

Subdued production outlook remains a concern...

ONGC declared its O2FY20 results, which were largely in line with our estimates on the operational profitability front. Revenues declined 7.8% QoQ at ₹ 24492.6 crore on account of lower realisations as well as sales volume QoQ. oil & gas production was marginally below our estimates. As per expectations, the quarter saw nil subsidy burden and net realisations were at US\$60.3/bbl due to a decline in crude oil prices. Subsequently, EBITDA during the quarter declined 12.1% QoQ and came in at ₹ 13290 crore. However, reported PAT increased 6.1% QoQ to ₹ 6263.1 crore (our estimate: ₹ 5925.7 crore) on account of higher other income.

Decline in oil prices; weighs on stock price

The attacks on Saudi infrastructure in September led to a sharp increase in crude oil prices to ~US\$70/bbl for a brief period but largely prices remained lower than that of Q1FY20. Average Brent crude prices decreased by US\$ 6.6/bbl QoQ to US\$ 61.9/bbl in Q2FY20. Also, a slowdown in the global economy and increase in oil production from the US continues to weigh on oil prices. Nil subsidy last year and the recent decline in oil prices makes us believe there would be nil subsidy on ONGC. We model net realisation of US\$58.5/bbl for the rest of FY20E and FY21E at Brent oil prices of US\$60/bbl, respectively.

Slower production ramp up continues

Oil production during the quarter declined 3.9% YoY and 0.5% QoQ at 5.8 MMT (5.1 MMT for ONGC and 0.7 MMT for PSC-JVs). The natural gas production also declined 1.6% YoY while it declined 2.3% QoQ at 6.3 BCM (6 BCM for ONGC and 0.3 BCM for PSC-JVs). Considering sharper than expected decline in oil and gas production from nominated oilfields along with slower than anticipated ramp-up, we lower our oil as well as gas output guidance. Factoring in the same, we expect ONGC's oil output at 21.3 MMT + 2.8 MMT (JV) in FY21E with gas output at 25.2 BCM+1 BCM (JV) during the same period. ONGC is expected to see a substantial increase in production from FY22E when KG basin comes into production.

Valuation & Outlook

The movement in oil prices and subsidy sharing are important for ONGC's performance, going ahead. We model oil prices of US\$ 60/bbl for the rest of FY20E and FY21E, given the current oil market scenario. However, due to lower growth on a sustainable basis, in spite of lower valuation, we have a **HOLD** rating with a target price of ₹ 130/share. We value the core business i.e. standalone & OVL at ₹ 107/share (6x FY21E core earnings) & investments at ₹ 23/share (50% discount to current MCap). Market driven domestic gas prices in future would be a key risk to our target price.



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	171,094.0
Total Debt (FY19) (₹ Crore)	21,593.6
Cash and Investments (FY19) (₹ Crore)	1,575.9
EV (₹ Crore)	191,111.6
52 week H/L	179/116
Equity capital (₹ Crore)	6,290.2
Face value (₹)	5.0

Key Highlights

- Results largely in line with our estimates on the operational profitability front. Production marginally below our estimates
- Assume nil subsidy in future and factor oil prices of US\$60/bbl
- Lower volume growth estimates. Lack of visibility in production growth on a sustainable basis remains a concern
- Maintain HOLD on stock with target price of ₹ 130 /share

Research Analyst

Mayur Matani
mayur.matani@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	77,907.7	85,004.1	109,654.6	97,319.9	96,414.2	(6.2)
EBITDA (₹ crore)	17,244.0	21,502.0	24,535.5	24,289.5	25,221.9	1.4
Net Profit (₹ crore)	17,900.0	19,945.3	26,715.8	22,844.9	22,451.3	(8.3)
EPS (₹)	13.9	15.5	21.2	18.2	17.8	
P/E (x)	9.8	8.8	6.4	7.5	7.6	
Price / Book (x)	0.9	0.9	0.8	0.8	0.7	
EV/EBITDA (x)	4.6	4.5	3.2	3.6	3.8	
RoCE (%)	10.2	10.4	15.4	11.4	9.9	
RoE (%)	9.6	10.3	13.0	10.4	9.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Total Revenues	24,492.6	24,382.6	27,989.2	-12.5	26,554.7	-7.8	
Raw materials costs	689.4	630.0	446.1	54.5	625.1	10.3	
Employees Cost	633.2	646.2	609.7	3.9	608.2	4.1	
Other Expenses	9,880.1	10,056.6	11,144.7	-11.3	10,209.4	-3.2	
Total Expenditure	11,202.6	11,332.8	12,200.4	-8.2	11,442.7	-2.1	
EBITDA	13,290.0	13,049.8	15,788.7	-15.8	15,112.0	-12.1	Largely in line with estimates
EBITDA margins (%)	54.3	53.5	56.4	-215 bps	56.9	-265 bps	
Depreciation	6,255.3	5,939.0	4,848.8	29.0	6,156.3	1.6	
EBIT	7,034.7	7,110.8	10,939.9	-35.7	8,955.8	-21.5	
Interest	681.8	651.7	629.1	8.4	646.1	5.5	
Other Income	2,685.3	1,658.2	2,394.2	12.2	747.5	259.2	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	9,038.3	8,117.4	12,705.0	-28.9	9,057.2	-0.2	
Total Tax	2,775.2	2,191.7	4,440.4	-37.5	3,152.9	-12.0	
PAT	6,263.1	5,925.7	8,264.6	-24.2	5,904.3	6.1	Higher than estimated other income led to better profits than estimates

Key Metrics

Exchange rate (₹/\$)	70.3	70.3	70.1	0.4	69.6	1.1	
Under-recoveries (₹ cr)	0.0	0.0	0.0	NA	0.0	NA	Nil subsidy during the quarter, in line with our expectations
Gross realisation(\$/bbl)	60.3	59.7	73.1	-17.4	66.3	-9.0	
Net realisation (\$/bbl)	60.3	59.7	73.1	-17.4	66.3	-9.0	Realisations decline on lower crude oil prices
Oil Production (mmt)	5.8	5.9	6.1	-3.9	5.9	-0.5	
Gas Production (mmt)	6.3	6.4	6.4	-1.6	6.4	-2.3	Marginally lower-than-estimated due to decline in production from nomination fields and delay in production ramp-up from new fields

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	100026.2	97,319.9	-2.7	102654.2	96,414.2	-6.1	
EBITDA	54566.6	52,393.6	-4.0	55507.1	50,350.7	-9.3	Lowered oil as well as gas production estimates along with decline in natural gas realisations estimate
EBITDA Margin (%)	54.6	53.8	-72 bps	54.1	52.2	-185 bps	
PAT	24269.1	22,844.9	-5.9	25366.6	22,451.3	-11.5	
EPS (₹)	19.3	18.2	-5.9	20.2	17.8	-11.5	

Source: Company, ICICI Direct Research

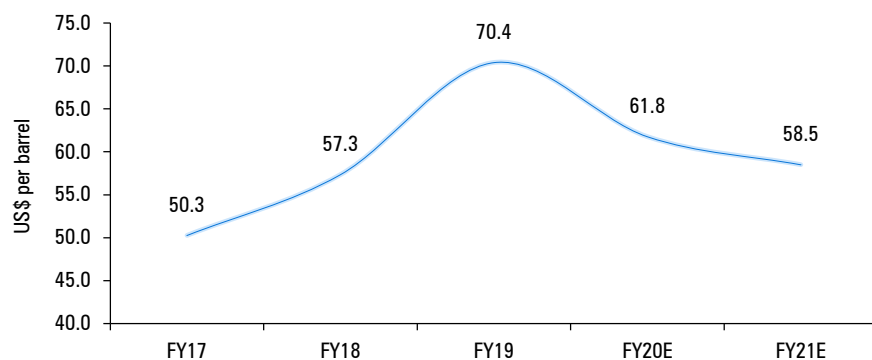
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Exchange rate (₹/\$)	64.5	69.9	70.4	71.0	70.0	70.0	
Under-recoveries (₹ cr)	0.0	0.0	0.0	0.0	0.0	0.0	
Gross realisation(\$/bbl)	57.3	70.4	61.8	58.5	62.2	59.5	
Net realisation (\$/bbl)	57.3	70.4	61.8	58.5	62.2	59.5	Maintain Brent Oil prices at US\$ 60/bbl
Oil Prod'n (Dom) (mmt)	25.4	24.2	23.7	24.1	24.1	25.3	Lowered estimates on higher than expected decline in production from nomination fields
Oil Prod'n (OVL) (mmt)	9.4	10.1	10.2	10.1	10.2	10.1	
Gas Prod'n (Dom)(mmt)	24.6	25.8	25.3	26.2	26.9	29.1	Slower than anticipated ramp up in volumes and sharper decline from nomination fields led to change in estimates
Gas Prod'n (OVL)(mmt)	4.8	4.7	5.0	5.0	5.0	5.0	

Source: Company, ICICI Direct Research

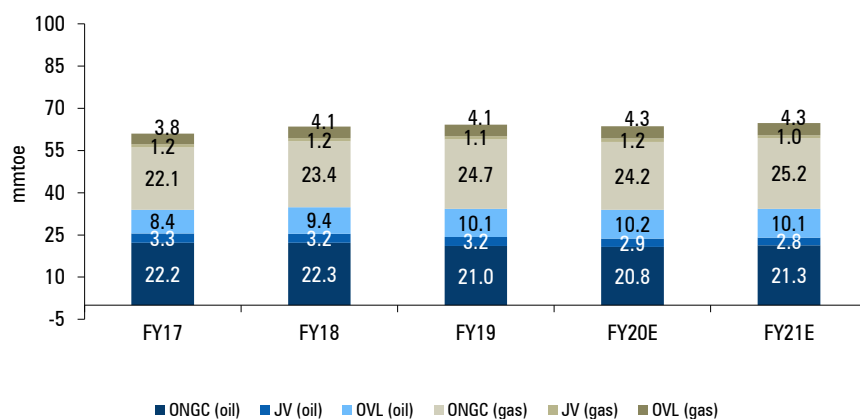
Story in charts

Exhibit 4: Oil realisations trend



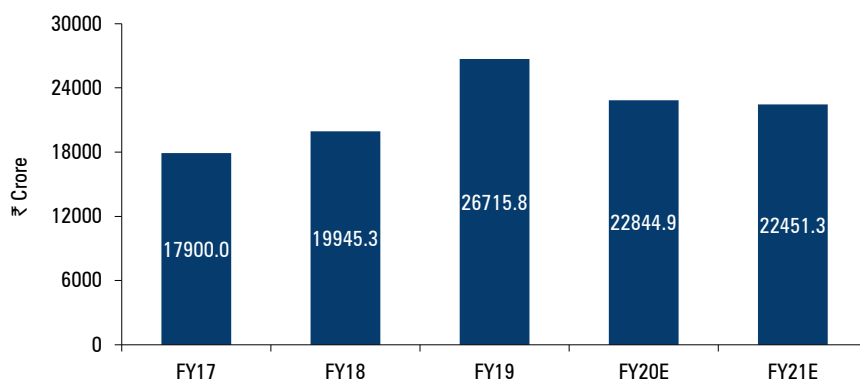
Source: Company, ICICI Direct Research

Exhibit 5: Production trajectory



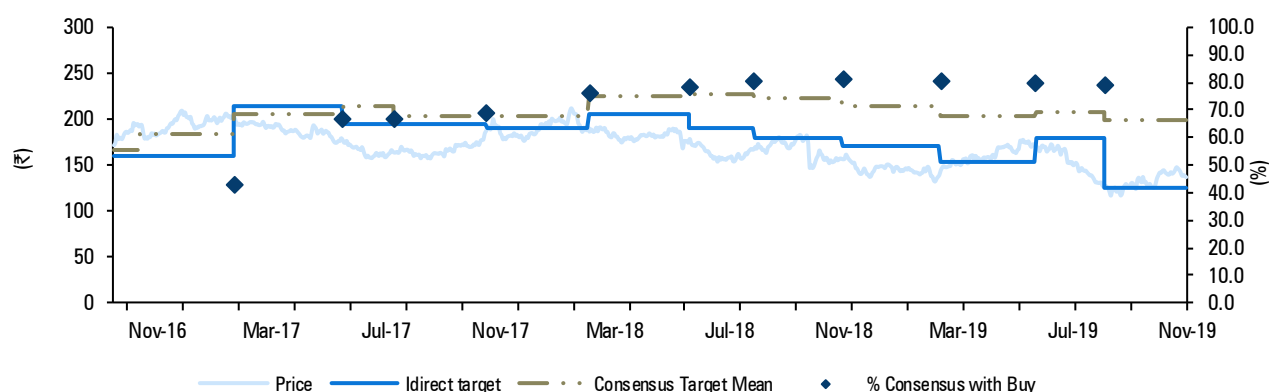
Source: Company, ICICI Direct Research

Exhibit 6: Profitability trend (Standalone)



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Filing Date	% O/S	sition (m)	Change (m)
1	Government of India	30-Sep-19	63.0	7922.6	-160.1
2	Life Insurance Corporation of India	30-Sep-19	9.5	1192.2	0.0
3	Indian Oil Corporation Ltd	30-Sep-19	7.8	986.9	0.0
4	GAIL (India) Ltd	30-Sep-19	2.5	308.4	0.0
5	ICICI Prudential Asset Management Co. Ltd.	30-Sep-19	2.1	266.9	54.6
6	Reliance Nippon Life Asset Management Limited	30-Sep-19	1.4	180.7	-42.4
7	The Vanguard Group, Inc.	30-Sep-19	0.8	106.8	-1.5
8	Fidelity Management & Research Company	30-Sep-19	0.8	98.3	0.5
9	BlackRock Institutional Trust Company, N.A.	30-Sep-19	0.5	68.9	0.3
10	SBI Funds Management Pvt. Ltd.	30-Sep-19	0.5	64.2	2.2

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

BUYS			SELLS		
Investor name	Value	Shares	Investor name	Value	Shares
ICICI Prudential Asset Management Co. Ltd.	101.88	54.60	Government of India	-298.68	-160.08
Mellon Investments Corporation	15.26	8.18	Reliance Nippon Life Asset Management Limited	-79.18	-42.44
RBC Global Asset Management (UK) Limited	6.16	3.30	Edelweiss Asset Management Ltd.	-13.45	-7.21
Mackenzie Financial Corporation	7.62	3.13	Schroder Investment Management (Hong Kong) Ltd.	-8.71	-3.58
SBI Funds Management Pvt. Ltd.	4.05	2.17	CPP Investment Board	-6.96	-3.02

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	67.5	65.6	64.7	64.3	63.0
FII	5.8	5.9	6.5	7.9	8.2
DII	13.3	14.8	15.7	14.4	16.0
Others	13.4	13.7	13.2	13.5	12.8

Source: Company, ICICI Direct Research

Financial summary (Standalone)

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	85004.1	109654.6	97319.9	96414.2
Growth (%)	9.1	29.0	-11.2	-0.9
(Inc./Dec. in stock trade)	-63.0	-166.3	-17.9	0.0
Raw material Costs	1209.2	2223.8	2582.4	2700.0
Employee Costs	2503.0	2706.1	2774.8	2913.5
Statutory Levies	20098.3	26500.4	23247.1	23355.5
Other Expenditure	16999.7	18927.8	16339.9	17094.5
Op. Expenditure	40747.3	50191.9	44926.3	46063.5
EBITDA	44256.8	59462.7	52393.6	50350.7
Growth (%)	22.5	34.4	-11.9	-3.9
Depreciation	21502.0	24535.5	24289.5	25221.9
EBIT	22754.8	34927.2	28104.1	25128.7
Interest	1508.5	2492.1	2631.3	2238.3
Other Income	7646.1	7519.0	7249.3	7124.7
PBT	28892.5	39954.0	32722.2	30015.1
Growth (%)	14.6	38.3	-18.1	-8.3
Tax	8947.2	13238.2	9877.3	7563.8
Reported PAT	19945.3	26715.8	22844.9	22451.3
Growth (%)	11.4	33.9	-14.5	-1.7
EPS	15.5	21.2	18.2	17.8

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	19,945.3	26,715.8	22,844.9	22,451.3
Add: Depreciation	21,502.0	24,535.5	24,289.5	25,221.9
Add: Others	4,095.9	1,811.2	1,500.0	1,500.0
Cash Profit	35,633.3	42,759.1	39,066.9	38,869.9
Increase/(Decrease) in CL	6,444.2	-1,420.9	-3,796.2	-1,776.0
(Increase)/Decrease in CA	-5,646.7	-7,736.7	-2,616.3	-4,338.5
CF from Operating Activities	46340.7	43904.9	42221.8	43058.7
Purchase of Fixed Assets	36,751.1	25,018.5	29,472.5	36,404.9
(Inc)/Dec in Investments	-31,581.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-68,332.2	-25,018.5	-29,472.5	-36,404.9
Inc/(Dec) in Loan Funds	25,592.2	-3,998.6	5,539.0	-4,525.0
Less: Dividend Paid	9,909.9	10,303.4	9,567.4	10,303.4
Inc/(Dec) in Sh. Cap. & Res	-2,189.1	-4,021.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	13,493.3	-18,323.1	-4,028.4	-14,828.4
Change in cash Eq.	-8,498.2	563.3	8,720.9	-8,174.6
Op. Cash and cash Eq.	9,510.8	1,012.6	1,575.9	10,296.8
Cl. Cash and cash Eq.	1,012.6	1,575.9	10,296.8	2,122.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	6,416.7	6,290.2	6,290.2	6,290.2
Preference Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	186,968.0	199,485.8	212,763.2	224,911.2
Shareholder's Fund	193,384.7	205,776.0	219,053.5	231,201.4
Loan Funds	25,592.2	21,593.6	27,132.6	22,607.6
Deferred Tax Liability	26,259.2	28,070.4	29,570.4	31,070.4
Well Abandonment Fund	0.0	0.0	0.0	0.0
Source of Funds	245236.1	255440.0	275756.4	284879.3
Application of Funds				
Net Block	9,363.6	9,863.6	10,363.6	10,863.6
Capital WIP	13,545.1	11,728.1	9,911.1	8,094.1
Producing Properties	110,264.8	114,264.8	118,264.8	128,264.8
Pre-Producing Properties	21,838.5	19,638.5	22,138.5	24,638.5
Total Fixed Assets	155,012.0	155,495.0	160,678.0	171,861.0
Investments	85,730.8	85,730.8	85,730.8	85,730.8
Inventories	6,688.9	8,411.9	7,465.6	7,396.2
Debtor	7,772.6	9,311.4	8,399.0	8,332.0
Cash	1,012.6	1,575.9	10,296.8	2,122.2
Loan & Advance, Other C	35011.1	39486.1	43961.1	48436.1
Total Current assets	50485.3	58785.3	70122.6	66286.5
Current Liabilities	23432.1	21029.6	21330.4	21131.9
Provisions	22560.0	23541.6	19444.7	17867.2
Total CL and Provisions	45992.1	44571.3	40775.1	38999.1
Net Working Capital	4493.2	14214.1	29347.5	27287.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	245236.1	255440.0	275756.4	284879.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	150.7	163.6	174.1	183.8
Cash per share	0.8	1.3	8.2	1.7
EPS	15.5	21.2	18.2	17.8
Cash EPS	32.3	40.7	37.5	37.9
DPS	6.6	7.0	6.5	7.0
Profitability & Operating Ratios				
EBITDA Margin (%)	52.1	54.2	53.8	52.2
PAT Margin (%)	23.5	24.4	23.5	23.3
Fixed Asset Turnover (x)	0.5	0.7	0.6	0.6
Inventory Turnover (Days)	28.7	28.0	28.0	28.0
Debtor (Days)	33.4	27.0	27.0	27.0
Current Liabilities (Days)	100.6	70.0	80.0	80.0
Return Ratios (%)				
RoE	10.3	13.0	10.4	9.7
RoCE	10.4	15.4	11.4	9.9
RoIC	10.4	15.5	11.9	10.0
Valuation Ratios (x)				
PE	8.8	6.4	7.5	7.6
Price to Book Value	0.9	0.8	0.8	0.7
EV/EBITDA	4.5	3.2	3.6	3.8
EV/Sales	2.3	1.7	1.9	2.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (x)	15.1	14.0	10.7	11.2
Debt to EBITDA (x)	0.6	0.4	0.5	0.4
Current Ratio	1.1	1.3	1.7	1.7
Quick ratio	1.0	1.1	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
BPCL (BHAPET)	517	515	Hold	112,150	36.3	35.4	46.0	14.3	14.6	11.2	10.8	11.7	8.7	13.0	10.4	13.9	19.3	17.2	20.0
GAIL (India) (GAIL)	129	125	Hold	58,179	13.4	10.1	11.2	9.7	12.8	11.5	6.3	8.8	9.2	16.9	10.6	9.4	13.8	9.9	10.4
Gujarat Gas (GUJGA)	198	220	Hold	13,630	6.3	16.6	13.0	31.3	11.9	15.2	15.6	9.2	8.4	16.8	25.5	23.4	19.8	35.2	22.3
HPCL (HINPET)	298	295	Hold	45,461	39.5	30.2	34.8	7.5	9.9	8.6	5.7	7.8	7.1	16.6	9.7	9.8	22.1	15.8	16.8
Indian Oil Corp (INDOIL)	135	160	Hold	123,945	18.4	14.1	21.1	7.3	9.5	6.4	3.7	4.3	3.5	13.4	10.9	14.0	15.0	11.1	15.4
Indraprastha Gas (INDGAS)	427	410	Hold	29,890	11.2	16.2	15.9	38.0	26.3	26.9	23.6	19.1	17.9	25.6	25.0	22.1	19.2	22.6	18.8
Mahanagar Gas (MAHGAS)	1,007	1080	Hold	9,947	55.3	82.8	77.2	18.2	12.2	13.0	10.6	8.2	7.7	31.5	31.5	27.1	22.7	27.5	22.0
ONGC (ONGC)	136	130	Hold	174,533	21.2	18.2	17.8	6.4	7.5	7.6	3.2	3.6	3.8	15.4	11.4	9.9	13.0	10.4	9.7
Petronet LNG (PETLNG)	283	315	Hold	42,450	14.4	20.6	21.0	19.7	13.7	13.4	13.0	10.0	8.6	26.5	24.4	26.2	21.3	27.4	25.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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