

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	ONGC IN
Equity Shares (m)	12,833
M.Cap.(INRb)/(USDb)	1009.6 / 13.7
52-Week Range (INR)	150 / 52
1, 6, 12 Rel. Per (%)	-2/-12/-38
12M Avg Val (INR M)	1924

Financials & Valuations (conso) (INR b)

Y/E March	2020	2021E	2022E
Sales	4,250	4,234	4,552
EBITDA	612	494	612
Adj. PAT	168	183	271
Adj. EPS (INR)	13.1	14.2	21.1
EPS Gr. (%)	-51.8	8.5	48.3
BV/Sh.(INR)	161.3	171.5	187.2

Ratios

Net D:E	0.5	0.5	0.3
RoE (%)	7.9	8.5	11.8
RoCE (%)	6.3	6.5	8.8
Payout (%)	66.9	27.9	25.6

Valuations

P/E (x)	6.1	5.6	3.8
P/BV (x)	0.5	0.5	0.4
EV/EBITDA (x)	3.3	4.1	3.0
Div. Yield (%)	6.3	4.2	5.8
FCF Yield (%)	3.7	1.8	24.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	60.4	60.4	64.3
DII	17.4	17.9	14.4
FII	8.1	7.6	7.9
Others	14.1	14.1	13.5

FII Includes depository receipts

CMP: INR80 TP: INR105 (+31%) Buy

Volumes back to normal levels; KG basin production faces delay

- ONGC's 1QFY21 oil and gas sales were in line with estimates along with net crude oil price realization, thus resulting in in-line revenues. However, lower other expenditure led to an EBITDA beat during the quarter.
- Offtake of crude oil by refineries from ONGC was not affected. However, there was a reduction in gas production due to less off-take by some customers, which has now been restored to normal levels.
- Production guidance in FY21 for oil stood at ~22.7mmt and for gas at ~24.9bcm.
- OPEC+ managed production cuts well (in line with demand), as various economies globally came out of the lockdowns. Thus, crude oil prices hovered around ~USD45/bbl over the last two months. Starting Aug'20, OPEC+ also eased production cuts by 2mnobpd (to 7.7mnobpd).
- Global demand is expected to reach ~97% of pre-COVID levels in the next quarter (Oct-Dec'20). We have built in crude oil price forecast of ~USD45/bbl for 2HFY21 and we expect prices to remain stable around current levels in the medium term.
- ONGC has guided that KG basin will see some delay in production as many vendors have enforced force majeure. Despite domestic gas price ceiling declining, KG basin's production would not be impacted.
- Despite the delay, ONGC is expected to grow its gas production in FY22E, with efforts to arrest the decline in oil production from age-old fields (accounting for 60-70% of the total oil production). Maintain Buy.

EBITDA beat on lower other expenditure

- Net oil realization stood at USD28.7/bbl (v/s est. USD30.0/bbl and USD66.3/bbl in 1QFY20). Net sales were in line at INR130b (-51% YoY).
- EBITDA stood at INR59b (v/s est. +26%, -61% YoY), on lower other expenditure. This was primarily due to lower travelling/employee cost, lower statutory levies and cess, and lower feedstock gas prices at Dahej petchem plant.
- ONGC believes that DD&A may remain at the same levels but other costs may decline significantly, led by various cost cutting measures.
- Tax was higher at 45.1% (v/s est. 33.3%), due to further provisioning of Service Tax/GST on Royalty as contingent liability. The matter is listed for hearing in the second week of Sep'20 before the Honorable High Court of Rajasthan. Thus, PAT stood at INR5b (in-line, -92% YoY).
- ONGC had MAT credit of ~INR50b at end-FY20. The company would take a decision on moving to the new tax regime by Dec'20, after evaluating crude prices over the next couple of months and its impact on tax.

Operational parameters for 1QFY21

- Crude sales came in at 5.2mmt (in-line, -3% YoY, -5% QoQ), with production down ~4% YoY to 5.7mmt.
- Gas sales stood at 4.2mmt (v/s est. -5%, -15% YoY, -9% QoQ), with production down ~14% YoY to 5.6bcm.
- VAP sales stood at 680tmt (-29% YoY, -21% QoQ).

Capex plans for FY21

- Capex for FY21 stands at ~INR260b (v/s earlier planned capex of INR320b). Rest of the capex (~INR60b) would flow to the next year as few projects have been impacted due to COVID-19.
- At end-1QFY21, standalone debt stood at INR158b and consol. debt at INR1,120b. The proposal to raise INR450b is just an aggregation of several older statutes.

Valuation and view

- Although gas production has been delayed, we expect a significant jump over the next 3-4 years, led by the various projects that ONGC has been working on. Oil production is expected to remain flat.
- Factoring in the delay, we have revised down our gas production estimates for FY21/FY22E to 24.7bcm/30.2bcm (from earlier 26.7/35.2); our estimates for oil at 23.6mmt/24mmt remain unchanged.
- In FY20, ONGC made total 12 discoveries (7 onshore, 5 offshore); of which, 7 are prospects (3 onshore, 4 offshore) and 5 are pools (4 onshore, 1 offshore). ONGC has notified 3 more discoveries (two pools and one prospect) in the last two months, taking the total discoveries to 6 (4 pools and 2 prospect) in FY21 so far.
- According to [recent news](#), the government is formulating a structure to give Indian upstream companies some relief in royalty and cess along with other reliefs. According to our model calculation, 1% change in cess results in 2% consol. EPS change for ONGC.
- ONGC is trading at 3.0x FY22E EV/EBITDA and 3.8x FY22E P/E. We value the company at 10x FY22E adj. EPS of INR7.8 and add value of investments to arrive at a target price of INR105. Reiterate **Buy**.

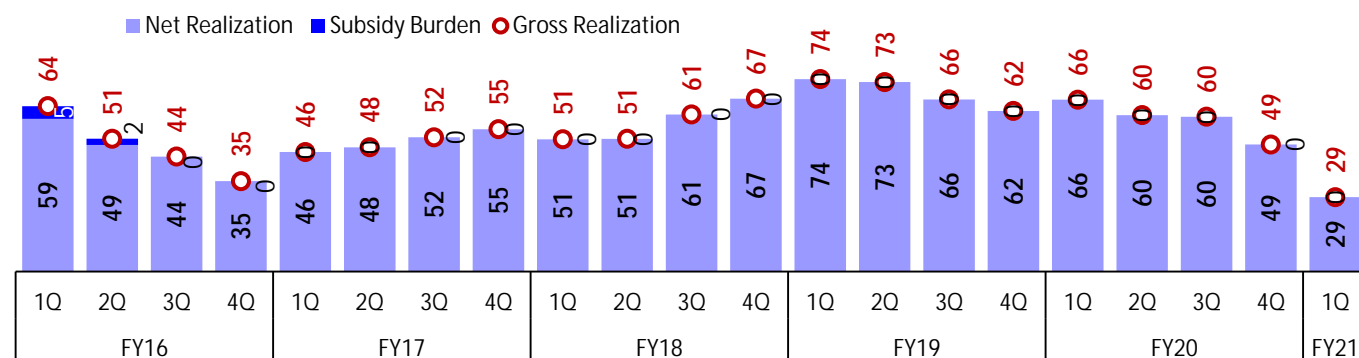
Standalone - Quarterly Earning Model

											(INR Billion)	
Y/E March	FY20				FY21				FY20	FY21	FY21	Var vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		1QE		est (%)
Net Sales	265.5	244.9	237.1	214.6	130.1	180.3	200.1	211.0	962.1	721.5	134.4	-3%
YoY Change (%)	-2.4	-12.5	-14.4	-19.8	-51.0	-26.4	-15.6	-1.6	-12.3	-25.0	-49.4	
EBITDA	151.1	132.9	123.0	85.9	59.1	78.6	93.7	99.5	492.9	330.8	46.8	26%
Margins (%)	56.9	54.3	51.9	40.0	45.4	43.6	46.8	47.2	51.2	45.9	34.9	
Depreciation	61.6	62.6	70.2	80.4	49.5	52.3	52.0	57.0	274.7	210.8	41.4	20%
Interest	6.5	6.8	6.3	8.7	4.9	6.0	6.0	7.0	28.2	23.9	6.0	-18%
Other Income	7.5	26.9	14.0	13.3	4.4	29.9	17.2	17.2	61.6	68.7	8.1	-46%
PBT before EO expense	90.6	90.4	60.5	10.1	9.0	50.2	52.9	52.7	251.6	164.8	7.6	18%
Extra-Ord expense	0.0	0.0	0.0	49.0	0.0	0.0	0.0	0.0	49.0	0.0	0.0	
PBT	90.6	90.4	60.5	-38.9	9.0	50.2	52.9	52.7	202.6	164.8	7.6	18%
Rate (%)	34.8	30.7	30.2	20.4	45.1	33.3	33.3	33.3	34.4	33.9	33.3	
Reported PAT	59.0	62.6	42.3	-31.0	5.0	33.5	35.3	35.1	133.0	108.9	5.1	-3%
Adj PAT	59.0	62.6	42.3	8.0	5.0	33.5	35.3	35.1	172.0	108.9	5.1	-3%
YoY Change (%)	-3.9	-24.2	-48.8	-80.2	-91.6	-46.5	-16.5	338.1	-35.6	-36.7	-91.4	
Margins (%)	22.2	25.6	17.8	3.7	3.8	18.6	17.6	16.6	17.9	15.1	3.8	
Key Assumptions (USD/bbl)												
Fx rate (INR/USD)	69.6	70.3	71.2	72.4	75.9	74.5	74.0	75.0	70.9	74.9	75.9	0%
Net Oil Realization	66.3	60.3	59.7	49.0	28.7	40.0	45.0	45.0	58.8	39.7	30.0	-4%
Crude oil sold (mmt)	5.3	5.4	5.2	5.4	5.2	5.2	5.2	5.2	21.3	20.9	5.1	1%
Gas sold (bcm)	5.0	4.9	4.8	4.7	4.2	4.8	4.8	5.6	19.4	19.4	4.5	-5%
VAP sold (tmt)	952.0	850.0	890.0	866.0	680.0	858.1	858.1	858.1	3,558.0	3,254.3	669.8	2%

E: MOFSL Estimates

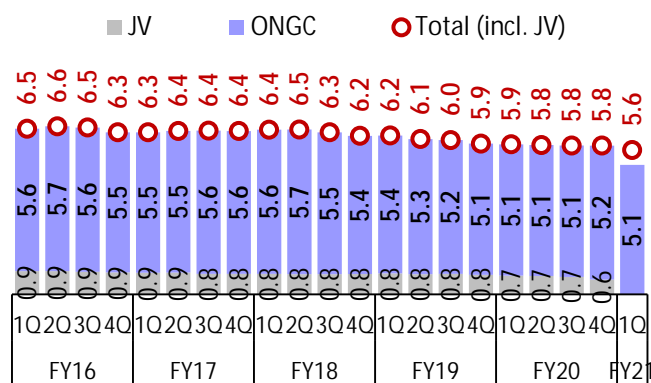
Key charts from the quarter

Exhibit 1: Oil price realization at USD29/bbl (USD/bbl)



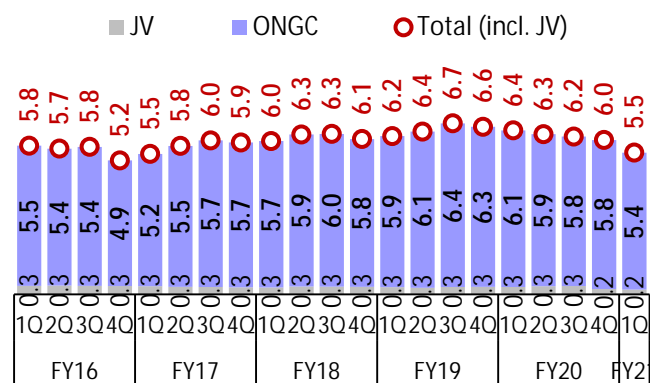
Source: Company, MOFSL

Exhibit 2: Oil production (mmt)



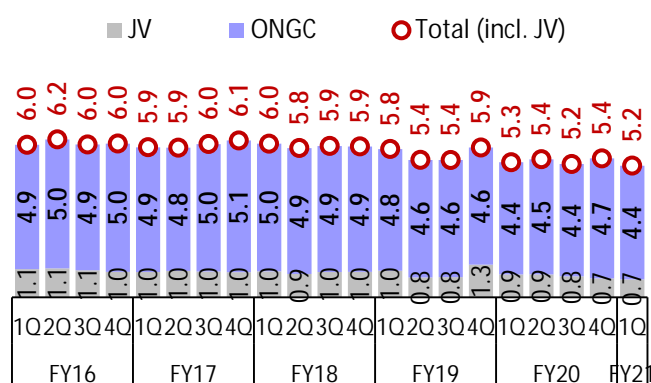
Source: Company, MOFSL

Exhibit 3: Gas production (bcm)



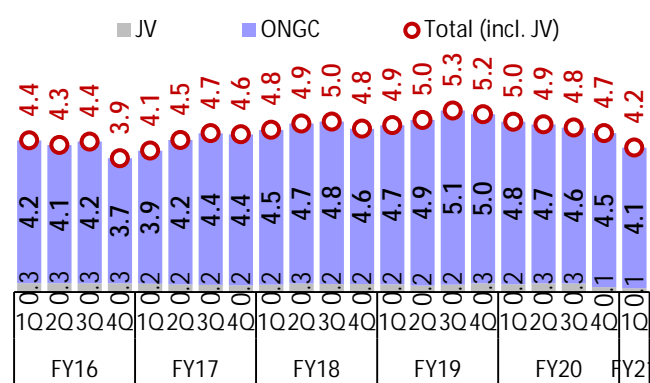
Source: Company, MOFSL

Exhibit 4: Oil sales (mmt)



Source: Company, MOFSL

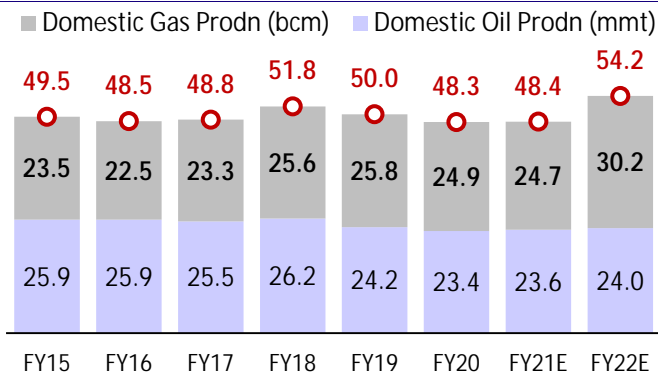
Exhibit 5: Gas sales (bcm)



Source: Company, MOFSL

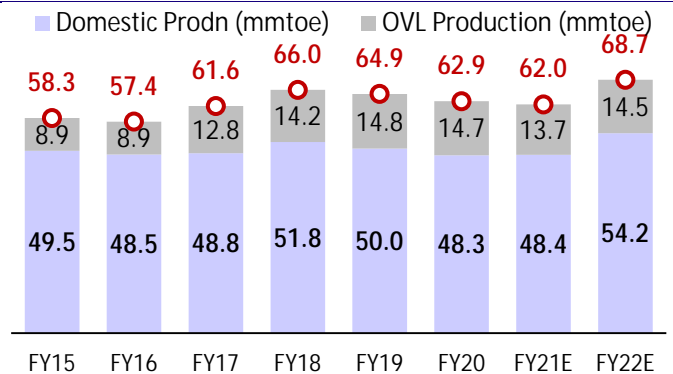
Story in charts

Exhibit 6: Oil production to remain flat (mmt)



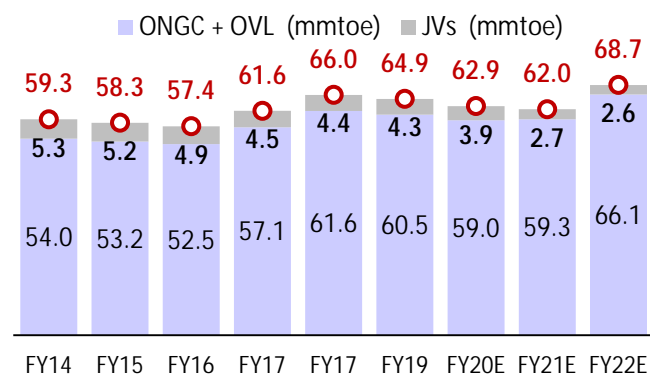
Source: Company, MOFSL

Exhibit 7: OVL production to remain stable



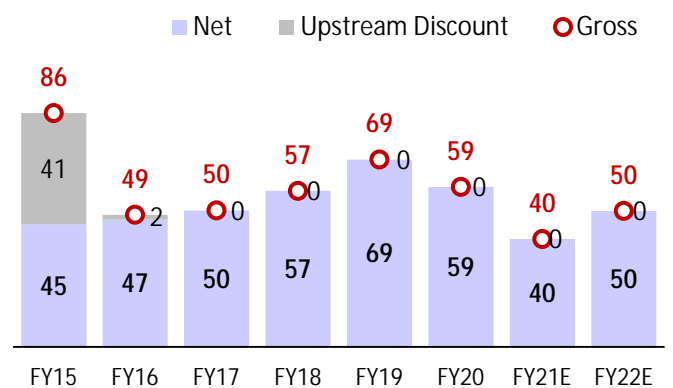
Source: Company, MOFSL

Exhibit 8: JV contribution to shrink



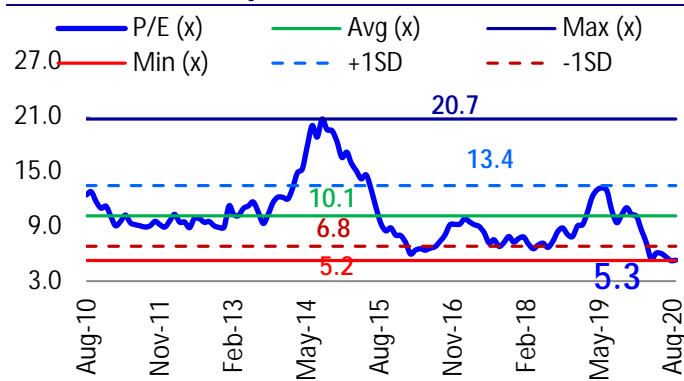
Source: Company, MOFSL

Exhibit 9: Realization of ONGC (USD/bbl)



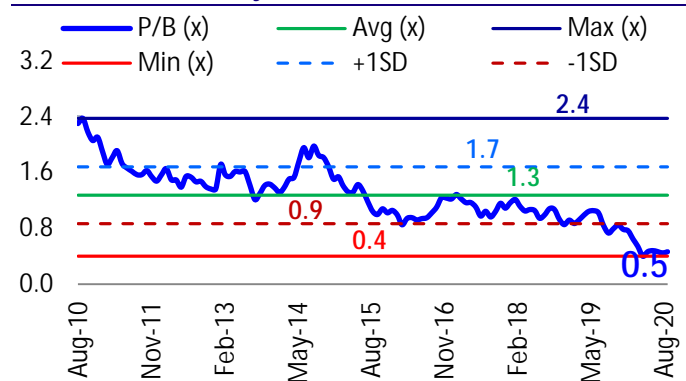
Source: Company, MOFSL

Exhibit 10: ONGC – 1-year forward P/E



Source: MOFSL

Exhibit 11: ONGC – 1-year forward P/B



Source: MOFSL

Financials and Valuations (conso)

Consolidated - Income Statement

(INR billion)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	1,609	1,357	3,257	3,622	4,537	4,250	4,234	4,552
Change (%)	-7.8	-15.7	140.1	11.2	25.2	-6.3	-0.4	7.5
EBITDA	547	452	580	644	840	612	494	612
Margin (%)	34.0	33.3	17.8	17.8	18.5	14.4	11.7	13.5
Depreciation	290	225	254	306	329	357	294	283
EBIT	257	228	326	338	511	255	200	330
Int. and Finance Charges	29	38	36	50	58	70	62	63
Other Income	60	81	93	75	77	85	118	121
PBT bef. EO Exp.	288	271	383	362	530	270	256	388
EO Items	-14	-79	6	2	-16	-90	0	0
PBT after EO Exp.	274	192	389	365	514	180	256	388
Total Tax	97	70	125	131	209	75	85	129
Tax Rate (%)	35.4	36.2	32.3	36.0	40.7	41.7	33.3	33.3
Share of associates/JVs/Minority int	-7	-9	-28	-27	-34	-11	-12	-12
Reported PAT	183	131	292	261	339	116	183	271
Adjusted PAT	184	174	288	259	349	168	183	271
Change (%)	-30.0	-5.0	64.9	-9.9	34.6	-51.8	8.5	48.3
Margin (%)	11.4	12.9	8.8	7.2	7.7	4.0	4.3	5.9

Consolidated - Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	43	43	64	64	63	63	63	63
Total Reserves	1,762	1,935	1,880	1,963	2,106	2,007	2,138	2,340
Net Worth	1,805	1,978	1,944	2,028	2,169	2,070	2,201	2,403
Minority Interest	25	27	133	156	181	178	178	178
Total Loans	519	445	744	993	1,015	1,037	1,192	1,073
Deferred Tax Liabilities	182	264	352	391	450	435	435	435
Capital Employed	2,530	2,937	3,173	3,568	3,815	3,719	4,006	4,089
Gross Block	1,411	2,666	3,328	3,683	3,983	4,382	4,491	4,583
Less: Accum. Deprn.	948	1,156	1,358	1,590	1,827	2,093	2,389	2,691
Net Fixed Assets	688	1,509	1,969	2,093	2,156	2,289	2,102	1,892
Goodwill on Consolidation	201	153	142	142	141	142	142	142
Capital WIP	422	219	214	207	299	459	283	358
Exploratory wells under progress	212	358	377	401	392	379	747	900
Total Investments	47	407	707	667	675	500	500	500
Curr. Assets, Loans&Adv.	890	763	1,029	1,048	1,252	1,242	1,449	1,578
Others	228	267	428	503	633	695	736	777
Inventory	106	99	299	305	351	331	345	363
Account Receivables	188	95	139	156	175	115	144	155
Cash and Bank Balance	161	277	132	51	48	57	180	238
Loans and Advances	208	25	31	33	46	44	44	44
Curr. Liability & Prov.	841	472	1,266	990	1,100	1,293	1,219	1,282
Account Payables	491	460	985	694	778	920	846	909
Provisions	350	12	281	296	322	373	373	373
Net Current Assets	49	291	-236	58	152	-51	231	296
Appl. of Funds	2,530	2,937	3,173	3,568	3,815	3,719	4,006	4,089

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	14.3	13.6	22.4	20.2	27.2	13.1	14.2	21.1
Cash EPS	36.9	31.1	42.2	44.0	52.8	40.9	37.2	43.1
BV/Share	140.6	154.1	151.5	158.0	169.0	161.3	171.5	187.2
DPS	6.3	5.7	6.9	6.6	6.9	5.0	3.4	4.6
Payout (%)	53.2	66.8	36.0	38.0	31.3	66.9	27.9	25.6
Valuation (x)								
P/E	5.6	5.9	3.6	4.0	2.9	6.1	5.6	3.8
Cash P/E	2.2	2.6	1.9	1.8	1.5	2.0	2.2	1.9
P/BV	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4
EV/Sales	0.9	0.9	0.5	0.5	0.4	0.5	0.5	0.4
EV/EBITDA	2.5	2.6	2.8	3.1	2.4	3.3	4.1	3.0
Dividend Yield (%)	7.9	7.1	8.7	8.3	8.6	6.3	4.2	5.8
FCF per share	-2.3	36.5	13.3	-15.0	14.1	3.0	1.4	19.2
Return Ratios (%)								
RoE	10.4	9.2	14.7	13.0	16.6	7.9	8.5	11.8
RoCE	9.1	8.3	11.1	9.2	11.3	6.3	6.5	8.8
RoIC	NA	NA	NA	NA	NA	NA	NA	NA
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	0.5	1.0	1.0	1.1	1.0	0.9	1.0
Asset Turnover (x)	0.6	0.5	1.0	1.0	1.2	1.1	1.1	1.1
Inventory (Days)	24	27	33	31	28	28	30	29
Debtor (Days)	43	26	16	16	14	10	12	12
Creditor (Days)	111	124	110	70	63	79	73	73
Leverage Ratio (x)								
Current Ratio	1.1	1.6	0.8	1.1	1.1	1.0	1.2	1.2
Interest Cover Ratio	9.0	6.0	9.1	6.8	8.8	3.6	3.2	5.2
Net Debt/Equity	0.2	0.1	0.3	0.5	0.4	0.5	0.5	0.3

Consolidated - Cash Flow Statement

(INR billion)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	274	192	389	365	514	180	256	388
Depreciation	180	164	202	231	237	266	294	283
Change in deferred tax	2	93	87	41	59	-6	0	0
Direct Taxes Paid	-97	-70	-125	-131	-209	-75	-85	-129
(Inc)/Dec in WC	-75	-126	382	-376	-97	212	-159	-7
CF from Operations	285	254	935	130	504	577	306	534
CF from Operating incl EO	287	486	847	180	564	585	318	547
(Inc)/Dec in FA	-316	-18	-676	-372	-383	-547	-300	-300
Free Cash Flow	-30	468	171	-192	181	38	18	247
(Pur)/Sale of Investments	0	-359	-301	40	-8	175	0	0
CF from Investments	-333	-340	-964	-334	-390	-383	-300	-300
Inc/(Dec) in Debt	63	-73	299	249	22	22	155	-119
Dividend Paid	-98	-88	-105	-99	-106	-77	-51	-69
CF from Fin. Activity	-37	-31	-27	72	-176	-194	105	-188
Inc/Dec of Cash	-84	116	-145	-81	-2	9	123	58
Opening Balance	245	161	277	132	51	48	57	180
Closing Balance	161	277	132	51	48	57	180	238

E: MOFSL Estimates

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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