	16,39,246	17,16,488	17,30,332	17,54,944
Non Current Assets	0	0	0	0	0
Investments	10,29,741	9,45,822	10,47,351	10,78,772	11,11,135
Inventories	77,039	85,666	84,745	1,24,186	1,28,165
Sundry debtors	1,93,878	1,69,394	2,26,170	3,31,433	3,42,052
Cash & Cash Equivalents	5,041	9,682	3,026	1,44,342	2,13,836
Loans & advances	1,21,522	1,16,997	1,06,756	1,07,819	1,08,882
Other current assets	0	0	0	0	0
Trade payables	2,10,687	2,10,748	2,02,846	2,97,254	3,06,778
Other current liab.	24,689	66,906	64,643	94,729	97,765
Provisions	2,52,104	2,90,367	3,19,210	4,04,659	4,08,950
Net current assets	(90,001)	(1,86,283)	(1,66,003)	(88,862)	(20,557)
Total assets	25,09,600	23,98,785	25,97,837	27,20,241	28,45,522

Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	4,00,291	2,03,687	1,64,028	3,12,800	3,19,253
Depreciation & Amortisation	2,23,616	2,56,126	2,09,884	2,43,269	2,65,750
Net Interest	8,978	15,338	11,534	(51,795)	(58,859)
Net Change – WC	(63,610)	1,26,655	(24,091)	64,176	1,189
Direct taxes	(1,12,076)	(66,646)	(28,349)	(95,331)	(97,360)
Net cash from operations	4,23,038	5,77,853	2,76,651	4,43,444	4,00,300
Capital expenditure	(2,63,191)	(3,33,247)	(2,44,911)	(3,00,000)	(3,30,000)
Acquisitions, net	(7,721)	(4,374)	2,964	0	0
Investments	8,159	(7,018)	6,880	(31,421)	(32,363)
Others	41,878	(4,944)	28,497	1,27,743	1,34,806
Net cash from investing	(2,20,876)	(3,49,583)	(2,06,570)	(2,03,677)	(2,27,557)
FCF	1,59,847	2,44,606	31,741	1,43,444	70,300
Issue of share capital	(40,220)	0	0	0	0
Increase/(decrease) in debt	(44,608)	(82,247)	12,860	(20,000)	(20,000)
Dividend paid	(1,09,595)	(87,504)	(22,053)	(75,064)	(76,613)
Interest paid	(7,799)	(5,120)	(2,125)	(3,386)	(6,636)
Others	(5,027)	(48,757)	(65,420)	0	0
Net cash from financing	(2,07,249)	(2,23,628)	(76,738)	(98,450)	(1,03,248)
Net change in Cash	(5,086)	4,642	(6,657)	1,41,316	69,495

Source: Company, Centrum Broking

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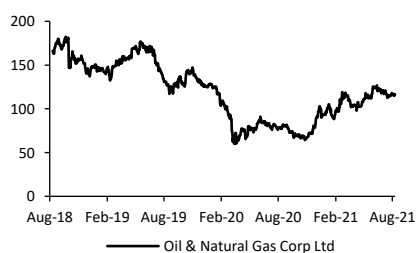
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Source: Bloomberg

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