

## Impairment loss dents profits...

ONGC declared its Q4FY20 results, which were below our estimates on the profitability front mainly on account of high impairment loss and exploratory write-offs. Revenues fell 9.5% QoQ to ₹ 21456.2 crore (our estimate: ₹ 21065.9 crore) due to lower realisations at US\$ 49/bbl. While oil production was in line with estimates, gas production was marginally lower. EBITDA during the quarter declined 30.2% QoQ and came in at ₹ 8587.9 crore (our estimate: ₹ 10678.3 crore) on account of higher other expenditure. Exploratory, DD&A expenses at ₹ 8037 crore and an exceptional loss of ₹ 4899.1 crore towards impairment of assets due to a fall in oil prices led to a net loss of ₹ 3098.3 crore.

## Realisations trend important, going forward...

Average Brent crude prices fell significantly during Q4FY20, leading to net realisations at US\$49/bbl. Following a sharp decline in crude oil prices towards the end of the quarter, the company assessed the impact of spread of Covid-19 on business activities and recorded impairment loss of ₹ 4899.1 crore due to a fall in oil prices. In Q1FY21E, global crude oil prices remained volatile. Brent oil prices declined up to US\$20/bbl while closing Brent oil price was ~US\$40/bbl. Going ahead, we model net realisation of US\$38/bbl for FY21E, US\$ 48.5/bbl FY22E at Brent oil prices of US\$39.5/bbl, US\$50/bbl, respectively, taking into account recent volatility and sharp recovery in May in global oil prices. We estimate gas realisation at US\$2.6/mmbtu for H1FY21E following the downwards revision in APM gas prices in Q1FY21E.

## Declining output continues to remain a concern

Oil production during the quarter declined 1.4% YoY and was flat QoQ at 5.8 MMT (5.3 MMT for ONGC, 0.6 MMT for PSC-JVs). Natural gas production also declined 7.9% YoY while it declined 2.2% QoQ to 6 BCM (5.9 BCM for ONGC, 0.2 BCM for PSC-JVs). Considering slower than anticipated ramp up and impact of lockdown in Q1FY21E, we marginally revise our oil output estimates, for FY21E. Factoring in the same, we expect ONGC's oil output at 20.8 MMT + 2.6 MMT (JV) in FY21E with gas output at 24 BCM+0.9 BCM (JV) during the same period. For FY22E, we estimate increase in oil output at 21.1 MMT + 2.8 MMT (JV) with gas output at 26.4 BCM + 1.1 BCM.

## Valuation & Outlook

Oil price movement is very important for ONGC's performance, going ahead. We model oil prices of US\$39.5/bbl for FY21E and US\$50/bbl for FY22E, given the current oil market scenario. Although oil prices saw some recovery in May, they are still lower, which will affect ONGC's profitability. Oil output growth is also lower on a sustainable basis. Considering these factors, we upgrade the stock from REDUCE to **HOLD** rating with a target price of ₹ 80. We value core business i.e. standalone & OVL at ₹ 63/share (6x FY22E core earnings) & investments at ₹ 17/share (50% discount to current MCap).

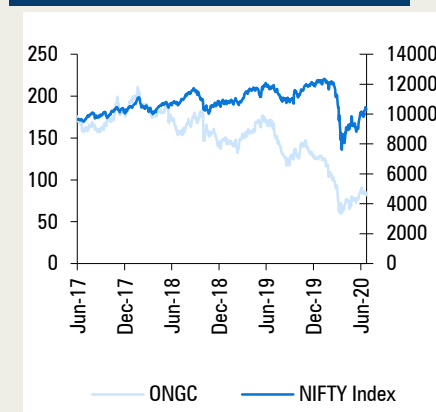
### Particulars

Particular	Amount
Market Capitalization (₹ Cr)	1,03,158.5
Total Debt (FY 19) (₹ Crore)	21,593.6
Cash and Investments (FY	504.1
EV (₹ Crore)	1,24,248.1
52 week H/L	169/52
Equity capital (₹ Crore)	6,290.2
Face value (₹)	5.0

### Key Highlights

- Results were below our estimates on profitability front mainly on account of high impairment loss and exploratory write-offs.
- Factor in oil prices at US\$ 39.5/bbl and US\$ 50/bbl in FY21E and FY22E respectively
- Upgrade to HOLD rating on stock with target price of ₹ 80 /share

### Price Chart



### Research Analyst

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### Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	85,004.1	1,09,654.6	96,213.6	65,999.8	82,500.3	(9.0)
EBITDA (₹ crore)	44,256.8	59,462.7	49,288.2	25,826.1	40,555.6	(12.0)
Net Profit (₹ crore)	19,945.3	26,715.8	13,220.8	3,138.5	13,672.0	(20.0)
EPS (₹)	15.5	21.2	10.5	2.5	10.9	
P/E (x)	5.3	3.9	7.8	32.9	7.5	
Price / Book (x)	0.5	0.5	0.5	0.5	0.5	
EV/EBITDA (x)	2.9	2.1	2.6	5.5	3.6	
RoCE (%)	10.4	15.6	9.2	0.0	5.7	
RoE (%)	10.3	13.2	6.3	1.5	6.3	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

## Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Revenues	21,456.2	21,065.9	26,758.5	-19.8	23,710.1	-9.5	Lower revenues QoQ due to lower realisations
Raw materials costs	1,056.0	625.0	657.0	60.7	463.4	127.9	
Employees Cost	611.5	822.0	782.8	-21.9	667.4	-8.4	
Other Expenses	11,200.8	8,940.7	12,947.6	-13.5	10,281.0	8.9	Higher than estimates
Total Expenditure	12,868.3	10,387.6	14,387.4	-10.6	11,411.8	12.8	
EBITDA	8,587.9	10,678.3	12,371.0	-30.6	12,298.3	-30.2	
EBITDA margins (%)	40.0	50.7	46.2	-621 bps	51.9	1184 bps	
Depreciation	8,037.0	5,588.0	8,508.4	-5.5	7,075.9	13.6	
EBIT	550.9	5,090.3	3,862.7	-85.7	5,222.4	-89.5	
Interest	869.5	651.7	533.7	62.9	626.4	38.8	
Other Income	1,325.6	1,158.2	2,250.3	-41.1	1,402.5	-5.5	
Extra Ordinary Item	-4,899.1	0.0	0.0	NA	0.0	NA	Impairment loss due to fall in oil prices
PBT	-3,892.0	5,596.8	5,579.3	-169.8	5,998.6	-164.9	
Total Tax	-793.8	1,511.1	1,534.7	-151.7	1,846.9	-143.0	
PAT	-3,098.3	4,085.7	4,044.6	-176.6	4,151.6	-174.6	Lower than estimates on account of higher exploratory costs and impairment loss

## Key Metrics

Exchange rate (₹\$)	72.5	72.5	70.5	2.9	71.2	1.8	
Gross realisation (\$/bbl)	49.0	50.5	61.9	-20.9	59.7	-17.9	
Net realisation (\$/bbl)	49.0	50.5	61.9	-20.9	59.7	-17.9	Realisations decline on lower crude oil prices
Oil Production (mmt)	5.8	5.8	5.9	-1.4	5.8	-0.1	
Gas Production (mmt)	6.0	6.2	6.6	-7.9	6.2	-2.2	Marginally lower than estimates

Source: Company, ICICI Direct Research

## Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	64541.3	65,999.8	2.3	81227.5	82,500.3	1.6	
EBITDA	24680.5	25,826.1	4.6	39316.3	40,555.6	3.2	
EBITDA Margin (%)	38.2	39.1	89 bps	48.4	49.2	76 bps	
PAT	3777.6	3,138.5	-16.9	14241.0	13,672.0	-4.0	Revised DD&A estimates led to change in estimates
EPS (₹)	3.0	2.5	-16.9	11.3	10.9	-4.0	

Source: Company, ICICI Direct Research

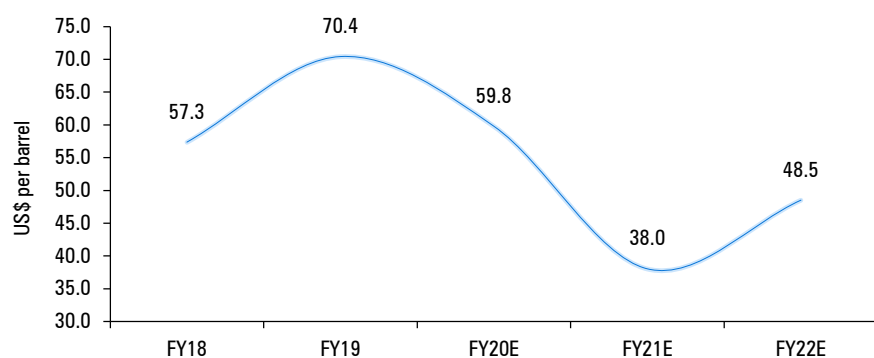
## Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹\$)	69.9	70.8	75.0	75.0	74.0	74.0	
Gross realisation (\$/bbl)	70.4	59.8	38.0	48.5	36.0	48.5	
Net realisation (\$/bbl)	70.4	59.8	38.0	48.5	36.0	48.5	Realign estimates after some recovery in global crude prices
Oil Prod'n (Dom) (mmt)	24.2	23.4	23.3	23.9	23.4	23.9	Marginally revised estimates
Oil Prod'n (OVL) (mmt)	10.1	9.8	10.2	10.2	10.1	10.2	
Gas Prod'n (Dom) (mmt)	25.8	24.9	24.9	27.5	25.5	27.5	
Gas Prod'n (OVL) (mmt)	4.7	5.2	4.9	5.0	5.0	5.5	

Source: Company, ICICI Direct Research

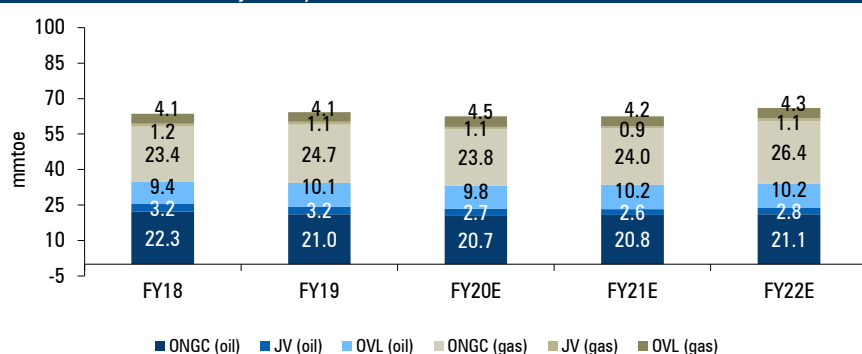
## Story in charts

Exhibit 4: Oil realisations trend



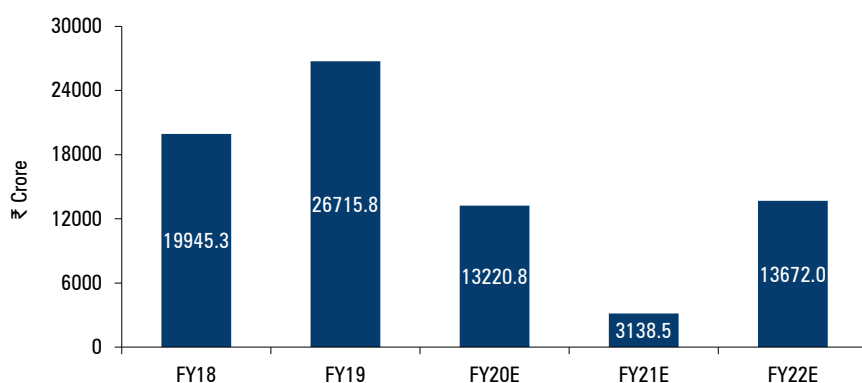
Source: Company, ICICI Direct Research

Exhibit 5: Production trajectory



Source: Company, ICICI Direct Research

Exhibit 6: Profitability trend (standalone)



Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	64.7	64.3	63.0	62.8	60.4
FII	6.5	7.9	8.2	8.7	7.6
DII	15.7	14.4	16.0	15.7	17.9
Others	13.2	13.5	12.8	12.8	14.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>109654.6</b>	<b>96213.6</b>	<b>65999.8</b>	<b>82500.3</b>
Growth (%)	29.0	-12.3	-31.4	25.0
(Inc./Dec. in stock tra	-166.3	245.2	0.0	0.0
Raw material Costs	2223.8	2588.7	2700.0	2720.0
Employee Costs	2706.1	2520.3	2646.4	2752.2
Statutory Levies	26500.4	22570.8	17732.9	19378.0
Other Expenditure	18927.8	19000.4	17094.5	17094.5
Op. Expenditure	50191.9	46925.4	40173.7	41944.7
<b>EBITDA</b>	<b>59462.7</b>	<b>49288.2</b>	<b>25826.1</b>	<b>40555.6</b>
Growth (%)	34.4	-17.1	-47.6	57.0
Depreciation	24535.5	27524.4	25818.0	25811.6
EBIT	34927.2	21763.8	8.0	14744.0
Interest	2492.1	2823.7	2936.9	3634.4
Other Income	7519.0	1261.9	7124.7	7168.5
PBT	39954.0	20202.0	4195.8	18278.1
Growth (%)	38.3	-49.4	-79.2	335.6
Tax	13238.2	6981.3	1057.3	4606.1
<b>Reported PAT</b>	<b>26715.8</b>	<b>13220.8</b>	<b>3138.5</b>	<b>13672.0</b>
Growth (%)	33.9	-50.5	-76.3	335.6
<b>EPS</b>	<b>21.2</b>	<b>10.5</b>	<b>2.5</b>	<b>10.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Source of Funds</b>				
Equity Capital	6,290.2	6,290.2	6,290.2	6,290.2
Preference Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,96,702.4	2,02,563.7	2,02,758.4	2,09,070.9
Shareholder's Fund	2,02,992.6	2,08,853.8	2,09,048.5	2,15,361.1
Loan Funds	21,593.6	27,132.6	38,132.6	42,632.6
Deferred Tax Liability	28,070.4	29,570.4	31,070.4	32,570.4
Well Abandonment Fu	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>252656.5</b>	<b>265556.8</b>	<b>278251.5</b>	<b>290564.0</b>
<b>Application of Funds</b>				
Net Block	10,080.6	10,580.6	11,080.6	11,580.6
Capital WIP	15,523.5	13,706.5	11,889.5	10,072.5
Producing Properties	1,14,338.5	1,18,338.5	1,28,338.5	1,38,338.5
Pre-Producing Propert	19,526.7	22,026.7	24,526.7	27,026.7
Total Fixed Assets	1,59,469.4	1,64,652.4	1,75,835.4	1,87,018.4
Investments	84,881.5	83,930.8	82,730.8	83,230.8
Inventories	7,749.2	7,380.8	5,063.0	6,328.8
Debtor	8,440.0	4,367.2	6,082.2	7,302.8
Cash	504.1	988.6	205.8	990.5
Loan & Advance, Othe	41190.7	39665.7	36640.7	37115.7
Total Current assets	57883.9	52402.2	47991.7	51737.8
Current Liabilities	24367.9	21087.9	14465.7	18082.3
Provisions	25210.4	14340.8	13840.8	13340.8
Total CL and Provision	49578.3	35428.7	28306.5	31423.0
Net Working Capital	8305.6	16973.6	19685.2	20314.8
Miscellaneous expens	0.0	0.0	0.0	0.0
<b>Application of Fund:</b>	<b>252656.5</b>	<b>265556.8</b>	<b>278251.5</b>	<b>290564.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	26,715.8	13,220.8	3,138.5	13,672.0
Add: Depreciation	24,535.5	27,524.4	25,818.0	25,811.6
Add: Others	1,811.2	1,500.0	1,500.0	1,500.0
Cash Profit	42,759.2	34,885.7	27,512.7	33,624.2
Increase/(Decrease) in	3,586.2	-14,149.6	-7,122.2	3,116.6
(Increase)/Decrease in	-7,907.2	5,966.2	3,627.8	-2,961.4
<b>CF from Operating Ac</b>	<b>48741.5</b>	<b>34061.7</b>	<b>26962.0</b>	<b>41138.8</b>
Purchase of Fixed Asse	28,992.8	32,707.4	37,001.0	36,994.6
(Inc)/Dec in Investments	849.3	950.7	1,200.0	-500.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Ac</b>	<b>-28,143.5</b>	<b>-31,756.7</b>	<b>-35,801.0</b>	<b>-37,494.6</b>
Inc/(Dec) in Loan Funds	-3,998.6	5,539.0	11,000.0	4,500.0
Less: Dividend Paid	10,303.3	7,359.5	2,943.8	7,359.5
Inc/(Dec) in Sh. Cap. & f	-6,804.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing act</b>	<b>-21,106.6</b>	<b>-1,820.5</b>	<b>8,056.2</b>	<b>-2,859.5</b>
Change in cash Eq.	-508.6	484.5	-782.8	784.7
Op. Cash and cash Eq.	1,012.6	504.1	988.6	205.8
<b>Cl. Cash and cash Eq.</b>	<b>504.1</b>	<b>988.6</b>	<b>205.8</b>	<b>990.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Per share data (₹)</b>				
Book Value	161.4	166.0	166.2	171.2
Cash per share	0.4	0.8	0.2	0.8
EPS	21.2	10.5	2.5	10.9
Cash EPS	40.7	32.4	23.0	31.4
DPS	7.0	5.0	2.0	5.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	54.2	51.2	39.1	49.2
PAT Margin (%)	24.4	13.7	4.8	16.6
Fixed Asset Turnover (x)	0.7	0.6	0.4	0.4
Inventory Turnover (Day)	25.8	28.0	28.0	28.0
Debtor (Days)	28.1	27.0	27.0	27.0
Current Liabilities (Days)	81.1	80.0	80.0	80.0
<b>Return Ratios (%)</b>				
RoE	13.2	6.3	1.5	6.3
RoCE	15.6	9.2	0.0	5.7
RoIC	15.6	9.3	0.0	5.7
<b>Valuation Ratios (x)</b>				
PE	3.9	7.8	32.9	7.5
Price to Book Value	0.5	0.5	0.5	0.5
EV/EBITDA	2.1	2.6	5.5	3.6
EV/Sales	1.1	1.3	2.1	1.8
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.1	0.1	0.2	0.2
Interest Coverage (x)	14.0	7.7	0.0	4.1
Debt to EBITDA (x)	0.4	0.6	1.5	1.1
Current Ratio	1.2	1.5	1.7	1.6
<b>Quick ratio</b>	<b>1.0</b>	<b>1.3</b>	<b>1.5</b>	<b>1.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	357	350	Hold	67,267	13.6	28.4	29.9	26.2	12.6	11.9	15.3	10.4	9.2	4.2	8.2	8.7	7.5	14.7	14.8
GAIL (India) (GAIL)	103	100	Hold	46,454	14.7	8.9	9.4	7.0	11.6	11.0	5.9	8.5	8.2	12.6	7.2	7.4	14.0	8.2	8.4
Gujarat Gas (GUJGA)	289	290	Hold	19,895	17.3	9.2	16.0	16.7	31.6	18.0	12.7	16.5	10.7	26.7	18.5	28.8	36.4	16.5	23.1
HPCL (HINPET)	222	215	Hold	33,867	17.3	24.2	25.9	12.8	9.2	8.6	13.5	9.1	7.5	2.8	6.2	7.0	9.1	12.1	12.5
Indian Oil Corp (INDOIL)	89	90	Hold	81,711	1.4	10.6	11.7	62.2	8.4	7.6	4.3	3.2	3.0	4.9	8.3	8.8	1.3	9.1	10.0
Indraprastha Gas (INDGAS)	450	440	Hold	31,500	16.2	15.7	19.5	27.7	28.6	23.1	20.4	19.5	15.5	25.2	21.9	23.4	22.6	18.8	19.9
Mahanagar Gas (MAHGAS)	1075	1145	Hold	10,619	80.3	58.3	88.0	13.4	18.4	12.2	9.5	11.8	7.6	32.0	22.1	29.0	28.5	18.7	23.8
ONGC (ONGC)	82	80	Hold	1,05,233	10.5	2.5	10.9	7.8	32.9	7.5	2.6	5.5	3.6	9.2	0.0	5.7	6.3	1.5	6.3
Petronet LNG (PETLNG)	255	295	Buy	38,250	18.0	15.7	19.6	14.2	16.2	13.0	9.5	9.1	7.4	22.2	22.8	29.0	25.5	22.4	27.2

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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